

INNOLUX CORPORATION
PARENT COMPANY ONLY FINANCIAL
STATEMENTS AND REPORT OF INDEPENDENT
ACCOUNTANTS
DECEMBER 31, 2019 AND 2018

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

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of Innolux Corporation:

Opinion

We have audited the accompanying parent company only balance sheets of Innolux Corporation (the “Company”) as at December 31, 2019 and 2018, and the related parent company only statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the parent company only financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company only financial statements present fairly, in all material respects, the parent company only financial position of the Company as at December 31, 2019 and 2018, and its parent company only financial performance and its parent company only cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”.

Basis for opinion

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of Parent Company Only Financial Statements section of our report. We are independent of the Company in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

The key audit matters in relation to the financial statements for the year ended December 31, 2019 are outlined as follows:

Inventory valuation

Description

The industry is characterized by the significant fluctuations closely in connection with the economic environment. As the technology evolves rapidly, the Company's existing products may become obsolete when the customers demand for new products or the Company fails to compete with the evolutionary production approach. The Company evaluates the inventory by taking into account of allowance, obsolescence or trivial sales amount and the cost has been written down to the net realizable value. The abovementioned allowance for inventory valuation losses mainly arise from the excess of the cost of inventory over the net realizable value of inventory. For details of inventory, please refer to Note 6(6). There is a risk of the excess of the cost of inventory over the net realizable value of inventory as a result of that the amounts of inventories are material and the sales of related products may have significant fluctuations; we consider inventory valuation a key audit matter.

How our audit addressed the matter

We obtained the net realizable value report of inventory used by management for evaluation. And obtained an understanding of sales price basis adopted by management for abovementioned inventory along with the related supporting documents to assess the reasonableness of net realizable value and the appropriateness of valuation basis.

Valuation and impairment of goodwill and property, plant and equipment

Description

For details of the impairment valuation of goodwill and property, plant and equipment, please refer to Notes 6(8) and 6(11).

Innolux Corporation estimates future cash flows based on appropriate discount rates. In determining whether goodwill and property, plant and equipment may be impaired, the recoverable amount of the cash generating unit is measured based on how assets are utilized, duration years of assets and projected income and expenses in the future. The estimate involves several assumptions such as determination of discount rates, expected growth rate and future financial projections. As these estimates are dependent upon significant management judgement, we consider management's assessment of impairment of goodwill and property, plant and equipment a key audit matter.

How our audit addressed the matter

We assessed the key assumptions used by management in estimating expected future cash flows, including the reasonableness of expected operating revenue, gross profit, changes in expenses, and the basic assumptions applied in expected future cash flows. We also examined the parameters of discount rates, including the risk-free rate of return on equity capital, the risk factor of the industry and the rate of return on similar investments in the market.

Responsibilities of management and those charged with governance for the parent company only financial statements

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

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

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

Auditor’s responsibilities for the audit of the parent company only financial statements

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

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

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

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

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

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

PricewaterhouseCoopers, Taiwan

February 13, 2020

The accompanying parent company only financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying parent company only 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.

INNOLUX CORPORATION
PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

	Assets	Notes	December 31, 2019	December 31, 2018
	Current assets			
1100	Cash and cash equivalents	6(1)	\$ 23,892,085	\$ 23,269,922
1110	Financial assets at fair value through profit or loss - current	6(2)	7,660	160,172
1136	Financial assets at amortized cost - current	6(4)	17,793,800	49,779,150
1170	Accounts receivable, net	6(5)	31,348,610	39,176,537
1180	Accounts receivable, net - related parties	7	8,274,534	8,447,974
1200	Other receivables		620,723	595,079
1210	Other receivables - related parties	7	660,155	393,518
130X	Inventory	6(6)	26,359,099	26,805,645
1410	Prepayments		3,344,555	706,270
1479	Other current assets		20,558	2,426
11XX	Total current assets		<u>112,321,779</u>	<u>149,336,693</u>
	Non-current assets			
1510	Financial assets at fair value through profit or loss - non-current	6(2)	2,651,408	1,198,417
1517	Financial assets at fair value through other comprehensive income - non-current	6(3)	965,431	1,111,388
1550	Investments accounted for under equity method	6(7)	83,068,937	83,002,481
1600	Property, plant and equipment	6(8), 7 and 8	164,083,562	176,216,141
1755	Right-of-use assets	6(9)	5,350,404	-
1760	Investment property, net	6(10)	527,232	551,970
1780	Intangible assets	6(11) and 8	17,446,858	17,599,664
1840	Deferred income tax assets	6(26)	7,339,101	7,166,754
1990	Other non-current assets	6(8) and 8	2,011,704	2,074,099
15XX	Total non-current assets		<u>283,444,637</u>	<u>288,920,914</u>
1XXX	Total assets		<u>\$ 395,766,416</u>	<u>\$ 438,257,607</u>

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INNOLUX CORPORATION
PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

	Liabilities and Equity	Notes	December 31, 2019	December 31, 2018
	Current liabilities			
2120	Financial liabilities at fair value	6(2)		
	through profit or loss - current		\$ 345,003	\$ 19,899
2170	Accounts payable		25,060,763	26,777,128
2180	Accounts payable - related parties	7	61,151,192	62,465,508
2200	Other payables	6(12) and 7	23,314,297	28,693,227
2230	Current income tax liabilities	6(26)	-	2,634,659
2250	Provisions - current	6(15) and 9	6,772,357	6,782,914
2280	Lease liabilities - current		430,143	-
2320	Long-term liabilities, current portion	6(13)	15,956,013	16,194,486
2399	Other current liabilities		4,297,573	3,183,671
21XX	Total current liabilities		<u>137,327,341</u>	<u>146,751,492</u>
	Non-current liabilities			
2540	Long-term borrowings	6(13)	19,550,268	35,142,090
2570	Deferred income tax liabilities	6(26)	1,465,526	880,013
2580	Lease liabilities - non-current		4,959,354	-
2670	Other non-current liabilities	6(14)	536,223	493,307
25XX	Total non-current liabilities		<u>26,511,371</u>	<u>36,515,410</u>
2XXX	Total liabilities		<u>163,838,712</u>	<u>183,266,902</u>
	Equity			
3110	Share capital - common stock	6(16)	97,110,720	99,520,720
3200	Capital surplus	6(17)	100,362,379	99,648,115
	Retained earnings	6(18)		
3310	Legal reserve		7,870,713	7,648,437
3320	Special reserve		4,663,463	1,090,721
3350	Unappropriated retained earnings		29,864,446	51,746,175
3400	Other equity interest	6(19)	(7,325,437)	(4,663,463)
3500	Treasury shares	6(16)	(618,580)	-
3XXX	Total equity		<u>231,927,704</u>	<u>254,990,705</u>
3X2X	Total liabilities and equity		<u>\$ 395,766,416</u>	<u>\$ 438,257,607</u>

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

INNOLUX CORPORATION
PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars, except for earnings per share amounts)

	Items	Notes	2019	2018
4000	Sales revenue	6(20) and 7	\$ 249,384,126	\$ 278,407,555
5000	Operating costs	6(6)(24) and 7	(254,797,481)	(260,401,853)
5900	Net operating (loss) margin		(5,413,355)	(18,005,702)
	Operating expenses	6(24) and 7		
6100	Selling expenses		(1,226,054)	(1,654,671)
6200	General and administrative expenses		(4,708,808)	(4,700,630)
6300	Research and development expenses		(11,543,290)	(11,294,086)
6000	Total operating expenses		(17,478,152)	(17,649,387)
6900	Operating (loss) profit		(22,891,507)	(356,315)
	Non-operating income and expenses			
7010	Other income	6(21) and 7	2,101,340	2,232,724
7020	Other gains and losses	6(22)	1,344,637	(752,123)
7050	Finance costs	6(23)	(1,027,787)	(565,881)
7070	Share of profit of subsidiaries, associates and joint ventures accounted for under equity method		2,658,336	2,957,675
7000	Total non-operating income and expenses		5,076,526	3,872,395
7900	(Loss) profit before income tax		(17,814,981)	(4,228,710)
7950	Income tax benefit (expense)	6(26)	371,991	(2,005,948)
8200	(Loss) profit for the year		(\$ 17,442,990)	(\$ 2,222,762)
	Other comprehensive (loss) income (net) Components of other comprehensive income (loss) that will not be reclassified to profit or loss			
8311	Remeasurement of defined benefit plans	6(14)	(\$ 58,246)	(\$ 29,878)
8316	Unrealized losses on financial assets at fair value through other comprehensive income	6(19)	(145,957)	(229,701)
8330	Share of other comprehensive income (loss) of subsidiaries, associates and joint ventures accounted for under equity method	6(19)	445,388	(2,599,115)
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(26)	86,781	5,976
8310	Components of other comprehensive income (loss) that will not be reclassified to profit or loss		327,966	(2,852,718)
	Components of other comprehensive loss that will be reclassified to profit or loss			
8361	Financial statements translation differences of foreign operations	6(19)	(2,951,172)	(828,563)
8380	Share of other comprehensive (loss) income of subsidiaries, associates and joint ventures accounted for under equity method	6(19)	(85,365)	(84,637)
8360	Components of other comprehensive loss that will be reclassified to profit or loss		(3,036,537)	(743,926)
8300	Other comprehensive loss for the year, net of tax		(\$ 2,708,571)	(\$ 3,596,644)
8500	Total comprehensive loss for the year		(\$ 20,151,561)	(\$ 1,373,882)
	(Loss) earnings per share (in dollars)	6(27)		
9750	Basic (loss) earnings per share		(\$ 1.77)	\$ 0.22
9850	Diluted (loss) earnings per share		(\$ 1.77)	\$ 0.22

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

INNOLUX CORPORATION
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

		Retained Earnings					Other Equity Interest					
	Notes	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Total Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Unrealized gain (loss) on available-for-sale financial assets	Treasury shares	Total	
<u>2018</u>												
Balance at January 1		\$ 99,520,720	\$ 99,646,919	\$ 3,945,576	\$ 3,418,804	\$ 58,883,750	(\$ 5,717,223)	\$ -	\$ 4,626,502	\$ -	\$ 264,325,048	
Effect of modified retrospective approach under IFRS 9	6(19)	-	-	-	-	-	-	4,626,502	(4,626,502)	-	-	
Balance at January 1 after adjustments		<u>99,520,720</u>	<u>99,646,919</u>	<u>3,945,576</u>	<u>3,418,804</u>	<u>58,883,750</u>	<u>(5,717,223)</u>	<u>4,626,502</u>	<u>-</u>	<u>-</u>	<u>264,325,048</u>	
Profit for the year		-	-	-	-	2,222,762	-	-	-	-	2,222,762	
Other comprehensive loss for the year	6(19)	-	-	-	-	(23,902)	(743,926)	(2,828,816)	-	-	(3,596,644)	
Total comprehensive income (loss)		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,198,860</u>	<u>(743,926)</u>	<u>(2,828,816)</u>	<u>-</u>	<u>-</u>	<u>(1,373,882)</u>	
Appropriation of 2017 earnings:	6(18)											
Legal reserve		-	-	3,702,861	-	(3,702,861)	-	-	-	-	-	
Special reserve		-	-	-	(2,328,083)	2,328,083	-	-	-	-	-	
Cash dividends		-	-	-	-	(7,961,657)	-	-	-	-	(7,961,657)	
Recognition of change in equity of associates in proportion to the Company's ownership	6(17)	-	1,196	-	-	-	-	-	-	-	1,196	
Balance at December 31		<u>\$ 99,520,720</u>	<u>\$ 99,648,115</u>	<u>\$ 7,648,437</u>	<u>\$ 1,090,721</u>	<u>\$ 51,746,175</u>	<u>(\$ 6,461,149)</u>	<u>\$ 1,797,686</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 254,990,705</u>	
<u>2019</u>												
Balance at January 1		<u>\$ 99,520,720</u>	<u>\$ 99,648,115</u>	<u>\$ 7,648,437</u>	<u>\$ 1,090,721</u>	<u>\$ 51,746,175</u>	<u>(\$ 6,461,149)</u>	<u>\$ 1,797,686</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 254,990,705</u>	
Loss for the year		-	-	-	-	(17,442,990)	-	-	-	-	(17,442,990)	
Other comprehensive (loss) income for the year	6(19)	-	-	-	-	(46,597)	(3,036,537)	374,563	-	-	(2,708,571)	
Total comprehensive (loss) income		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(17,489,587)</u>	<u>(3,036,537)</u>	<u>374,563</u>	<u>-</u>	<u>-</u>	<u>(20,151,561)</u>	
Appropriation of 2018 earnings:	6(18)											
Legal reserve		-	-	222,276	-	(222,276)	-	-	-	-	-	
Special reserve		-	-	-	3,572,742	(3,572,742)	-	-	-	-	-	
Cash dividends		-	-	-	-	(597,124)	-	-	-	-	(597,124)	
Recognition of change in equity of associates in proportion to the Company's ownership	6(17)	-	(14,755)	-	-	-	-	-	-	-	(14,755)	
Recognition of changes in ownership interests in subsidiaries	6(17)	-	24	-	-	-	-	-	-	-	24	
Purchase of treasury shares	6(16)	-	-	-	-	-	-	-	-	(2,299,624)	(2,299,624)	
Cancellation of treasury shares	6(16)(17)	(2,410,000)	728,956	-	-	-	-	-	-	1,681,044	-	
Others	6(17)	-	39	-	-	-	-	-	-	-	39	
Balance at December 31		<u>\$ 97,110,720</u>	<u>\$ 100,362,379</u>	<u>\$ 7,870,713</u>	<u>\$ 4,663,463</u>	<u>\$ 29,864,446</u>	<u>(\$ 9,497,686)</u>	<u>\$ 2,172,249</u>	<u>\$ -</u>	<u>(\$ 618,580)</u>	<u>\$ 231,927,704</u>	

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

INNOLUX CORPORATION
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

	Notes	2019	2018
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
(Loss) profit before tax		(\$ 17,814,981)	\$ 4,228,710
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation and amortization	6(24)	30,888,735	31,969,539
Net (gain) loss on financial assets or liabilities at fair value through profit or loss		(1,343,327)	109,790
Expected credit loss		-	100,000
Share of profit of subsidiaries and associates accounted for under equity method		(2,658,336)	(2,957,675)
(Gain) loss on disposal of investments	6(22)	(19,001)	10,533
Loss on disposal of property, plant and equipment	6(22)	1,965	18,641
Gain on lease modification		(951)	-
Interest income	6(21)	(683,012)	(775,096)
Dividend income	6(21)	(13,301)	(5,838)
Interest expense	6(23)	1,027,787	565,881
Unrealized foreign exchange loss		60,811	149,778
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets /liabilities at fair value through profit or loss		477,616	(86,139)
Accounts receivable		7,827,927	2,128,692
Accounts receivable - related parties		173,440	1,038,736
Other receivables		(87,150)	124,760
Inventories		446,546	(1,424,391)
Prepayments		(2,821,526)	344,197
Other current assets		1,714	(1,539)
Changes in operating liabilities			
Accounts payable		(1,716,365)	(2,246,645)
Accounts payable - related parties		(1,314,316)	17,605,708
Other payables		(3,801,853)	(1,751,921)
Provisions - current		(10,557)	1,322,052
Other current liabilities		1,113,902	(301,082)
Other non-current liabilities		(19,085)	(83,503)
Cash inflow generated from operations		9,716,682	50,083,188
Cash paid for income tax		(1,762,721)	(159,435)
Net cash flows from operating activities		<u>7,953,961</u>	<u>49,923,753</u>

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INNOLUX CORPORATION
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

	Notes	2019	2018
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Increase in other receivables - related parties		(\$ 266,637)	(\$ 364,727)
Acquisition of financial assets at fair value through profit or loss		(145,249)	-
Proceeds from disposal of financial assets at fair value through profit or loss		35,585	-
Acquisition of investments in equity instruments measured at fair value through other comprehensive income		-	(1,341,089)
Decrease (increase) in financial assets at amortized cost - current		31,933,350	(49,945,950)
Increase in investment accounted for under equity method		(592,405)	(2,188,258)
Proceeds from capital reduction of investments accounted for under equity method		27,397	96,421
Increase in other financial assets		(19,190)	(350,449)
Acquisition of property, plant and equipment	6(29)	(19,876,808)	(41,713,067)
Proceeds from disposal of property, plant and equipment		276,715	34,691
Acquisition of intangible assets	6(11)	(480)	(28,240)
Increase in other non-current assets		(1,154)	(177)
Interest received		744,541	692,581
Dividends received		583,310	315,020
Net cash flows from (used in) investing activities		12,698,975	(94,793,244)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Increase in long-term borrowings		500,000	34,000,000
Payment of long-term borrowings		(16,210,000)	(10,960,000)
Cash dividends paid	6(18)	(597,124)	(7,961,657)
Interest paid		(982,242)	(471,756)
Payment of the principal portion of lease liabilities		(441,822)	-
Payments to acquire treasury shares	6(16)	(2,299,624)	-
Others	6(17)	39	-
Net cash flows (used in) from financing activities		(20,030,773)	14,606,587
Net increase (decrease) in cash and cash equivalents		622,163	(30,262,904)
Cash and cash equivalents at beginning of year		23,269,922	53,532,826
Cash and cash equivalents at end of year		\$ 23,892,085	\$ 23,269,922

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

INNOLUX CORPORATION
NOTES TO THE PARENT COMPANY ONLY FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

1. HISTORY AND ORGANIZATION

(1) Innolux Corporation (the “Company”) was organized on January 14, 2003 under the Act for Establishment and Administration of Science Parks in the Republic of China (R.O.C.). The Company was listed on the Taiwan Stock Exchange Corporation (the “TSEC”) in October 2006. The Company merged with TPO Displays Corporation and Chi Mei Optoelectronics Corporation on March 18, 2010, with the Company as the surviving entity.

(2) The Company engages in the research, development, design, manufacture, and sales of TFT-LCD panels, modules and monitors of LCD, color filter, and low temperature poly-silicon TFT-LCD.

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

These parent company only financial statements were authorized for issuance by the Board of Directors on February 13, 2020.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 9, ‘Prepayment features with negative compensation’	January 1, 2019
IFRS 16, ‘Leases’	January 1, 2019
Amendments to IAS 19, ‘Plan amendment, curtailment or settlement’	January 1, 2019
Amendments to IAS 28, ‘Long-term interests in associates and joint ventures’	January 1, 2019
IFRIC 23, ‘Uncertainty over income tax treatments’	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

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

IFRS 16, ‘Leases’

A. IFRS 16, ‘Leases’, replaces IAS 17, ‘Leases’ and related interpretations and SICs. The standard requires lessees to recognise a ‘right-of-use asset’ and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for

those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

- B. The Company has elected to apply IFRS 16 by not restating the comparative information (referred herein as the ‘modified retrospective approach’) when applying “IFRSs” effective in 2019 as endorsed by the FSC. Accordingly, the Company increased ‘right-of-use asset’ by \$6,140,546, increased ‘lease liability’ by \$6,140,546 and has no effect on retained earnings with respect to the lease contracts of lessees on January 1, 2019.
- C. The Company has used the following practical expedients permitted by the standard at the date of initial application of IFRS 16:
- (a) Reassessment as to whether a contract is, or contains, a lease is not required, instead, the application of IFRS 16 depends on whether or not the contracts were previously identified as leases applying IAS 17 and IFRIC 4.
 - (b) The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.
 - (c) The accounting for operating leases whose period will end before December 31, 2019 as short-term leases and accordingly, rent expense recognized in 2019 was included in the expense on short-term lease contracts in Note 6(9).
 - (d) The exclusion of initial direct costs for the measurement of ‘right-of-use asset’.
 - (e) The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.
- D. The Company recognized lease liabilities which had previously been classified as ‘operating leases’ under the principles of IAS 17, ‘Leases’. The reconciliation between operating lease commitments under IAS 17 measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate and lease liabilities recognized as of January 1, 2019 is as follows:

Operating lease commitments disclosed by applying IAS 17 as at December 31, 2018	\$	3,167,690
Less: Short-term leases	(	3,250)
Add/Less: Adjustments as a result of a different treatment of extension and termination options		<u>3,728,860</u>
Total lease contracts amount recognized as lease liabilities by applying IFRS 16 on January 1, 2019		6,893,300
Incremental borrowing interest rate at the date of initial application		<u>1.8143%</u>
Lease liabilities recognized as at January 1, 2019 by applying IFRS 16	\$	<u><u>6,140,546</u></u>

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

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

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendment to IAS 1 and IAS 8, 'Disclosure Initiative-Definition of Material'	January 1, 2020
Amendments to IFRS 3, 'Definition of a business'	January 1, 2020
Amendments to IFRS 9, IAS 39 and IFRS7, 'Interest rate benchmark reform'	January 1, 2020

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

These parent company only financial statements are prepared by the Company in accordance with the "Rules Governing the Preparation of Financial Statements by Securities Issuers.

(2) Basis of preparation

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

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

B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”) requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the parent company only financial statements are disclosed in Note 5.

(3) Foreign currency translation

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

A. Foreign currency transactions and balances

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

B. Translation of foreign operations

- (a) The operating results and financial position of all the group entities and associates that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
 - i. Assets and liabilities for each balance sheet presented are translated at the spot exchange rate at the date of that balance sheet;
 - ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and

iii. All resulting exchange differences are recognized in other comprehensive income.

- (b) When the foreign operation partially disposed of or sold is an associate, exchange differences that were recorded in other comprehensive income are proportionately reclassified to profit or loss as part of the gain or loss on sale. In addition, even with the Company retains partial interest in the former foreign associate after losing significant influence over the former foreign associate, such transactions should be accounted for as disposal of all interest in these foreign operations.
- (c) When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation. In addition, even when the Company retains partial interest in the former foreign subsidiary after losing control of the former foreign subsidiary, such transactions should be accounted for as disposal of all interest in the foreign operation.

(4) Classification of current and non-current items

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

(5) Cash equivalents

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

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

- A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortized cost or fair value through other comprehensive income.
- B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using trade date accounting.
- C. At initial recognition, the Company measures the financial assets at fair value and recognizes the transaction costs in profit or loss. The Company subsequently measures the financial assets at fair value, and recognizes the gain or loss in profit or loss.
- D. The Company recognizes the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably.

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

- A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Company has made an irrevocable election at initial recognition to recognize changes in fair value in other comprehensive income.
- B. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognized and derecognized using trade date accounting.
- C. At initial recognition, the Company measures the financial assets at fair value plus transaction costs. The Company subsequently measures the financial assets at fair value:
The changes in fair value of equity investments that were recognized in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognized as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably.

(8) Financial assets at amortized cost

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

(9) Accounts and notes receivable

- A. Accounts and notes receivable entitle the Company a legal right to receive consideration in exchange for transferred goods or rendered services.
- B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.
- C. The Company's operating pattern of accounts receivable that are expected to be factored is for the purpose of receiving contract cash flow and selling, and the accounts receivable are subsequently measured at fair value, with any changes in fair value recognized in other comprehensive income.

(10) Impairment of financial assets

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

(11) Derecognition of financial assets

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

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

(12) Operating leases (lessor)

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

(13) Inventories

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

(14) Investments accounted for under the equity method / subsidiaries / associates

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

- B. Inter-company transactions, balances and unrealized gains or losses on transactions between companies within the Company are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Company.
- C. The Company's share of its subsidiaries' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Company's share of losses in a subsidiary equals or exceeds its interest in the subsidiary, the Company continues to recognize losses proportionate to its ownership.
- D. Associates are all entities over which the Company has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognized at cost.
- E. The Company's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Company's share of losses in an associate equals or exceeds its interest in the associate, the Company does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.
- F. When changes in an associate's equity are not recognized in profit or loss or other comprehensive income of the associate and such changes do not affect the Company's ownership percentage of the associate, the Company recognizes all the change in equity in "capital surplus" in proportion to its ownership.
- G. Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Company.
- H. Pursuant to the "Regulations Governing the Preparation of Financial Reports by Securities Issuers," profit (loss) of the current period and other comprehensive income in the parent company only financial statements shall equal to the amount attributable to owners of the parent in the financial statements prepared with basis for consolidation. Owners' equity in the parent company only financial statements shall equal to equity attributable to owners of the parent in the financial statements prepared with basis for consolidation.

(15) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.
- B. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will

flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss when incurred.

- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Buildings and structures	3~51years
Machinery and equipment	5~9 years
Other equipment	2~6 years

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

- A. Leases are recognized as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Company. For short-term leases or leases of low-value assets, lease payments are recognized as an expense on a straight-line basis over the lease term.
- B. Lease liabilities include the net present value of the remaining lease payments at the commencement date, discounted using the incremental borrowing interest rate.

Lease payments are comprised of the following:

- (a) Fixed payments, less any lease incentives receivable; and
- (b) Variable lease payments that depend on an index or a rate.

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

- C. At the commencement date, the right-of-use asset is stated at cost comprising the following:
 - (a) The amount of the initial measurement of lease liability; and
 - (b) Any lease payments made at or before the commencement date.

The right-of-use asset is measured subsequently using the cost model and is depreciated from the commencement date to the earlier of the end of the asset's useful life or the end of the lease term. When the lease liability is remeasured, the amount of remeasurement is recognized as an adjustment to the right-of-use asset.

(17) Investment property

An investment property is stated initially at its cost and measured subsequently using the cost model. Except for land, investment property is depreciated on a straight-line basis over its estimated useful life of 25 ~ 50 years.

(18) Intangible assets

- A. Goodwill arises in a business combination accounted for by applying the acquisition method.
- B. Patent, royalties and other intangible assets are amortized on a straight-line basis over their estimated useful lives of 2 ~ 10 years.

(19) Impairment of non-financial assets

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

(20) Borrowings

- A. Borrowings comprise long-term and short-term bank borrowings. Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.
- B. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

(21) Notes and accounts payable

- A. Accounts payable are liabilities for purchases of raw materials, goods or services and notes payable are those resulting from operating and non-operating activities.
- B. The short-term notes and accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

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

- A. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorized as financial liabilities held for trading unless they are designated as hedges.
- B. At initial recognition, the Company measures the financial liabilities at fair value. All related transaction costs are recognized in profit or loss. The Company subsequently measures these financial liabilities at fair value with any gain or loss recognized in profit or loss.
- C. If the credit risk results in fair value changes in financial liabilities designated as at fair value through profit or loss, they are recognized in other comprehensive income in the circumstances other than avoiding accounting mismatch or recognizing in profit or loss for loan commitments or financial guarantee contracts.

(23) Provisions

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

(24) Employee benefits

A. Short-term employee benefits

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

B. Pensions

(a) Defined contribution plans

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

(b) Defined benefit plans

- i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the

Group in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds (at the balance sheet date) that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

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

C. Employees' compensation and directors' remuneration

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

(25) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the parent company only balance sheet. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.
- D. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred tax assets are reassessed.
- E. A deferred tax asset shall be recognized for the carryforward of unused tax credits resulting from research and development expenditures to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilized.

(26) Treasury shares

Where the Company repurchases the Company's equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their book value and any consideration received, net of any directly attributable incremental transaction costs, is included in equity attributable to the Company's equity holders.

(27) Revenue recognition

- A. The Company is primarily engaged in manufacture and sale of TFT-LCD panel products. The Company recognizes revenue when the right of control is transferred to the customer when the products are delivered to customer and the Company has no unperformed obligation that could affect customer acceptance of the product. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, or the Company has objective evidence that all criteria for acceptance have been satisfied.
- B. Sales revenue is calculated based on the contract price, net of volume discounts and sales returns and discounts. Revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts/ sales discounts and allowances. Accumulated experience is used to estimate and provide for the volume discounts, sales discounts and allowances, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. The estimation is subject to an assessment at each reporting date. A refund liability is recognized for expected volume discounts, sales discounts and allowances payable to customers in relation to sales made until the end of the reporting period. No element of financing is deemed present as the sales are made, which is consistent with market practice.
- C. A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(28) Business combinations

- A. The Company uses the acquisition method to account for business combinations. The consideration transferred for an acquisition is measured as the fair value of the assets transferred, liabilities incurred or assumed and equity instruments issued at the acquisition date, plus the fair value of any assets and liabilities resulting from a contingent consideration arrangement. All acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. For each business combination, the Company measures at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to the proportionate share of the entity's net assets in the event of liquidation at either fair value or the present ownership instruments' proportionate

share in the recognized amounts of the acquiree's identifiable net assets. All other non-controlling interests should be measured at the acquisition-date fair value.

- B. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any previous equity interest in the acquiree over the fair value of the identifiable assets acquired and the liabilities assumed is recorded as goodwill at the acquisition date. If the total of consideration transferred, non-controlling interest in the acquiree recognized and the fair value of previously held equity interest in the acquiree is less than the fair value of the identifiable assets acquired and the liabilities assumed, the difference is recognized directly in profit or loss on the acquisition date.

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

The preparation of these parent company only financial statements requires management to make critical judgements in applying the Company's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. For the information of critical accounting judgements, estimates and key sources of assumption uncertainty is addressed below:

(1) Critical accounting estimates and assumptions

The Company makes estimates and assumptions based on the expectation of future events that are believed to be reasonable under the circumstances at the end of the reporting period. The resulting accounting estimates might be different from the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

A. Impairment assessment of goodwill

The impairment assessment of goodwill relies on the Company's subjective judgement, including identifying cash-generating units, allocating assets and liabilities as well as goodwill to related cash-generating units, and determining the recoverable amounts of related cash-generating units. Please refer to Note 6(11) for the information on goodwill impairment.

B. Impairment assessment of tangible and intangible assets (excluding goodwill)

The Company assesses impairment based on its subjective judgement and determines the separate cash flows of a specific group of assets, useful lives of assets and the future possible income and expenses arising from the assets depending on how assets are utilized and industrial characteristics. Any changes of economic circumstances or estimates due to the change of Company strategy might cause material impairment on assets in the future. Please refer to Notes 6(8) and 6(11) for the information of impairment assessment impairment.

C. Evaluation of inventories

As inventories are stated at the lower of cost and net realizable value, the Company must determine the net realizable value of inventories on balance sheet date using judgements and estimates. Due

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

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2019	December 31, 2018
Cash on hand, demand deposits and checking accounts	\$ 16,396,085	\$ 9,219,672
Time deposits	7,496,000	14,050,250
	<u>\$ 23,892,085</u>	<u>\$ 23,269,922</u>

A. The Company associates with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B. The above time deposits expire in 3 months and risks of changes in their values are remote.

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

Assets	December 31, 2019	December 31, 2018
<u>Current items</u>		
Financial assets mandatorily measured at fair value through profit or loss		
Forward foreign exchange contracts	<u>\$ 7,660</u>	<u>\$ 160,172</u>
<u>Non-current items</u>		
Financial assets mandatorily measured at fair value through profit or loss		
Listed stocks	\$ 420,524	\$ 1,104,136
Unlisted stocks	<u>2,230,884</u>	<u>94,281</u>
	<u>\$ 2,651,408</u>	<u>\$ 1,198,417</u>
<u>Liabilities</u>		
<u>Current items</u>		
Financial liabilities held for trading		
Forward foreign exchange contracts	\$ 345,003	\$ 12,764
Forward exchange swap contracts	-	7,135
	<u>\$ 345,003</u>	<u>\$ 19,899</u>

A. The non-hedging derivative financial assets and liabilities transaction information are as follows:

<u>Derivative financial assets and liabilities</u>	<u>December 31, 2019</u>			<u>December 31, 2018</u>		
	Contract Amount		<u>Contract Period</u>	Contract Amount		<u>Contract Period</u>
	(Notional Principal)			(Notional Principal)		
	(in thousands)			(in thousands)		
<u>Current items</u>						
Forward foreign exchange contracts	USD (sell)	\$ 37,000	2019/12-2020/1	USD (sell)	\$ 398,000	2018/10-2019/3
	JPY (buy)	4,040,505	2019/12-2020/1	JPY (buy)	44,416,685	2018/10-2019/3
Forward foreign exchange contracts	EUR (sell)	35,000	2019/12-2020/3	EUR (sell)	35,000	2018/11-2019/2
	HKD (buy)	304,588	2019/12-2020/3	HKD (buy)	312,329	2018/11-2019/2
Forward foreign exchange contracts	HKD (sell)	646,350	2019/11-2020/3	EUR (sell)	10,000	2018/11-2019/2
	USD (buy)	82,500	2019/11-2020/3	JPY (buy)	1,288,425	2018/11-2019/2
Forward foreign exchange contracts	USD (sell)	30,000	2019/12-2020/1			
	TWD (buy)	896,400	2019/12-2020/1			
Forward foreign exchange contracts	TWD (sell)	11,287,592	2019/9-2020/4			
	JPY (buy)	39,900,000	2019/9-2020/4			
Forward foreign swap contracts				USD (sell)	225,000	2018/12-2019/1
				TWD (buy)	6,905,790	2018/12-2019/1

The Company entered into forward foreign exchange contracts to hedge exchange rate risk of import and export proceeds in foreign currency. However, these forward foreign exchange contracts are primarily for the requirement of capital management and not accounted for using hedge accounting.

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<u>Non-current items</u>		
<u>Equity instruments</u>		
Unlisted stocks	<u>\$ 965,431</u>	<u>\$ 1,111,388</u>

A. The Company has elected to classify equity instruments that are considered to be strategic investments as financial assets at fair value through other comprehensive income.

B. For information about that the Company recognized other comprehensive income for fair value change for the year ended December 31, 2019 and 2018, please refer to Note 6(19) "Other equity".

(4) Financial assets at amortized cost

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<u>Current items</u>		
Time deposits with maturity over three months	<u>\$ 17,793,800</u>	<u>\$ 49,779,150</u>

The Company recognized \$348,442 and \$ 198,475 of interest income arising from the financial assets at amortized cost for the year ended December 31, 2019 and 2018, respectively.

(5) Notes receivable and accounts receivable

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Accounts receivable	\$ 31,557,983	\$ 39,385,910
Less: Allowance for uncollectible accounts	(209,373)	(209,373)
	<u>\$ 31,348,610</u>	<u>\$ 39,176,537</u>

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Not past due	31,116,246	38,424,398
Up to 60 days	372,085	908,075
61 to 180 days	46,259	51,005
Over 181 days	23,393	2,432
	<u>\$ 31,557,983</u>	<u>\$ 39,385,910</u>

The above aging analysis was based on past due date.

B. As of December 31, 2019 and 2018, accounts receivable and notes receivable were all from contracts with customers. As of January 1, 2018, the balance of receivables from contracts with customers amounted to \$41,514,602.

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

(6) Inventories

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Raw materials and supplies	\$ 2,921,564	\$ 3,340,352
Work in progress	13,561,743	13,624,800
Finished goods	9,875,792	9,840,493
	<u>\$ 26,359,099</u>	<u>\$ 26,805,645</u>

For the years ended December 31, 2019 and 2018, the Company recognized cost of goods sold for inventories that have been sold at \$254,720,156 and \$260,305,200 and recognized net inventory loss at \$77,325 and \$96,653 due to write down (reversal) of cost of scrap inventories to net realizable value, respectively.

(7) Investments accounted for under the equity method

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Subsidiaries:		
Landmark International Ltd.	\$ 44,796,827	\$ 44,597,800
Innolux Holding Limited	17,999,010	17,885,878
Toppoly Optoelectronics (B.V.I.) Ltd.	5,866,239	6,506,291
Innolux Hong Kong Holding Limited	6,029,594	5,641,266
Innolux Japan Co., Ltd.	2,058,019	2,004,888
Leadtek Global Group Limited	1,499,000	1,535,750
InnoJoy Investment Corporation	1,298,925	1,303,578
Yuan Chi Investment Co., Ltd.	875,925	874,787
Innolux Singapore Holding Pte. Ltd.	460,523	740,729
GIO Optoelectronics Corp.	312,376	-
Others	538,929	109,365
Associates:		
Ampower Holding Ltd.	865,362	956,577
FI Medical Device Manufacturing Co., Ltd.	427,338	655,827
Others	40,870	189,745
	<u>\$ 83,068,937</u>	<u>\$ 83,002,481</u>

A. The Company's subsidiaries

Details of the Company's subsidiaries are provided in Note 4(3) of the Company's consolidated financial statements as of and for the year ended December 31, 2019.

B. The Company's associates

The operating results of the Company's share in all individually immaterial associates are summarized below:

	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Profit for the year from continuing operations	\$ 307,307	\$ 446,169
Other comprehensive income - net of tax	(85,424)	82,523
Total comprehensive income	<u>\$ 221,883</u>	<u>\$ 528,692</u>

(8) Property, plant and equipment

	2019				
	At January 1	Additions	Disposals	Transfer	At December 31
Cost:					
Land	\$ 3,852,792	\$ -	\$ -	\$ -	\$ 3,852,792
Buildings	174,483,964	416,472	(57,696)	3,088,387	177,931,127
Machinery and equipment	463,136,186	2,346,130	(1,668,329)	7,755,320	471,569,307
Other equipment	<u>36,714,927</u>	<u>1,974</u>	<u>(2,477,295)</u>	<u>5,495,394</u>	<u>39,735,000</u>
	<u>678,187,869</u>	<u>2,764,576</u>	<u>(4,203,320)</u>	<u>16,339,101</u>	<u>693,088,226</u>
Accumulated depreciation and impairment:					
Buildings	(109,727,532)	(7,157,774)	49,674	(36,851)	(116,872,483)
Machinery and equipment	(371,350,695)	(19,154,978)	1,455,347	(834,162)	(389,884,488)
Other equipment	<u>(31,406,700)</u>	<u>(3,836,924)</u>	<u>2,419,620</u>	<u>(1,489,319)</u>	<u>(34,313,323)</u>
	<u>(512,484,927)</u>	<u>(30,149,676)</u>	<u>3,924,641</u>	<u>(2,360,332)</u>	<u>(541,070,294)</u>
Unfinished construction and equipment under acceptance	<u>10,513,199</u>	<u>15,552,556</u>	<u>-</u>	<u>(14,000,125)</u>	<u>12,065,630</u>
	<u>\$176,216,141</u>				<u>\$ 164,083,562</u>
2018					
	At January 1	Additions	Disposals	Transfer	At December 31
Cost:					
Land	\$ 3,852,792	\$ -	\$ -	\$ -	\$ 3,852,792
Buildings	171,007,237	339,202	(7,671)	3,145,196	174,483,964
Machinery and equipment	450,919,643	1,497,909	(2,570,973)	13,289,607	463,136,186
Other equipment	<u>33,667,082</u>	<u>9,745</u>	<u>(1,759,594)</u>	<u>4,797,694</u>	<u>36,714,927</u>
	<u>659,446,754</u>	<u>1,846,856</u>	<u>(4,338,238)</u>	<u>21,232,497</u>	<u>678,187,869</u>
Accumulated depreciation and impairment:					
Buildings	(101,952,303)	(7,587,008)	7,229	(195,450)	(109,727,532)
Machinery and equipment	(352,625,651)	(20,209,374)	2,518,922	(1,034,592)	(371,350,695)
Other equipment	<u>(28,402,910)</u>	<u>(3,863,463)</u>	<u>1,758,756</u>	<u>(899,083)</u>	<u>(31,406,700)</u>
	<u>(482,980,864)</u>	<u>(31,659,845)</u>	<u>4,284,907</u>	<u>(2,129,125)</u>	<u>(512,484,927)</u>
Unfinished construction and equipment under acceptance	<u>15,312,334</u>	<u>14,676,410</u>	<u>-</u>	<u>(19,475,545)</u>	<u>10,513,199</u>
	<u>\$191,778,224</u>				<u>\$ 176,216,141</u>

A. Information about the property, plant and equipment that were pledged to others as collateral is provided in Note 8.

B. As of December 31, 2019 and 2018, the prepayments for business facilities which have not yet entered the factory (shown as ‘other non-current assets’) amounted to \$1,500,976 and \$1,559,446, respectively.

C. Information on impairment assessments is provided in Note 6 (11).

(9) Leasing arrangements — lessee

A. The Company leases various assets including land. Rental contracts are typically made for periods of 9 to 28 years. Lease terms are negotiated on an individual basis and contain a wide range of

different terms and conditions. The lease agreements do not impose covenants, but leased assets may not be used as security for borrowing purposes.

B. Short-term leases with a lease term of 12 months or less comprise office and equipment. Low-value assets comprise computer equipment.

C. The carrying amount of right-of-use assets and the depreciation charge are as follows:

	<u>December 31, 2019</u>	<u>Year ended December 31, 2019</u>
	<u>Carrying amount</u>	<u>Depreciation charge</u>
Land	<u>\$ 5,350,404</u>	<u>\$ 481,210</u>

D. The information on profit and loss accounts relating to lease contracts is as follows:

	<u>Year ended December 31, 2019</u>
<u>Items affecting profit or loss</u>	
Interest expense on lease liabilities	\$ 105,436
Expense on variable lease payments	46,472
Expense on leases of low-value assets	36,954
Expense on short-term lease contracts	20,780

E. For the year ended December 31, 2019, the Company's total cash outflow for leases were \$651,464.

(10) Investment property

	<u>2019</u>		
	<u>At January 1</u>	<u>Additions</u>	<u>At December 31</u>
Cost:			
Land	\$ 188,247	\$ -	\$ 188,247
Buildings	<u>439,228</u>	<u>-</u>	<u>439,228</u>
	<u>627,475</u>	<u>-</u>	<u>627,475</u>
Accumulated depreciation and impairment:			
Buildings	(<u>75,505</u>)	(<u>24,738</u>)	(<u>100,243</u>)
	<u>\$ 551,970</u>		<u>\$ 527,232</u>
	<u>2018</u>		
	<u>At January 1</u>	<u>Additions</u>	<u>At December 31</u>
Cost:			
Land	\$ 188,247	\$ -	\$ 188,247
Buildings	<u>439,228</u>	<u>-</u>	<u>439,228</u>
	<u>627,475</u>	<u>-</u>	<u>627,475</u>
Accumulated depreciation and impairment:			
Buildings	(<u>64,778</u>)	(<u>10,727</u>)	(<u>75,505</u>)
	<u>\$ 562,697</u>		<u>\$ 551,970</u>

The fair value of the investment property held by the Company as at December 31, 2019 and 2018 was \$1,906,827 and \$1,660,504, respectively. The amounts mentioned above represent valuation results of comparative method based on market trading information categorized within Level 3 in the fair value hierarchy.

(11) Intangible assets

A. Intangible assets are goodwill, payments for TFT-LCD related technology and royalty.

		2019				
		At January 1	Additions	Disposals	Transfer	At December 31
Cost:						
Patents and royalty		\$ 8,154,685	\$ -	\$ -	\$ 3,600	\$ 8,158,285
Goodwill		17,096,628	-	-	-	17,096,628
Others		<u>4,471,948</u>	<u>480</u>	<u>(28,035)</u>	<u>76,225</u>	<u>4,520,618</u>
		<u>29,723,261</u>	<u>480</u>	<u>(28,035)</u>	<u>79,825</u>	<u>29,775,531</u>
Accumulated amortization and impairment:						
Patents and royalty		(8,147,365)	(4,204)	-	-	(8,151,569)
Others		<u>(3,976,232)</u>	<u>(228,907)</u>	<u>28,035</u>	<u>-</u>	<u>(4,177,104)</u>
		<u>(12,123,597)</u>	<u>(233,111)</u>	<u>28,035</u>	<u>-</u>	<u>(12,328,673)</u>
		<u>\$ 17,599,664</u>				<u>\$ 17,446,858</u>
		2018				
		At January 1	Additions	Disposals	Transfer	At December 31
Cost:						
Patents and royalty		\$ 8,154,685	\$ -	\$ -	\$ -	\$ 8,154,685
Goodwill		17,096,628	-	-	-	17,096,628
Others		<u>4,279,750</u>	<u>28,240</u>	<u>(18,852)</u>	<u>182,810</u>	<u>4,471,948</u>
		<u>29,531,063</u>	<u>28,240</u>	<u>(18,852)</u>	<u>182,810</u>	<u>29,723,261</u>
Accumulated amortization and impairment:						
Patents and royalty		(8,143,080)	(4,285)	-	-	(8,147,365)
Others		<u>(3,706,905)</u>	<u>(294,682)</u>	<u>18,852</u>	<u>6,503</u>	<u>(3,976,232)</u>
		<u>(11,849,985)</u>	<u>(298,967)</u>	<u>18,852</u>	<u>6,503</u>	<u>(12,123,597)</u>
		<u>\$ 17,681,078</u>				<u>\$ 17,599,664</u>

B. Details of amortization on intangible assets are as follows:

	Years ended December 31,	
	2019	2018
Operating costs	\$ 84,397	\$ 176,122
Operating expenses	<u>148,714</u>	<u>122,845</u>
	<u>\$ 233,111</u>	<u>\$ 298,967</u>

C. The Company performed impairment analysis for recoverable amount of the goodwill at each reporting date and used the value in use as the basis for calculation of the recoverable amount.

The value in use was calculated based on the estimated present value of future cash flows for five years, which was discounted at the discount rate of 12.51% and 9.08%, respectively, for the year ended December 31, 2019 and 2018, to reflect the specific risks of the related cash generating units. The future cash flows were estimated based on the future revenue, gross profit, and other operating costs each year. Based on the evaluation above, the Company did not recognize impairment loss on goodwill for the year ended December 31, 2019 and 2018.

(12) Other payables

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Other personnel expenses	7,009,823	8,996,357
Payable on machinery and equipment	\$ 5,337,368	\$ 6,897,044
Repairs and maintenance expense payable	2,400,555	2,230,301
Utilities expense payable	1,045,366	1,040,452
Processing fee payable	338,407	1,763,585
Other payables	7,182,778	7,765,488
	<u>\$ 23,314,297</u>	<u>\$ 28,693,227</u>

(13) Long-term borrowings

<u>Type of borrowings</u>	<u>Period</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Syndicated bank loans	2015/3/12 ~2024/4/15	\$ 35,730,000	\$ 51,440,000
Less:			
Administrative expenses charged by syndicated banks		(223,719)	(103,424)
Current portion (includes administrative expenses)		(15,956,013)	(16,194,486)
		<u>\$ 19,550,268</u>	<u>\$ 35,142,090</u>
Range of interest rates		<u>1.79%~2.07%</u>	<u>1.74%~1.96%</u>

- A. Please refer to Note 8 for the information on assets pledged as collateral for long-term borrowings.
- B. The syndicated loan agreements specified that the Company shall meet covenants on current ratio, liability ratio, interest coverage, and tangible net equity, based on the Company's annual consolidated financial statements audited by independent auditors. The Company's financial ratios on the consolidated financial statements for the years ended December 31, 2019 and 2018 are in compliance with the covenants on the syndicated loan agreement.
- C. For repayment of borrowings from financial institutions and financing mid-term working capital fund, the Board of Directors approved the signing of a syndicated loan with financial institution in the amount of NT\$43.75 billion on June 20, 2018.

(14) Pensions

A. Defined benefit pension plan

(a) The Company has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005, and service years thereafter of employees who choose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company will make contributions for the deficit by next March.

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Present value of defined benefit obligation	\$ 2,128,296	\$ 2,000,113
Fair value of plan assets	(1,835,192)	(1,686,545)
Net defined benefit liability	<u>\$ 293,104</u>	<u>\$ 313,568</u>

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

	<u>Present value of defined benefit obligation</u>	<u>Fair value of plan assets</u>	<u>Net defined benefit liability</u>
Year ended December 31, 2019			
Balance at January 1	<u>\$ 2,000,113</u>	<u>\$ 1,686,545</u>	<u>\$ 313,568</u>
Current service cost	6,039	-	6,039
Interest expense/income	<u>24,926</u>	<u>21,572</u>	<u>3,354</u>
	<u>30,965</u>	<u>21,572</u>	<u>9,393</u>
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	53,738	(53,738)
Change in demographic assumptions	(3,324)	-	(3,324)
Change in financial assumptions	121,231	-	121,231
Experience adjustments	(5,923)	-	(5,923)
Benefits paid	(14,766)	(14,766)	-
	<u>97,218</u>	<u>38,972</u>	<u>58,246</u>
Contribution for the year	-	<u>88,103</u>	(88,103)
Balance at December 31	<u>\$ 2,128,296</u>	<u>\$ 1,835,192</u>	<u>\$ 293,104</u>

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability
Year ended December 31, 2018			
Balance at January 1	\$ 1,902,852	\$ 1,548,769	\$ 354,083
Current service cost	5,749	-	5,749
Interest expense/income	28,468	23,157	5,311
	<u>34,217</u>	<u>23,157</u>	<u>11,060</u>
Remeasurements:			
Experience adjustments	69,773	39,895	29,878
Benefits paid	(6,729)	(6,729)	-
	<u>63,044</u>	<u>33,166</u>	<u>29,878</u>
Contribution for the year	-	81,453	(81,453)
Balance at December 31	<u>\$ 2,000,113</u>	<u>\$ 1,686,545</u>	<u>\$ 313,568</u>

(d) The Bank of Taiwan was commissioned to manage the Fund of the Company's defined benefit pension plan in accordance with the Fund's annual investment and utilization plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund" (Article 6: The scope of utilization for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilization of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan assets fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2019 and 2018 is given in the Annual Labor Retirement Fund Utilization Report announced by the government.

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

	Years ended December 31,	
	2019	2018
Discount rate	<u>0.85%</u>	<u>1.25%</u>
Future salary increases	<u>1.50%</u>	<u>1.50%</u>

Future mortality rate was estimated based on the 5th Taiwan Standard Ordinary Experience Mortality Table.

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

	Discount rate		Future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
<u>December 31, 2019</u>				
Effect on present value of defined benefit obligation	(\$ 76,642)	\$ 80,299	\$ 79,573	(\$ 76,346)

	Discount rate		Future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
<u>December 31, 2018</u>				
Effect on present value of defined benefit obligation	(\$ 74,991)	\$ 78,684	\$ 78,288	(\$ 74,991)

The sensitivity analysis above is based on one assumption which changed while the other conditions remain unchanged. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

(f) As of December 31, 2019, the weighted average duration of that retirement plan is 14 years.

B. Defined contribution pension plan

(a) Effective July 1, 2005, the Company has established a defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.

(b) The pension costs under the defined contribution pension plans of the Company for the years ended December 31, 2019 and 2018 were \$967,971 and \$965,174, respectively.

(15) Provisions-current

	Warranty	Litigation and others	Total
At January 1, 2019	\$ 3,773,214	\$ 3,009,700	\$ 6,782,914
Additions during the year	1,232,412	-	1,232,412
Used during the year	(1,043,294)	(199,675)	(1,242,969)
At December 31, 2019	<u>\$ 3,962,332</u>	<u>\$ 2,810,025</u>	<u>\$ 6,772,357</u>

A. Warranty

The Company provides warranty on TFT-LCD panel products sold. Provision for warranty is estimated based on historical warranty data of TFT-LCD panel products.

B. Litigation and others

Litigation and other provision for the Company are related to patents of TFT-LCD panel products and anti-trust litigations. For information on estimation of provisions, please refer to Note 9(1).

(16) Share capital

- A. As of December 31, 2019, the Company's authorized and outstanding capital were \$105,000,000 and \$97,110,720, with a par value of \$10 (in dollars) per share, respectively. All proceeds from shares issued have been collected.

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

	2019	2018
	Number of ordinary shares (in thousand units)	Number of ordinary shares (in thousand units)
At January 1	9,952,072	9,952,072
Shares retired	(321,000)	-
At December 31	<u>9,631,072</u>	<u>9,952,072</u>

B. Treasury shares

- (a) Reason for share reacquisition and movements in the number of the Company's treasury shares are as follows:

	2019	
	Quantity (in thousand units)	Book value
At January 1	-	\$ -
Retirement for the year	321,000	2,299,624
Cancellation for the year	(241,000)	(1,681,044)
At December 31	<u>80,000</u>	<u>\$ 618,580</u>

The Company repurchased shares in order to transfer to employees and maintain the Company's credit rating and shareholders' equity. In November 2019, the Company cancelled the treasury shares which used to maintain the Company's credit rating and shareholders' equity in accordance with Securities and Exchange Act.

- (b) Pursuant to the R.O.C. Securities and Exchange Act, the number of shares bought back as treasury share should not exceed 10% of the number of the Company's issued and outstanding shares and the amount bought back should not exceed the sum of retained earnings, paid-in capital in excess of par value and realized capital surplus.
- (c) Pursuant to the R.O.C. Securities and Exchange Act, treasury shares should not be pledged as collateral and the shareholder's rights should not be enjoyed before it is reissued.
- (d) Pursuant to the R.O.C. Securities and Exchange Act, treasury shares should be reissued to the employees within five years from the reacquisition date and shares not reissued within the five-year period are to be cancelled.

(17) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the

Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Act requires that the amount of capital surplus to be capitalized mentioned above should not exceed 10% of the paid-in capital each year. Accumulated deficit shall first be covered by retained earnings before the capital reserve can be used to cover the accumulated deficit.

	2019				
	Share premium	Treasury share transactions	Changes in ownership interests in subsidiaries	Share of profit (loss) of associates accounted for under equity method	Total
At January 1	\$ 99,614,690	\$ -	\$ -	\$ 33,425	\$ 99,648,115
Cancellation of treasury shares	(2,412,276)	3,141,232	-	-	728,956
Recognition of changes in ownership interests in subsidiaries	-	-	24	-	24
Recognition of change in equity of associates in proportion to the Company's ownership	-	-	-	(14,755)	(14,755)
Others	39	-	-	-	39
At December 31	<u>\$ 97,202,453</u>	<u>\$ 3,141,232</u>	<u>\$ 24</u>	<u>\$ 18,670</u>	<u>\$ 100,362,379</u>

	2018		
	Share premium	Share of profit of associates accounted for under equity method	Total
At January 1	\$ 99,614,690	\$ 32,229	\$ 99,646,919
Recognition of change in equity of associates in proportion to the Company's ownership	-	1,196	1,196
At December 31	<u>\$ 99,614,690</u>	<u>\$ 33,425</u>	<u>\$ 99,648,115</u>

(18) Retained earnings

- A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be offset against prior years' operating losses, then set aside 10% of the remaining amount as legal reserve (until the legal reserve equals the paid-in capital). Preferred dividend shall be distributed after setting aside or reversing a special reserve according to related regulations. The appropriation of the remaining amount along with the unappropriated earnings from previous years shall be proposed by the Board of Directors and resolved by the shareholders. The Company is in an emerging industry which is growing rapidly, and has a capital intensive business. The Company is at the stage of stable growth. In line with the Company's long-term financial plan in the future, investment environment and business competition situation, the appropriation of dividends shall be proposed by the Board of Directors and resolved by the shareholders, taking into account the future capital expenditure budget and capital requirement of the Company. However, the stock dividends distributed to shareholders shall not exceed two-thirds of distributable dividends in current period.
- B. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose.

The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the balance of the reserve exceeds 25% of the Company's paid-in capital.

C. The details of the appropriations of 2018 and 2017 net income which was approved at the stockholders' meeting in June 2019 and 2018, respectively, are as follows:

	Years ended December 31,			
	2018		2017	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	\$ 222,276		\$ 3,702,861	
Provision (reversal) of special reserve	3,572,742		(2,328,083)	
Cash dividends	597,124	\$ 0.06	7,961,657	\$ 0.80
	<u>\$ 4,392,142</u>		<u>\$ 9,336,435</u>	

D. For the information relating to employees' compensation and directors' remuneration, please refer to Note 6(25).

(19) Other equity items

	2019			
	Currency translation	Financial assets at fair value through other comprehensive income	Total	
At January 1	(\$ 6,461,149)	\$ 1,797,686	(\$ 4,663,463)	
Revaluation - gross	-	(145,957)	(145,957)	
Currency translation differences	(2,951,172)	-	(2,951,172)	
Share of other comprehensive loss of subsidiaries and associates	(85,365)	445,388	360,023	
Effect of income tax	-	75,132	75,132	
At December 31	<u>(\$ 9,497,686)</u>	<u>\$ 2,172,249</u>	<u>(\$ 7,325,437)</u>	

	2018			
	Currency translation	Available-for-sale investments	Financial assets at fair value through other comprehensive income	Total
At January 1	(\$ 5,717,223)	\$ 4,626,502	\$ -	(\$ 1,090,721)
Effect of modified retrospective approach under IFRS 9	-	(4,626,502)	4,626,502	-
Balance after retrospective adjustment	(5,717,223)	-	4,626,502	(1,090,721)
Revaluation - gross	-	-	(229,701)	(229,701)
Currency translation differences	(828,563)	-	-	(828,563)
Share of other comprehensive loss of subsidiaries and associates	84,637	-	(2,599,115)	(2,514,478)
At December 31	<u>(\$ 6,461,149)</u>	<u>\$ -</u>	<u>\$ 1,797,686</u>	<u>(\$ 4,663,463)</u>

(20) Operating income

	Years ended December 31,	
	2019	2018
TFT-LCD products	\$ 249,384,126	\$ 278,407,555

The Company derives revenue from the transfer of goods at a point in time.

(21) Other income

	Years ended December 31,	
	2019	2018
Interest income		
Interest income from bank deposits	\$ 334,570	\$ 576,621
Interest income from financial assets at amortized cost	348,442	198,475
	683,012	775,096
Service income	531,516	499,549
Rental revenue	172,075	151,140
Dividend income	13,301	5,838
Other income	701,436	801,101
	\$ 2,101,340	\$ 2,232,724

(22) Other gains and losses

	Years ended December 31,	
	2019	2018
Net gain (loss) on financial assets and liabilities at fair value through profit or loss	\$ 654,547	(\$ 652,845)
Net currency exchange gain (loss)	327,080	(81,620)
Loss on disposal of property, plant and equipment	(1,965)	(18,641)
Gain (loss) on disposal of investments	19,001	(10,533)
Others	345,974	11,516
	\$ 1,344,637	(\$ 752,123)

(23) Finance costs

	Years ended December 31,	
	2019	2018
Interest expense:		
Bank borrowings	\$ 921,958	\$ 564,740
Others	105,829	1,141
	\$ 1,027,787	\$ 565,881

(24) Expenses by nature

	Years ended December 31,	
	2019	2018
Employee benefit expense:		
Salaries and other short-term employee benefits	\$ 25,218,680	\$ 26,364,308
Post-employment benefits	977,364	976,234
Depreciation	30,655,624	31,670,572
Amortization	233,111	298,967
	<u>\$ 57,084,779</u>	<u>\$ 59,310,081</u>

(25) Employees' compensation and directors' remuneration

A. According to the Articles of Incorporation, of the Company, a ratio of profit of the current year distributable, after covering accumulated losses, shall be distributed as employees' compensation and directors' remuneration. The ratio shall not be lower than 5% for employees' compensation and shall not be higher than 0.1% for directors' remuneration.

B. For the years ended December 31, 2019 and 2018, employees' compensation was accrued at \$0 and \$294,289, respectively; while directors' remuneration was accrued at \$0 and \$4,528, respectively. The aforementioned amounts were recognized in expenses.

For the year ended December 31, 2019, the Company incurred net loss and had an accumulated deficit. Thus, there was no distribution of employees' compensation and directors' remuneration as resolved by the Board of Directors on February 13, 2020.

The employees' compensation and directors' remuneration for the year ended December 31, 2018 were \$294,289 and \$4,528, respectively, and were estimated based on the profit of current year. The employees' compensation will be distributed in the form of cash. The Board of Directors resolved to distribute employees' compensation and directors' remuneration in the amount of \$294,289 and \$4,528, respectively, in the form of cash. The actual distributed amount were in consistent with the amounts recognized as expense in 2018.

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

(26) Income tax

A. Income tax expense

(a) Components of income tax expense:

	Years ended December 31,	
	2019	2018
Current tax:		
Current tax on profit for the year	\$ 15,706	\$ 89,783
Tax on undistributed surplus earnings	-	2,704,311
Prior year income tax overestimation	(887,644)	-
Total current tax	(871,938)	2,794,094
Deferred tax:		
Origination and reversal of temporary differences	533,493	319,958
Loss carryforward	(33,546)	(138,818)
Impact of change in tax rate	-	(969,286)
Income tax expense	(\$ 371,991)	\$ 2,005,948

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

	Years ended December 31,	
	2019	2018
Changes in fair value of financial assets at fair value through other comprehensive income	(\$ 75,132)	\$ -
Remeasurement of defined benefit obligation	(11,649)	(5,976)
	(\$ 86,781)	(\$ 5,976)

B. Reconciliation between income tax expense and accounting profit:

	Years ended December 31,	
	2019	2018
Tax calculated based on profit before tax and statutory tax rate	(\$ 3,562,996)	\$ 845,742
Effects from items disallowed by tax regulation	(410,070)	(439,559)
Prior year income tax overestimation	(887,644)	-
Impact of change in tax rate	-	(969,286)
Additional 10% tax on undistributed earnings	-	2,704,311
Separate taxation	15,706	89,783
Change in assessment of realization of deferred tax assets	4,473,013	(225,043)
Tax expense	(\$ 371,991)	\$ 2,005,948

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

2019				
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Deferred tax assets:				
-Temporary differences:				
Sales returns and discount provisions	\$ 475,725	\$ 192,843	\$ -	\$ 668,568
Accrued royalties and warranty provisions	1,539,307	16,743	-	1,556,050
Unrealized exchange loss	162,222	(162,222)	-	-
Unrealized loss on financial instruments	511,246	73,565	75,132	659,943
Others	704,624	(68,909)	11,649	647,364
Loss carryforward	<u>3,773,630</u>	<u>33,546</u>	<u>-</u>	<u>3,807,176</u>
	<u>\$ 7,166,754</u>	<u>\$ 85,566</u>	<u>\$ 86,781</u>	<u>\$ 7,339,101</u>
-Deferred tax liabilities:				
Unrealized exchange gain	\$ -	(\$ 225,400)	\$ -	(\$ 225,400)
Amortization charges on goodwill	(851,958)	(96,905)	-	(948,863)
Others	(28,055)	(263,208)	-	(291,263)
	<u>(\$ 880,013)</u>	<u>(\$ 585,513)</u>	<u>\$ -</u>	<u>(\$ 1,465,526)</u>
	<u>\$ 6,286,741</u>	<u>(\$ 499,947)</u>	<u>\$ 86,781</u>	<u>\$ 5,873,575</u>
2018				
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Deferred tax assets:				
-Temporary differences:				
Sales returns and discount provisions	\$ 429,340	\$ 46,385	\$ -	\$ 475,725
Accrued royalties and warranty provisions	1,095,009	444,298	-	1,539,307
Unrealized exchange loss	-	162,222	-	162,222
Unrealized loss on financial instruments	430,539	80,707	-	511,246
Others	637,342	61,306	5,976	704,624
Loss carryforward	<u>3,634,812</u>	<u>138,818</u>	<u>-</u>	<u>3,773,630</u>
	<u>\$ 6,227,042</u>	<u>\$ 933,736</u>	<u>\$ 5,976</u>	<u>\$ 7,166,754</u>
-Deferred tax liabilities:				
Unrealized exchange gain	(\$ 41,713)	\$ 41,713	\$ -	\$ -
Amortization charges on goodwill	(641,795)	(210,163)	-	(851,958)
Others	(50,915)	22,860	-	(28,055)
	<u>(\$ 734,423)</u>	<u>(\$ 145,590)</u>	<u>\$ -</u>	<u>(\$ 880,013)</u>
	<u>\$ 5,492,619</u>	<u>\$ 788,146</u>	<u>\$ 5,976</u>	<u>\$ 6,286,741</u>

D. Expiration dates of unused loss carryforward and amounts of unrecognized deferred tax assets are as follows:

December 31, 2019				
Year incurred	Amount filed / assessed	Unused amount	Unrecognized deferred tax assets	Usable until year
2011	Assessed	\$ 24,283,146	\$ 19,161,131	2021
2012	Assessed	42,430,348	33,480,565	2022
2016	Assessed	1,051,680	829,850	2026
2019	Estimated	22,482,711	17,740,459	2029
		<u>\$ 90,247,885</u>	<u>\$ 71,212,005</u>	

December 31, 2018				
Year incurred	Amount filed / assessed	Unused amount	Unrecognized deferred tax assets	Usable until year
2011	Assessed	\$ 23,793,756	\$ 17,120,565	2021
2012	Assessed	42,430,348	30,530,343	2022
2016	Assessed	1,051,680	756,727	2026
		<u>\$ 67,275,784</u>	<u>\$ 48,407,635</u>	

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

	December 31, 2019	December 31, 2018
Deductible temporary differences	<u>\$ 2,357,855</u>	<u>\$ 2,850,988</u>

F. The Company has not recognized taxable temporary differences associated with investment in subsidiaries as deferred tax liabilities. As of December 31, 2019 and 2018, the amounts of temporary differences unrecognized as deferred tax liabilities were \$30,463,120 and \$30,554,931, respectively.

G. The Company's income tax returns through 2016 have been assessed and approved by the Tax Authority.

H. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February 7, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Company has assessed the impact of the change in income tax rate.

(27) Earnings per share

	Years ended December 31,	
	2019	2018
<u>Basic (loss) earnings per share</u>		
Net (loss) income for the period	(\$ 17,442,990)	\$ 2,222,762
Weighted average number of ordinary shares outstanding (shares in thousands)	9,857,385	9,952,072
Basic (loss) earnings per share (in dollar)	(\$ 1.77)	\$ 0.22
<u>Diluted (loss) earnings per share</u>		
(Loss) Profit of ordinary shareholders	(\$ 17,442,990)	\$ 2,222,762
Weighted average number of ordinary shares outstanding (shares in thousands)	9,857,385	9,952,072
Assumed conversion of all dilutive potential ordinary shares:		
-Employees' compensation	-	65,645
	9,857,385	10,017,717
Diluted (loss) earnings per share (in dollar)	(\$ 1.77)	\$ 0.22

(28) Business combinations

On September 18, 2019, the Company acquired 39% of the share capital of GIO Optoelectronics Corp. for \$192,405, which the ownership change from 24% to 63%, and obtained control over GIO Optoelectronics Corp.. The main business of GIO Optoelectronics Corp. is LCD glass substrate processing, LED lighting and its control power supply. As a result of the acquisition, the Company is expected to increase economic scale and strategic synergy. As of December 31, 2019, the allocation of the purchase price of the acquisition is still in process, and the Company is still assessing the fair value of the identifiable assets. Please refer to Note 6(30) of consolidated financial statements for year ended December 31, 2019 for related information.

(29) Supplemental cash flow information

Investing activities with partial cash payments:

	Years ended December 31,	
	2019	2018
Purchase of property, plant and equipment	\$ 18,317,132	\$ 16,523,266
Add: Opening balance of payable on equipment	6,897,044	32,086,845
Less: Ending balance of payable on equipment	(5,337,368)	(6,897,044)
Cash paid during the year	\$ 19,876,808	\$ 41,713,067

(30) Changes in liabilities from financing activities

For the year ended December 31, 2019 and 2018, all changes in liabilities from financing activities are changes in cash flow from financing activities. Please refer to consolidated statements of cash flows.

7. RELATED PARTY TRANSACTIONS

(1) Names and relationship of related parties

<u>Names of related parties</u>	<u>Relationship with the Company</u>
Hon Hai Precision Industry Co., Ltd. and its subsidiaries	Other related party
CHENG MEI MATERIALS TECHNOLOGY CORPORATION and its subsidiaries	Other related party
Fu Lian Net International (Hong Kong) Limited	Other related party
FI Medical Device Manufacturing Co., Ltd.	Associate
GIO Optoelectronics Corp. (Note)	The Company's subsidiary
Leadtek Global Group Limited	The Company's subsidiary
Lakers Trading Ltd.	The Company's subsidiary
Innolux Hong Kong Limited	The Company's subsidiary
InnoCare Optoelectronics Corporation	The Company's subsidiary
Innolux USA Inc.	The Company's subsidiary
Innolux Optoelectronics India Private Limited	The Company's subsidiary
Foshan Innolux Optoelectronics Ltd.	The Company's subsidiary

(Note) In the third quarter of 2019, the ownership change from 24% to 63%, which change associate into company's subsidiary.

For the more information about the Company and other subsidiaries, please refer to Note 4(3) of the consolidated financial report for the year ended December 31, 2019.

(2) Significant related party transactions

A. Operating revenue

	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Sales of goods:		
Subsidiaries	\$ 28,465,661	\$ 16,678,133
Other related parties	9,318,267	16,937,496
Associates	15,206	23,687
	<u>\$ 37,799,134</u>	<u>\$ 33,639,316</u>

The collection period was mainly 30~90 days upon delivery or on a monthly-closing basis to related parties. The sales prices and the trading terms to related parties above were not significantly different from those of sales to third parties.

B. Purchases of goods

	Years ended December 31,	
	2019	2018
Purchases of goods:		
Other related parties	\$ 2,719,580	\$ 1,058,325
Associates	1,521,975	1,574,337
Subsidiaries	102,061	47,861
	<u>\$ 4,343,616</u>	<u>\$ 2,680,523</u>

The payment term was 30~120 days to related parties after delivery, and 30~180 days to non-related parties after delivery or on a monthly-closing basis. The purchase prices and the payment terms from related parties above were not materially different from those of purchases from third parties.

C. Consigned processing

(a) Consigned processing

	Years ended December 31,	
	2019	2018
Processing expense:		
Subsidiaries		
- Lakers Trading Ltd.	\$ 49,727,197	\$ 43,150,307
- Others	39,397,047	41,963,501
Associates	1	-
	<u>\$ 89,124,245</u>	<u>\$ 85,113,808</u>

(b) Balance of consigned processing at the end of year (shown as “Other payables”)

	December 31, 2019	December 31, 2018
Payables to related parties:		
Subsidiaries	<u>\$ 321,461</u>	<u>\$ 1,744,458</u>

The Company subcontracted the processing of products of associates in Mainland China. The processing fees were mainly charged based on cost plus method.

D. Service revenue (Shown as “other revenue”)

	Years ended December 31,	
	2019	2018
Service revenue:		
Subsidiaries		
- Foshan Innolux Optoelectronics Ltd.	\$ 104,577	\$ 226,349
Associates	61,082	54,717
	<u>\$ 165,659</u>	<u>\$ 281,066</u>

E. Service expense (Shown as “manufacturing costs and operating expenses”)

	Years ended December 31,	
	2019	2018
Service expense:		
Subsidiaries	\$ 1,359,810	\$ 1,176,802

F. Receivables from related parties:

	December 31, 2019	December 31, 2018
Accounts receivable:		
Subsidiaries		
- Innolux USA Inc.	\$ 4,928,163	\$ 3,490,227
- Others	1,208,439	709,223
Other related parties	2,450,269	4,570,504
Associates	-	47,881
	8,586,871	8,817,835
Less: Transfer to other receivables	(312,337)	(369,861)
	\$ 8,274,534	\$ 8,447,974

(a) The receivables from related parties arise mainly from sales transactions. The receivables are due 30~90 days after the date of sale. The receivables are unsecured in nature and bear no interest.

(b) The abovementioned receivables from related parties that exceed normal granting periods were transferred under ‘Other receivables – related parties’.

G. Other receivables from related parties

	December 31, 2019	December 31, 2018
Other receivables:		
Accounts receivables transferred to other receivables		
Subsidiaries		
- Innolux Optoelectronics India Private Limited	\$ 312,337	\$ -
Other related parties		
- Fu Lian Net International (Hong Kong) Limited	-	369,837
- Others	-	24
Other receivables		
Subsidiaries	-	-
- InnoCare Optoelectronics Corporation	199,470	-
- Others	127,614	7,585
Other related parties	18,107	8,252
Associates	2,627	7,820
	\$ 660,155	\$ 393,518

H. Payables to related parties:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Accounts payable:		
Subsidiaries		
- Lakers Trading Ltd.	\$ 28,993,554	\$ 26,199,180
- Leadtek Global Group Limited	21,378,911	24,587,830
- Innolux Hong Kong Limited	9,253,496	10,521,167
- Others	40,011	4,128
Other related parties	1,371,232	885,099
Associates	113,988	268,104
	<u>\$ 61,151,192</u>	<u>\$ 62,465,508</u>

The payables to related parties arise mainly from purchase and consigned processing transactions and are due 30~120 days after the date of purchase. The payables bear no interest.

I. Property transactions

Purchase of property

(a) Acquisition of property, plant and equipment:

	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Subsidiaries	\$ 84,012	\$ 17,062
Other related parties	37,804	16,962
Associates	3,031	2,458
	<u>\$ 124,847</u>	<u>\$ 36,482</u>

(b) Period-end balances arising from purchases of property (shown as “Other payables”):

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Subsidiaries	\$ 15,416	\$ 10,811
Other related parties	1,122,193	2,225,963
	<u>\$ 1,137,609</u>	<u>\$ 2,236,774</u>

Sale of property

(a) Proceeds from sale of property and gain on disposal:

	<u>Year ended December 31, 2019</u>		<u>Year ended December 31, 2018</u>	
	<u>Disposal</u>	<u>Gain (loss)</u>	<u>Disposal</u>	<u>Gain (loss)</u>
	<u>proceeds</u>	<u>on disposal</u>	<u>proceeds</u>	<u>on disposal</u>
Subsidiaries	\$ 258,682	\$ 107	\$ 34,691	\$ 1,415
Other related parties	16,479	(1,739)	-	-
Associates	594	594	-	-
	<u>\$ 275,755</u>	<u>(\$ 1,038)</u>	<u>\$ 34,691</u>	<u>\$ 1,415</u>

(b) Period-end balances arising from sale of property (shown as ‘other receivables’)

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Subsidiaries		
- InnoCare Optoelectronics Corporation	\$ 186,639	\$ -
- Others	39,448	\$ 306
Other related parties	16,161	-
	<u>\$ 242,248</u>	<u>\$ 306</u>

(3) Key management compensation

	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Salaries and other short-term employee benefits	\$ 62,575	\$ 252,050
Post-employment benefits	636	789
	<u>\$ 63,211</u>	<u>\$ 252,839</u>

8. PLEDGED ASSETS

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

	<u>Book value</u>		
<u>Pledged asset</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>	<u>Purpose</u>
Property, plant and equipment	\$ 95,714,220	\$ 111,162,901	Long-term loans
Intangible assets	27	1,122	Long-term loans
Other non-current assets			
- Refundable deposits	359,383	368,194	Guarantee for litigation
	<u>\$ 96,073,630</u>	<u>\$ 111,532,217</u>	

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) Contingencies — Significant Litigations

A. Chi Mei Optoelectronics Corporation (the “CMO”), Chi Mei Optoelectronics Japan Co., Ltd., Chi Mei Optoelectronics UK Ltd., Chi Mei Optoelectronics Europe B.V., and Chi Mei Optoelectronics USA Inc. were investigated by the United States (the “U.S.”) Department of Justice in December 2006 for alleged violation of the anti-trust laws. In December 2009, the Company reached a plea agreement with the Department of Justice of the U.S. and paid off the fines. Later, Brazil government initiated an investigation case against the Company. In March 2019, the Company received a sanction from the Brazil Administrative Council for Economic Defense - CADE and paid all fines on May 8, 2019 also obtained the confirmation from the representative lawyer of CADE that the Company complied with the sanction. As for civil lawsuits filed by some state governments in the U.S., downstream panel makers and customers, the Company had reached settlement agreement individually. The Company’s subsidiary in the U.S. received a civil complaint from the government of Puerto Rico in September 2018, claiming that the Company, together with other defendants of Taiwan, Japan and South Korea panel factories, had unjustified

enrichment from the TFT-LCD pricing collaborations in 2006 and requested monetary compensation. The U.S. subsidiary of the company has appointed a lawyer to handle the lawsuit.

- B. Eidos Displays, LLC and Eidos III, LLC (“Eidos”) filed a lawsuit against the Company and American subsidiary with the United States District Court for the Eastern District of Texas on April 25, 2011, alleging infringement of its patent. In December 2013, the magistrate judge granted summary judgment that the Eidos patent is invalid. In January 2014, the presiding judge confirmed the summary judgment.

In February 2014, Eidos appealed to the United States Court of Appeals for the Federal Circuit (CAFC). In March 2015, the CAFC reversed the district court’s judgment and remanded the case back to the district court for further proceedings. In June 2017, the jury determined that some products of the Company and American subsidiary directly infringed the patent and awarded damages for Eidos. On March 5, 2018, the district court entered judgment. In January 2020, the Company reached an agreement on the main settlement terms with Eidos during the third mediation. The parties engaged in drafting and signing the settlement agreement. On January 23, 2020, the district court ordered stay of the case, and that the parties reach agreement by February 23, 2020 and formally dismiss the case. Thus, the lawsuit is not expected have a material adverse effect on the Company’s financial position or operations.

- C. On July 10, 2018, Vista Peak Ventures, LLC (VPV) filed four complaints against the Company in the United States District Court for the Eastern District of Texas, alleging the infringement of several of its patents. The Company reached settlements with VPV for the aforementioned lawsuits and acquired relevant patent portfolio licensing in the first quarter of 2019. VPV also dismissed the action and the lawsuits have no effect on the Company’s financial position and operations.

- D. On March 23, 2018, Chongqing HKC Optoelectronics Technology Co., Ltd. (HFC) filed five complaints against the subsidiaries of the Company, Ningbo Innolux Optoelectronics Ltd., Foshan Innolux Optoelectronics Ltd. as well as their customers and terminal distributors of TV products with the Fifth Intermediate People’s Court in Chongqing, alleging the infringement of its patents. Ningbo Innolux Optoelectronics Ltd. submitted a request of patent invalidity to the National Intellectual Property Administration, PRC upon the patents asserted in the complaints. As of May 21, 2019, all five patents asserted by HKC were declared invalid by the National Intellectual Property Administration, PRC. The five lawsuits that were previously disclosed were allegedly withdrawn by the Chongqing court on June 18, 2019. Thus, the lawsuits have no effect on the Company’s financial position and results of operations.

- E. The Company had assessed and recognized related losses and liabilities as shown in ‘provisions-current’ for the aforementioned investigation relating to anti-trust laws and patent litigation.

(2) Commitments

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Property, plant and equipment	\$ 16,748,092	\$ 22,970,896

B. Outstanding letters of credit

The outstanding letters of credit for the purchase of property, plant and equipment are as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Outstanding letters of credit	\$ 266,384	\$ 445,458

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

(1) On December 17, 2019, the Board of Directors of the Company resolved to issue USD 300 million, 0% the first unsecured Euro-convertible bonds due in 5 years on January 22, 2020, which was priced after approved by the regulatory authority on January 15, 2020.

(2) As of February 13, 2020, the Company adopt the response measures for the outbreak of coronavirus in the beginning of 2020. The subsidiaries in China are resuming work gradually or applying for resumption in February. The operation of the Company may be affected after liaised with customers and suppliers for delivery rearrangements, however, the actual degree of the impact will depend on the subsequent situation of coronavirus and the work resumption situation.

12. OTHERS

(1) Capital management

The Company's objectives are to maintain an optimal capital structure, and constructively reduce the debt ratio and the cost of capital in order to maximize shareholders' equity.

(2) Financial instruments

A. Financial instruments by category

For information of the Company's financial assets (financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, financial assets at amortized cost, cash and cash equivalents, accounts receivable (including related parties) and other receivables) and financial liability (financial liabilities at fair value through profit or loss, accounts payable (including related parties), other payables, lease liability and long- term borrowings (including current portion)), please refer to Note 6 and parent company only balance sheets.

B. Financial risk management policies

(a) The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial position and financial performance. The Company uses derivative financial instruments to hedge certain risk exposures (see Notes 6(2)).

(b) Risk management is carried out by the treasury department under policies approved by the board of directors. The Company's treasury identifies, evaluates and hedges financial risks in close cooperation with the Company's operating units. The Board provides principles for

overall risk management, as well as policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment by excess liquidity.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- a) The Company operates internationally and is exposed to foreign exchange risk arising from the transactions of the company used in various functional currency, primarily with respect to the USD and RMB. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.
- b) Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The group companies are required to hedge their entire foreign exchange risk exposure via the Company's treasury departments. To manage their foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, entities in the Company use forward foreign exchange contracts. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.
- c) The Company's businesses involve some non-functional currency operations (the Company's functional currency: NTD). Based on the simulations performed, the impact on post-tax profit of a 1% exchange rate fluctuation would be an increase of \$99,086 and \$79,359 for the years ended December 31, 2019 and 2018, respectively. The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

	December 31, 2019			December 31, 2018		
	Foreign Currency Amount (In Thousands)	Exchange Rate (Note)	Book Value (NTD)	Foreign Currency Amount (In Thousands)	Exchange Rate (Note)	Book Value (NTD)
<u>Financial asstes</u>						
<u>Monetary items</u>						
USD	\$ 2,338,309	29.98	\$70,102,504	\$ 3,062,192	30.72	\$94,070,538
HKD	658,804	3.85	2,536,395	36	3.92	141
EUR	3,403	33.59	114,307	8,814	35.20	310,253
JPY	195,929	0.28	54,860	522,141	0.28	146,199
<u>Non-monetary items</u>						
USD	\$ 2,621,279	29.98	\$78,585,944	\$ 2,576,131	30.72	\$79,138,744
HKD	549,225	3.85	2,114,516	180,600	3.92	707,952
JPY	7,456,590	0.28	2,087,845	13,237,769	0.28	3,706,575
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	\$ 2,419,642	29.98	\$72,540,867	\$ 2,457,126	30.72	\$75,482,911
JPY	35,486,130	0.28	9,936,116	38,470,287	0.28	10,771,680
EUR	5,503	33.59	184,846	9,561	35.20	336,547

Note: Exchange rate represents the amount of NT dollars for which one foreign currency could be exchanged.

- d) Total exchange gain (loss) including realized and unrealized arising from significant foreign exchange variation on the monetary items held by the Company for the years ended December 31, 2019 and 2018 amounted to \$327,080 and \$(81,620), respectively.

Price risk

- a) The Company is exposed to equity securities price risk because of investments held by the Company and classified on the parent company only balance sheet as financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and available-for-sale financial assets. To manage its price risk arising from investments in equity securities, the Company diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Company.
- b) The Company's investments in equity securities comprise domestic listed and unlisted stocks. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 20% with all other variables held constant, post-tax profit for the years ended December 31, 2019 and 2018 would have increased/decreased by \$530,282 and \$239,683, respectively; other comprehensive gains and losses would have increased/decreased by \$193,086 and \$222,278, respectively.

Cash flow and fair value interest rate risk

- a) The Company's main interest rate risk arises from long-term borrowings with variable rates, which expose the Company to cash flow interest rate risk. During the years ended December 31, 2019 and 2018, the Company's borrowings at variable rate were denominated in the NTD.
 - b) The Company analyzes its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Company calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.
 - c) If the borrowing interest rate of NTD had increased/decreased by 0.25% with all other variables held constant, profit, net of tax for the years ended December 31, 2019 and 2018 would have decreased/increased by \$89,325 and \$128,600, respectively. The main factor is that changes in interest expense result in floating-rate borrowings.
- (b) Credit risk
- a) Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the contract cash flows. As at December 31, 2019 and 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the financial assets at fair value through other comprehensive income, financial assets at amortized cost and accounts receivable held by the Company was its carrying amount.

- b) According to the Company's credit policy, each local entity in the Company is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the managements. The utilization of credit limits is regularly monitored.
- c) The Company adopts following assumption under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition: If the contract payments are past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.
- d) The Company adopts the assumptions under IFRS 9, the default occurs when the contract payments are past due over 90 days.
- e) The Company classifies customer's accounts receivable in accordance with credit rating of customer, credit risk on trade and customer types. The Company applies the simplified approach using provision matrix to estimate expected credit loss under the provision matrix basis.
- f) The following indicators are used to determine whether the credit impairment of debt instruments has occurred:
- It becomes probable that the issuer will enter bankruptcy or other financial reorganization due to their financial difficulties;
 - Default or delinquency in interest or principal repayments;
 - Adverse changes in national or regional economic conditions that are expected to cause a default.
- g) The Company uses the forecastability to adjust historical and timely information to assess the default possibility of accounts receivable.
According to abovementioned consideration and information, the Company does not expect any significant default possibility of accounts receivable.
- h) Movements in relation to the Company applying the simplified approach to provide loss allowance for accounts receivable are as follows:

	2019
	<u>Accounts receivable</u>
At January 1 (As December 31)	<u>\$ 209,373</u>
	<u>2018</u>
	<u>Accounts receivable</u>
At January 1_IAS 39	\$ 109,373
Adjustments under new standards	-
At January 1_IFRS 9	109,373
Provision	100,000
At December 31	<u>\$ 209,373</u>

- i) The Company did not recognize significant impairment provision in accordance with 12 months expected credit losses, because the Company's financial assets/loans to others and receivables at amortized cost all with low credit risk.

(c) Liquidity risk

- a) Company treasury monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Company's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and external regulatory or legal requirements.
- b) Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Company's treasury. Company treasury invests surplus cash in interest bearing savings accounts, time deposits, money market deposits and marketable securities. The Company chooses instruments that are with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the abovementioned forecasts. These are expected to readily generate cash inflows for managing liquidity risk.
- c) The table below analyzes the Company's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities:

	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	Over 5 years	Total
<u>December 31, 2019</u>					
Lease liability	\$ 524,360	\$ 1,048,720	\$ 1,048,720	\$ 3,386,241	\$ 6,008,041
Long-term borrowings (including current portion)	15,980,000	19,350,000	400,000	-	35,730,000
	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	Over 5 years	Total
<u>December 31, 2018</u>					
Long-term borrowings (including current portion)	\$16,210,000	\$35,230,000	\$ -	\$ -	\$ 51,440,000

Except for the above, the non-derivative and derivative financial liabilities of the Company are all due within one year.

(3) Fair value estimation

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Company's investment in listed stocks and on-the-run bonds is included in Level 1.

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

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

B. Fair value information of investment property at cost is provided in Note 6(10).

C. Financial instruments not measured at fair value

The carrying amounts of cash and cash equivalents, accounts receivable, other receivables, financial assets at amortized cost, accounts payable, other payables, lease liability and long-term borrowings (including current portion) are approximate to their fair values.

D. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities at December 31, 2019 and 2018 is as follows:

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

<u>December 31, 2019</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Equity securities	\$ 420,524	\$ -	\$ 2,230,884	\$ 2,651,408
Forward exchange contracts	-	7,660	-	7,660
Financial assets at fair value through other comprehensive income				
Equity securities	-	-	965,431	965,431
	<u>\$ 420,524</u>	<u>\$ 7,660</u>	<u>\$ 3,196,315</u>	<u>\$ 3,624,499</u>
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
Forward exchange contracts	<u>\$ -</u>	<u>\$ 345,003</u>	<u>\$ -</u>	<u>\$ 345,003</u>

December 31, 2018	Level 1	Level 2	Level 3	Total
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Equity securities	\$ 1,104,136	\$ -	\$ 94,281	\$ 1,198,417
Forward exchange contracts	-	160,172	-	160,172
Financial assets at fair value through other comprehensive income				
Equity securities	-	-	1,111,388	1,111,388
	<u>\$ 1,104,136</u>	<u>\$ 160,172</u>	<u>\$ 1,205,669</u>	<u>\$ 2,469,977</u>
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
Forward exchange contracts	\$ -	\$ 12,764	\$ -	\$ 12,764
Forward exchange swap contracts	-	7,135	-	7,135
	<u>\$ -</u>	<u>\$ 19,899</u>	<u>\$ -</u>	<u>\$ 19,899</u>

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

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

	Listed shares	Emerging stocks	Corporate bond
Market quoted price	Closing price	Last transaction price	Weighted average quoted price

- ii. Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the parent company only balance sheet date.
- iii. When assessing non-standard and low-complexity financial instruments, for example, foreign exchange swap contracts, the Company adopts valuation technique that is widely used by market participants. The inputs used in the valuation method to measure these financial instruments are normally observable in the market.
- iv. The valuation of derivative financial instruments is based on valuation model widely accepted by market participants, such as present value techniques and option pricing models. Forward exchange contracts and foreign exchange swap contracts are usually valued based on the current forward exchange rate.
- v. The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Company's financial and non-financial instruments. Therefore, the estimated value derived using valuation model is adjusted

accordingly with additional inputs, for example, model risk or liquidity risk and etc. In accordance with the Company's management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial and non-financial instruments at the parent company only balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.

- vi. The Company takes into account adjustments for credit risks to measure the fair value of financial and non-financial instruments to reflect credit risk of the counterparty and the Company's credit quality.

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

F. The following table presents the changes in level 3 instruments as at December 31, 2019 and 2018:

	Equity securities	
	2019	2018
At January 1	\$ 1,205,669	\$ 153,248
Gains and losses recognized in profit or loss	1,414,152	(58,967)
Gains and losses recognized in other comprehensive income	(145,957)	(229,701)
Acquired in the period	49,904	1,341,089
Transfers to Level 3	708,132	-
Proceeds from capital reduction	(35,585)	-
At December 31	<u>\$ 3,196,315</u>	<u>\$ 1,205,669</u>

G. Because TPV Technology Limited was delisted since November 2019 due to its privatization and there is insufficient observable market information, therefore, the Company transferred the fair value from Level 1 to Level 3 at the end of the month when the event occurred.

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

Investment management segment set up valuation policies, valuation processes and rules for measuring fair value of financial instruments and ensure compliance with the related requirements in IFRS.

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

	Fair value at December 31, 2019	Valuation technique	Significant unobservable input	Range (Weighted average)	Relationship of inputs to fair value
Non-derivative equity instrument:					
Unlisted shares	\$ 3,196,315	Market comparable companies	price to sales ratio multiple, price to book ratio multiple	0.61~3.6 (0.91)	The higher the multiple, the higher the fair value
			Discount for lack of marketability	30%~50% (30%)	The higher the discount for lack of marketability, the lower the fair value
	Fair value at December 31, 2018	Valuation technique	Significant unobservable input	Range (Weighted average)	Relationship of inputs to fair value
Non-derivative equity instrument:					
Unlisted shares	\$ 1,205,669	Market comparable companies	price to sales ratio multiple, price to book ratio multiple	0.58~1.46 (0.62)	The higher the multiple, the higher the fair value
			Discount for lack of marketability	30%~50% (19%)	The higher the discount for lack of marketability, the lower the fair value

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

December 31, 2019						
Financial assets	Input	Change	Recognized in profit or loss		Recognized in other comprehensive income	
			Favourable change	Unfavourable change	Favourable change	Unfavourable change
Equity instrument	\$ 3,196,315	± 1%	\$ 22,309	(\$ 22,309)	\$ 9,654	(\$ 9,654)
December 31, 2018						
Financial assets	Input	Change	Favourable change	Unfavourable change	Favourable change	Unfavourable change
Equity instrument	\$ 1,205,669	± 1%	\$ 943	(\$ 943)	\$ 11,114	(\$ 11,114)

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

- A. Loans to others: Please refer to table 1.
- B. Provision of endorsements and guarantees to others: None.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 2.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: None.
- E. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- F. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 3.
- H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 4.
- I. Trading in derivative instruments undertaken during the reporting periods: Please refer to Notes 6(2).
- J. Significant inter-company transactions during the reporting periods: Please refer to table 5.

(2) Information on investees

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

(3) Information on investments in Mainland China

- A. Basic information: Please refer to table 7.
- B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to Table 1, 3, 4 and 5.

14. SEGMENT INFORMATION

None.

Innolux Corporation
Loans to others
For the year ended December 31, 2019

Table 1

Expressed in thousands of NTD
(Except as otherwise indicated)

No.	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding balance during the year ended December 31, 2019	Balance as at December 31, 2019	Actual amount drawn down	Interest rate	Nature of loan	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral		Limit on loans granted to a single party	Ceiling on total loans granted	Footnote
													Item	Value			
1	Innocom Technology (Shenzhen) Co., Ltd.	Foshan Innolux Optoelectronics Ltd.	Other receivables	Related parties	\$4,297,500	\$4,297,500	\$4,297,500	2.00%	Short-term financing	\$ -	Operating support	\$ -	-	\$ -	\$ 231,927,704	\$ 231,927,704	A
1	Innocom Technology (Shenzhen) Co., Ltd.	Ningbo Innolux Optoelectronics Ltd.	Other receivables	Related parties	2,148,750	1,504,125	1,504,125	2.00%	Short-term financing	-	Operating support	-	-	-	231,927,704	231,927,704	A
1	Innocom Technology (Shenzhen) Co., Ltd.	Ningbo Innolux Display Ltd.	Other receivables	Related parties	2,449,575	1,676,025	1,676,025	2.00%	Short-term financing	-	Operating support	-	-	-	231,927,704	231,927,704	A
1	Innocom Technology (Shenzhen) Co., Ltd.	Shanghai Innolux Optoelectronics Ltd.	Other receivables	Related parties	1,289,250	1,160,325	1,160,325	2.00%	Short-term financing	-	Operating support	-	-	-	231,927,704	231,927,704	A
1	Innocom Technology (Shenzhen) Co., Ltd.	Nanjing Innolux Optoelectronics Ltd.	Other receivables	Related parties	2,750,400	2,664,450	2,664,450	2.00%	Short-term financing	-	Operating support	-	-	-	231,927,704	231,927,704	A
2	Nanjing Innolux Technology Ltd.	Nanjing Innolux Optoelectronics Ltd.	Other receivables	Related parties	214,875	214,875	214,875	2.00%	Short-term financing	-	Operating support	-	-	-	231,927,704	231,927,704	A
3	Innolux USA, Inc.	Lakers Trading Ltd.	Other receivables	Related parties	299,800	-	-	0.00%	Short-term financing	-	Operating support	-	-	-	231,927,704	231,927,704	A
4	Innolux Europe B.V.	Innolux Hong Kong Limited	Other receivables	Related parties	1,275,809	-	-	0.00%	Short-term financing	-	Operating support	-	-	-	231,927,704	231,927,704	A
4	Innolux Europe B.V.	Lakers Trading Ltd.	Other receivables	Related parties	43,667	-	-	0.00%	Short-term financing	-	Operating support	-	-	-	231,927,704	231,927,704	A
5	Innolux Japan Co., Ltd.	Leadtek Global Group Limited	Other receivables	Related parties	2,125,200	-	-	0.00%	Short-term financing	-	Operating support	-	-	-	231,927,704	231,927,704	A
5	Innolux Japan Co., Ltd.	Lakers Trading Ltd.	Other receivables	Related parties	2,125,200	2,125,200	2,125,200	1.00%	Short-term financing	-	Operating support	-	-	-	231,927,704	231,927,704	A
6	Warriors Technology Investments Ltd.	Lakers Trading Ltd.	Other receivables	Related parties	3,228,863	3,228,863	3,228,863	0.00%	Short-term financing	-	Operating support	-	-	-	231,927,704	231,927,704	A

Note A: The Company - Innolux Corporation

- 1.For loans obtained for short-term financing, financial limit on loans granted to a single party shall not exceed 10% of the company's net equity, based on the most recent audited financial statements of the company.
- 2.The financial limit on loans granted shall not exceed 40% of the company's net equity. If it is for short-term capital needs, the limit shall not exceed 30% of the company's net equity.
- 3.The policy for loans granted to direct or indirect wholly-owned overseas subsidiaries is as follows: for short-term capital needs, financial limit shall not be below the 40% requirement, but should not exceed 100% of the company's net equity.

Innolux Corporation
Holding of marketable securities at the end of the year (not including subsidiaries, associates and joint ventures)
December 31, 2019

Table 2

Expressed in thousands of NTD
(Except as otherwise indicated)

Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	As of December 31, 2019				
				Number of shares	Book value	Ownership (%)	Fair value	Footnote
	Common stock (Note)							
Innolux Corporation	AvanStrate Inc.	None	Financial assets at fair value through profit or loss	900,000	\$ 15,521	1	\$ 15,521	
Innolux Corporation	TPV Technology Limited	None	Financial assets at fair value through profit or loss	150,500,000	2,113,966	6	2,113,966	
Innolux Corporation	Chi Lin Optoelectronics Co., Ltd.	Other related party	Financial assets at fair value through profit or loss	14,234,041	66,425	19	66,425	
Innolux Corporation	Epistar Corporation	None	Financial assets at fair value through profit or loss	89,072	2,881	-	2,881	
Innolux Corporation	Cheng Mei Materials Technology Corporation	Other related party	Financial assets at fair value through profit or loss	57,211,305	417,643	9	417,643	
Innolux Corporation	Allied Material Technology Corp.	None	Financial assets at fair value through profit or loss	1,209	-	-	-	
Innolux Corporation	Obsidian Sensors, Inc.	None	Financial assets at fair value through profit or loss	238,571	34,972	6	34,972	
Innolux Corporation	VIZIO. Inc.	None	Financial assets at fair value through other comprehensive income	927,452	965,431	4	965,431	
Yuan Chi Investment Co., Ltd.	Trillion Science, Inc.	None	Financial assets at fair value through profit or loss	1,439,180	-	2	-	
Yuan Chi Investment Co., Ltd.	Cheng Mei Materials Technology Corporation	Other related party	Financial assets at fair value through profit or loss	315,000	2,300	-	2,300	
InnoJoy Investment Corporation	Advanced Optoelectronic Technology, Inc.	None	Financial assets at fair value through profit or loss	6,964,222	125,356	5	125,356	
InnoJoy Investment Corporation	eChem solutions Corp.	None	Financial assets at fair value through other comprehensive income	2,887,500	35,698	5	35,698	
InnoJoy Investment Corporation	EPILEDS Co., Ltd.	None	Financial assets at fair value through other comprehensive income	7,347,144	104,329	7	104,329	
InnoJoy Investment Corporation	Fitipower Integrated Technology Inc.	None	Financial assets at fair value through other comprehensive income	10,000,000	376,000	6	376,000	
Ningbo Innolux Optoelectronics Ltd.	上海辰岱投資中心(有限合夥)	None	Financial assets at fair value through profit or loss	-	143,108	-	143,108	
Warriors Technology Investments Ltd.	OED Holding Ltd.	None	Financial assets at fair value through profit or loss	16,000,000	3,263	6	3,263	

Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	As of December 31, 2019				Footnote
				Number of shares	Book value	Ownership (%)	Fair value	
Warriors Technology Investments Ltd.	Obsidian Sensors, Inc.	None	Financial assets at fair value through profit or loss	414,136	\$ 60,709	11	\$ 60,709	
Warriors Technology Investments Ltd.	Kymeta Corporation's convertible bonds	None	Financial assets at fair value through profit or loss	-	33,521	-	33,521	
Warriors Technology Investments Ltd.	General Interface Solution (GIS) Holding Limited	None	Financial assets at fair value through other comprehensive income	24,194,000	2,733,922	7	2,733,922	
Warriors Technology Investments Ltd.	CJK Associates Co., Ltd.	None	Financial assets at fair value through other comprehensive income	4,000	13,729	14	13,729	
Warriors Technology Investments Ltd.	Perinnova Limited	Other related party	Financial assets at fair value through other comprehensive income	1,900	4,469	19	4,469	
Warriors Technology Investments Ltd.	KA Imaging Inc.	Other related party	Financial assets at fair value through other comprehensive income	1,819,240	34,907	11	34,907	
Nets trading Ltd.	PilotTech Global Fund	None	Financial assets at fair value through profit or loss	90	25,091	-	25,091	

Note: Except as otherwise indicated, marketable securities in the table are all stocks.

Innolux Corporation
Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more
For the year ended December 31, 2019

Table 3

Expressed in thousands of NTD
(Except as otherwise indicated)

			Differences in transaction terms compared to third party transactions								
			Transaction						Notes/accounts receivable (payable)		
Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	Footnote
Innolux Corporation	Hon Hai Precision Industry Co., Ltd.	Same major stockholder	Sales	\$ 2,966,914	1	60-90 days	Similar with general sales	No material difference	\$ 1,238,845	3	
Innolux Corporation	Lakers Trading Ltd.	An indirect wholly-owned subsidiary	Sales	3,725,650	1	60 days	Similar with general sales	No material difference	-	-	
Innolux Corporation	Hongfujin Precision Electronics (Yantai) Co., Ltd.	An indirect wholly-owned subsidiary of Hon Hai Precision Industry Co., Ltd.	Sales	975,477	-	60 days	Similar with general sales	No material difference	351,130	1	
Innolux Corporation	Hongfutai Precision Electronics (Yantai) Co., Ltd.	An indirect wholly-owned subsidiary of Hon Hai Precision Industry Co., Ltd.	Sales	815,962	-	90 days	Similar with general sales	No material difference	41,976	-	
Innolux Corporation	Innolux Japan Co., Ltd.	A subsidiary of the Company	Sales	1,810,333	1	45-60 days	Similar with general sales	No material difference	-	-	
Innolux Corporation	Innolux Hong Kong Limited	An indirect wholly-owned subsidiary	Sales	3,319,899	1	60 days	Similar with general sales	No material difference	-	-	
Innolux Corporation	Hongfujin Precision Electronics (Chongqing) Co., Ltd.	An indirect wholly-owned subsidiary of Hon Hai Precision Industry Co., Ltd.	Sales	1,295,583	1	45 days	Similar with general sales	No material difference	351,912	1	
Innolux Corporation	Guizhou Fuzhikang Precision Electronics Co., Ltd.	An indirect wholly-owned subsidiary of Hon Hai Precision Industry Co., Ltd.	Sales	125,250	-	60 days	Similar with general sales	No material difference	-	-	
Innolux Corporation	Innolux USA Inc.	An indirect wholly-owned subsidiary	Sales	17,969,762	7	60-90 days	Similar with general sales	No material difference	4,928,163	12	
Innolux Corporation	Shenzhen Fugui Precision Industrial Co., LTD	An indirect wholly-owned subsidiary of Hon Hai Precision Industry Co., Ltd.	Sales	631,367	-	60 days	Similar with general sales	No material difference	30,654	-	
Innolux Corporation	COMPETITION TEAM IRELAND LIMITED	An indirect wholly-owned subsidiary of Hon Hai Precision Industry Co., Ltd.	Sales	748,109	-	45 days	Similar with general sales	No material difference	128,746	-	

Purchaser/seller	Counterparty	Relationship with the counterparty	Transaction				Differences in transaction terms compared to third party transactions		Notes/accounts receivable (payable)		Footnote
			Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	
Innolux Corporation	Ningbo Innolux Optoelectronics Ltd.	An indirect wholly-owned subsidiary	Sales	\$ 184,531	-	90 days	Similar with general sales	No material difference	\$ 29,027	-	
Innolux Corporation	Hongfujin Precision Industry (Wuhan) Co., Ltd.	An indirect wholly-owned subsidiary of Hon Hai Precision Industry Co., Ltd.	Sales	229,374	-	90 days	Similar with general sales	No material difference	40,730	-	
Innolux Corporation	Futaijing Precision Electronics (Beijing) Co., Ltd.	An indirect wholly-owned subsidiary of Hon Hai Precision Industry Co., Ltd.	Sales	211,238	-	60 days	Similar with general sales	No material difference	14,916	-	
Innolux Corporation	Foshan Innolux Optoelectronics Ltd.	An indirect wholly-owned subsidiary	Sales	117,891	-	90 days	Similar with general sales	No material difference	121,576	-	
Innolux Corporation	Innolux Europe B.V.	An indirect wholly-owned subsidiary	Sales	142,444	-	30-60 days	Similar with general sales	No material difference	14,311	-	
Innolux Corporation	FIH (Hong Kong) Limited	An indirect wholly-owned subsidiary of Hon Hai Precision Industry Co., Ltd.	Sales	1,191,196	-	60 days	Similar with general sales	No material difference	249,482	1	
Innolux Corporation	INNOLUX OPTOELECTRONICS INDIA PRIVATE LIMITED	An indirect wholly-owned subsidiary	Sales	431,918	-	60-90 days	Similar with general sales	No material difference	402,931 (Note)	1	
Innolux Corporation	InnoCare Optoelectronics Corporation	A subsidiary of the Company	Sales	652,078	-	60-90 days	Similar with general sales	No material difference	646,972	2	
Innolux Corporation	FI Medical Device Manufacturing Co., Ltd.	Investee accounted for under the equity method	Purchases	1,458,096	1	30 days after acceptance	Single purchases target, no basis for comparison	No material difference	(113,988)	-	
Innolux Corporation	Hon Hai Precision Industry Co., Ltd.	Same major stockholder	Purchases	1,047,546	-	60-90 days after acceptance	Single purchases target, no basis for comparison	No material difference	(699,628)	1	
Innolux Corporation	Cheng Mei Materials Technology Corporation	Other related party	Purchases	1,620,488	1	90 days after acceptance	Single purchases target, no basis for comparison	No material difference	(668,131)	-	

Purchaser/seller	Counterparty	Relationship with the counterparty	Transaction				Differences in transaction terms compared to third party transactions		Notes/accounts receivable (payable)		Footnote
			Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	
Innolux Corporation	Lakers Trading Ltd.	An indirect wholly-owned subsidiary	Processing expense	\$ 49,727,197	20	60-90 days	Cost plus	No material difference	(\$ 28,993,554)	34	
Innolux Corporation	Innolux Hong Kong Limited	An indirect wholly-owned subsidiary	Processing expense	20,092,099	8	60-90 days	Cost plus	No material difference	(9,253,496)	11	
Innolux Corporation	Leadtek Global Group Limited	A subsidiary of the Company	Processing expense	19,304,949	8	60-90 days	Cost plus	No material difference	(21,378,911)	25	
Foshan Innolux Optoelectronics Ltd.	Lakers Trading Ltd.	An indirect wholly-owned subsidiary	Processing revenue	30,833,535	89	60 days	Similar with general transactions	No material difference	16,349,473	96	
Ningbo Innolux Optoelectronics Ltd.	Leadtek Global Group Limited	A subsidiary of the Company	Processing revenue	19,790,659	81	60 days	Similar with general transactions	No material difference	18,658,919	95	
Ningbo Innolux Display Ltd.	Lakers Trading Ltd.	An indirect wholly-owned subsidiary	Processing revenue	18,749,372	98	60 days	Similar with general transactions	No material difference	4,713,217	95	
Nanjing Innolux Optoelectronics Ltd.	Innolux Hong Kong Limited	An indirect wholly-owned subsidiary	Processing revenue	14,433,633	100	60 days	Similar with general transactions	No material difference	8,116,409	100	
Shanghai Innolux Optoelectronics Ltd.	Innolux Hong Kong Limited	An indirect wholly-owned subsidiary	Processing revenue	5,416,607	85	60 days	Similar with general transactions	No material difference	1,161,016	81	
Innocom Technology (Shenzhen) Co., LTD	Lakers Trading Ltd.	An indirect wholly-owned subsidiary	Processing revenue	259,729	100	60 days	Similar with general transactions	No material difference	316,300	100	
Ningbo Innolux Optoelectronics Ltd.	Ningbo Innolux Display Ltd.	An indirect wholly-owned subsidiary	Sales	4,725,330	11	60 days	Similar with general transactions	No material difference	924,696	4	
Innolux Hong Kong Limited	Nanjing Innolux Technology Ltd.	An indirect wholly-owned subsidiary	Sales	2,504,637	7	60 days	Similar with general transactions	No material difference	1,290,502	10	
InnoCare Optoelectronics Corporation	InnoCare Optoelectronics Japan Co., Ltd.	An indirect wholly-owned subsidiary	Sales	441,672	65	60 days	Similar with general transactions	No material difference	350,158	59	

Purchaser/seller	Counterparty	Relationship with the counterparty	Transaction				Differences in transaction terms compared to third party transactions		Notes/accounts receivable (payable)		Footnote
			Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	
InnoCare Optoelectronics Japan Co., Ltd.	Innolux Japan Co., Ltd.	A subsidiary of the Company	Sales	\$ 410,732	90	60 days	Similar with general transactions	No material difference	\$ 104,044	69	
Ningbo Innolux Display Ltd.	Ningbo Innolux Optoelectronics Ltd.	An indirect wholly-owned subsidiary	Sales	356,731	1	60 days	Similar with general transactions	No material difference	254,981	4	
Lakers Trading Ltd.	Ningbo Innolux Electronics Ltd.	An indirect wholly-owned subsidiary	Sales	239,171	-	60 days	Similar with general transactions	No material difference	2,172	-	
Innolux Europe B.V.	Innolux Corporation	An indirect wholly-owned subsidiary	Service revenue	897,194	86	60 days	Similar with general transactions	No material difference	86,628	87	
Innolux Japan Co., Ltd.	Innolux Corporation	A subsidiary of the Company	Service revenue	295,387	11	60 days	Similar with general transactions	No material difference	49,931	11	
Innolux USA Inc.	Innolux Corporation	An indirect wholly-owned subsidiary	Service revenue	124,294	1	60 days	Similar with general transactions	No material difference	21,844	-	
Ningbo Innolux Display Ltd.	Hon Hai Precision Industry Co., Ltd.	Same major stockholder	Purchases	1,636,701	6	90 days after goods are shipped	Similar with general transactions	No material difference	(481,781)	7	
Ningbo Innolux Optoelectronics Ltd.	Hon Hai Precision Industry Co., Ltd.	Same major stockholder	Purchases	1,124,841	3	90 days after goods are shipped	Similar with general transactions	No material difference	(437,602)	4	
Ningbo Innolux Optoelectronics Ltd.	Ningbo Cheng Mei Materials Technology Co., Ltd.	Other related party	Purchases	1,308,490	3	90 days after goods are shipped	Similar with general transactions	No material difference	(533,202)	5	
Foshan Innolux Optoelectronics Ltd.	Hon Hai Precision Industry Co., Ltd.	Same major stockholder	Purchases	546,016	1	90 days after goods are shipped	Similar with general transactions	No material difference	(107,771)	-	
Ningbo Innolux Optoelectronics Ltd.	Hongfujin Precision Industry (Shenzhen) Co., Ltd.	An indirect wholly-owned subsidiary of Hon Hai Precision Industry Co., Ltd.	Purchases	190,242	-	90 days after goods are shipped	Similar with general transactions	No material difference	-	-	

Purchaser/seller	Counterparty	Relationship with the counterparty	Transaction				Differences in transaction terms compared to third party transactions		Notes/accounts receivable (payable)		Footnote
			Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	
Foshan Innolux Optoelectronics Ltd.	Cheng Mei Materials Technology Corporation	Other related party	Purchases	\$ 688,089	1	90 days after goods are shipped	Similar with general transactions	No material difference	(\$ 384,244)	2	
Ningbo Innolux Display Ltd.	Ningbo Cheng Mei Materials Technology Co., Ltd.	Other related party	Purchases	363,091	1	90 days after goods are shipped	Similar with general transactions	No material difference	(189,388)	3	
Foshan Innolux Optoelectronics Ltd.	Ningbo Cheng Mei Materials Technology Co., Ltd.	Other related party	Purchases	265,207	-	90 days after goods are shipped	Similar with general transactions	No material difference	(90,079)	-	
Nanjing Innolux Optoelectronics Ltd.	Hon Hai Precision Industry Co., Ltd.	Same major stockholder	Purchases	133,946	1	90 days after goods are shipped	Similar with general transactions	No material difference	(27,923)	1	

(Note) Overdue receivables transferred to other receivables.

Table 4

Innolux Corporation
Receivables from related parties reaching \$100 million or 20% of paid-in capital or more
December 31, 2019

Expressed in thousands of NTD
(Except as otherwise indicated)

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2019	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts
					Amount	Action taken		
Innolux Corporation	Hon Hai Precision Industry Co., Ltd.	Same major stockholder	\$ 1,238,845	1.68	\$ 33,340	Subsequent collection	\$ 220,670	\$ -
Innolux Corporation	Hongfujin Precision Electronics (Yantai) Co., Ltd.	An indirect wholly-owned subsidiary of Hon Hai Precision Industry Co., Ltd.	351,130	5.04	-	-	143,636	-
Innolux Corporation	Foshan Innolux Optoelectronics Ltd.	An indirect wholly-owned subsidiary	121,576	0.62	-	-	-	-
Innolux Corporation	Honfujin Precision Electronics (Chongqing) Co., Ltd.	An indirect wholly-owned subsidiary of Hon Hai Precision Industry Co., Ltd.	351,912	3.95	153,714	Subsequent collection	42,807	-
Innolux Corporation	Innolux USA Inc.	An indirect wholly-owned subsidiary	4,928,163	4.27	886,736	Subsequent collection	2,613,247	-
Innolux Corporation	InnoCare Optoelectronics Corporation	A subsidiary of the Company	646,972	2.02	93,412	Subsequent collection	-	-
Innolux Corporation	InnoCare Optoelectronics Corporation	A subsidiary of the Company	199,470 (Shown as other receivables)	-	-	-	-	-
Innolux Corporation	FIH (Hong Kong) Limited	An indirect wholly-owned subsidiary of Hon Hai Precision Industry Co., Ltd.	249,482	9.53	-	-	97,755	-
Innolux Corporation	COMPETITION TEAM IRELAND LIMITED	An indirect wholly-owned subsidiary of Hon Hai Precision Industry Co., Ltd.	128,746	6.52	48,176	Subsequent collection	8,912	-
Innolux Corporation	INNOLUX OPTOELECTRONICS INDIA PRIVATE LIMITED	An indirect wholly-owned subsidiary	402,931 (Note 2)	2.13	383,538	Subsequent collection	-	-
Ningbo Innolux Optoelectronics Ltd.	Leadtek Global Group Limited	A subsidiary of the Company	18,658,919	1.03	10,412,316	Subsequent collection	4,386,642	-
Foshan Innolux Optoelectronics Ltd.	Lakers Trading Ltd.	An indirect wholly-owned subsidiary	16,349,473	1.93	5,721,468	Subsequent collection	4,796,826	-
Nanjing Innolux Optoelectronics Ltd.	Innolux Hong Kong Limited	An indirect wholly-owned subsidiary	8,116,409	1.81	3,609,381	Subsequent collection	2,105,173	-

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2019	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts
					Amount	Action taken		
Ningbo Innolux Display Ltd.	Lakers Trading Ltd.	An indirect wholly-owned subsidiary	\$ 4,713,217	3.92	\$ 2,108	Subsequent collection	\$ 2,527,914	\$ -
Shanghai Innolux Optoelectronics Ltd.	Innolux Hong Kong Limited	An indirect wholly-owned subsidiary	1,161,016	3.31	-	-	644,363	-
Innocom Technology (Shenzhen) Co., Ltd.	Lakers Trading Ltd.	An indirect wholly-owned subsidiary	316,300	0.43	245,703	Subsequent collection	-	-
Ningbo Innolux Optoelectronics Ltd.	Ningbo Innolux Display Ltd.	An indirect wholly-owned subsidiary	924,696	5.38	-	-	511,795	-
Innolux Hong Kong Limited	Nanjing Innolux Technology Ltd.	An indirect wholly-owned subsidiary	1,290,502	3.36	-	-	239,931	-
InnoCare Optoelectronics Corporation	InnoCare Optoelectronics Japan Co., Ltd.	An indirect wholly-owned subsidiary	350,158	2.52	10,585	Subsequent collection	-	-
Ningbo Innolux Display Ltd.	Ningbo Innolux Optoelectronics Ltd.	An indirect wholly-owned subsidiary	254,981	2.80	-	-	135,351	-
InnoCare Optoelectronics Japan Co., Ltd.	Innolux Japan Co., Ltd.	A subsidiary of the Company	104,044	7.90	-	-	-	-

Note A : For the information on receivables of loans to related parties reaching NT\$100 million or 20% of paid-in capital or more, please refer to Table 1.

Note B : Overdue receivables transferred to other receivables.

Innolux Corporation
Significant inter-company transactions during the reporting period
For the year ended December 31, 2019

Table 5

Expressed in thousands of NTD
(Except as otherwise indicated)

Number (Note A)	Company name	Counterparty	Relationship (Note B)	Transaction (Note D)			Percentage of consolidated total operating revenues or total assets
				General ledger account	Amount	Transaction terms (Note C)	
0	Innolux Corporation	Lakers Trading Ltd.	1	Sales	\$ 3,725,650	-	1
0	Innolux Corporation	Lakers Trading Ltd.	1	Processing expense	49,727,197	-	20
0	Innolux Corporation	Lakers Trading Ltd.	1	Accrued expenses	(28,993,554)	-	8
0	Innolux Corporation	Innolux Japan Co., Ltd.	1	Sales	1,810,333	-	1
0	Innolux Corporation	Innolux Hong Kong Limited	1	Sales	3,319,899	-	1
0	Innolux Corporation	Innolux Hong Kong Limited	1	Processing expense	20,092,099	-	8
0	Innolux Corporation	Innolux Hong Kong Limited	1	Accrued expenses	(9,253,496)	-	3
0	Innolux Corporation	Ningbo Innolux Optoelectronics Ltd.	1	Sales	184,531	-	-
0	Innolux Corporation	Leadtek Global Group Limited	1	Processing expense	19,304,949	-	8
0	Innolux Corporation	Leadtek Global Group Limited	1	Accrued expenses	(21,378,911)	-	6
0	Innolux Corporation	Foshan Innolux Optoelectronics Ltd.	1	Sales	117,891	-	-
0	Innolux Corporation	Foshan Innolux Optoelectronics Ltd.	1	Service revenue	104,577	-	-
0	Innolux Corporation	Foshan Innolux Optoelectronics Ltd.	1	Accounts receivable	121,576	-	-
0	Innolux Corporation	Innolux USA Inc.	1	Sales	17,969,762	-	7
0	Innolux Corporation	Innolux USA Inc.	1	Accounts receivable	4,928,163	-	1
0	Innolux Corporation	Innolux Europe B.V.	1	Sales	142,444	-	-
0	Innolux Corporation	INNOLUX OPTOELECTRONICS INDIA PRIVATE LIMITED	1	Sales	431,918	-	-
0	Innolux Corporation	INNOLUX OPTOELECTRONICS INDIA PRIVATE LIMITED	1	Accounts receivable and other receivables	402,931	-	-
0	Innolux Corporation	InnoCare Optoelectronics Corporation	1	Sales	652,078	-	-
0	Innolux Corporation	InnoCare Optoelectronics Corporation	1	Accounts receivable	646,972	-	-
0	Innolux Corporation	InnoCare Optoelectronics Corporation	1	Other receivables	199,470	-	-

Number (Note A)	Company name	Counterparty	Relationship (Note B)	Transaction (Note D)			
				General ledger account	Amount	Transaction terms (Note C)	Percentage of consolidated total operating revenues or total assets
1	Foshan Innolux Optoelectronics Ltd.	Lakers Trading Ltd.	3	Processing revenue	\$ 30,833,535	-	12
1	Foshan Innolux Optoelectronics Ltd.	Lakers Trading Ltd.	3	Accounts receivable	16,349,473	-	4
2	Ningbo Innolux Optoelectronics Ltd.	Leadtek Global Group Limited	3	Processing revenue	19,790,659	-	8
2	Ningbo Innolux Optoelectronics Ltd.	Leadtek Global Group Limited	3	Accounts receivable	18,658,919	-	5
3	Ningbo Innolux Display Ltd.	Lakers Trading Ltd.	3	Processing revenue	18,749,372	-	7
3	Ningbo Innolux Display Ltd.	Lakers Trading Ltd.	3	Accounts receivable	4,713,217	-	1
4	Nanjing Innolux Optoelectronics Ltd.	Innolux Hong Kong Limited	3	Processing revenue	14,433,633	-	6
4	Nanjing Innolux Optoelectronics Ltd.	Innolux Hong Kong Limited	3	Accounts receivable	8,116,409	-	2
5	Shanghai Innolux Optoelectronics Ltd.	Innolux Hong Kong Limited	3	Processing revenue	5,416,607	-	2
5	Shanghai Innolux Optoelectronics Ltd.	Innolux Hong Kong Limited	3	Accounts receivable	1,161,016	-	-
6	Ningbo Innolux Optoelectronics Ltd.	Ningbo Innolux Display Ltd.	3	Sales	4,725,330	-	2
6	Ningbo Innolux Optoelectronics Ltd.	Ningbo Innolux Display Ltd.	3	Accounts receivable	924,696	-	-
7	Ningbo Innolux Display Ltd.	Ningbo Innolux Optoelectronics Ltd.	3	Sales	356,731	-	-
7	Ningbo Innolux Display Ltd.	Ningbo Innolux Optoelectronics Ltd.	3	Accounts receivable	254,981	-	-
8	Innolux Hong Kong Limited	Nanjing Innolux Technology Ltd.	3	Sales	2,504,637	-	1
8	Innolux Hong Kong Limited	Nanjing Innolux Technology Ltd.	3	Accounts receivable	1,290,502	-	-
9	Innocom Technology (Shenzhen) Co., Ltd.	Lakers Trading Ltd.	3	Processing revenue	259,729	-	-
9	Innocom Technology (Shenzhen) Co., Ltd.	Lakers Trading Ltd.	3	Accounts receivable	316,300	-	-
10	InnoCare Optoelectronics Corporation	InnoCare Optoelectronics Japan Co., Ltd.	3	Sales	441,672	-	-
10	InnoCare Optoelectronics Corporation	InnoCare Optoelectronics Japan Co., Ltd.	3	Accounts receivable	350,158	-	-
11	InnoCare Optoelectronics Japan Co., Ltd.	Innolux Japan Co., Ltd.	3	Sales	410,732	-	-
11	InnoCare Optoelectronics Japan Co., Ltd.	Innolux Japan Co., Ltd.	3	Accounts receivable	104,044	-	-
12	Innolux Europe B.V.	Innolux Corporation	3	Service revenue	897,194	-	-
13	Lakers Trading Ltd.	Ningbo Innolux Electronics Ltd.	3	Sales	239,171	-	-

Number (Note A)	Company name	Counterparty	Relationship (Note B)	Transaction (Note D)			
				General ledger account	Amount	Transaction terms (Note C)	Percentage of consolidated total operating revenues or total assets
14	Innolux Japan Co., Ltd.	Innolux Corporation	3	Service revenue	\$ 295,387	-	-
15	Innolux USA Inc.	Innolux Corporation	3	Service revenue	124,294	-	-

Note A: The information of transactions between the Company and the consolidated subsidiaries should be noted in “Number” column.

(1) Number 0 represents the parent company.

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

Note B: 1 refers to the parent company to the subsidiary.

3 refers to the subsidiary to the subsidiary.

Note C: Except for no comparable transactions from related parties, sales prices were similar to non-related parties transactions and the collection period was mainly 30~90 days; the purchases from related parties were at market prices and payment term was 30~120 days upon receipt of goods.

Note D: Amount disclosure standard: purchases, sales and receivables from related parties in excess of \$100 million or 20% of capital.

Note E: For the information on transactions between the Company and the consolidated subsidiaries relating to nature of loan, please refer to Table 1.

Innolux Corporation
Information on investees
For the year ended December 31, 2019

Table 6

Expressed in thousands of NTD
(Except as otherwise indicated)

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2019			Net profit (loss) of the investee for the year ended December 31, 2019	Investment income (loss) recognized by the Company for the year ended December 31, 2019	Footnote
				Balance as at December 31, 2019	Balance as at December 31, 2018	Number of shares	Ownership (%)	Book value			
Innolux Corporation	Golden Achiever International Limited	BVI	Investment holdings	\$ -	\$ 119,106	-	-	\$ -	\$ 48	\$ 48	
Innolux Corporation	Innolux Holding Limited	Samoa	Investment holdings	6,192,509	6,192,509	180,568,185	100	17,999,010	216,811	216,811	
Innolux Corporation	Keyway Investment Management Limited	Samoa	Investment holdings	62,197	62,197	1,656,410	100	89,138	10,684	10,684	
Innolux Corporation	Landmark International Ltd.	Samoa	Investment holdings	33,438,542	33,438,542	709,450,000	100	44,796,827	2,072,156	2,072,156	
Innolux Corporation	Toppoly Optoelectronics (B.V.I.) Ltd.	BVI	Investment holdings	3,674,115	3,674,115	146,847,000	100	5,866,239 (	396,479) (	396,479)	
Innolux Corporation	Innolux Hong Kong Holding Limited	Hong Kong	Investment holdings	3,231,780	3,231,780	1,158,844,000	100	6,029,594	553,211	553,211	
Innolux Corporation	Innolux Singapore Holding Pte. Ltd.	Singapore	Investment holdings	754,943	754,943	25,400,000	100	460,523 (	270,334) (	270,334)	
Innolux Corporation	Leadtek Global Group Limited	BVI	Distributor company	-	-	50,000,000	100	1,499,000	-	-	
Innolux Corporation	Yuan Chi Investment Co., Ltd.	Taiwan	Investment company	1,217,235	1,217,235	-	100	875,925	3,176	3,176	
Innolux Corporation	InnoJoy Investment Corporation	Taiwan	Investment company	1,674,054	1,674,054	167,405,392	100	1,298,925	24,846	24,846	
Innolux Corporation	CarUX Technology Inc.	Taiwan	R&D, manufacturing and Distributor company	200,000	-	20,000,000	100	199,824 (	176) (	176)	
Innolux Corporation	InnoCare Optoelectronics Corporation	Taiwan	Holdings, R&D, manufacturing and Distributor company	200,000	-	20,000,000	100	249,967	55,336	55,336	
Innolux Corporation	Innolux Japan Co., Ltd.	Japan	Holdings, R&D and Distributor company	1,682,751	1,682,751	98	54	2,058,019	141,610	77,093	
Innolux Corporation	iZ3D, Inc.	USA	Research and development and sale of 3D flat monitor	-	-	4,333	35	-	-	-	
Innolux Corporation	Chi Mei Lighting Technology Corporation	Taiwan	Manufacturing of electronic equipment and lighting equipment	819,312	819,312	78,195,856	33	-	-	-	

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2019			Net profit (loss) of the investee for the year ended December 31, 2019	Investment income (loss) recognized by the Company for the year ended December 31, 2019	Footnote
				Balance as at December 31, 2019	Balance as at December 31, 2018	Number of shares	Ownership (%)	Book value			
Innolux Corporation	GIO Optoelectronics Corp.	Taiwan	Holdings, R&D, manufacturing and Distributor company	\$ 308,993	\$ 800,892	27,812,188	63	\$ 312,376	\$ 1,299	\$ 3,209	
Innolux Corporation	Ampower Holding Ltd.	Cayman	Investment holdings	1,717,714	1,717,714	14,062,500	50	865,362	4,798	2,399	
Innolux Corporation	FI Medical Device Manufacturing Co., Ltd.	Taiwan	Production and selling of the absorption for medical element	73,500	73,500	7,350,000	49	427,338	692,697	339,422	
Innolux Corporation	eLux, Inc.	USA	R&D of MicroLED technology	91,155	91,155	300,000	38	40,870	(68,789)	(33,066)	
Innolux Holding Limited	Rockets Holding Ltd.	Samoa	Investment holdings	5,222,180	5,222,180	160,504,550	100	11,417,175	137,205	137,205	
Innolux Holding Limited	Suns Holding Ltd.	Samoa	Investment holdings	555,422	555,422	18,177,052	100	6,353,353	79,606	79,606	
Innolux Holding Limited	Lakers Trading Ltd.	Samoa	Distributor company	-	-	1	100	228,405	-	-	
Toppoly Optoelectronics (B.V.I.)	Toppoly Optoelectronics (Cayman) Ltd.	Cayman	Investment holdings	3,650,192	3,650,192	146,817,000	100	5,865,889	(396,479)	(396,479)	
Innolux Hong Kong Holding Limited	Innolux Optoelectronics Hong Kong Holding Limited	Hong Kong	Investment holdings	-	-	162,897,802	100	1,598,956	108,291	108,291	
Innolux Hong Kong Holding Limited	Innolux Hong Kong Limited	Hong Kong	Distributor company	-	-	35,000,000	100	836,380	354,704	354,704	
Innolux Hong Kong Holding Limited	Innolux Europe B.V.	Netherlands	Holding, R&D testing and Distributor company	1,643,631	1,994,102	375,810	100	377,076	62,096	62,096	
Innolux Hong Kong Holding Limited	Innolux Japan Co., Ltd.	Japan	Holdings, R&D and Distributor company	1,815,603	1,815,603	82	46	1,722,324	141,610	64,517	
Innolux Hong Kong Holding Limited	CarUX Holding Limited	Cayman	Investment holdings	294,690	-	9,500,000	100	285,546	759	759	
CarUX Holding Limited	CARUX TECHNOLOGY PTE. LTD.	Singapore	Investment holdings	291,588	-	9,400,000	100	282,539	750	750	
Innolux Japan Co., Ltd.	Innolux USA, Inc.	USA	Distributor company	369,092	369,092	12,842	100	771,552	125,244	125,244	
Rockets Holding Ltd.	Stanford Developments Ltd.	Samoa	Investment holdings	5,391,125	5,391,125	164,000,000	100	11,389,827	137,587	137,587	
Rockets Holding Ltd.	Nets Trading Ltd.	Samoa	Investment company	27,477	27,477	900,001	100	27,213	(382)	(382)	
Suns Holding Ltd.	Warriors Technology Investments Ltd.	Samoa	Investment company	555,422	555,422	18,177,052	100	6,353,352	79,606	79,606	

Table 6, Page 2

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2019			Net profit (loss)	Investment income	Footnote
				Balance as at December 31, 2019	Balance as at December 31, 2018	Number of shares	Ownership (%)	Book value	of the investee for the year ended December 31, 2019	(loss) recognized by the Company for the year ended December 31, 2019	
Innolux Europe B.V.	Innolux Technology Germany GmbH	Germany	Testing and maintenance company	\$ 33,735	\$ 33,735	100,000	100	\$ 72,552	\$ 3,883	\$ 3,883	
Innolux Singapore Holding Pte. Ltd.	Innolux Optoelectronics India Private Limited	India	Distributor company	302,198	176,997	67,000,000	100	(343)	(273,374)	(273,374)	
Innolux Singapore Holding Pte. Ltd.	Innolux Optoelectronics Philippines Corp.	Philippines	Manufacturer and distributor	28,733	28,733	5,000,000	100	28,261	(484)	(484)	
Innolux Singapore Holding Pte. Ltd.	Innolux Optoelectronics Malaysia SDN. BHD.	Malaysia	Manufacturer and distributor	121,179	121,179	16,000,000	100	118,797	1,217	1,217	
Yuan Chi Investment Co., Ltd.	Chi Mei Lighting Technology Corporation	Taiwan	Manufacturing of electronic equipment and lighting equipment	263,812	263,812	19,673,402	8	-	-	-	
Yuan Chi Investment Co., Ltd.	GIO Optoelectronics Corp.	Taiwan	Holdings, R&D, manufacturing and Distributor company	858	6,881	77,235	-	867	1,299	2	
InnoCare Optoelectronics Corporation	InnoCare Optoelectronics Japan Co., Ltd.	Japan	Distributor company	87,149	-	30,010	100	84,073	1,281	1,281	
InnoCare Optoelectronics	InnoCare Optoelectronics USA, INC.	USA	Distributor company	27,963	-	900,000	100	28,008	1,058	1,058	
GIO Optoelectronics Corp.	Double Star Inc.	Mauritius	Investment holdings	298,113	298,113	10,000,000	100	100,097	760	760	

Innolux Corporation
Information on investments in Mainland China
For the year ended December 31, 2019

Table 7

Expressed in thousands of NTD
(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital (Note A)	Investment method (Note C)	Mainland China as of January 1, 2019	Amount remitted from Taiwan to Mainland China/Amount remitted back to Taiwan for the year ended December 31, 2019		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2019	Net income of investee for the year ended December 31, 2019	Ownership held by the Company (direct or indirect)	Investment income (loss) recognized by the Company for the year ended December 31, 2019 (Note B)	Book value of investments in Mainland China as of December 31, 2019	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2019	Footnote
					Remitted to Mainland China	Remitted back to Taiwan							
Innocom Technology (Shenzhen) Co., Ltd.	Manufacturing and selling of LCD backend module and related components	\$ 4,916,720	2	\$ 3,804,814	\$ -	\$ -	\$ 3,804,814	\$ 137,587	100	\$ 137,587	\$ 11,389,777	\$ 1,111,906	2.1
OED Company	Manufacturing and selling of electronic paper	276,368	2	59,960	-	-	59,960	(49,530)	4	-	5,637	-	2.2
Ningbo Innolux Optoelectronics Ltd.	Manufacturing and selling of LCD backend module and related components	9,293,800	2	220,804	-	-	220,804	683,582	100	683,582	19,759,423	5,175,596	2.3
Foshan Innolux Optoelectronics Ltd.	Manufacturing and selling of LCD backend module and related components	11,482,340	2	11,482,340	-	-	11,482,340	854,031	100	856,445	20,203,506	-	2.3
Ningbo Innolux Display Ltd.	Manufacturing and selling of LCD backend module and related components	4,796,800	2	4,796,800	-	-	4,796,800	532,126	100	532,126	4,832,765	-	2.3
Nanjing Innolux Technology Ltd.	Purchases and sales of monitor- related components company	62,958	2	62,958	-	-	62,958	538	100	538	529,542	-	2.4
Nanjing Innolux Optoelectronics Ltd.	Manufacturing and selling of LCD backend module and related components	4,676,880	2	4,318,187	-	-	4,318,187	(397,017)	100	(397,017)	5,336,325	-	2.4
Shanghai Innolux Optoelectronics Ltd.	Manufacturing and selling of LCD backend module and related components	629,580	2	-	-	-	-	108,291	100	108,291	1,598,956	-	2.5
Foshan Innolux Logistics Ltd.	Warehousing services	44,970	2	44,970	-	-	44,970	10,568	100	10,568	84,298	-	2.6
Amlink (Shanghai) Ltd.	Manufacturing and selling of power supply, modem, ADSL, and other IT equipments	239,840	2	299,800	-	-	299,800	-	50	-	184,101	-	2.7

Investee in Mainland China	Main business activities	Paid-in capital (Note A)	Investment method (Note C)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2019	Amount remitted from Taiwan to Mainland China/Amount remitted back to Taiwan for the year ended December 31, 2019		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2019	Net income of investee for the year ended December 31, 2019	Ownership held by the Company (direct or indirect)	Investment income (loss) recognized by the Company for the year ended December 31, 2019 (Note B)	Book value of investments in Mainland China as of December 31, 2019	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2019	Footnote
					Remitted to Mainland China	Remitted back to Taiwan							
Interface Technology (ChengDu) Co., Ltd.	Manufacturing and selling of flat panel display and display materials of TFT-LCD	\$ 9,555,504	2	\$ 404,730	\$ -	\$ -	\$ 404,730	\$ 1,722,184	7	\$ -	\$ 2,733,922	\$ -	2.2 Note E
GIO (Maanshan) Optoelectronics Co., Ltd.	Manufacturing	299,800	2	299,800	-	-	299,800	763	63	269	63,183	-	2.8
Ningbo Innolux Electronics Ltd.	R&D, Manufacturing and selling of LCD backend module and related components	128,925	3	-	-	-	-	25,897	100	25,897	183,667	-	
Foshan Innolux Flnet Electronics Ltd.	Commodity agency	4,298	3	-	-	-	-	682	100	682	6,410	-	
Ningbo Innolux Flnet Electronics Ltd.	Commodity agency	4,298	3	-	-	-	-	1,942	100	1,942	10,523	-	
Shenzhen PixinLED Technology Co., Ltd.	Development and selling of MINI LED	42,975	3	-	-	-	-	789	100	789	41,949	-	
Innolux Automations and Intelligence Systems (ShenZhen) Co., Ltd.	Development and selling of software	4,298	3	-	-	-	-	3,432	100	3,432	3,132	-	

Ceiling on investments in Mainland China:

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2019	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA
Innolux Corporation	\$ 26,933,538	\$ 35,917,830	(Note D)

Note A: The relevant figures were listed in NT\$. Where foreign currencies were involved, the figures were converted to NT\$ using exchange rate.

Note B: Profit or loss recognized for the year ended December 31, 2019 was audited by independent accountants.

Note C: The investment methods are as follows:

1. Directly investing in Mainland China.
2. Through investing in companies in the third area, which then invested in the investee in Mainland China.
 - 2.1. Through investing in Stanford Developments Ltd. in the third area, which then invested in the investee in Mainland China.
 - 2.2. Through investing in Warriors Technology Investments Ltd. in the third area, which then invested in the investee in Mainland China.
 - 2.3. Through investing in Landmark International Ltd. in the third area, which then invested in the investee in Mainland China.
 - 2.4. Through investing in Toppoly Optoelectronics (Cayman) Ltd. in the third area, which then invested in the investee in Mainland China.
 - 2.5. Through investing in Innolux Optoelectronics Hong Kong Holding Limited in the third area, which then invested in the investee in Mainland China.
 - 2.6. Through investing in Keyway Investment Management Limited in the third area, which then invested in the investee in Mainland China.
 - 2.7. Through investing in Ampower Holding Ltd. in the third area, which then invested in the investee in Mainland China.
 - 2.8. Through investing in Double Star Inc. in the third area, which then invested in the investee in Mainland China.

3. Others.

The company invested via the company investment entities in Mainland China to invest in Ningbo Innolux Electronics Ltd., Foshan Innolux Flent Electronics Ltd., Ningbo Innolux Flent Electronics Ltd., Shenzhen PixiLED Technology Co.,Ltd., Innolux Automations and Intelligence Systems (ShenZhen) Co., Ltd. Except for the investment via the holding companies in Mainland China, other investments shall not be approved by Investment Commission of the Ministry of Economic Affairs.

Note D : In accordance with “Rules Governing Applications for Investment or Technical Cooperation in Mainland China”, the Company has obtained the certificate of being qualified for operating headquarters, issued by the Industrial Development Bureau of the Ministry of Economic Affairs, the ceiling amount of the investment in Mainland China is not applicable to the Company.

Note E: Interface Technology (ChengDu) Co., Ltd acquired 100% of shares of Interface Optoelectronics (Shenzhen) Co., Ltd. due to the restructuring of General Interface Solution (GIS) Holding Limited in April 2019.

INNOLUX CORPORATION
SUMMARY OF CASH AND CASH EQUIVALENTS
DECEMBER 31, 2019
 (EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Summary 1

Item		Abstract				Amount
Petty cash						\$ 165
Cash in banks						
Demand deposits						2,614,641
Foreign deposits	USD	456,403	In thousands	Exchange rate	29.980	13,682,951
	JPY	85,455	In thousands	Exchange rate	0.276	23,585
	EUR	15	In thousands	Exchange rate	33.590	515
	HKD	18,338	In thousands	Exchange rate	3.849	70,584
	KRW	139,615	In thousands	Exchange rate	0.026	3,644
Time deposits	TWD	1,500,000	In thousands	Exchange rate	1	1,500,000
	USD	200,000	In thousands	Exchange rate	29.980	5,996,000
						<u>\$ 23,892,085</u>

INNOLUX CORPORATION
SUMMARY OF ACCOUNTS RECEIVABLE
DECEMBER 31, 2019
 (EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Summary 2

Items	Abstract	Amount	Remark
Third parties			
Company A		\$ 4,167,702	
Company B		2,666,527	
Company C		2,582,288	
Company D		2,387,109	
Others		19,754,357	Balance of individual customers is under 5% of this account's
		<u>31,557,983</u>	
Less: Allowance loss		(<u>209,373</u>)	
		<u>\$ 31,348,610</u>	

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INNOLUX CORPORATION
SUMMARY OF INVENTORY
DECEMBER 31, 2019
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Summary 3

<u>Item</u>	<u>Abstract</u>	<u>Cost</u>	<u>Market price</u>	<u>Remark</u>
Raw materials		\$ 2,921,564	\$ 2,875,816	Use net realizable value as market price
Work in process		13,561,743	24,182,930	Use net realizable value as market price
Finished goods		9,875,792	13,173,900	Use net realizable value as market price
		<u>\$ 26,359,099</u>	<u>\$ 40,232,646</u>	

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INNOLUX CORPORATION
MOVEMENT SUMMARY OF INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD
FOR THE YEAR ENDED DECEMBER 31, 2019
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Summary 4

Name	Beginning Balance		Addition		Deductions		Ending Balance			Market value or net equity value		Valuation Basis	Pledged as Collateral
	In Thousand Shares	Amount	Thousand Shares	Amount	Thousand Shares	Amount	In Thousand Shares	Percentage of Ownership	Amount	Unit Price	Total Amount		
Landmark International Ltd.	709,450	\$44,597,800	-	\$2,072,156	-	(\$1,873,129)	709,450	100%	\$44,796,827	-	\$44,796,827	Equity method	None
Innolux Holding Limited	180,568	17,885,878	-	691,698	-	(578,566)	180,568	100%	17,999,010	-	17,999,010	"	"
Toppoly Optoelectronics (B.V.I.) Ltd.	146,847	6,506,291	-	-	-	(640,052)	146,847	100%	5,866,239	-	5,866,239	"	"
Innolux Hong Kong Holding Limited	1,158,844	5,641,266	-	553,211	-	(164,883)	1,158,844	100%	6,029,594	-	6,029,594	"	"
Innolux Japan Co., Ltd.	-	2,004,888	-	77,093	-	(23,962)	-	54%	2,058,019	-	2,058,019	"	"
Leadtek Global Group Limited	50,000	1,535,750	-	-	-	(36,750)	50,000	100%	1,499,000	-	1,499,000	"	"
InnoJoy Investment Corporation	167,405	1,303,578	-	24,846	-	(29,499)	167,405	100%	1,298,925	-	1,298,925	"	"
Yuan Chi Investment Co., Ltd.	-	874,787	-	5,040	-	(3,902)	-	100%	875,925	-	875,925	"	"
Innolux Singapore Holding Pte. Ltd.	25,400	740,729	-	-	-	(280,206)	25,400	100%	460,523	-	460,523	"	"
GIO Optoelectronics Corp.	10,494	115,610	17,318	320,206	-	(123,440)	27,812	63%	312,376	-	299,320	"	"
Ampower Holding Ltd.	14,063	956,577	-	2,399	-	(93,614)	14,063	50%	865,362	-	865,362	"	"
FI Medical Device Manufactiurng Co., Ltd.	7,350	655,827	-	339,422	-	(567,911)	7,350	49%	427,338	-	427,338	"	"
Others	-	<u>183,500</u>	-	<u>466,068</u>	-	<u>(69,769)</u>	-	-	<u>579,799</u>	-	<u>553,748</u>	"	"
		<u>\$83,002,481</u>		<u>\$4,552,139</u>		<u>(\$4,485,683)</u>			<u>\$83,068,937</u>		<u>\$83,029,830</u>		

Note 1: Additions include gains on investment accounted for using equity method, change in investee's net equity value, cumulative translation adjustment, recognition of unrealized gain on investees' financial instruments and increase in investment.

Note 2: Deductions include losses on investment accounted for using equity method, change in investee's net equity value, cumulative translation adjustment, cash dividend received, recognition of unrealised loss on investees' financial instruments and proceeds from capital reduction of investment.

INNOLUX CORPORATION
MOVEMENT SUMMARY OF RIGHT-OF-USE ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2019
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Summary 5

<u>Item</u>	<u>Beginning Balance</u>	<u>Addition</u>	<u>Decrease</u>	<u>Ending Balance</u>
Cost:				
Land	\$ <u>6,140,546</u>	\$ <u>-</u>	(\$ <u>319,946</u>)	\$ <u>5,820,600</u>
Accumulated depreciation and impairment:				
Land	<u>-</u>	(<u>481,210</u>)	<u>11,014</u>	(<u>470,196</u>)
	<u>\$ 6,140,546</u>	(<u>\$ 481,210</u>)	(<u>\$ 308,932</u>)	<u>\$ 5,350,404</u>

Note: Listed separately according to the underlying asset class.

INNOLUX CORPORATION
SUMMARY OF ACCOUNTS PAYABLE
DECEMBER 31, 2019
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Summary 6

Items	Abstract	Amount	Remark
Third parties			
Company A		\$ 2,525,073	
Company B		1,505,947	
Company C		1,289,530	
Others		19,740,213	Balance of individual suppliers is under 5% of this account's balance.
		<u>\$ 25,060,763</u>	

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INNOLUX CORPORATION
SUMMARY OF OPERATING REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2019
 (EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Summary 7

<u>Item</u>	<u>Quantity (in thousands)</u>	<u>Amount</u>
TFT-LCD products	374,653	\$ <u>249,384,126</u>

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INNOLUX CORPORATION
SUMMARY OF OPERATING COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019
 (EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Summary 8

Item	Amount
Beginning raw materials	\$ 3,583,309
Incoming inventory	75,324,030
Less: Ending raw materials	(3,123,743)
Scrapping materials	(82,321)
Sale of materials	(374,944)
Material consumption	75,326,331
Direct labor	11,404,779
Manufacturing expenses	<u>153,370,664</u>
Manufacturing costs	240,101,774
Add: Beginning work in process	14,420,816
Incoming inventory	4,260,858
Less: Ending work in process	(14,500,252)
Scrapping work in process	(120,565)
Cost of finished goods	244,162,631
Add: Beginning finished goods	10,751,201
Acquisition of finished goods	9,990,603
Less: Ending finished goods	(10,559,223)
Cost of goods manufactured	254,345,212
Add: Cost of sales of materials	374,944
Loss on scrapping inventory	202,886
Less: Gain on reversal of decline in inventory valuation	(125,561)
Operating cost	<u>\$ 254,797,481</u>

INNOLUX CORPORATION
SUMMARY OF MANUFACTURING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Summary 9

Items	Amount	Remark
Processing fee	\$ 90,976,647	
Depreciation and amortization	27,902,276	
Utilities expense	11,855,198	
Repairs and maintenance expense	9,253,732	
Wages and salaries	7,075,157	
Others	6,307,654	Balance of individual accounts is
		under 5% of this account's balance.
	<u>\$ 153,370,664</u>	

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INNOLUX CORPORATION
SUMMARY OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Summary 10

Items	Selling expenses	General and administrative expenses	Research and development expenses	Total	Remark
Wages and salaries	\$ 267,880	\$ 1,341,440	\$ 4,106,235	\$ 5,715,555	
Depreciation expenses	291	368,633	2,443,770	2,812,694	
Royalty expenses	-	-	1,454,495	1,454,495	
Indirect materials	3,231	635	1,537,876	1,541,742	
Professional service expenses	173,101	1,483,531	158,263	1,814,895	
Others	781,551	1,514,569	1,842,651	4,138,771	Balance of individual accounts is under 5% of this account's balance.
	<u>\$ 1,226,054</u>	<u>\$ 4,708,808</u>	<u>\$11,543,290</u>	<u>\$17,478,152</u>	

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INNOLUX CORPORATION
SUMMARY OF EMPLOYEE BENEFITS, DEPRECIATION, DEPLETION AND AMORTIZATION EXPENSES BY FUNCTION
FOR THE YEAR ENDED DECEMBER 31, 2019
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Summary 11

By nature	Year ended December 31, 2019				Year ended December 31, 2018			
	Classified as Operating Costs	Classified as Operating Expenses	Classified as Non- operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Classified as Non- operating Expenses	Total
Employee Benefit Expense								
Wages and salaries	\$ 16,332,054	\$ 5,715,555	\$ -	\$ 22,047,609	\$ 17,503,294	\$ 5,549,417	\$ -	\$ 23,052,711
Labor and health insurance	1,514,393	485,140	-	1,999,533	1,503,330	465,285	-	1,968,615
Pension	700,751	276,613	-	977,364	715,078	261,156	-	976,234
Directors' compensation	-	8,710	-	8,710	-	11,198	-	11,198
Others	913,537	249,291	-	1,162,828	1,016,197	315,587	-	1,331,784
	<u>\$ 19,460,735</u>	<u>\$ 6,735,309</u>	<u>\$ -</u>	<u>\$ 26,196,044</u>	<u>\$ 20,737,899</u>	<u>\$ 6,602,643</u>	<u>\$ -</u>	<u>\$ 27,340,542</u>
Depreciation	<u>\$ 27,817,879</u>	<u>\$ 2,812,694</u>	<u>\$ 25,051</u>	<u>\$ 30,655,624</u>	<u>\$ 28,815,698</u>	<u>\$ 2,567,883</u>	<u>\$ 286,991</u>	<u>\$ 31,670,572</u>
Amortization	<u>\$ 84,397</u>	<u>\$ 148,714</u>	<u>\$ -</u>	<u>\$ 233,111</u>	<u>\$ 176,122</u>	<u>\$ 122,845</u>	<u>\$ -</u>	<u>\$ 298,967</u>

Note:

1. As at December 31, 2019 and 2018, the Company had 29,555 and 31,101 employees, including 4 and 5 non-employee directors, respectively.
2. Company additionally disclose the following information :
 - (1) Average employee benefit expense in current year \$886, average employee benefit expense in previous year \$879.
 - (2) Average employees salaries in current year \$746, average employees salaries in previous year \$741.
 - (3) Adjustments of average employees salaries 0.67%.