

**Aerospace Industrial Development  
Corporation and Subsidiaries**

**Consolidated Financial Statements for the  
Nine Months Ended September 30, 2020 and 2019  
Independent Auditors' Review Report**

### INDEPENDENT AUDITORS' REVIEW REPORT

The Board of Directors and Shareholders  
Aerospace Industrial Development Corporation

#### Introduction

We have reviewed the accompanying consolidated balance sheets of Aerospace Industrial Development Corporation and its subsidiaries (collectively referred to as the "Group") as of September 30, 2020 and 2019 and the related consolidated statements of comprehensive income for the three months ended September 30, 2020 and 2019 and for the nine months ended September 30, 2020 and 2019, the consolidated statements of changes in equity and cash flows for the nine months then ended, and the related notes to the consolidated financial statements, including a summary of significant accounting policies "(collectively referred to as the consolidated financial statements)". Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

#### Scope of Review

Except as explained in the basis for qualified conclusion, we conducted our reviews in accordance with Statement of Auditing Standards No. 65 "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### Basis for Qualified Conclusion

As disclosed in Note 11 to the consolidated financial statements, the financial statements which were used as bases of investments accounted for by the equity method included in the consolidated financial statements referred to in the first paragraph were not reviewed. The carrying amounts of the related investments as of September 30, 2020 and 2019 were NT\$1,028,613 thousand and NT\$734,436 thousand, respectively. For the three months ended September 30, 2020 and 2019 and for the nine months ended September 30, 2020 and 2019, the amounts of the related share of profit of associates were NT\$125,624 thousand, NT\$70,251 thousand, NT\$244,945 thousand, and NT\$168,160 thousand, respectively.

## Qualified Conclusion

Based on our reviews, except for the adjustments, if any, as might have been determined to be necessary had the financial statements which were used as bases of the investment accounted for using equity method as described in the basis for qualified conclusion been reviewed, nothing has come to our attention that caused us to believe that the accompanying consolidated financial statements do not give a true and fair view of the consolidated financial position of the Group as at September 30, 2020 and 2019, its consolidated financial performance for the three months ended September 30, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the nine months ended September 30, 2020 and 2019 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Accounting Standard 34 “Interim Financial Reporting” endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

The engagement partners on the reviews resulting in this independent auditors’ review report are Lie-Dong Wu and Done-Yuin Tseng.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

October 16, 2020

## Notice to Readers

*The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to review such consolidated financial statements are those generally applied in the Republic of China.*

*For the convenience of readers, the independent auditors’ review report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors’ review report and consolidated financial statements shall prevail.*

# AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

	September 30, 2020 (Reviewed)		December 31, 2019 (Audited)		September 30, 2019 (Reviewed)	
ASSETS	Amount	%	Amount	%	Amount	%
<b>CURRENT ASSETS</b>						
Cash (Note 6)	\$ 5,707,838	13	\$ 634,140	2	\$ 748,358	2
Notes receivable (Note 8)	1,384	-	5,637	-	1,452	-
Trade receivables from unrelated parties (Note 8)	9,197,900	21	13,958,292	30	13,508,866	29
Trade receivables from related parties (Note 29)	44,528	-	131,561	-	171,312	-
Other receivables (Note 8)	48,446	-	81,918	-	119,658	-
Current tax assets (Note 4)	4,453	-	-	-	-	-
Inventories (Note 9)	12,683,079	28	9,820,034	21	10,005,574	22
Other financial asset - current (Notes 15 and 30)	31,516	-	2,935,559	7	3,073,456	7
Other current assets (Notes 16 and 29)	<u>3,054,153</u>	<u>7</u>	<u>4,587,118</u>	<u>10</u>	<u>4,428,607</u>	<u>10</u>
Total current assets	<u>30,773,297</u>	<u>69</u>	<u>32,154,259</u>	<u>70</u>	<u>32,057,283</u>	<u>70</u>
<b>NON-CURRENT ASSETS</b>						
Financial assets at fair value through other comprehensive income - non-current (Note 7)	51,904	-	87,334	-	106,897	-
Investment accounted for using equity method (Note 11)	1,028,613	2	838,039	2	734,436	2
Property, plant and equipment (Notes 12 and 30)	8,865,468	20	8,568,418	18	8,389,959	18
Right-of-use assets (Note 13)	1,844,427	4	2,292,399	5	2,324,323	5
Intangible assets (Note 14)	1,160,519	3	1,246,970	3	1,185,809	3
Deferred tax assets (Notes 4 and 25)	302,781	1	305,862	1	279,221	1
Prepayments for equipment	677,372	1	513,640	1	473,754	1
Other financial asset - non-current (Notes 15 and 30)	47,841	-	14,054	-	10,895	-
Other non-current assets (Notes 8 and 16)	<u>79,576</u>	<u>-</u>	<u>66,461</u>	<u>-</u>	<u>78,374</u>	<u>-</u>
Total non-current assets	<u>14,058,501</u>	<u>31</u>	<u>13,933,177</u>	<u>30</u>	<u>13,583,668</u>	<u>30</u>
<b>TOTAL</b>	<u>\$ 44,831,798</u>	<u>100</u>	<u>\$ 46,087,436</u>	<u>100</u>	<u>\$ 45,640,951</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>						
<b>CURRENT LIABILITIES</b>						
Short-term borrowings (Notes 17 and 30)	\$ 3,950,000	9	\$ 4,920,000	11	\$ 8,140,000	18
Short-term bills payable (Note 17)	11,934,749	27	8,357,255	18	4,183,287	9
Contract liabilities	344,329	1	584,119	1	112,507	-
Trade payables to unrelated parties	898,821	2	1,395,943	3	1,970,642	5
Trade payables to related parties (Note 29)	92,233	-	79,880	-	390,461	1
Other payables (Notes 19 and 29)	2,421,644	5	3,605,047	8	2,996,321	7
Current tax liabilities (Note 4)	69,057	-	199,940	1	120,703	-
Lease liabilities - current (Notes 4 and 13)	97,749	-	141,411	-	136,812	-
Current portion of long-term borrowings (Notes 17 and 30)	1,200,000	3	-	-	-	-
Net defined benefit liabilities - current (Notes 4 and 21)	100,002	-	61,813	-	123,567	-
Other current liabilities	<u>75,828</u>	<u>-</u>	<u>43,943</u>	<u>-</u>	<u>85,571</u>	<u>-</u>
Total current liabilities	<u>21,184,412</u>	<u>47</u>	<u>19,389,351</u>	<u>42</u>	<u>18,259,871</u>	<u>40</u>
<b>NON-CURRENT LIABILITIES</b>						
Bonds payable (Note 18)	2,996,813	7	2,996,210	7	2,996,009	7
Long-term borrowings (Notes 17 and 30)	4,060,000	9	5,928,299	13	6,958,316	15
Provisions - non-current (Note 20)	530,699	1	551,553	1	573,786	1
Non-current tax liabilities (Note 4)	107,451	-	-	-	-	-
Deferred tax liabilities (Notes 4 and 25)	154,307	-	116,343	-	95,268	-
Lease liabilities - non-current (Notes 4 and 13)	1,789,468	4	2,167,424	5	2,231,534	5
Long-term deferred revenue	1,388	-	279	-	288	-
Guarantee deposits	<u>184,655</u>	<u>1</u>	<u>214,391</u>	<u>-</u>	<u>199,520</u>	<u>1</u>
Total non-current liabilities	<u>9,824,781</u>	<u>22</u>	<u>11,974,499</u>	<u>26</u>	<u>13,054,721</u>	<u>29</u>
Total liabilities	<u>31,009,193</u>	<u>69</u>	<u>31,363,850</u>	<u>68</u>	<u>31,314,592</u>	<u>69</u>
<b>EQUITY</b>						
Ordinary shares	9,418,671	21	9,418,671	20	9,418,671	20
Retained earnings						
Legal reserve	1,098,424	3	909,345	2	909,345	2
Special reserve	1,931,264	4	2,522,475	6	2,522,475	6
Unappropriated earnings	1,469,376	3	1,902,904	4	1,457,008	3
Other equity	<u>(95,130)</u>	<u>-</u>	<u>(29,809)</u>	<u>-</u>	<u>18,860</u>	<u>-</u>
Total equity	<u>13,822,605</u>	<u>31</u>	<u>14,723,586</u>	<u>32</u>	<u>14,326,359</u>	<u>31</u>
<b>TOTAL</b>	<u>\$ 44,831,798</u>	<u>100</u>	<u>\$ 46,087,436</u>	<u>100</u>	<u>\$ 45,640,951</u>	<u>100</u>

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

(With Deloitte & Touche review report dated October 16, 2020)

# AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings (Loss) Per Share) (Reviewed, Not Audited)

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2020		2019		2020		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
SALES (Notes 23 and 29)	\$ 4,860,460	100	\$ 7,463,136	100	\$ 14,996,258	100	\$ 20,579,952	100
COST OF GOODS SOLD (Notes 9, 24 and 29)	<u>4,580,958</u>	<u>94</u>	<u>6,379,180</u>	<u>85</u>	<u>13,956,327</u>	<u>93</u>	<u>17,901,474</u>	<u>87</u>
GROSS PROFIT	<u>279,502</u>	<u>6</u>	<u>1,083,956</u>	<u>15</u>	<u>1,039,931</u>	<u>7</u>	<u>2,678,478</u>	<u>13</u>
OPERATING EXPENSES (Notes 24 and 29)								
Selling and marketing expenses	26,287	1	33,891	1	77,344	-	98,866	1
General and administrative expenses	116,530	2	162,013	2	404,451	3	482,478	2
Research and development expenses	107,214	2	148,806	2	359,942	2	371,275	2
Expected credit loss (gain) (Note 8)	<u>(9,980)</u>	<u>-</u>	<u>12,325</u>	<u>-</u>	<u>(6,702)</u>	<u>-</u>	<u>21,217</u>	<u>-</u>
Total operating expenses	<u>240,051</u>	<u>5</u>	<u>357,035</u>	<u>5</u>	<u>835,035</u>	<u>5</u>	<u>973,836</u>	<u>5</u>
PROFIT FROM OPERATIONS	<u>39,451</u>	<u>1</u>	<u>726,921</u>	<u>10</u>	<u>204,896</u>	<u>2</u>	<u>1,704,642</u>	<u>8</u>
NON-OPERATING INCOME AND EXPENSES								
Other income (Note 24)	116,123	2	32,073	1	399,814	3	89,625	1
Other gains and losses (Note 24)	(201,348)	(4)	(47,686)	(1)	(355,250)	(3)	(32,257)	-
Share of profit of associates	125,624	3	70,251	1	244,945	2	168,160	1
Finance income	4,471	-	24,167	-	37,283	-	76,332	-
Finance costs (Note 24)	<u>(43,474)</u>	<u>(1)</u>	<u>(56,092)</u>	<u>(1)</u>	<u>(140,685)</u>	<u>(1)</u>	<u>(161,910)</u>	<u>(1)</u>
Total non-operating income and expenses	<u>1,396</u>	<u>-</u>	<u>22,713</u>	<u>-</u>	<u>186,107</u>	<u>1</u>	<u>139,950</u>	<u>1</u>
PROFIT BEFORE INCOME TAX	40,847	1	749,634	10	391,003	3	1,844,592	9
INCOME TAX EXPENSE (Notes 4 and 25)	<u>52,136</u>	<u>1</u>	<u>160,566</u>	<u>2</u>	<u>105,841</u>	<u>1</u>	<u>399,694</u>	<u>2</u>
NET PROFIT (LOSS) FOR THE PERIOD	<u>(11,289)</u>	<u>-</u>	<u>589,068</u>	<u>8</u>	<u>285,162</u>	<u>2</u>	<u>1,444,898</u>	<u>7</u>
OTHER COMPREHENSIVE INCOME (LOSS)								
Items that will not be reclassified subsequently to profit or loss								
Unrealized gain (loss) on investments in equity instruments designated as at fair value through other comprehensive income	(29,348)	(1)	17,752	-	(35,430)	(1)	3,430	-
Items that may be reclassified subsequently to profit or loss								
Exchange differences on translating the financial statements of foreign operations	<u>(18,652)</u>	<u>-</u>	<u>(662)</u>	<u>-</u>	<u>(29,891)</u>	<u>-</u>	<u>6,516</u>	<u>-</u>
Other comprehensive income (loss) for the period, net of income tax	<u>(48,000)</u>	<u>(1)</u>	<u>17,090</u>	<u>-</u>	<u>(65,321)</u>	<u>(1)</u>	<u>9,946</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	<u>\$ (59,289)</u>	<u>(1)</u>	<u>\$ 606,158</u>	<u>8</u>	<u>\$ 219,841</u>	<u>1</u>	<u>\$ 1,454,844</u>	<u>7</u>
EARNINGS (LOSS) PER SHARE (Note 26)								
Basic	<u>\$ (0.01)</u>		<u>\$ 0.62</u>		<u>\$ 0.30</u>		<u>\$ 1.53</u>	
Diluted	<u>\$ (0.01)</u>		<u>\$ 0.62</u>		<u>\$ 0.30</u>		<u>\$ 1.53</u>	

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

(With Deloitte & Touche review report dated October 16, 2020)

# AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (In Thousands of New Taiwan Dollars) (Reviewed, Note Audited)

	Equity Attributable to Owners of the Corporation					Other Equity		Total Equity
	Ordinary Shares (Note 22)	Retained Earnings (Note 22)			Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Investments in Equity Instruments Designated as at Fair Value Through Other Comprehensive Income		
		Legal Reserve	Special Reserve	Unappropriated Earnings				
BALANCE AT JANUARY 1, 2019	\$ 9,418,671	\$ 702,338	\$ 1,933,627	\$ 2,070,067	\$ (15,353)	\$ 24,267	\$ 14,133,617	
Appropriation of 2018 earnings								
Legal reserve	-	207,007	-	(207,007)	-	-	-	
Special reserve	-	-	588,848	(588,848)	-	-	-	
Cash dividends distributed by the Company	-	-	-	(1,262,102)	-	-	(1,262,102)	
Profit for the nine months ended September 30, 2019	-	-	-	1,444,898	-	-	1,444,898	
Other comprehensive income for the nine months ended September 30, 2019, net of income tax	-	-	-	-	6,516	3,430	9,946	
Total comprehensive income for the nine months ended September 30, 2019	-	-	-	1,444,898	6,516	3,430	1,454,844	
BALANCE AT SEPTEMBER 30, 2019	\$ 9,418,671	\$ 909,345	\$ 2,522,475	\$ 1,457,008	\$ (8,837)	\$ 27,697	\$ 14,326,359	
BALANCE AT JANUARY 1, 2020	\$ 9,418,671	\$ 909,345	\$ 2,522,475	\$ 1,902,904	\$ (37,943)	\$ 8,134	\$ 14,723,586	
Appropriation of 2019 earnings								
Legal reserve	-	189,079	-	(189,079)	-	-	-	
Special reserve	-	-	(591,211)	591,211	-	-	-	
Cash dividends distributed by the Company	-	-	-	(1,120,822)	-	-	(1,120,822)	
Profit for the nine months ended September 30, 2020	-	-	-	285,162	-	-	285,162	
Other comprehensive loss for the nine months ended September 30, 2020, net of income tax	-	-	-	-	(29,891)	(35,430)	(65,321)	
Total comprehensive income (loss) for the nine months ended September 30, 2020	-	-	-	285,162	(29,891)	(35,430)	219,841	
BALANCE AT SEPTEMBER 30, 2020	\$ 9,418,671	\$ 1,098,424	\$ 1,931,264	\$ 1,469,376	\$ (67,834)	\$ (27,296)	\$ 13,822,605	

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

(With Deloitte & Touche review report dated October 16, 2020)

# AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 391,003	\$ 1,844,592
Adjustments for:		
Depreciation expenses	804,336	809,580
Amortization expenses	277,519	203,682
Expected credit loss recognized (reversed)	(6,702)	21,217
Finance costs	140,685	161,910
Interest income	(37,283)	(76,332)
Dividend income	(111)	(138)
Share of profit of associate	(244,945)	(168,160)
Loss on disposal of property, plant and equipment	16	667
Impairment loss recognized (reversed) on non-financial assets	112,136	(160,644)
Unrealized net loss (gain) on foreign currency exchange	38,731	(13,468)
Recognition (reversal) of provisions	9,839	(96,861)
Other income from liabilities	(1,871)	(3,732)
Net changes in operating assets and liabilities		
Notes receivable	4,253	1,232
Trade receivables	4,818,741	1,610,693
Other receivables	20,376	(16,607)
Inventories	(2,963,199)	(3,147,309)
Other current assets	1,532,965	(557,399)
Contract liabilities	(239,790)	28,609
Trade payables	(481,691)	75,419
Other payables	(1,086,420)	(455,167)
Other current liabilities	31,406	(31,172)
Accrued pension liabilities	38,189	41,120
Deferred income	1,109	(27)
Cash generated from operations	3,159,292	71,705
Interest received	44,357	73,587
Interest paid	(134,146)	(160,469)
Income tax paid	(92,681)	(440,134)
Net cash generated from (used in) operating activities	2,976,822	(455,311)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payment for investment accounted for using equity method	(50,000)	-
Payments for property, plant and equipment	(1,075,193)	(602,398)
Proceeds from disposal of property, plant and equipment	-	43
Increase in refundable deposits	(55,367)	(19,547)
Decrease in refundable deposits	44,743	8,565
Payments for intangible assets	(186,468)	(173,655)

(Continued)

# AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2020	2019
Decrease (increase) in other financial assets	\$ 2,872,563	\$ (1,112,800)
Increase in other non-current assets	(24,453)	(137,069)
Increase in prepayments for equipment	(281,902)	(351,820)
Dividend received	<u>75,576</u>	<u>48,189</u>
Net cash generated from (used in) investing activities	<u>1,319,499</u>	<u>(2,340,492)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from short-term borrowings	32,042,244	40,700,000
Repayments of short-term borrowings	(33,012,244)	(40,290,000)
Proceeds from short-term bills payable	55,960,640	16,713,209
Repayments of short-term bills payable	(52,383,146)	(15,029,497)
Proceeds from issuance of corporate bonds	-	2,995,980
Proceeds from long-term borrowings	23,118,000	21,849,794
Repayments of long-term borrowings	(23,786,299)	(23,017,635)
Proceeds of guarantee deposits received	70,484	202,670
Refund of guarantee deposits received	(100,220)	(208,890)
Repayment of the principle portion of lease	(10,286)	(67,390)
Dividends paid to owners of the company	<u>(1,120,822)</u>	<u>(1,262,102)</u>
Net cash generated from financing activities	<u>778,351</u>	<u>2,586,139</u>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES</b>	<u>(974)</u>	<u>(4,874)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>5,073,698</b>	<b>(214,538)</b>
<b>CASH AT THE BEGINNING OF THE PERIOD</b>	<u><b>634,140</b></u>	<u><b>962,896</b></u>
<b>CASH AT THE END OF THE PERIOD</b>	<u><b>\$ 5,707,838</b></u>	<u><b>\$ 748,358</b></u>

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

(With Deloitte & Touche review report dated October 16, 2020)

(Concluded)



# **AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES**

## **NOTES TO FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019**

**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

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### **1. ORGANIZATION AND OPERATIONS**

Aerospace Industrial Development Corporation (“the Company”) was a state-owned enterprise formed by the Ministry of Economic Affairs on July 1, 1996 from Aero Industry Development Center, Chung-Shan Institute of Science and six other state-owned enterprises. The Company’s main business categories are as follows: design, manufacture, assembly, testing and maintenance of aircraft, engines, avionics and related components; consulting services and technology transfers of aerospace technology, logistical support and engineering technology management of large-scale projects; engineering and development of software and sales of aerospace products.

In July 2001, the initial public offering of the Company was approved by the Securities and Futures Commission (now called Securities and Futures Bureau of the Financial Supervisory Commission (FSC) of the Republic of China (ROC)). On September 13, 2013, in accordance with Rule No. 1020055531, the Company started its privatization process. On August 25, 2014, the Company was listed on the Taiwan Stock Exchange.

The consolidated financial statements are presented in the Corporation’s functional currency, New Taiwan dollars.

### **2. APPROVAL OF FINANCIAL STATEMENTS**

The consolidated financial statements were approved by the board of directors on October 16, 2020.

### **3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS**

- a. Initial application of the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) (collectively, the “IFRSs”) endorsed and issued into effect by the Financial Supervisory Commission (FSC)

Except for the following, the initial application of the IFRSs endorsed and issued into effect by the FSC did not have material impact on the Group’s accounting policies:

#### Amendment to IFRS 16 “Covid-19-Related Rent Concessions”

The Group elected to apply the practical expedient provided in the amendment to IFRS 16 with respect to rent concessions negotiated with the lessor as a direct consequence of the COVID-19. Related accounting policies are stated in Note 4. Before the application of the amendment, the Group was required to determine whether the abovementioned rent concessions are lease modifications and thus have to be accounted for as lease modifications.

The Group applied the amendment from January 1, 2020. Retrospective application of the amendment has no impact on the retained earnings as of January 1, 2020.

- b. New IFRSs in issue by International Accounting Standards Board (IASB) but not yet endorsed and issued into effect by the FSC

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note 1)</b>
“Annual Improvements to IFRS Standards 2018–2020”	January 1, 2022 (Note 2)
Amendments to IFRS 3 “Reference to the Conceptual Framework”	January 1, 2022 (Note 3)
Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”	Effective immediately upon promulgation by the IASB
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform - Phase 2”	January 1, 2021
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 IASB
IFRS 17 “Insurance Contracts”	January 1, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2023
Amendments to IAS 16 “Property, Plant and Equipment - Proceeds before Intended Use”	January 1, 2022 (Note 4)
Amendments to IAS 37 “Onerous Contracts–Cost of Fulfilling a Contract”	January 1, 2022 (Note 5)

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual reporting periods beginning on or after their respective effective dates.

Note 2: The amendments to IFRS 9 are applied prospectively to modifications and exchanges of financial liabilities that occur on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IAS 41 “Agriculture” are applied prospectively to the fair value measurements on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IFRS 1 “First-time Adoptions of IFRSs” are applied retrospectively for annual reporting periods beginning on or after January 1, 2022.

Note 3: The amendments are applicable to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2022.

Note 4: The amendments are applicable to property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after January 1, 2021.

Note 5: The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.

1) Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”

The amendments clarify that for a liability to be classified as non-current, the Group shall assess whether it has the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. If such rights are in existence at the end of the reporting period, the liability is classified as non-current regardless of whether the Group will exercise that right. The amendments also clarify that, if the right to defer settlement is subject to compliance with specified conditions, the Group must comply with those conditions at the end of the reporting period even if the lender does not test compliance until a later date.

The amendments stipulate that, for the purpose of liability classification, the aforementioned settlement refers to a transfer of cash, other economic resources or the Group's own equity instruments to the counterparty that results in the extinguishment of the liability. However, if the terms of a liability that could, at the option of the counterparty, result in its settlement by a transfer of the Group's own equity instruments, and if such option is recognized separately as equity in accordance with IAS 32: Financial Instruments: Presentation, the aforementioned terms would not affect the classification of the liability.

2) Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform - Phase 2"

Several standards were amended in the amendments. The amendments to IFRS 9 and IFRS 16 provide specific practical expedient that the modification of financial assets, financial liabilities and lease liabilities as a result of interest rate benchmark reform shall be applied by revising the effective interest rate. Besides, the amendments to IFRS 9 introduce additional temporary exceptions for hedging relationships subject to interest rate benchmark reform.

The Group may not restate prior reporting periods when applying the aforementioned amendments, and recognize the cumulative effect in the retained earnings or other component of equity at the date of the initial application instead.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group's financial position and financial performance and will disclose the relevant impact when the assessment is completed.

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

a. Statement of compliance

These interim consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IAS 34 "Interim Financial Reporting" as endorsed by the FSC. Disclosure information included in these interim consolidated financial statements is less than the disclosure information required in a complete set of annual financial statements.

b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value, and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 3) Level 3 inputs are unobservable inputs for the asset or liability.

c. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (i.e. its subsidiaries).

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

See Note 10 and Table 4 for the detailed information of subsidiaries (including the percentage of ownership and main business).

d. Other significant accounting policies

Except for the following, the summary of other significant accounting policies, please refer to the consolidated financial statements for the year ended December 31, 2019.

1) Retirement benefits

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

2) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to expected total annual earnings.

3) Leases

The Group negotiates with the lessor for rent concessions as a direct consequence of the Covid-19 to change the lease payments originally due by December 31, 2020, that results in the revised consideration for the lease less than the consideration for the lease immediately preceding the change. There is no substantive change to other terms and conditions. The Group elects to apply the practical expedient to all of these rent concessions, and therefore, does not assess whether the rent concessions are lease modifications. Instead, the Group recognizes the reduction in lease payment in profit or loss in the period in which the events or conditions that trigger the concession occurs, and makes a corresponding adjustment to the lease liability.

## **5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

The Group considers the economic implications of the COVID-19 when making its critical accounting estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. The critical accounting judgments and key sources of estimation uncertainty of these consolidated financial statements were the same as those applied in the preparation of the consolidated financial statements for the year ended December 31, 2019.

## 6. CASH

	September 30, 2020	December 31, 2019	September 30, 2019
Cash on hand and petty cash	\$ 756	\$ 147	\$ 1,893
Checking accounts and demand deposits	<u>5,707,082</u>	<u>633,993</u>	<u>746,465</u>
	<u>\$ 5,707,838</u>	<u>\$ 634,140</u>	<u>\$ 748,358</u>
<u>Rates of banks balance (%)</u>			
Demand deposits	0.00-0.20	0.08-1.58	0.08-1.58

## 7. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	September 30, 2020	December 31, 2019	September 30, 2019
<u>Emerging marked shares</u>			
UHT Unitech Co Ltd. (UHT Ltd.)	<u>\$ 21,505</u>	<u>\$ 53,504</u>	<u>\$ 72,281</u>
<u>Unlisted common shares</u>			
Aerovision Avionics Inc. (AAI)	28,254	31,684	32,501
Metro Consulting Service Ltd. (Metro Ltd.)	<u>2,145</u>	<u>2,146</u>	<u>2,115</u>
	<u>30,399</u>	<u>33,830</u>	<u>34,616</u>
	<u>\$ 51,904</u>	<u>\$ 87,334</u>	<u>\$ 106,897</u>

These investments in equity instruments are held for medium to long-term strategic purposes and expect to earn profits from long-term investment. Accordingly, the management elected to designate these investments in equity instruments as at the financial assets are measured at fair value through other comprehensive income (FVTOCI) as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes.

## 8. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

	September 30, 2020	December 31, 2019	September 30, 2019
Notes receivable	<u>\$ 1,384</u>	<u>\$ 5,637</u>	<u>\$ 1,452</u>
<u>Trade receivables from unrelated parties</u>			
At amortized cost			
Gross carrying amount	\$ 9,201,196	\$ 13,962,722	\$ 13,513,022
Less: Allowance for impairment loss	<u>(3,296)</u>	<u>(4,430)</u>	<u>(4,156)</u>
	<u>\$ 9,197,900</u>	<u>\$ 13,958,292</u>	<u>\$ 13,508,866</u>

	September 30, 2020	December 31, 2019	September 30, 2019
<u>Other receivables</u>			
Tax return receivables	\$ 46,993	\$ 71,382	\$ 111,109
Others	<u>1,453</u>	<u>10,536</u>	<u>8,549</u>
	<u>\$ 48,446</u>	<u>\$ 81,918</u>	<u>\$ 119,658</u>

The Group's customers are mostly national defense organizations and international aerospace corporations. The international aerospace corporation's average credit period of sales of goods was 60 to 90 days in average. Trade receivables from government depends on budget allocation. The Group adopted a policy of only dealing with entities that are rated the equivalent of investment grade or higher and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Credit rating information is obtained from independent rating agencies where available or, if not available, the Group uses other publicly available financial information or its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group uses the lifetime expected loss provision for all trade receivables to providing for expected credit losses. The expected credit losses on trade receivables are estimated using a provision matrix by reference to the past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecasted direction of economic conditions at the reporting date. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished according to the Group's different customer base.

The Group writes off a trade receivables when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. For trade receivables that have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of notes receivable, trade receivables and overdue receivables (accounted at other non-current assets).

	Not Past Due	Less than 90 Days	91 to 180 Days	181 to 365 Days	Over 365 Days	Total
<u>September 30, 2020</u>						
Expected credit loss rate	0%	2%	5%	50%	100%	
Gross carrying amount	\$ 9,058,807	\$ 129,753	\$ 14,020	\$ 2,978	\$ 7,149	\$ 9,212,707
Loss allowance (Lifetime ECL)	-	(2,595)	(701)	(1,489)	(7,149)	(11,934)
Amortized cost	<u>\$ 9,058,807</u>	<u>\$ 127,158</u>	<u>\$ 13,319</u>	<u>\$ 1,489</u>	<u>\$ -</u>	<u>\$ 9,200,773</u>
<u>December 31, 2019</u>						
Expected credit loss rate	0%	2%	5%	50%	100%	
Gross carrying amount	\$ 13,770,583	\$ 193,639	\$ 4,137	\$ 16,580	\$ 6,193	\$ 13,991,132
Loss allowance (Lifetime ECL)	-	(4,217)	(213)	(8,507)	(6,193)	(19,130)
Amortized cost	<u>\$ 13,770,583</u>	<u>\$ 189,422</u>	<u>\$ 3,924</u>	<u>\$ 8,073</u>	<u>\$ -</u>	<u>\$ 13,972,002</u>

	Not Past Due	Less than 90 Days	91 to 180 Days	181 to 365 Days	Over 365 Days	Total
<u>September 30, 2019</u>						
Expected credit loss rate	0%	2%	5%	50%	100%	
Gross carrying amount	\$ 13,372,124	\$ 101,683	\$ 40,667	\$ 44,635	\$ 6,026	\$ 13,565,135
Loss allowance (Lifetime ECL)	<u>-</u>	<u>(2,112)</u>	<u>(2,044)</u>	<u>(22,035)</u>	<u>(6,026)</u>	<u>(32,217)</u>
Amortized cost	<u>\$ 13,372,124</u>	<u>\$ 99,571</u>	<u>\$ 38,623</u>	<u>\$ 22,600</u>	<u>\$ -</u>	<u>\$ 13,532,918</u>

The movements of the loss allowance of trade receivables and overdue receivables were as follows:

	<b>For the Nine Months Ended September 30, 2020</b>	
	<b>Trade receivables</b>	<b>Overdue receivables</b>
Balance at January 1, 2020	\$ 4,430	\$ 14,700
Impairment loss reversed	(1,134)	(5,568)
Amounts written-off	<u>-</u>	<u>(494)</u>
Balance at September 30, 2020	<u>\$ 3,296</u>	<u>\$ 8,638</u>
	<b>For the Nine Months Ended September 30, 2019</b>	
	<b>Trade receivables</b>	<b>Overdue receivables</b>
Balance at January 1, 2019	\$ 5,208	\$ 5,792
Impairment loss recognized (reversed)	<u>(1,052)</u>	<u>22,269</u>
Balance at September 30, 2019	<u>\$ 4,156</u>	<u>\$ 28,061</u>

## 9. INVENTORIES

	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
Raw materials	\$ 7,553,918	\$ 5,546,698	\$ 5,476,581
Work in progress	<u>5,129,161</u>	<u>4,273,336</u>	<u>4,528,993</u>
	<u>\$ 12,683,079</u>	<u>\$ 9,820,034</u>	<u>\$ 10,005,574</u>

The cost of inventories recognized as cost of goods was as follows:

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Recognition (reversal) of inventory write-downs	\$ 51,586	\$ (183)	\$ 69,461	\$ (160,644)
Indemnity income	(7,144)	(5,373)	(14,740)	(107,200)
Income from sales of scraps	(3,204)	(5,262)	(14,344)	(19,857)
Loss on disposal of inventories	232	17,858	20,046	39,460

Reversal of inventory write-downs were resulting from sold inventories.

## 10. SUBSIDIARIES

Subsidiary included in consolidated financial statements:

Investor	Investee	% of Ownership		
		September 30, 2020	December 31, 2019	September 30, 2019
The Company	AIDC USA LLC (AIDC USA)	100	100	100

For the main businesses of AIDC USA, refer to Table 4.

The subsidiary include in consolidated financial statements is immaterial subsidiary, the financial statements have been reviewed.

## 11. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	September 30, 2020		December 31, 2019		September 30, 2019	
	Amount	% of Ownership	Amount	% of Ownership	Amount	% of Ownership
<u>Investment in associate</u>						
International Turbine Engine Company LLC (ITEC)	\$ 988,245	22.05	\$ 838,039	22.05	\$ 734,436	22.05
Jung Sheng Precision IND Co., Ltd. (JSPCO)	<u>40,368</u>	31.25	<u>-</u>	-	<u>-</u>	-
	<u>\$ 1,028,613</u>		<u>\$ 838,039</u>		<u>\$ 734,436</u>	

The investment of JSPCO were approved by the board of directors of the Company on December 20, 2019. In January 2020, the Company invested NT\$50,000 thousand and acquired ownership of JSPCO were 34.48%. On March 20, 2020, the board of directors of JSPCO approved the cash injection to issue 1,500 thousand shares and determined the subscription base date on May 31, 2020. The Company did not participate in this subscription. Therefore, the Company's ownership interest in JSPCO was decreased to 31.25%.

Refer to "Table 4: Information on Investees" for the nature of activities, principal place of business and country of incorporation of the associates.

The investments accounted for using the equity method and the share of profit or loss of the associate were based on the associates' financial statements which have not been reviewed.



## 12. PROPERTY, PLANT AND EQUIPMENT

	Land Improvements	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Property in Construction	Total
<u>Cost</u>							
Balance at January 1, 2020	\$ 120,739	\$ 5,964,984	\$ 13,524,424	\$ 732,376	\$ 806,114	\$ 277,983	\$ 21,426,620
Additions	-	10,034	480,622	59,622	76,594	298,986	925,858
Disposals	-	-	(105,306)	(36,472)	(1,779)	-	(143,557)
Reclassification	-	-	108,858	8,267	3,051	-	120,176
Effects of foreign currency exchange differences	-	-	(4)	(36)	(6)	-	(46)
Balance at September 30, 2020	<u>\$ 120,739</u>	<u>\$ 5,975,018</u>	<u>\$ 14,008,594</u>	<u>\$ 763,757</u>	<u>\$ 883,974</u>	<u>\$ 576,969</u>	<u>\$ 22,329,051</u>
<u>Accumulated depreciation and impairment</u>							
Balance at January 1, 2020	\$ 116,663	\$ 3,021,560	\$ 8,617,339	\$ 694,164	\$ 408,476	\$ -	\$ 12,858,202
Depreciation expenses	592	135,760	555,667	16,735	40,204	-	748,958
Disposals	-	-	(105,290)	(36,472)	(1,779)	-	(143,541)
Effects of foreign currency exchange differences	-	-	(1)	(30)	(5)	-	(36)
Balance at September 30, 2020	<u>\$ 117,255</u>	<u>\$ 3,157,320</u>	<u>\$ 9,067,715</u>	<u>\$ 674,397</u>	<u>\$ 446,896</u>	<u>\$ -</u>	<u>\$ 13,463,583</u>
Carrying amounts at January 1, 2020	<u>\$ 4,076</u>	<u>\$ 2,943,424</u>	<u>\$ 4,907,085</u>	<u>\$ 38,212</u>	<u>\$ 397,638</u>	<u>\$ 277,983</u>	<u>\$ 8,568,418</u>
Carrying amounts at September 30, 2020	<u>\$ 3,484</u>	<u>\$ 2,817,698</u>	<u>\$ 4,940,879</u>	<u>\$ 89,360</u>	<u>\$ 437,078</u>	<u>\$ 576,969</u>	<u>\$ 8,865,468</u>
<u>Cost</u>							
Balance at January 1, 2019	\$ 120,739	\$ 5,916,217	\$ 12,769,490	\$ 732,912	\$ 787,624	\$ 30,060	\$ 20,357,042
Additions	-	12,723	439,631	3,515	12,805	64,735	533,409
Disposals	-	(14,329)	(56,575)	(1,836)	(557)	-	(73,297)
Reclassification	-	36,885	226,243	-	-	(36,654)	226,474
Effects of foreign currency exchange differences	-	-	-	13	2	-	15
Balance at September 30, 2019	<u>\$ 120,739</u>	<u>\$ 5,951,496</u>	<u>\$ 13,378,789</u>	<u>\$ 734,604</u>	<u>\$ 799,874</u>	<u>\$ 58,141</u>	<u>\$ 21,043,643</u>
<u>Accumulated depreciation and impairment</u>							
Balance at January 1, 2019	\$ 115,514	\$ 2,853,900	\$ 7,993,676	\$ 693,812	\$ 347,421	\$ -	\$ 12,004,323
Depreciation expenses	940	134,970	529,675	8,740	47,615	-	721,940
Disposals	-	(13,672)	(56,522)	(1,836)	(557)	-	(72,587)
Effects of foreign currency exchange differences	-	-	-	7	1	-	8
Balance at September 30, 2019	<u>\$ 116,454</u>	<u>\$ 2,975,198</u>	<u>\$ 8,466,829</u>	<u>\$ 700,723</u>	<u>\$ 394,480</u>	<u>\$ -</u>	<u>\$ 12,653,684</u>
Carrying amounts at January 1, 2019	<u>\$ 5,225</u>	<u>\$ 3,062,317</u>	<u>\$ 4,775,814</u>	<u>\$ 39,100</u>	<u>\$ 440,203</u>	<u>\$ 30,060</u>	<u>\$ 8,352,719</u>
Carrying amounts at September 30, 2019	<u>\$ 4,285</u>	<u>\$ 2,976,298</u>	<u>\$ 4,911,960</u>	<u>\$ 33,881</u>	<u>\$ 405,394</u>	<u>\$ 58,141</u>	<u>\$ 8,389,959</u>

The above items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful life of the asset:

Land improvements	2-50 years
Buildings	
Main buildings	20-45 years
Others	3-60 years
Machinery and equipment	2-40 years
Transportation equipment	2-15 years
Other equipment	2-35 years

Property, plant and equipment pledged as collateral for bank borrowings were set out in Note 30.

### 13. LEASE ARRANGEMENTS

#### a. Right-of-use assets

	September 30, 2020	December 31, 2019	September 30, 2019
<u>Carrying amounts</u>			
Land	\$ 1,822,862	\$ 2,260,856	\$ 2,296,595
Buildings	7,372	12,095	12,963
Machinery and equipment	9,894	12,575	13,468
Transportation equipment	623	1,033	1,204
Other equipment	<u>3,676</u>	<u>5,840</u>	<u>93</u>
	<u>\$ 1,844,427</u>	<u>\$ 2,292,399</u>	<u>\$ 2,324,323</u>
	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>
	<b>2020</b>	<b>2019</b>	<b>2020</b>
			<b>2019</b>
Additions to right-of-use assets	<u>\$ 30</u>	<u>\$ 17,185</u>	<u>\$ 407</u>
Depreciation charge for right-of-use assets			
Land	\$ 25,661	\$ 35,739	\$ 76,985
Buildings	1,548	1,439	4,657
Machinery and equipment	894	608	2,681
Transportation equipment	128	137	388
Other equipment	<u>858</u>	<u>17</u>	<u>2,571</u>
	<u>\$ 29,089</u>	<u>\$ 37,940</u>	<u>\$ 87,282</u>
			<u>\$ 111,803</u>

Except for the aforementioned addition and recognized depreciation, the Group did not have significant sublease or impairment of right-of-use assets during the nine months ended September 30, 2020 and 2019.

#### b. Lease liabilities

	September 30, 2020	December 31, 2019	September 30, 2019
<u>Carrying amounts</u>			
Current	<u>\$ 97,749</u>	<u>\$ 141,411</u>	<u>\$ 136,812</u>
Non-current	<u>\$ 1,789,468</u>	<u>\$ 2,167,424</u>	<u>\$ 2,231,534</u>

Range of discount rate for lease liabilities was as follows:

	September 30, 2020	December 31, 2019	September 30, 2019
Land	1.6%	1.6%	1.6%
Buildings	1.6%-5%	1.6%-5%	1.6%- 5%
Machinery and equipment	1.6%	1.6%	1.6%
Transportation equipment	3.14%-3.39%	3.14%-3.39%	3.14%-3.39%
Other equipment	1.6%	1.6%	1.6%

c. Material lease-in activities and terms

The Group leases land and buildings for the use of plants and office with lease terms of 2 to 42 years.

The Group negotiated with National Property Administration, Ministry of Finance (NPA) for rent concessions for land lease. The NPA agreed to provide unconditional 20% rent reduction from January 1 to December 31, 2020 and deferral of rentals for January 1 to September 30, 2020, with the rent payable to be paid on December 31, 2020. The Group recognized in profit or loss the impact of rent concessions of NT\$18,065 thousand for the nine months ended September 30, 2020.

d. Other lease information

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Expenses relating to short-term leases	\$ 10,691	\$ 6,451	\$ 23,353	\$ 20,642
Expenses relating to low-value asset leases	\$ 1,027	\$ 166	\$ 1,399	\$ 564
Total cash outflow for leases	\$ (15,122)	\$ (8,658)	\$ (35,038)	\$ (88,596)

The Group leases certain building, machinery and equipment and transportation equipment which qualify as short-term leases and certain machinery and equipment, transportation equipment and other equipment which qualify as low-value asset leases. The Group has elected to apply the recognition exemption and thus, did not recognize right-of-use assets and lease liabilities for these leases.

## 14. INTANGIBLE ASSETS

	September 30, 2020	December 31, 2019	September 30, 2019
<u>Other intangible assets</u>			
Computer software	\$ 76,630	\$ 121,479	\$ 120,541
Deferred technical cooperation expenses	19,334	24,017	25,578
Patent	784	859	874
Trademark	96	124	136
	96,844	146,479	147,129
<u>Developing intangible assets</u>			
Projects non-recurring costs	1,063,675	1,100,491	1,038,680
	\$ 1,160,519	\$ 1,246,970	\$ 1,185,809

	<b>Other Intangible Assets</b>	<b>Developing Intangible Assets</b>
<u>Cost</u>		
Balance at January 1, 2020	\$ 1,093,902	\$ 6,690,953
Additions from internal developments	-	219,811
Additions	6,344	-
Disposals	(5,784)	(412)
Reclassification	-	9,852
Effects of foreign currency exchange differences	(4)	-
Balance at September 30, 2020	<u>1,094,458</u>	<u>6,920,204</u>
<u>Accumulated amortization and impairment</u>		
Balance at January 1, 2020	947,423	5,590,462
Amortization expense	55,976	223,804
Disposals	(5,784)	(412)
Impairment loss	-	42,675
Effects of foreign currency exchange differences	(1)	-
Balance at September 30, 2020	<u>997,614</u>	<u>5,856,529</u>
Carrying amounts at September 30, 2020	<u>\$ 96,844</u>	<u>\$ 1,063,675</u>
<u>Cost</u>		
Balance at January 1, 2019	\$ 1,006,992	\$ 6,090,547
Additions from internal developments	-	167,731
Additions	38,888	-
Disposals	-	(2,937)
Reclassification	28,360	292,329
Balance at September 30, 2019	<u>1,074,240</u>	<u>6,547,670</u>
<u>Accumulated amortization and impairment</u>		
Balance at January 1, 2019	862,164	5,367,590
Amortization expense	64,947	122,256
Disposals	-	(2,937)
Reclassification	-	22,081
Balance at September 30, 2019	<u>927,111</u>	<u>5,508,990</u>
Carrying amounts at September 30, 2019	<u>\$ 147,129</u>	<u>\$ 1,038,680</u>

Projects non-recurring costs include the costs related to product design, tooling design and fabrication, production planning, specimen and prototype trial fabrication. Deferred technical cooperation expenses include the participation fees or royalties for participation in international cooperation and development of new business. The amounts were allocated by the proportion of actual sales volume divided by expected sales volume.

The above items of intangible assets are amortized on a straight-line basis over the estimated useful life of the asset:

Trademark	10-15 years
Patent	10-20 years
Computer software	2-3 years

## 15. OTHER FINANCIAL ASSETS

Other financial assets are the time deposits with original maturities over three months from the date of acquisition; for pledged assets information, refer to Note 30. The market rates of the time deposits were 0.18%-1.065%, 0.28%-2.73% and 0.28%-2.73% on September 30, 2020, December 31, 2019 and September 30, 2019, respectively.

## 16. OTHER ASSETS

	September 30, 2020	December 31, 2019	September 30, 2019
<u>Current</u>			
Prepayment	\$ 2,891,324	\$ 4,481,866	\$ 4,259,095
Others	<u>162,829</u>	<u>105,252</u>	<u>169,512</u>
	<u>\$ 3,054,153</u>	<u>\$ 4,587,118</u>	<u>\$ 4,428,607</u>
<u>Non-current</u>			
Overdue receivables (Note 8)	\$ 10,127	\$ 22,773	\$ 50,661
Less: Allowance for impairment loss	<u>(8,638)</u>	<u>(14,700)</u>	<u>(28,061)</u>
	1,489	8,073	22,600
Refundable deposits	45,684	35,064	32,756
Other	<u>32,403</u>	<u>23,324</u>	<u>23,018</u>
	<u>\$ 79,576</u>	<u>\$ 66,461</u>	<u>\$ 78,374</u>

## 17. BORROWINGS

### a. Short-term borrowings

	September 30, 2020	December 31, 2019	September 30, 2019
Unsecured borrowings	\$ 3,950,000	\$ 3,920,000	\$ 7,140,000
Secured borrowings (Note 30)	<u>-</u>	<u>1,000,000</u>	<u>1,000,000</u>
	<u>\$ 3,950,000</u>	<u>\$ 4,920,000</u>	<u>\$ 8,140,000</u>
<u>Rates of interest per annum (%)</u>			
Unsecured borrowings	0.514-0.71	0.85-0.899	0.87-0.903
Secured borrowings	-	0.78	0.78

b. Short-term bills payable

	September 30, 2020	December 31, 2019	September 30, 2019
Commercial paper	\$ 11,940,000	\$ 8,360,000	\$ 4,185,000
Less: Unamortized discount on bills payable	<u>(5,251)</u>	<u>(2,745)</u>	<u>(1,713)</u>
	<u>\$ 11,934,749</u>	<u>\$ 8,357,255</u>	<u>\$ 4,183,287</u>
Rates of interest per annum (%)	0.35-0.61	0.64-0.77	0.43-0.75

c. Long-term borrowings

	September 30, 2020	December 31, 2019	September 30, 2019
Credit borrowings	\$ 5,260,000	\$ 4,128,299	\$ 5,158,316
Secured borrowings (Note 30)	<u>-</u>	<u>1,800,000</u>	<u>1,800,000</u>
	5,260,000	5,928,299	6,958,316
Less: Current portion	<u>(1,200,000)</u>	<u>-</u>	<u>-</u>
Long-term borrowings	<u>\$ 4,060,000</u>	<u>\$ 5,928,299</u>	<u>\$ 6,958,316</u>
<u>Rates of interest per annum (%)</u>			
Credit borrowings	0.65-0.94	0.85-1.11	0.8-1.05
Secured borrowings	-	0.78	0.78

**18. BONDS PAYABLE**

	September 30, 2020	December 31, 2019	September 30, 2019
Unsecured domestic bonds	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000
Less: Unamortized discount on bonds payable	<u>(3,187)</u>	<u>(3,790)</u>	<u>(3,991)</u>
	<u>\$ 2,996,813</u>	<u>\$ 2,996,210</u>	<u>\$ 2,996,009</u>

In September 2019, the Company issued a 5-year NTD-denominated unsecured bonds of \$3,000,000 thousand, 0.71% in Taiwan. An interest per annum will be paid at the simple coupon rate, and the repayment is due 5 years from the date of issuance.

## 19. OTHER PAYABLES

	September 30, 2020	December 31, 2019	September 30, 2019
Payable for salaries and bonuses	\$ 706,356	\$ 1,397,116	\$ 1,113,487
Payable for outsourcing	567,380	917,542	741,691
Payable for annual leave	187,738	165,988	207,774
Payable for purchase of equipment	120,100	271,891	160,825
Payable for service fee	41,081	88,290	77,457
Payable for employee's compensation and remuneration of directors	16,907	120,294	94,408
Others	<u>782,082</u>	<u>643,926</u>	<u>600,679</u>
	<u>\$ 2,421,644</u>	<u>\$ 3,605,047</u>	<u>\$ 2,996,321</u>

## 20. PROVISIONS - NON-CURRENT

	September 30, 2020	December 31, 2019	September 30, 2019
Warranties	\$ 431,332	\$ 452,186	\$ 474,418
Others	<u>99,367</u>	<u>99,367</u>	<u>99,368</u>
	<u>\$ 530,699</u>	<u>\$ 551,553</u>	<u>\$ 573,786</u>

The provision for warranties represents the present value of management's best estimate of the future outflow of economic benefits that will be required under the Group's obligations for warranties under local sale of goods legislation. The estimate had been made on the basis of historical warranty trends and may vary as a result of other events affecting product quality.

Others refer to the obligation of the Group to improve its Taichung Complex groundwater pollution remediation site as ordered by the Environmental Protection Administration. The Group has the obligation to improve this site and recognized the discounted value of the best estimate of the remediation expenses as provisions.

## 21. RETIREMENT BENEFIT PLANS

Employee benefit expenses in respect of the Corporation's defined benefit retirement plans were calculated using the actuarially determined pension cost discount rate as of December 31, 2019 and 2018. Employee benefit expenses for the three months ended September 30, 2020 and 2019 were \$102,519 thousand and \$105,692 thousand and for the nine months ended September 30, 2020 and 2019 were \$307,557 thousand and \$317,075 thousand, respectively.

## 22. EQUITY

### a. Ordinary shares

	September 30, 2020	December 31, 2019	September 30, 2019
Number of shares authorized (in thousands)	<u>1,500,000</u>	<u>1,500,000</u>	<u>1,500,000</u>
Shares authorized	<u>\$ 15,000,000</u>	<u>\$ 15,000,000</u>	<u>\$ 15,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>941,867</u>	<u>941,867</u>	<u>941,867</u>
Shares issued	<u>\$ 9,418,671</u>	<u>\$ 9,418,671</u>	<u>\$ 9,418,671</u>

### b. Retained earnings and dividend policy

The Company's Articles of Incorporation provide that the annual net income after paying income tax should be used first to make up for prior years' losses, set aside 10% as a legal reserve and appropriate or reverse special reserve. The residual earnings will be allocated by the resolution in the shareholders' meeting. For information about the accrual basis of the employees' compensation and remuneration to directors and supervisors and the actual appropriations, please refer to Note 24 (d).

Profits of the Company may be distributed by way of cash dividend or share dividend. Distribution of profits shall be made preferably by way of cash dividend. However, the ratio of share dividend shall not exceed 50% of total distribution.

Appropriation of earnings to legal reserve shall be made until the legal reserve equals the Company's capital surplus. Legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's capital surplus, the excess may be transferred to capital or distributed in cash.

Under Rule No. 1010012865 and Rule No. 1010047490 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", the Company should appropriate or reverse special reserve.

The appropriations of earnings for 2019 and 2018 having been approved in the shareholders' meetings on May 29, 2020, and May 31, 2019, respectively, were as follows:

	<b>Appropriation of Earnings</b>		<b>Dividends Per Share (NT\$)</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Legal reserve	\$ 189,079	\$ 207,007		
Special reserve	29,809	588,848		
Reverse special reserve	(621,020)	-		
Cash dividends	1,120,822	1,262,102	\$ 1.19	\$ 1.34



## 23. REVENUES

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Aircraft/Vehicle Maintenance	\$ 3,100,470	\$ 4,147,095	\$ 9,941,509	\$ 11,439,455
Aero/Industrial Engine	1,593,963	3,219,678	4,751,745	8,821,478
Industrial Technology Services	<u>166,027</u>	<u>96,363</u>	<u>303,004</u>	<u>319,019</u>
	<u>\$ 4,860,460</u>	<u>\$ 7,463,136</u>	<u>\$ 14,996,258</u>	<u>\$ 20,579,952</u>

## 24. NET PROFIT

### a. Other income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Subsidy income	\$ 98,808	\$ 15,002	\$ 348,660	\$ 35,009
Remedy income	328	1,303	1,893	3,445
Other income from condoned liabilities	437	2,285	1,871	3,732
Others	<u>16,550</u>	<u>13,483</u>	<u>47,390</u>	<u>47,439</u>
	<u>\$ 116,123</u>	<u>\$ 32,073</u>	<u>\$ 399,814</u>	<u>\$ 89,625</u>

The subsidy income was mostly from the Company's difficult business salary and working capital subsidy applied to the Industrial Bureau of the Ministry of Economic Affairs.

### b. Other gains and losses

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Net foreign exchange gains (losses)	\$ (120,760)	\$ (1,378)	\$ (185,056)	\$ 112,653
Impairment loss	(42,675)	-	(42,675)	-
Loss on disposal of property, plant and equipment	-	(1)	(16)	(667)
Others	<u>(37,913)</u>	<u>(46,307)</u>	<u>(127,503)</u>	<u>(144,243)</u>
	<u>\$ (201,348)</u>	<u>\$ (47,686)</u>	<u>\$ (355,250)</u>	<u>\$ (32,257)</u>

c. Employee benefits, depreciation and amortization

	Operating Cost	Operating Expense	Non-operating Expense	Transfer to Development Intangible Assets	Capital cost	Total
<u>For the Three Months Ended</u> <u>September 30, 2020</u>						
Employee benefits expense						
Salaries expense	\$ 930,286	\$ 122,155	\$ 2,151	\$ 11,037	\$ 546	\$ 1,066,175
Retirement benefit						
Defined contribution plans	21,368	3,136	43	253	13	24,813
Defined benefit plans	88,278	12,979	177	1,031	54	102,519
Labor and health insurance	74,036	7,823	16,188	816	40	98,903
Other employee benefits	8,125	719	1,740	-	-	10,584
Depreciation expense	253,446	17,351	4,765	7,045	220	282,827
Amortization expense	114,347	5,017	8	1,951	3	121,326
<u>For the Three Months Ended</u> <u>September 30, 2019</u>						
Employee benefits expense						
Salaries expense	1,196,805	154,448	2,687	13,689	459	1,368,088
Retirement benefit						
Defined contribution plans	19,807	2,713	41	288	11	22,860
Defined benefit plans	91,591	12,539	188	1,328	46	105,692
Labor and health insurance	75,538	8,912	15,906	820	26	101,202
Other employee benefits	10,764	1,250	2,218	117	5	14,354
Depreciation expense	253,477	16,774	5,789	7,291	145	283,476
Amortization expense	63,006	4,005	5	2,849	8	69,873
<u>For the Nine Months Ended</u> <u>September 30, 2020</u>						
Employee benefits expense						
Salaries expense	3,199,729	414,709	8,438	45,205	1,241	3,669,322
Retirement benefit						
Defined contribution plans	62,916	8,763	139	1,012	29	72,859
Defined benefit plans	265,584	36,991	588	4,271	123	307,557
Labor and health insurance	241,246	25,837	49,175	3,229	95	319,582
Other employee benefits	25,905	2,544	5,185	23	-	33,657
Depreciation expense	735,197	54,651	14,488	31,443	461	836,240
Amortization expense	263,683	13,814	22	7,777	6	285,302
<u>For the Nine Months Ended</u> <u>September 30, 2019</u>						
Employee benefits expense						
Salaries expense	3,696,566	455,021	8,256	45,505	5,264	4,210,612
Retirement benefit						
Defined contribution plans	58,401	8,124	120	930	119	67,694
Defined benefit plans	273,548	38,054	561	4,355	557	317,075
Labor and health insurance	240,774	26,499	47,655	2,760	340	318,028
Other employee benefits	31,499	3,312	6,145	361	44	41,361
Depreciation expense	746,874	45,538	17,168	22,218	1,945	833,743
Amortization expense	194,109	9,549	24	8,737	64	212,483

d. Employee's compensation and remuneration of directors

The Company stipulate distribution of employees' compensation and remuneration to directors at the rates no less than 0.58% and no higher than 4.65%, respectively, of net profit before income tax.

For the three months ended September 30, 2020 and 2019, and for the nine months ended September 30, 2020 and 2019, the employees' compensation and remuneration of directors were as follows:

	For the Nine Months Ended September 30							
	2020		2019					
<u>The Proportion of Estimate</u>								
Employees' compensation	4.65%		4.65%					
Remuneration of directors	0.58%		0.58%					
	For the Three Months Ended September 30		For the Nine Months Ended September 30					
	2020	2019	2020	2019				
<u>Amount</u>								
Employees' compensation	\$	356	\$	34,265	\$	15,032	\$	83,938
Remuneration of directors		44		4,274		1,875		10,470

If there is a change in the proposed amounts after the annual consolidated financial statements are authorized for issue, the differences are recorded as a change in accounting estimate.

The appropriations of employees' compensation and remuneration of directors and supervisors for 2019 and 2018 that were resolved by the board of directors on March 27, 2020 and March 28, 2019, respectively, are as shown below:

	<b>For the Year Ended December 31</b>			
	<b>2019</b>		<b>2018</b>	
Employees' compensation	\$ 106,953		\$ 121,277	
Remuneration of directors	13,341		15,127	

There was no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2019 and 2018.

Information on the employees' compensation and remuneration of directors resolved by the Company's board of directors is available at the Market Observation Post System website of the Taiwan Stock Exchange.

e. Gain or loss on foreign currency exchange

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Foreign exchange gains	\$ 50,955	\$ 57,099	\$ 280,774	\$ 189,975
Foreign exchange losses	<u>(171,715)</u>	<u>(58,477)</u>	<u>(465,830)</u>	<u>(77,322)</u>
Net gains (losses)	<u>\$ (120,760)</u>	<u>\$ (1,378)</u>	<u>\$ (185,056)</u>	<u>\$ 112,653</u>

f. Finance costs

Information about capitalized interest is as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Capitalized interest amount	\$ 1,808	\$ 392	\$ 4,462	\$ 392
Capitalization rate (%)	0.94	0.83-1.11	0.93-1.11	0.83-1.11

## 25. TAXES

a. Tax expense recognized in profit or loss

Major components of tax expense is as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Current tax				
In respect of the current period	\$ 33,192	\$ 148,906	\$ 64,464	\$ 331,358
Adjustments for prior years	322	496	332	496
Income tax on unappropriated earnings	-	-	-	30,843
Deferred tax				
In respect of the current period	<u>18,622</u>	<u>11,164</u>	<u>41,045</u>	<u>36,997</u>
Income tax expense recognized in profit or loss	<u>\$ 52,136</u>	<u>\$ 160,566</u>	<u>\$ 105,841</u>	<u>\$ 399,694</u>

In July 2019, the president of the ROC announced the amendments to the Statute for Industrial Innovation, which stipulate that the amounts of unappropriated earnings in 2018 and thereafter that are reinvested in the construction or purchase of certain assets or technologies are allowed as deduction when computing the income tax on unappropriated earnings. When calculating the tax on unappropriated earnings, the Company only deducts the amount of the unappropriated earnings that has been reinvested in capital expenditure.

The applicable tax rate used by a subsidiary in the United States in 2020 and 2019 are 25.35% and 39.05%, respectively.

b. Income tax assessments

Income tax returns of the Company through 2018 have been examined and cleared by the tax authorities.

## 26. EARNINGS (LOSS) PER SHARE

Unit: NT\$ Per share

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Basic earnings (loss) per share	\$ (0.01)	\$ 0.62	\$ 0.30	\$ 1.53
Diluted earnings (loss) per share	\$ (0.01)	\$ 0.62	\$ 0.30	\$ 1.53

The earnings (loss) and weighted average number of ordinary shares outstanding in the computation of earnings (loss) per share were as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
<u>Profit (loss) for the period</u> <u>attributable to owners of the</u> <u>Company</u>				
Earnings (loss) used in the computation of basic earnings per share (Earnings used in the computation of diluted earnings per share)	\$ (11,289)	\$ 589,068	\$ 285,162	\$ 1,444,898
<u>Weighted average number of</u> <u>ordinary shares outstanding (in</u> <u>thousand shares)</u>				
Weighted average number of ordinary shares in computation of basic earnings per share	941,867	941,867	941,867	941,867
Effect of potentially dilutive ordinary shares Employees' compensation issue to employees	530	2,603	1,869	3,859
Weighted average number of ordinary shares used in the computation of diluted earnings per share	942,397	944,470	943,736	945,726

If the Company's compensation or bonuses payable to employees can be settled in cash or shares, then the Company should assume the entire amount of the compensation or bonuses will be settled in shares, and the resulting potential shares, if dilutive, should be included in the weighted average number of shares outstanding used in the computation of diluted earnings (loss) per share. Such dilutive effect of the potential shares should be included in the computation of diluted earnings (loss) per share until the number of shares to be distributed to employees is resolved in the following year.

## 27. CAPITAL MANAGEMENT

The Group must maintain adequate capital necessary for profitable operations and factory expansion, equipment upgrade and participation in international new aircraft developing. Therefore, the Group manages its capital to ensure that the Group will have enough financial resources to respond accordingly to its working capital requirements at least for the next 12 months, capital expenditures, participation in international new aircraft developing and repayments of liabilities.

The capital structure of the Group consists of net debt (borrowings offset by cash and other financial assets) and equity (comprising ordinary shares, retained earnings and other equity).

## 28. FINANCIAL INSTRUMENTS

### a. Fair value of financial instruments not measured at fair value

The management considers the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values or their fair values cannot be reliably measured.

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

#### 1) Fair value hierarchy

	Level 1	Level 2	Level 3	Total
<u>September 30, 2020</u>				
Financial assets at FVTOCI				
Investments in equity instruments				
Emerging market shares	\$ 21,505	\$ -	\$ -	\$ 21,505
Unlisted shares	-	-	30,399	30,399
	<u>\$ 21,505</u>	<u>\$ -</u>	<u>\$ 30,399</u>	<u>\$ 51,904</u>
<u>December 31, 2019</u>				
Financial assets at FVTOCI				
Investments in equity instruments				
Emerging market shares	\$ 53,504	\$ -	\$ -	\$ 53,504
Unlisted shares	-	-	33,830	33,830
	<u>\$ 53,504</u>	<u>\$ -</u>	<u>\$ 33,830</u>	<u>\$ 87,334</u>
<u>September 30, 2019</u>				
Financial assets at FVTOCI				
Investments in equity instruments				
Emerging market shares	\$ 72,281	\$ -	\$ -	\$ 72,281
Unlisted shares	-	-	34,616	34,616
	<u>\$ 72,281</u>	<u>\$ -</u>	<u>\$ 34,616</u>	<u>\$ 106,897</u>

There were no transfers between Level 1 and 2 in for the nine months ended September 30, 2020 and 2019, respectively.

2) Reconciliation of Level 3 fair value measurements of financial instruments

For the nine months ended September 30, 2020

<b>Financial Assets</b>	<b>Financial Assets at FVTOCI Equity Instruments</b>
Balance at January 1, 2020	\$ 33,830
Recognized in other comprehensive loss	<u>(3,431)</u>
Balance at September 30, 2020	<u>\$ 30,399</u>

For the nine months ended September 30, 2019

<b>Financial Assets</b>	<b>Financial Assets at FVTOCI Equity Instruments</b>
Balance at January 1, 2019	\$ 33,067
Recognized in other comprehensive gain	<u>1,549</u>
Balance at September 30, 2019	<u>\$ 34,616</u>

3) Valuation techniques and inputs applied for Level 3 fair value measurement

The marketable securities of unlisted shares held by the Group is estimated using the evaluation method when there is no market price reference. The fair value of unlisted shares was evaluated using the asset-based approach.

c. Categories of financial instruments

	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
<u>Financial assets</u>			
Financial assets at amortized cost	\$ 15,126,626	\$ 17,804,298	\$ 17,689,353
Financial assets at fair value through other comprehensive income - non-current	51,904	87,334	106,897

Financial liabilities

Financial liabilities at amortized cost	26,854,362	25,839,141	26,479,461
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Financial assets at amortized cost comprise cash, notes receivable, trade receivables, other receivables, overdue receivables, other financial assets and refundable deposits.

Financial liabilities at amortized cost comprise short-term borrowings, short-term bills payable, trade payables, other payables (excluded payable for salaries and bonuses, payable for annual leave and payable for employee's compensation and remuneration of directors), bonds payable, other financial liabilities (accounted at other current liabilities), long-term borrowings (included not later than one year) and guarantee deposits.

d. Financial risk management objectives

The Group's major financial risk management objectives are to manage the market risk (including currency risk and interest rate risk), credit risk and liquidity risk of operating activities. The Group minimizes the unfavorable effects of these risks by identification and assessment of the risks and by applying aversion methods to the uncertainties.

The Group's financial targets including its investment plan for property, plant and equipment are laid out in its "Five-Year Business Plan", which were approved by the board of directors. The financial plan includes risk management policies and the division of responsibilities.

The Group's major financial instruments include cash, trade receivables, short-term borrowings, short-term bills payable, trade payables, bonds payable and long-term borrowings. The financial department coordinates access to domestic financial markets.

1) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

There had been no change to the Group's exposure to market risks or the manner in which these risks were managed and measured.

Foreign currency risk

The Group minimizes its currency exposure by natural hedging. Foreign currency operation performance is reported to the key management personnel every quarter and the expected foreign currency and operation direction are set for the next quarter.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are set out in Note 32.

Sensitivity analysis

The Group was mainly exposed to the U.S. dollar. The Group's sensitivity to a 0.5% stronger or weaker New Taiwan dollar against the relevant foreign currencies means profit before income tax would be higher by \$38,647 thousand and \$50,383 thousand for the nine months ended September 30, 2020 and 2019. The sensitivity rate of 0.5% represents the management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items, with the foreign currency rates at the end of the reporting period adjusted for a 0.5% change.

Interest rate risk

The Group's interest risk is evaluated in terms of short-term borrowings, short-term bills payable, bonds payable, long-term borrowings and lease liabilities. Borrowing and repayment require budget planning in advance to control the interest risk. Interest rates of short-term borrowings from different financial organizations are compared and lowest one will be selected.

Sensitivity analysis

If interest rates had been 25 basis points higher/lower and all other variables were held constant, the Group's pre-tax profit for the nine months ended September 30, 2020 and 2019 would decrease/increase by \$13,313 thousand and \$21,747 thousand, respectively, which was mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings. A 25 basis point increase or decrease was used when reporting interest rate risk internally to key



management personnel and represents management's assessment of the reasonably possible change in interest rates.

## 2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The possible financial loss would equal to the carrying amount of the recognized financial assets as stated in the balance sheets. However, the Group is executing forward exchange only with the correspondent financial institutions, and they are creditworthy with no credit risks.

The Group's dealing counterparties are national defence organizations and international aerospace corporations, and they are creditworthy with extreme low risk of bankruptcy. The Group's key management checks the accounts receivable every month, and instructs the project team to Collect the past due amounts.

The Group's concentration of credit risk by geographical location was mainly in the U.S., which accounted for 26%, 41% and 41% of the total trade receivables as of September 30, 2020, December 31, 2019 and September 30, 2019, respectively.

## 3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As of September 30, 2020, December 31, 2019 and September 30, 2019, the Group had available unutilized loans facilities as set out in (b) below.

### a) Liquidity and interest rate risk tables for non-derivative financial liabilities

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

<b>Non-derivative financial liabilities</b>	<b>Less than 1 Year</b>	<b>1 to 5 Year</b>	<b>More than 5 Year</b>
<u>September 30, 2020</u>			
Non-interest bearing liabilities	\$ 2,528,145	\$ 184,655	\$ -
Lease liabilities	127,772	491,894	1,766,349
Variable interest rate liabilities	3,040,000	3,284,615	775,385
Fixed interest rate liabilities	<u>14,050,000</u>	<u>3,000,000</u>	<u>-</u>
	<u>\$ 19,745,917</u>	<u>\$ 6,961,164</u>	<u>\$ 2,541,734</u>

<b>Non-derivative financial liabilities</b>	<b>Less than 1 Year</b>	<b>1 to 5 Year</b>	<b>More than 5 Year</b>
<u>December 31, 2019</u>			
Non-interest bearing liabilities	\$ 3,422,986	\$ 214,391	\$ -
Lease liabilities	178,032	839,678	1,858,343
Variable interest rate liabilities	2,120,000	5,635,991	292,308
Fixed interest rate liabilities	<u>11,160,000</u>	<u>3,000,000</u>	<u>-</u>
	<u>\$ 16,881,018</u>	<u>\$ 9,690,060</u>	<u>\$ 2,150,651</u>

September 30, 2019

Non-interest bearing liabilities	\$ 4,002,329	\$ 199,520	\$ -
Lease liabilities	174,382	839,543	1,940,315
Variable interest rate liabilities	4,640,000	6,850,624	107,692
Fixed interest rate liabilities	<u>7,685,000</u>	<u>3,000,000</u>	<u>-</u>
	<u>\$ 16,501,711</u>	<u>\$ 10,889,687</u>	<u>\$ 2,048,007</u>

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities are subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

b) Financing facilities (reviewed annually)

	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
Unsecured bank loan facility:			
Amount unused	<u>\$ 16,925,420</u>	<u>\$ 13,832,767</u>	<u>\$ 9,530,579</u>

## 29. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and related parties are disclosed below.

a. Related Party Categories / Names

<b>Related Party Name</b>	<b>Relationship with the Consolidated Company</b>
ITEC	Associates
JSPCO	Associates
Ministry of Economic Affairs	Corporate director

b. Sales of goods

Related Parties Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
ITEC	\$ 66,228	\$ 270,880	\$ 189,363	\$ 508,294
JSPCO	<u>10</u>	<u>-</u>	<u>123</u>	<u>-</u>
	<u>\$ 66,238</u>	<u>\$ 270,880</u>	<u>\$ 189,486</u>	<u>\$ 508,294</u>

The Group's sales prices to related parties are based on the contracts. The collection terms are as follows:

Item	Collection terms
Engine	90 days after the invoice date
Backup parts	Offset account receivables with account payable

There is no unrelated party with similar product item to compare the engine sales price. The backup parts are no significant difference between the sale price and conditions for related parties and non-related parties, and collection term is 1-2 months.

c. Purchase of goods

Related Parties Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
ITEC	<u>\$ 80,344</u>	<u>\$ 551,771</u>	<u>\$ 301,026</u>	<u>\$ 809,581</u>

The Group's buying prices from related party are based on contract. The payment term in principle is 1-2 months or paying after offset of accounts receivable. There are no unrelated parties with similar product items that can serve as basis of comparison of prices and terms.

d. Manufacturing expenses

Related Parties Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
ITEC	\$ 28,382	\$ 112,949	\$ 437,973	\$ 343,354
JSPCO	<u>8,985</u>	<u>-</u>	<u>45,583</u>	<u>-</u>
	<u>\$ 37,367</u>	<u>\$ 112,949</u>	<u>\$ 483,556</u>	<u>\$ 343,354</u>

e. Receivable from related parties

<b>Related Parties Name</b>	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
ITEC	\$ 44,521	\$ 131,561	\$ 171,312
JSPCO	<u>7</u>	<u>-</u>	<u>-</u>
	<u>\$ 44,528</u>	<u>\$ 131,561</u>	<u>\$ 171,312</u>

The outstanding trade receivables from related parties are unsecured. No excepted credit loss was recognized on trade receivables from related parties.

f. Other current assets

<b>Related Parties Name</b>	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
ITEC	<u>\$ 700,409</u>	<u>\$ 848,582</u>	<u>\$ 1,169,690</u>

g. Payable to related parties

<b>Related Parties Name</b>	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
ITEC	<u>\$ 92,233</u>	<u>\$ 79,880</u>	<u>\$ 390,461</u>

The outstanding trade payables to related parties are unsecured.

h. Other payables

<b>Related Parties Name</b>	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
ITEC	\$ 14,629	\$ 14,977	\$ 15,432
JSPCO	<u>8,305</u>	<u>-</u>	<u>-</u>
	<u>\$ 22,934</u>	<u>\$ 14,977</u>	<u>\$ 15,432</u>

i. Compensation of key management personnel

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Short-term benefits	\$ 6,935	\$ 6,479	\$ 31,971	\$ 29,052
Post-employment benefits	<u>452</u>	<u>436</u>	<u>1,355</u>	<u>4,177</u>
	<u>\$ 7,387</u>	<u>\$ 6,915</u>	<u>\$ 33,326</u>	<u>\$ 33,229</u>

The remuneration of directors and key executives was determined by the remuneration committee having regard to the performance of individuals and market trends.

### 30. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following time deposits and property, plant and equipment were provided as collateral for bank borrowings and as deposit:

	September 30, 2020	December 31, 2019	September 30, 2019
Property, plant and equipment	\$ 1,994,630	\$ 2,049,647	\$ 2,067,420
Other financial assets - current	5,068	2,910,045	3,012,883
Other financial assets - non-current	<u>47,841</u>	<u>14,054</u>	<u>10,895</u>
	<u>\$ 2,047,539</u>	<u>\$ 4,973,746</u>	<u>\$ 5,091,198</u>

### 31. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Group were as follows:

- As of September 30, 2020, December 31, 2019 and September 30, 2019, unused letters of credit for purchases of raw materials and machinery and equipment amounted to approximately \$398,561 thousand, \$519,571 thousand and \$537,045 thousand, respectively.
- As of September 30, 2020, December 31, 2019 and September 30, 2019, unpaid contract for purchases of raw materials and machinery and equipment amounted to approximately \$29,220,421 thousand, \$35,452,777 thousand and \$36,156,123 thousand, respectively.
- In response to sustainable development in the future, the Company intends to lease land from Taiwan Sugar Co., Ltd. (Taiwan Sugar) and was approved by the board of directors on February 7, 2020. On August 4, 2020, the Company signed an agreement on superficial land right with Taiwan Sugar, and paid \$33,787 thousand as a signing deposit. According to the contract, the Company needs to apply for a land change before it can lease the land. At that time, the Company will sign a lease agreement with Taiwan Sugar Corporation and will pay \$39,121 thousand for ground compensation.

### 32. EXCHANGE RATE OF FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Group's group entities' significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies and the related exchange rates between foreign currencies and respective functional currencies were as follows:

	September 30, 2020			December 31, 2019		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>						
Monetary items						
USD	\$ 271,740	29.1	\$ 7,907,634	\$ 339,937	29.98	\$ 10,191,311
Non-monetary items						
USD	35,206	29.1	1,024,487	28,517	29.98	854,928
<u>Financial liabilities</u>						
Monetary items						
USD	6,127	29.1	178,296	7,241	29.98	217,085

September 30, 2019			
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 336,649	31.04	\$ 10,449,585
Non-monetary items			
USD	24,713	31.04	767,085
<u>Financial liabilities</u>			
Monetary items			
USD	12,015	31.04	372,946

The significant unrealized foreign exchange gains (losses) were as follows:

For the Nine Months Ended September 30				
Foreign Currencies	2020		2019	
	Exchange Rate	Net Foreign Exchange Loss	Exchange Rate	Net Foreign Exchange Gain
USD	29.1	<u>\$(229,291)</u>	31.04	<u>\$ 9,684</u>
For the Three Months Ended September 30				
Foreign Currencies	2020		2019	
	Exchange Rate	Net Foreign Exchange Loss	Exchange Rate	Net Foreign Exchange Loss
USD	29.1	<u>\$ (57,265)</u>	31.04	<u>\$ (43,414)</u>

### 33. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

- 1) Financing provided to others. (None)
- 2) Endorsements/guarantees provided. (None)
- 3) Marketable securities held (excluding investment in subsidiaries, associates and joint controlled entities). (Table 1)
- 4) Marketable securities acquired or disposed at costs or prices at least \$300 million or 20% of the paid-in capital. (None)
- 5) Acquisition of individual real estate at costs of at least \$300 million or 20% of the paid-in capital. (None)
- 6) Disposal of individual real estate at prices of at least \$300 million or 20% of the paid-in capital. (None)
- 7) Total purchases from or sales to related parties amounting to at least \$100 million or 20% of the paid-in capital. (Table 2)

- 8) Receivables from related parties amounting to at least \$100 million or 20% of the paid-in capital. (None)
- 9) Trading in derivative instruments. (None)
- 10) Intercompany relationships and significant intercompany transactions. (Table 3)
- 11) Information on investees. (Table 4)
- b. Information on investments in mainland China. (None)
- c. Information of major shareholders : List all shareholders with ownership of 5% or greater showing the name of the shareholder, the number of shares owned, and percentage of ownership of each shareholder (Table 5)

### **34. SEGMENT INFORMATION**

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the type of services delivered or provided.

The Group has only one operating segment which is the main business, i.e. design, manufacture, assembly, testing and maintenance of aircraft.

**TABLE 1**

**AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES**

**MARKETABLE SECURITIES HELD**  
**SEPTEMBER 30, 2020**  
**(In Thousands of New Taiwan Dollars or Shares, Unless Stated Otherwise)**

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	September 30, 2020			
				Number of Shares	Carrying Value	Percentage of Ownership	Fair Value
The Company	<u>Capital stock</u>						
	UHT Ltd.	-	Financial assets at FVTOCI - non-current	1,100	\$ 21,505	3.11%	\$ 21,505
	AAI	The Company is a corporate director	Financial assets at FVTOCI - non-current	4,968	28,254	13.09%	28,254
	Metro Ltd.	The Company is a corporate director	Financial assets at FVTOCI - non-current	300	2,145	6%	2,145

Note: Information about subsidiary associates is provided in Table 4.



**TABLE 2**

**AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES**

**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020  
(In Thousands of New Taiwan Dollars)**

Purchaser or Seller	Related Party	Nature of Relationship with the Purchaser or Seller	Transaction Details				Abnormal Transaction		Notes and Accounts Receivable (Payable)		Note
			Purchase (Sale)	Amount	% to Total	Collection Terms	Unit Price	Collection Terms	Ending Balance	% to Total	
The Company	ITEC	Associates	Sale Purchase	\$ (173,371) 301,026	(1) 4	Note Note	Note Note	Note Note	\$ 42,548 (92,233)	1 (9)	

Note: Information is provided in Note 29.

**TABLE 3**

**AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES**

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT TRANSACTIONS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020  
(In Thousands of New Taiwan Dollars)**

No.	Investee Company	Counterparty (Note)	Relationship	Transactions Details			
				Financial Statement Accounts	Amount	Payment Terms	% to Total Sales or Assets
0	The Company	AIDC USA	Parent company to subsidiary	Purchase	\$ 1,925	T/T 30 - 60 days	-
		AIDC USA	Parent company to subsidiary	Manufacturing expenses	20,376	T/T 30 - 60 days	-
		AIDC USA	Parent company to subsidiary	Operation expenses	17,149	T/T 30 - 60 days	-
		AIDC USA	Parent company to subsidiary	Account payables	2	T/T 30 - 60 days	-
		AIDC USA	Parent company to subsidiary	Other payables	3,179	T/T 30 - 60 days	-

Note: Transactions have been eliminated.

**TABLE 4**

**AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES**

**INFORMATION ON INVESTEEES**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020**  
**(In Thousands of New Taiwan Dollars or Shares, Unless Stated Otherwise)**

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of September 30, 2020			Net Income (Loss) of the Investee	Share of Profits (Loss)	Note
				September 30, 2020	December 31, 2019	Shares	%	Carrying Amount			
The Company	AIDC USA	State of Delaware USA	Provide program management and relevant services for purchasing and selling raw materials, parts and components of aircraft, engines and subsystems.	\$ 288,661	\$ 288,661	-	100	\$ 1,024,487	\$ 199,450	\$ 199,450	Subsidiary
	JSPCO	Kaohsiung City R.O.C.	Design, maintain and manufacture of moulds, jigs, fixtures and mechanical parts	50,000	-	5,000	31.25	40,368	(27,198)	(9,632)	Associate
AIDC USA	ITEC	State of Delaware USA	Development production and remodel of aircraft	728	728	-	22.05	988,245	1,154,544	254,577	Associate

**Table 5****AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND  
SUBSIDIARIES****INFORMATION OF MAJOR SHAREHOLDERS  
SEPTEMBER 30, 2020**

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Name of Major Shareholder	Shares	
	Number of Shares (In Thousands)	Percentage of Ownership (%)
Ministry of Economic Affairs	331,302	35.17

Note: The information of major shareholders is based on the number of ordinary shares and preferred shares held by shareholders with ownership of 5% or greater, that have been issued without physical registration (included treasury shares) by the Company as of September 30, 2020. The share capital in consolidated financial report may differ from the actual number of shares that have been issued without physical registration because of different preparation basis.