

**Actron Technology Corporation and  
its Subsidiary**

**Consolidated Financial Statement and the  
Audit Report of Accountant for the Year Ended  
December 31, 2019 and 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 audit such consolidated financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' 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' report and consolidated financial statements shall prevail.

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## Representation Letter

The entities that are required to be included in the combined financial statements of Taiwan Semiconductor Manufacturing Company Limited as of and for the year ended December 31, 2020, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standard 10, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

Actron Technology Corporation  
Chairman Ming-Guang Lu  
March 10, 2021

## **Independent Auditors' Report**

The board of directors and shareholders

Actron Technology Corporation:

### **Opinion**

We have audited the accompanying consolidated financial statements of Actron Technology Corporation and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the Internal Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### **Basis for Opinion**

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

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgement, were of most significant in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Company's consolidated financial statements for the year ended December 31, 2020 are stated as follows:

#### Sales Revenue

#### Key Audit Matters Explanation

The operating revenue of the Company and subsidiaries mainly comes from the production and sales of automotive diodes. The change is due to the growth and decline of specific customer parties. Because of the significant impact of sales revenue on financial performance, the occurrence of sales revenue from particular customers of the combined company will be listed as the key audit matters for the year ended December 31, 2020.

The procedures performed by the accountant include:

1. Conduct basic information surveys on particular customers and confirm whether there are any abnormalities in related transaction conditions.
2. Evaluate the internal control of sales revenue transactions from customer ordering, shipping, sales, and sampling to test the effectiveness of design and implementation.
3. Sampling checks on the sales revenue of particular customers, review and verify the relevant vouchers to confirm the facts of shipping and receiving, and confirm the authenticity of their sales revenue.

### **Other Matters**

For the subsidiary listed in the consolidated financial statement of the Company, the financial statements of BigBest Technology Corporation, have not been audited by the accountant, but by others. Consequently, the amounts listed in the financial statements of BigBest Technology Corporation are based on the audit reports of other accountants. The total assets of BigBest Technology Corporation as of December 31, 2020 and 2019, were respectively NTD\$344,287 thousand and NTD\$ 495,995 thousand, which was accounting for 4% and 7% of the total consolidated assets. The net operating revenue as of December 31, 2020 and from June 17 to December 31, 2019, were respectively NTD\$108,783 thousand and NTD\$57,139 thousand, which was accounting for 4% and 2% of the net comprehensive operating revenue. Also, as stated in Notes 13, some of the above-mentioned invested companies listed in the consolidated financial statements that adopt the equity method have been audited by other accountants instead of us. Therefore, the opinions expressed in the above consolidated financial statements, the investment amount of the associates mentioned above using the equity method, and their profit and loss shares were recognized on the basis of the audit reports of other accountants. The investment amounts of the associates adopting the equity method audited by other accountants for the year ended December 31, 2020 and 2019, were respectively NTD\$451,009 thousand and NTD\$410,357 thousand, which was accounting for 6% and 6% of the total consolidated assets. From the year ended December 31, 2020 and 2019, the share of profits and losses of associates and joint ventures adopting the equity method for the above-mentioned invested companies was respectively NTD\$ 39,477 thousand and NTD\$(70,829) thousand, which was accounting for 5% and (13%) of the total comprehensive profit and loss.

We have also audited the parent company only financial statements of Actron Technology Corporation as of and for the years ended December 31, 2020 and 2019 on which we have issued an unmodified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of

accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2020 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Zhen-Cai Tsai and Meng-Chieh Chiu.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

Actron Technology Corporation and Subsidiaries  
Consolidated Balance Sheet  
For the Year Ended December 31, 2020 and 2019

(In Thousands of New Taiwan Dollars)

N o t e s	Assets	December 31, 2020		December 31, 2019	
		Amount	%	Amount	%
	<b>Current Assets</b>				
1100	Cash and cash equivalents(Notes 6)	\$ 1,335,034	17	\$ 1,976,928	27
1136	Financial assets at amortized cost – current (Notes 9 )	108,391	1	65,960	1
1150	Notes receivable (Notes 10)	16,851	-	13,001	-
1170	Accounts receivable (Notes 10)	594,173	7	560,197	8
1200	Other receivables	24,718	-	19,385	-
130X	Inventories (Notes 11)	475,911	6	556,821	8
1470	Other current assets	55,657	1	44,698	1
11XX	Total current assets	<u>2,610,735</u>	<u>32</u>	<u>3,236,990</u>	<u>45</u>
	<b>Noncurrent assets</b>				
1517	Financial assets at fair value through other comprehensive income – noncurrent (Notes 8)	542,700	7	227,205	3
1535	Financial assets at amortized cost –noncurrent (Notes 9 & 33)	63,000	1	-	-
1550	Investments accounted for using equity method (Notes 13)	1,615,297	20	964,227	13
1600	Property, plant and equipment (Notes 14 and 33)	2,548,756	32	2,213,779	31
1755	Right-of-use assets (Notes 15)	47,128	1	51,997	1
1805	Goodwill (Notes 16 and 28)	225,142	3	225,142	3
1821	Intangible assets (Notes 17)	26,518	-	33,039	-
1840	Deferred income tax assets (Notes 24)	22,271	-	24,284	-
1990	Other noncurrent assets (Notes 18)	334,937	4	251,823	4
15XX	Total noncurrent assets	<u>5,425,749</u>	<u>68</u>	<u>3,991,496</u>	<u>55</u>
1XXX	Total	<u>\$ 8,036,484</u>	<u>100</u>	<u>\$ 7,228,486</u>	<u>100</u>
	<b>Liabilities and Equity</b>				
	<b>Current Liabilities</b>				
2100	Short-term loans (Notes 19)	\$ 859,100	11	\$ 493,206	7
2120	Financial liabilities at fair value through profit or loss (Notes 7)	-	-	304	-
2150	Notes payable	86	-	414	-
2170	Accounts payable	231,524	3	214,071	3
2180	Accounts payable to related parties (Notes 32)	84,533	1	53,696	1
2200	Other payables (Notes 20)	256,249	3	286,826	4
2230	Income tax payable (Notes 24)	50,924	-	49,465	-
2280	Lease obligation – current (Notes 15)	7,199	-	6,253	-
2320	Long-term liabilities – current portion (Notes 19 and 33)	140,423	2	73,487	1
2399	Other current liabilities	34,499	-	15,016	-
21XX	Total current liabilities	<u>1,664,537</u>	<u>20</u>	<u>1,192,738</u>	<u>16</u>
	<b>Noncurrent liabilities</b>				
2540	Long-term loans (Notes 19 and 33)	597,302	8	749,563	11
2570	Deferred income tax liabilities (Notes 24)	16,118	-	13,185	-
2580	Lease obligation – noncurrent (Notes 15)	9,712	-	15,305	-
2670	Other noncurrent liability	1,100	-	-	-
2640	Net defined benefit liability (Notes 21)	1,222	-	2,755	-
25XX	Total noncurrent liabilities	<u>625,454</u>	<u>8</u>	<u>780,808</u>	<u>11</u>
2XXX	Total liabilities	<u>2,289,991</u>	<u>28</u>	<u>1,973,546</u>	<u>27</u>
	<b>Equity attributable to shareholders of the parent (Notes 22)</b>				
	<b>Capital stock</b>				
3110	Capital surplus	914,830	11	915,130	13
	<b>Retained earnings</b>				
3210	Bond issued at premium	1,734,078	22	1,857,621	26
3220	Treasury stock transaction	27,193	-	27,193	-
3230	Actual acquisition or deposal of the difference between the equity price of the subsidiaries and the book value	3,562	-	3,562	-
3260	Changes in the net value of equity of associates and joint ventures identified using the equity method	3,797	-	4,145	-
3271	Restricted employee shares (Notes 26)	44,407	1	46,563	1
3200	Total capital stock	<u>1,813,037</u>	<u>23</u>	<u>1,939,084</u>	<u>27</u>
	<b>Retained Earnings</b>				
3310	Appropriated as legal capital reserve	631,133	8	598,147	8
3320	Appropriated as special capital reserve	-	-	60,370	1
3350	Unappropriated earnings	1,194,811	15	1,174,178	16
3300	Total retained earnings	<u>1,825,944</u>	<u>23</u>	<u>1,832,695</u>	<u>25</u>
	<b>Others</b>				
3410	Exchange differences in the conversion of financial statements of foreign operating agencies	( 18,331 )	-	( 25,353 )	-
3420	Unrealized profit or loss on financial assets measured at fair value through other comprehensive profit or loss	934,611	11	250,654	3
3460	Unpaid compensation	( 6,832 )	-	( 20,110 )	-
3400	Total others	<u>909,448</u>	<u>11</u>	<u>205,191</u>	<u>3</u>
31XX	Equity attributable to shareholders of the parent	<u>5,463,259</u>	<u>68</u>	<u>4,892,100</u>	<u>68</u>
36XX	Non-controlling interests	<u>283,234</u>	<u>4</u>	<u>362,840</u>	<u>5</u>
3XXX	Total equity	<u>5,746,493</u>	<u>72</u>	<u>5,254,940</u>	<u>73</u>
	Total liabilities and equity	<u>\$ 8,036,484</u>	<u>100</u>	<u>\$ 7,228,486</u>	<u>100</u>

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

Ming-Guang Lu  
Chairman

Hsiang-Chung Wu  
Supervisor

Chun-Chi Chen  
Accounting Supervisor

Actron Technology Corporation and Subsidiaries  
Consolidated Income Statement  
For the Year Ended December 31, 2020 and 2019

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

Notes		2020		2019	
		Amount	%	Amount	%
4110	Sales revenue	\$ 3,095,444	101	\$ 3,407,810	101
4170	Sales return	( 3,809)	( -)	( 42,252)	( 1)
4190	Sales allowance	( 22,088)	( 1)	( 5,656)	-
4000	Operating revenue	3,069,547	100	3,359,902	100
5000	Cost of sales (Notes 11, 23, and 32)	( 2,229,001)	( 73)	( 2,355,693)	( 70)
5900	Gross profit	<u>840,546</u>	<u>27</u>	<u>1,004,209</u>	<u>30</u>
	Operating expenses (Notes 23 and 32)				
6100	Marketing	( 71,218)	( 2)	( 84,653)	( 3)
6200	General and administrative	( 263,420)	( 9)	( 279,198)	( 8)
6300	Research and development	( 286,108)	( 9)	( 270,084)	( 8)
6000	Total operating expenses	( 620,746)	( 20)	( 633,935)	( 19)
6900	Income from operating	<u>219,800</u>	<u>7</u>	<u>370,274</u>	<u>11</u>
	Non-operating income and expenses (Notes 23)				
7100	Interest income	4,223	-	3,900	-
7190	Other income	29,332	1	146,734	4
7020	Other gains and losses	( 93,977)	( 3)	( 78,303)	( 2)
7050	Finance costs	( 18,802)	( 1)	( 21,064)	-
7060	Share of profits of associates and joint ventures	( 75,156)	( 3)	( 61,615)	( 2)
7000	Total non-operating income and expenses	( 4,068)	-	( 10,348)	-
7900	Net profit before tax of continuing operating units	\$ 215,732	7	\$ 359,926	11
7950	Income tax expense (Notes 24)	( 38,857)	( 1)	( 102,723)	( 3)
8200	Net income	<u>176,875</u>	<u>6</u>	<u>257,203</u>	<u>8</u>

Notes	2020		2019	
	Amount	%	Amount	%
	Other comprehensive income and loss			
8310	Items that will not be reclassified subsequently to profit or loss:			
8311	Remeasurement of defined benefit obligation			
	645	-	( 2,440 )	-
8316	Unrealized loss on investments in equity instruments at fair value through other comprehensive income			
	91,323	3	33,343	1
8320	Share of other comprehensive loss of associates Income tax benefit related to items that will not be reclassified subsequently			
	592,057	19	293,004	9
8349	Share of other comprehensive loss of associates Income tax benefit related to items that will not be reclassified subsequently			
	( 129 )	-	488	-
8360	Items that may be reclassified subsequently to profit or loss:			
8361	Exchange differences arising on translation of foreign operations			
	<u>7,022</u>	<u>-</u>	<u>( 15,711 )</u>	<u>( 1 )</u>
8300	Other comprehensive income and loss for the year, net of income tax			
	<u>690,918</u>	<u>22</u>	<u>308,684</u>	<u>9</u>
8500	Total comprehensive income and loss for the year			
	<u>\$ 867,793</u>	<u>28</u>	<u>\$ 565,887</u>	<u>17</u>
	Net income attributable to:			
8610	Shareholders of the parent			
	\$ 281,828	9	\$ 322,058	10
8620	Non-controlling interest			
	<u>( 104,953 )</u>	<u>( 3 )</u>	<u>( 64,855 )</u>	<u>( 2 )</u>
8600				
	<u>\$ 176,875</u>	<u>6</u>	<u>\$ 257,203</u>	<u>8</u>
	Total comprehensive income attributable to:			
8710	Shareholders of the parent			
	\$ 972,746	32	\$ 630,742	19
8720	Non-controlling interest			
	<u>( 104,953 )</u>	<u>( 4 )</u>	<u>( 64,855 )</u>	<u>( 2 )</u>
8700				
	<u>\$ 867,793</u>	<u>28</u>	<u>\$ 565,887</u>	<u>17</u>
	Earnings per share (Notes 25)			
	From continuing operating unit			
9710	Basic earnings per share			
	<u>\$ 3.10</u>		<u>\$ 4.11</u>	
9810	Diluted earnings per share			
	<u>\$ 3.08</u>		<u>\$ 4.08</u>	

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

Actron Technology Corporation and Subsidiaries  
Statement of Changes in Shareholders' Equity  
For the Year Ended December 31, 2020 and 2019  
(In Thousands of New Taiwan Dollars)

Notes		Capital Reserve		Actual acquisition or disposal of the difference between the equity price of the subsidiaries and the book value	Restricted Employ Equity S t o c k	R e t a i n e d	E a r n i n g s	Legal; Capital Reserve	Special Capital Reserve	Unappropriated Reserve	Exchange differences in the conversion of financial statements of foreign operating agencies	Unrealized profit or loss on financial assets measured at fair value through other comprehensive profit or loss	Unpaid Compensation	Non-Controlling Interests	Total Interests
		Common Stock	Bond Issued at Premium												
A1	Balance, January 1, 2019	\$ 748,650	\$ 618,404	\$ 27,193	\$ 3,562	\$ -	\$ -	\$ 545,159	\$ -	\$ 1,332,005	(\$ 9,642)	(\$ 50,728)	\$ -	\$ 21,991	\$ 3,236,594
	Appropriations of earnings for the year of 2018														
B1	Legal capital reserve	-	-	-	-	-	-	52,988	-	( 52,988 )	-	-	-	-	-
B3	Special capital reserve	-	-	-	-	-	-	-	60,370	( 60,370 )	-	-	-	-	-
B5	Cash dividend of shareholders of Company	-	-	-	-	-	-	-	-	( 374,325 )	-	-	-	-	( 374,325 )
C7	Adjustments to share of changes in equities of associates	-	-	-	-	4,145	-	-	-	( 3,915 )	-	-	( 2,701 )	-	( 2,471 )
M7	From share of changes in equities for subsidiaries (Notes 29)	-	-	-	-	-	-	-	-	( 11,300 )	-	-	-	11,300	-
N1	Appropriated restricted employee equity new stock	6,480	-	-	-	-	-	-	-	-	-	-	-	-	-
E1	Cash capital increase (includes employee stock equity cost)	160,000	1,239,217	-	-	46,563	-	-	-	-	-	-	( 17,409 )	-	35,634
D1	Net income in 2019	-	-	-	-	-	-	-	-	322,058	-	-	-	( 64,855 )	1,399,217
D3	Other comprehensive income (loss) in 2019, net of income tax	-	-	-	-	-	-	-	-	1,744	( 15,711 )	322,651	-	-	257,203
D5	Total comprehensive income (loss) in 2019	-	-	-	-	-	-	-	-	323,802	( 15,711 )	322,651	-	( 64,855 )	308,684
Q1	Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	-	-	-	-	-	-	21,269	-	( 21,269 )	-	394,404	565,887
Z1	Balance, December 31, 2019	915,130	1,857,621	27,193	3,562	4,145	46,563	598,147	60,370	1,174,178	( 25,353 )	250,654	( 20,110 )	362,840	5,254,940
	Appropriations of earnings for the year of 2019														
B1	Legal capital reserve	-	-	-	-	-	-	32,986	-	( 32,986 )	-	-	-	-	-
B17	Appropriated special capital reserve	-	-	-	-	-	-	-	( 60,370 )	60,370	-	-	-	-	-
B5	Cash dividend of shareholders of Company	-	-	-	-	-	-	-	-	( 288,266 )	-	-	-	-	( 288,266 )
C15	Capital reserve allocation cash	-	( 123,543 )	-	-	-	-	-	-	-	-	-	-	-	( 123,543 )
C7	Adjustments to share of changes in equities of associates	-	-	-	-	( 348 )	-	-	-	-	-	-	1,899	-	1,551
M7	From share of changes in equities for subsidiaries (Notes 29)	-	-	-	-	-	-	-	-	( 252 )	-	-	-	252	-
N1	Appropriated restricted employee equity new stock	( 300 )	-	-	-	-	( 2,156 )	-	-	-	-	-	11,379	-	8,923
D1	Net income in 2020	-	-	-	-	-	-	-	-	281,828	-	-	-	( 104,953 )	176,875
D3	Other comprehensive income (loss) in 2020, net of income tax	-	-	-	-	-	-	-	-	( 61 )	7,022	683,957	-	-	690,918
D5	Total comprehensive income (loss) in 2020	-	-	-	-	-	-	-	-	281,767	7,022	683,957	-	( 104,953 )	867,793
O1	Non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	25,095	25,095
Z1	Balance, December 31 2020	\$ 914,830	\$ 1,734,078	\$ 27,193	\$ 3,562	\$ 3,797	\$ 44,407	\$ 631,133	\$ -	\$ 1,194,811	(\$ 18,331)	\$ 934,611	(\$ 6,832)	\$ 283,234	\$ 5,746,493

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

Actron Technology Corporation and Subsidiaries  
Consolidated Cash Flow Statement  
For the Year Ended December 31, 2020 and 2019  
(In Thousands of New Taiwan Dollars)

<u>Notes</u>	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities		
A00010		
Net before income tax of continuing operating unit	\$ 215,732	\$ 359,926
A20010		
Adjustments for:		
A20100		
Depreciation expense	262,999	244,231
A20200		
Amortization expense	10,632	11,407
A20300		
Expected credit impairment losses	158	4,755
A20400		
Measure loss (profit) of financial assets and liabilities at fair value through profit or loss	( 577)	304
A20900		
Finance costs	18,802	21,064
A21200		
Interests income	( 4,223)	( 3,900)
A21300		
Dividend income	( 10,000)	( 1,360)
A21900		
Cost of employee compensation		5,951
A22300		
Adjustments to share of changes in equities of associates	10,423	61,615
A22500		
Disposal of loss of property, plant and equipment	( 75,156)	
A23700		
Inventory depreciation and scrap loss	32,301	22,192
property, plant and equipment loss	38,800	4,159
	11,121	-
A24100		
Net foreign exchange gains and loss	( 3,921)	4,909
A30000		
Net adjustments in operating assets and liabilities		
A31130		
Notes receivable	( 3,850)	8,630
A31150		
Accounts receivable	( 29,360)	2,615
A31180		
Other receivables	( 5,333)	23,045
A31200		
Inventories	42,110	4,241
A31240		
Other current assets	( 10,959)	( 788)
A32130		
Notes payable	( 328)	( 114)
A32140		
Notes payable – Related parties	-	-
A32150		
Accounts payable	16,600	( 63,831)
A32160		
Accounts payable – Related parties	30,837	( 11,535)
A32180		
Other payables	( 21,699)	( 59,500)
A32230		
Other current liabilities	19,483	( 80,435)
A32240		
Net defined benefit liability	( 888)	( 908)
A33000		
Cash generated from operations	543,704	556,673
A33100		
Interest income	4,223	3,900
A33300		
Paid interests	( 18,808)	( 21,039)
A33500		
Income tax paid	( 32,601)	( 157,398)

<u>Notes</u>		<u>2020</u>	<u>2019</u>
AAAA	Net cash generated by operating activities	496,518	382,136
	Cash Flows from Investing Activities		
B00010	Acquisitions of financial assets at fair value through profit or loss	( 224,172)	( 180,112)
B00020	Disposal of financial assets at fair value through other comprehensive profit and loss	-	68,722
B00040	Acquisition of financial assets at amortized cost	( 105,431)	( 61,883)
B00100	Acquisition of financial assets at fair value through profit or loss	( 270,000)	-
B00200	Disposal of financial assets at fair value through profit or loss	270,273	-
B01800	Acquisition of long-term stock investments using equity method	-	( 130,000)
B02700	Purchase property, plant and equipment	( 643,501)	( 689,219)
B02800	Disposal of cost of property, plant and equipment	326	5,821
B04500	Purchase intangible property	( 4,111)	( 16,737)
B03800	Refundable deposits paid	7,932	3,095
B06700	Other increased noncurrent assets	( 84,469)	-
B05000	Cash inflows from mergers	-	47,250
B07600	Dividends received	27,694	24,890
BBBB	Net cash used in investing activities	( 1,025,459)	( 928,173)
	Cash Flows From Financing Activities		
C00100	Short-term loads increased	365,894	222,378
C01600	Borrow long-term loans	190,000	568,545
C01700	Return of long-term loans	( 275,325)	( 265,495)
C04020	Return of principal of lease liability	( 7,231)	( 6,935)
C03000	Deposit deposit	1,100	-
C04500	Dividend paid of the shareholders of the parent	( 411,795)	( 374,319)
C04600	Cash capital increased	-	1,396,500
C04800	Restricted employee equity new stock	( 1,500)	32,400
C05800	Changes in non-controlling interests	25,095	306,411
CCCC	Net cash used in financing activities	( 113,762)	1,879,485
DDDD	Effect of Exchange Rate Changes on Cash and Cash Equivalents	809	( 1,522)
EEEE	Net increase (decrease) in cash and cash equivalents	( 641,894)	1,331,926
E00100	Cash and cash equivalents, beginning of year	1,976,928	645,002
E00200	Cash and cash equivalents, end of year	<u>\$ 1,335,034</u>	<u>\$ 1,976,928</u>

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

Ming-Guang Lu  
Chairman

Hsiang-Chung Wu  
Supervisor

Chun-Chi Chen  
Accounting Supervisor

**Actron Technology Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Report**  
**For the Year Ended December 31, 2020 and 2019**  
**(In Thousands of New Taiwan Dollars unless specified otherwise)**

一、A BRIEF HISTORY OF THE COMPANY

Actron Technology Corporation (the “Company”) has incorporated since November 1998 under the law of the Republic of China. The Company mainly engages in power generation, transmission, distribution, machinery manufacturing, electronic material wholesale industry, electronic material retail industry, manufacturing output industry, international trade industry, and electronic component manufacturing industry.

The stocks of the Company have been TPex-listed since April 2006.

The consolidated financial statement is expressed Thousands of New Taiwan Dollar, which is the functional currency of the Company.

二、THE AUTHORIZATION OF FINANCIAL STATEMENTS

The accompanying consolidated financial statements were approved and authorized for issue by the Board of Directors on March 10, 2021.

三、APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

(一) Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) (collectively, “IFRSs”) endorsed and issued into effect by the Financial Supervisory Commission (FSC)

The initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC did not have a significant effect on Actron Company and its subsidiaries’ (collectively as the “Company”) accounting policies.

(二) The IFRS recognized by IASB in 2020

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective Date Issued by IASB</u>
Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”	Effective from release date
Amendments to IRRS 9, IAS 39, IFRS 7, IFRS4 and IFRS 16 “Interest Rate Benchmark Reform – Phase 2 ”	Effective for the annual reporting period beginning on January 1, 2021
Amendments to IFRS 16 “ Covid -19 - Related Rent Concessions”	Effective for the annual reporting period beginning on June 1, 2020
Amendments to IFRS 16 “ Covid -19 - Related Rent Concessions”	

### Amendments to IFRS 16 “ Covid – 19 – Related Rent Concessions “

The amendment "Covid – 19 – Related Rent Concession" of IFRS16 stipulates that if the merging company negotiates rent directly related to the new coronavirus with the lessor, when certain conditions are met, the merging company may choose practical expedients to reduce the lease payment to the concession event or situation When it occurs, it is recognized in profit and loss, and the lease liability is relatively reduced.

The merged company does not have the aforementioned relevant rent negotiations in 2020, but if such negotiations occur in 2021, the aforementioned regulations will be applied.

### (三) The IFRSs issued by IASB but not yet endorsed and issued into effect by FSC

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective Date Issued by IASB (Notes 1)</u>
“Annual improvement in the 2018-2020 cycle ”	January 1, 2022 (Notes 2)
Amendments to IFRS 3 “Reference to the Conceptual Framework ”	January 1, 2022 (Notes 3)
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” Classified of Liabilities as Current or Non-current”	January 1, 2023
Amendments to IAS 1”Disclosure of Accounting Policies”	January 1, 2023(Notes 6)
Amendments to IAS 8”Definition of Accounting Estimates”	January 1, 2023(Notes 7)
Amendments to IAS 16”Property, Plant and Equipment - Proceeds before Intended Use”	January 1, 2022(Notes 4)
Amendments to IAS 37 “Onerous Contracts – Cost of Fulfilling a Contract”	January 1, 2022(Notes 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 will be 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” will be 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” will be 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 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.

Note 6: The amendments will be applied prospectively for annual reporting periods beginning on or after January 1, 2023.

Note 7: The amendments are applicable to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the annual reporting period beginning on or after January 1, 2023.

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.

#### 四、SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### (一) Statement of Compliance

The accompanying consolidated financial statements have been prepared in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the FSC with the effective dates (collectively, "Taiwan-IFRSs").

##### (二) Basis of Preparation

The accompanying consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values and net defined benefit liability that is recognized as the present value of the defined benefit obligation deduct the fair value of the planned assets, as explained in the accounting policies below.

Fair value measurement is divided into levels 1 to 3 according to the observability and importance of the relevant input values as follows:

1. Level 1: Refers to quoted prices (unadjusted) in the active market for the same assets or liabilities available on the measurement date.
2. Level 2: Refers to the observable input value of an asset or liability directly (the price) or indirectly (derived from the price) in addition to the quotation of level 1.
3. Level 3: Unobservable input to an asset or liability.

##### (三) Standards of Classifying Assets and Liabilities as Current and Noncurrent

Current Assets Include:

1. Assets primarily for trading purposes.
2. Assets expected to be realized within 12 months after the balance sheet date, and
3. Cash and cash equivalent (exclude those who are restricted for the exchange or settlement of liabilities more than 12 months after the balance sheet date).

Current Liabilities Include:

1. Liabilities primarily for trading purposes.
2. Liabilities expected to be realized within 12 months after the balance sheet date, and
3. The liquidation period cannot be deferred unconditionally to liabilities at least 12 months after the balance sheet date.

Those are not the aforementioned current assets or current liabilities are classified as non-current assets or non-current liabilities.

(四) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of TSMC and entities controlled by Actron Technology Corporation (its subsidiaries).

Income and expenses of subsidiaries acquired or disposed of are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal. The financial statements of the subsidiaries have been adjusted to comply with accounting policies and the merger. During the preparation of consolidated financial statements, all transactions, account balances, income, and expenses of each entity have been eliminated. Total comprehensive income of subsidiaries is attributed to the shareholders of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interests in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions.

The carrying amounts of the Company's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to shareholders of the parent.

For details of subsidiaries, shareholding ratio, and business items, please refer to Notes 12 and appendix 8.

(五) Business Combination

Acquisition is used by business combination, which related costs are expensed as incurred and when the labor service is acquired.

Goodwill is measured by the total of the fair value of the transfer consideration and the fair value of the interest previously held by an acquirer in the acquiree on the acquisition date, which exceeds the net amount of recognizable assets as well as liabilities assumed on the date of acquisition.

For the non-controlling interest in the current ownership interest of the acquiree and having the right of enjoying the net assets of the acquirer on a pro-rata basis in liquidation is based on its proportionate share of the recognizable net assets of the acquiree. Other non-controlling interests are measured at fair value.

The business combination reached in stages is a revaluation of the equity of the acquiree previously held by the merger based on the fair value at the acquisition date, and any profit or loss arising therefrom is recognized as profit or loss. The amounts that have been recognized in other comprehensive profit or loss before the acquisition date due to the previously held interests of the acquiree are recognized on the same basis as if the merged company directly disposed of its previously held interests.

If the measurement of recognizable assets and liabilities assumed as a result of a business combination has not yet been completed, the balance sheet date will be recognized at a tentative amount, and retrospective adjustments or recognition of additional assets or liabilities will be made during the measurement period to reflect the New information about the fact and circumstance that the acquisition date already exists.

(六) Foreign Currencies

The financial statements of each individual consolidated entity were expressed in the currency which reflected its function other than other currencies (foreign currency), and will be converted into a functional currency record based on the exchange rate at the transaction date.

Foreign currency monetary items are translated at the closing exchange rate on each balance sheet date. Exchange differences arising on the delivery or conversion of monetary items will be recognized in profit or loss in the period whenever it occurs.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined.

Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the year except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income. Non-monetary items that are measured in terms of historical cost in foreign currencies are not retranslated.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the foreign operations (including subsidiaries in countries where the country of operation or currency is different from the company) are translated into NTD\$ using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in other comprehensive income and loss (and will be respectively attributed to the parent of the Company as non-controlling interests).

(七) Inventories

Inventories include raw materials, finished goods, and work in progress, which are measured at the lower of cost and net realizable value. Comparing cost and net realizable value is based on individual items except for the same type of inventory. Net realizable value refers to the balance of the estimated selling price under normal circumstances minus the estimated cost required to complete the completion and the estimated cost required to complete the sale. The cost of inventory is calculated using the weighted average method.

(八) Investing Associates and Joint Ventures

The associate refers to a merger with significant influence but not a subsidiary or joint venture. A joint venture is a joint agreement where the merger and another company have joint control and have rights to the net assets.

The merger uses equity method for investment related enterprises and joint ventures. In accordance with the equity method, investments in the associates and joint ventures are initially recognized at cost. The carrying amount acquired in the future will increase or decrease with the profit and loss of associates and joint ventures, other comprehensive profit and loss shares, and profit distribution enjoyed by the merger.

Additionally, changes in the equity of related companies and joint ventures are recognized based on shareholding ratios.

The amount of acquisition costs exceeding the share of the net fair value of the identifiable assets and liabilities of associates and joint ventures enjoyed by the merger on the acquisition date is classified as goodwill, which is included in the carrying amount of the investment and shall not be amortized. The amount of the net fair value share of recognizable assets and liabilities enjoyed by associates and joint ventures that exceeds the acquisition cost is recognized as current profit and loss.

When associates and joint ventures issue new shares, if the merger fails to subscribe in compliance with the shareholding ratio, which results in the change of shareholding ratio, and the increase or decrease of the net equity value of the investment, its increase or decrease will be adjusted by capital reserve, using the equity method to recognize changes in the net value of equity of associates and joint ventures, and invest using the equity method. However, if those who do not subscribe or acquire the ownership and interest in the associate and joint venture decrease in accordance with the shareholding ratio, the amounts recognized in other comprehensive profit or loss related to the associates and joint ventures are reclassified in accordance with the reduction ratio, and the basis of accounting shall be the same as the basis that the associates shall follow if it directly disposes of related assets or liabilities. If the adjustment of the preceding paragraph shall debit the capital reserve, and the balance of capital reserve generated by the equity method of investment is insufficient, the difference shall be debited to retain surplus.

When the merger's share of loss to the associate and the joint venture is equal to or exceeds its equity in the associate, and joint venture (including the carrying amounts of investments in associates and joint ventures in accordance with the equity method and other long-term interests that are essentially part of the merger's net investment in the associate and the joint venture,) stop recognizing further losses. The merger recognizes additional losses and liabilities only to the extent that statutory obligations, inferred obligations or payments on behalf of the associate and joint venture have occurred.

When evaluating impairment, the merger views the entire book value (including goodwill) of the investment as a single asset and compares the recoverable amount with the book value and performs an impairment test. The recognized impairment loss is also part of the investment book value. Any reversal of impairment losses is recognized to the extent that the recoverable amount of the investment subsequently increases.

The merger has ceased to use the equity method since its investment ceased to be an associate and joint venture, and its retained equity in the original associate, as well as a joint venture, is measured at fair value. The difference between the amounts will be included in the current profit and loss. Additionally, all amounts recognized in other comprehensive profit or loss related to the associate and the joint venture are based on the same accounting basis as the associate shall follow if it directly disposes of related assets or liabilities. If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the merger continues to use the equity method without reassessing retained equity.

Gains and losses resulting from cross-flow, downstream and side-stream transactions between the merger and its associate and the merger and its joint venture are recognized

in the consolidated financial statements only to the extent that it is unrelated to the interests of the merger in the associate and its equity in the joint venture.

#### (九) Property, Plant and Equipment

Property, plant and equipment are measured at cost, and later on less accumulated depreciation and accumulated impairment.

Property, plant, and equipment in the course of construction for production, supply, or administrative purposes are carried at cost, less any recognized impairment loss. Costs include professional service fees and borrowing costs that meet the capitalization requirements. When these assets are completed and reach their intended use, they are classified into the appropriate categories of property, plant, and equipment and begin depreciation.

Property, plant, and equipment are depreciated separately for each significant part based on a straight-line method during the service life. The merger shall review the estimated service life, residual value, and depreciation method at least at the end of each year, and postpone the impact of changes in applicable accounting estimates.

When the property, plant, and equipment is derecognized, the difference between the net disposal price and the carrying amount of the asset is measured at profit or loss.

#### (十) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

To test depreciation, goodwill will be allocated to each cash-generating unit or group of cash-generating units (the “cash-generating unit”) that the merger expects to benefit from the synergy of the merger.

Goodwill is not amortized and instead is tested for impairment annually, or more frequently when there is an indication that the cash generating unit may be impaired. For the purpose of impairment testing, goodwill is allocated to each of the Company’s cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the combination. If the recoverable amount of a cash-generating unit is less than its carrying amount, the difference is allocated first to reduce the carrying amount of any goodwill allocated to such cash generating unit and then to the other assets of the cash generating unit pro rata based on the carrying amount of each asset in the cash generating unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

When disposing of an operation within the cash-generating unit of the amortized goodwill, the amount of goodwill related to the operation being disciplinary is included in the carrying amount of the operation to determine the profit or loss of disposal.

## (十一) Intangible Assets

### 1. Separately Acquired Intangible Assets

Other separately acquired intangible assets with finite useful lives are carried at cost and measured by cost less accumulated amortization and accumulated impairment losses afterward. Intangible assets are amortized based on a straight-line method within their useful lives. The merger reviews the estimated meaningful lives, residual values, and amortization methods at least at the end of each year, and defer the impact of changes in applicable accounting estimates.

### 2. Derecognition

When intangible assets are derecognized, the difference between the net disposal price and the book value of the asset is measured at the current profit and loss.

## (十二) Impairment of Tangible and Intangible Assets (Except for Goodwill)

The merger reviews the carrying amounts of its tangible and intangible assets (except for goodwill) to determine whether there is any indication that those assets have suffered an impairment loss on the balance sheet date. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the merger estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are also allocated to individual cash-generating units.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset or a cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years (less amortization or depreciation). A reversal of an impairment loss is recognized immediately in profit or loss.

## (十三) Financial Instruments

Financial assets and liabilities shall be recognized in the consolidated balance sheet when the merger becomes a party to the contractual provisions of the instruments.

Financial assets and liabilities are initially recognized at fair values. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

## 1. Financial Assets

The customary transactions of financial assets are recognized and derecognized on the transaction date.

### (1) Category of Financial Assets and Measurement

The category of financial assets of the merger are classified into the following categories: financial assets at FVTPL, investments in debt instruments, and financial assets at amortized cost.

#### A. Financial asset at FVTPL

Financial assets measured at FVTPL include financial assets that are forced to be measured at FVTPL. Mandatory financial assets measured at FVTPL include investments in equity instruments that are not specified by the merger at FVTOCPL, and does not qualify as an investment in debt instruments classified as measured at amortized cost or measured at FVTOCPL.

Financial assets measured at FVTPL are measured at fair value, and the benefits or losses arising from remeasurement are recognized in profit or loss. Please refer to Notes 30 for the method of determining the fair value.

#### B. Financial assets measured at amortized cost

If the investment in financial assets of the merger meets the following two conditions, it is classified as a financial asset measured at amortized cost:

- a. It is held under a business model whose aim is to hold financial assets to collect contractual cash flows; and
- b. The contract terms generate cash flows on a specific date, and these cash flows are fully interest payments on principal and outstanding principal.

Financial assets measured at amortized cost (including cash and equivalent cash, accounts receivable measured at amortized cost) are initially recognized, it is measured at the amortized cost of the total carrying amount determined by the effective interest method less any impairment losses. Any foreign currency exchange gains or losses are measured at profit or loss.

Credit-impaired financial assets mean that the issuer or debtor has experienced significant financial difficulties, defaults, the debtor is likely to claim bankruptcy or other financial reorganization, or the active market for financial assets has disappeared due to financial difficulties.

#### C. Equity instrument investments measured at FVTOCPL

Upon the initial recognition, the merger may make an irrevocable option, and invest in non-holding for trading and non-corporate merger acquirer recognized or valued equity instruments, and designate to measure at FVTOCPL.

Equity instrument investments measured at FVTOCPL are measured at fair value. Subsequent changes in fair value are reported in other comprehensive profit or loss and accumulated in other equity. When disposing of investment, accumulated gains and losses are directly transferred to retained earnings and are not reclassified to profit or loss.

Dividends of equity instrument investments measured at FVTOCPL are recognized in profit or loss when the combined company's right to receive payments is established, unless the dividends clearly represent a recovery of part of the investment cost.

(2) Impairment of financial assets

At each balance sheet date, the merger evaluates impairment losses on financial assets (including accounts receivable) measured at amortized cost based on expected credit losses.

The loss allowance for accounts receivable is measured at an amount equal to lifetime expected credit losses. Other financial assets are firstly evaluated whether the credit risk has increased significantly since the original recognition. when the credit risk on the financial instrument has not increased significantly since initial recognition, the allowance loss is recognized as the 12-month expected credit loss. If it has increased significantly, a loss allowance is recognized at an amount equal to expected credit loss resulting from all possible default events over the expected life of a financial instrument.

Expected credit loss is a weighted average credit loss weighted by the risk of default. The 12-month expected credit loss represents the expected credit loss arising on a possible default of the financial instrument within 12 months after the reporting date, and the expected credit loss during the existence period represents the expected credit loss from all possible defaults of the financial instrument during the expected duration.

The Company recognizes an impairment loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of the financial asset.

(3) Derecognition of Financial Assets

The merger derecognizes a financial asset only when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the financial asset to another entity.

On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at FVTOCI, the cumulative gain or loss that had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

## 2. Equity Instruments

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Retrieving the Company's own equity instruments is recognized and deducted under equity. The purchase, sale, issue or cancellation of the Company's own equity instruments are not recognized in profit or loss.

### 3. Financial Liabilities

#### (1) Subsequent Measure

Except for the following cases, all financial liabilities are measured at amortized cost using the effective interest method:

##### Financial liabilities at FVTPL

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or is designated as at fair value through profit or loss.

Financial liabilities for trading are measured at fair value, and related other benefits and losses are recognized as other profits and losses.

#### (2) Derecognition of Financial Liabilities

When derecognizing financial liabilities, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

### 4. Derivative Instruments

Derivatives signed by the merger include forward foreign exchange and exchange contracts to manage the exchange rate risk of the merger.

Derivatives are originally recognized at fair value when a derivative contract is signed, and are subsequently re-measured at fair value at the balance sheet date.

Profits or losses arising from subsequent measurements are directly included in profit or loss. It is classified as a financial asset; when the fair value is negative, it is classified as a financial liability when the fair value of a derivative is positive.

### (十四) Revenue Recognition

The merger allocates the transaction price to each performance obligation after identifying the performance obligation in the customer contract, and recognizes revenue whenever each performance obligation is met.

#### Sales Revenue

The product mainly complies with the contract at the time of shipment and arrival to the customer's designated location. The customer has the right to set the price and use of the product and has the main responsibility for resale. It also bears the risk of obsolescence and obsolescence, and the merger then recognized revenue and accounts receivable.

Bearing the risk of obsolescence and obsolescence, the merger recognizes revenue and accounts receivable during that period of time.

During cut-out processing, the control of ownership of processed products has not been transferred, so income is not recognized when cut-out.

#### (十五) Lease

The merger evaluates whether the contract is (or includes) a lease on the contract on the date of establishment.

##### 1. The merger as lessor

They are classified as a finance lease when the lease terms transfer almost all risks and rewards attached to the ownership of the asset to the lessee. All other leases are classified as operating leases.

Under operating leases, lease payments less lease incentives are recognized as revenue based on a straight-line method over the relevant lease period.

##### 2. The merger as lessee

Except for leases of low-value underlying assets and short-term leases where recognition exemptions are applicable, they are recognized as expenses based on a straight-line method during the lease period, and other leases recognize the right-of-use assets and lease liabilities on the date of lease start.

The right-of-use asset was originally measured at cost (including the original measured amount of the lease liability, lease payments paid before lease start date less lease incentives received, the initial direct cost, and the estimated cost of recovering the underlying asset). It is subsequently measured at the cost less accumulated depreciation and accumulated impairment losses, and the remeasurement of lease liabilities is adjusted. Right-of-use assets are expressed separately in the consolidated balance sheet.

The right-of-use asset is depreciated based on a straight-line method from the lease start date to the end of the useful life or the lease period.

Lease liabilities were originally measured at the present value of lease payments (including fixed payments). If the implicit interest rate on the lease is easy to determine, the lease payment is discounted using that interest rate. Otherwise, the lessee's incremental borrowing rate is used.

Subsequently, lease liabilities are measured based on the amortized cost using the effective interest method, and interest expenses are apportioned over the lease term.

If the lease period, the expected payment amount under the residual value guarantee, the assessment of the purchase option of the underlying asset, or changes in the index or rate used to determine the lease payment lead to changes in future lease payments, the merger remeasures the lease liability and adjusts the right-of-use asset relatively. However, if the carrying amount of the right-of-use asset has been deducted to none, the remaining remeasurement amount is recognized in profit or loss. Lease liabilities are expressed separately in the consolidated balance sheet.

#### (十六) Borrowing Costs

The borrowing costs directly attributable to the acquisition, construction or production of an asset that meets the requirements are part of the cost of the asset until almost all necessary activities have been completed for the asset to reach its intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying capital is deducted from the borrowing costs eligible for capitalization.

Otherwise, all other borrowing costs are recognized as profits or losses whenever they occur.

#### (十七) Government subsidies :

Government subsidies are recognized only when it is reasonably certain that the combined company will comply with the conditions attached to the government subsidy and will receive the subsidy.

Government subsidies related to income are recognized in other revenues on a systematic basis during the period when the related costs that they intend to compensate are recognized as expenses in the combined company .

If the government subsidy is used to compensate for expenses or losses that have occurred, or is for the purpose of providing immediate financial support to the merged company and has no future related costs, it is recognized in the profit and loss during the period when it can be received.

#### (十八) Employee Benefits

##### 1. Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for service rendered by employees.

##### 2. Retirement benefits

For defined contribution retirement benefit plans, payments to the benefit plan are recognized as an expense when the employees have rendered service entitling them to the contribution.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the Projected Unit Credit Method. Service cost (including current service cost), and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period they occur.

Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability represents the actual deficit in the Company's defined benefit plan. Net defined benefit assets shall not exceed the present value of the refund of the withdrawal from the plan or the reduction of future withdrawals.

## (十九) Share-Based Payment Arrangement

### Employee Stock Options and Restricted Employee Equity Stocks

Employee stock options and restricted employee equity stocks are based on the fair value of the equity instrument given and the best-estimated amount expected to be acquired, and the expenses are recognized based on a straight-line method during the vesting period, and capital reserves are adjusted simultaneously, which is employee stock options and other equity (employees are not paid). If it is immediately available on the day of the grant, it is because of the full recognition of the expense on the date of the grant. The merger's cash increase for employee stock options is based on the day when the number of shares subscribed by employees is confirmed.

The merger revises the estimated revised restricted employee equity stocks at each balance sheet date. If there is a revision of the original estimated amount, its impact is recognized as profit or loss, so that the cumulative cost reflects the revised estimate, and the capital reserve is adjusted relative to the employee equity stock.

## (二十) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

### 1. Current tax

The merged company determines the current income (loss) according to the laws and regulations established by each income tax declaration jurisdiction, and calculates the payable (recoverable) income tax

Income tax on unappropriated earnings (excluding earnings from foreign consolidated subsidiaries) is expensed in the year the shareholders approved the appropriation of earnings which is the year subsequent to the year the earnings are generated.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

### 2. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed on each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be

available to allow all or part of the deferred tax asset to be recovered. The deferred tax assets which originally not recognized is also reviewed at the end of each reporting period and recognized to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered.

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

3. Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively. If current or deferred tax is generated from a business combination, its impact is included in the accounting treatment of the business combination.

**五、CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION AND UNCERTAINTY**

In the application of the aforementioned merger's accounting policies, the merger is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

**六、CASH AND CASH EQUIVALENTS**

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Cash in hand and working fund	\$ 1,387	\$ 1,710
Bank checks and demand deposits	1,272,147	1,854,669
Cash equivalent		
Bank time deposits with original maturity within 3 months	<u>61,500</u>	<u>120,549</u>
	<u>\$ 1,335,034</u>	<u>\$ 1,976,928</u>

The market interest rates of bank deposits and bank time deposits with original maturities within 3 months on the balance sheet date are as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Bank demand deposit	0%~1.100%	0%~1.100%
Cash equivalent		
Bank time deposits with original maturity within 3 months	0.09%~0.66%	0.09%~2.50%

七、FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS - CURRENT

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
<u>Financial liabilities for trading</u>		
Derivatives (unspecified hedging)		
Exchange contract	\$ <u>      -</u>	\$ <u>   304</u>

Contracts for exchange transactions that do not apply hedging accounting at the balance sheet date and have not yet expired are as follows:

December 31, 2020 : None

	<u>Currency</u>	<u>Expiration period</u>	<u>Agreed exchange rate</u>
December 31, 2019			
Foreign Exchange Swap Contract	USD 2,000	108.12.18~109.1.30	30.10~30.11

The merger entered into derivative contracts to manage exposures due to fluctuations of foreign exchange rates.

八、FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS - NONCURRENT

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Domestic Investment		
Listed Stocks	\$ 355,000	\$ 198,800
Unlisted Stocks	117,187	-
Foreign Investment		
Private Fund	<u>28,405</u>	<u>28,405</u>
	<u>\$ 542,700</u>	<u>\$ 227,205</u>

The merger invests in common stock of Sino-American Silicon Products Co., Ltd. based on its medium- and long-term strategic objectives, and expects to profit from long-term investment. The Company believes that if the short-term fair value fluctuations of these investments are included in profit or loss, it does not comply with the aforementioned long-term investment planning, and therefore chooses to designate these investments as FVTOCPL.

The merger adjusted its investment position in September 2019 and sold all of the common stock of Phoenix Silicon International Corporation at fair value of NTD\$ 68,722 thousand. Other related interests – financial assets measured at FVTOCPL have not realized the estimated profit or loss, NTD\$ 21,269 thousand was transferred to retained earnings.

九、FINANCIAL ASSETS AT AMORTIZED COST- CURRENT

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Time deposits with original maturity over 3 months	<u>\$171,391</u>	<u>\$ 65,960</u>
Current	\$108,391	\$65,960
Noncurrent	<u>63,000</u>	<u>-</u>
	<u>\$ 171,391</u>	<u>\$ 65,960</u>

(一) As of December 31, 2020, and 2019, the time deposit market interest rates with original maturity over 3 months were 0.18% ~ 1.75% and 0.08% ~ 1.95% per annum.

(二) For information of financial assets at amortized cost pledge, please refer to Notes 33.

十、NOTES AND ACCOUNTS RECEIVABLE

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
<u>Notes receivable</u>		
Measured at amortized cost		
Total book value	\$ 16,851	\$ 13,001
Less: allowance for losses	<u>-</u>	<u>-</u>
	<u>\$ 16,851</u>	<u>\$ 13,001</u>
 <u>Accounts receivable</u>		
Measured at amortized cost		
Total book value	\$ 588,809	\$ 556,507
Less: allowance for losses	( <u>158</u> )	( <u>5,487</u> )
	588,651	551,020
Measured at FVTPL	<u>5,522</u>	<u>9,177</u>
	<u>\$ 594,173</u>	<u>\$ 560,197</u>

(一) Notes Receivable

The aging analysis of notes receivable is as follows:

	<u>December 31, 2019</u>	<u>December 31, 2019</u>
Unexpired	\$ 16,851	\$ 13,001
Expired	<u>-</u>	<u>-</u>
	<u>\$ 16,851</u>	<u>\$ 13,001</u>

(二) Accounts Receivable

1. Accounts receivable measured at amortized cost

To lower credit risk, the management of the merger assigned a dedicated team to take charge of credit line determination, credit approval, and other monitoring procedures to ensure that appropriate actions have been taken to recover overdue receivables. Besides, the merger reviews the recoverable amount of receivables on the balance sheet date to ensure that unrecoverable receivables have been properly deducted. Accordingly, the management believes that the credit risk of the merger has been significantly lowered.

The merger recognizes allowance losses on accounts receivable based on expected credit losses during the existence period. The expected credit loss during the existence period is calculated with the provision matrix, which takes into account the customer's past default records and the current financial status and industrial economic situation, and also considers the overall economic and industrial prospect. The historical experience of the merger's credit loss indicates that there is no significant difference in the loss patterns of different customer groups, so the provision matrix does not further distinguish the customer groups; instead, it only sets the expected credit loss rate based on the number of days that the accounts receivable that are overdue.

If there is evidence proving that the counterparty is facing serious financial difficulties and the merger cannot reasonably expect the recoverable amount, for instance, the counterparty is performing liquidation, the merger shall directly write off the related receivables; however, it will continue to pursue activities because the recovery the amount is recognized in profit or loss.

The allowance loss of accounts receivable based on the provision matrix measured by the merger is as follows:

**December 31, 2020**

	<u>Not past due</u>	<u>Past Due Within 60 Days</u>	<u>Past Due 61~90 Days</u>	<u>Past Due 91~120 Days</u>	<u>Past Due over 121 Days</u>	<u>Total</u>
Expected credit loss rate	0%	0%~0.15%	0%~27%	0%~27%	0%~100%	
Total book value	\$ 528,426	\$ 59,623	\$ -	\$ -	\$ 760	\$ 588,809
Allowance loss (expected credit loss during the existence period)	-	-	-	-	( 158)	( 158)
Amortized Cost	<u>\$ 528,426</u>	<u>\$ 59,623</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 602</u>	<u>\$ 588,651</u>

**December 31, 2019**

	<u>Not past due</u>	<u>Past Due Within 60 Days</u>	<u>Past Due 61~90 Days</u>	<u>Past Due 91~120 Days</u>	<u>Past Due over 121 Days</u>	<u>Total</u>
Expected credit loss rate	0%	0%~2%	0%	0%~17%	0%~100%	
Total book value	\$ 536,969	\$ 14,021	\$ 6	\$ 24	\$ 5,487	\$ 556,507
Allowance loss (expected credit loss during the existence period)	-	-	-	-	( 5,487)	( 5,487)
Amortized Cost	<u>\$ 536,969</u>	<u>\$ 14,021</u>	<u>\$ 6</u>	<u>\$ 24</u>	<u>\$ -</u>	<u>\$ 551,020</u>

Information of movements of the loss allowance for accounts receivable is as follows:

	<u>2020</u>	<u>2019</u>
Initial balance	\$ 5,487	\$ -
Plus: obtained from business combination	-	732
Plus: Impairment loss for the year	158	4,755
Less: Actual write-offs for the year	( 5,487)	-
Year-end balance	<u>( \$ 158)</u>	<u>\$ 5,487</u>

2. Accounts Receivable Measured at FVTPL

The merger will factor to the bank without recourse and will transfer almost all risks and rewards of accounts receivable in the future when factoring, so it will be removed from the balance sheet. The business model of the merger for managing such accounts receivable does not aim to collect contractual cash flows or to achieve the purpose by receiving contractual cash flows and selling financial assets. Consequently, such accounts receivables are measured at FVTPL.

十一、**INVENTORIES**

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Finished Goods	\$ 200,979	\$ 276,189
Work in Progress	85,750	73,032
Raw Materials	<u>189,182</u>	<u>207,600</u>
	<u>\$ 475,911</u>	<u>\$ 556,821</u>

The cost of goods sold related to inventory in 2020 and 2019 was NTD\$2,229,001 thousand and NTD\$2,355,693 thousand, respectively. Cost of sales includes inventory depreciation and scrap losses of NTD\$ 38,800 thousand and NTD\$ 4,159 thousand.

## 十二、SUBSIDIARIES

### 1. Subsidiaries included in consolidated financial statements

Preparation of consolidated financial statement:

Investor	Subsidiary	Service	Percentage of equity held		Explanation
			December 31, 2020	December 31, 2019	
The Company	DING-WEI TECHNOLOGY CO., LTD.	Electronic component and auto component manufacturing	100%	100%	-
The Company	Smooth International Limited Corporation	Investment	100%	100%	-
Smooth International Limited Corporation	Smooth Autocomponent Limited	Investment	100%	100%	-
Smooth Autocomponent Limited	Smooth Autocomponent Limited	auto component manufacturing	100%	100%	-
The Company	Rec Technology Corporation	auto component manufacturing	49%	49%	1
The Company	Biobestsol Technology Corporation	Motor manufacturing	28%	28%	2,3

Notes 1: Rec Technology Corporation made a cash increase of NTD\$ 60,000 thousand on January 28, 2019. The merger did not subscribe for 3,845 thousand shares under the shareholding ratio, leading a shareholding ratio from 43.84% to 48.84% , and Rec Technology Corporation made a cash capital increase of NTD\$ 50,750 thousand on July 8, 2020. The merger did not subscribe for 2,565 thousand shares under the shareholding ratio, leading a shareholding ratio from 48.84% to 49.35% , which is the single largest shareholder and has the ability to direct and supervise its financial, operational and human resources, and has the substantive right to lead the company's relevant activities; thus, it is listed as a subsidiary.

Notes 2: The merger acquired the associate, Biobestsol Technology Corporation on March 8, 2019 of NTD130,000 thousand, holding 26% of the shares. It obtained substantial control of the company since June 17, 2019, and Biobestsol Technology Corporation performed a capital reduction to make up for the loss of NTD\$200,000 thousand on July 8, 2019, and perform cash capital increase of NTD\$ 400,000 thousand on September 16, 2019, causing a shareholding ratio from 26% to 28%, which is the single largest shareholder and has the ability to direct and supervise its financial, operational and human resources, and has the substantive right to lead the company's relevant activities; thus, it is listed as a subsidiary.

Notes 3: Subsidiary with significant non-controlling interests

2. Subsidiaries excluded in consolidated financial statements: None.

3. Information on subsidiaries with significant non-controlling interests:

Subsidiary	Operation Site	Ratio of Non-controlling interests holdings and voting rights	
		12.31.2020	12.31.2019
Biobestsol Technology Corporation	Taichung, Taiwan	72%	72%

For information of the main operation site and the country of company registration, please refer to appendix 5.

Subsidiary	Profit and loss allocated to non-controlling interests		Non-controlling interests	
	2020	2019	12.31.2020	12.31.2019
Biobestsol Technology Corporation	<u>(\$ 101,574)</u>	<u>(\$52,585)</u>	<u>\$ 222,0</u>	<u>\$323,655</u>

The following summary financial information of each subsidiary is prepared based on the amount before intercompany transactions are cancelled:

### Biobestsol Technology Corporation

	December 31, 2020	December 31, 2019
Current Assets	\$ 290,399	\$ 400,878
Noncurrent Assets	53,888	95,117
Current Liabilities	<u>( 37,579 )</u>	<u>( 49,008 )</u>
Equity	<u>\$ 306,708</u>	<u>\$ 446,987</u>
Equity attributable to:		
Owner of the Company	\$ 84,627	\$ 123,332
Non-controlling interests	<u>222,081</u>	<u>323,655</u>
	<u>\$ 306,708</u>	<u>\$ 446,987</u>
	2020	2019
Operating Income	<u>\$ 108,783</u>	<u>\$ 57,139</u>
Net Loss of the Year	<u>(\$ 140,279)</u>	<u>(\$ 71,922)</u>
Other Comprehensive Profits and Losses	<u>-</u>	<u>-</u>
Total Comprehensive Profits and Losses	<u>( \$ 140,279 )</u>	<u>( \$ 71,922 )</u>
Net Losses Attributable to:		
Owner of the Company	<u>(\$ 38,705)</u>	<u>(\$ 19,337)</u>
Non-controlling interests	<u>( 101,574 )</u>	<u>( 52,585 )</u>
	<u>(\$ 140,279)</u>	<u>(\$ 71,922)</u>
Net Comprehensive Losses Attributable to:		
Owner of the Company	<u>(\$ 38,705)</u>	<u>(\$ 19,337)</u>
Non-controlling interests	<u>( 101,574 )</u>	<u>( 52,585 )</u>
	<u>(\$ 140,279)</u>	<u>(\$ 71,922)</u>
Cash Flows		
Operating Activities	<u>(\$ 133,334)</u>	<u>(\$ 125,166)</u>
Investment	<u>( 9,620 )</u>	<u>( 2,260 )</u>
Fundraising	<u>4,000</u>	<u>400,000</u>
Net cash inflow	<u>(\$138,954)</u>	<u>\$ 272,574</u>

### 十三、 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31, 2020	December 31, 2019
Investment in Associates	\$ 451,009	\$ 410,357
Investment in Joint Ventures	<u>1,164,288</u>	<u>553,870</u>
	<u>\$1,615,297</u>	<u>\$ 964,227</u>

(一). Investment in Associates

**Significant Associates**

Company	Service	Operation Site	Ratio of Shareholding and Voting Rights	
			December 31, 2020	December 31, 2019
Mosel Technology Corporation	Semiconductor industry	Hsinchu	18%	18%

The merger subscribed of Mosel Technology Corporation in the accumulative shareholding ratio is 18%, which is listed as an associate using the equity method.

Investment using equity method and the profit and loss and other comprehensive profit and loss shares enjoyed by the merger shall be recognized according to the financial statement of the associate that has been verified by other accountants during the same period.

The level 1 fair value measurement of associates with open market quotes is as follows:

Company	December 31, 2020	December 31, 2019
Mosel Technology Corporation	<u>\$1,079,319</u>	<u>\$ 566,886</u>

The merger measures the aforementioned associate with equity method.

Mosel Technology Corporation is a listed company in Taiwan. Relevant financial information can be obtained from public information observatories; therefore, summary financial information will not be disclosed.

(二) Investment in Joint Ventures

**Significant Joint Ventures**

Company	Service	Operating Site
弘望投資股份有限公司	Investment	New Taipei City
	December 31, 2020	December 31, 2019
Ratio of shareholdings	30%	30%
Ratio of voting right	37%	37%

弘望投資股份有限公司 performed the capital increase of special shares on March 8, 2019. The special stocks and common stocks enjoy the same rights of surplus and distribution of capital points; however, they do not have the voting power and voting rights of the shareholders' meeting. Since the merger subscribed at the end of the shareholding ratio, the shareholding ratio dropped from 37% to 30%, but the voting rights ratio remained at 37%.

The merger measures the aforementioned joint venture with equity method.

The investment using equity method and the merger's profit and loss and other comprehensive profit and loss shares are recognized based on the financial statement of the joint venture reviewed by accountants during the same period.

The following summary financial information is prepared based on the joint financial statement of the joint venture IFRSs, and has fully reflected the adjustments made when using equity method.

弘望投資股份有限公司

	December 31, 2020	December 31, 2019
Cash and Cash equivalent	<u>\$ 924</u>	<u>\$ 556</u>
Current Assets	924	556
Noncurrent Assets	4,446,375	2,400,212
Current Liabilities	( 566,338)	( 554,537)
Equity	<u>\$ 3,880,961</u>	<u>\$ 1,846,231</u>
Ratio of Shareholdings of Merger	30%	30%
Equity Enjoyed by Merger	<u>\$ 1,164,288</u>	<u>\$ 553,870</u>
Amount of Investment Book Value	<u>\$ 1,164,288</u>	<u>\$ 553,870</u>
	<u>2020</u>	<u>2019</u>
Operating Income	<u>\$ 125,250</u>	<u>\$ 72,441</u>
Net Profit of the Year	<u>\$ 118,931</u>	<u>\$ 65,536</u>
Other Comprehensive Profits and Losses	<u>1,974,780</u>	<u>922,415</u>
Total Comprehensive Profits and Losses	<u>\$ 2,093,711</u>	<u>\$ 987,951</u>

十四、**PROPERTY, PLANT AND EQUIPMENT**

	Private Land	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Property under Construction	Total
<u>Cost</u>							
Balance on January 1, 2019	\$ 405,764	\$ 1,213,161	\$ 1,392,526	\$ 11,933	\$ 302,143	\$ 181,564	\$ 3,507,091
Additions	-	19,459	245,141	1,192	49,030	264,589	579,411
Disposals	-	( 15,285)	( 102,339)	-	( 64,398)	( 728)	( 182,750)
Reclassification	-	263,521	-	-	62,813	( 326,334)	-
Acquired from Business Combination	-	-	72,167	720	81,648	-	154,535
Net exchange difference	-	( 8,477)	( 3,682)	( 15)	( 3,413)	-	( 15,587)
Balance on December 31, 2019	<u>\$ 405,764</u>	<u>\$ 1,472,379</u>	<u>\$ 1,603,813</u>	<u>\$ 13,830</u>	<u>\$ 427,823</u>	<u>\$ 119,091</u>	<u>\$ 4,042,700</u>
<u>Accumulated Depreciation</u>							
Balance on January 1, 2019	\$ -	\$ 485,058	\$ 976,044	\$ 6,989	\$ 169,825	\$ -	\$ 1,637,916
Disposals	-	( 9,049)	( 89,509)	-	( 56,179)	-	( 154,737)
Depreciation Cost	-	53,789	136,316	1,703	45,123	-	236,931
Acquired from Business Combination	-	-	48,410	489	62,508	-	111,407
Net exchange difference	-	( 9)	( 1,873)	( 12)	( 702)	-	( 2,596)
Balance on December 31, 2019	<u>\$ -</u>	<u>\$ 529,789</u>	<u>\$ 1,069,388</u>	<u>\$ 9,169</u>	<u>\$ 220,575</u>	<u>\$ -</u>	<u>\$ 1,828,921</u>
Net Profit on December 31, 2019	<u>\$ 405,764</u>	<u>\$ 942,590</u>	<u>\$ 534,425</u>	<u>\$ 4,661</u>	<u>\$ 207,248</u>	<u>\$ 119,091</u>	<u>\$ 2,213,779</u>
<u>Cost</u>							
Balance on January 1, 2020	\$ 405,764	\$ 1,472,379	\$ 1,603,813	\$ 13,830	\$ 427,823	\$ 119,091	\$ 4,042,700
Additions	-	5,968	229,720	-	35,284	357,060	628,032
Disposals	-	-	( 179,522)	( 972)	( 5,628)	( 3,870)	( 189,992)
Reclassification	-	36,139	20,601	-	-	( 56,740)	-
Net exchange difference	-	3,655	2,129	7	1,551	-	7,342
Balance on December 31, 2020	<u>\$ 405,764</u>	<u>\$ 1,518,141</u>	<u>\$ 1,676,741</u>	<u>\$ 12,865</u>	<u>\$ 459,030</u>	<u>\$ 415,541</u>	<u>\$ 4,488,082</u>
<u>Accumulated Depreciation</u>							
Balance on January 1, 2020	\$ -	\$ 529,789	\$ 1,069,388	\$ 9,169	\$ 220,575	\$ -	\$ 1,828,921
Disposals	-	-	( 150,765)	( 972)	( 5,628)	-	( 157,365)
Depreciation Cost	-	56,514	145,313	1,287	51,926	-	255,040
Recognized impairment loss	-	-	11,121	-	-	-	11,121
Net exchange difference	-	111	1,061	( 5)	442	-	1,609

	Private Land	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Property under Construction	Total
Balance on December 31, 2020	\$ -	\$ 586,414	\$ 1,076,118	\$ 9,479	\$ 267,315	\$ -	\$ 1,939,326
Net Profit on December 31, 2020	\$ 405,764	\$ 931,727	\$ 600,623	\$ 3,386	\$ 191,715	\$ 415,541	\$ 2,548,756

The merging company expects that the future cash inflow of some machinery and equipment will decrease, so that its recoverable amount is less than the book value. Therefore, the impairment loss of 11,121 thousand is recognized in 2020. The impairment loss has been included in the operating costs of the consolidated consolidated income statement.

The property, plant, and equipment of the merger are depreciated based on a straight-line method at the following durability years:

House and Buildings	
Main building of Plant	51 years
Electromechanical power equipment	10~11 years
Engineering System	10~11 years
Machinery and Equipment	
Production Equipment	5~10 years
Apparatus	2~6 years
Transportation Equipment	5~10 years
Other Equipment	2~5 years

For the amount of property, plant and equipment pledged by the merger as loan guarantee, please refer to Notes 33.

## 十五、Lease Agreement

### (一) Use-of-Right Assets

	December 31, 2020	December 31, 2019
Book Value Amount of Use-of-Right Assets		
Land	\$ 30,476	\$ 30,617
Buildings	15,067	21,197
Transportation Equipment	1,585	183
	<u>\$ 47,128</u>	<u>\$ 51,997</u>
	2020	2019
Additions of Use-of-Right Assets	<u>\$ 2,580</u>	<u>\$ 2,065</u>
Depreciation Cost of Use-of-Right Assets		
Land	\$ 640	\$ 214
Buildings	6,139	5,980
Transportation Equipment	1,180	1,106
	<u>\$ 7,959</u>	<u>\$ 7,300</u>

### (二) Lease Liabilities

	December 31, 2020	December 31, 2019
Book Value Amount of Lease Liabilities		
Current	<u>\$ 7,199</u>	<u>\$ 6,253</u>
Noncurrent	<u>\$ 9,712</u>	<u>\$ 15,305</u>

The discount range for lease liabilities is as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Buildings	1.09%-5.5%	1.09%-5.5%
Transportation Equipment	1.14%-1.81%	1.09%

(三)ther Lease Information

	<u>2020</u>	<u>2019</u>
Short-term Lease Cost	<u>\$ 4,803</u>	<u>\$ 5,460</u>
Low-Value Asset Lease Cost	<u>\$ 231</u>	<u>\$ 299</u>
Total Cash (Outflow) of Lease	<u>(\$ 12,608)</u>	<u>(\$ 13,083)</u>

The merger determines to apply the exemption for recognition of certain asset leases that meet the short-term lease and low-value asset leases, and does not recognize the relevant right-of-use assets and lease liabilities for those leases.

十六、**Goodwill**

	<u>2020</u>	<u>2019</u>
<u>Cost</u>		
Initial Balance	\$ 283,637	\$ 194,854
Business Acquisition of the Year (Notes 27)	<u>-</u>	<u>88,783</u>
Year-End Balance	<u>\$ 283,637</u>	<u>\$ 283,637</u>
<u>Accumulated Impairment Loss</u>		
Initial Balance	\$ 58,495	\$ 58,495
Recognition of Impairment Losses of the Year	<u>-</u>	<u>-</u>
Year-End Balance	<u>\$ 58,495</u>	<u>\$ 58,495</u>
Year-End Net	<u>\$ 225,142</u>	<u>\$ 225,142</u>

十七、**Other Intangible Assets**

	<u>Software</u>	<u>Technical Skill</u>	<u>Total</u>
<u>Cost</u>			
Balance on January 1, 2020	\$ 68,492	\$ 16,394	\$ 84,886
Additions	4,111	-	4,111
Disposals	( 872)	-	( 872)
Net Exchange Difference	<u>10</u>	<u>-</u>	<u>10</u>
Balance on December 31, 2020	<u>\$ 71,741</u>	<u>\$ 16,394</u>	<u>\$ 88,135</u>
<u>Accumulated Amortization</u>			
Balance on January 1, 2020	\$ 42,121	\$ 9,726	\$ 51,847
Amortized Costs	7,853	2,779	10,632
Disposals	( 872)	-	( 872)
Net Exchange Difference	<u>10</u>	<u>-</u>	<u>10</u>
Balance on December 31, 2020	<u>\$ 49,112</u>	<u>\$ 12,505</u>	<u>\$ 61,617</u>
Net on December 31, 2020	<u>\$ 22,629</u>	<u>\$ 3,889</u>	<u>\$ 26,518</u>

	<u>Software</u>	<u>Technical Skill</u>	<u>Total</u>
<u>Cost</u>			
Balance on January 1, 2019	\$ 49,259	\$ 16,394	\$ 53,562
Additions	16,737	-	12,105
Disposals	( 127)		( 127)
Acquired from Business Combination	2,646	-	2,646
Net Exchange Difference	( 23)	-	( 23)
Balance on December 31, 2019	<u>\$ 68,492</u>	<u>\$ 16,394</u>	<u>\$ 84,886</u>
<u>Accumulated Amortization</u>			
Balance on January 1, 2019	\$ 31,598	\$ 4,168	\$ 29,934
Amortization Costs	8,628	2,779	8,624
Disposals	( 127)		( 127)
Acquired from Business Combination	2,045	-	2,045
Net Exchange Difference	( 23)	-	( 23)
Balance on December 31, 2019	<u>\$ 42,121</u>	<u>\$ 9,726</u>	<u>\$ 51,847</u>
Net on December 31, 2019	<u>\$ 26,371</u>	<u>\$ 6,668</u>	<u>\$ 33,039</u>

The aforementioned intangible assets with limited useful life are amortized based on a straight-line method within 6 years.

#### 十八、Other Noncurrent Assets

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Prepaid Equipment Costs	\$ 245,099	\$ 238,522
Prepaid investment	84,469	-
Refundable deposits	5,369	13,301
	<u>\$ 334,937</u>	<u>\$ 251,823</u>

#### 十九、Loans

##### (一) Short-Term Loan

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
<u>Unsecured Loan</u>		
Credit Line Loan	<u>\$ 859,100</u>	<u>\$ 493,206</u>

The interest rate of bank revolving loans was 1.69% ~ 1.92% and 1.07% ~ 2.32% on December 31, 2020 and 2019 respectively.

## (二) Long-Term Loan

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Bank Loan	\$ 720,610	\$ 796,167
Other Loan(Note2)	17,115	26,883
Less: listed as part due within 1 year	( 140,423)	(140,423)
Long-Term Loan	<u>\$ 597,302</u>	<u>\$ 749,563</u>
Interest Rate	1.07%-10%	1.24%-10%
Due Day	Sep. 26, 2022 - April 26, 2024	May 23, 2020 - April 26, 2024

1. The bank loan amounts for 2020 and 2019 were NTD\$ 1,603,121 thousand and NTD\$ 1,056,680 thousand respectively, part of which is secured by the Company's land and buildings (refers to Notes 33.) The amount of this transfer is used to enrich the medium and long-term operating capital.
2. The merger signed an RMB\$ 7,500 thousand asset sale and buyback financing contract with Hua Nan Commercial Bank Leasing Corporation in June 2019. After the agreed lease term expires, the ownership of the asset will be returned unconditionally and the Company will pay in accordance with the contract. The implied interest rate is set at 10%.
- 3.

## 二十、Other Payables

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Salary and Compensation	\$ 136,404	\$ 138,648
Leave Benefits	17,437	24,955
Equipment Costs	14,981	23,873
Other	87,427	99,350
	<u>\$ 256,249</u>	<u>\$ 286,826</u>

## 二十一、Retirement Benefit plans

### (一) Defined contribution plans

The plan under the R.O.C. Labor Pension Act (the "Act") is deemed a defined contribution plan. Pursuant to the Act, the Company of the merger and domestic subsidiaries have made monthly contributions equal to 6% of each employee's monthly salary to employees' pension accounts.

The employees of the merger's subsidiary in the mainland China are the members of the retirement benefits program operated by the government in the mainland China. The subsidiary must allocate a specific percentage of salary costs to the retirement benefit plan to provide funding. The merger's obligation for the retirement benefit plan is only for the contribution of a specific amount.

(二) Defined benefit plans

The Company of the merger has defined benefit plans under the R.O.C. Labor Standards Law that provide benefits based on an employee's length of service and average monthly salary for the six-month period prior to retirement. The Company contributes an amount equal to 2% of salaries paid each month to their respective pension funds (the Funds), which are administered by the Labor Pension Fund Supervisory Committee (the Committee) and deposited in the Committee's name in the Bank of Taiwan. Before the end of each year, the Company assesses the balance in the Funds. If the amount of the balance in the Funds is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The Funds are operated and managed by the government's designated authorities; as such, the merger does not have any right to intervene in the investments of the Funds.

The amount of the defined benefit plan included in the consolidated balance sheet is as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Present value of defined benefit obligation	\$ 35,746	\$ 32,953
Fair value of plan assets	( 34,524 )	( 32,198 )
Net defined benefit liability (assets)	<u>\$ 1,222</u>	<u>\$ 2,755</u>

The amendment of Net defined benefit liability (assets) is as follows:

	<u>Present value of defined benefit obligation</u>	<u>Fair value of plan assets</u>	<u>Net defined benefit liability (assets)</u>
Balance on January 1, 2019	<u>\$ 32,221</u>	<u>( \$ 30,998 )</u>	<u>\$ 1,223</u>
Service cost			
Service cost of the year	112	-	112
Interest expense (income)	<u>403</u>	<u>( 394 )</u>	<u>9</u>
Recognized in profits or losses	<u>515</u>	<u>( 394 )</u>	<u>121</u>
Remeasurement amount			
Planned asset compensation (except for the amount included in net interest)	-	( 991 )	( 991 )
Actuarial losses-changes in demographic assumptions	1,106	-	1,106
Actuarial losses-changes in financial assumptions	1,682	-	1,682
Actuarial losses-experience adjustment	<u>643</u>	<u>-</u>	<u>643</u>
Recognized in other profits and losses	<u>3,431</u>	<u>( 991 )</u>	<u>2,440</u>
Planned asset payment	( 1,214 )	1,214	-
Employer allocation	-	( 1,029 )	( 1,029 )
Balance on December 31, 2019	<u>34,953</u>	<u>( 32,198 )</u>	<u>2,755</u>
Service cost			

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability (assets)
Service cost of the year	116	-	116
Interest expense (income)	<u>306</u>	( <u>286</u> )	<u>20</u>
Recognized in profits or losses	<u>422</u>	( <u>286</u> )	<u>136</u>
Remeasurement amount			
Planned asset compensation (except for the amount included in net interest)	-	( 1,016 )	( 1,016 )
Actuarial losses-changes in demographic assumptions	1,889	-	1,889
Actuarial losses-changes in financial assumptions	1,541	-	1,541
Actuarial benefits -experience adjustment	( <u>3,059</u> )	<u>-</u>	( <u>3,059</u> )
Recognized in other profits and losses	<u>371</u>	( <u>1,016</u> )	( <u>645</u> )
Employer allocation	<u>-</u>	( <u>1,024</u> )	( <u>1,024</u> )
Balance on December 31, 2020	<u>\$ 35,746</u>	( <u>\$ 34,524</u> )	<u>\$ 1,222</u>

Through the defined benefit plans under the R.O.C. Labor Standards Law, the merger is exposed to the following risks:

1. Investment risk: The pension funds are invested in equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the government's designated authorities or under the mandated management. However, under the R.O.C. Labor Standards Law, the rate of return on assets shall not be less than the average interest rate on a two-year time deposit published by the local banks and the government is responsible for any shortfall in the event that the rate of return is less than the required rate of return.
2. Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the debt investments of the plan assets.
3. Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The present value of the defined benefit obligation of the merger is actuarial by a qualified actuary. The significant assumptions on the measurement date are as follows:

The mortality rate is based on the fifth life experience table of Taiwan's life insurance industry. The disability rate is 10% of the expected mortality rate.

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Discount rate	0.500%	0.875%
Future salary increase rate	3.250%	3.250%

If the significant actuarial assumptions are reasonably likely to change, all other assumptions remain unchanged, the amount that will increase (decrease) the present value of the defined benefit obligation is as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Discount rate		
Increase 0.25%	( <u>\$ 1,085</u> )	( <u>\$ 1,154</u> )
Decrease 0.25%	<u>\$ 1,134</u>	<u>\$ 1,206</u>
Future salary increase rate		
Increase 0.25%	<u>\$ 1,087</u>	<u>\$ 1,160</u>
Decrease 0.25%	( <u>\$ 1,046</u> )	( <u>\$ 1,117</u> )

Since actuarial assumptions may be closely related to each other, it is unlikely that a single assumption will change. Therefore, the aforementioned sensitivity analysis may not reflect the actual changes in the present defined value of benefit obligations.

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Expected allocated amount within 1 year	<u>\$ 1,053</u>	<u>\$ 1,037</u>
Average maturity period of defined benefit obligations	13.9 years	13.3 years

## 二二、Equity

### (一)Capital Stock

#### Common Stock

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Authorized shares (in thousands)	<u>300,000</u>	<u>100,000</u>
Authorized capital	<u>\$ 3,000,000</u>	<u>\$ 1,000,000</u>
Issued and paid shares (in thousands)	<u>91,483</u>	<u>91,513</u>
Issued capital	<u>\$ 914,830</u>	<u>\$ 915,130</u>

The Company's board of directors has passed a resolution of issuing 16,600 thousand new shares by cash increase On June 10, 2019. The aforementioned cash increase case was approved and declared effective by the Securities and Futures Bureau of the Financial Management Commission on July 30, 2019, and was approved by the board of directors to use September 2, 2019, as the base date for the capital increase and subscription, and October 15, 2019, as the base date for issuing new shares by cash increase.

The shareholders' meeting of the Company resolved to issue restricted new employee equity stock and actually issued 648 thousand shares at an issue price of NTD\$ 50 on May 30, 2018. The Company has obtained the approval of FSC Letter No. 1070121188 on December 14, 2018, and set October 22, 2019, as the base date for the capital increase of restricted new employee equity stock.

The company's equity changes were mainly due to the resignation of employees in 2020, the cancellation and withdrawal of 30,000 shares

that restricted employee rights, and November 4, 2020 as the base date for capital reduction

(二)Capital surplus

Under the relevant laws, the capital surplus generated from donations and the excess of the issuance price over the par value of capital stock (including the stock issued for new capital, mergers and convertible bonds) may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or stock dividends up to a certain percentage of TSMC's paid-in capital. However, when generated from issuance of restricted shares for employees, such capital surplus may not be used for any purpose.

(三)Retained earnings and dividend policy

The company has passed the resolution of the shareholders meeting on May 29, 2019 to amend the articles of association, stating that the company authorizes the board of directors to make a special resolution to distribute dividends and bonuses in cash and report to the shareholders meeting.

According to the allocation policies of the Company's amended Articles, when allocating the net profits for each fiscal year, the Company shall first allocate for tax and offset its losses in previous years, then contribute 10% as a legal reserve. However, it shall not be listed when the legal reserve has reached the Company's paid-in capital. The rest shall be listed or converted into special reserves under the law. After the remaining part is added to the retained earnings of the previous year, the board of directors shall prepare a proposal for distribution of profit and submits it to the Shareholders' meeting for resolution. However, if all or part of the dividends and bonuses are distributed in cash, the board of directors may be authorized to attend with more than two-thirds of the directors, and after more than half of the directors present agree, and report to the shareholders meeting.

According to the allocation policies of before correction the Company's Articles, when allocating the net profits for each fiscal year, the Company shall first allocate for tax and offset its losses in previous years, then contribute 10% as a legal reserve. However, it shall not be listed when the legal reserve has reached the Company's paid-in capital. The rest shall be listed or converted into special reserves under the law. After the remaining part is added to the retained earnings of the previous year, the board of directors shall prepare a proposal for distribution of profit and submits it to the Shareholders' meeting for resolution.

The Company will consider the impact of future capital needs and taxation on the Company and Shareholders based on the earnings of the Company, and maintain the Company's sustainable development and stable growth of earnings per share. Its distribution ratio shall not less than 50% cash dividend, and shall submit it to the Shareholders' meeting for distribution after the approval. For the compensation of employee and director distribution policy specified in the Company's

Articles, please refer to Notes 23 (6), the Employee Compensation and Director Compensation.

The appropriation for legal capital reserve shall be made until the reserve equals the Company's paid-in capital. The reserve may be used to offset a deficit, or be distributed as dividends in cash or stocks for the portion in excess of 25% of the paid-in capital if the Company incurs no loss.

The Company listed the provision and conversion of special reserves in accordance with the FSC Letter No. 1010012865 Letter, FSC Letter No. 1010047490 Letter, FSC Letter No. 1030006415 Letter and "Listing the Applicable Questions and Answers of Special Reserves After the Adoption of International Financial Reporting Standards (IFRSs)."

The regular Shareholders' meetings of the Company will be held on May 27, 2020 and May 29, 2019, and the resolution of passing the annual profit distribution plans for the year of 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Legal reserve	<u>\$ 32,986</u>	<u>\$ 52,988</u>
Special reserve	<u>(\$ 60,370)</u>	<u>\$ 60,370</u>
Cash dividend	<u>\$ 288,266</u>	<u>\$ 374,325</u>
Cash dividend per share (NTD)	\$ 3.15	\$ 5

The Company's Shareholders' regular meeting on May 27, 2020 defined to issue cash and NTD\$ 123,543 thousand in capital reserve.

The resolution of the annual profit distribution for the year of 2020 proposed by the board of directors of the Company on March 10, 2021 is as follows:

	<u>2020</u>
Legal reserve	<u>\$ 28,151</u>
Cash dividend	<u>\$ 210,411</u>
Cash dividend per share (NTD\$)	\$ 2.3

The directors of the Company on March 10, 2021 proposed to issue cash of NTD\$ 64,038 thousand in capital reserve.

The profit distribution for the year of 2020 is still pending the resolution of the regular Shareholders' meeting expected to be held on May 28, 2021.

(四) Non-controlling interests

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Initial balance	\$ 362,840	\$ 219,910
Net profit of the year	( 104,953)	( 64,855)
Changes in ownership interest in subsidiaries (Notes 29)	252	11,300
Acquisition of non-controlling interests added by subsidiaries (Notes 28)	-	87,993
Cash increase of subsidiaries	<u>25,095</u>	<u>306,411</u>
Year-end balance	<u>\$ 283,234</u>	<u>\$ 362,840</u>

二三、 **Net profit before tax**

(一) Other Income

	<u>2020</u>	<u>2019</u>
Dividend	\$ 10,000	\$ 1,360
Other	<u>19,332</u>	<u>145,374</u>
	<u>\$ 29,332</u>	<u>\$ 146,734</u>

(二) Other profits and losses

	<u>2020</u>	<u>2019</u>
Disposals of property, plant, and equipment measured at FVTPL	(\$ 32,301)	(\$ 22,192)
Financial assets and liabilities designated to measure at FVTPL	577	( 304)
Total foreign currency exchange profits	37,656	32,967
Total foreign currency exchange losses	( 64,245)	( 63,522)
Other	<u>( 35,664)</u>	<u>( 25,252)</u>
	<u>(\$ 93,977)</u>	<u>(\$ 78,303)</u>

(三) Financial Cost

	<u>2020</u>	<u>2019</u>
Bank loan interest	\$ 18,465	\$ 20,649
Lease interest	<u>337</u>	<u>415</u>
	<u>\$ 18,802</u>	<u>\$ 21,064</u>

(四) Depreciation and amortization

	<u>2020</u>	<u>2019</u>
Depreciation expense is summarized according to function		
Operating cost	\$172,088	\$158,121
Operating expense	<u>90,911</u>	<u>86,110</u>
	<u>\$262,999</u>	<u>\$244,231</u>
Amortization expense is summarized according to function		
Operating cost	\$ 841	\$ 357
Operating expense	<u>9,791</u>	<u>11,050</u>
	<u>\$ 10,632</u>	<u>\$ 11,407</u>

(五)Employee benefits expenses

	<u>2020</u>	<u>2019</u>
Post-employment benefits		
Defined contribution plans	\$ 22,965	\$ 21,581
Defined benefit plans	<u>136</u>	<u>121</u>
	<u>23,101</u>	<u>21,702</u>
Share-based payment	10,423	5,951
Other employment benefits	<u>683,202</u>	<u>701,731</u>
Total benefit expenses	<u>\$ 716,726</u>	<u>\$ 729,384</u>
Summarized according to function		
Operating cost	\$ 390,911	\$ 441,254
Operating expense	<u>325,815</u>	<u>288,130</u>
	<u>\$ 716,726</u>	<u>\$ 729,384</u>

(六)Compensation of employees and directors

If there is any profit in the Company's annual accounts, the compensation of employee and director shall be set as follows; however, but if the Company still has accumulated losses, it shall make up for the loss in advance before contribution. The aforementioned profit refers to the net profit before tax after deducting the compensation of employee and director.

- (1) The employee's compensation shall not be less than 5%, which shall be distributed by stock or cash by the resolution of the board of directors, and its distribution target includes employees of subsidiaries that meet certain conditions.
- (2) The director's compensation shall not be more than 3%.

The distribution of the compensation of employee and director shall be proposed to the Shareholders' meeting.

The compensation of employees in 2020 and 2019 and the remuneration of directors were defined by the board of directors on March 10, 2021 and March 9, 2020 as follows:

	<u>2020</u>	<u>2019</u>
	<u>Cash</u>	<u>Cash</u>
Employee's compensation	\$ 43,330	\$ 46,257
Director's compensation	10,760	7,546

If the amount still changes after the approval of the release date of the annual consolidated financial statement, it will be adjusted and recorded in the next year based on the accounting estimates.

There is no difference between the actual amount of the compensation of employee and director for the year of 2019 and 2018, and the amount recognized in the annual financial statements for the year of 2019 and 2018.

For the resolution of the compensation of employee and director of the Company's board of directors for the year, please refer to the Taiwan Stock Exchange "Public Information Observatory."

## 二四、Income Tax

(一) Income tax expense consisted of the following:

	<u>2020</u>	<u>2019</u>
Current income tax expense		
Current tax expense recognized in the current year	\$ 37,026	\$ 112,588
Income tax adjustments on prior years	( 2,986 )	( 5,011 )
	<u>34,040</u>	<u>107,577</u>
Deferred income tax		
Current tax expense	3,788	( 4,854 )
Rrecognized in the current year	<u>1,029</u>	<u>-</u>
	<u>4,817</u>	<u>( 4,854 )</u>
Income tax expense recognized in profit or loss	<u>\$ 38,857</u>	<u>\$ 102,723</u>

The adjustment of accounting income and income tax expenses is as follows:

	<u>2020</u>	<u>2019</u>
Net profit before tax	<u>\$ 215,732</u>	<u>\$ 359,926</u>
Net income before tax measured at the legal tax rate of income tax expense (20%)	\$ 43,146	\$ 71,985
Net non-deductible tax losses	( 18,157 )	27,424
Tax-free income	( 3,991 )	( 272 )
Unrecognized loss deductions / deductible temporary differences	15,836	8,343
Number of different tax rates for subsidiaries operating in other jurisdictions	981	103
Current income tax expense of previous year	( 1,957 )	( 5,011 )
Offset of investment income of foreign operation	<u>2,999</u>	<u>151</u>
Income tax expense recognized in profit or loss	<u>\$ 38,857</u>	<u>\$ 102,723</u>

The Republic of China announced the amendment of the Industrial Innovation Regulations by the President in July 2019, which stipulated that the construction or purchase of specific assets or technologies with retained earnings from the year 2018 can be included as a deduction item for measuring retained earnings. When the merger measured the retained earnings tax, it had deducted the amount of capital expenditure for the reinvestment of the retained earnings, only deduct the amount of capital expenditure that has actually been reinvested

(二)Deferred income tax assets and liabilities

The amendment of deferred income tax assets and liabilities is as follows:

2020

	Initial Balance	Recognized in Profit and Loss	Recognized in Other Comprehen sive Profit and Loss	Year-End Balance
<u>Deferred income tax assets</u>				
Temporary difference				
Taxation difference of sales revenue	\$ 12,080	(\$ 2,166)	\$ -	\$ 9,914
Unrealized inventory loss	2,001	1,566	-	3,567
Leave payables	4,991	( 1,653)	-	3,338
Defined retirement benefits plan	551	( 178)	( 129)	244
Other	4,661	547	-	5,208
	<u>\$ 24,284</u>	<u>\$ 1,884</u>	<u>(\$ 129)</u>	<u>\$ 22,271</u>
<u>Deferred income tax liabilities</u>				
Temporary difference				
Unrealized exchange gains	\$ 216	(\$ 66)	\$ -	\$ 150
Investment income from foreign operation	12,969	2,999	-	15,968
	<u>\$ 13,185</u>	<u>\$ 2,933</u>	<u>\$ -</u>	<u>\$ 16,118</u>

2019

	Initial Balance	Recognized in Profit and Loss	Recognized in Other Comprehen sive Profit and Loss	Year-End Balance
<u>Deferred income tax assets</u>				
Temporary difference				
Taxation difference of sales revenue	\$ 9,317	\$ 2,763	\$ -	\$ 12,080
Unrealized inventory loss	1,169	832	-	2,001
Leave payables	4,529	462	-	4,991
Defined retirement benefits plan	245	( 182)	488	551
Other	3,395	1,266	-	4,661
	<u>\$ 18,655</u>	<u>5,141</u>	<u>\$ 488</u>	<u>\$ 24,284</u>
<u>Deferred income tax liabilities</u>				
Temporary difference				
Unrealized exchange gains	\$ 80	\$ 136	\$ -	\$ 216
Investment income from foreign operation	12,818	151	-	12,969
	<u>\$ 12,898</u>	<u>\$ 287</u>	<u>\$ -</u>	<u>\$ 13,185</u>

(三) Related information of unused loss carryforwards

As of December 31, 2020, the information of unused loss carryforwards of the subsidiary is as follows:

Undeducted balance	Final deduction year
\$ 92,316	2021
167,715	2022
173,599	2023
131,191	2024
151,983	2025
202,114	2026
163,239	2027
163,873	2028
141,361	2029
79,715	2030
<u>\$ 1,467,106</u>	

The aforementioned loss carryforwards is not recognized as deferred income tax assets.

d. Income tax examination

The tax authorities have examined income tax returns of the Company through 2018

二五、 Earnings Per Share

The earnings used to measure earnings per share and the weighted average number of ordinary shares are as follows:

Net Profits of the Year

	2020	2019
Net profits attributable to the owner of the Company	\$ 281,828	\$ 322,058
The impact of diluted potential common stocks:		
Employee's compensation	-	-
Profits for measuring the earnings of diluted earnings per share	<u>\$ 281,828</u>	<u>\$ 322,058</u>

Number of shares

	2020	2019
Weighted average number of common stocks for calculating basic earnings per share	90,917	78,365
The impact of diluted potential common stocks:		
Employee's compensation	479	571
Weighted average number of common stocks for calculating diluted earnings per share	<u>91,396</u>	<u>78,936</u>

If the merger may decide to issue employee compensation either in stocks or cash, when calculating diluted earnings per share, it is assumed that employee compensation will be issued in stock issuance. The

potential common stocks will be included in the calculation of the weighted average number of common stock outstanding when it has a dilution effect. Before calculating the diluted earnings per share before resolving the number of shares for employee compensation in the following year, the Company shall also continue to consider the dilution effect of these potential common stocks.

## 二六、Share-Based Payment Arrangement

### Employee Stock Option

The Company increased its capital by issuing new shares in September 2019, of which 396 thousand shares were subscribed by employees. The aforementioned employees' stock options have been fully acquired at the time of grant. The company's current capital increase employee stock options information is summarized as follows:

<u>Employee Stock Option</u>	<u>2019</u>	
	<u>Calculated in thousand</u>	<u>Weighted average exercise price (NTD\$)</u>
Initial outstanding stock	-	\$ -
Offer of the year	396	87.5
Exercise of the year	( <u>396</u> )	87.5
Year-end outstanding stock	<u>-</u>	

The grant date of the cash increased employees' stock option is September 6, 2019, using Black-Scholes-Merton, the option evaluation model is used to calculate the fair value of the stock options. The parameters used in the hypothetical information evaluation model on the grant date are as follows:

	<u>September 2019</u>
Share price on grant date	NTD\$ 94.1
Exercise price	NTD\$ 87.5
Expected volatility	18.74%
Duration	32 days
Risk-free rate of interest	0.46

The compensation cost recognized in 2019 was NTD\$ 2717 thousand.

### New restricted employee equity

The shareholders' meeting of the Company resolved on May 30, 2018, that issuing new restricted employee equity, and actually issued 648 thousand shares at an issue price of NTD\$ 50. The Company has acquired the approval of FSC letter No. 1070121188 on December 14, 2018, and set October 22, 2019, as the base date for the capital increase of new restricted employee equity.

The restricted equity of employees after being allocated or subscribed for new restricted employee equity before they reach the acquired conditions is as follows:

- (1) The employees shall not sell, pledge, transfer, gift, set or dispose of otherwise on new restricted employee equity.

- (2) New restricted employee equity has the right to participate in dividend distribution, and the dividends it receives are not subject to the restrictions of the vesting period.
- (3) The proposals, speeches, voting rights, and other matters related to shareholders' equity and interests in the Company's shareholders' meeting before the new restricted employee equity meets the vesting conditions are equal to those of the Company's other common stocks.
- (4) After new restricted employee equity has issued and before the vesting condition is reached, it shall be immediately transferred to trust or custody and shall not be returned to the trustee by any reason or method. When the employee fails to meet the vesting conditions, the Company will fully recover or buy the new restricted employee equity allocated to the employee for cancellation.

New restricted employee equity, the relevant information is as follows:

	Stock (thousand)
	<u>2020</u>
1, January	648
Cancellation of current resignation	( 30 )
Vested in this issue	<u>( 206 )</u>
31, Dec.	<u>412</u>

The compensation cost recognized amounts for 2020 and 2019 were NTD\$ 10,423 thousand and NTD\$ 3,234 thousand respectively.

### 二七、Government subsidy

The combined company received a government grant of NTD 9,956 thousand due to COVID-19 in 2020. The government subsidy is for the purpose of providing immediate financial support to the combined company and has no future related costs. It has been included under other income.

### 二八、Business Combination

#### (一) Acquisition of subsidiaries

	Service	Date of Acquisition	Voting Ownership Interest / Acquisition Ratio (%)	Transfer Consideration
BigBestSol Technology Corporation	Motor manufacturing	June 17, 2019	28%	<u>\$ -</u>

The acquisition of BigBestSol Technology Corporation by the merger is based on industrial strategic needs.

#### (二) Transfer Consideration

Cash	<u>BigBestSol Technology Corporation</u> <u>\$ -</u>
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(三) Assets acquired and liabilities assumed on acquisition date

	BigBestSol Technology Corporation
Current Assets	
Cash and cash equivalents	\$ 47,250
Accounts receivable	22,549
Other receivables	3,008
Inventories	35,461
Other current assets	7,065
Non-Current Assets	
Property, plant, and equipment	43,128
Intangible assets	601
Other non-current assets	57,854
Current Liabilities	
Notes and accounts payable	14,380
Other payables	20,387
Other current liabilities	<u>63,240</u>
	<u>\$ 118,909</u>

(四) Non-controlling interests

The non-controlling interest of BigBestSol Technology Corporation (74% ownership interest) is measured by the proportional share of the non-controlling interest at the fair value of the Company's recognizable net assets on the acquisition date.

(五) Goodwill arising from acquisition

	BigBestSol Technology Corporation
Transfer Consideration	\$ -
Add: Non-controlling interests (74% ownership interest of BigBestSol Technology Corporation)	87,993
Add: The fair value of the acquiree on the acquisition date previously held by acquirer	119,699
Less: Fair value of recognized acquired net assets	<u>( 118,909 )</u>
Goodwill arising from acquisition	<u>\$ 88,783</u>

Goodwill arising from the acquisition of BigBestSol Technology Corporation is mainly from control premium. In addition, the consideration paid for the merger includes the expected merger synergy, revenue growth, future market development, and employee value of BigBestSol Technology Corporation. However, these benefits do not meet the recognition requirements for recognizable intangible assets, which will not be recognized separately.

(六) Net cash inflow of acquisition of subsidiaries

	BigBestSol Technology Corporation
Balance of acquired cash and cash equivalent	<u>\$ 47,250</u>

(七) Impact of business combination on business performance

	BigBestSol Technology Corporation
Operating income	<u>\$ 57,139</u>
Net loss of the year	<u>(\$ 71,922)</u>

If the business combinations occur on the start date of the fiscal year to which the acquisition date belongs, the proposed consolidated operating income and the planned net profit of the merger for the year of 2019 was NTD\$ 3,414,235 thousand and NTD\$ 192,344 thousand, respectively. If these amounts cannot be reflected in the actual income and operating results of the merged company when the business merger is completed on the start date of the acquisition year, it shall not be used to predict future business performance.

二九、INTEREST TRANSACTION OF NON-CONTROLLING INTEREST

The merger did not subscribe for the capital increase equity of Rec Technology Corporation and BigBestSol Technology Corporation on January 28, 2019 and September 16, 2019. The shareholding ratio increased from 43.84% to 48.84% respectively % and from 26% to 28%.

Since the aforementioned transaction did not change the control of merger to the subsidiaries, it will be treated as interest transaction.

	Rec Technology Corporation
Cash consideration	<u>(\$ 38,447)</u>
Carrying amount of the subsidiary's net assets measured the amount that should be transferred out of non-controlling interest based on relative equity changes	<u>30,537</u>
Difference of interest transaction	<u>(\$ 7,910)</u>

Interest transaction difference adjustment

Retained earnings	<u>(\$ 7,910)</u>
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	BigBestSol Technology Corporation
Cash consideration	<u>(\$ 115,143)</u>
Carrying amount of the subsidiary's net assets measured the amount that should be transferred out of non-controlling interest based on relative equity changes	<u>118,533</u>
Difference of interest transaction	<u>(\$ 3,390)</u>

	BigBestSol Technology Corporation
	<hr/>
<u>Interest transaction difference adjustment</u>	
Retained earnings	(\$ <u>3,390</u> )

The merger did not subscribe for the capital increase equity of Rec Technology Corporation on July 8, 2020. The shareholding ratio increased from 48.84% to 49.35% respectively %.

Since the above transaction did not change the control of the merging company over these subsidiaries, the merging company is treated as an equity transaction .

	Rec Technology Corporation
	<hr/>
Cash consideration	(\$ 25,655)
Carrying amount of the subsidiary's net assets measured the amount that should be transferred out of non-controlling interest based on relative equity changes	<u>25,403</u>
Difference of interest transaction	(\$ <u>252</u> )
<u>Interest transaction difference adjustment</u>	
Retained earnings	(\$ <u>252</u> )

### 三十、CAPITAL RISK MANAGEMENT

The merger conducts capital management to ensure that it can be raised before continuing operations in order to maximize the compensation of shareholders by optimizing debt and equity balances.

The central management of the merger re-examines the capital structure quarterly, which includes consideration of the cost of various types of capital and related risks. The merger will balance its overall capital structure by issuing dividends, new shares, buying back shares, and new debts or repaying old debts, based on recommendations from management. The merger is not required to comply with other external capital requirements.

### 三、FINANCIAL INSTRUMENTS

(一) Information of FV: Financial instruments not measured at fair value

The management of the merger believes that the carrying amount of financial assets as well as liabilities not measured at fair value is approaching their fair value.

(二) Information of FV: Financial instruments measured at FV on a repetitive basis

1. FV Level

December 31, 2020

	Fair Value			
	Level 1	Level 2	Level 3	Total
<u>Financial assets</u> <u>measured at FVTOCPL</u>				
Domestic listed stocks	\$ 355,000	\$ -	\$ -	\$ 355,000
Domestic unlisted stocks			117,187	117,187
Foreign private equity funds	-	-	70,513	70,513
	<u>\$ 355,000</u>	<u>\$ -</u>	<u>\$ 187,700</u>	<u>\$ 542,700</u>

December 31, 2019

	Fair Value			
	Level 1	Level 2	Level 3	Total
<u>Financial assets</u> <u>measured at FVTOCPL</u>				
Domestic listed stocks	\$ 198,800	\$ -	\$ -	\$ 198,9..
Foreign private equity funds	-	-	28,405	28,405
	<u>\$ 198,800</u>	<u>\$ -</u>	<u>\$ 28,405</u>	<u>\$ 227,205</u>
<u>Financial liabilities</u> <u>measured at FVTPL</u>				
Derivatives	\$ -	\$ 304	\$ -	\$ 304

There was no transfer between Level 1 and Level 2 fair value measurements in 2020 and 2019.

2. Evaluation technique and input value of level 2 fair value measurement

<u>Financial instrument categories</u>	<u>Evaluation technique and input</u>
Derivatives-foreign exchange contract	Discounted cash flow (DCF) methods: The future cash flow is estimated under the observable forward exchange rate at the end of the period and the exchange rate regulated in the contract, and discounted at a discount rate that reflects the credit risk of each counterparty.

Financial instrument categories	Evaluation technique and input
Derivatives-foreign exchange contract	Discounted cash flow (DCF) methods: The future cash flow is estimated under the observable forward exchange rate at the end of the period and the exchange rate regulated in the contract, and discounted at a discount rate that reflects the credit risk of each counterparty.
Domestic unlisted Securities	Adopting the market method, the transaction price of the company with the same industry and the company's operating financial situation is similar, and the transaction price of its stock in the active market is converted to the corresponding value multiplier to determine the value of the target .

3. Evaluation technique and input value of level 3 fair value measurement

Financial instrument categories	Evaluation technique and input
Foreign private equity funds	Adopt the asset method to evaluate the fair value based on the total value of the individual assets and individual liabilities covered by each evaluation target .
Domestic listed private equity	The determination of the fair value is based on the evaluation of management of the discounts with reference to the assessment of observable market price and liquidity discount.

(三) Financial Instruments Categories

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
<u>Financial Assets</u>		
Financial assets forcibly measured at FVTPL	\$ 5,522	\$ 9,177
Financial assets measured at amortized cost (Notes 1)	2,122,014	2,623,053
Financial assets measured at FVTOCPL	542,700	227,205
<u>Financial Liabilities</u>		
Financial liabilities measured at FVTPL	-	304
Financial liabilities measured at amortized cost (Notes 2)	2,008,123	1,699,644

Notes 1: The balance includes financial assets measured at amortized cost including cash and cash equivalents, debt instrument investments, accounts receivable and other receivables, and deposits deposited.

Notes 2: The balance includes the financial liabilities measured at amortized cost including long-term and short-term loans, bills payable, accounts payable and other payables.

(四) Financial risk management objectives

The main financial instruments of the merger include equity and debt instrument investments, accounts receivable, accounts payable, loans, and lease liabilities. The financial management department of the merger offers services for each line unit, coordinates the operation of entering the domestic and international financial markets, and monitors and manages the financial risks related to the operation of the merger by analyzing the risk internal risk report according to the degree of risk and breadth. These risks include market risk (including risks of the exchange rate, interest rate, and other price), credit risk, and liquidity risk.

The merger evades risk exposure to mitigate the impact of these risks by using derivative financial instruments. The use of derivative financial instruments is regulated by the policies adopted by the board of directors of the merger, which are the exchange rate risk, interest rate risk, credit risk, the application of derivative financial instruments and the non-derivative financial instruments, and the written principles of investment in remaining liquid funds. Internal auditors continuously review policy compliance and risk limits. The merger did not trade financial instruments (including derivative financial instruments) for speculative purposes.

I. Market Risk

The main financial risks assumed by the merger's operating activities are the risk of foreign currency exchange rate changes (see below-mentioned (1) and the risk of interest rate changes (see below-mentioned (2).) The merger is engaged in various types of derivative financial instruments to manage the foreign currency exchange rates undertaken, including forward foreign exchange and foreign exchange transaction contracts to avoid exchange rate risks arising from purchases and sales.

(1). Exchange Rate Risk

The merger engages in foreign currency-denominated sales and purchases, which leads to the exposure of exchange rate risk of the merger. The management of the exchange rate risk exposure of the merger is within the scope permitted by the policy, using forward foreign exchange and foreign exchange transaction contracts to manage risks.

Please refer to Notes 36 for the carrying amount of non-functional currency-denominated monetary assets as well as liabilities (including non-functional currency-denominated monetary items that have been written off in the consolidated financial statements) of the merger on the balance sheet date.

The carrying amounts of derivative instruments with exchange rate risk exposure at the balance sheet date are as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
<u>Liabilities</u>		
USD\$	\$ -	\$ 304

### Sensitivity Analysis

The merger is mainly affected by fluctuations in the exchange rates of the US dollar and the euro.

The following table provides the details of the sensitivity analysis of the merger when the exchange rate of the New Taiwan Dollar (the functional currency) to each relevant foreign currency increases and decreases by 1%. 1% is the sensitivity rate used when reporting exchange rate risk to the primary management within the corporation, and also represents the evaluation of the management of the possible range of foreign currency exchange rates. The sensitivity analysis only includes foreign currency monetary items that are circulated in foreign currencies, and the conversion at the end of the period is adjusted by 1% change in the exchange rate. The positive numbers in the following table indicate the amount that will increase the net profit before tax when the NTD depreciates by 1% relative to each relevant currency; when the NTD appreciates by 1% relative to each relevant foreign currency, its impact on net profit before tax will be a negative amount of the same amount.

	Impact of USD		Impact of Euro	
	2020	2019	2020	2019
Profit and loss	\$ 3,677 (i)	\$ 6,190 (i)	\$ 328 (ii)	\$ 643 (ii)
Profit and loss	-	602 (iii)	-	-

- (i) Mainly from the USD-denominated payment receivables of the merger that was still in circulation on the balance sheet date and did not carry out cash flow hedging.
- (ii) Mainly from the Euro-denominated receivables of the merger that were still in circulation on the balance sheet date and did not carry out cash flow hedging.
- (iii) Mainly from the Company's outstanding foreign exchange transactions and forward foreign exchange USD contracts on the balance sheet date.

The management believes that the sensitivity analysis cannot represent the inherent risk of the exchange rate, because foreign currency risk exposure on the balance sheet date cannot reflect the situation of mid-year risk exposure.

#### (2). Interest Rate Risk

Since the interest rate risk was incurred because the entities in the merger borrowed funds at both fixed and floating rates, the merger manages interest rate risk by maintaining an appropriate combination of fixed and floating interest rates.

The carrying amounts of the financial assets as well as liabilities of the merger that were exposed to interest rate risk on the balance sheet date are as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Interest rate risk with fair value		
Financial assets	\$ 66,178	\$ 188,302
Financial liabilities	73,538	103,234
Interest rate risk with cash flow		
Financial assets	1,444,218	1,866,167
Financial liabilities	1,540,198	1,234,579

## Sensitivity Analysis

The below-mentioned sensitivity analysis is based on the interest rate risk exposure of derivative and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis method assumes that the amount of liabilities in circulation on the balance sheet date is in circulation throughout the year.

The rate of change used when reporting interest rates within the corporation to the primary management is a 10 base point increase or decrease in interest rates, which also represents the evaluation of the management of the reasonably possible range of changes in interest rates.

If the interest rate is increased or decreased by 10 base points, and all other variables remain unchanged, the merger's net profit before tax for the year of 2020 and 2019 will increase or decrease by NTD\$ 96 thousand and decrease or increased by NTD\$ 632 thousand, respectively.

### (3). Other Price Risk

The merger incurred equity price risk exposure due to listed equity investment.

The equity investment is not for trading; instead, it is a strategic investment. The merger did not actively trade these investments. Additionally, the merger assigns a specific team to monitor the price risk and propose to formulate a response strategy.

## II. Credit risk

Credit risk refers to the risk that the counterparty of the transaction defaults on its contractual obligations and leads to financial losses to the corporation. As of the balance sheet date, the maximum credit risk exposure that the merger may have failed to fulfill its obligations due to the counterparty of the transaction is mainly derived from the carrying amount of the financial assets recognized in the consolidated balance sheet.

In the balance of accounts receivable on December 31, 2020 and 2019, the accounts receivable of the main customers of the merger were NTD\$ 162,452 thousand and NTD\$ 124,235 thousand, respectively; both of which accounted for more than 22% of the balance. The accounts receivable of other customers did not exceed 10% of the total accounts receivable.

## III. Liquidity risk

The merger supports the corporation's operations and reduces the impact of cash flow fluctuations by managing and maintaining a sufficient portion of cash and cash equivalents. The management of the merger monitors the use of bank financing quotas and ensures compliance with the terms of the loan contract.

Please refer to the following (2) interpretation of financing quota for bank loan, which is a significant source of liquidity for the Company. As of December 31, 2020 and 2019, the unutilized financing quota of the merger.

### (1) Liquidity and interest rate risk statement

The following table provides the details of the analysis of the remaining contractual maturity of the non-derivative financial liabilities of the merger's agreed repayment period. It is under the date when the merger may be required to repay the earliest. Also, it is prepared based on the undiscounted cash flows of financial liabilities, which includes cash flows of interest and principal.

December 31, 2020

	Pay immediately or within 1 month	1~3 months	3 months~1 year	1 year~5 year	More than 5 years
<u>Non-derivative financial liabilities</u>					
Non-interest-bearing liabilities	\$ 230,896	\$ 256,657	\$ 84,553	\$ 286	\$ -
Lease liability	618	1,235	5,644	9,742	-
Bank loan	346,548	17,567	647,576	605,106	-
	<u>\$ 578,062</u>	<u>\$ 275,459</u>	<u>\$ 737,773</u>	<u>\$ 615,134</u>	<u>\$ -</u>

Further information on the maturity analysis of lease liabilities is as follows:

	Within 1 month	1~5 years	5~10 years	10~15years	15~20 years	More than 20 years
Lease liability	<u>\$ 7,497</u>	<u>\$ 9,742</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

December 31, 2019

	Pay immediately or within 1 month	1~3 months	3 months~1 year	1 year~5 year	More than 5 years
<u>Non-derivative financial liabilities</u>					
Lease liabilities	\$ 209,692	\$ 244,407	\$ 100,908	-	-
Bank loan	624	1,158	4,787	\$ 15,619-	\$ -
	6,816	30,764	544,570	773,220	-
	<u>\$ 217,132</u>	<u>\$ 276,329</u>	<u>\$ 650,265</u>	<u>\$ 788,839</u>	<u>\$ -</u>

Further information on the lease liability maturity analysis is as follows

	Pay immediately or within 1 Year	1~5 Year	5~10 year	10 year~15 year	More than 15 years
Lease liabilities	\$ 6,569	\$ 15,619	-	-	\$ -

The following table offers details of the liquidity analysis of the merger for derivative financial instruments. Derivative instruments delivered for gross mining are based on undiscounted gross cash inflows and outflows. When the amount payable or receivable is not fixed, the amount disclosed is determined in accordance with the estimated interest rate estimated by the yield curve on the balance sheet date.

December 31, 2020 : None

December 31, 2019

	Pay immediately or within 1 month	1~3 months	3 months~1 year	1 year~5 year	More than 5 years
<u>Total settlement</u>					
Forward exchange					
Inflow	\$ -	\$ -	\$ -	\$ -	\$ -
Outflow	60,210	-	-	-	-
	<u>\$ 60,210</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(2) Finance Facilities

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Unsecured bank line		
Used amount	\$ 1,349,710	\$ 999,373
Unused amount	<u>1,143,411</u>	<u>397,307</u>
	<u>\$ 2,493,121</u>	<u>\$ 1,396,680</u>
Secured bank line		
Used amount	\$ 230,000	\$ 290,000
Unused amount	<u>120,000</u>	<u>60,000</u>
	<u>\$ 350,000</u>	<u>\$ 350,000</u>

(五) Financial Assets Transfer

The related information of the merger's sales receivables is as follows:

<u>Counterparty</u>	<u>Initial factoring amount</u>	<u>Factoring amount of the year</u>	<u>Received factoring amount of the year</u>	<u>Year-end factoring amount</u>	<u>Advanced amount as of the end of period</u>	<u>Annual interest rate of advanced amount (%)</u>
<u>2020</u>						
CITI Bank	USD 2,702	USD 13,333	USD 12,681	USD 3,354	USD 3,354	1.26-1.91
	EUR 3,363	EUR 14,868	EUR 15,252	EUR 2,979	EUR 2,979	1.05-1.30
<u>2019</u>						
CITI Bank	USD 3,020	USD 13,669	USD 14,169	USD 2,702	USD 2,702	4.03-4.68
	EUR 2,263	EUR 10,215	EUR 9,115	EUR 3,363	EUR 3,363	1.05-1.30

According to the terms of the factoring agreement, the losses arising from commercial disputes (such as sales returns or discounts, etc.) are borne by the merger, whereas the losses arising from credit risk are borne by the banks.

**三二、Related Party Transactions**

The transactions, account balances, income and expenses between the Company and its subsidiaries (which are related parties of the Company) are eliminated in full during the merger; consequently, they are not disclosed in the note. Except being disclosed otherwise, the significant transactions between the merger and other related parties are as follows.

(一) Related party name and categories

<u>Related Party Name</u>	<u>Related Party Categories</u>
GlobalWafers Corporation	Actual related party
Mosel Technology Corporation	Associate

(二) Net Revenue

<u>Item</u>	<u>Related Party Categories</u>	<u>2020</u>	<u>2019</u>
Purchase	GlobalWafers Corporation	\$ 220,271	\$ 224,538

The aforementioned purchase is mainly for the purchase of wafers. The purchase price of flat wafers is not significantly different from that of other manufacturers, and the diffuser film is not purchased from other manufacturers. The purchase price is comparable to the general purchase without similar purchase prices. The payment conditions are related to 60 days of monthly settlement, generally 90 days of domestic settlement for domestic manufacturers, and T / T50 to 60 days for foreign settlements.

Item	Related Party Categories	December 31, 2020	December 31, 2019
Accounts payable	GlobalWafers Corporation Associate	\$ 66,019 <u>18,514</u> <u>\$ 84,533</u>	\$ 44,041 <u>9,655</u> <u>\$ 53,696</u>

Item	Related Party Categories	December 31, 2020	December 31, 2019
Manufacturing costs-processing costs	Associate	\$ 115,923	\$ 65,408

(三) Remuneration for Primary Management

	2020	2019
Short-term employee benefits	\$ 63,414	\$ 62,456
Retirement benefits	144	144
Share-based payment	<u>4,671</u>	<u>-</u>
	<u>\$ 68,229</u>	<u>\$ 62,600</u>

The remuneration of directors and other primary management is determined by the Remuneration Committee based on individual performance and market trends.

**三三、Pledged Assets**

The following assets have been provided as collateral for financing loans:

	December 31, 2020	December 31, 2019
Private land	\$ 107,843	\$ 107,843
Buildings	155,779	159,999
Pledged deposit certificates (accounting for financial assets measured at amortized cost)	<u>79,016</u>	<u>62,515</u>
	<u>\$ 342,638</u>	<u>\$ 330,357</u>

**三四. Significant Contingent Liabilities and Unrecognized Commitments**

Significant contingent liabilities and unrecognized commitments of the merger as of the date of the balance sheet, excluding those disclosed in other notes, were as follows:

The contractual commitments signed by the merger and its suppliers are as follows:

	December 31, 2020	December 31, 2019
Total contract price		
USD	\$ 16,846	\$ 1,379
NTD	1,094,092	808,222
RMB	-	67,310
JPY	8,555	54,500
EUR	82,492	2,421
CHF	52,571	-

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Unpaid price		
USD	5,947	165
NTD	611,088	606,421
RMB	-	2,461
JPY	688	7,860
EUR	23,444	799
CHF	5,178	-

### 三五、Other Events

Since the outbreak of COVID-19 in January 2020, due to the spread of the epidemic, governments of various countries have successively implemented various epidemic prevention measures, reduced social activities and closed the city, which has weakened economic activities and reduced terminal consumption, resulting in the production and sales of the combined company's products. Due to the unpredictable development trend of the COVID-19 epidemic, it is currently impossible to predict the impact on the business and financial conditions of the combined company.

### 三六、Exchange Rate Information of Foreign-Currency Financial Assets and Liabilities

The following information was summarized according to the foreign currencies other than the functional currency of the Company. The functional currency are as follows:

December 31, 2019

	Foreign Currency (In Thousand)	Exchange Rate	Carrying Amount (In Thousand)
<u>Financial Assets</u>			
<u>Monetary</u>			
USD	\$ 17,045	28.48 (USD : NTD)	\$ 485,447
USD	132	6.2549 (USD : RMB)	3,746
EUR	935	35.02 (EUR : NTD)	32,757
RMB	26	4.377 (RMB : NTD)	172
<u>Non-monetary</u>			
<u>Items</u>			
Foreign private equity funds			
USD	2,479	28.48 (USD:NTD)	70,513
	Foreign Currency (In Thousand)	Exchange Rate	Carrying Amount (In Thousand)
<u>Financial Liabilities</u>			
<u>Monetary</u>			
USD	\$ 4,102	28.84 (USD: NTD)	\$ 116,830
USD	165	6.2549 (USD : RMB)	4,701
JPY	10,937	0.276 (JPY: NTD)	3,019

December 31, 2019

	Foreign Currency (In Thousand)	Exchange Rate		Carrying Amount (In Thousand)
<u>Financial Assets</u>				
<u>Monetary</u>				
USD	\$ 23,575	29.98	(USD : NTD)	\$ 706,780
EUR	1,932	33.59	(EUR: NTD)	64,893
JPY	24,831	0.276	(JPY : NTD)	6,853
RMB	1,240	4.305	(RMB : NTD)	5,339
<u>Non-monetary Items</u>				
Foreign private equity funds	947	29.98(USD:NTD)		28,405
USD				
<u>Financial Liabilities</u>				
<u>Monetary</u>				
USD	2,800	29.98	(USD : NTD)	83,941
USD	126	6.9640	(USD : RMB)	3,791
EUR	17	33.59	(EUR: NTD)	555

The realized and unrealized foreign currency exchange profits and losses with significant impact are as follows:

Functional Currency	2020		2019	
	Functional currency: expressed currency	Net exchange profits and losses (NTD\$)	Functional currency: expressed currency	Net exchange profits and losses (NTD)
RMB	4.291(RMB : NTD)	( \$ 3,479 )	4.472(RMB : NTD)	( \$ 3,651 )
NTD	1(NTD : NTD)	( 30,068 )	1(NTD : NTD)	26,904
		( \$ 26,589 )		\$ 30,555

### 三七、Additional Disclosures

(一) Following are the additional disclosures required by the Securities and B. Futures Bureau for the Company:

1. Financings provided: None
2. Endorsement/guarantee provided: Please see appendix 1 attached;
3. Marketable securities held (excluding investments in subsidiaries, associates, and joint ventures): Please see appendix 2 attached;
4. Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital: None
5. Acquisition of individual real estate properties at costs of at least NT\$300 million or 20% of the paid-in capital: None
6. Disposal of individual real estate properties at prices of at least NT\$300 million or 20% of the paid-in capital: None;
7. Total purchases from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital: Please see appendix 3 attached;
8. Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None;
9. Information about the transaction of derivative financial instruments: None

10. Other: The business relationship between the parent company and each subsidiary company and the important transaction situation and amount, please refer to appendix 4 attached.

(二) Information of invested company: Please refer to appendix 5

(三) Information on investment in mainland China

1. The name of the investee in mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, income (losses) of the investee, share of profits/losses of investee, ending balance, amount received as dividends from the investee, and the limitation on investee: Please see appendix 9 attached.
2. Significant direct or indirect transactions with the investee, its prices and terms of payment, and unrealized gain or loss: None.
  - (1) The purchase amount as well as percentage and the year-end balance as well as percentage of the relevant payables.
  - (2) The sales amount as well as percentage and the year-end balance as well as percentage of the relevant payables.
  - (3) The amount of property transactions and the amount of profits and losses generated.
  - (4) The year-end balance of the bill endorsement guarantee or provision of collateral and its purpose.
  - (5) The maximum balance, year-end balance, interest rate range, and total interest of the current period of capital financing.
  - (6) Other transactions that have a significant impact on the current profit or loss or financial status, such as the provision or receipt of labor services.

### 三八、Operating Segments Information

The information provided to the chief operating decision maker for allocating resources and evaluating the performance of the segments focuses on the types of products or services consigned or provided. The segments of the merger that shall be reported are as follows:

Operating Segments in Taiwan

Operating Segments in Qingdao, Mainland China

(一) Segment Income and operating performance

The income and operating performance of the continuing operations of the Company and its subsidiaries are analyzed in accordance with the reporting segments is as follows:

	Income		Profit and loss	
	2020	2019	2020	2019
Operating segments in Taiwan	\$ 3,032,025	\$ 3,420,557	\$ 272,405	\$ 421,118
Operating segments in Qingdao	248,240	235,334	20272	4,497
Other	<u>237,689</u>	<u>184307</u>	( 86,568)	( 70,706)
Total of continuing operations	3,517,954	3,840,198	206,109	354,909
Less: Write-off between operating segments	( 448,407)	( 480,296)	<u>13,691</u>	<u>15,365</u>
Income or profit or loss of the operating segment's transactions with external customers	<u>\$ 3,069,547</u>	<u>\$ 3,359,902</u>	<u>219,800</u>	<u>370,274</u>
Other income			29,332	146,734
Interest income			4,223	3,900
Other profits and losses			( 93,977)	( 78,303)
Financial cost			( 18,802)	( 21,064)
Share of profits and losses of associates and joint ventures recognized using the equity method			<u>75,156</u>	( 61,615)
Net profits before tax			<u>\$ 215,732</u>	<u>\$ 359,926</u>

Segment interest refers to the profit earned by each segment, excluding other income, other profits and losses, financial cost, and the share of profits and losses of associates and joint ventures recognized by the equity method. The measurement is provided to the chief operating decision-maker for allocating resources to the segment and evaluating its performance.

(二) Income of primary products

The income analysis of the primary products of the continuing operations is as follows:

	<u>2020</u>	<u>2019</u>
Income of Pressfit Diode	\$1,891,432	\$ 2,485,290
Income of Low Loss Diode	617,482	337,473
Income of Button Diode	15,201	18,543
Other	<u>545,432</u>	<u>518,596</u>
	<u>\$ 3,069,547</u>	<u>\$ 3,359,902</u>

(三) Regional information

The Company mainly operates in two regions: Taiwan and Mainland China. The Company's income from continuing operations of external customers by operating region and non-current assets by asset region are listed below:

	<u>Income from external customer</u>		<u>Non-current assets</u>	
	<u>2020</u>	<u>2019</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
China	\$ 672,977	\$ 691,811	\$ 346,906	\$ 363,193
France	360,572	349,273	-	-
Korea	404,596	515,894	-	-
Mexico	203,293	317,948	-	-
India	131,903	153,571	-	-
Taiwan	316,104	321,230	2,473,467	2,122,147
Other	<u>980,102</u>	<u>1,010,175</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,069,547</u>	<u>\$ 3,359,902</u>	<u>\$ 2,820,373</u>	<u>\$ 2,485,340</u>

Non-current assets exclude assets classified as financial instruments and deferred income tax.

(四) Information of primary customers (Income of single customer accounts for more than 10% of the Company's revenue) is as follows:

<u>Customer Name</u>	<u>2020</u>	
	<u>Amount</u>	<u>%</u>
Company A	\$ 360,572	12
Company B	320,980	10
<u>Customer Name</u>	<u>2019</u>	
	<u>Amount</u>	<u>%</u>
Company A	\$ 349,273	10
Company B	347,920	10

Actron Technology Corporation and Subsidiaries  
Endorsement guarantees for others  
For the Year Ended December 31, 2020  
(In Thousands of Foreign Currency or New Taiwan Dollars)

**Endorsement/Guarantees Provided**

Appendix 1

Notes (Notes 1)	Endorsement/Guarantee Provider	Guaranteed Party		Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party (Notes 3)	Maximum Balance for the Period	Ending Balance	Amount Actually Drawn	Amount of Endorsement/Guarant ee Collateralized by Properties	Ratio of Accumulated Endorsement/Guarant ee to Net Equity per Latest Financial Statements	Maximum Endorsement/Guarant ee Amount Allowable (Notes 2)	Guarantee Provided by Parent Company	Guarantee Provided by A Subsidiary	Guarantee Provided to Subsidiaries in Mainland China
		Name	Nature of Relationship										
0	Actron Technology Corporation	Smooth Autocomponent Limited	The investee company whose parent company and its subsidiaries hold more than 90% of the common stock	\$ 489,216	\$ 91,425 (RMB5,000、 USD2,200)	\$ 91,425 (RMB5,000、 USD2,200)	\$ 50,373 (USD 1,803)	\$ -	2%	\$ 1,956,840	Y	N	Y

Notes 1: The method for filling in the number column is as follows:

(1) Fill in "0" in "Issuer."

(2) The investee companies are numbered sequentially from the Arabic numeral 1 according to the company type.

Notes 2: Maximum endorsement/guarantee amount allowable 4,892,100 (net value) x40%=1,956,840.

Notes 3: Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party 4,892,100 (net value)x10%=489,210.

Actron Technology Corporation and Subsidiaries  
 Situation of holding securities at the end of the period  
 For the Year Ended December 31, 2020  
 (In Thousands of Foreign Currency or New Taiwan Dollars)

**Year-End Marketable Securities Held**

Appendix 2

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	End of Period				Note
				Shares/Units (In Thousands)	Carrying Amount	Percentage of Ownership (%)	Fair Value	
Actron Technology Corporation	Shares Saswafer Corporation	Actual related party	Financial assets measured at FVTOCPL – Non-current	2,000	\$ 355,000	1	\$ 155,000	—
	Fund AMED VENTURES I, L.P.	—	Financial assets measured at FVTOCPL – Non-current	-	70,513	-	70,513	Foreign Private Equity Funds