

AIR ASIA CO., LTD.
PARENT COMPANY ONLY
FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
WITH
REPORT OF INDEPENDENT AUDITORS

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

Independent Auditors’ Report Translated from Chinese

To AIR ASIA CO., LTD.

Opinion

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

In our opinion, the parent company only financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and its financial performance and cash flows for the years ended December 31, 2019 and 2018, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

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 Parent Company Only 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 (the “Norm”), and we have fulfilled our other ethical responsibilities in accordance with the Norm. Based on our audits and the reports of other auditors, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

1. Revenue Recognition

The Company’s aircraft maintenance service and aircrafts business maintenance management contracts recognized revenue when a performance obligation been satisfied over time. This method calculates the percentage of completion by the actual input of materials or labors in each contract. As the calculation of percentage of completion is complicated and estimating cost involves management’s material judgment, we considered this a key audit matter.

Our audit procedures included, but were not limited to, assessing and testing the effectiveness of the internal control design and execution regarding revenue recognition, selecting samples to perform test of details, including reviewing revenue recognition terms and conditions of contracts, comparing the actual cost and projected costs to verify the reasonableness of total cost estimates, and testing the material requisition record and employee time record to verify the correctness of actual input and verify the correctness of the amount of revenue recognized. We also assessed the adequacy of revenue recognition. Please refer to Notes IV, V and VI to the Company's parent company only financial statements.

2. Valuation for slow-moving inventories

As of December 31, 2019, the Company's net material inventories amounted to NT\$287,921 thousand, which was material to the financial statement. The Company's raw material may become slow-moving inventory with the related model phase-out. Management needs to assess the adequacy of write-downs of slow-moving inventories. As identification of slow-moving inventories of the amount of inventory write downs involved management's material judgment, we considered this a key audit matter.

Our audit procedures included, but not limited to, evaluating and testing the design and operating effectiveness of internal controls around slow-moving inventories, testing the evaluation basis of write-downs from slow-moving inventories and the reasonableness of reserve ratio, testing the correctness of slow-moving inventory breakdown and the calculation of inventory aging. We also assessed the adequacy of disclosures of slow-moving inventories. Please refer to Notes IV, V and VI to the Company's parent company only financial statements.

Responsibilities of Management and Those Charged with Governance for the Parent Company Only Financial Statements

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

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

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

Auditor’s Responsibilities for the Audit of the Parent Company Only Financial Statements

Our objectives are to obtain reasonable assurance about whether the parent company only financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 parent company only financial statements.

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

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

5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the accompanying notes, and whether the parent company only 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 parent company only financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of 2019 parent company only financial statements and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Emphasis of Matters-Applied the New Standards

As stated in Note 3 of the financial statements, the Company applied the International Financial Reporting Standard 16, "Leases" on 1 January 2019.

Lin, Su Wen

Yang, Chih Hui

Ernst & Young, Taiwan.

20 February 2020

Notice to Readers

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

English Translation of Parent Company Only Financial Statements Originally Issued in Chinese

AIR ASIA CO., LTD.

PARENT COMPANY ONLY BALANCE SHEETS

As of December 31, 2019 and 2018

(Expressed in Thousand of New Taiwan Dollars)

Assets	Notes	December 31, 2019	December 31, 2018
Current Assets			
Cash and cash equivalents	IV/VI	\$142,283	\$79,808
Contract assets-current	IV/VI	321,579	333,180
Notes and accounts receivable-Net	IV/VI/VII	1,209,766	802,754
Other receivable		20,969	16,339
Inventories-Net	IV/V/VI	1,514,312	1,036,084
Prepayments		34,362	66,957
Refundable deposits-current	VIII	128,824	163,457
Other current assets		1,488	237
Total current assets		<u>3,373,583</u>	<u>2,498,816</u>
Non-current Assets			
Investments accounted for under the equity method	IV/XIII	3,438	3,598
Property, plant and equipment	IV/VI/VIII	703,719	709,079
Right-of-use assets	III/IV/VI	269,456	-
Intangible assets	IV/VI	6,351	2,870
Deferred income tax assets	IV/VI	59,823	70,042
Incremental costs of obtaining contracts	IV/VI	32,669	45,634
Other noncurrent assets	VI/VIII	96,438	86,890
Total non-current assets		<u>1,171,894</u>	<u>918,113</u>
Total Assets		<u><u>\$4,545,477</u></u>	<u><u>\$3,416,929</u></u>

(The accompanying notes are an integral part of the parent company only financial statements.)

English Translation of Parent Company Only Financial Statements Originally Issued in Chinese

AIR ASIA CO., LTD.

PARENT COMPANY ONLY BALANCE SHEETS

As of December 31, 2019 and 2018

(Expressed in Thousand of New Taiwan Dollars)

Liabilities and Equity	Notes	December 31, 2019	December 31, 2018
Current Liabilities			
Short-term loans	IV/VI	\$600,000	\$722,075
Short-term notes and bills payable	IV/VI	449,840	229,925
Financial liability at fair value through profit or loss	IV/VI	1,470	-
Contract liabilities-current	IV/VI	4,956	1,114
Accounts payable		348,623	215,283
Other payables	VI	262,076	201,436
Provision-current	IV/V/VI	31,492	19,112
Lease liabilities-current	IV/VI	15,399	-
Current portion of long-term loans	IV/VI	37,500	16,667
Other current liabilities		6,515	10,387
Total current liabilities		1,757,871	1,415,999
Non-current Liabilities			
Bonds payable	IV/VI	474,972	-
Long-term loans-excluding current portion	IV/VI/VIII	442,500	183,332
Lease liabilities-noncurrent	IV/VI	255,327	-
Net defined benefit liabilities-noncurrent	IV/V/VI	11,059	141,541
Total non-current liabilities		1,183,858	324,873
Total Liabilities		2,941,729	1,740,872
Equity			
Common stock	VI	1,201,200	1,222,080
Capital surplus	VI	273,054	365,749
Retained earnings	VI		
Legal reserve		118,606	117,066
Unappropriated earnings		10,811	12,196
Total retained earnings		129,417	129,262
Other equity		77	139
Treasury stock		-	(41,173)
Total Equity		1,603,748	1,676,057
Total Liabilities and Equity		\$4,545,477	\$3,416,929

(The accompanying notes are an integral part of the parent company only financial statements.)

AIR ASIA CO., LTD.

PARENT COMPANY ONLY OF COMPREHENSIVE INCOME

For the years ended December 31, 2019 and 2018

(Expressed in Thousand of New Taiwan Dollars Except for Earnings Per Share)

ITEMS	NOTES	For the year ended Dec. 31, 2019	For the year ended Dec. 31, 2018
Operating Revenue	IV/V/VI/VII	\$3,913,291	\$2,719,354
Operating Cost	VI	(3,531,974)	(2,407,030)
Net Operating Margin		381,317	312,324
Operating Expenses	VI		
Selling expenses		(65,418)	(62,767)
General and administrative expenses		(207,440)	(200,303)
Research and development expenses		(14,012)	(22,306)
Expected credit losses		(15,637)	(12,625)
Total operating expenses		(302,507)	(298,001)
Operating Income		78,810	14,323
Non-operating Income and Expenses	VI		
Other revenue		7,118	10,093
Other gains and losses		5,041	(1,761)
Financial cost		(31,475)	(14,712)
Share of loss of subsidiaries, associates and joint ventures		(82)	(83)
Total non-operating income and expenses		(19,398)	(6,463)
Income from Continuing Operations before Income Tax		59,412	7,860
Income Tax benefit (Expense)	IV/VI	(14,401)	7,545
Net Income		\$45,011	\$15,405
Other comprehensive income	VI		
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of the defined benefit pension plans		(12,748)	(9,947)
Income tax related to items that will not be reclassified		2,550	1,989
Items that will be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		(78)	114
Income tax related to items that may be reclassified		16	(24)
Total other comprehensive income(loss), net of tax		(10,260)	(7,868)
Total comprehensive income		\$34,751	\$7,537
Earnings Per Share			
Basic earnings per share (in NT Dollar)	VI	\$0.37	\$0.13
Diluted earnings per share (in NT Dollar)	VI	\$0.37	\$0.13

(The accompanying notes are an integral part of the parent company only financial statements)

English Translation of Parent Company Only Financial Statements Originally Issued in Chinese

AIR ASIA CO., LTD.

PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2019 and 2018

(Expressed in Thousand of New Taiwan Dollars)

Item	Common Stock	Capital Surplus	Retained Earnings		Other Equity	Treasury stock	Total Equity
			Legal Reserve	Unappropriated Earnings	Exchange Differences on Translation of Foreign Operations		
Balance as of January 1, 2018	\$1,078,296	\$153,095	\$104,727	\$120,965	\$49	\$-	\$1,457,132
Appropriations of 2017 earnings							
Legal reserve	-	-	12,339	(12,339)	-	-	-
Cash dividends	-	(48,883)	-	(103,877)	-	-	(152,760)
Net income for the year ended December 31, 2018	-	-	-	15,405	-	-	15,405
Other comprehensive income(loss) for the year ended December 31, 2018	-	-	-	(7,958)	90	-	(7,868)
Total comprehensive income	-	-	-	7,447	90	-	7,537
Issuance of Common Stock for cash	143,784	261,537	-	-	-	-	405,321
Treasury stock acquired	-	-	-	-	-	(41,173)	(41,173)
Balance as of December 31, 2018	<u>\$1,222,080</u>	<u>\$365,749</u>	<u>\$117,066</u>	<u>\$12,196</u>	<u>\$139</u>	<u>\$(41,173)</u>	<u>\$1,676,057</u>
Balance as of January 1, 2019	\$1,222,080	\$365,749	\$117,066	\$12,196	\$139	\$(41,173)	\$1,676,057
Appropriations of 2018 earnings							
Legal reserve	-	-	1,540	(1,540)	-	-	-
Cash dividends	-	(110,510)	-	(9,610)	-	-	(120,120)
Issuance of convertible bonds-share option	-	22,358	-	-	-	-	22,358
Net income for the year ended December 31, 2019	-	-	-	45,011	-	-	45,011
Other comprehensive income(loss) for the year ended December 31, 2019	-	-	-	(10,198)	(62)	-	(10,260)
Total comprehensive income	-	-	-	34,813	(62)	-	34,751
Treasury stock acquired	-	-	-	-	-	(9,298)	(9,298)
Cancellation of treasury stock	(20,880)	(4,543)	-	(25,048)	-	50,471	-
Balance as of December 31, 2019	<u>\$1,201,200</u>	<u>\$273,054</u>	<u>\$118,606</u>	<u>\$10,811</u>	<u>\$77</u>	<u>\$-</u>	<u>\$1,603,748</u>

(The accompanying notes are an integral part of the parent company only financial statements)

English Translation of Parent Company Only Financial Statements Originally Issued in Chinese

AIR ASIA CO., LTD.

PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS

For the years ended December 31, 2019 and 2018

(Expressed in Thousand of New Taiwan Dollars)

ITEMS	For the year ended Dec. 31, 2019	For the year ended Dec. 31, 2018	ITEMS	For the year ended Dec. 31, 2019	For the year ended Dec. 31, 2018\
Cash Flow from Operating Activities:			Cash Flow from Investing Activities:		
Net income before tax	\$59,412	\$7,860	Acquisition of property, plant and equipment	(37,771)	(46,813)
Adjustments to reconcile net income before income tax to net cash provided by operating activities:			Decrease(Increase) in refundable deposits	30,059	(59,818)
Depreciation	81,836	63,735	Acquisition of intangible assets	(9,563)	(4,690)
Amortization	6,082	5,147	Increase in other noncurrent assets	(27,555)	(40,413)
Excepted credit losses	15,637	12,625	Net cash (used in) investing activities	(44,830)	(151,734)
Current Financial Assets at Fair Value through Loss	900	-			
Interest expense	21,438	5,386	Cash Flow from Financing Activities:		
Interest income	(1,303)	(1,481)	(Decrease) Increase in short-term loans	(122,075)	692,075
Share of loss of subsidiaries, associates and joint ventures	82	83	Increase in short-term notes and bills payable	219,915	229,925
Loss on disposal of property, plant and equipment	1	62	Bonds issued	494,682	-
Impairment loss of non-financial assets	9,437	2,440	Preceeds from long-term loans	480,000	150,000
Change in operating assets liabilities:			Repayments of long-term loans	(199,999)	(16,667)
Contract assets	11,601	(333,180)	Repayments of leases liabilities	(15,745)	-
Notes and accounts receivable-net	(422,649)	(91,217)	Cash dividends	(120,120)	(152,760)
Other receivable	(4,580)	(9,838)	Issuance of common stock for cash	-	405,321
Inventories-net	(487,665)	(733,658)	Treasury stock acquired	(9,298)	(41,173)
Prepayments	32,595	(49,195)	Net cash provided by financing activities	727,360	1,266,721
Other current assets	(1,251)	150			
Incremental cost of obtaining contracts	12,965	12,137	Net Increase(Decrease) in Cash and Cash Equivalents	62,475	(14,800)
Contract liabilities	3,842	1,114	Cash and Cash Equivalents at Beginning of Year	79,808	94,608
Accounts payable	133,340	86,343	Cash and Cash Equivalents at End of Year	\$142,283	\$79,808
Other payables	61,393	(35,369)			
Provision	12,380	(19,853)			
Advance receipts	-	(22,098)			
Other current liabilities	(3,872)	5,177			
Net defined benefit liabilities	(143,230)	(28,569)			
Cash generated from operations	(601,609)	(1,122,199)			
Interest received	1,253	1,631			
Interest paid	(18,083)	(5,149)			
Income tax paid	(1,616)	(4,070)			
Net cash (used in) operating activities	(620,055)	(1,129,787)			

(The accompanying notes are an integral part of the parent company only financial statements)

AIR ASIA CO., LTD.

NOTES TO PARENT COMPANY ONLY FINANCIAL STATEMENTS

For the Years Ended 31 December 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars Unless Otherwise Stated)

I. Organization and Business

AIR ASIA CO., LTD. (the “Company”) was incorporated under the relevant laws of Republic of China (the “R.O.C.”) on 19 January 1955. The Company’s registered and operating address is No. 1050, Jichang Rd., Rende Dist., Tainan City, Taiwan, R.O.C. The Company’s principal activities consist of maintenances, renovation, upgrades and integrated logistic support services for the aircraft and related components.

The Company listed their shares on the Taiwan Stock Exchange on 22 February 2018.

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

The parent company only financial statements of the Company for the years ended 31 December 2019 and 2018 were authorized for issue in accordance with a resolution of the Board of Directors’ meeting on 20 February 2020.

III. Newly issued or revised standards and interpretations

1. Changes in accounting policies resulting from applying for the first time certain standards and amendments

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

(1) IFRS 16 “Leases”

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

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

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

(a) Leases previously classified as operating leases

For leases that were previously classified as operating leases applying IAS 17, the Company measured and recognized those leases as lease liability on 1 January 2019 at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on 1 January 2019, and the Company chose, on a lease-by-lease basis, to measure the right-of-use asset at either.

On 1 January 2019, the Company's right-of-use asset and lease liability increased by NT\$284,974 thousand and NT\$284,974 thousand, respectively.

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

- i. Apply a single discount rate to a portfolio of leases with reasonably similar characteristics.
- ii. Rely on its assessment of whether leases are onerous immediately before 1 January 2019 as an alternative to performing an impairment review.
- iii. Elect to account in the same way as short-term leases to leases for which the lease term ends within 12 months of 1 January 2019.
- iv. Exclude initial direct costs from the measurement of the right-of-use asset on 1 January 2019.

- v. Use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

(b) Please refer to Notes 4 and 6 for additional disclosure of lessee and lessor which were required by IFRS 16.

(c) As at 1 January 2019, the impacts arising from the adoption of IFRS 16 are summarized as follows:

- i. The weighted average lessee’s incremental borrowing rate applied to lease liabilities recognized in the balance sheet on 1 January 2019 was 1%.
- ii. There are no different between the (i) lease liabilities recognized and (ii) operating lease commitments disclosed under IAS 17 on 31 December 2018.

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

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

(a) Definition of a Business - Amendments to IFRS 3

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

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

(b) Definition of a Material - Amendments to IAS 1 and 8

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

(c) Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7

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

The amendments include:

(1) highly probable requirement

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

(2) prospective assessments

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

(3) IAS 39 retrospective assessment

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

(4) separately identifiable risk components

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

The amendments also include the end of application of the exceptions requirements and the related disclosures requirements of the amendments.

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

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

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

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

The amendments address the inconsistency between the requirements in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full. IFRS 10 was also amended so that the gains or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors’ interests in the associate or joint venture. The effective date of the amendments has been postponed indefinitely, but early adoption is allowed.

(b) IFRS 17 Insurance Contracts

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

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

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

(c) Classification of Liabilities as Current or Non-current – Amendments to IAS 1

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

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

IV. Summary of Significant Accounting Policies

1. Statement of Compliance

The Company's parent company only financial statements as of 31 December 2019 and 2018 were prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers ("the Regulations").

2. Basis of Preparation

The parent company only financial statements were prepared in accordance with the Regulations. According to Article 21 of the Regulations, which provided that the profit or loss and other comprehensive income for the period presented in the parent company only financial statement shall be the same as the profit or loss and other comprehensive income attributable to stockholders of the parent presented in the consolidated financial statements for the period, and the total equity presented in the parent company only financial statements shall be the same as the equity attributable to the parent company presented in the consolidated financial statements. Therefore, the Company accounted for its investments in subsidiaries using equity method and, accordingly, made necessary adjustments.

Except for financial instruments measured at fair value, the parent company only financial statements have been prepared on historical cost basis.

3. Foreign Currency Transactions

The functional currency presented in the Company's parent company only financial statements is New Taiwan Dollars ("NT Dollars" or "NT\$").

Transactions in foreign currencies are initially recorded by the Company in the functional currency rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Non-monetary items that are measured at fair value in a foreign currency should be translated using the exchange rates at the date when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

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

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

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

4. Translation of financial statements in foreign currency

Every foreign operating entity of the Company determines its own functional currency, and measures its financial statements by such functional currency. The assets and liabilities of foreign operations are translated into NT\$ at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. On the partial disposal of a foreign operation that result in a loss of control, loss of significant influence or joint control but retains partial equity, it is considered as disposal.

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

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

5. Current and non-current distinction

An asset is classified as current when:

- (1) The Company expects to realize the asset, or intends to sell or consume it, in its normal operating cycle
- (2) The Company holds the asset primarily for the purpose of trading
- (3) The Company expects to realize the asset within twelve months after the reporting period.
- (4) The asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

- (1) The Company expects to settle the liability in its normal operating cycle
- (2) The Company holds the liability primarily for the purpose of trading
- (3) The liability is due to be settled within twelve months after the reporting period
- (4) The Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities are classified as non-current.

6. Cash and Cash Equivalents

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

7. Financial Instruments

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

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

(1) Financial instruments: Recognition and Measurement

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

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

- A. the Company's business model for managing the financial assets and
- B. the contractual cash flow characteristics of the financial asset.

Financial assets measured at amortized cost

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

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

Such financial assets are subsequently measured at amortized cost. A gain or loss is recognized in profit or loss when the financial asset is derecognized, through the amortization process or in order to recognize the impairment gains or losses.

(2) Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on debt instrument investments measured financial asset measured at amortized cost.

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

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

The loss allowance is measured as follows:

For trade receivables or contract assets arising from transactions within the scope of IFRS 15, the Company measures the loss allowance at an amount equal to lifetime expected credit losses.

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

(3) Derecognition of financial assets

Financial asset is derecognized when:

- A. The contractual rights to receive cash flows from the asset have expired.
- B. The Company has transferred the asset and substantially all the risks and rewards of the asset have been transferred.
- C. The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

(4) Financial Liabilities and Equity

Classification between liabilities or equity

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

Equity instruments

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

Compound instruments

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

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

For the embedded derivative that is not closely related to the host contract (for example, if the exercise price of the embedded call or put option is not approximately equal on each exercise date to the amortized cost of the host debt instrument), it is classified as a liability component and subsequently measured at fair value through profit or loss unless it qualifies for an equity component. The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. Its carrying amount is not remeasured in the subsequent accounting periods.

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

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

Financial liabilities

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

Financial liabilities carried at amortized cost

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

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

Derecognition of financial liabilities

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

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

(5) Offsetting of Financial Instruments

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

8. Fair value measurement

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

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

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

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

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

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

9. Inventories

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

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

Raw materials – Actual purchase cost on weighted average method

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

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

10. Long-term Investments Accounted for under the Equity Method

The Company's investments in subsidiaries are presented based on Article 21 of the Regulations Governing the Preparation of Financial Reports by Securities Issuers "Investments accounted for using the equity method" with necessary valuation adjustments. As a result, the profit or loss for the period and other comprehensive income in the parent company only financial statements are the same as the allocation amount of profit or loss for the period and other comprehensive income attributable to stockholders of the parent company in financial statements under consolidated basis, and the total equity presented in the parent company only financial statements shall be the same as the equity attributable to stockholders of the parent company presented in the consolidated financial statements.

11. Property, Plant and Equipment

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

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

Item	Useful life
Buildings and structures	3~50 years
Machinery and equipment	2~20 years
Transportation equipment	3~15 years
Office equipment	3~5 years

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

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and the differences resulted from the previous estimation are recorded as changed in accounting estimates.

12. Leases

The accounting policy from 1 January 2019 is as follows:

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

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

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

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

Company as a lessee

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

At the commencement date, the Company measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses its incremental borrowing rate. At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

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

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

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

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

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

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

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

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

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

The accounting policy before 1 January 2019 was as follows:

Company as a lessee

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

Company as a lessor

Leases in which the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

13. Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

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

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

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

The Company's intangible assets accounting policies are as follows:

	<u>Software</u>	<u>Acquired special technology</u>
Useful life	Limited useful life of 1~3years	Limited useful life of 1~8 years
Amortization methods	Straight-line method	Straight-line method
Internally generated or outside acquisition	Outside Acquisition	Outside Acquisition

14. Impairment of Non-Financial Assets

The Company assesses at each reporting date whether there is any indication that an asset in the scope of IAS 36 Impairment of Assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company completes impairment testing for the cash-generating unit ("CGU") to which the individual assets belong. Where the carrying amount of an asset or a CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The recoverable amount of an individual asset or a CGU is the higher of its fair value less costs to sell and its value in use.

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

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

15. Provision

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probably that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Provision for Maintenance Warranties

Provision of maintenance warranties is estimated based on the terms of the product sales contracts and the best estimates made by the management on account of the future outflow of economic benefits from the maintenance warranty obligation (on the basis of historical warranty experiences).

16. Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. Any difference between the carrying amount and the consideration is recognized in equity.

17. Revenues Recognition

The Company's revenue arising from contracts with customers are primarily related to sale of goods and rendering of services. The accounting policies are explained as follows:

Sale of goods

The Company sells goods. Sales are recognized when control of the goods is transferred to the customer and the goods are delivered to the customers (the ability of the customer to lead the use of the commodity and obtain almost all of the remaining benefits of the commodity).

The Company provides its customer with a warranty with the purchase of the products. The warranty provides assurance that the product will operate as expected by the customers. The warranty is treated in accordance with IAS 37.

The credit period of the Company's sale of goods is from 15 to 60 days. For most of the contracts, when the Company transfers control of the goods to customers and has a right to an amount of consideration that is unconditional, these contracts are recognized as trade receivables. The Company usually collects the payments shortly after transfer of goods to customers; therefore, there is no significant financing component to the contract.

Rendering of services

Some of the current contracts of the Company recognized revenue in accordance with IFRS 15, as the Company transferred services over time and meets performance obligation, the client simultaneously receives and consumes the benefits provided by the Company's performance. The other entity has almost no need to re-perform the work currently completed by the Company. The Company recognizes revenue when a performance obligation is satisfied over time.

For some contracts, when the Company has transferred the services to customers but does not have a right to an amount of consideration that is unconditional, these contracts should be recognized as contract assets. However, for some rendering of services contracts, part of the consideration was received from customers upon signing the contract, and the Company has the obligation to provide the services subsequently; accordingly, these amounts are recognized as contract liabilities.

The period between the transfers of contract liabilities to revenue is usually within one year and did not result in any significant financial component.

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are recognized as other non-current assets if the entity expects to recover those costs. The costs are amortized on a straight-line basis according to the contract periods.

The incremental costs of obtaining a contract are costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. Costs that would have been incurred regardless of whether the contract was obtained shall be recognized as an expense.

18. Borrowing Cost

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

19. Post-Employment Benefits

All regular employees of the Company are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account and hence, not associated with the Company.

Therefore fund assets are not included in the parent company only financial statements. For the defined contribution plan, the Company and its domestic subsidiaries will make a monthly contribution of no less than 6% of the monthly wages of the employees' subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due.

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

- (1) the date of the plan amendment or curtailment, and
- (2) the date that the Company recognizes restructuring-related costs.

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

20. Share-based payment transactions

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

When the cash is retained for the purpose of reimbursing the shares to the employees, the grant date shall be the date on which the Company confirms the number of shares subscribed by the employee.

21. Income Tax

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

Current income tax

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

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

Deferred income tax

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

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

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

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

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred income tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred income tax relating to items recognized outside profit or loss is not recognized in profit or loss but rather in other comprehensive income or directly in equity. Deferred income tax assets are reassessed and recognized at each reporting date.

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

V. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Company's parent company only financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources for estimating uncertainty at the reporting date that would have a significant risk for a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year are discussed below.

(1) Revenue Recognition

The Company's aircraft maintenance service and aircrafts business maintenance management contracts recognized revenue by the percentage of completion method. This method calculates the percentage of completion by the actual input of materials or labors in each contract. The estimation cost of contracts includes the inputs of labors and overheads. Its related information and assumption basis is highly uncertain and involves management's material judgement. It may cause significant effect to the measurement of total cost, and then affect the measurement of recognition of revenue.

(2) Inventories

The net realizable value of inventories is estimated under the circumstances of being damaged or fully or partially obsolete or declining selling price. The expected net value of inventories is made according to the best evidence during the estimation process. Please refer to Note VI.

(3) Post-Employment Benefits

The cost of post-employment benefit pension plan and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, etc.

(4) Provisions

Provisions are recognized when the company has a present obligation (legal or constructive) as a result of a past event, it is probably that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

VI. Content of Significant Accounts

1. Cash and cash equivalents

	31 Dec. 2019	31 Dec. 2018
Cash on hand and saving account	<u>\$142,283</u>	<u>\$79,808</u>

2. Notes and accounts receivable, net

	31 Dec. 2019	31 Dec. 2018
Notes receivable	\$-	\$95
Accounts receivable	1,225,403	831,300
Less: Loss allowance	(15,637)	(28,641)
Net	<u>1,209,766</u>	<u>802,659</u>
Total	<u>\$1,209,766</u>	<u>\$802,754</u>

	31 Dec. 2019	31 Dec. 2018
Overdue receivables	\$32,013	\$3,372
Less: Loss allowance	(32,013)	(3,372)
Total	<u>\$-</u>	<u>\$-</u>

Notes, accounts receivable and overdue receivables were not pledged.

The payment term granted to customers were month end 15-60 days. The Company adopted IFRS 9 for impairment assessment. Please refer to Note VI (16) for more details on Loss allowance. Please refer to Note XII for more details on credit risk.

3. Inventories, net

	31 Dec. 2019	31 Dec. 2018
Raw materials	\$287,921	\$267,635
Work in process	958,999	643,634
Finished goods	267,392	124,815
Total	<u>\$1,514,312</u>	<u>\$1,036,084</u>

The cost of inventories recognized in expenses amounted to NT\$3,531,974 thousand and NT\$2,407,030 thousand for the years ended 31 December 2019 and 2018, respectively, including the obsolete inventory recognized as expense for the period in the amount of NT\$9,437 thousand and NT\$2,440 thousand for the years ended 31 December 2019 and 2018, respectively.

No inventories noted above were pledged.

4. Property, plant and equipment

	Land	Buildings	Machinery and equipment	Office equipment	Transportation equipment	Construction in progress and equipment awaiting inspection	Total
Cost:							
1 Jan. 2019	\$255,076	\$655,041	\$604,477	\$50,051	\$62,248	\$-	\$1,626,893
Addition	-	3,018	23,524	1,092	9,179	68	36,881
Disposal	-	-	(2,704)	(572)	-	-	(3,276)
Transfer	-	-	16,353	209	5,411	-	21,973
31 Dec. 2019	<u>\$255,076</u>	<u>\$658,059</u>	<u>\$641,650</u>	<u>\$50,780</u>	<u>\$76,838</u>	<u>\$68</u>	<u>\$1,682,471</u>
1 Jan. 2018	\$255,076	\$651,986	\$554,787	\$45,099	\$61,247	\$321	\$1,568,516
Addition	-	3,055	36,083	4,073	1,199	2,403	46,813
Disposal	-	-	(430)	(1,028)	(198)	-	(1,656)
Transfer	-	-	14,037	1,907	-	(2,724)	13,220
31 Dec. 2018	<u>\$255,076</u>	<u>\$655,041</u>	<u>\$604,477</u>	<u>\$50,051</u>	<u>\$62,248</u>	<u>\$-</u>	<u>\$1,626,893</u>
Depreciation and impairment:							
1 Jan. 2019	\$-	\$363,153	\$472,217	\$37,324	\$45,120	\$-	\$917,814
Depreciation	-	21,300	35,190	4,644	3,687	-	64,821
Disposal	-	-	(2,703)	(572)	-	-	(3,275)
Transfer	-	-	(608)	-	-	-	(608)
31 Dec. 2019	<u>\$-</u>	<u>\$384,453</u>	<u>\$504,096</u>	<u>\$41,396</u>	<u>\$48,807</u>	<u>\$-</u>	<u>\$978,752</u>
1 Jan. 2018	\$-	\$341,459	\$437,829	\$33,661	\$42,724	\$-	\$855,673
Depreciation	-	21,694	34,755	4,692	2,594	-	63,735
Disposal	-	-	(367)	(1,029)	(198)	-	(1,594)
31 Dec. 2018	<u>\$-</u>	<u>\$363,153</u>	<u>\$472,217</u>	<u>\$37,324</u>	<u>\$45,120</u>	<u>\$-</u>	<u>\$917,814</u>
Net book value:							
31 Dec. 2019	<u>\$255,076</u>	<u>\$273,606</u>	<u>\$137,554</u>	<u>\$9,384</u>	<u>\$28,031</u>	<u>\$68</u>	<u>\$703,719</u>
31 Dec. 2018	<u>\$255,076</u>	<u>\$291,888</u>	<u>\$132,260</u>	<u>\$12,727</u>	<u>\$17,128</u>	<u>\$-</u>	<u>\$709,079</u>

Please refer to Note VIII for more details on property, plant and equipment under pledge.

5. Intangible assets

	Acquired special technology	Software	Total
Cost:			
1 Jan. 2019	\$10,408	\$6,441	\$16,849
Addition - acquired separately	9,279	284	9,563
Decrease	(12,131)	(4,731)	(16,862)
31 Dec. 2019	<u>\$7,556</u>	<u>\$1,994</u>	<u>\$9,550</u>
1 Jan. 2018	\$7,575	\$4,584	\$12,159
Addition - acquired separately	2,833	1,857	4,690
31 Dec. 2018	<u>\$10,408</u>	<u>\$6,441</u>	<u>\$16,849</u>
Amortization and impairment:			
1 Jan. 2019	\$9,567	\$4,412	\$13,979
Amortization	4,946	1,136	6,082
Decrease	(12,131)	(4,731)	(16,862)
31 Dec. 2019	<u>\$2,382</u>	<u>\$817</u>	<u>\$3,199</u>
1 Jan. 2018	\$5,824	\$3,008	\$8,832
Amortization	3,743	1,404	5,147
31 Dec. 2018	<u>\$9,567</u>	<u>\$4,412</u>	<u>\$13,979</u>
Net book value:			
31 Dec. 2019	<u>\$5,174</u>	<u>\$1,177</u>	<u>\$6,351</u>
31 Dec. 2018	<u>\$841</u>	<u>\$2,029</u>	<u>\$2,870</u>
Intangible assets amortization:			
	1 Jan.~31 Dec. 2019	1 Jan.~31 Dec. 2018	
Included in operating cost	<u>\$5,363</u>	<u>\$4,144</u>	
Included in operating expenses	<u>\$719</u>	<u>\$1,003</u>	

6. Other non-current assets

	31 Dec. 2019	31 Dec. 2018
Prepayment for equipment	\$23,146	\$26,816
Refundable deposits-noncurrent	63,444	58,870
Other non-current assets-others	9,848	1,204
Overdue receivables	-	-
Total	<u>\$96,438</u>	<u>\$86,890</u>

Please refer to Note VIII for more details on refundable deposits-noncurrent as performance bond.

7. Short-term loans

	31 Dec. 2019	31 Dec. 2018
Unsecured loans	\$600,000	\$722,075
Interest rate range	0.70%~1.23%	0.69%~1.22%

The Company's unused short-term lines of credits amounted to NT\$680,000 thousand and NT\$297,925 thousand as of 31 December 2019 and 31 December 2018, respectively.

8. Short-term notes and bills payable

Guarantee or acceptance agency	31 Dec. 2019		
	Interest rate	Amount	Pledge
<u>Short-term notes</u>			
Ta Ching Bills Finance Corporation	1.00%	\$100,000	None
China Bills Finance Corporation	1.00%	150,000	"
Taiwan Finance Corporation	1.00%	100,000	"
Taiwan Cooperative Bills Finance Corporation	1.00%	100,000	"
Subtotal		450,000	
Discount of short-term notes		(160)	
Total		\$449,840	

Guarantee or acceptance agency	31 Dec. 2018		
	Interest rate	Amount	Pledge
<u>Short-term notes</u>			
China Bills Finance Corporation	1.05%	\$150,000	None
DAH Chung Bills Finance Corporation	1.00%	80,000	"
Subtotal		230,000	
Discount of short-term notes		(75)	
Total		\$229,925	

9. Other payables

	31 Dec. 2019	31 Dec. 2018
Operating expenses	\$242,729	\$182,761
Payables on equipment	3,273	4,163
Employee bonus	1,212	160
Others	14,862	14,352
Total	\$262,076	\$201,436

10. Bonds payable

	<u>31 Dec. 2019</u>
Liability component:	
Principal amount	\$500,000
Discounts on bonds payable	(25,028)
Net	<u>\$474,972</u>
Embedded derivative—Redemption	<u>\$1,470</u>
Equity component—Convertible	<u>\$22,358</u>

A. The first domestic unsecured convertible bonds payable

On 9 July 2019, the Company issued zero coupon unsecured convertible bonds. The terms of the convertible bonds were evaluated to include a liability component, embedded derivatives and an equity component. The terms of the bonds are as follows:

Issue amount: NT\$200,000 thousand

Period: 9 July 2019 ~ 9 July 2022

Redemption clauses:

- a. The Company may redeem the bonds, in whole or in part, after 3 months (10 October 2019) of the issuance and prior to forty days (30 May 2022) before the maturity date, at the principal amount of the bonds if the closing price of the Company's ordinary shares on the Taiwan Stock Exchange (TWSE) for a period of 30 consecutive trading days, is at least 130% of the conversion price.
- b. The Company may redeem the bonds, in whole or in part, after 3 months (10 October 2019) of the issuance and prior to forty days (30 May 2022) before the maturity date, at the early redemption conversion price if at least 90% in principal amount of the bonds has already been exchanged, redeemed, purchased or cancelled.

Put option clauses:

Bondholders could request the Company for redemption of convertible bonds held at the principal amount of bonds with additional interest payment prior to thirty days of the base date. The amount after 2 years of issuance is 100.5006% of the principal amount. Two years after the issuance of the convertible bonds (9 July 2021) is the base date when bondholders redeem the bonds.

Terms of Conversion:

- a. Underlying Securities: Common shares of the Company

- b. Conversion Period: The bonds are convertible at any time on or after 10 October 2019 and prior to 9 July 2022 into common shares of the Company.
- c. Conversion Price and Adjustment: The conversion price base on 1 July 2019 was originally NT\$21.8 per share. The conversion price will be subject to adjustments upon the occurrence of certain events set out in the indenture. The conversion price as of 31 December 2019 is NT\$20.8.
- d. Redemption on the Maturity Date: On the maturity date, the Company will redeem the bonds with additional interest payment on the basis of the amount of 100.7519% of the bond value that remain outstanding at the principal amount.

As end of December 31, 2019, the first domestic unsecured convertible bonds payable had not yet applied for conversion into common stock.

B. The second unsecured domestic convertible bonds payable

On 10 July 2019, the Company issued zero coupon unsecured convertible bonds. The terms of the convertible bonds were evaluated to include a liability component, embedded derivatives and an equity component. The terms of the bonds are as follows:

Issue amount: NT\$300,000 thousand

Period: 10 July 2019 ~ 10 July 2024

Redemption clauses:

- a. The Company may redeem the bonds, in whole or in part, after 3 months (11 October 2019) of the issuance and prior to forty days (31 May 2024) before the maturity date, at the principal amount of the bonds if the closing price of the Company's ordinary shares on the Taiwan Stock Exchange (TWSE) for a period of 30 consecutive trading days, is at least 130% of the conversion price.
- b. The Company may redeem the bonds, in whole or in part, after 3 months (11 October 2019) of the issuance and prior to forty days (31 May 2024) before the maturity date, at the early redemption conversion price if at least 90% in principal amount of the bonds has already been exchanged, redeemed, purchased or cancelled.

Put option clauses:

Thirty months after the issuance of the convertible bonds (10 January 2022) is the base date on which bondholders redeem the bonds.

Bondholders could request the Company for redemption of convertible bonds held at the principal amount of bonds with additional interest payment prior to thirty days of the base date. The amount after 30 months of issuance is 101.2547% of the principal amount.

Terms of conversion:

- a. Underlying Securities: Common shares of the Company
- b. Conversion Period: The bonds are convertible at any time on or after 11 October 2019 and prior to 10 July 2024 into common shares of the Company.
- c. Conversion Price and Adjustment: The conversion price based on 2 July 2019 was originally NT\$21.9 per share. The conversion price will be subject to adjustments upon the occurrence of certain events set out in the indenture. The conversion price as of 31 December 2019 is NT\$20.9.
- d. Redemption on the Maturity Date: On the maturity date, the Company will redeem the bonds with additional interest payment on the basis of the amount of 102.5251% of the bond value that remain outstanding at the principal amount.

As of end of 31 December 2019, the second domestic unsecured convertible bonds payable had not yet applied for conversion into common stock.

11. Long-term loans

(1) The details of long-term loans were as follows:

Creditors	Nature	Period	31 Dec. 2019	Interest rate	Redemption
Taiwan Cooperative Bank	Unsecured commercial loans	2019.03.26~ 2024.03.26	\$200,000	1.36%	First installment starting from 3 months after one year maturity following the first drawdown, repaid by 16 installments with every 3 months as one installment.
Jih Sun International Bank	Unsecured commercial loans	2019.08.30~ 2021.07.18	100,000	1.35%	Repayment at maturity and monthly interest payments starting from the first drawdown with revolving credit lines.
Far Eastern International Bank	Unsecured commercial loans	2019.08.20~ 2022.08.20	180,000	1.34%	Repayment at maturity and monthly interest payments starting from the first drawdown with revolving credit lines.
Less: current portion			(37,500)		
Total			<u>\$442,500</u>		

Creditors	Nature	Period	31 Dec. 2018	Interest rate	Redemption
Chang Hwa Bank	Secured Long-Term Loan	2018.11.26~ 2023.11.26	\$150,000	1.36%	First installment starting from one year maturity following the first drawdown, repaid by 16 installments with every 3 months as one installment.
	Secured Long-Term Loan	2014.12.10~ 2021.12.10	49,999	1.36%	First installment starting from one year maturity following the first drawdown, repaid by 24 installments with every 3 months as one installment.
	Less: current portion		(16,667)		
	Total		<u>\$183,332</u>		

(2) Please refer to Note VIII for the detail of the assets pledged as collateral for the above liabilities.

12. Post-employment benefits

Defined contribution plan

The Company adopts a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. Under the Labor Pension Act, the Company will make monthly contributions of no less than 6% of the employees' monthly wages to the employees' individual pension accounts. The Company has made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

Expenses under the defined contribution plan for the years ended 31 December 2019 and 2018 are NT\$34,802 thousand and NT\$29,481 thousand, respectively.

Defined benefit plan

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

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund. The pension fund is invested in-house or under mandate, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate manager flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury funds can be used to cover the deficits after the approval of the competent authority. As the Company does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with paragraph 142 of IAS 19. The Company expects to contribute 6,000 thousand to its defined benefit plan during the following year beginning after 31 December 2019.

The average duration of the defined benefits plan obligation as of 31 December 2019 and 2018 are 13 years and 9 years.

The costs of defined benefit plan recognized to profit or loss were as follows:

	1 Jan.~31 Dec. 2019	1 Jan.~31 Dec. 2018
Current service cost	\$2,801	\$6,803
Net interest of net defined benefit liabilities	1,770	1,714
Past Service cost	1,252	-
Total	<u>\$5,823</u>	<u>\$8,517</u>

The reconciliation of present value of defined benefit obligation and fair value of plan assets were as follows:

	31 Dec. 2019	31 Dec. 2018
Present value of the defined benefit obligation	\$54,592	\$144,416
Fair value of plan assets	(43,533)	(2,875)
Other non-current liabilities-net defined benefit liabilities recognized on the balance sheets	<u>\$11,059</u>	<u>\$141,541</u>

The reconciliation of net defined benefit liabilities (assets):

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liabilities (assets)
1 Jan. 2018	\$314,753	\$(154,590)	\$160,163
Current service cost	6,803	-	6,803
Interest cost/revenue	3,368	(1,654)	1,714
Subtotal	324,924	(156,244)	168,680
Remeasurements of defined benefit liabilities/ assets			
Actuarial gains and losses resulting from changes in demographic assumptions	31	-	31
Actuarial gains and losses resulting from changes in financial assumptions	809	-	809
Experience adjustment	13,564	-	13,564
Remeasurements of defined benefit assets	-	(4,457)	(4,457)
Subtotal	14,404	(4,457)	9,947
Benefits paid	(194,912)	194,912	-
Contribution by employer	-	(37,086)	(37,086)
31 Dec. 2018	144,416	(2,875)	141,541
Current service cost	2,801	-	2,801
Interest cost/revenue	1,805	(35)	1,770
Past service cost	1,252	-	1,252
Subtotal	150,274	(2,910)	147,364
Remeasurements of defined benefit liabilities/ assets			
Actuarial gains and losses resulting from changes in demographic assumptions	(516)	-	(516)
Actuarial gains and losses resulting from changes in financial assumptions	3,372	-	3,372
Experience adjustment	18,637	-	18,637
Remeasurements of defined benefit assets	-	(8,745)	(8,745)
Subtotal	21,493	(8,745)	12,748
Benefits paid	(117,175)	117,175	-
Contribution by employer	-	(149,053)	(149,053)
31 Dec. 2019	\$54,592	\$(43,533)	\$11,059

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

	31 Dec. 2019	31 Dec. 2018
Discount rate	0.76%	1.25%
Future salary increase rate	1.00%	1.00%

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

	<u>1 Jan.~31 Dec. 2019</u>		<u>1 Jan.~31 Dec. 2018</u>	
	Increase in defined benefit obligation	Decrease in defined benefit obligation	Increase in defined benefit obligation	Decrease in defined benefit obligation
Discount rate increase by 0.5%	\$-	\$3,397	\$-	\$11,080
Discount rate decrease by 0.5%	3,955	-	12,163	-
Future salary increase by 0.5%	3,920	-	12,131	-
Future salary decrease by 0.5%	-	3,405	-	11,159

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

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

13. Provision

A provision was recognized for expected warranty claims on acceptance by client, based on past experience, and management's judgment and other known factors:

	<u>1 Jan.~31 Dec. 2019</u>	<u>1 Jan.~31 Dec. 2018</u>
Balance at beginning of the year	\$19,112	\$18,132
Current additions	16,217	9,859
Current used	(3,361)	(2,956)
Current reserved	(476)	(5,923)
Balance at end of the year	<u>\$31,492</u>	<u>\$19,112</u>

Provision of Remediation and Improvement

	<u>1 Jan.~31 Dec. 2018</u>
Balance at beginning of the year	\$20,833
Current used	(20,833)
Balance at end of the year	<u>\$-</u>

The Company received a letter from Tainan City Government on 9 November 2015 stating that the Company's maintenance base in Tainan (at Land Lot No. 0553-0000, Er-ren Segment, Rende District) has been declared a soil pollution control site. The Company recognized provision at the best estimates based on the related expenditure with respect to the soil pollution improvement work required for the scope of the remediation and improvement obligations. The above-mentioned work had already finished in 2018.

14. Equity

(1) Common stock

As of 31 December 2019 and 31 December 2018, the Company's authorized common stock both amounted to NT\$1,300,000 thousand. The outstanding common stocks were respectively NT\$1,201,200 thousand and NT\$1,222,080 thousand, divided into 120,120 thousand shares and 122,208 thousand shares and at NT\$10 par value.

The Company passed a resolution at the board of directors' meeting on 25 December 2017 to raise capital by cash in the amount of NT\$143,784 thousand. The Company issued 14,378 thousand shares of common stock at NT\$10 par value. Pursuant to the R.O.C. Company Act, 2,156 thousand shares were retained for employees to subscribe. The record date for capital increase was resolved at the board meeting to be 14 February 2018.

(2) Capital surplus

	31 Dec. 2019	31 Dec. 2018
Additional paid-in capital	\$150,633	\$265,686
Gain on disposal of assets	100,063	100,063
Share options	22,358	-
Total	<u>\$273,054</u>	<u>\$365,749</u>

According to the Company Act, the capital reserve shall not be used except for making good the deficit of the company. When a company incurs no loss, it may distribute the capital reserves related to the income derived from the issuance of new shares at a premium or income from endowments received by the Company. The distribution could be made in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them.

The shareholders' meeting resolved on 17 June 2019 to cover the Company's accumulated deficits by its capital surplus in the amount of NT\$110,510 thousand (NT\$ 0.92 per share).

The shareholders' meeting resolved on 11 June 2018 to cover the Company's accumulated deficits by its capital surplus in the amount of NT\$48,883 thousand (NT\$ 0.4 per share)

(3) Treasury stock

Pursuant to the treasury stock system, the Company repurchased treasury stocks from Taiwan Stock Exchange Corporation (TWSE).

As of 31 December 2019, the reason of the repurchase and the changes in the stocks were as follows:

The reason of repurchase	Beginning of the year	Increase	Decrease	End of the year
To maintain the Company's reputation and shareholders' rights and interest	1,717 thousand shares	371 thousand shares	2,088 thousand shares	-

As of 31 December 2018, the reason of the repurchase and the changes in the stocks were as follows:

The reason of repurchase	Beginning of the year	Increase	Decrease	End of the year
To maintain the Company's reputation and shareholders' rights and interest	-	1,717 thousand shares	-	1,717 thousand shares

The Company canceled stocks in the amount of NT\$ 50,471 thousand, divided into 2,088 thousand shares in 2019.

(4) Retained earnings and dividend policies

According to the Company's Articles of Incorporation:

- A. 1%~3% of profit of the current year is distributable as employees' compensation. However, the Company's accumulated deficits shall have been covered.
- B. The Company's Articles of Incorporation provide that the current net income, after deducting the previous years' losses, shall set aside 10% as legal reserve and special reserve according to the relevant laws and other regulations of R.O.C. Then the balance is added up with the accumulated retained earnings in the previous year. The distribution of the remaining portion, if any, will be proposed by the board of directors for approval in the Board of Directors meeting.

The policy of dividend distribution should reflect factors such as the current and future investment environment, fund requirements, domestic and international competition and capital budgets; as well as the interest of the shareholders, share bonus equilibrium and long-term financial planning etc. The Board of Directors shall make the distribution proposal annually and present it at the shareholders' meeting.

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

The Company's distribution of earnings and cash dividends per share in 2018 and 2017 were approved respectively through the shareholders' meeting on 17 June 2019 and 11 June 2018 as follows:

	Appropriation of earnings		Cash dividend per share	
	1 Jan.~31 Dec.	1 Jan.~31 Dec.	1 Jan.~31 Dec.	1 Jan.~31 Dec.
	2018	2017	2018	2017
Legal reserve	\$1,540	\$12,339	\$-	\$-
Cash dividends	9,610	103,877	0.08	0.85

Please refer to Note VI (18) for relevant information about estimation basis and recognized amounts for employees' compensation and remuneration to directors.

The appropriation of earnings for 2019 will be proposed by the board of directors.

15. Sales

	1 Jan.~31 Dec. 2019	1 Jan.~31 Dec. 2018
Sales		
Sales-maintenances	\$3,543,716	\$2,622,501
Sales-materials	369,575	96,853
Total	\$3,913,291	\$2,719,354

Analysis of revenue from contracts with customers during the year is as follows:

(1) Disaggregation of revenue

	<u>1 Jan.~31 Dec. 2019</u>	<u>1 Jan.~31 Dec. 2018</u>
Aircraft maintenance	\$1,137,286	\$925,433
Fleet maintenance and repair supply	399,824	399,926
Repairing entrusted to other units and air material selling	1,094,610	476,751
Components maintenance	1,281,571	917,244
Total	<u>\$3,913,291</u>	<u>\$2,719,354</u>

Timing of revenue recognition:

At a point in time		
Aircraft maintenance	\$653,718	\$486,547
Fleet maintenance and repair supply	399,824	
pricing		398,611
Outsourced repair and air material transaction	1,094,610	
Components maintenance	1,265,446	476,751
Total	<u>\$3,413,598</u>	<u>\$2,207,287</u>
Over time		
Aircraft maintenance	\$483,568	\$438,886
Fleet maintenance and repair supply	-	1,315
pricing		
Components maintenance	16,125	71,866
Total	<u>\$499,693</u>	<u>\$512,067</u>

(2) Contract balances

A. Contract assets - current

	<u>31 Dec. 2019</u>	<u>31 Dec. 2018</u>
Rendering of services	\$321,579	\$333,180

As of 31 December 2019 and 31 December 2018, the Company performed its obligation for some contracts by transferring of services, however it has not obtained an unconditional right to receive the consideration during the period in the amount of NT\$321,579 thousand and NT\$333,180 thousand, respectively. Please refer to Note VI(16) for more details on the impairment impact.

B. Contract liabilities – current

	<u>31 Dec. 2019</u>	<u>31 Dec. 2018</u>
Rendering of services	\$4,956	\$1,114

Some of the Company's contracts as at 31 December 2019 and 31 December 2018 received partial consideration when signing up with the client. The Company bears the responsibility to perform the obligation of providing services subsequently. The Company recognized contract liabilities in the amount of NT\$4,956 thousand and NT\$1,114 thousand, respectively.

The period of contract liabilities transfer into revenue is usually within one year and did not result in any significant financial components.

(3) Transaction price allocated to unsatisfied performance obligations

As of 31 December 2019, the Company expected to recognize average revenue in the amount of NT\$202,361 thousand from 2020 to 2021. In addition, the Company has signed a number of multi-year military maintenance contracts with the military department of the government. Although the contract stated a budget, the actual performance obligation is based on the maintenance work order and recognized revenue based on each order. The maintenance period of the work orders obtained as of 31 December 2019 were less than one year, so there is no need to provide information on outstanding performance obligations.

As of 31 December 2018, the Company expected to recognize average revenue in the amount of NT\$303,541 thousand from 2019 to 2021. In addition, the Company has signed a number of multi-year military maintenance contracts with the military department of the government. Although the contract stated a budget, the actual performance obligation is based on the maintenance work order and recognized revenue based on each order. The maintenance period of the work orders obtained as of 31 December 2018 were less than one year, so there is no need to provide information on outstanding performance obligations.

(4) Assets recognized from costs to fulfil a contract

	<u>31 Dec. 2019</u>	<u>31 Dec. 2018</u>
Incremental costs of obtaining contracts	\$63,425	\$63,425
Accumulated amortization	(30,756)	(17,791)
Total	<u>\$32,669</u>	<u>\$45,634</u>

The related expenses paid by the Company for the acquisition of the aircraft maintenance business are expected to be recoverable and therefore were recognized as assets and amortized over the contract period of the aircraft maintenance business. Amortization expenses of NT\$12,965 thousand and NT\$13,471 thousand were recognized in 2019 and 2018, respectively.

16. Expected credit losses

	<u>1 Jan.~31 Dec. 2019</u>	<u>1 Jan.~31 Dec. 2018</u>
Operating Expense— Expected credit losses		
Contract assets	\$-	\$-
Notes receivable	-	-
Accounts receivables	15,637	12,625
Total	<u>\$15,637</u>	<u>\$12,625</u>

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

The Company measures the loss allowance of its contract assets and accounts receivable (including note receivables and accounts receivable) at an amount equal to lifetime expected credit losses. The Company considers the grouping of trade receivables by counterparties' credit rating, by geographical region and by industry sector and its loss allowance is measured by using a provision matrix. The details are as follows:

31 Dec. 2019

Group 1	Overdue						Total
	Not yet due	1-90 days	91-180 days	181-270 days	271-365 days	>=365 days	
Accounts receivable	\$1,204,013	\$3,302	\$49	\$47	\$-	\$-	\$1,207,411
Contract assets	321,579	-	-	-	-	-	321,579
Gross carrying amount	1,525,592	3,302	49	47	-	-	1,528,990
Loss rate	0%	0%	20%	30%	-	-	
Lifetime expected credit losses	-	-	10	15	-	-	25
Subtotal							1,528,965
Group 2	Overdue						
	Not yet due	1-90 days	91-180 days	181-270 days	271-365 days	>=365 days	Total
Accounts receivable	\$2,496	\$5,935	\$9,561	\$-	\$-	\$-	\$17,992
Overdue receivables	-	-	-	-	-	32,013	32,013
Gross carrying amount	2,496	5,935	9,561	-	-	32,013	50,005
Loss rate	86%	86~100%	86%	-	-	100%	
Lifetime expected credit losses	2,155	5,205	8,252	-	-	32,013	47,625
Subtotal							2,380
Carrying amount of accounts receivable							\$1,531,345

31 Dec. 2018

Group 1	Overdue						Total
	Not yet due	1-90 days	91-180 days	181-270 days	271-365 days	>=365 days	
Notes receivable	\$95	\$-	\$-	\$-	\$-	\$-	\$95
Accounts receivable	383,001	419,658	-	-	-	28,641	831,300
Contract assets	333,180	-	-	-	-	-	333,180
Gross carrying amount	716,276	419,658	-	-	-	28,641	1,164,575
Loss rate	0%	0%	-	-	-	100%	
Lifetime expected credit losses	-	-	-	-	-	28,641	28,641
Subtotal							1,135,934
Group 2	Overdue						Total
Not yet due	1-90 days	91-180 days	181-270 days	271-365 days	>=365 days		
Overdue receivables	\$-	\$-	\$-	\$-	\$-	\$3,372	\$3,372
Gross carrying amount	-	-	-	-	-	3,372	3,372
Loss rate	-	-	-	-	-	100%	
Lifetime expected credit losses	-	-	-	-	-	3,372	3,372
Subtotal							-
Carrying amount of accounts receivable							<u>\$1,135,934</u>

If the receivables of government customers cannot be collected within the prescribed credit period due to central government budgeting, the amount of the receivables will be regarded as not overdue with no impairment risk, if not overdue for more than 365 days.

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

1 Jan. ~ 31 Dec. 2019				
	Contract assets	Notes receivable	Accounts receivable	Overdue receivables
Beginning balance	\$-	\$-	\$28,641	\$3,372
Current reclassification	-	-	(28,641)	28,641
Current addition	-	-	15,637	-
Ending balance	\$-	\$-	\$15,637	\$32,013

1 Jan. ~ 31 Dec. 2018				
	Contract assets	Notes receivable	Accounts receivable	Overdue receivables
Beginning balance	\$-	\$-	\$16,016	\$3,372
Current addition	-	-	12,625	-
Ending balance	\$-	\$-	\$28,641	\$3,372

17. Leases

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

The Company leases various properties, including real estate such as land, machinery and equipment and transportation equipment.

The effects of the Company's leases on the financial position, financial performance and cash flows are as follows:

A. Amounts recognized in the balance sheet

a. Right-of-use assets

The carrying amount of right-of-use assets

	As at	
	31 Dec. 2019	31 Dec. 2018 (Note)
Land	\$266,680	
Machinery and equipment	435	
Transportation equipment	2,341	
Total	\$269,456	

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

The movement in the right-of-use assets of the Company as of end of 31 December 2019 is as follows:

	Land	Machinery and equipment	Transportation equipment	Total
Cost:				
1 Jan. 2019	\$281,495	\$-	\$3,479	\$284,974
Addition	-	603	894	1,497
31 Dec. 2019	<u>\$281,495</u>	<u>\$603</u>	<u>\$4,373</u>	<u>\$286,471</u>
Depreciation and impairment:				
1 Jan. 2019	\$-	\$-	\$-	\$-
Depreciation	14,815	168	2,032	17,015
31 Dec. 2019	<u>\$14,815</u>	<u>\$168</u>	<u>\$2,032</u>	<u>\$17,015</u>
Net book value:				
31 Dec. 2019	<u>\$266,680</u>	<u>\$435</u>	<u>\$2,341</u>	<u>\$269,456</u>

As of end of 31 December 2019, the Company's additional right-of-use assets amounted to NT\$1,497 thousand.

b. Lease liabilities

	As at	
	31 Dec. 2019	31 Dec. 2018 (Note)
Lease liabilities		
Current	\$15,399	
Non-current	255,327	

Please refer to Note VI (31) (19) for the interest on lease liabilities recognized for the year ended 31 December 2019 and refer to Note XII (5) Liquidity Risk Management for the maturity analysis for lease liabilities as at 31 December 2019.

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

B. Amounts recognized in the statement of profit or loss

Depreciation charge for right-of-use assets

	1 January ~31 December	
	2019	2018 (Note)
Land	\$14,815	
Machinery and equipment	168	
Transportation equipment	2,032	
Total	<u>\$17,015</u>	

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

C. Cash outflow relating to leasing activities

For the year ended of 31 December 2019, the Company's total cash outflows for leases amounted to NT\$15,745 thousand.

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

The Company signed land leases for an average period of 5 to 10 years. There are no restrictions placed upon the Company in the contracts.

Future minimum rentals payable under non-cancellable operating leases as at 31 December 2018 is as follows:

	As at	
	31 Dec. 2019 (Note)	31 Dec. 2018
Not later than one year		\$15,092
Later than one year and not later than five years		60,367
Later than five years		60,367
Total		<u>\$135,826</u>

Operating lease expenses recognized are as follows:

	1 January ~31 December.	
	2019 (Note)	2018
Minimum lease payments		
Contingent rents		<u>\$16,373</u>

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

18. Employee benefit, depreciation, and amortization expense are summarized as follows:

Function Nature	1 Jan.~31 Dec. 2019			1 Jan.~31 Dec. 2018		
	Classified as operating costs	Classified as operating expenses	Total	Classified as operating costs	Classified as operating expenses	Total
Employee benefit expenses						
Salaries	\$559,876	\$139,945	\$699,821	\$479,561	\$122,156	\$601,717
Insurances	50,417	17,754	68,171	49,909	15,342	65,251
Pensions	31,311	9,314	40,625	29,643	8,355	37,998
Remuneration to directors	-	2,030	2,030	-	1,985	1,985
Other employee benefit expenses	39,196	6,752	45,948	31,196	11,377	42,573
Depreciation	73,658	8,178	81,836	59,843	3,892	63,735
Amortization	5,363	719	6,082	4,144	1,003	5,147

Note 1: The number of employees of the Company as of 31 December 2019 and 2018 was 1,067 and 1,033, respectively, including 10 and 9 non-employee directors.

Note 2: Other information is as follows:

- (1) Average employee benefit in 2019 and 2018 was NT\$808 thousand and NT\$730 thousand.
- (2) Average salaries in 2019 and 2018 was NT\$662 thousand and NT\$588 thousand.
- (3) Average salaries variable proportion was 13%.

According to the Articles of Incorporation, 1%~3% of profit of the current year is distributable as employees' compensation. However, the Company's accumulated deficits shall have been covered first. The Company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation in the form of shares or in cash; and in addition thereto a report of such distribution is submitted to the shareholders' meeting. Information on the Board of Directors' resolution regarding the employees' compensation and remuneration to directors and supervisors can be obtained from the "Market Observation Post System" on the website of the TWSE.

Based on the profit level, the Company estimated the amounts of the employees' compensation for the year ended 31 December 2019 and 2018, respectively. The Company recognized NT\$1,212 thousand in 2019 and NT\$160 thousand in 2018. The amounts were recognized as salary expenses.

A resolution was passed at the board meeting held on 20 February 2020 to distribute employees' compensation in cash in the amount of NT\$1,212 thousand. No material differences existed between the estimated amount and the actual amount distributed for the year ended 31 December 2019.

A resolution was passed at the board meeting held on 29 January 2019 to distribute employees' compensation in cash in the amount of NT\$160 thousand. No material differences existed between the estimated amount and the actual amount distributed for the year ended 31 December 2018.

19. Non-operating income and expenses

(1) Other income

	<u>1 Jan.~31 Dec. 2019</u>	<u>1 Jan.~31 Dec. 2018</u>
Rent income	\$1,443	\$487
Interest income	1,303	1,481
Other income-other	<u>4,372</u>	<u>8,125</u>
Total	<u><u>\$7,118</u></u>	<u><u>\$10,093</u></u>

(2) Other gains and losses

	<u>1 Jan.~31 Dec. 2019</u>	<u>1 Jan.~31 Dec. 2018</u>
(Loss) on disposal of property, plant and equipment	\$(1)	\$(62)
Foreign exchange (loss) gain -net	6,839	(449)
Miscellaneous Disbursements	(897)	(1,250)
Financial liability at fair value through profit(loss)	(900)	-
Total	<u><u>\$5,041</u></u>	<u><u>\$(1,761)</u></u>

(3) Financial Cost

	<u>1 Jan.~31 Dec. 2019</u>	<u>1 Jan.~31 Dec. 2018</u>
Financial expense	\$(10,037)	\$(9,326)
Interest expense of bonds payable	(3,218)	-
Interest expense of lease liabilities	(2,796)	-
Interest expense of loans	<u>(15,424)</u>	<u>(5,386)</u>
Total	<u><u>\$(31,475)</u></u>	<u><u>\$(14,712)</u></u>

20. Components of Other Comprehensive Income (Loss)

For the year ended 31 December 2019

	Arising during the period	Income tax benefit (expense)	Other comprehensive income (loss), net of tax
Items that will not be reclassified subsequently to profit or loss:			
Remeasurements of defined benefit pension plans	\$(12,748)	\$2,550	\$(10,198)
Items that will be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	(78)	16	(62)
Total	\$(12,826)	\$2,566	\$(10,260)

For the year ended 31 December 2018

	Arising during the period	Income tax benefit (expense)	Other comprehensive income(loss), net of tax
Items that will not be reclassified subsequently to profit or loss:			
Remeasurements of defined benefit pension plans	\$(9,947)	\$1,989	\$(7,958)
Items that will be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	114	(24)	90
Total	\$(9,833)	\$1,965	\$(7,868)

21. Income Tax

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

The major components of income tax expense (benefit) were as follows:

Income tax expense recorded in profit or loss

	1 Jan.~31 Dec. 2019	1 Jan.~31 Dec. 2018
Current income tax expense (benefit):		
Current income tax payable	\$-	\$-
Adjustments in respect of current income tax of prior periods	1,616	1,474
Deferred income tax expense (benefit):		
Deferred income tax expense (benefit) related to origination and reversal of temporary differences	12,785	1,403
Deferred tax expense (income) relating to changes in tax rate or the imposition of new taxes	-	(10,422)
Income tax expense (benefit)	<u>\$14,401</u>	<u>\$(7,545)</u>

Income tax expense recorded in other comprehensive income

	1 Jan.~31 Dec. 2019	1 Jan.~31 Dec. 2018
Deferred income tax expense (benefit):		
Remeasurements of defined benefit pension plans	\$(2,550)	\$(1,989)
Exchange differences on translation of foreign operations	(16)	24
Income tax relating to components of other comprehensive income	<u>\$(2,566)</u>	<u>\$(1,965)</u>

A reconciliation between income tax expense and income before tax at applicable tax rate was as follows:

	1 Jan.~31 Dec. 2019	1 Jan.~31 Dec. 2018
Income before tax from continuing operations	<u>\$59,412</u>	<u>\$7,860</u>
At statutory income tax rate of 20%	\$11,882	\$1,572
Investment tax credits under Statue for Industrial Innovation this year	-	(187)
Tax effect due to non-deductible expenses	903	7
Deferred income tax related to changes in tax rates	-	(10,422)
income tax on unappropriated earnings (2019:5%; 2018:10%)	-	11
Adjustments in respect of current income tax of prior periods	<u>1,616</u>	<u>1,474</u>
Total of income tax expense recorded in profit or loss	<u>\$14,401</u>	<u>\$(7,545)</u>

Deferred income tax assets (liabilities) amounts relating to the following items:

For the year ended 31 December 2019

	Balance at beginning	Recognized to profit or loss	Recognized to other comprehensive income	Balance at end
Temporary difference				
Allowance for doubtful debts	\$5,728	\$3,127	\$-	\$8,855
Allowance for losses on inventory market decline and obsolescence	22,887	1,887	-	24,774
Impairment of property, plant and equipment	1,014	(207)	-	807
Net defined benefit liabilities	28,308	(28,646)	2,550	2,212
Loss Carryforwards	10,720	11,277	-	21,997
Other	1,385	(223)	16	1,178
Deferred income tax (expense)/benefit		<u>\$(12,785)</u>	<u>\$2,566</u>	
Deferred income tax assets (liabilities) - net	<u>\$70,042</u>			<u>\$59,823</u>
Information presented in the balance sheet is as follows:				
Deferred income tax assets	<u>\$70,042</u>			<u>\$59,823</u>
Deferred income tax liabilities	<u>\$-</u>			<u>\$-</u>

For the year ended 31 December 2018

	Balance at beginning	Recognized to profit or loss	Recognized to other comprehensive income	Balance at end
Temporary difference				
Allowance for doubtful debts	\$2,722	\$3,006	\$-	\$5,728
Allowance for losses on inventory market decline and obsolescence	19,039	3,848	-	22,887
Impairment of property, plant and equipment	1,038	(24)	-	1,014
Temporary difference from unpaid expenses payable	4,265	(4,265)	-	-
Provisions- noncurrent	3,542	(3,542)	-	-
Net defined benefit liabilities	27,228	(909)	1,989	28,308
Loss Carryforwards	-	10,720	-	10,720
Other	1,222	187	(24)	1,385
Deferred income tax (expense)/benefit		<u>\$9,021</u>	<u>\$1,965</u>	
Deferred income tax assets(liabilities) - net	<u>\$59,056</u>			<u>\$70,042</u>
Information presented in the balance sheet is as follows:				
Deferred income tax assets	<u>\$59,056</u>			<u>\$70,042</u>
Deferred income tax liabilities	<u>\$-</u>			<u>\$-</u>

As of 31 December 2019, the information of the unused tax losses of the Company is as follows:

<u>Tax losses for the period</u>	<u>Unused tax losses as at</u>	<u>Expiration year</u>
2018	\$53,212	2028
2019	56,770	2029

Unrecognized deferred income tax assets

As of 31 December 2019 and 2018, the unrecognized deferred income tax assets of the Company both amounted to NT\$ 176 thousand.

Approval of income tax returns

As of 31 December 2019, the Company's income tax returns for all the fiscal years up to 2017 were assessed and approved by the National Taxation Bureau of Southern Area.

22. Earnings Per Share

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

The calculation of diluted earnings per share is to divide the profit or loss for the period attributable to the ordinary equity holders of the parent company (after adjusting the interests of convertible bonds) by the weighted average number of ordinary shares outstanding for the period, plus the weighted average ordinary shares which will be issued when all potential ordinary shares with dilutive effect are converted into ordinary shares.

	<u>1 Jan.~31 Dec.</u> <u>2019</u>	<u>1 Jan.~31 Dec.</u> <u>2018</u>
(a)Basic earnings per share		
Income attributable to the Company's stockholders (thousand dollars)	\$45,011	\$15,405
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	120,151	119,807
Basic earnings per share (NT\$)	\$0.37	\$0.13

	1 Jan.~31 Dec. 2019	1 Jan.~31 Dec. 2018
(b)Diluted earnings per share		
Income attributable to the Company's stockholders (thousand dollars)	\$45,011	\$15,405
Interest expense from convertible bonds (thousand dollars)	3,938	-
Profit attributable to ordinary equity holders of the Company after dilution (thousand dollars)	<u>\$48,949</u>	<u>\$15,405</u>
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	120,151	119,807
Effect of dilution:		
Employee bonus – stock (in thousands)	11,427	-
Convertible bonds (in thousands)	66	28
Weighted average number of ordinary shares outstanding after dilution (in thousands)	<u>131,644</u>	<u>119,835</u>
Diluted earnings per share (NT\$)	<u>\$0.37</u>	<u>\$0.13</u>

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

VII. Related-Party Transactions

1. Name and nature of relationship of the related parties

<u>Name of the related parties</u>	<u>Nature of relationship of the related parties</u>
Apex Flight Academy	Substantive related party

2. Significant transactions with related parties

Sales

	<u>1 Jan.~31 Dec. 2019</u>
Substantive related party	\$283

The sales price to the above related parties was determined through mutual agreement based on the market rates. The collection period for domestic sales to related parties was month-end 15-60 days and non-related parties was 15-60 days.

3.Accounts receivable

	<u>1 Jan.~31 Dec. 2019</u>
Substantive related party	\$13

4.Key management personnel compensation

	<u>1 Jan.~31 Dec. 2019</u>	<u>1 Jan.~31 Dec. 2018</u>
Short-term employee benefits	\$16,344	\$16,571
Post-employment benefits	569	553
Total	<u>\$16,913</u>	<u>\$17,124</u>

VIII. Assets Pledged as Collateral

The Company has assets pledged as collateral as follows:

Item	<u>Amount</u>		Purpose of pledge
	31 Dec. 2019	31 Dec. 2018	
Refundable deposits-current	\$128,824	\$163,457	Guarantee Deposits
Refundable deposits-noncurrent (recognized as other noncurrent assets)	63,444	58,870	Guarantee Deposits
Property, plant and equipment-Land	255,076	255,076	Long-term loans
Property, plant and equipment- Buildings	233,934	246,860	Long-term loans
Total	<u>\$681,278</u>	<u>\$724,263</u>	

IX. Significant Contingencies and Unrecognized Contract

1.As of 31 December 2019, the maintenance bond and customs bond offered by banks were as follows:

<u>Currency</u>	<u>Amount</u>
NTD	\$1,682,752
USD	236 thousand

2. The National Fire Agency of the Ministry of the Interior filed an action with a local court against the Company to claim repayment of unjust enrichment in the amount of NT\$7,500 thousand including interest from the following day of being served the payment order to the full repayment day (calculated at 5% annual interest). The action was dismissed by the Taipei District Court on November 28, 2019 and the plaintiff's claim was rejected. However the plaintiff filed an appeal. As of the date of the financial report, the Company was unable to evaluate the potential impact of the action because the appeals procedure of second instance has not yet started.

3.The Company has discharged several employees in accordance with the Labor Standards Act, and some employees filed claims against the Company to restore the relationship of employment with compensation at about NT\$15,925 thousand (at 10 times the annual salary) with the court. As the case is still pending, the Company is unable to assess the possible impact.

X. Significant Disaster Loss

None.

XI. Significant Subsequent Events

None.

XII. Others

1. Categories of financial instruments

Financial Assets

	<u>31 Dec. 2019</u>	<u>31 Dec. 2018</u>
Loans and receivables		
Cash and cash equivalents (excludes cash on hand)	\$139,036	\$77,177
Refundable deposits — current	128,824	163,457
Refundable deposits — non-current (recognized as other noncurrent assets)	63,444	58,870
Notes and accounts receivable-net	1,209,766	802,754
Other receivable	20,969	16,339
Total	<u>\$1,562,039</u>	<u>\$1,118,597</u>

Financial Liabilities

	<u>31 Dec. 2019</u>	<u>31 Dec. 2018</u>
Financial liabilities at amortized cost:		
Short-term loans	\$600,000	\$722,075
Short-term notes and bills payable	449,840	229,925
Accounts payable	348,623	215,283
Other payables	262,076	201,436
Bond Payable	474,972	-
Long-term loans (current portion included)	480,000	199,999
Lease Liabilities	270,726	-
Total	<u>\$2,886,237</u>	<u>\$1,568,718</u>

2. Financial risk management objectives

The Company's risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activities. The Company identifies measures and manages the aforementioned risks based on policy and risk preference.

The Company has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant financial activities, due approval process by the Board of Directors and Audit Committee must be carried out based on related protocols and internal control procedures. The Company complies with its financial risk management policies at all times.

3. Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise currency risk, interest rate risk, and other price risk (such as equity price risk). In practice, it is unlikely that changes in a single risk variable would occur in isolation of one another; there are usually interdependencies between risk variables. However, the following sensitivity analysis of each risk does not consider the interdependencies between relevant risk variables.

Foreign currency risk

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

The Company has foreign currency risk arising from purchases or sales and applies natural hedges. Furthermore, as net investments in foreign subsidiaries are for strategic purposes, they are not hedged by the Company.

The foreign currency sensitivity analysis of the possible change in foreign exchange rates on the Company's profit is performed on significant monetary items denominated in foreign currencies as of the end of the reporting period. The Company's foreign currency risk is mainly affected by USD. Sensitivity analysis was as follows:

	31 Dec.2019				
	Carrying amount			Sensitivity analysis	
Foreign currency	Foreign currency (thousand)	foreign exchang e rates	NTD	Foreign currency movement	Benefit /(loss)
Financial asset					
Currency item					
USD	\$795	29.98	\$23,834	increase1%	\$238
Financial liability					
Currency item					
USD	6,115	29.98	183,327	increase 1%	(1,833)

31 Dec.2018

Foreign currency	Carrying amount			Sensitivity analysis	
	Foreign currency (thousand)	foreign exchang e rates	NTD	Foreign currency movement	Benefit /(loss)
Financial asset					
Currency item					
USD	\$2,719	30.665	\$83,378	increase1%	\$834
Financial liability					
Currency item					
USD	1,727	30.765	53,131	increase 1%	(531)

Interest rate risk

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

The Company manages the risk of interest rate by maintaining an appropriate combination of fixed and variable interest rates, which however, is not suitable for hedge accounting as it does not comply with the rules of hedge accounting.

The interest rate sensitivity analysis is performed on items exposed to interest rate risk as at the end of the reporting period, including investments and borrowings with variable interest rates and interest rate swaps. At the reporting date, a change of 10 basis points of interest rate in a reporting period could cause the profit for the years ended 31 December 2019 and 2018 to decrease/increase by NT\$741 thousand and NT\$1,075 thousand, respectively.

4. Credit risk management

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

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

As of 31 December 2019 and 2018, accounts receivables from top ten customers represented 96% and 89% of the total accounts receivables of the Company, respectively. The credit concentration risk of other accounts receivables is insignificant.

Credit risk from balances with banks, fixed income securities and other financial instruments is managed by the Company's treasury in accordance with the Company's policy. The Company only transacts with counterparties approved by the internal control procedures, which are banks and financial institutions, companies and government entities with good credit rating and with no significant default risk. Consequently, there is no significant credit risk for these counter parties.

The Company adopted IFRS 9 to assess the expected credit losses. Except for contract assets and trade receivables, the remaining debt instrument investments which are not measured at fair value through profit or loss, low credit risk for these investments is a prerequisite upon acquisition and by using their credit risk as a basis for the distinction of categories.

Financial assets are written off when there is no realistic prospect of future recovery (the issuer or the debtor is in financial difficulties or bankruptcy).

When the credit risk on debt instrument investment has increased, the Company will dispose that investment in order to minimize the credit losses. When assessing the expected credit losses in accordance with IFRS 9, the evaluation of the forward-looking information (available without undue cost and effort) is mainly based on the macroeconomic information and the credit loss ratio is further adjusted if there is significant impact from forward-looking information.

5. Liquidity risk management

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents and bank borrowings. The table below summarizes the maturity profile of the Company's financial liabilities based on the contractual undiscounted payments and contractual maturity. The payment amount includes the contractual interest. The undiscounted payment relating to borrowings with floating interest rates is extrapolated based on the estimated interest rate yield curve as of the end of the reporting period.

Non-derivative financial instruments

	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	>5 years	Total
31 Dec. 2019							
Loans	\$924,671	\$51,955	\$51,105	\$62,925	\$-	\$-	\$1,090,656
Short-term notes and bills payable	450,000	-	-	-	-	-	450,000
Accounts payables	348,623	-	-	-	-	-	348,623
Other payable	262,076	-	-	-	-	-	262,076
Bond payable	-	201,001	303,764	-	-	-	504,765
Lease liabilities	18,048	16,979	16,274	16,274	16,274	211,558	295,407
31 Dec. 2018							
Loans	\$739,410	\$56,384	\$55,647	\$38,329	\$37,819	\$-	\$927,589
Short-term notes and bills payable	230,000	-	-	-	-	-	230,000
Accounts payables	215,283	-	-	-	-	-	215,283
Other payable	201,436	-	-	-	-	-	201,436

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

	Less than 1 year	1 to 5 years	5 to 10 years	10 to 15 years	10 to 20 years	Total
31 Dec. 2019						
Lease liabilities	\$18,048	\$65,801	\$81,369	\$81,369	\$48,820	\$295,407

6. Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities for the year ended 31 December 2019:

	Short-term loans	Long-term loans	Short-term notes and bills payable	Issuing bonds payable	Total liabilities from financing activities
As at 1 Jan. 2019	\$722,075	\$199,999	\$229,925	\$-	\$1,151,999
Cash flows	(122,075)	280,001	219,915	494,682	872,523
Non-cash changes					
Acquisition	-	-	-	(19,710)	(19,710)
As at 31 Dec. 2019	<u>\$600,000</u>	<u>\$480,000</u>	<u>\$449,840</u>	<u>\$474,972</u>	<u>\$2,004,812</u>

Reconciliation of liabilities for the year ended 31 December 2018:

	Short-term loans	Long-term loans	Short-term notes and bills payable	Total liabilities from financing activities
As at 1 Jan. 2018	\$30,000	\$66,666	\$-	\$96,666
Cash flows	692,075	133,333	229,925	1,055,333
As at 31 Dec. 2018	<u>\$722,075</u>	<u>\$199,999</u>	<u>\$229,925</u>	<u>\$1,151,999</u>

7. Fair value of financial instruments

(1) The methods and assumptions applied in determining the fair value of financial instruments:

The fair value of the financial assets and liabilities represents the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a force or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- A. The book values of short-term financial instruments approximate their fair value due to their short maturities. Short-term financial instruments include cash and cash equivalents, Debt instrument investments for which no active market exists, receivables, payables and other current liabilities.
- B. The fair value of short-term borrowings and long-term borrowings (including current portion) are estimated by the carrying amount. As the Company's loan applied short-term revolving borrowings are used in floating interest rates, which have been adjusted with the market status, and thus the rate of the Company's borrowings shall be similar to the market rate.
- C. The fair value of guarantee deposits paid is estimated by the carrying amounts, since the expected future received or paid amounts are similar to the carrying amounts.
- D. Fair value of Bonds payable are determined based on the counterparty prices or valuation method. The valuation method uses DCF method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instrument.

(2) Fair value of financial instruments measured at amortized cost

Other than cash and cash equivalents, accounts receivables, accounts payable and other current liabilities whose carrying amount approximate their fair value, the fair value of the Company's financial assets and financial liabilities measured at amortized cost is listed in the table below:

	31 December 2019	
		Fair value as at
Financial liabilities:	Carrying amount as at	Level 2
Bonds payable	\$474,972	\$481,790

(3) Fair value measurement hierarchy for financial instruments

Please refer to Note 12.9 for fair value measurement hierarchy for financial instruments of the Company.

8. Derivative financial instruments

In 2019, the embedded derivatives arising from issuing convertible bonds have been separated from the host contract and carried at fair value through profit or loss. Please refer to Note 6 for further information on this transaction.

9. Fair value measurement hierarchy

(1) Fair value measurement hierarchy

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

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 - Unobservable inputs for the asset or liability

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

(2) Information of fair value measurement hierarchy:

2019.12.31

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial liabilities				
Financial liability at fair value through profit or loss				
Embedded derivative	-	\$1,470	-	\$1,470

10. Significant assets and liabilities denominated in foreign currencies

The Company's significant assets and liabilities denominated in foreign currencies were as follows:

	Units: in thousands		
	<u>31 Dec. 2019</u>		
	<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>NTD</u>
<u>Financial Assets</u>			
Monetary items:			
USD	\$795	29.98	\$23,834
<u>Financial Liabilities</u>			
Monetary items:			
USD	\$6,115	29.98	\$183,327
	<u>31 Dec. 2018</u>		
	<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>NTD</u>
<u>Financial Assets</u>			
Monetary items:			
USD	\$2,719	30.665	\$83,378
<u>Financial Liabilities</u>			
Monetary items:			
USD	\$1,727	30.765	\$53,131

The Company has various functional currencies; no information about the foreign exchange gains or losses by a specific currency is available. For the years ended 31 December 2019 and 2018, the foreign exchange gains or (losses) on monetary financial assets and financial liabilities were amounted to NT\$6,839 thousand and NT\$(449) thousand, respectively.

11. Capital management

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

XIII. Additional disclosures

1. The following are additional disclosures for the Company and its affiliates listed below are required by the R.O.C. Securities and Futures Bureau:

- (1) Financing provided to others for the year ended 31 December 2019: None.
- (2) Endorsement/Guarantee provided to others for the year ended 31 December 2019: None.
- (3) Securities held as of 31 December 2019 (excluding subsidiaries, associates and joint venture): None.
- (4) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20 percent of the capital stock for the year ended 31 December 2019: None.
- (5) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20 percent of the capital stock for the year ended 31 December 2019: None.
- (6) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20 percent of the capital stock for the year ended 31 December 2019: None.
- (7) Related party transactions for purchases and sales amounts exceeding the lower of NT\$100 million or 20 percent of the capital stock for the year ended 31 December 2019: None.
- (8) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20 percent of capital stock as of 31 December 2019: None.
- (9) Financial instruments and derivative transactions: None.

2. Transfer investment related information

(1)The investee company has significant influence or controller directly or indirectly: Please refer to Attachment 1.

(2)If the investee company has direct or indirect control, it must disclose the information of the invested company engaged in the first to ninth transactions of the preceding paragraph: None.

3. Investment in Mainland China: None.

XIV. Operating segments information

The Company has provided the operating segments disclosure in the consolidated financial statements.

ATTACHMENT 1

AIR ASIA CO., LTD.

(Names, locations and related information of investee companies as of December 31, 2019) (Not including investment in Mainland China) (Amounts in thousands of NT\$; Currency denomination in NT\$ or in foreign currencies)

Investor company	Investee company	Address	Main businesses and products	Initial Investment		Investment as of 31 December 2019			Net income (loss) of investee company	Investment income (loss) recognized	Note
				Ending balance	Beginning balance	Number of shares (thousand)	Percentage of ownership	Carrying amount			
AIR ASIA CO.,LTD.	Air Asia Company Ltd. (USA)	5525 Daniels ST. Chino, CA 91710	Logistic service	6,699	6,699	10	100.00%	\$3,438	(82)	(82)	

THE CONTENTS OF STATEMENTS OF MAJOR ACCOUNTING ITEMS

ITEM	INDEX
Statement of Cash and cash equivalents	1
Statement of Notes and accounts receivable-Net	2
Statement of Inventories-Net	3
Statement of Investments accounted for under the equity method	4
Statement of changes in Property, plant and equipment	Note 6
Statement of changes in Accumulated depreciation of Property, plant and equipment	Note 6
Statement of Right-of-use assets	Note 6
Statement of changes in Accumulated depreciation of Right-of-use assets	Note 6
Statement of Intangible assets	Note 6
Statement of Deferred tax assets	Note 6
Statement of Other noncurrent assets	Note 6
Statement of Short-term borrowings	5
Statement of Short-term notes and bills payable	6
Statement of Accounts payable	7
Statement of Other payables	Note 6
Statement of Provisions-current	Note 6
Bonds payable	8
Lease liabilities	Note 6
Statement of Long-term loans-excluding current portion	Note 6
Statement of Net operating revenues	Note 6
Statement of Operating Costs	9
Statement of Operating Expenses	10
Statement of Non-operating income and expenses	Note 6
Summary of Employee benefit, depreciation, and amortization expense	Note 6

AIR ASIA CO., LTD.

1.Statement of Cash and cash equivalents

31 December 2019

(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Item	Description	Amount	Note
Cash on hand		\$104	US dollar exchange for NTD
Petty cash		3,143	Exchange Rate1 : 29.98
Saving account – NTD		113,893	EUR dollar exchange for NTD
Saving account – Foreign currency	USD 709,585	21,273	Exchange Rate1 : 33.59
	EUR 115,201	3,870	
Total		\$142,283	

AIR ASIA CO., LTD.

2.Statement of Notes and accounts receivable-Net

31 December 2019

(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Customer Name	Description	Amount	Note
Company A		\$735,634	1.The amount of Other Company in others does not exceed 5% of the account balance.
Company B		258,848	
Company C		77,494	2.US dollar exchange for NTD Exchange Rate1 : 29.98
Company D		62,087	
Other		91,340	
Subtotal		1,225,403	
Less: Loss allowance		(15,637)	
Net		\$1,209,766	

AIR ASIA CO., LTD.

3.Statement of Inventories-Net

31 December 2019

(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Item	Carrying amount	Fair value	Note
Raw materials	\$393,153	\$287,921	Fair value means Net realizable value.
Work in process	959,555	958,999	
Finished goods	285,475	267,392	
Subtotal	1,638,183	\$1,514,312	
Less: Allowance for inventory valuation and obsolescence loss	(123,871)		
Net	\$1,514,312		

AIR ASIA CO., LTD.

4.Statement of Investments accounted for under the equity method

For the year ended December 31,2019

(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Company Name	As of January 1, 2018 (Note 1)		Additions		Decrease		As of December 31, 2018			Fair value/ Net assets value		Collateral	Note
	Shares (In Thousands)	Amount	Shares (In Thousands)	Amount	Shares (In Thousands)	Amount	Shares (In Thousands)	%	Amount	Unit price (NTD)	Total Amount		
Air Asia Company LTD.(USA)	10	\$3,598	-	-	-	(Note) \$(160)	10	100.00%	\$3,438	USD 11.47	\$3,438	None	

Note:Exchange differences on translation of foreign operations

AIR ASIA CO., LTD.

5.Statement of Short-term loans

31 December 2019

(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Type	Description	Balance, End of Year	Contract Period	Interest rates applied	Loan Commitments	Collateral
Credit Loan	Hua Nan Bank	\$100,000	2019.11.27~2020.02.27	1.00%	\$100,000	None
Credit Loan	Taipei Fouban Bank	80,000	2019.09.12~2020.03.10	1.03%	80,000	"
Credit Loan	The Export-Import Bank of the Republic of China	100,000	2019.04.22~2020.06.24	0.70%~1.23%	200,000	"
Credit Loan	Taiwan Cooperative Bank	100,000	2019.12.04~2020.03.04	1.06%	100,000	"
Credit Loan	Bank of Taiwan	100,000	2019.10.27~2020.01.21	1.00%	200,000	"
Credit Loan	Taishin Bank	120,000	2019.12.05~2020.01.05	1.00%	120,000	"
Total		\$600,000				

AIR ASIA CO., LTD.

6.Statement of Short-term notes and bills payable

31 December 2019

(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Item	Guarantee or acceptance agency	Contract Period	Interest rates applied	Amount			Note
				Issue amount	Discount of short-term notes	Carrying amount	
Commercial paper payable	DAH Chung Bills Finance Corporation	2019.12.13~2020.01.13	1.00%	\$100,000	\$(25)	\$99,975	
Commercial paper payable	China Bills Finance Corporation	2019.12.27~2020.01.14	1.00%	150,000	(30)	149,970	
Commercial paper payable	Taiwan Finance Corporation	2019.11.05~2020.02.05	1.00%	100,000	(77)	99,923	
Commercial paper payable	Taiwan Cooperative Bills Finance Corporation	2019.12.26~2020.01.14	1.00%	100,000	(28)	99,972	
						\$449,840	

AIR ASIA CO., LTD.

7.Statement of Accounts payable

31 December 2019

(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Client	Description	Amount	Note
Company A	USD 2,181	\$65,386	1.The amount of Other Company in others does not exceed 5% of the account balance.
Company B		26,202	
Company C	USD 623	18,667	2.US dollar exchange for NTD Exchange Rate1 : 29.98
Company D		17,170	
Other		221,198	
Total		\$348,623	

AIR ASIA CO., LTD.
8.Statement of Bonds payable
31 December 2019

(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Bonds Name	Trustee	Issurance Date	Interest Payment	Coupn Rate(%)	Amount				Repayment	Collateral	Note
					Total Amount	Repayment Paid	Balance,End of Year	Unamortized Premium Or Discount			
<u>Domestic unsecured bonds-108-1</u>	Taishin Securities	2019.07.09	-	-	\$200,000	-	\$200,000	\$(8,290)	\$191,710	Note 6	None
<u>Domestic unsecured bonds-108-2</u>											
Total	Taishin Securities	2019.07.10	-	-	300,000	-	300,000	(16,738)	283,262	Note 6	None
					<u>\$500,000</u>		<u>\$500,000</u>	<u>\$(25,028)</u>	<u>\$474,972</u>		

AIR ASIA CO., LTD.

9.Statement of Operating Costs

For the year ended December 31,2019

(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Item	Amount	Note
Maintenance costs		
Direct material	\$377,173	
Add: raw material purchased	3,043,153	
Transferred from manufacturing expenses	6,792	
Less: raw material, end of year	(393,153)	
Aviation Supplies	(382,224)	
Loss on physical Inventory	(22)	
Other	(8,252)	
Direct material used	2,643,467	
Direct labor	393,932	
Factory overheads	494,159	
Manufacturing cost	3,531,558	
Add: work in process, beginning of year	643,648	
Less: work in process, end of year	(959,555)	
Cost of finished goods	3,215,651	
Add: finished goods, beginning of year	129,697	
Less: finished goods, end of year	(285,475)	
Operating Cost of Maintenance	3,059,873	
Other operating cost	382,224	
Idle capacity	80,783	
Loss for market price decline and obsolete and slow moving inventory	9,437	
Loss on physical inventory	22	
Revenue from scrap of inventories	(365)	
Total	\$3,531,974	

AIR ASIA CO., LTD.

10.Statement of Operating Expenses

For the year ended December 31,2019

(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Item	Selling expenses	General and administrative expenses	Research and development expenses	Total
Payroll expense	\$42,260	\$96,720	\$12,309	\$151,289
Travelling expense	3,085	4,134	28	7,247
Insurance expense	3,291	15,316	679	19,286
Entertainment expenses	4,995	1,540	2	6,537
Commission expense	4,347	-	-	4,347
Taxes	254	22,940	13	23,207
Professional service fees	63	11,291	-	11,354
Espected credit losses	-	15,637	-	15,637
Miscellaneous expenses	175	11,690	48	11,913
Other expense(Note)	6,948	43,809	933	51,690
Total	\$65,418	\$223,077	\$14,012	\$302,507

Note 1.The amount of Other expense in others does not exceed 5%of the expense