Phoenix Silicon International Corporation

Parent Company Only Financial Statements and

Report of Independent Accountants

Years Ended December 31, 2019 and 2018

(Stock Code 8028)

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Years Ended December 31, 2019 and 2018

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REPORT OF INDEPENDENT ACCOUNTANTS

(109) Financial Report No. 19002744

To the Board of Directors and Shareholders of Phoenix Silicon International Corporation

Opinion

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

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

Basis for opinion

We conducted our audits in accordance with the "Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China ("ROC GAAS"). Our responsibilities under those standards are further described in the Independent Accountant's 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 Code of Professional Ethics for Certified Public Accountants in the Republic of China (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Evaluation of inventories

<u>Description</u>

The lithium ion battery products produced by Phoenix Silicon International Corporation's subsidiary (listed using the equity method of investment) produced by Phoenix Battery Corporation, Ltd. (hereinafter referred to as "Phoenix Battery") are yet to be actively promoted by the market. Therefore, the risk of loss on market value decline or obsolescence is higher. Inventories of Phoenix Battery are measured at the lower of cost and net realizable value method. The net realizable value often involves with subjective judgments. In consider the energy division of inventories evaluation results would have a significant impact on financial statements, therefore, we listed the evaluation of inventories as one of the key audit matters.

<u>How our audit addressed the matter</u>

We performed the following key audit procedures in respect of the above key audit matter:
Obtained an understanding of accounting policies on the provision of allowance for inventory valuation losses and validated the accuracy of inventory aging report, as well as sampled and confirmed the consistency of quantities and amounts with detailed inventory listings, verified the dates of movements with supporting documents and ensured the proper categorization of inventory aging report. Evaluated and confirmed the reasonableness of net realizable value for inventories through validating respective supporting documents.

Audit of increase of property, plant and equipment (PP&E)

<u>Description</u>

Please refer to Note 4 (13) of the individual financial report for the accounting policy of property, plant and equipment. Please refer to Notes 6(6) of the individual financial report for the accounting account descriptions of property, plant and equipment.
Phoenix Silicon International Corporation mainly provides the professional processing for semiconductor wafer, such as recycling, thinning and the others. In order to meet customers' demands, Company had to build advanced technology capacities and continue developments. Consider the Company's capital expenditures have been increasing tremendously in this year, therefore, we listed the accounting policy of property, plant and equipment as one of the key audit matters.

How our audit addressed the matter

We performed the following key audit procedures in respect of the above key audit matter: Evaluate and test the effectiveness of relevant internal controls related to the addition and depreciation of property, plant and equipment. Validate the relevant purchase orders, invoices, etc. to confirm that transactions have been properly approved and booked with correct amount. Validate the acceptance report to confirm whether the assets are actually available for use and booked in the catalog of fixed assets at the appropriate time, and whether the depreciation calculations have been correctly started.

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

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

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

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

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

As part of an audit in accordance with ROC GAAS, we exercise professional judgement 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 Company’s internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 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 disclosures, 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 company audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the parent company only financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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.

Li, Tien-Yi　　Xie, Zhi-Zheng

For and on behalf of PricewaterhouseCoopers, Taiwan February 25, 2020

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

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

Phoenix Silicon International Corporation
PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

	Assets	Notes	December 31, 2019 AMOUNT	%	December 31, 2018 AMOUNT	%
	Current assets					
1100	Cash and cash equivalents	6(1)	$ 1,768,882	34	$ 763,037	25
1110	Financial assets at fair value through profit or loss	6(2)	1,327	-	130	-
1140	Contract assets-current	6(19)	171,059	3	83,876	3
1150	Notes receivable		156	-	-	-
1170	Accounts receivable	6(3)	346,522	7	370,927	12
1180	Accounts receivable-related parties	6(3) and 7	1,071	-	-	-
1200	Other receivables		1,719	-	1,203	-
1210	Other receivables－related parties	7	834	-	893	-
130X	Inventories	6(4)	135,393	3	109,106	3
1410	Prepayments		8,679	-	8,318	-
1470	Other current assets		1,497	-	913	-
11XX	**Total current assets**		2,437,139	47	1,338,403	43
	Non-current assets					
1550	Investments accounted for under equity method	6(5)	88,728	2	126,486	4
1600	Property, plant and equipment	6(6) and 8	2,259,018	44	1,442,208	47
1755	Right-of-use asset	6(7)	203,679	4	-	-
1780	Intangible assets		32,397	1	29,462	1
1840	Deferred income tax assets	6(25)	16,543	-	12,534	-
1900	Other non-current assets	8	114,514	2	152,963	5
15XX	**Total non-current assets**		2,714,879	53	1,763,653	57
1XXX	**Total assets**		$ 5,152,018	100	$ 3,102,056	100

(Continued)

Phoenix Silicon International Corporation
PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

	Liabilities and Equity	Notes	December 31, 2019 AMOUNT	%	December 31, 2018 AMOUNT	%
	Current liabilities					
2120	Financial liabilities at fair value through profit or loss	6(9)	$ 465	-	$ 141	-
2130	Contract liabilities - current	6(19)	3,395	-	360	-
2170	Accounts payable		126,738	2	101,806	3
2180	Accounts payable - related parties	7	-	-	337	-
2200	Other payables	6(10)	391,162	8	240,758	8
2220	Other payables - related parties	6(10) and7	-	-	368	-
2230	Current income tax liabilities	6(25)	52,641	1	58,036	2
2280	Current lease liabilities		7,216	-	-	-
2320	Long-term liabilities-current portion	6(12)	341,448	7	207,419	7
2399	Other current liabilities		393	-	9,149	-
21XX	**Total current liabilities**		923,458	18	618,374	20
	Non-current liabilities					
2530	Bonds payable	6(11)	963,499	19	-	-
2540	Long-term borrowings	6(12)	584,688	11	257,485	8
2550	Non-current rovisions	6(14)	14,194	-	13,497	-
2580	Non-current lease liabilities		197,866	4	-	-
2600	Other non-current liabilities	6(13)	31,043	1	24,278	1
25XX	**Total non-current liabilities**		1,791,290	35	295,260	9
2XXX	**Total liabilities**		2,714,748	53	913,634	29
	Equity					
	Share capital	6(16)				
3110	Ordinary share		1,324,080	26	1,324,080	43
	Capital surplus	6(17)				
3200	Capital surplus		634,768	12	502,474	17
	Retained earnings	6(18)				
3310	Legal reserve		95,022	2	71,759	2
3350	Unappropriated retained earnings		383,400	7	290,109	9
3XXX	**Total equity**		2,437,270	47	2,188,422	71
	Significant contingent liabilities and unrecognized commitments	9				
3X2X	**Total liabilities and equity**		$ 5,152,018	100	$ 3,102,056	100

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

Phoenix Silicon International Corporation
PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
((Expressed in thousands of New Taiwan dollars), Except earnings per share)

	Items	Notes	2019 AMOUNT	2019 %	2018 AMOUNT	2018 %
4000	**Operating revenue**	6(19) and7	$ 2,465,694	100	$ 2,018,052	100
5000	**Operating costs**	6(4、23、24) and7	(1,584,322)	(64)	(1,269,858)	(63)
5950	**Gross profit**		881,372	36	748,194	37
	Operating expenses	6(23、24)				
6100	Selling expenses		(48,563)	(2)	(58,484)	(3)
6200	General and administrative expenses		(223,753)	(9)	(189,914)	(9)
6300	Research and development expenses		(124,100)	(5)	(106,155)	(5)
6450	Expected credit gains	12(2)	(47)	-	17	-
6000	**Total operating expenses**		(396,463)	(16)	(354,536)	(17)
6900	**Operating income**		484,909	20	393,658	20
	Non-operating income and expenses					
7010	Other income	6(20)	8,010	-	6,774	-
7020	Other gains and losses	6(21)	(7,248)	-	3,995	-
7050	Finance costs	6(22)	(16,586)	(1)	(9,843)	-
7070	Share of profit of associates and joint ventures accounted for using equity method, net	6(5)	(37,758)	(1)	(84,710)	(4)
7000	**Total non-operating income and expenses**		(53,582)	(2)	(83,784)	(4)
7900	**Profit before income tax, net**		431,327	18	309,874	16
7950	Income tax expense	6(25)	(99,232)	(4)	(77,240)	(4)
8200	**Net income for the year**		$ 332,095	14	$ 232,634	12
	Components of other comprehensive income that will not be reclassified to profit or loss					
8311	Losses on remeasurements of defined benefit plans	6(13)	($ 4,610)	-	$ 270	-
8349	Income tax benefit related to items that will not be reclassified subsequently	6(25)	922	-	245	-
8300	**Other comprehensive income (loss) for the year**		($ 3,688)	-	$ 515	-
8500	**Total comprehensive income (loss) for the year**		$ 328,407	14	$ 233,149	12
	Earnings per share	6(26)				
9750	**Basic earnings per share**		$	2.51	$	1.87
9850	**Diluted earnings per share**	6(26)	$	2.46	$	1.85

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

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

	Notes	Ordinary share	Capital surplus	Retained Earnings: Legal reserve	Retained Earnings: Unappropriated retained earnings	Total equity
Year ended December 31, 2018						
Balance at January 1, 2018		$ 1,168,280	$ 190,438	$ 55,048	$ 187,298	$ 1,601,064
Retrospective approach adjustment		-	-	-	38,250	38,250
Balance at January 1, 2018-after restatement		1,168,280	190,438	55,048	225,548	1,639,314
Profit for the year		-	-	-	232,634	232,634
Other comprehensive income (loss) for the year		-	-	-	515	515
Total comprehensive income		-	-	-	233,149	233,149
Distribution of retained earnings of 2017:	6(18)					
Legal reserve		-	-	16,711	(16,711)	-
Cash dividends		-	-	-	(151,877)	(151,877)
Cash dividends from capital surplus	6(17)	-	(35,048)	-	-	(35,048)
Capital increase by cash –employee stock option	6(15、17)	-	8,787	-	-	8,787
Capital increase by cash	6(16、17)	155,800	322,439	-	-	478,239
Changes in subsidiaries accounted for using equity method	6(17、27)	-	15,858	-	-	15,858
Balance at December 31, 2018		$ 1,324,080	$ 502,474	$ 71,759	$ 290,109	$ 2,188,422
Year ended December 31, 2019						
Balance at January 1, 2019		$ 1,324,080	$ 502,474	$ 71,759	$ 290,109	$ 2,188,422
Profit for the year		-	-	-	332,095	332,095
Other comprehensive income (loss) for the year		-	-	-	(3,688)	(3,688)
Total comprehensive income		-	-	-	328,407	328,407
Distribution of retained earnings of 2018:	6(18)					
Legal reserve		-	-	23,263	(23,263)	-
Cash dividends		-	-	-	(211,853)	(211,853)
Corporate Bond Issuance	6(17)	-	132,294	-	-	132,294
Balance at December 31, 2019		$ 1,324,080	$ 634,768	$ 95,022	$ 383,400	$ 2,437,270

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

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

	Notes	Years ended 2019	December 31,2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		$ 431,327	$ 309,874
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(6、7、23)	343,890	308,368
Amortization	6(23)	13,803	10,047
Expected credit gains	12(2)	47	(17)
Loss on financial assets at fair value through profit or loss	6(2、9、21)	(1,072)	583
Interest expense	6(22)	16,586	9,843
Interest income	6(20)	(3,430)	(2,489)
Share-based Payment reward	6(15)	-	8,787
Share of profit of subsidiaries and associates accounted for using equity method	6(5)	37,758	84,710
Gain on disposals of property, plant and equipment	6(19、21)	(155)	598
Changes in operating assets and liabilities			
Changes in operating assets			
Contract assets		(87,183)	12,040
Accounts note		(156)	-
Accounts receivable		24,358	(63,266)
Accounts receivable, net - related parties		(1,071)	2,142
Other receivables, net		(432)	451
Other receivables, net - related parties		385	(893)
Inventories		(26,287)	(46,764)
Prepayments		(361)	(2,640)
Other current assets		(584)	(838)
Changes in operating liabilities			
Contract liabilities		3,035	(2,147)
Accounts payable		24,932	27,989
Accounts payable - related parties		(337)	(21,462)
Other payables		62,895	41,060
Other payables - related parties		(1)	(3,584)
Other current liabilities		(9,082)	788
Net defined benefit liability		(526)	(438)
Long-term payable		2,309	1,718
Cash inflow generated from operations		830,648	674,460
Interest received		3,346	2,424
Interest paid		(13,703)	(9,371)
Income tax paid		(107,714)	(54,949)
Net cash flows from operating activities		712,577	612,564

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

	Notes	Years ended 2019	December 31,2018
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	6(29)	($ 1,030,562)	($ 319,767)
Proceeds from disposal of property, plant and equipment		1,253	15
Acquisition of intangible assets		(12,851)	(10,518)
Increase in Refundable Deposits		(34,691)	-
Decrease in Refundable Deposits		34,665	3,411
Other financial assets –non current		(1,500)	(2,319)
Net cash flows used in investing activities		(1,043,686)	(329,178)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase of Short-term Borrowings		14,990	-
Decrease of Short-term Borrowings		(14,990)	-
Issuance of Convertible Corporate Bonds	6(30)	1,094,015	-
Increase in long-term borrowings	6(30)	781,000	100,000
Repayment of long-term borrowings	6(30)	(319,768)	(349,428)
Increase in guarantee deposits received	6(30)	555	224
Decrease in guarantee deposits received	6(30)	(183)	-
Redemption of lease liabilities	6(30)	(6,812)	-
Cash dividends paid (Cash dividends paid from capital surplus)	6(18)	(211,853)	(186,925)
Capital increase by cash		-	478,239
Net cash flows used in financing activities		1,336,954	42,110
Net increase in cash and cash equivalents		1,005,845	325,496
Cash and cash equivalents at beginning of year	6(1)	763,037	437,541
Cash and cash equivalents at end of year	6(1)	$ 1,768,882	$ 763,037

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

PHOENIX SILICON INTERNATIONAL CORPORATION
NOTES TO THE PARENT COMPANY ONLY FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANISATION

Phoenix Silicon International Corporation (the "Company") was incorporated in March 1997 and commenced its operations in June 1998. The Company is engaged in the research, design, manufacture, and sales of reclaim wafer, test wafer, product wafer, solar cell, lithium ion battery for energy storage.

In order to improve competitiveness and business performance, the Company has carried out specialization and reorganization procedures. On March 7, 2017, organizational adjustments approved by the board of directors to sell the related business (including assets and liabilities) of an existing energy division of the Company to Phoenix Battery Corporation a 100% -owned subsidiary . Phoenix Battery Corporation would issue new shares as consideration for the transfer of business. The base date of sell was July 1, 2017. The Company completed the first cash increase and the registration of increase after the transfer of business was completed on January 24, 2018. As of December 31, 2019, the Company held 25,100 shares of Phoenix Battery Corporation with a shareholding ratio of 71.51%.

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

These parent company only financial statements were authorized for issuance by the Board of Directors on February 25, 2020.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

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

Except for the following, the above standards and interpretations have no significant impact to the Company's financial condition and financial performance based on the Company's assessment. The quantitative impact will be disclosed when the assessment is complete.

IFRS 16, ‘Leases’

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

B. The Company has elected to apply IFRS 16 by not restating the comparative information referred herein as the modified retrospective approach, when applying IFRSs effective in 2019 as endorsed by the FSC. Accordingly, the Company increased ‘right-of-use asset’ and lease liability by $208,702 and $208,702 on January 1, 2019.

C. The Company has used the following practical expedients permitted by the standard at the date of initial application of IFRS 16:

(a) Reassessment as to whether a contract is, or contains, a lease is not required, instead, the application of IFRS 16 depends on whether or not the contracts were previously identified as leases applying IAS 17 and IFRIC 4.

(b) The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.

(c) Exclude initial direct costs from the measurement of the right-of-use asset.

(d) The use of hindsight in determining the lease term which the Company assessing to exercise an extension option or not to exercise a termination option.

D. The Company calculated the present value of lease liabilities by using the weighted average incremental borrowing interest rate of 1.49%.

E. The Company recognized lease liabilities which had previously been classified as ‘operating leases’ under the principles of IAS 17, ‘Leases’. The reconciliation between operating lease commitments under IAS 17 measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate and lease liabilities recognized as of January 1, 2019 is as follows:

Operating lease commitments disclosed by applying IAS 17 as at December 31, 2018	$ 159,613
Add: Lease payable recognized under finance lease by applying IAS 17 as at December 31, 2018	99,191
Total lease contracts amount recognized as lease liabilities by applying IFRS 16 on January 1, 2019	$ 258,804
Incremental borrowing interest rate at the date of initial application	1.49%
Lease liabilities recognized as at January 1, 2019 by applying IFRS 16	$ 208,702

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

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IAS 1 and IAS 8, 'Disclosure Initiative-Definition of Material'	January 1, 2020
Amendments to IFRS 3, 'Definition of a business'	January 1, 2020
Amendments to IFRS 9, IAS 39 and IFRS 7 of Interest Rate Benchmark Reform	January 1, 2020

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

The parent company only financial statements of the Company have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers".

(2) Basis of preparation

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

(a) Financial assets (including derivative instruments) at fair value through profit or loss.

(b) Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.

B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the parent company only financial statements are disclosed in Note 5.

(3) Foreign currency translation

The parent company only financial statements are presented in New Taiwan dollars, which is the Company’s functional and the Compamy’s presentation currency.

Foreign currency transactions and balances:

A. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.

B. Monetary assets and liabilities denominated in foreign currencies at the period end are retranslated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss.

C. All other foreign exchange gains and losses based on the nature of those transactions are presented in the statement of comprehensive income within other gains and losses.

(4) Classification of current and non-current items

A. Assets that meet one of the following criteria are classified as current assets； otherwise they are classified as non-current assets:

  A. Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle；

  B. Assets held mainly for trading purposes；

  C. Assets that are expected to be realized within twelve months from the balance sheet date；

  D. Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.

  All assets that do not meet the above criteria are classified as non-current assets.

B. Liabilities that meet one of the following criteria are classified as current liabilities； otherwise they are classified as non-current liabilities:

  (a)Liabilities that are expected to be settled within the normal operating cycle；

  (b)Liabilities arising mainly from trading activities；

  (c)Liabilities that are to be settled within twelve months from the balance sheet date；

  (d)Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

  All liabilities that do not meet the above criteria are classified as non-current liabilities.

(5) Cash equivalents

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

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

A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortized cost or fair value through other comprehensive income. Financial assets at amortized cost or fair value through other comprehensive income are designated as at fair value through profit or loss at initial recognition when they eliminate or significantly reduce a measurement or recognition inconsistency.

B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using trade date accounting.

C. At initial recognition, the Company measures the financial assets at fair value and recognizes the transaction costs in profit or loss. The Company subsequently measures the financial assets at fair value, and recognizes the gain or loss in profit or loss.

(7) Accounts and notes receivable

A. Accounts receivable entitle the Company a legal right to receive consideration in exchange for transferred goods or rendered services.

B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(8) Impairment of financial assets

The Company has assessed the debt instrument investments measured at amortized cost and accounts receivable or contract assets that contain significant financial components during each balance sheet date. If all of the reasonable and corroborative information (including perspective data) did not significantly increase the credit risk after the initial recognition, the allowance loss was measured via the 12-month expected credit loss amount. If there is a significant increase of credit risk after the initial recognition, the allowance loss is measured by the amount of expected credit loss during the period of existence. For accounts receivable or contract assets that do not contain significant financial components, allowance losses are measured via the amount of expected credit losses over the life of the deposit.

(9) Derecognition of Financial Assets

The Company shall derecognize financial assets when one of the following conditions is met:

A. Contractual rights to receive cash flows from financial assets have lapsed.

B. The contractual rights to receive cash flows from financial assets have been transferred, and almost all the risks and rewards of ownership of the financial assets have been transferred.

C. Transfer of contractual rights to receive cash flows from financial assets, but does not retain control over such financial assets.

(10) Operating leases (lessor)

Payments made under an operating lease (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the lease term.

(11) Inventories

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

(12) Investments accounted for using equity method / associates

A. Subsidiaries refer to entities under the control of the Company. When the Company is exposed to the participation of variable remunerations for said entities or have rights over such variable remunerations and have the power to impact said remunerations of such entities, the Company controls said entities

B. Unrealized profit (loss) occurred from the transactions between the Company and subsidiaries have been offset. The accounting policies of the subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Company.

C. The Company's share of its subsidiaries' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Company's share of losses in a subsidiary equals or exceeds its interest in the subsidiary, the Company continues to recognize losses proportionate to its ownership.

D. If changes in the Company's shares in subsidiaries do not result in loss in control (transactions with non-controlling interest), transactions shall be considered as equity transactions, which are transactions between owners. Difference of adjustment of non-controlling interest and fair value of consideration paid or received is recognized in equity.

E. Pursuant to the "Regulations Governing the Preparation of Financial Reports by Securities Issuers," profit (loss) of the current period and other comprehensive income in the parent company only financial statements shall equal to the amount attributable to owners of the parent in the parent company only financial statements. Owners' equity in the parent company only financial statements shall equal to equity attributable to owners of the parent in the parent company only financial statements.

(13) Property, plant and equipment

A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.

B. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

C. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.

D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of the fixed assets are as follows:

Buildings and structures	4 to 51 years
Machinery and equipment	2 to 10 years
Vehicles	5 to 6 years
Office equipment	3 to 6 years
Leases assets	6 years
Other fixed assets	3 to 6 years

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

Effective 2019

A. Leases are recognized as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Company. For short-term leases or leases of low value assets, lease payments are recognized as an expense on a straight-line basis over the lease term.

B. Lease liabilities include the net present value of the remaining lease payments at the commencement date, discounted using the incremental borrowing interest rate. Lease payments are comprised fixed payments, less any lease incentives receivable.

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

C. Right-of-use assets are initially measured at cost, which includes:

(a) The cost originally measured for the lease liability, and

(b) Any original direct costs incurred before lease asset is available for using.

The following measurements will adopt cost model. The lease asset will be depreciated based on the period which is lower between the durability of the asset and the maturity of the leasing.

The right-of-use asset will be adjusted by any possible change of the original measurements when the lease liability is reassessed.

(15) Leases assets /Operating leases (lessee)

Effective 2018

The payment of operating leases is deducted from any incentives received by the lessor, amortized using the straight-line method over the lease term, and recognized as current profit or loss.

(16) Intangible assets

A. Computer software is stated at cost and amortized on a straight-line basis over its estimated useful life of 2 to 10 years.

B. Other Intangible assets mainly are expenditure for laying electrical wires and cables etx.is stated at cost and amortized on a straight-line basis over its estimated useful life of 3 years.

(17) Impairment of non-financial assets

The Company assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell or value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortized historical cost would have been if the impairment had not been recognized.

(18) Borrowings

Refers to long-term from bank. When the original recognition is based on the fair value less the trade costs, any subsequent difference between the price and the redemption value after deducting the transaction cost shall be recognized as interest expense in profit or loss using the effective interest method during the circulation period according to the amortization procedure.

(19) Accounts payable

A. Accounts payable are liabilities for purchases of raw materials, goods or services are those resulting from operating activities.

B. The short-term notes and accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

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

A. Financial liabilities at fair value through profit or loss are financial liabilities held for trading. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorized as financial liabilities held for trading unless they are designated as hedges. When a financial liability meets one of the following conditions, it is designated at fair value through profit or loss when it is originally recognized:

(a) Is a mixed (combined) contract; or

(b) Eliminate or significantly reduce the measurement inconsistencies; or

(c) An instrument whose performance is managed and evaluated on a fair value basis, based on written risk management or strategies.

B. Financial liabilities at fair value through profit or loss are initially recognized at fair value. Related transaction costs are expensed in profit or loss. These financial liabilities are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognized in profit or loss.

(21) <u>Convertible Corporate Bonds Payable</u>

The convertible corporate bonds issued by the Company shall be embedded with a conversion right (i.e., the holder can choose to convert them into the ordinary shares of the Company, and convert a fixed amount into a number of shares). At the initial issuance, the issue price shall be classified into financial assets, financial liabilities, or equity according to the conditions of issuance and be handled as follows:

A. Call options and put options embedded in convertible corporate bonds are recognized initially at net fair value as ‘financial assets or financial liabilities at fair value through profit or loss’. They are subsequently remeasured and stated at fair value on each balance sheet date; the gain or loss is recognized as ‘gain or loss on valuation of financial assets or financial liabilities at fair value through profit or losses.

B. The host contract of corporate bonds: During original recognition, the difference between the fair value measured and the redemption value shall be recognized as payable corporate premium/discount. Subsequently, the effective interest method by amortization procedure shall be adopted during the circulation period to be recognized as profit or loss, and treated as an adjustment item for "financial costs."

C. Embedded conversion rights (in accordance with the definition of equity): At the time of the original recognition, the residual value after the issuance amount deducted the aforesaid "financial assets at fair value through profit or loss" and "corporate bonds payable" shall be listed as the "capital reserve - stock option." No subsequent re-measurement shall be provided.

D. Any transaction costs directly attributable to the issuance shall be allocated to the various liability and equity components according to the various original book value ratio components as described above.

E. When a holder converts, the liability component of the account (including "corporate bonds payable" and financial assets or liabilities at fair value through profit or loss, designated as upon initial recognition) shall be handled according to the subsequent measurement method for its category. Then the aforesaid liability component book value plus the "capital reserve - stock option" book value shall serve as the issuance cost for the ordinary share conversion.

(22) <u>Derecognition of financial liabilities</u>

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

(23) Non-hedging and embedded derivatives

A. Non-hedging derivatives are initially recognized at fair value on the date a derivative contract is entered into and recorded as financial assets or financial liabilities at fair value through profit or loss. They are subsequently remeasured at fair value and the gains or losses are recognized in profit or loss

B. A mixed contract of financial assets embedded in derivatives, at the time of the original recognition, determines that the overall hybrid tool is classified as financial assets measured at fair value through gains and losses, financial assets measured at fair value through other gains and losses, and financial assets measured at amortized cost.

C. The non-financial asset hybrid contract embedded in the derivative instrument determines whether the embedded derivative is closely related to the economic characteristics and risk of the main contract in the original recognition according to the terms of the contract to determine whether to separate or not. When it is closely related, the overall blending tool is treated according to its nature according to appropriate criteria. When it is not closely related, the derivative is separated from the principal contract and is treated as a derivative. The principal contract is treated according to its nature on the basis of appropriate criteria; or the overall recognition at the original recognition is a financial liability measured at fair value through profit or loss.

(24) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date, which is discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation, the discounted amortization is recognized as interest expense. No future operating losses shall be recognized as a liability reserve.

(25) Employee benefits

A. Short-term employee benefits

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

B. Pensions

(a) Defined contribution plans

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

(b) Defined benefit plans

I. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Company in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of high- quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability; when there is no deep market in high-quality corporate bonds, the Company uses interest rates of government bonds (at the balance sheet date) instead.

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

III. The past service cost related expenses shall immediately be recognized as profits or losses.

C. Employees' compensation and directors' remuneration

Employees' compensation and directors' remuneration are recognized as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is distributed by shares, the Company calculates the number of shares based on the closing price at the previous day of the Board meeting resolution.

(26) Employee share-based payment

For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognized as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-market vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. And ultimately, the amount of compensation cost recognized is based on the number of equity instruments that eventually vest.

(27) Income tax

A. The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.

B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

C. Deferred tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the parent company only balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

D. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognized and recognized deferred tax assets are reassessed.

E. If a change in tax rate is enacted or substantively enacted, the Company recognizes the effect of the change immediately in the interim period in which the change occurs. The effect of the change on items recognized outside profit or loss is recognized in other comprehensive income or equity while the effect of the change on items recognized in profit or loss is recognized in profit or loss.

(28) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(29) Dividends

Dividends are recorded in the Company’s financial statements in the period in which they are resolved by the Company’s shareholders. Cash dividends are recorded as liabilities； stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance.

(30) Income Recognition

A. Sales of goods

(a) The Company manufactures and sells semiconductor wafer and lithium ion battery related products. Sales are recognized when control of the products has transferred, being when the products are delivered to the customers, and there is no unfulfilled obligation that could affect the customer’s acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, or the Company has objective evidence that all criteria for acceptance have been satisfied.

(b) The Company provides standard warranty on the products sold, and has the obligation to maintain the products. The liabilities are recognized when the goods are sold.

(c) Accounts receivable are recognized when the goods are delivered to the customer. Since the Company has unconditional rights to the contract price from that point on time, it is only necessary to collect the consideration from the customer when the time comes.

B. Service revenue

The Company provides semiconductor foundry and related services. The Company considers:

(a) Customer controls the provided raw materials and the Company receives the instruction from the customer on providing process services and subsequent treatments。

(b) The Company provides process services to create or enhance an asset which solely provided and controlled by the customer. The Company has no right to transfer the asset for another use.

As the asset ownership belongs to the customer, who bears the significant risk and rewards and rights on the use of the asset, the Company recognizes process services revenue based on the progress towards completion of performance obligation during the service period.

The degree of completion for the Company's process service shall be determined based on the actual service cost that have occurred over the total service cost.

The Company provides process services according to the customers' specifications. So the service cost required for the investment is not incurred on average during the service period. The Company believes that it is appropriate to measure the completion of the performance obligations for the customers in the manner described above. The customer pays the contract price in accordance with the payment schedule agreed upon, and is recognized as a contract assets when the services provided by the Company exceed the customer's payables, and are recognized as contract liabilities if the customer pays more than the services provided by the Company.

C. Segment of Financial components

Some of contracts the Company commits to transfer merchandises or services to customers, and customers although make payments within one year. Therefore, the Company does not adjust the transaction price in order to reflect the monetary time value.

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

The preparation of these parent company only financial statements requires management to make critical judgements in applying the Company's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year and the related information is addressed below：

(1) Critical judgements in applying the Company's accounting policies

None.

(2) Critical accounting estimates and assumptions

Evaluation of inventories

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

As of December 31, 2019, the carrying amount of inventories was $135,393.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2019	December 31, 2018
Cash on hand and revolving funds	$ 364	$ 384
Demand deposits	741,018	427,253
Deposit account	1,027,500	335,400
Total	$ 1,768,882	$ 763,037

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

B. The Company has no cash and cash equivalents pledged to others. Pledged deposit account information is provided in other non-current assets Note 8.

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

Item	December 31, 2019	December 31, 2018
Current Items:		
Financial assets measured compulsorily at fair value through profit or loss		
Derivative instruments	$ 1,327	$ 130

A. The breakdown of financial assets measured at fair value through profit or loss recognized as profit (or loss) is as follows:

	2019	2018
Financial assets measured compulsorily at fair value through profit or loss		
Derivative instruments	$ 3,548	$ 1,498

B. The transactions and contracts information of the derivative financial assets undertaken by the Company not under hedge accounting were as follows:

	December 31, 2019	
Non-hedging derivative assets	Contract amount (Notional amount)	Contract period
Current items：		
Forward exchange contracts	USD 4,000	Dec. 25, 2019 ~Feb. 7, 2020

	December 31, 2018	
Non-hedging derivative assets	Contract amount (Notional amount)	Contract period
Current items：		
Forward exchange contracts	USD 3,200	Dec. 25, 2018 ~Feb. 15, 2019

The Company entered into derivative contracts to manage exposures due to fluctuations of foreign exchange rates. The Company did not apply hedge accounting treatment for these derivative contracts.

C. For information on the credit risk of financial assets measured by fair value through profit or loss, please refer to Note 12 (2).

(3) Accounts and notes receivable

	December 31, 2019	December 31, 2018
Accounts notes	$ 156	$ -
Accounts receivable	346,569	370,927
Accounts receivable - related parties	1,071	-
Less: Allowance for bad debts	(47)	-
	$ 347,593	$ 370,927

A. The ageing analysis of accounts receivable is as follows:

	December 31, 2019		December 31, 2018	
	Accounts receivable	Accounts note	Accounts receivable	Accounts note
Not past due	$ 343,901	$ 156	$ 368,849	$ -
Up to 30 days	3,447	-	1,658	-
Past due 31-90 days	105	-	420	-
Past due 91-180 days	187	-	-	-
	$ 347,640	$ 156	$ 370,927	$ -

The above aging analysis is based on past due date.

B. As of December 31, 2019 and December 31, 2018 notes and accounts receivable were all from contracts with customers. And as of January 1, 2018, the balance of receivables from contracts with customers amounted to $309,786.

C. The Company has no accounts receivable pledged to others.

D. Without considering the collateral held or other credit enhancements, the maximum credit risk amounts representing the Company's accounts note in 2019 and as of December 31, 2018 are $156 and $0 respectively, the maximum credit risk amounts representing the Company's accounts receivable in 2019 and as of December 31, 2018 are $347,593 and $370,927 respectively.

E. On December 31, 2019 and December 31, 2018 , the Company held commercial promissory notes provided by customers as collateral for credit receivables with amounts of NTD $ 11,000 and NTD $ 10,000 respectively.

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

(4) Inventories

	December 31, 2019		
	Cost	Allowance for obsolescence and market value decline	Book value
Raw materials	$ 148,513	($ 23,051)	$ 125,462
Work in process	1,442	(11)	1,431
Finished goods	19,467	(10,967)	8,500
Total	$ 169,422	($ 34,029)	$ 135,393

	December 31, 2018		
	Cost	Allowance for obsolescence and market value decline	Book value
Raw materials	$ 114,410	($ 13,413)	$ 100,997
Work in process	1,547	(63)	1,484
Finished goods	16,530	(9,905)	6,625
Total	$ 132,487	($ 23,381)	$ 109,106

Operating costs incurred on inventories for the years ended December 31, 2019 and 2018 were as follows:

	2019	2018
Cost of inventories sold	$ 1,585,623	$ 1,267,991
entories for valuation loss	10,648	7,055
Gain from disposal of scrap material	(434)	(239)
Others	(11,515)	(4,949)
	$ 1,584,322	$ 1,269,858

(5) Investments accounted for using the equity method

	2019	2018
January 1	$ 126,486	$ 195,338
Portion of investment profit or loss using with equity method	(37,758)	(84,710)
Recognition of changes in the subsidiary's equity	-	15,858
December 31	$ 88,728	$ 126,486

A. Details of the Company's subsidiaries are provided in Note 4(3) in the Company's 2019 consolidated financial statements.

B. Phoenix Battery Corporation, a subsidiary of the Company, completed the first cash increase after the division on January 24, 2018, and completed the change registration process. As of December 31, 2019, the Company held 25,100 thousand shares in Phoenix Battery Corporation, a subsidiary with a shareholding ratio of 71.51%.

C. The Company has evaluated the invested company Phoenix Battery Corporation in accordance with the equity method, and has prepared separate consolidated financial reports for 2019 and 2018.

(6) Property, plant and equipment

	Buildings	Machinery and equipment	Transportation equipment	Office equipment	Leased assets	Others	Equipment under Installation and construction in progress	Total
January 1, 2019								
Cost	$ 1,185,138	$ 2,095,943	$ 6,396	$ 31,665	$ 538	$ 42,078	$ 103,582	$ 3,465,340
Accumulated depreciation	(408,976)	(1,563,262)	(5,547)	(20,935)	(411)	(24,001)	-	(2,023,132)
	$ 776,162	$ 532,681	$ 849	$ 10,730	$ 127	$ 18,077	$ 103,582	$ 1,442,208
2019								
Opening net book amount	$ 776,162	$ 532,681	$ 849	$ 10,730	$ 127	$ 18,077	$ 103,582	$ 1,442,208
Additions	156,495	764,464	3,315	6,710	-	27,042	199,444	1,157,470
Disposals	(143)	(481)	-	-	-	(474)	-	(1,098)
Reclassifications	1,897	81,588	-	-	-	-	(87,372)	(3,887)
Depreciation	(80,859)	(242,881)	(498)	(4,653)	(90)	(6,694)	-	(335,675)
Closing net book amount	$ 853,552	$ 1,135,371	$ 3,666	$ 12,787	$ 37	$ 37,951	$ 215,654	$ 2,259,018
December 31, 2019								
Cost	$ 1,342,948	$ 2,935,465	$ 9,711	$ 37,854	$ 538	$ 67,275	$ 215,654	$ 4,609,445
Accumulated depreciation	(489,396)	(1,800,094)	(6,045)	(25,067)	(501)	(29,324)	-	(2,350,427)
	$ 853,552	$ 1,135,371	$ 3,666	$ 12,787	$ 37	$ 37,951	$ 215,654	$ 2,259,018

	Buildings	Machinery and Equipment	Transportation equipment	Office equipment	Leased assets	Others	Equipment under Installation and construction in Progress	Total
January 1, 2018								
Cost	$ 1,078,941	$ 1,987,345	$ 5,886	$ 24,473	$ 538	$ 33,975	$ 82,670	$ 3,213,828
Accumulated depreciation	(336,354)	(1,362,232)	(4,860)	(17,530)	(321)	(20,273)	-	(1,741,570)
	$ 742,587	$ 625,113	$ 1,026	$ 6,943	$ 217	$ 13,702	$ 82,670	$ 1,472,258
<u>2018</u>								
Opening net book amount	$ 742,587	$ 625,113	$ 1,026	$ 6,943	$ 217	$ 13,702	$ 82,670	$ 1,472,258
Additions	96,655	104,708	510	4,749	-	9,201	66,241	282,064
Disposals	-	(613)	-	-	-	-	-	(613)
Reclassifications	9,542	29,819	-	2,560	-	275	(45,329)	(3,133)
Depreciation	(72,622)	(226,346)	(687)	(3,522)	(90)	(5,101)	-	(308,368)
Closing net book amount	$ 776,162	$ 532,681	$ 849	$ 10,730	$ 127	$ 18,077	$ 103,582	$ 1,442,208
December 31, 2019								
Cost	$ 1,185,138	$ 2,095,943	$ 6,396	$ 31,665	$ 538	$ 42,078	$ 103,582	$ 3,465,340
Accumulated depreciation	(408,976)	(1,563,262)	(5,547)	(20,935)	(411)	(24,001)	-	(2,023,132)
	$ 776,162	$ 532,681	$ 849	$ 10,730	$ 127	$ 18,077	$ 103,582	$ 1,442,208

A. There are no capitalisation of interest case on the year 2019 and 2018.

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

(7) Leasing arrangements－lessee

Effective 2019

A. The Company leases various assets including land and transportation equipment. Rental contracts are made for periods of 2 to 19 years. Lease terms are negotiated on an individual basis and contain various terms and conditions. Except that the leased assets cannot be used as loan guarantees, no other restrictions are imposed.

B. The period of the employee dormitory leased by the Company does not exceed 12 months, and the leased underlying assets that are low value are accounted for facilities and other equipment.

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

	December 31, 2019		2019	
	Carrying amount		Depreciation expenses	
Land	$	201,522	$	7,180
Transportation equipment		2,157		1,035
	$	203,679	$	8,215

D. For the year ended December 31, 2019, additions to right-of-use assets was $3,192.

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

	2019	
Items affecting profit or loss		
Interest expense on lease liabilities	$	3,148
n short-term lease contracts		4,284
Expenses for lease of low-value assets		322

F. For the year ended December 31, 2019, the Company’s total cash outflow for leases was $14,566.

G. Extension and termination options

In determining the lease term, the Company takes into consideration all facts and circumstances that create an economic incentive to exercise an extension option or not to exercise a termination option. The assessment of lease period is reviewed if a significant event occurs which affects the assessment.

(8) Lease transactions-Lessor

A. The asset leased out by the Company is a building. The lease contract period is 5 years. The lease contract is negotiated individually and contains various terms and conditions. In order to preserve the use of leased assets, lessees are usually required not to use the leased assets as loan guarantees.

B. In the year of 2019, the Company recognized rental income of NT $ 3,967 based on operating lease contracts. There is no change in lease payments.

C. The analysis of the lease payments of the assets leased out by the Company under operating leases on maturity date is as follows：

	December 31, 2019
2020	$ 3,912
2021	3,912
2022	3,913
2023	326
Total	$ 12,063

(9) Financial liabilities at fair value through profit or loss – current

Item	December 31, 2019	December 31, 2018
Current items：		
Financial liabilities held for trading		
derivative instruments	$ 165	$ 141
Financial liabilities designation as at fair value through profit or loss		
Convertible Bond	200	-
Evaluation adjustment	100	-
Subtotal	300	-
Total	$ 465	$ 141

A. The breakdown of financial liabilities measured at fair value through profit or loss recognized as profit (or loss) is as follows：

	2019	2018
recognized net profit(loss)：		
Financial liabilities held for trading		
Derivative instruments	($ 2,756)	($ 4,300)
Financial liabilities designation as at fair value through profit or loss		
Convertible Bond	(100)	-
Total	($ 2,856)	($ 4,300)

B. The non-hedging derivative instruments transaction and contract information as follows：

Non-hedging derivative liabilities	December 31, 2019 Contract amount (Notional Amount)	December 31, 2019 Contract period	December 31, 2018 Contract amount (Notional Amount)	December 31, 2018 Contract period
Current items：				
Forward exchange contracts	USD 2,000	2020.1.22~ 2020.2.7	USD 3,800	2018.12.25~ 2019.3.8

The Company signed forward exchange and foreign exchange swaps to hedge foreign exchange risk from the prices of imports and exports; however, the Company did not apply hedge accounting.

(10) Other payables

	December 31, 2019	December 31, 2018
Accrued salaries	$ 104,697	$ 91,304
Payables for Employees' compensation and directors'	92,865	63,468
Payables on equipment	107,184	20,251
Payables for maintenance	23,497	15,124
Other payable overheads	62,919	50,979
Total	$ 391,162	$ 241,126

(11) Corporate bonds payable

	December 31, 2019	December 31, 2018
Corporate bond payable	$ 1,000,000	$ -
Discount on corporate bond payable	(36,501)	-
	$ 963,499	$ -

A. Domestic conversion of corporate bonds issued by the company

(a) Issuance conditions for the first unsecured conversion of corporate bonds in the company are as follows:

The company is approved by the relevant authorities to raise and issue the first unsecured conversion company debt (referred to as "This conversion company debt"), the total issue of $1,000,000 at the coupon rate of 0%, for an issuance period of 3 years, circulation period from November 13, 2019 to November 13, 2022. When this conversion company debt expires, it will be repaid in cash in the denomination of the bond. This conversion company debt has been listed for trading at the Securities Counter Trading Center as of November 13, 2019.

(b) The corporate bonds held by the Company shall be converted into ordinary shares of the Company from three months after the bond issuance by the Company until the maturity date. The converted new shares have the same rights and obligations as the ordinary shares of the Company.

(c) The conversion price of this conversion company debt shall be determined according to the pricing model stipulated in the conversion method, and the conversion price shall be adjusted in the event of the anti-dilution clause of the company in accordance with the pricing model stipulated in the conversion method. The conversion price will be re-determined on the base date according to the pricing model stipulated in the conversion method.

(d) Bondholders can require the company to buy back the conversion company bonds at 0.5001% interest compensation rate on the face value of the bonds after holding them over two years.

(e) In the period of circulation from three months after the issuance of the convertible corporate bonds to thirty business days before the maturity of the bonds. If the closing price of the company's common shares exceeds 30% of the current conversion price for

30 consecutive business days, the company has rights to buy back all its bonds in cash at the face value of the bonds within thirty business days thereafter.

(f) In the period of circulation from three months after the issuance of the convertible corporate bonds to thirty business days before the maturity of the bonds. If the closing price of the company's common shares is lower 10% of the current conversion price for 30 consecutive business days, the company has rights to buy back all its bonds in cash at the face value of the bonds any time thereafter.

(g) According to the conversion method, all of the corporate bonds recovered (including those bought back from the Taipei Exchange), repaid, or converted shall be written off by the Company; and all rights and obligations that are attached to corporate bonds will also be reduced and will not be issued.

B. When issuing convertible corporate bonds, the Company shall, in accordance with the provisions of international Accounting standard 32nd "Financial instruments: expression", separate the right of conversion of the nature of equity from the constituent elements of each liability, and account for the "capital reserve-equity" $132,294. The other embedded buying and selling rights, according to IAS 9 "Financial instruments: recognition and measurement" provisions, because it is not closely related to the economic characteristics and risks of the main contract debt commodities, so it is separated and treated with its net account "financial liabilities-flows measured at fair value through profit and loss". The effective interest rate for the separation of COR contractual obligations is 1.56%.

(12) Long-term borrowings

Nature of Loan	Borrowing period and repayment term	Interest rate range	Collateral		December 31, 2019
Factory loan (Note)	Repayment by installments throughout the agreed upon period from Apr. 25, 2019 to Apr. 25, 2022	Floating rate	Building	$	188,000
Factory loan	Repayment by installments throughout the agreed upon period from Feb. 13, 2015 to Dec, 8, 2027	Floating rate	Building		231,386
Medium-term secured loan (Note)	Repayment by installments throughout the agreed upon period from Apr. 15, 2019 to Aug. 14, 2024	Floating rate	Machinery and equipment		269,750
Medium-term secured loan	Repayment by installments throughout the agreed upon period from Jul. 5, 2017 to Jul. 5, 2030	Floating rate	Machinery and equipment		12,000
Unsecured borrowing	Repayment by installments throughout the agreed upon period from Jul. 12, 2018 to Jul. 8, 2022	Floating rate	None		225,000
					926,136
Less: Current portion				(	341,448)
				$	584,688
Interest rate range					1.35%~1.50%

Nature of Loan	Borrowing period and repayment term	Interest rate range	Collateral	December 31, 2018
Factory loan	Repayment by installments throughout the agreed upon period from Feb. 13, 2015 to Dec. 12, 2027	Floating rate	Building	$ 243,729
Medium-term secured loan	Repayment by installments throughout the agreed upon period from May 23, 2017 to Jul. 5, 2020	Floating rate	Machinery and equipment	77,800
Unsecured borrowing	Repayment by installments throughout the agreed upon period from Jul. 5, 2017 to Jul. 12, 2020	Floating rate	None	143,375
				464,904
Less: Current portion				(207,419)
				$ 257,485
Interest rate range				1.47%~1.60%

Information about pledged to others as collateral is provided in Note 8.

Note：Accordance with the contractual arrangements, the group should maintained half years of designated net debt ratio and interest repayments ability within duration of loan.

(13) Pension

A.

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

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

	December 31, 2019	December 31, 2018
Present value of defined benefit obligations	$ 39,226	$ 34,347
Fair value of plan assets	19,113	(18,318)
Net defined benefit liability	$ 20,113	$ 16,029

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

	2019		
	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
January 1	$ 34,347	($ 18,318)	$ 16,029
Current service cost	88	-	88
Interest (expense) income	472	(257)	215
	34,907	(18,575)	16,332
Remeasurements:			
Return on plan assets (excluding the amounts included in interest income or expense)	-	(617)	(617)
Change in demographic assumptions	948	-	948
Change in financial assumptions	2,709	-	2,709
Experience adjustments	1,570	-	1,570
	5,227	(617)	4,610
Pension fund contribution	-	(829)	(829)
Paid pension	(908)	908	-
December 31	$ 39,226	($ 19,113)	$ 20,113

	2018		
	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
January 1	$ 35,913	($ 19,176)	$ 16,737
Current service cost	93	-	93
Interest (expense) income	494	(269)	225
	36,500	(19,445)	17,055
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	(506)	(506)
Change in demographic assumptions	2,080	-	2,080
Experience adjustments	(1,845)	-	(1,845)
	235	(506)	(271)
Pension fund contribution	-	(755)	(755)
Paid pension	(2,388)	2,388	-
December 31	$ 34,347	($ 18,318)	$ 16,029

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

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

	2019	2018
Discount rate	0.875%	1.375%
Future salary increases	3.500%	3.500%

Future mortality rate was estimated based on the 5th Taiwan Standard Ordinary Experience Mortality Table for the years ended December 31, 2019 and 2018.

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

	Discount rate		Future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
December 31,2019				
Effect on present value of defined benefit obligation	($ 1,399)	$ 1,468	$ 1,409	($ 1,350)
December 31,2018				
Effect on present value of defined benefit obligation	($ 1,253)	$ 1,316	$ 1,269	($ 1,215)

The sensitivity analysis above is based on one assumption which changed while the other conditions remain unchanged. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

(f) Expected contributions to the defined benefit pension plans of the Company for the year ending December 31, 2020 amount to $871.

(g) As of December 31, 2019, the weighted average duration of that retirement plan is 14.8 years.

The analysis of timing of the future pension payment was as follows:

Within 1 year	$	294
1~2 years		221
2~5 years		7,491
5~10 years		5,556
	$	13,562

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

(b) The pension costs under the defined contribution pension plans of the Company for the years ended December 31, 2019 and 2018 were $22,839 and $18,479, respectively.

(14) Provision

	Decommissioning liabilities	
2019		
January 1	$	13,497
Discounting of amortization		697
December 31	$	14,194

The analysis of provisions was as follows:

	December 31, 2019		December 31, 2018	
Non-current	$	14,194	$	13,497

Decommissioning liabilities

In accordance with the applicable agreements or the law/regulation requirement, the Company bears dismantling, removing the asset and restoring the site obligations for certain base stations in the future. Provision is recognized for the present value of costs to be incurred for dismantling, removing the asset and restoring the site. The Company expects those liabilities will occur in the next 5 to 20 years.

(15) Share-based payment

The Company used to issue 15,580 ordinary thousand shares to increase the capital through market auctions before the initial listing. In accordance with Article 267 of the Company Law, 15% of the shares issued, that is, 2,337 thousand shares, were reserved for employees with

NT$24.6 to 37.5 per share. The company assessed the fair value of this share-based payment based on market law as NT$8,787, which was recognized as compensation costs.

The input values used in the evaluation mode are as follows:

The ratios from comparable companies, such as market price / revenues, P/E ratio and market price / net value：2.15 ~ 17.25.

Discount for lack of liquidity：8.86%.

(16) Share capital

As of December 31, 2019, the Company's authorized capital was $2,000,000, consisting of 200,000 thousand shares of ordinary stock (including 20,000 thousand shares reserved for employee stock options), and the paid-in capital was $1,324,080 with a par value of $10 (in dollars) per share. All proceeds from shares issued have been collected. The beginning balance and closing balance of the number of the Company's ordinary shares outstanding of the period remain the same as in previous two periods.

Unit : share

	2019	2018
January 1	132,408,000	116,828,000
Capital increase by cash	-	15,580,000
December 31	132,408,000	132,408,000

On April 25, 2018, by the approval of the board of directors, the Company issued 15,580,000 ordinary shares through cash increasing capital before the initial listing of shares. Pursuant to Article 267 of the Company Law, the Company reserves 15% of the new shares issued, accounting for 2,337,000 shares ($24.6 per share) for employees to subscribe. The remaining shares of 13,243,000 shares ($ 24.6 to $33.6 per share) were approved by the shareholders' meeting on May 25, 2017, and the original shareholders waived the subscription. The Company entrusted the underwriter to handle the pre-listing public underwriting and was issued in full on July 6, 2018 and received a total amount of $478,239. Accounting for "Capital stock" of $155,800 and "Premium on capital stock" of $322,439. The registration of capital increase change has been completed.

(17) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Act requires that the amount of capital surplus to be capitalised mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

	2019		
	Share Premium	Long-term investment	Stock Option
January 1	$ 486,616	$ 15,858	$ -
Corporate bond conversion	-	-	132,294
December 31	$ 486,616	$ 15,858	$ 132,294

	2018	
	Capital increase by cash	Long-term investment
January 1	$ 190,438	$ -
Share-based payments	8,787	-
Capital increase by cash	322,439	-
Cash dividends distribution from capital surplus	(35,048)	-
Recognition of changes in the subsidiary's equity	-	15,858
December 31	$ 486,616	$ 15,858

(18) Retained earnings

	2019	2018
January 1	$ 361,868	$ 242,346
Effects of retrospective application and retrospective restatement	-	38,250
Equity at beginning of period after adjustments	361,868	280,596
Current profit	332,095	232,634
Earnings distribution	(211,853)	(151,877)
Remeasurement on post employment benefit obligations, net of tax	(3,688)	515
December 31	$ 478,422	$ 361,868

A. According to the Company's Articles of Association, if there is a surplus in the annual final accounts, it should first make up for the losses, pay taxes, and deposit 10% as the statutory surplus reserve. However, the statutory surplus reserve is not included in the total capital. The Company shall provide or revolve special surplus reserves as needed. The balance plus the previously undistributed surplus is the distributable surplus. Depending on the Company's operating conditions, the Board of Directors shall make the shareholder's dividend and dividend distribution proposal, and submit the proposal to the shareholders' meeting for resolution.

B. When forming its dividend policy, the Corporation considers various factors such as its plans relating to current and future development, the overall investment environment, its financial needs, competition in the domestic and foreign markets, as well as the interest of shareholders and the principles of stability and balance in the distribution of dividends. Each year it will set aside as shareholder dividends an amount of not less than 10% of the earnings available for distribution. Dividends to shareholders may be distributed in cash or shares, but in any event the amount of cash dividends may not be less than 50% of the total dividends.

C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.

D. In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

E. The appropriation of 2018 and 2017 earnings had been resolved at the stockholders' meeting on May 24, 2019 and May 25, 2018, respectively. Details are summarized below:

	2018		2017	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	$ 23,263	$ -	$ 16,711	$ -
Cash dividends	211,853	1.60	151,877	1.30
Total	$ 235,116	$ 1.60	$ 168,588	$ 1.30

F. On May 25, 2018 the stockholders resolved during their meeting to distribute $35,048 by cash ($0.3 per share) from additional paid-in capital in excess of par, ordinary share.

G. For the information relating to employees' compensation and directors' remuneration, please refer to Note 6(24).

(19) Operating revenue

	2019	2018
Revenue from contracts with customers	$ 2,465,694	$ 2,018,052

A. Disaggregation of revenue from contracts with customers

The Company derives revenue from the transfer of goods and services at a point in time in the following major product lines:

Year ended December 31, 2019	Wafer service	Battery	Total
Revenue from external customer contracts	$ 2,460,118	$ 5,576	$ 2,465,694
Timing of revenue recognition			
At a point in time	$ 90,568	$ 5,576	$ 96,144
Over time	2,369,550	-	2,369,550
	$ 2,460,118	$ 5,576	$ 2,465,694

Year ended December 31, 2018	Wafer service	Battery	Total
Revenue from external customer contracts	$ 2,001,885	$ 16,167	$2,018,052
Timing of revenue recognition			
At a point in time	$ 117,841	$ 16,167	$ 134,008
Over time	1,884,044	-	1,884,044
	$ 2,001,885	$ 16,167	$2,018,052

B. Contract assets and contract liabilities

The customer related contractual assets and liabilities recognized by the Company are as follows:

	December 31, 2019	December 31, 2018	January 1, 2018
Contract Assets	$ 171,059	$ 83,876	$ 95,916
Contract liabilities – unearned sales revenue	$ 3,395	$ 360	$ 2,507

	2019	2018
Initial contract liabilities and recognized income in the current period	$ -	$ 2,251

(20) Other incomes

	2019	2018
Interest revenue：		
Bank deposit interest	$ 3,430	$ 2,489
rent revenue	3,967	3,568
Other revenue - other	613	717
	$ 8,010	$ 6,774

(21) Other benefits and losses

	2019	2018
Profit(loss) on disposal of property, plant, and equipment	$ 155	($ 598)
Profit on foreign exchange	(6,895)	7,395
Net profits (Losses) from financial assets (liabilities) measured at fair value through profits (losses)	692	(2,802)
Other benefits and losses	(1,200)	-
	($ 7,248)	$ 3,995

(22) Financial costs

Interest expenses:	2019	2018
Bank notes	$ 10,763	$ 9,144
Corporate bond payable	1,978	-
Lease liabilities	3,148	-
Provisions - Discounted amortization	697	699
	$ 16,586	$ 9,843

(23) Additional information on the nature of the expenses

	2019	2018
Employee benefit expense	$ 712,769	$ 578,522
Property, plant, and equipment		
Depreciation expense	343,890	308,368
Intangible asset amortization cost	13,803	10,047

(24) Employee benefit expenses

	2019	2018
Salary expenses	$ 604,578	$ 492,129
Labor and health insurance expenses	50,544	39,499
Pension expenses	23,142	18,797
Other labor expenses	34,505	28,097
	$ 712,769	$ 578,522

A. According to the Company's Articles of Association, if the Company makes a profit, it will pay 10%~15% of the employee's compensation and 2% as remuneration for Directors according to the profit status of the current year.

B. The estimated amount of compensations for employees in 2019 and 2018 were $77,951 and $56,001, respectively. The estimated amount of remunerations for the Directors were $10,393 and $7,645, respectively. The aforesaid amount is accounted for in the salary expense account. 15% and 2% were estimated in 2019 according to the profitability of the year.

The amounts resolved by the Board of Directors for the 2018 compensations for employees, remunerations for Directors, and the amount recognized in the 2018 financial report are consistent.

Information on the compensations for employees as well as remunerations for Directors which were approved by the Board of Directors of the Company can be obtained from the Market Observation Post System (MOPS).

(25) Income tax

A. Income tax expenses

(a) Income tax expense components

	2019	2018
Current income tax:		
Income tax generated by current income:	$ 95,325	$ 80,940
Surtax on unappropriated retained earnings	1,814	-
Evaluated based on the (excess) Shortfall from the previous annual Income tax	5,180	(391)
Total current income tax	102,319	80,549
Deferred income tax:		
The original generation and rotation of temporary difference	(3,087)	(2,023)
Effect of tax rate changes	-	(1,286)
Total deferred tax	(3,087)	(3,309)
Income tax expenses	$ 99,232	$ 77,240

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

	2019	2018
Remeasurement of defined benefit obligations	($ 922)	$ 54
Impact of change in tax rate	-	(299)
	($ 922)	($ 245)

B. Income tax expenses and relationship to accounting profit

	2019	2018
Income tax calculated based on Profit Before Tax and the Statutory Rate	$ 86,265	$ 61,975
Tax exemption under the tax law	7,787	16,942
Evaluated based on the (excess) shortfall from the previous annual income tax	5,180	(391)
Impact of investment tax credits	(1,814)	-
Surtax on unappropriated retained earnings	1,814	-
Impact of change in tax rate	-	(1,286)
Income tax expenses	$ 99,232	$ 77,240

C. The amounts of deferred tax assets or liabilities resulting from temporary differences and investment tax credits are as follows:

	2019			
	January 1	Recognized in profit or loss	Recognized in Other comprehensive net income	December 31
Temporary difference:				
-Deferred tax assets：				
Inventory loss from falling price	$ 4,676	$ 2,130	$ -	$ 6,806
Discount on corporate bond payable	-	396	-	396
Unused compensated absences payable	703	(50)	-	653
Long-term service award	1,547	461	-	2,008
Decommissioning liabilities	2,282	205	-	2,487
Pension	3,206	(105)	922	4,023
Unrealized gain or loss on financial instrument	2	(214)	-	(212)
Unrealized exchange losses	118	264	-	382
Total	$ 12,534	$ 3,087	$ 922	$ 16,543

	2018			
	January 1	Recognized in profit or loss	Recognized in Other comprehensive net income	December 31
Temporary difference:				
-Deferred tax assets：				
Inventory loss from falling Price	$ 2,775	$ 1,901	$ -	$ 4,676
Unused compensated absences payable	347	356	-	703
Long-term service award	1,080	467	-	1,547
Decommissioning liabilities	1,765	517	-	2,282
Pension	2,845	116	245	3,206
Unrealized gain or loss on financial instrument	(97)	99	-	2
Unrealized exchange losses	265	(147)	-	118
Total	$ 8,980	$ 3,309	$ 245	$ 12,534

D. Deductible temporary differences that are not recognized as deferred income tax assets: Non.

E. The Company's for-profit business income tax has been approved by the Revenue Service Office until 2017. ◦

F. The amendments to the Taiwan Income Tax Act came into effect on February 7, 2018 to adjust the tax rate for for-profit businesses from 17% to 20%; which entered into force in 2018. The Company has assessed the relevant income tax implications for this tax rate change.

(26) Earnings per share

	2019		
	After-tax Amount	Shares Outstanding (1,000 shares)	Earnings Per Share (NTD)
Basic earnings per share			
Net profit attributable to the ordinary shareholders in the current period	$ 332,095	132,408	$ 2.51
Diluted earnings per share			
Net profit attributable to the ordinary shareholders in the current period	$ 332,095	132,408	
Impact of potential common stocks with dilutive effects			
Convertible corporate bond	1,663	1,764	
Employee remuneration	-	1,242	
Net current profit of the ordinary shareholders and the impact of potential ordinary shares	$ 333,758	135,414	$ 2.46

	2018		
	After-tax Amount	Shares Outstanding (1,000 shares)	Earnings Per Share (NTD)
Basic earnings per share			
Net profit attributable to the ordinary shareholders in the current period	$ 232,634	124,469	$ 1.87
Diluted earnings per share			
Net profit attributable to the ordinary shareholders in the current period	$ 232,634	124,469	
Impact of potential common stocks with dilutive effects			
Employee remuneration	-	1,575	
Net current profit of the ordinary shareholders and the impact of potential ordinary shares	$ 232,634	126,044	$ 1.85

(27) Transactions with non-controlling interest

New shares issued by the cash increase of subsidiary, the Company did not subscribe according to the shareholding ratio.

Phoenix Battery Co., Ltd., a subsidiary of the company, issued new shares on January 24, 2018 in cash. The Company did not subscribe according to the shareholding ratio, therefore reducing 28.49% equity. The transaction increased non-controlling interests by $ 84,142 and the equity attributable to owners of the parent company increased by $ 15,858. In the year of 2018, the impact of the changes in Phoenix Battery's equity on the equity of the owners of the parent company is as follows:

	2018
Cash	$ 100,000
Increase in the carrying amount of non-controlling interests	(84,142)
Premium on capital stock-Recognition of changes in subsidiaries' equity in proportion to shareholding	$ 15,858

(28) Operating lease commitments

Prior to 2018

A. Rental income from the operating leases for building assets rented out by the Company and recognized accordingly in 2018 was $3,568. Such operating leases will expire in the period 2018 to 2023. Total minimum lease receivables due in the future from non-cancellable contracts are as follows:

	December 31, 2018
Within 1 year	$ 2,952
1 to 5 years	9,842
	$ 12,794

B. Operating leases on equipment, land and building assets with lease periods between 1 to 20 years. Rental expenses recognized in 2018 as $14,939. Total minimum lease receivables due in the future from non-cancellable contracts are as follows:

	December 31, 2018
Within 1 year	$ 9,168
1 to 5 years	35,573
Over 5 years	114,872
	$ 159,613

(29) Supplemental cash flow information

Partial cash paid for investing activities:

	2019	2018
Purchase of property, plant and equipment	$ 1,157,470	$ 282,064
Add：Beginning balance of payable on equipment	19,884	15,035
Add：Beginning balance of payable on lease - related parties	367	700
Add：Ending balance of prepayments for equipment	103,243	143,218
Less：Ending balance of payable on equipment	(107,184)	(19,884)
Less： Ending balance of payable on equipment - related parties	-	(367)
Less：Ending balance of prepayments for equipment	(143,218)	(100,999)
Cash paid during the year	$ 1,030,562	$ 319,767

(30) Changes in liabilities from financing activities

	2019				
	Corporate bond payable	Long-term loans	Lease liabilities	Guarantee deposits received	Liabilities from financing activities gross
January 1, 2019	$ -	$ 464,904	$ 208,702	$ 516	$ 674,122
Changes in cash flow from financing activities	1,094,015	461,232	(6,812)	372	1,548,807
Interest payments on lease liabilities	-	-	(3,148)	-	(3,148)
Amortization of interest expenses on lease liabilities	-	-	3,148	-	3,148
Amounts of new lease liabilities	-	-	3,192	-	3,192
Amortization of interest expenses payable on corporate bonds	1,978	-	-	-	1,978
Convertible bonds Call and put options	(200)	-	-	-	(200)
Convertible bonds Stock options	(132,294)	-	-	-	(132,294)
December 31	$ 963,499	$ 926,136	$ 205,082	$ 888	$ 2,095,605

	2018		
	Long-term borrowings	guarantee deposits received	Liabilities from financing activities
January 1	$ 714,332	$ 292	$ 714,624
Changes in cash flow from financing activities	(249,428)	224	(249,204)
December 31	$ 464,904	$ 516	$ 465,420

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

Names of related parties	Relationship with the Company
All directors, general manager and deputy general manager	The Company key management
Phoenix Battery Corporation	Company's reinvested subsidiary under the equity method

(2) Significant related party transactions and balancesOperating revenue

	2019	2018
A. Sales of goods:		
Phoenix Battery Corporation	$ 5,576	$ 2,040

Goods are sold based on the price lists in force and terms that would be available to third parties.

B. Purchases:

	2019	2018
Purchase of goods：		
Phoenix battery corporation	$ 54	$ 12,530

The purchase prices and the trading terms to related parties above were not significantly different from those of purchase to third parties.

C. Receivables from related parties:

	December 31, 2019	December 31, 2018
Accounts receivable:		
Phoenix Battery Corporation	$ 1,071	$ -
Other receivables：		
Phoenix Battery Corporation	$ 834	$ 893

The receivables from related parties arise mainly from sales transactions. The receivables are due 3 months after the date of sale. The receivables are unsecured in nature and bear no interest.

D. Payables to related parties:

		December 31, 2019		December 31, 2018
Accounts receivable:				
Phoenix Battery Corporation	$	-	$	337
Other payables：				
Phoenix Battery Corporation		-		368
Total	$	-	$	705

The payables from related parties arise mainly from purchase transactions. The payables are due 3 months after the date of sale. The payables are bear no interest.

E. Other

	2019			2018		
	Item	Amount		Item	Amount	
Phoenix battery corporation	Rent income	$	3,178	Rent income	$	2,779
	Other income	$	120	Other income	$	-

(3) Key management compensation

	2019		2018	
Short-term employee benefits	$	39,213	$	35,825
Post-employment benefits		621		2,958
Share-based payment transaction		-		1,391
	$	39,834	$	40,174

8. PLEDGED ASSETS

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

	Book value				
Pledged asset	December 31, 2019		December 31, 2018		Purposes
Time deposits (shown in other current assets)	$	2,000	$	500	Customs duty guarantee
Time deposits (shown in other current assets)		8,794		8,794	Guarantee for leasing land and office in Science Park
Building		853,552		626,281	Long-term borrowings
Equipment(including construction in progress)		539,462		110,749	Long-term borrowings
	$	1,403,808	$	746,324	

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) Contingencies

None.

(2) Commitments

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

	December 31, 2019	December 31, 2018
Property, plant and equipment	$ 960,384	$ 586,175

B. Operating lease commitments

Please refer to Note 6 (7), (8) and (28).

C. As of December 31, 2019 and 2018, the company has issued unused letters of credit for imported equipment and inventory of approximately $ 1,996 and $ 0.

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total capital. Total capital is calculated as equity as shown in the separate balance sheet plus total borrowings.

During the year ended December 31, 2019, the Company's strategy, which was unchanged from 2018, was to maintain the gearing ratio at a reasonable level of risk. The gearing ratios at December 31, 2019 and 2018 were as follows:

	December 31, 2019	December 31, 2018
Total borrowings	$ 1,889,635	$ 464,904
Less:：Cash and Cash Equivalents	(1,768,882)	(763,037)
Net debt	120,753	(298,133)
Total equity	2,437,270	2,188,422
Total capital	$ 2,558,023	$ 1,890,289
Gearing ratio	4.72%	-

(2) Financial instruments

A. Financial instruments by category

	December 31, 2019	December 31, 2018
Financial assets		
Financial assets at fair value through profit or loss		
Financial assets mandatorily measured at fair value through profit or loss	$ 1,327	$ 130
Financial assets measured at amortized cost		
Cash and cash equivalents	$ 1,768,882	$ 763,037
Notes receivable	156	-
Accounts receivable (including related parties)	347,593	370,927
Other receivables (including related parties)	2,553	2,096
Guarantee deposits paid	477	451
Other financial assets	10,794	9,294
	$ 2,130,455	$ 1,145,805
Financial liabilities		
Financial liabilities at fair value through profit or loss		
Financial liabilities held for trading	$ 165	$ 141
Financial liabilities at fair value through profit or loss	300	-
	$ 465	$ 141
Financial liabilities at amortised cost		
Accounts payable (including related parties)	$ 126,738	$ 102,143
Other payables (including related parties)	391,162	241,126
Corporate bonds payable	963,499	-
Long-term borrowings (Include Current)	926,136	464,904
Guarantee deposits received	888	516
	$ 2,408,423	$ 808,689
Guarantee deposits received (Include Current)	$ 205,082	$ -

B. Financial risk management policies

(a) The Company’s activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. To minimize any adverse effects on the financial performance of the Company, derivative financial instruments, such as foreign exchange forward contracts are used to hedge certain exchange rate risk, and cross derivative instruments to hedging purposes, and not for trading or speculation.

(b) Risk management is carried out by a treasury department (Company treasury) under policies approved by the Board of Directors. Company treasury identifies, evaluates and hedges financial risks in close co-operation with the Company’s operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

I. Management has set up a policy to require the Company to manage their foreign exchange risk against their functional currency. The companies are required to hedge their entire foreign exchange risk exposure with the Company treasury. Exchange rate risk is measured through a forecast of highly probable USD and JPY expenditures. Forward foreign exchange contracts are adopted to minimize the volatility of the exchange rate affecting cost of forecast inventory purchases.

II. The Company hedges foreign exchange rate by using forward exchange contracts. However, the Company does not adopt hedging accounting. Details of financial assets or liabilities at fair value through profit or loss are provided in Note 6(2). Moreover, the Company enters into cross currency swap contracts to hedge the foreign exchange risk arising from foreign currency loan underwritten by financial institutions, shown as derivative financial assets and liabilities for hedging. The information is provided in Note 6(2) and 6(9).

III. The Company’s businesses involve some non-functional currency operations. The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

	December 31, 2019		
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD: NTD	$ 15,098	30.08	$ 454,146
JPY: NTD	184,014	0.2772	50,999
Non-monetary items：			
None.			
Financial liabilities			
Monetary items			
USD: NTD	$ 2,682	30.08	$ 80,679
JPY: NTD	60,988	0.2772	16,903

Non-monetary items：
None.

	December 31, 2018		
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD: NTD	$ 16,653	30.72	$ 511,586
JPY: NTD	3,898	0.2785	1,086
Non-monetary items：			
None.			
Financial liabilities			
Monetary items			
USD: NTD	$ 1,719	30.72	$ 52,818
JPY: NTD	19,761	0.2785	5,503
Non-monetary items：			
None.			

IV. The total exchange gain (loss), including realised and unrealised arising from significant foreign exchange variation on the monetary items held by the Company for the years ended December 31, 2019 and 2018, amounted to ($6,895) and $7,395, respectively.

V. Analysis of foreign currency market risk arising from significant foreign exchange variation:

	December 31, 2019		
	Sensitivity analysis		
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD:NTD	1%	$ 4,541	$ -
JPY: NTD	1%	510	-
Non-monetary items:			
None.			
Financial liabilities			
Monetary items			
USD:NTD	1%	($ 802)	$ -
JPY: NTD	1%	(169)	-
Non-monetary items:			
None.			

	2018		
	Sensitivity analysis		
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD:NTD	1%	$ 5,116	$ -
JPY: NTD	1%	11	-
Non-monetary items: None.			
Financial liabilities			
Monetary items			
USD:NTD	1%	($ 528)	$ -
JPY: NTD	1%	(55)	-
Non-monetary items: None.			

Cash flow and fair value interest rate risk

I. The Company's interest rate risk mainly arises from short-term loans and long-term loans issued at floating rates, which exposes the Company to cash flow interest rate risk. In 2019 and 2018, the Company's loans issued at floating rates are mainly valuated in NTD. The long-term fixed-rate corporate bonds issued by the Company have no interest rate risk and fair value interest rate risk.

II. The Company's loans are measured at amortized cost and the annual interest rate will be repriced every year according to the contract. Therefore, the Company is exposed to the risk of future market interest rate changes.

III. For the years ended December 31, 2019 and 2018, it is estimated that a general increase or decrease of 0.25% in interest rates, with all other variables held constant, would decrease or increase the Company’s profit before tax approximately by $2,315 and $1,162, respectively, mainly due to the Company’s floating rate on bank loans.

(b) Credit risk

I. Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the contract cash flows of financial assets at amortised cost, at fair value through profit or loss and at fair value through other comprehensive income.

II. The Company regularly monitors and inspects the trading customer's credit limit based on its credit status and the market conditions, and would make adjustments in real time to manage credit risk. The Company only deals with banks and financial institutions with good credit ratings, so it is not expected to suffer credit risk as a result.

III. The Company manages their credit risk taking into consideration the entire Company’s concern. According to the Company’s credit policy, each local entity in the Company is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are granted by the board of directors based on internal or external ratings, and the usages of credit lines is monitored regularly.

IV. The company's acknowledgement of the contract as a situation of default is as follows: When the contract amount is expected to be uncollectible and it is necessary to transfer it to overdue receivable, it is deemed that a default has occurred.

V. The Company classifies customers’ accounts receivable, contract asset and right-of-use asset in accordance with customer types. The Company applies the modified approach using provision matrix to estimate expected credit loss under the provision matrix basis.

VI. The following indicators are used to determine whether the credit impairment of debt instruments has occurred:

   i. It becomes probable that the issuer will enter bankruptcy or other financial difficulties；

   ii. The disappearance of an active market for that financial asset because of financial difficulties；

   iii. Default or delinquency in interest or principal repayments.

VII. The Company used the forecas tability of consideration to adjust historical and timely information to assess the default possibility of notes receivable, accounts receivable, accounts receivable－related parties, contract asset, other receivable, and other receivables of allowance loss－related parties.

On December 31, 2019 and 2018, the loss rate is as follows:

	Not past due and up to 90 days past due	91-180 days past due	181-270 days past due	271-360 days past due	361 days past due	Total
December 31,2019						
Expected loss rate	0~1%	25%	50%	75%	100%	
Total book value	$ 521,355	$ 187	$ -	$ -	$ -	$ 521,542
Loss allowance	$ -	$ 47	$ -	$ -	$ -	$ 47

	Not past due and up to 90 days past due	91-180 days past due	181-270 days past due	271-360 days past due	361 days past due	Total
December 31,2018						
Expected loss rate	0~1%	25%	50%	75%	100%	
Total book value	$ 456,899	$ -	$ -	$ -	$ -	$ 456,899
Loss allowance	$ -	$ -	$ -	$ -	$ -	$ -

VIII. Movements in relation to the Company applying the modified approach to provide notes receivable, accounts receivable, accounts receivable－related parties, contract asset, other receivable, and other receivables of allowance loss－related parties are as follows:

	2019					
	notes receivable	accounts receivable	accounts receivable－related parties	contract asset	other receivable	other receivables of allowance loss－related parties
January 1	$ -	$ -	$ -	$ -	$ -	$ -
impairment loss	-	47	-	-	-	-
December 31	$ -	$ 47	$ -	$ -	$ -	$ -

	2018					
	notes receivable	accounts receivable	accounts receivable－related parties	contract asset	other receivable	other receivables of allowance loss－related parties
January 1_IAS 39	$ -	$ 17	$ -	$ -	$ -	$ -
Adjustments under new standards	$ -	$ -	$ -	$ -	$ -	$ -
January 1_IFRS 9	$ -	$ 17	$ -	$ -	$ -	$ -
impairment loss	-	(17)	-	-	-	-
December 31	$ -	$ -	$ -	$ -	$ -	$ -

(c) Liquidity risk

I. Cash flow forecasting is performed by individual operating entities within the Company and is aggregated by the Company's Finance Department. The Company's Finance Department shall monitor and forecast the Company's liquidity needs, ensure sufficient funds to meet operational needs, maintain sufficient unencumbered loan commitments at all times so the Company does not violate the relevant loan limits or terms. Such forecasts must take into account the Company's debt financing plans, debt obligations, compliance with the internal balance sheet's financial ratio targets.

II. Surplus cash over and above balance required for working capital management are invested in interest bearing current accounts, time deposits, money market deposits and marketable securities. The chosen instruments have appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the abovementioned forecasts. As of December 31, 2019 and 2018, the Company held money market positions of $ 1,768,518 and $ 762,653 and other non-current assets of $ 10,794 and $ 9,294 respectively. It is expected to generate cash flow immediately to manage liquidity risk.

III. The Company's unused loan amounts are detailed as follows：

	December 31, 2019	December 31, 2018
Floating rate		
Due within 1 Year	$ 907,200	$ 440,000
Due over 1 Year	3,000	6,000
Fixed Interest Rate		
Due within 1 Year	-	-
Due over 1 Year	-	-
	$ 910,200	$ 446,000

IV. The following table reflects the non-derivative financial liabilities of the Company and the derivative financial liabilities delivered in net or total amount grouped according to the relevant maturity dates. Non-derivative financial liabilities are analyzed based on the remaining period from the balance sheet date to the contractual maturity date. Derivative financial liabilities are analyzed based on the remaining period from the balance sheet date to the expected maturity date. The contractual cash flow amount disclosed in the following table is the undiscounted amount.

Non-derivative financial liabilities:

December 31, 2019	6 Months or Less	6 Months to 1 Year	Within 1 to 2 Years	2 Years or Above
Accounts payable	$ 126,738	$ -	$ -	$ -
Other payable	189,165	2,356	-	-
Lease liabilities	5,131	5,130	9,661	232,209
Corporate bonds payable	-	-	-	1,000,000
Long-term Loans (Due within One Year or One Business Cycle)	180,136	172,575	296,790	300,536
Guarantee deposits received	-	-	766	122

Non-derivative financial liabilities:

December 31, 2018	6 Months or Less	6 Months to 1 Year	Within 1 to 2 Years	2 Years or Above
Accounts payable	$ 102,143	$ -	$ -	$ -
Other payables	73,652	1,052	-	-
Long-term Loans (Due within One Year or One Business Cycle)	125,449	87,298	106,648	164,438
Guarantee deposits received	-	-	397	119

Derivative financial liabilities：

December 31, 2019	6 Months or Less	6 Months to 1 Year	Within 1 to 2 Years	2 Years or Above
Forward exchange contracts	$ 165	$ -	$ -	$ -
Convertible bonds Call and put options	300	-	-	-

Derivative financial liabilities：

December 31, 2018	6 Months or Less	6 Months to 1 Year	Within 1 to 2 Years	2 Years or Above
Forward exchange contracts	$ 141	$ -	$ -	$ -

(3) Fair value information

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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.

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

(a) The related information of nature of the assets is as follows:

December 31, 2019	Level 1	Level 2	Level 3	Total
Assets				
Recurring fair value measurement				
Financial assets at fair value through profit or loss-current				
Forward exchange contracts	$ -	$ 1,327	$ -	$ 1,327
Liabilities				
Recurring fair value measurement				
Financial liabilities at fair value through profit or loss-current				
Forward exchange contracts	$ -	$ 165	$ -	$ 165
Convertible bonds				
Call and put options	-	-	300	300
	$ -	$ 165	$ 300	$ 465

December 31, 2018	Level 1	Level 2	Level 3	Total
Assets				
Recurring fair value measurement				
Financial assets at fair value through profit or loss-current				
Forward exchange contracts	$ -	$ 130	$ -	$ 130
Liabilities				
Recurring fair value measurement				
Financial liabilities at fair value through profit or loss-current				
Forward exchange contracts	$ -	$ 141	$ -	$ 141

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

I. The fair value of the Company's financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the consolidated balance sheet date.

II. Forward foreign exchange contracts are usually evaluated based on current forward exchange rates.

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

D. The following chart is the movement of Level 3 for the years ended December 31, 2019:

	2019
	Convertible corporate bonds
January 1	$ -
Gains or losses recognized in profits or losses	
Non-operating income and expenses	100
Current issuance	200
December 31	$ 300
Changes in unrealized gains or losses included in profit or loss held in assets and liabilities at the end of the period (Note 1)	$ 100

Note1：Non-operating income and expenses

For the years ended December 31, 2018, there was no transfer into or out from Level 3.

E. For the years ended December 31, 2019 and 2018, there was no transfer into or out from Level 3.

F. The Company engaged an external appraiser to perform the fair value measurements being categorized within Level 3, and the financial unit is in charge of valuation procedures to independently verify the fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently calibrating valuation model, performing back-testing, updating inputs used to the valuation model and making any other necessary adjustments to the fair value.

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

	Fair value at December 31, 2019	Valuation technique	Significant unobservable Input	Range (weighted average)	Relationship of inputs to fair Value
Convertible bonds Call and put options	$ 300	Binomial Model	Risk-free interest rate	0.5147%	The higher the risk-free interest rate, the lower the fair value
			Stock Value	74	The higher the stock price, the higher the fair value
			Volatility	40.76%	The higher the stock price volatility, the higher the fair value

H. The Company has carefully evaluated and selected the evaluation model and evaluation parameters. However, the use of different evaluation models or parameters may result in different evaluation results. For financial assets and financial liabilities classified as third level, if the evaluation parameters change, the impact on the current profit or loss and other comprehensive profits and losses are as follows:

	December 31, 2019					
			Recognized in profit or loss		Recognized as other comprehensive profit or loss	
	Input Value	Change	Favorable change	Unfavorable change	Favorable change	Unfavorable change
Financial liabilities						
Convertible bonds	Risk-free Interest Rate	±20bp	$ 40	($ 30)	$ -	$ -
Call and put options	Stock Value	±10%	80	(110)	-	-
	Volatility	±5%	70	(40)	-	-

December 31, 2018：None.

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

A. Loans to others: None.

B. Provision of endorsements and guarantees to others：None.

C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): None.

D. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): None.

E. Acquisition of the same security with the accumulated cost exceeding $300 million or 20% of the Company’s paid-in capital: None.

F. Sale of the same security with the accumulated cost exceeding $300 million or 20% of the Company’s paid-in capital: None.

G. Purchases or sales of goods from or to related parties reaching $100 million or 20% of paid-in capital or more: None.

H. Receivables from related parties reaching $100 million or 20% of paid-in capital or more: None.

I. Trading in during the reporting periods: The Company signed a forward foreign exchange contract to buy Taiwan dollars to sell US dollars in 2019 with financial institutions. The purpose of this contract is financial hedging. The Company's net loss from engaging in forward foreign exchange contracts in 2019 was approximately $380.

J. Significant inter-company transactions during the reporting periods: Please refer to Table 1.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China): Please refer to Table 2.

(3) Information on investments in Mainland China

None.

14. Segment Information

Not applicable.

Phoenix Silicon International Corporation

Significant inter-company transactions during the reporting periods

Year ended December 31, 2019

Table 1

Expressed in thousands of NTD

(Except as otherwise indicated)

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction: General ledger account		Transaction: Amount	Transaction: Transaction terms	Transaction: Percentage of consolidated total operating revenues or total assets (Note 3)
0	Phoenix Silicon International Corporation	Phoenix Battery Corporation, Ltd.	1	Other receivables	$	834	Receivable terms are 30-90 days after monthly closing	0.02%
0	Phoenix Silicon International Corporation	Phoenix Battery Corporation, Ltd.	1	Receivables		1,071	Payable terms are 30-90 days after monthly closing	0.02%
0	Phoenix Silicon International Corporation	Phoenix Battery Corporation, Ltd.	1	Sales		5,576	At normal transaction prices and terms	0.21%
0	Phoenix Silicon International Corporation	Phoenix Battery Corporation, Ltd.	1	purchasing		54	At normal transaction prices and terms	0.00%
0	Phoenix Silicon International Corporation	Phoenix Battery Corporation, Ltd.	1	Rental income		3,178	At normal transaction prices and terms	0.12%
0	Phoenix Silicon International Corporation	Phoenix Battery Corporation, Ltd.	1	Other income		120	At normal transaction prices and terms	0.00%

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

(1) Parent company is ‘0’.

(2) The subsidiaries are numbered in order starting from ‘1’.

Note 2: Relationship between transaction company and counterparty is classified into the following three categories; fill in the number of category each case belongs to (If transactions between parent company and subsidiaries or between subsidiaries refer to same transaction, it is not required to disclose twice. For example, if the parent company has already disclosed its transaction with a subsidiary, then the subsidiary is not required to disclose the transaction; for transactions between two subsidiaries, if one of the subsidiaries has disclosed the transaction, then the other is not required to disclose the transaction.):

(1) Parent company to subsidiary.

(2) Subsidiary to parent company.

(3) Subsidiary to subsidiary

Note 3: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.

Note 4: The details of important transactions in this table whether should be disclosed is determined by the Company according to the materiality principle.

Phoenix Silicon International Corporation

Information on investees

Year ended December 31, 2019

Table 2

Expressed in thousands of NTD

(Except as otherwise indicated)

Investor	Investee	Location	Main business activities	Initial investment amount: Balance as at December 31,2019	Initial investment amount: Balance as at December 31,2018	Shares held as at December 31, 2019: Number of shares	Shares held as at December 31, 2019: Ownership (%)	Shares held as at December 31, 2019: Book value	Net profit (loss) of the investee for the year ended December 31, 2019.	Investment income (loss) recognised by the Company for the year ended December 31, 2019	Footnote
Phoenix Silicon International Corporation	Phoenix Battery Corporation, Ltd.	Taiwan	Battery Manufacturing	$ 251,000	$ 251,000	25,100,000	71.51	$ 88,728	($ 52,885)	($ 37,758)	

Phoenix Silicon International Corporation
Cash and Cash Equivalent List
December 31, 2019

List (1) Unit: NTD Thousand Dollars

Items	Abstract	Amount
Petty Cash －NTD		$ 80
－Foreign Currency	USD 2,909，Exchange Rate 30.08	88
	YEN 420,000，Exchange Rate 0.27715	116
	RMB 18,528，Exchange Rate 4.321	80
		364
Bank Deposit		
Demand Deposit－NTD		525,914
－Foreign Currency	USD 5,459,468，Exchange Rate 30.08	164,221
	YEN 183,594,174，Exchange Rate 0.27715	50,883
		741,018
Certificate of deposit	Maturity dates from January to March, 2020	1,027,500
		$ 1,768,882

Phoenix Silicon International Corporation
Accounts Receivable List
December 31, 2019

List (2) Unit: NTD Thousand Dollars

Customer name	Abstract	Amount	Footnote
General customers：			
A		$ 110,702	
B		64,338	
C		33,804	
D		17,491	
Others		120,234	None of the balances of each remaining item is greater than 5% of this account balance.
		346,569	Amount of account overdue one year is zero.
Less: Allowance for doubtful accounts		(47)	
		346,522	
Related parties：			
Phoenix Battery Corporation		1,071	
		$ 347,593	

Phoenix Silicon International Corporation
Inventories
December 31, 2019

List (3)   Unit: NTD Thousand Dollars

Item	Abstract	Amount		Footnote
		Cost	Market value	
Raw materials		$ 148,513	$ 146,612	Use net realizable value as market price
Work in process		1,442	1,842	"
Finished goods		19,467	22,274	"
		169,422	$ 170,728	
Less: Allowance for market value decline and obsolete		(34,029)		
		$ 135,393		

Phoenix Silicon International Corporation
List of Investment Changes that Adopts the Equity Method
Year ended December 31, 2019

List (4) Unit: NTD Thousand Dollars

	Balance at January 1, 2019		Additions		Deductions			Balance at December 31, 2019			Market value or net equity value		Valuation basis		
Investee	Shares (in thousands)	Amount	Shares (in thousands)	Amount	Shares (in thousands)	Amount	Investment income (loss)	Shares (in thousands)	Ownership	Amount	Unit	Total		Collateral	Footnote
Phoenix Battery Corporation	25,100	$ 126,486	-	$ -	-	$ -	($ 37,758)	25,100	71.51%	$ 88,728	3.53	$ 88,728	Equity method	None	

Phoenix Silicon International Corporation
Property, Plant, and Equipment Change List
Year ended December 31, 2019

List (5) Unit: NTD Thousand Dollars

Item	Balance at January 1, 2019	Additions	Disposals	Transfers	Balance at December 31, 2019	Collateral
Buildings	$ 1,185,138	$ 156,495	($ 582)	$ 1,897	$ 1,342,948	Collateral for long-term loan.
Machinery	2,095,943	764,464	(6,530)	81,588	2,935,465	"
Transportation equipment	6,396	3,315	-	-	9,711	None
Office equipment	31,665	6,710	(521)	-	37,854	"
Leasehold improvements	538	-	-	-	538	"
Other equipment	42,078	27,042	(1,845)	-	67,275	"
Equipment under Installation and construction in progress	103,582	199,444	-	(87,372)	215,654	Collateral for long-term loan.
	$ 3,465,340	$ 1,157,470	($ 9,478)	($ 3,887)	$ 4,609,445	

Phoenix Silicon International Corporation
Property, Plant, and Equipment Depreciation Change List
Year ended December 31, 2019

List (6)

Unit: NTD Thousand Dollars

Item	Balance at January 1, 2019	Additions	Disposals	Transfers	Balance at December 31, 2019	Footnote
Buildings	$ 408,976	$ 80,859	($ 439)	$ -	$ 489,396	
Machinery	1,563,262	242,881	(6,049)	-	1,800,094	
Transportation equipment	5,547	498	-	-	6,045	
Office equipment	20,935	4,653	(521)	-	25,067	
Leasehold improvements	411	90	-	-	501	
Other equipment	24,001	6,694	(1,371)	-	29,324	
	$ 2,023,132	$ 335,675	($ 8,380)	$ -	$ 2,350,427	

Phoenix Silicon International Corporation

Accounts Payable List

December 31, 2019

List (7) Unit: NTD Thousand Dollars

Vendor name	Abstract	Amount	Footnote
General vendor:			
A		$ 9,368	
B		9,008	
C		8,968	
D		8,743	
E		8,270	
Others		82,381	None of the individual vendor exceeds 5% of this account
		126,738	
Related parties:			
Phoenix Battery Corporation		-	
		$ 126,738	

Phoenix Silicon International Corporation

Revenue List

January 1, 2019 to December 31, 2019

List (8) Unit: NTD Thousand Dollars

Item	Quantity	Amount	Footnote
Net amount of sales revenue			
Silicon wafer	99(thousand pieces)	$ 90,568	
Ion battery	16(thousand sets)	5,576	
		$ 96,144	
Net amount of labor income			
Silicon wafer	3,989(thousand pieces)	$ 2,369,550	
Net amount of operating revenue		$ 2,465,694	

Phoenix Silicon International Corporation
Operating Costs
Year ended December 31, 2019

List (9) Unit: NTD Thousand Dollars

Item	Abstract	Amount
Beginning raw materials		$ 114,410
Add: Purchased during the year		604,419
Less: Ending raw materials		(148,513)
Transfer Expenses		(133,206)
Raw Material Sale Costs		(5,862)
Consumption of raw materials		431,248
Direct labor		267,644
Manufacturing expenses		893,653
Manufacturing Costs		1,592,545
Add: Beginning work in process		1,547
Less: Ending work in process		(1,442)
Transfer Expenses		(13)
Cost of finished goods		1,592,637
Add: Beginning finished goods		16,530
Acquisition of finished goods		-
Less: Ending finished goods		(19,467)
Transfer Expenses		(9,939)
Total cost of goods manufactured		1,579,761
Cost of sale of raw materials		5,862
Loss on market value decline and obsolete		10,648
Scraps Sale Revenues		(434)
Other		(11,515)
Total operating costs		$ 1,584,322

Phoenix Silicon International Corporation
Manufacturing Expenses
Year ended December 31, 2019

List (10) Unit: NTD Thousand Dollars

Item	Abstract	Amount	Footnote
Depreciation expense		$ 318,255	
Wages and salaries		160,735	
Repairs and maintenance expense		93,843	
Utility Expenses		92,626	
Other expenditure		228,194	None of the balances of each remaining item is greater than 5% of this account balance.
		$ 893,653	

Phoenix Silicon International Corporation
Selling Expenses
Year ended December 31, 2019

List (11) Unit: NTD Thousand Dollars

Item	Abstract	Amount	Footnote
Wages and salaries		$ 29,169	
Freight		8,058	
Sample fee		4,878	
Other expenses		6,458	None of the balances of each remaining item is greater than 5% of this account balance.
		$ 48,563	

Phoenix Silicon International Corporation
Administrative Expenses
Year ended December 31, 2019

List (12)

Unit: NTD Thousand Dollars

Item	Abstract	Amount	Footnote
Wages and salaries		$ 112,796	
Depreciation expense		18,634	
Amortisation		12,546	
Other expenses		79,777	None of the balances of each remaining item is greater than 5% of this account balance.
		$ 223,753	

Phoenix Silicon International Corporation
Research And Development Expenses
Year ended December 31, 2019

List (13) Unit: NTD Thousand Dollars

Item	Abstract	Amount	Footnote
Wages and salaries		$ 85,163	
Research expenses		9,475	
Depreciation expense		7,001	
Labour and health insurance fees		6,447	
Other expenses		16,014	None of the balances of each remaining item is greater than 5% of this account balance.
		$ 124,100	

Phoenix Silicon International Corporation
Research And Development Expenses
Year ended December 31, 2019

List (13) Unit: NTD Thousand Dollars

By function / By nature	Years ended December 31, 2019			Years ended December 31, 2018		
	Classified as operating costs	Classified as operating expenses	Total	Classified as operating costs	Classified as operating expenses	Total
Employee benefit expense						
Salaries	$ 377,450	$ 214,749	$ 592,199	$ 290,306	$ 187,242	$ 477,548
Labour and health insurance fees	34,608	15,936	50,544	26,058	13,441	39,499
Pension costs	15,020	8,122	23,142	11,391	7,406	18,797
Directors' remuneration	-	12,379	12,379	-	14,581	14,581
Others	25,900	8,605	34,505	21,334	6,763	28,097
Depreciation	318,255	25,635	343,890	295,871	12,497	308,368
Amortization	1,231	12,572	3,803	1,427	8,619	10,046

Note:

1. As of December 31,2019 and 2018, the Company had 737 and 645 employees, including 9 and 10 directors for the year, respectively.

2. (1) As of December 31,2019 and 2018, the employee benefit expenses were $962 and $888, respectively.

 (2) As of December 31,2019 and 2018, the employee Salaries were $813 and $752, respectively.

 (3) As of December 31, 2019, change of employee Salaries has increased 8.11%, average.