

# Cheng Mei Materials Technology Corporation

(Original name: CHIMEI Materials Technology Corporation)

## 2019 Annual Report

Prepared by Cheng Mei Materials Technology Corporation

Printed on March 27<sup>th</sup>, 2020

The website for reviewing the annual report is:

- (1) Market observation post system appointed by the competent authority:  
<http://mops.twse.com.tw/>
- (2) Our company's website: <http://www.cmmt.com.tw>

**A. Names of company spokesman and deputy spokesman:**

Company spokesman:

Name: Wen-Chin Chen

Position: Vice General Manager and Chief Financial Officer

E-mail: [cmmt\\_ir@cmmt.com.tw](mailto:cmmt_ir@cmmt.com.tw)

Company deputy spokesman:

Name: Hai-Tien Sheng

Position: Senior Director, Administrative Management Department

Tel: (06)5889988

E-mail: [cmmt\\_ir@cmmt.com.tw](mailto:cmmt_ir@cmmt.com.tw)

**B. Address and contact details for headquarters, factory, and branches:**

Headquarters and factory: No. 13, Muzhagang W. Rd., Shanhua Dist., Tainan City 741

Tel: (06)5889988

**C. Stock Transfer Agency:**

Name: Stock Transfer Department, Taishin International Bank

Address: B1, No. 96, Sec. 1, Jianguo N. Rd., Taipei City 10489

Tel: (02)2504-8125

Website: <http://www.taishinbank.com.tw>

**D. Name of certified public accountant, name of the accounting office, address, website, and contact details for the financial report of the latest annual year:**

Name of the accounting office: PwC Taiwan

Names of certified public accountant: Tzu-Meng Liu, Chien-Chih Wu

Address: 12F., No. 395, Sec. 1, Linsen Rd., East Dist., Tainan City

Tel: (06)234-3111

Website: <http://www.pwc.com>

**E. Name of any exchanges where the company's securities are traded offshore, and the method by which to access information on said offshore securities:**

Name of marketable securities: Overseas depository receipt

Singapore Exchange Limited: <http://www.sgx.com>

**F. Company website:**

<http://www.cmmt.com.tw>

## I. 2019 Letter to Shareholders

### A. 2019 operational performance

#### (a) Implementation result of business plan

Benefited from the rapid development of the market in China, the consolidated revenue that Cheng Mei Materials achieved in 2019 is around NT\$14.9 billion; it grows 16.68% compared to the revenue in 2018. Although the revenue continues growing, the business is still at the stage of deficit due to competitive market situation in spite of the gross profit for 2019 maintained positive from the development of panel market against the trend. In addition, the depreciation of RMB caused exchange loss so that it still present deficit after tax.

#### (b) Financial income and expenditure & return on investment analysis

Unit: NT\$1000; %

Item	2019	2018	Rate of change (increase/ decrease) (%)
Business income	14,896,250	12,767,162	16.68
Gross profit (loss)	569,478	561,954	1.34
Business net loss	-450,166	-606,868	25.82
Annual net loss	-760,446	-1,048,146	27.45
Gross margin	3.82	4.40	-13.18
Net operating loss	-3.02	-4.75	-36.42

Unit: NT\$; %

Item		2019	2018
Capital structure analysis	Debts ratio (%)	31.93	47.92
	Long term funds to real estate, plant and equipment (%)	222.52	136.37
Liquidity analysis	Return on total asset (%)	-2.39	-3.22
	Return on total stockholder's equity (%)	-6.37	-7.63
Return on investment analysis	Per-tax income to capital (%)	-11.10	-16.12
	Net loss to sales (%)	-5.10	-8.21
	Earning per share after tax	-1.03	-0.98

#### (c) Production and R&D status

Until the end of 2019, four production lines for 1.5 M front polarizer engineering have been established in Taiwan and one 1.5 M front engineering production line has been established in Kunshan. In addition, another 2.5M production line has been installed for trial production. The future production and main R&D following the development of industrial trend is as below:

1. The average dimension for TV continues expanding, and production ratio for large size continue increasing.
2. Developing products with high temperature resistance, low moisture permeability, high contrast, and high transmittance to continue strengthening product competitiveness.
3. Enhancing machine speed, strengthening process capability and de-bottlenecking production capacity, continuing maximum production capacity in the existing production lines, reducing production cost, and providing customers choices of high price-performance ratio products.
4. Speeding up the development of thin-down polarizer in order to respond to the trend of light mobile phone. Continuing developing polarizer market for OLED purpose to reflect the change on the trend for medium and small size market in the future.
5. Continuing developing high weather resistant vehicle-mounted products to conform to the tightened specification on vehicle products.

Cheng Mei Materials focuses on market development and proposes solutions responding to future market trend in order to strengthen technical connection with customers and suppliers

as well as the depth and breadth of products.

## **B. Future layout**

### **(a) Business policy and production & marketing plan**

Through machine speed enhancement and production capacity debottlenecking in 2019, the production capacity in Cheng Mei Materials, Taiwan, continues growing. Therefore, the target for the first half year in 2020 still focuses on new customer development to achieve economies of scale. In addition, through the effectiveness after production capacity enhancement, the ratio of products with high value (OLED, vehicle-mounted) is increased in order to advance the profit-earning performance.

### **(b) Future development strategy**

The trend of industrial development in the future is as below:

The shipment amount for automotive products resume the trend of growth along with the improving car market. The shipment ratio for size more than 10 inches is increasing, and the increase of area will be more than that of shipment amount. 3C (TV, desktop monitor, mobile PC) belongs to plateau-period product, and the shipment amount start to bog down. The global demand for mobile phone declined between 2017 and 2019, maintains the same in 2020, and will resume growth in 2021 due to phone change for 5G.

The growth of OLED mobile is faster, and it will occupy more than half of mobile panel market share. Due to the limitation of production capacity limitation, OLED TV will not be able to replace LCD substantially. The sales and development strategy for Cheng Mei Materials in 2020 will focus on the following main direction:

1. Enlarging the sales of mobile phone that is with demand recovery.
2. Promoting the existing products of TV, monitor, and notebook to new customers to continue expanding customer base.
3. Stabilizing current PMOLED customer sales and delivering samples to AMOLED customer in China to catch the trend of production capacity growth on customers in China in 2021.
4. Passing IATF 16949 certification (global automotive industrial quality management system) in 2019 to start developing automotive product market and enlarge the sales ratio of vehicle-mounted products.

### **(c) External market competition, legal regulations, and macroeconomy**

In the second half year of 2019, the overall demand for polarizer was declining due to the inventory adjustment of panel. According to the prediction done by HIS, the demand at Q2 in 2020 starts growing again. In terms of the supply of polarizer, part of the production capacity for polarizer will be reduced due to market demand and the poor macroeconomy. The gap between supply and demand will be slightly reduced due to the delayed production or reduced production. The supply and demand for polarizer will be balanced in 2020.

Currently, China is the biggest supplier for panel all over the world, and it is the market that Cheng Mei Materials emphasizes a lot. The environment for macroeconomy all over the world will vary a lot due to China-USA trade war in 2019 and COVID-19 at Q1 in 2020. Cheng Mei Materials will steadily plan our business policy in the future.

President                      Chao-Yang Ho  
General Manager              Chao-Yang Ho  
Accounting Manager          Wei-Chung Lien  
Date: March 18<sup>th</sup>, 2020

## II. Company introduction

A. Date of establishment: May 17<sup>th</sup>, 2005

B. Company history:

May, 2005	Established CHIMEI Materials Technology Corporation with paid-in capital NT\$350,000,000. It is a re-investment company by CHIMEI Group.
June, 2005	Produced the first piece of Pilot polarizer film.
November, 2005	Internal presentation of original film for polarizer with equivalent optical quality specification in the market.
November, 2005	Cash capital increase of NT\$ 650,000,000 (modified registration approved by Ministry of Economic Affairs; 11/28/2005); the total paid-in capital was increased to NT\$ 1,000,000,000.
February, 2006	Established Ningbo CHIMEI Materials Technology Corporation (2/6/2006) with paid-in capital US\$ 13,000,000. It is 100% re-investment company by CHIMEI Materials Technology Company.
June, 2006	Cash capital increase of NT\$ 1,500,000, 000 (modified registration approved by Ministry of Economic Affairs; 7/7/2006); the total paid-in capital was increased to NT\$ 2,500,000,000.
October, 2006	Completed the construction of Taiwan Plant 1 and obtained use permit (10/30/2006).
March, 2007	Mass production on the first front engineering production line in Taiwan.
April, 2007	Obtained ISO9001 : 2000 quality certification.
	Obtained QC080000 : 2005 green product management system certification.
May, 2007	Mass production on the second front engineering production line in Taiwan.
October, 2007	Capital reduction of NT\$ 1,000,000,000 and cash capital increase of NT\$ 800,000,000 (modified registration approved by Ministry of Economic Affairs; 11/19/2007); the total paid-in capital was increased to NT\$ 2,300,000,000.
December, 2007	The revenue of the month achieved NT\$ 600 million in Taiwan and reached break even.
December, 2007	Mass production on the first rear engineering production line in Ningbo, China.
	Obtained ISO 14001 Environment management System Certificate, 2004 version, in Taiwan.
January, 2008	Obtained OHSAS 18001 Occupational Safety and Health Management System Certificate, 1999 version, in Taiwan.
March, 2008	CHIMEI Materials started piling construction for Polarizer Plant 2 in Taiwan.
April, 2008	Machine installation for the second rear engineering production line in Ningbo, China.
May, 2008	Cash capital increase of NT\$ 550,000,000 (modified registration approved by Ministry of Economic Affairs; 6/12/2008); the total paid-in capital was increased to NT\$ 2,850,000,000.
July, 2008	Mass production on the second rear engineering production line in Ningbo, China.
March, 2009	Obtained OHSAS 18001 Occupational Safety and Health Management System Certificate, 2007 version, in Taiwan.

October, 2009	Passed ISO9001 : 2008 quality certification in Taiwan.
November, 2009	Cash capital increase of NT\$ 1,000,000,000 (modified registration approved by Ministry of Economic Affairs; 12/17/2009); the total paid-in capital was increased to NT\$ 3,850,000,000.
November, 2009	Installed machine for the third front engineering production line in Taiwan.
December, 2009	Trial production on the third front engineering production line in Taiwan.
January, 2010	Completed the construction of Plant 2 in Taiwan, and obtained use permit (1/26/2010).
February, 2010	Mass production on the third front engineering production line in Taiwan.
July, 2010	Applied for public offering.
August, 2010	Emerging stock trading entry.
September, 2010	Established CHIMEI Visual Technology Corporation (9/10/2010) with paid-in capital of NT\$ 25,500,000. It is a 100% re-investment company by CHIMEI Materials Technology Corporation.
December, 2010	Installed machine on the fourth front engineering production line in Taiwan.
April, 2011	Mass production on the fourth front engineering production line in Taiwan. Public listing in Taiwan Stock Exchange.
October, 2011	Cash capital increase of NT\$ 235,200,000 (modified registration approved by Ministry of Economic Affairs; 11/4/2011); the total paid-in capital was increased to NT\$ 4,431,700,000.
August, 2012	Cash capital increase of NT\$ 480,000,000 (modified registration approved by Ministry of Economic Affairs; 9/17/2012); the total paid-in capital was increased to NT\$ 4,911,700,000.
February, 2014	Board of Directors approved the establishment of polarizer front and rear engineering plant in Kunshan City, China.
March, 2014	Entered plant establishment agreement with the joint venture in Kunshan.
March, 2014	Established CHIMEI Materials Technology Investment Corporation (3/7/2014) with paid-in capital of US\$5,000. It is a 100% re-investment company by CHIMEI Materials Technology Corporation.
April, 2014	Established Kunshan CHIMEI Materials Trading Corporation (4/14/2014) with paid-in capital of US\$360,000. It is a 100% re-investment company by CHIMEI Materials Technology Corporation.
May, 2014	Established Kunshan CHIMEI Materials Technology Corporation (5/13/2014) with paid-in capital of US\$73,500,000. It is a 100% re-investment company by CHIMEI Materials Technology Corporation. Note: The total capital of the investment of Kunshan CHIMEI Materials Technology Corporation is US\$ 150,000,000. Our company held 49% equity and the investment amount was US\$ 73,500,000. By December 31 <sup>st</sup> , 2014, the paid-in capital of Kunshan CHIMEI Materials Technology Corporation was US\$ 73,500,000, and it was invested by our company. Currently, the indirect shareholding ratio of our company is 100%.

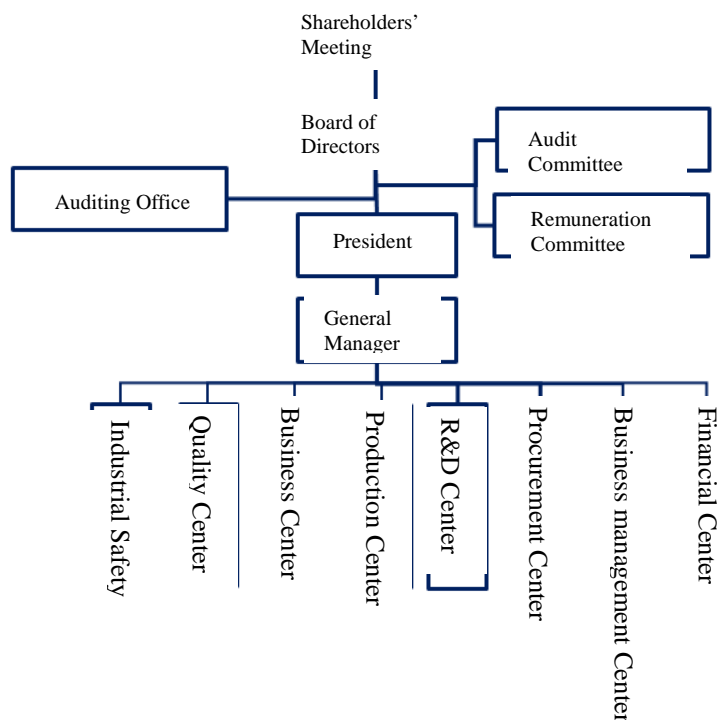
August, 2014	New shares issuing through capital increase by retained earnings (modified registration approved by Ministry of Economic Affairs; 9/3/2014) and increase capital of NT\$ 245,585,000. The paid-in capital was increased to NT\$ 5,157,285,000.
October, 2015	Signed investment agreement. Changed the joint venture for investment in Kunshan CHIMEI Materials Technology Corporation to Hangzhou Jinjiang Group holding 46% shares and Zhejiang Renyuan Import & Export Co., Ltd. holding 5% shares.
March, 2017	Our company participated in the project of issuing global depositary receipt through new share issuance by cash capital increase. It was declared, approved, and effective through Tai Yang Wei Wu Zi Di No. 10600092680 Letter issued by Department of Foreign Exchange, Central Bank, on March 8 <sup>th</sup> , 2017 and Chin Guan Cheng Fa Zi Di No. 1060008354 Letter issued by Financial Supervisory Commission on March 30 <sup>th</sup> , 2017.
September, 2017	Our company made an official establishment for the participation in issuing global depositary receipt through new share issuance by cash capital increase in Singapore Exchange Limited on September 15 <sup>th</sup> , 2017.
November, 2017	Our company entered polarizer technology licensing collaboration program with Nitto Denko Corporation. Kunshan CHIMEI was entitled to three production line with 2,500mm width. The total amount was JPY 7.5 billion.
July, 2018	Our company formally renamed as Cheng Mei Materials Technology Corporation.
January, 2019	Vice President, Mei-Li Yeh, dismissed the duty of original President, Chao-Yang Ho's illegally, and it caused the dispute of management right in our company. According to the execution decree from Taiwan Taipei District Court on February 14 <sup>th</sup> , 2019, Chao-Yang Ho shall continue the duty as President in the company.
April, 2019	Independent Direct, Wei-Ting Liu, called for 2019 provisional shareholders' meeting to re-elect directors and independent directors in the company, and the elected directors selected Chao-Yang Ho to continue the duty of President. Due to the certified accountant for 2018 (after restatement) financial reports issued the audit report of "no reserved opinion and continue managing relevant significant uncertainty section and other events section", our company listed securities as altered trading method.
July, 2019	Our company applied for claims and liabilities negotiation to the creditor banks, and it was approved and passed by all creditor banks.
October, 2019	Subsidiary, Kunshan CHIMEI Materials Technology Corporation, increased cash capital of RMB 200 million by original shareholder, Zhejiang Renyuan Import & Export Co., Ltd.. The shareholding ratio from CHIMEI Materials Technology Investment Corporation (100% re-investment company by our company) was reduced to 45.15%.
December, 2018	Subsidiary, Kunshan CHIMEI Materials Technology Corporation, increased

cash capital of US\$ 57 million to introduce new investor, Hefei Beicheng No. 2 Electro-Optical Industry Investment Partnership Enterprise (limited partnership). The shareholding ratio of CHIMEI Materials Technology Investment Corporation of our subsidiary (100% re-investment company by our company) was reduced to 38.4%. Kunshan CHIMEI Materials Technology Corporation changed from an important subsidiary to the re-investment company.

### III. Corporate governance report

#### A. Organizational system:

##### (a) Organizational structure:



##### (b) Business content at each department:

Date: March 27<sup>th</sup>, 2020

Department	Main Business Duty
Auditing Office	Coordinating the unfolding of auditing work.
Industrial Safety	Coordinating the promotion of industrial safety management.
Quality Center	Coordinating the promotion of quality system and quality engineering.
Business Center	Coordinating business development of product sales and market customer management.
Production Center	Coordinating the development of front and rear production technology. Coordinating the development of equipment technology/ optical equipment. Coordinating the development of plant affairs (water, electricity, and air-conditioning). Coordinating the promotion of production management, logistic management, IE, and warehousing.
R&D Center	Coordinating the development of R&D technology.
Procurement Center	Coordinating the business development of procurement and supplier management.
Business management Center	Coordinating the development of human resource, administrative, information, and business management.
Financial Center	Coordinating the development of finance and accounting.

B. Directors (including independent directors), General Manager, Vice General Manager, Associate Manager, and managers at each department and branch:

( a ) Information of professional expertise and whether they are independent on the company's Directors (including independent directors) as well as the institutional shareholder's main shareholders and directors (including independent directors):

1. Information of Directors (including Independent Directors):

Date of suspension of share transfer: March 2<sup>nd</sup>, 2020; Unit: Share

Position	Nationality or place of registration	Name	Gender	Date on which current position was assumed	Term of contract (year (s))	The commencement date of the first term	Shares held through nominees		Shares held now		Shares held by their spouse and children of minor age		Shares held in other people's name		Main experience and academic qualification	Position(s) held concurrently in the company and/or in any other company	Other managers, directors or independent directors with are with the relationship of spouse or relative within the second degree of kinship			Note
							Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio			Position	Name	Relationship	
President	R.O.C.	Chao-Yang Ho	Male	04/26/2019 (note 1)	3	11/25/ 2011	5,720,906	0.86%	5,610,906	0.84%	109,548	0.02%	0	0%	Bachelor, Department of Chemical Engineering, National Cheng Kung University General Manager, CHIMEI Corporation Vice President, CHIMEI Optoelectronics Corporation	(1)President, CHIMEI Visual Technology Corporation (2)President, Kunshan CHIMEI Materials Technology Corporation (3) Executive Director, Ningbo Cheng Mei Materials Technology Corporation (4)General Manager, Cheng Mei Materials Technology Corporation	Senior Director	Yu-Lin Ho	Father and son	Our company carried out re-election of Board of Directors in April, 2019. After new Board of Directors dismissed General Manager, Chun-Hsiung Chen, the position of General Manager is temporarily served concurrently by President. The responding measure is as below: Our company has been worked hard looking for suitable candidate to take over the duty of General Manager. If both positions of President and General Manager are still served by the same person by December 31st, 2023, the establishment of independent

																				directors of no less than 4 people will be carried out.
Vice President	R.O.C.	Mei-Li Yeh	Female	06/22/2018 (note 2)	2	06/22/2018	0	0%	0	0%	0	0%	0	0%	PhD candidate, Guanghua School of Management, Peking University President, Concord Securities Co., Ltd. Founder, Polaris Financial Group	-	-	-	-	
Executive Director	R.O.C.	Chun-Hsiung Chen	Male	06/21/2017 (note 2)	3	06/20/2016	0	0%	0	0%	0	0%	0	0%	Master, Department of Chemical Engineering, Yuan Ze University Special Assistant to General Manager, Koatech Technology Corporation Executive Assistant to CEO, Ching-Wei Opto-Electronics Co., Ltd.	(1)General Manager, Wei-Feng Technology Corporation, Taiwan Branch (2)Director, Beijing Sales International Limited	-	-	-	
Director	R.O.C.	Chi-Pan Liang	Male	06/21/2017 (not 2)	3	06/20/2016	0	0%	0	0%	0	0%	0	0%	Master, Department of Computer Science, University of Massachusetts Manager, Human Resource Department, Data Systems Consulting Co., Ltd.	Director, Rui-Chin Technology Consulting Co., Ltd.	-	-	-	
Institutional Director	R.O.C.	Innolux Corporation	-	04/26/2019 (note 1 and 3)	3	04/26/2019	57,211,305	8.6%	57,211,305	8.59%	-	-	-	-	-	-	-	-	-	
		Hung-Wen Yang	Male			04/26/2019	0	0%	0	0%	0	0%	0	0%	0	0%	Plant Manager, AU Optronics Corporation Plant Manager, Unipac Optoelectronics Corporation	Vice General Manager, Innolux Corporation	-	-
Institutional Director	R.O.C.	Innolux Corporation	-	04/26/2019 (note 3)	3	04/26/2019	57,211,305	8.6%	57,211,305	8.59%	-	-	-	-	-	-	-	-	-	
		Chao-Hsien Liu	Male			06/26/2019	0	0%	0	0%	0	0%	0	0%	0	0%	Master, Institute of Economics, National Sun Yat-Sen University	Director, Investment and Investors Relationship Division, Innolux Corporation	-	-
Institutional Director	R.O.C.	Jiou-Sheng Opto-Electronics Co., Ltd (Original name: Ba Yang Opto-Electronics Co., Ltd.)	-	04/26/2019 (note 1 and 3)	3	04/26/2019	1,000	0%	1,000	0%	-	-	-	-	-	-	-	-	-	
		Representatives : Lai-Huang Lo	Male			06/21/2017 (note 1 and 3)	0	0%	50,000	0.01%	0	0%	0	0%	MSc Business Management, University of Manchester Operating General Manager, Anderson Industrial Corporation Vice General Manager and Chief Financial Officer, E-Ton Solar Tech Co., Ltd.	Director, Kun CHIMEI Materials Technology Corporation	-	-	-	
Institutional Director	U.S.A	Jiou-Sheng Opto-Electronics Co., Ltd (Original name: Ba Yang Opto-Electronics Co., Ltd.)	-	04/26/2019 (note 3)	3	04/26/2019	1,000	0%	1,000	0%	-	-	-	-	-	-	-	-	-	
		Representative: Wei-Ping Yeh	Male			09/30/2019	0	0%	0	0%	0	0%	0	0%	0	0%	Double majors in Anthropology and Mathematics, University of Minnesota	-	-	-

															General Manager, Mobile Product Business Division, Solomon Systech General Manager, Marketing Department, China Star Optoelectronics Technology Co., Ltd. Associate Manager, Hewlett-Packard Company USA Headquarters IT Product Marketing and Technical Support Division, Innolux Corporation					
Institutional Director	R.O.C.	Jiou-Sheng Opto-Electronics Co., Ltd (Original name: Ba Yang Opto-Electronics Co., Ltd.)	-	04/26/2019 (note 1)	3	04/26/2019	1,000	0%	1,000	0%	-	-	-	-	-	-	-	-	-	-
		Wei-Lum Lu	Male			04/26/2019	0	0%	0	0%	0	0%	0	0%	0	0%	-	-	-	-
Independent Director	R.O.C.	Shih-Chuan Tsai	Male	06/22/2018 (note 2)	2	06/22/2018	0	0%	0	0%	0	0%	0	0%	Vice General Manager, Taiwan Futures Exchange	(1)Professor, Graduate Institute of Management, National Taiwan Normal University	-	-	-	-
Independent Director	R.O.C.	Wei-Ting Liu	Male	04/26/2019 (note 1)	3	02/08/2017	0	0%	0	0%	0	0%	0	0%	Bachelor, Graduate Institute of Law, National Chung Cheng University PhD Candidate, China University of Political Science and Law Special Examination for Judges and Prosecutors- level four Clerk, Taiwan Shihlin District Court	(1)Supervisor, TOA-JET Chemical Co., Ltd. (2)Director, TaipeiLaw Attorneys-at-law (3) Arbitrator, Chinese Arbitration Association (4)Agent, Patent and Trademark (5)Host Lawyer/Director, TaipeiLaw Attorneys-at-law	-	-	-	-
Independent Director	R.O.C.	Yen-Sung Chen	Male	04/26/2019 (note 1)	3	04/26/2019	0	0%	0	0%	0	0%	0	0%	Master, Wharton School of the University of Pennsylvania (1)Chief Financial Officer, Fubon Financial Holding Co., Ltd. (2)Chief Financial Officer, China Development Financial Holding Corporation (3)Chief Financial Officer, E Ink Holdings Inc. (4)Chief Financial Officer, CHIMEI Optoelectronics Corporation (Innolux Corporation) (5)Executive Director, Morgan	(1)Director and General Manager, KHL Capital	-	-	-	-

															Stanley (6)Chief Financial Officer, CHIMEI Optoelectronics Corporation				
Independent Director	R.O. C.	Kuo-Shih Huang	Male	04/26/2019 (note 1)	3	04/26/ 2019	0	0%	0	0%	0	0%	0	0%	Master, Department of Accounting, National Taiwan University (1)Partner, PricewaterhouseCoopers (2)Partner, Baker Tilly Clock & Co.	(1)Partnership Accountant, Kang Chu Joint Certified Public Accountants	-	-	-

Note:

1. Our company adopted the resolution of re-election of Board of Directors at the provisional shareholders' meeting on April 26<sup>th</sup>, 2019, and Mr. Chao-Yang Ho was elected as President. The representative of Innolux Corporation- Mr. Hung-Wen Yang, the representative of Ba Yang Opto-Electronics- Mr. Lai-Huang Lo, and the representative of Ba Yang Opto-Electronics- Mr. Hsiao-Ken Chuang resigned on the same day, April 26<sup>th</sup>, 2019. Ba Yang Opto-Electronics re-appointed Mr. Wei-Lun Lu and Mr. Wei-Ting Liu, Mr. Yen-Sung Chen, and Mr. Kuo-Shih Huang were elected as independent directors. Ba Yang Opto-Electronics Co., Ltd. was officially renamed as Jiou-Sheng Opto-Electronics Co., Ltd on May 8<sup>th</sup>, 2019. Independent Director, Yen-Sung Chen, resigned on March 17<sup>th</sup>, 2020.
2. Independent Director- Mr. Shih-Chuan Tsai, Executive Director- Mr. Chun-Hsiung Chen, Vice President- Ms. Mei-Li Yeh, and Director- Mr. Chi-Pan Liang were dismissed after re-election of Board of Directors at the provisional shareholders' meeting on April 26<sup>th</sup>, 2019.
3. Innolux Corporation re-appointed Chao-Hsien Liu as the representative on June 26<sup>th</sup>, 2019, and original representative, Mr. Hung-Wen Yang was dismissed. Jiou-Sheng Opto-Electronics Co., Ltd re-appointed Wei-Ping Yeh as the representative on September 30<sup>th</sup>, 2019, and original representative, Mr. Lai-Huang Lo, was dismissed.

( b ) Information of General Manager, Vice General Manager, Associate Manager, and Manager at each department and branch:

Date of suspension of share transfer: March 2<sup>nd</sup>, 2020; Unit: Share

Position	Nationality	Name	Gender	Date on which current position was assumed	Shares held 份		Shares held by their spouse and children of minor age		Shares held in other people's name		Main experience and academic qualification	Position(s) held concurrently in the company and/or in any other company	Manager with relationship of spouse or relative within the second degree of kinship			Status of managerial officers who have obtained employee stock warrants	Note
					Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio			Position	Name	Relationship		
President and General Manager	R.O.C.	Chao-Yang Ho (note 3)	Male	4/26/2019	5,610,906	0.84%	109,548	0.02%	0	0%	Bachelor, Department of Chemical Engineering, National Cheng Kung University General Manager, CHIMEI Corporation Vice President, CHIMEI Optoelectronics Corporation	(1)President, CHIMEI Visual Technology Corporation (2)President, Kunshan CHIMEI Materials Technology Corporation (3) Executive Director, Ningbo Cheng Mei Materials Technology Corporation (4)General Manager, Cheng Mei Materials Technology Corporation	Senior Director	Yu-Lin Ho	Father and son	Senior Director	Our company carried out re-election of Board of Directors in April, 2019. After new Board of Directors dismissed General Manager, Chun-Hsiung Chen, the position of General Manager is temporarily served concurrently by President. The responding measure is as below: Our company has been worked hard looking for suitable candidate to take over the duty of General Manager. If both positions of President and General Manager are still served by the same person by December 31st, 2023, the establishment of independent directors of no less than 4 people will be carried out.
Vice President	R.O.C.	Mei-Li Yeh (note2)	Female	6/22/2018	0	0%	0	0%	0	0%	PhD candidate, Guanghua School of Management, Peking University President, Concord Securities Co., Ltd. Founder, Polaris Financial Group	-	None	None	None	None	
General Manager	R.O.C.	Chun-Hsiung Chen (note 3)	Male	10/6/2018	0	0%	0	0%	0	0%	Master, Department of Chemical Engineering, Yuan Ze University Special Assistant to General Manager, Koatech Technology Corporation Executive Assistant to CEO, Ching-Wei Opto-Electronics Co., Ltd.	(1)General Manager, Wei-Feng Technology Corporation, Taiwan Branch (2)Director, Beijing Sales International Limited	None	None	None	None	
Executive Vice General Manager and Accounting Supervisor	R.O.C.	Wei-Chung Lien (note 1 and 5)	Male	3/19/2018	550,000	0.08%	0	0%	0	0%	Bachelor, Department of Business Administration, National Central University Chief Financial Officer, ELTA Technology Vice General Manager of Finance, Admiral Overseas Corporation Vice General Manager of Accounting, Cheng Uei Precision Industry Co., Ltd.	(1)Supervisor, Kunshan CHIMEI Materials Technology Corporation (2)Supervisor, Ningbo Cheng Mei Materials Technology Corporation (3)Supervisor, CHIMEI Visual Technology Corporation	None	None	None	None	

Vice General Manager	R.O.C.	Chien-Chih Wang	Male	11/2/2017	82,456	0.01%	1,000	0%	0	0%	Bachelor, Department of Chemical Engineering, National Taiwan Institute of Technology Senior Special Assistant, CHIMEI Corporation	(1)Director, CHIMEI Visual Technology Corporation	None	None	None	None
Vice General Manager and Chief Financial Officer	R.O.C.	Wen-Chin Chen (note 1)	Male	7/12/2019	0	0%	0	0%	0	0%	Graduate School of Accounting, National Cheng Kung University General Manager, Codent International Corporation Chief Investment Officer, Coretronic Corporation Director, E Ink Holdings Incorporated Associate Manager, Chi Hsin Optoelectronics Corporation Vice General Manager, Chi Li Opto-Electronics Co., Ltd.	(1)President, Codent International Corporation	None	None	None	None
Associate Manager	R.O.C.	Wang-Yang Li (note 1)	Male	8/10/2016	29,420	0.00%	0	0%	0	0%	PhD, Graduate School of Photonics, National Chiao-Tung University Director, Chimei Innolux Corporation	(1)General Manager, CHIMEI Visual Technology Corporation (2)Associate Professor, College of Photonics/ Institute of Imaging and Biomedical Photonics, National Chiao-Tung University (3)Associate Professor, Institute of Photonics, National Cheng Kung University	None	None	None	None
Associate Manager	R.O.C.	Hsiang-Ju Chen (note 4)	Female	11/6/2018	0	0%	0	0%	0	0%	Director, China Beiken Capital Co., Ltd.	-	None	None	None	None
Associate Manager	R.O.C.	Yu-Li Hung (note 1)	Male	7/12/2019	0	0%	3,300	0.00%	0	0%	Department of Industrial Engineering and Management, Kaohsiung Polytechnic Institute Production Director, Cheng Mei Materials Technology Corporation Manager of Department of Manufacturing, BenQ Materials Corp. Manager of Department of Manufacturing, Taiwan Crystal Superior Technology Co., Ltd. Business Director of Vietnam Branch, Gallant Ocean International Inc.	-	None	None	None	None
Accounting Supervisor	R.O.C.	Shih-En Hsu (note 1 and 5)	Female	7/12/2019	0	0%	0	0%	0	0%	Manger of Department of Accounting, Cheng Mei Materials Technology Corporation Section Chief at Finance Section, Science Park Logistics Co., Ltd. Project Assistant Manager, Innolux Corporation	-	None	None	None	None

Note:

1. The resolution by Board of Directors on July 12<sup>th</sup>, 2019 included:

(1).Appointed Mr. Wen-Chin Chen as Financial Supervisor and Vice General Manager of Financial Center as well as the spokesman; Mr. Shih-En Hsu as Accounting Supervisor.

(2).Original Financial and Accounting Manager and spokesman, Mr. Wei-Chung Lien, was promoted to take the post of Executive Vice General Manager for Business Management Center and Procurement Center due to the company's organizational management and business demand.

(3).Original Associate Manager at R&D Center, Mr. Wang-Yang Li, was dismissed from the duty of associate manager in our company due to organizational management and business demand and focused on the position of General Manager at the subsidiary, CHIMEI Visual Technology Corporation.

(4).Original Production Director, Mr. Yu-Li Hung, was promoted to the position of Associate Manager at Production Center.

2. Vice President, Ms. Mei-Li Yeh, was dismissed after re-election of Board of Directors on April 26<sup>th</sup>, 2019.
3. Board of Directors approved the dismissal of Mr. Chun-Hsiung Chen's duty as General Manager on April 26<sup>th</sup>, 2019 and passed the resolution for Mr. Chao-Yang Ho to take the position of General Manager.
4. Board of Directors approved the dismissal of Ms. Hsiang-Ju Chen's duty as Associate Manager of Administration Management on April 26<sup>th</sup>, 2019.
5. Ms. Shih-En Hsu resigned the position of Accounting Supervisor on February 20<sup>th</sup>, 2020; Board of Directors approved the solution of assigning Executive Vice General Manager, Wei-Chung Lien as Accounting Supervisor on March 18<sup>th</sup>, 2020.

**C. Remuneration paid during the most recent fiscal year to Directors (including Independent Directors), General manager, and Vice General Manager:**

(a) Remuneration paid to Directors (Independent Directors), General Manager, and Vice General Manager:

1. Directors' remuneration (including Independent Director):

Position	Name	Directors' remuneration								Ratio of total sum of A, B, C, and D in net loss after tax (note 10)		Relevant remuneration collected by part-time employees								Ratio of total sum of A, B, C, D, E, F, and G in net loss after tax (note 10)		Whether the reward of re-investment business outside the subsidiary is collected (note 11)		
		Remuneration (A) (note 2)		Discharged pension (B)		Directors' reward (C) (note 3)		Business execution cost (D) (note 4)				Salary, bonus, and special allowance (E) (Note 5)		Discharged pension (F)		Employees' reward (G) (note 6)								
		Our company	All the other companies included in the financial report (note 7)	Our company	All the other companies included in the financial report (note 7)	Our company	All the other companies included in the financial report (note 7)	Our company	All the other companies included in the financial report (note 7)	Our company	All the other companies included in the financial report (note 7)	Our company	All the other companies included in the financial report (note 7)	Our company	All the other companies included in the financial report (note 7)	Cash	Stock	Cash	Stock	Our company	All the other companies included in the financial report (note 7)			
President	Chao-Yang Ho (note 12)	606	878	0	0	0	0	466	952	-0.16%	-0.26%	5,778	6,077	0	0	0	0	0	0	0	0	-0.99%	-1.13%	No
Vice President	Mei-Li Yeh (note 12)	116	116	0	0	0	0	124	124	-0.03%	-0.03%	2,060	2,060	44	44	0	0	0	0	0	0	-0.34%	-0.34%	No
Executive Director	Chun-Hsiung Chen (note 13)	116	116	0	0	0	0	97	101	-0.03%	-0.03%	1,798	1,985	0	0	0	0	0	0	0	0	-0.29%	-0.32%	No
Director	Chi-Pan Liang (note 13)	116	116	0	0	0	0	15	15	-0.02%	-0.02%	215	215	0	0	0	0	0	0	0	0	-0.05%	-0.05%	No
Institutional Director	Innolux Corporation (note 12)	490	490	0	0	0	0	30	30	0.00%	0.00%	0	0	0	0	0	0	0	0	0	0	-0.08%	-0.07%	No
	Hung-Wen Yang (note 12)	0	0	0	0	0	0	0	0	-0.14%	-0.14%	0	0	0	0	0	0	0	0	0	0	0.00%	0.00%	No
Institutional Director	Innolux Corporation (note 12)	490	490	0	0	0	0	30	30	0.00%	0.00%	0	0	0	0	0	0	0	0	0	0	-0.08%	-0.07%	No
	Chao-Hsien Liu	0	0	0	0	0	0	0	0	-0.08%	-0.28%	0	0	0	0	0	0	0	0	0	0	0.00%	0.00%	No

	(note 14)																					
Institutional Director	Jiou-Sheng Opto-Electronics Co., Ltd (Original name: Ba Yang Opto-Electronics Co., Ltd.) (note 12)	980	980	0	0	0	0	0	0	-0.14%	-0.14%	0	0	0	0	0	0	0	0	-0.14%	-0.14%	No
	Representative: Lai-Huang Lo (note 12 and 14)	0	68	0	0	0	0	580	1,856	-0.08%	-0.07%	374	6,039	0	0	0	0	0	0	-0.14%	-1.14%	No
Institutional Director	Jiou-Sheng Opto-Electronics Co., Ltd (Original name: Ba Yang Opto-Electronics Co., Ltd.) (note 12)	980	980	0	0	0	0	0	0	-0.14%	-0.14%	0	0	0	0	0	0	0	0	-0.14%	-0.14%	No
	Representative: Wei-Ping Yeh (note 14)	0	0	0	0	0	0	0	0	0.00%	0.00%	0	0	0	0	0	0	0	0	0.00%	0.00%	No
Institutional Director	Jiou-Sheng Opto-Electronics Co., Ltd (Original name: Ba Yang Opto-Electronics Co., Ltd.) (note 12)	980	980	0	0	0	0	0	0	-0.14%	-0.14%	0	0	0	0	0	0	0	0	-0.14%	-0.14%	No
	Wei-Lun Lu (note 12)	0	0	0	0	0	0	45	45	-0.01%	-0.01%	0	0	0	0	0	0	0	0	0.00%	0.00%	No
Independent Director	Shih-Chuan Tsai (note 13)	337	337	0	0	0	0	61	61	-0.06%	0.00%	0	0	0	0	0	0	0	0	0.00%	0.00%	No
Independent Director	Wei-Ting Liu (note 12)	1,431	1,431	0	0	0	0	102	102	-0.22%	-0.22%	0	0	0	0	0	0	0	0	-0.22%	-0.22%	No

Independent Director	Yen-Sung Chen (note 12)	980	980	0	0	0	0	74	74	-0.15%	-0.15%	0	0	0	0	0	0	0	0	-0.15%	-0.15%	No
Independent Director	Kuo-Shih Huang (note 12)	980	980	0	0	0	0	61	61	-0.15%	-0.15%	0	0	0	0	0	0	0	0	-0.15%	-0.15%	No

\*Other than the disclosure above, the reward collected by the directors from all the services (such as taking the post as the advisor for non-employee) provided to the company during the most recent fiscal year: None.

2. Class interval table for directors' remuneration (including independent directors)

Date: December 31<sup>st</sup>, 2019/

	Name of Director			
	Sum of top four remuneration (A+B+C+D)		Sum of top seven remuneration (A+B+C+D+E+F+G)	
	Our company (note 8)	All the other companies included in the financial report (note 9) H	Our company (note 8)	All the other companies included in the financial report (note 9) I
Less than \$1,000,000	Mei-Li Yeh, Chun-Hsiung Chen, Chi-Pan Liang, Hung-Wen Yang, Chao-Hsien Liu, Lai-Huang Lo, Wei-Ping Yeh, Wei-Lun Lu, and Shih-Chuan Tsai	Mei-Li Yeh, Chun-Hsiung Chen, Chi-Pan Liang, Hung-Wen Yang, Chao-Hsien Liu, Wei-Lun Lu, Shih-Chuan Tsai, and Wei-Ping Yeh	Chi-Pan Liang, Hung-Wen Yang, Chao-Hsien Liu, Lai-Huang Lo, Wei-Ping Yeh, Wei-Lun Lu, and Shih-Chuan Tsai	Chi-Pan Liang, Hung-Wen Yang, Chao-Hsien Liu, Wei-Ping Yeh, Wei-Lun Lu, and Shih-Chuan Tsai
\$1,000,000 (included) ~ \$2,000,000 (excluded)	Chao-Yang Ho, Yen-Ting Liu, Yen-Sung Chen, and Kuo-Shih Huang	Chao-Yang Ho, Lai-Huang Lo, Wei-Tine Liu, Yen-Sung Chen, and Kuo-Shih Huang	Wei-Ting Liu, Yen-Sung Chen, and Kuo-Shih Huang	Wei-Ting Liu, Yen-Sung Chen, and Kuo-Shih Huang
\$2,000,000 (included) ~ \$3,500,000 (excluded)	No	No	Mei-Li Yeh and Chun Hsiung Chen	Mei-Li Yeh and Chun Hsiung Chen
\$3,500,000 (included) ~ \$5,000,000 (excluded)	No	No	No	No
\$5,000,000 (included) ~ \$10,000,000 (excluded)	No	No	Chao-Yang Ho	Chao-Yang Ho and Lai-Huang Lo
\$10,000,000 (included) ~ \$15,000,000 (excluded)	No	No	No	No
\$15,000,000 (included) ~ \$30,000,000 (excluded)	No	No	No	No
\$30,000,000 (included) ~ \$50,000,000 (excluded)	No	No	No	No
\$50,000,000 (included) ~ \$100,000,000 (excluded)	No	No	No	No
More than \$100,000,000	No	No	No	No
Total amount	13	13	13	13

Note 1: Names of Directors' shall be listed separately (both name of institutional shareholder and its representative shall be listed separately if it is an institutional shareholder) as well as general directors and independent directors shall be listed separately. The final paid among should be disclosed in the method of sum.

Note 2: It refers to the remuneration of Directors' in the most recently fiscal year (including Directors' salary, allowance, severance pay, various bonuses, and reward).

Note 3: It refers to the amount of Directors' remuneration distributed in the most recent fiscal year that is approved by Board of Directors.

Note 4: It refers to the relevant business execution fee that Directors spent in the most recent fiscal year (including transportation fee, special allowance, various subsidies, accommodation, and vehicle supply). If housing, vehicle, and other transportation or exclusive personal expense are provided, the nature and cost of the property provided, actual rent or rent calculated according to the fair market fair, fuel expense, and other payment should be disclosed. If a driver is supplied additionally, please remark the relevant salary that the company pays to the driver but it shall not be added into remuneration.

Note 5: It refers to the actual supply, like salary, allowance, severance pay, various bonuses, rewards, transportation fee, special allowance, various subsidies, accommodation, and vehicle supply) to the employee concurrently taking the position of director in the most recently fiscal year (including concurrent position of General Manager, Vice General Manager, other managers, and employees). If housing, vehicle, and other transportation or exclusive personal expense are provided, the nature and cost of the property provided, actual rent or rent calculated according to the fair market fair, fuel expense, and other payment should be disclosed. If a driver is supplied additionally, please remark the relevant salary that the company pays to the driver but it shall not be added into remuneration. In addition, salary should be listed according to IFRS 2 “shareholding base pay”, including obtaining employee stock option certificate, restricted stock awards, and participation in equity subscription by cash capital increase, and they should be regarded as remuneration.

Note 6: It refers to employee remuneration (including stock and cash) received by the employee concurrently as director in the most recent fiscal year (including concurrent position as General Manager, other managers and employees), and the amount of employee reward distribution approved by the Board of Directors in the most recent fiscal year should be disclosed. If it is not able to be predicted, the distribution amount for this year should be calculated according to actual ratio of the distribution amount last year, and attached table 1-3 should be completed.

Note 7: The total amount of various remuneration to our company’s directors by all the companies listed in the consolidated report (including our company) should be disclosed.

Note 8: The total amount of remuneration that our company paid to each director should be disclosed the name of the director in the class interval related.

Note 9: The total amount of remuneration paid to our company’s directors by all the companies listed in the consolidated report (including our company) should be disclosed the name of the director in the class interval related.

Note 10: Net profit after tax means the net income in the individual or separate financial report during the most recent fiscal year.

Note 11: a. This column should be clearly filled in with relevant remuneration amount that the company’s directors received from non-subsiary re-investment enterprise or from the parent company (if none, please fill in “no”). b. If the company’s directors received relevant remuneration from non-subsiary re-investment enterprise or the parent company, the remuneration received from non-subsiary re-investment enterprise or the parent company by the company’s directors should be added to column I in the remuneration class interval table, and the name of the column should be changed to “parent company and all the re-investment enterprises”. c. Remuneration means the reward and re-compensation that our company’s directors act as the directors, supervisors, or managers in non-subsiary re-investment enterprise or directors, supervisors, or managers in the parent company (including the salary for employees, directors and supervisors) as well as relevant re-compensation of business execution fee.

Note 12: Our company approved re-election at provisional shareholders’ meeting on April 26<sup>th</sup>, 2019. Mr. Chao-Yang Ho, the representative of Innolux Corporation- Mr. Hung-Wen Yang, and the representative of Ba Yang Opto-Electronics Co., Ltd- Mr. Lai-Huang Lo were elected as directors. The representative of Ba Yang Opto-Electronics Co., Ltd., Mr. Hsiao-Ken Chuang, resigned on the same day of April 26<sup>th</sup>, 2019, and Ba Yang Opto-Electronics Co., Ltd re-appointed Mr. Wei-Lun Lu. Mr. Wei-Ting Liu, Mr. Yeng-Sung Chen, and Mr. Kuo-Shih Huang were elected as independent directors. Ba Yang Opto-Electronics Co., Ltd. was officially renamed as Jiou Sheng Opto-Electronics Co., Ltd. on May 8<sup>th</sup>, 2019, and the independent director Yen-Sung Chen resigned on March 17<sup>th</sup>, 2020.

Note 13: Independent Director Mr. Shih-Chuang Tsai, Executive Director Mr. Chun-Hsiung Chen, Vice President Ms. Mei-Li Yeh, and Director Mr. Chi-Pan Liang were dismissed after the re-election of Board of Director at the provisional shareholders’ meeting on April 26<sup>th</sup>, 2019.

Note 14: Innolux Corporation re-appointed Chao-Hsien Liu as the representative on June 26<sup>th</sup>, 2019, and original representative Mr. Hung-Wen Yang was dismissed. Jiou Sheng Opto-Electronics Co., Ltd. re-appointed Wei-Ping Yeh as the representative on September 30<sup>th</sup>, 2019, and original representative Mr. Lai-Huang Lo was dismissed.

蟻The concept used for the content of remuneration disclosed in the table is different from the concept of income tax. The purpose of the table is used for information disclosure but not for tax declaration.

#### 4. Remuneration for General Manager and Vice General Manager:

Date: December 30<sup>th</sup>, 2019; Unit: NT\$ 1000

Position	Name	Salary (A) ( note 2 )		Discharged pension (B)		Bonus and special allowance (C) (note 3)		Amount of employees’ remuneration (D) (note 4)				Ration of total amount of A, B, C, and D in the net loss after tax (%) (note 8)		Remuneration from non-subsiary re-investment enterprises (note 9)
		Our company	All the companies in the financial report (note 5)	Our company	All the companies in the financial report (note 5)	Our company	All the companies in the financial report (note 5)	Our company		All the companies in the financial report (note 5)		Our company	All the companies in the financial report (note 5)	
								Cash	Stock	Cash	Stock			

President and General Manager	Chao-Yang Ho	12,136	17,851	261	261	0	435	0	0	0	0	-1.80%	-2.66%	No
General Manager	Chun-Hsiung Chen (note 11)													
Deputy General Manager	Lai-Huang Lo													
Vice General Manager	Chien-Chih Wang													
Vice General Manager	Wei-Chung Lien													
Vice General Manager	Wen-Chin Chen													

**Table of class interval for the remuneration to General Manager and Vice General Manager**

Date: December 31<sup>st</sup>, 2019

Remuneration class interval paid to General Manager and Vice General Manager in the company	Name of General Manager and Vice General Manager	
	Our company (note 6)	All the companies in the financial report (note 7) E
Less than \$ 1,000,000	Lai-Huang Lo	No
\$ 1,000,000 (included) ~ \$ 2,000,000 (excluded)	Wen-Chin Chen, Chun-Hsiung Chen	Wen-Chin Chen, Chun-Hsiung Chen
\$ 2,000,000 (included) ~ \$ 5,000,000 (excluded)	Chao-Yang Ho, Chien-Chih Wang, Wei-Chung Lien	Chao-Yang Ho, Chien-Chih Wang, Wei-Chung Lien, Lai-Huang Lo
\$ 5,000,000(included) ~ \$ 10,000,000 (excluded)	No	No
\$ 10,000,000 (included) ~ \$ 15,000,000 (excluded)	No	No
\$ 15,000,000 (included) ~ \$ 30,000,000 (excluded)	No	No
\$ 30,000,000 (included) ~ \$ 50,000,000 (excluded)	No	No
\$ 50,000,000 (included) ~ \$ 100,000,000 (excluded)	No	No
More than \$100,000,000	No	No
Total	6	6

Note 1: The names of General Manager and Vice General Manager should be listed separately and various payment amounts should be disclosed in the total sum.

Note 2: It should list salary, allowance, and severance pay to General Manager and Vice General Manager in the most recent fiscal year.

Note 3: It should list actual supply, like various bonuses, reward, transportation fee, special allowance, various subsidies, accommodation, and vehicle supply, and other remuneration provided to General Manager and Vice General Manager in the most recent fiscal year. If housing, vehicle and other transportation tools or exclusive personal allowance are provided, the nature and cost of the property provided, actual rent or rent

calculated according to fair market price, fuel expense, and other pay should be disclosed. If a driver is provided, please remark the relevant remuneration the company paid to the driver, but it will not be included into reward. In addition, salary should be listed according to IFRS 2 “shareholding base pay”, including obtaining employee stock option certificate, restricted stock awards, and participation in equity subscription by cash capital increase, and they should be regarded as remuneration.

Note 4: It should list the total amount of employee remuneration (including cash and stock) distributed to General Manager and Vice General that is approved by Board of Directors in the most recent fiscal year. If it is not able to be predicted, the distribution amount this year should be calculated according to the actual distribution ratio from last year, and attached table 1-3 should be completed.

Note 5: Total amount of all remuneration paid to our company’s General Manager and Vice General Manager by all the companies in the consolidated report (including our company) should be disclosed.

Note 6: Total amount of remuneration paid to General Manager and Vice General Manager by our company should be disclosed the name of General Manager and Vice General Manger in the class interval related.

Note 7: Total amount of remuneration paid to General Manager and Vice General Manager by all the companies listed in the consolidate report (including our company) should be disclosed the name of General Manager and Vice General Manger in the class interval related.

Note 8: Net profit after tax means the net income in the individual or separate financial report in the most recently fiscal year.

Note 9: a. This column should be clearly listed the relevant remuneration that the General Manager and Vice General Manager of our company received from non-subsiary re-investment enterprise or from the parent company (if none, please fill in “no”).

b. If the company’s General Manager and Vice General Manger received relevant remuneration from non-subsiary re-investment enterprise or from the parent company, the remuneration received by the General Manager and the Vice General Manager from non-subsiary re-investment enterprise or the parent company should be included to column E in remuneration class interval table and the name of the column should be changed to “parent company and all re-investment enterprises”. c. Remuneration means the reward and re-compensation that our company’s General Manager and Vice General Manager act as the directors, supervisors, or managers in non-subsiary re-investment enterprise or directors, supervisors, or managers in the parent company (including the salary for employees, directors and supervisors) as well as relevant re-compensation of business execution fee.

Note 10: The annual settlement of the company is declaration of individual net loss after tax: \$ 688,558,502.

Note 11: Chun-Hsiung Chen was dismissed from the duty of General Manager on April 26<sup>th</sup>, 2019 due to company organizational management and business demand.

(b) The analysis of ratio of total remuneration amount paid by our company and all the companies listed in the consolidated report to the Directors (including Independent Directors), General Manager, and Vice General Manager in the most recent two years in net profit after tax as well as the explanation on the policy of re-compensation pay, standard and combination, the procedure of re-compensation setting up, and the relevance with business performance and future risk:

1. The Independent Director in our company is paid according to the standard of “Director Salary and Remuneration Payment Standard” revised and approved by the Board of Directors on December 24<sup>th</sup>, 2013.

The increased ratio of the total remuneration paid to Directors by our company in the most recently two fiscal years (2018~2019) is as below:

Due to fiscal year 2018 and 2019 presented net loss after tax, no remuneration to Directors, bonus to employees, and surplus distribution was made. Therefore, it is not applicable.

The policy of remuneration payment in our company follows actual annual profit in our company and the ratio specified in the Articles of Incorporation to distribute Directors’ remuneration and employees’ bonus. Considering the duty, responsibility, performance, and contribution to the business in the company that General Manager and the Vice General Manager perform as well as the reference to the standard in the same industry, the reward given is in different level and the policy used for reward is reasonable.

2. Policy, standard, and combination used for remuneration paid to our company’s Directors, General Manager and Vice General Manager as well as the level of reward setting up and its relevance with business performance:

The remuneration that our company pays to the Directors in the company follows the regulation in Articles of Incorporation. It is paid according to the level of business participation and value of contribution as well as the reference from the payment in the same industry. When there is net profit after annual settlement in the company, the Board of Directors will propose surplus distribution program including reward to Directors with reference to the industrial environment and fund demand in the company after compensating loss, listing legal reserve or special reserve, allocating preferred stock interest, and allocating employees’ bonus. It should be approved by Shareholders’ meeting before issuing. The net loss for fiscal 2019 is NT\$ 688,558,502, and the Audit Committee and Board of Directors passed the resolution on March 18<sup>th</sup>, 2020 that no Directors’ reward, employees’ bonus, and surplus distribution will be issued, and it will be submitted to General Shareholders’ Meeting for approval.

The remuneration to General Manager and Vice General Manager includes salary, reward, special allowance, employee bonus, employee stock option certificate, and new restricted employee shares. It is established with the consideration of the job nature of the position, responsibility and duty, the responsibility undertaken as well as the reference to the same position in the industry.

3. Relevance with future risk:

In response to the evaluation of future change in economic environment as well as the business

performance, completion rate, and contribution level that the business team fulfills, the remuneration policy in our company includes future risk into the evaluation standard.

D. Status of corporation governance:

(a) Operational status of Board of Directors and Shareholders' Meeting:

1. The state of operations of the Board of Directors

(1) Provisional Shareholders' Meeting held re-election of Board of Directors on April 26<sup>th</sup>, 2019, and the term of directors started from April 26<sup>th</sup> 2019 and will end on April 25<sup>th</sup>, 2022.

(2) From 2019 to the printing date in 2020, there were 22 Board of Directors' meetings (A: 20 meetings in 2019 and 2 meetings in 2020 before printing date):

Other matters that require reporting:

1.. If there is any situation involved with the operation of the Board of Directors, it should be clearly specified date of Board of Director's meeting, number of session, content of topic, opinions from all the independent directors, and the handling from the company toward the opinions from the independent directors.

( 1 ) Matters listed on Article 14-3, Securities and Exchange Act: There were 22 meetings in 2019 and before the printing date of annual report in in 2020, and the content of resolution was stated between page 44 and page 48 in the annual report. No independent director had objection towards the matters listed on Article 14-3, Securities and Exchange Act, and it was approved as the resolution.

( 2 ) Other than above matters, other resolution by Board of Directors that was rejected or reserved opinions by independent directors and being recorded or with written statement: Please refer to page 44 to page 48 in the annual report.

2. In the implementation of the evasion of the resolution on the interests of the directors, the names of the directors, the contents of the proposals, the reasons for interest avoidance, and the participation in voting should be stated.

Date	Name of director	Content of proposal	Reasons for interest avoidance	Voting participation
1/30/2019 The 6 <sup>th</sup> , session 17	Independent Directors, Shih-Chuan Yeh and Wei-Ting Liu	Provisional motion: Adjustment for independent director's remuneration in our company	Independent directors, Shih-Chuan Yeh and Wei-Ting Yeh, are the beneficiary of the notion. According to Company Act Article 178, they should temporarily leave the meeting for interest avoidance.	No participation
4/26/2019 The 7 <sup>th</sup> , session 1	President, Chao-Yang Ho	Proposal 1: Selection of President.	President Chao-Yang Ho is the stakeholder of the case and shall fulfill interest avoidance by temporarily leaving the meeting.	No participation
5/13/2019 The 7 <sup>th</sup> , session 3	Independent Directors, Wei-Ting Liu, Yen-Sung Chen, and Kuo-Shih Huang	Proposal 2: The 5 <sup>th</sup> Remuneration Committee members	Independent directors, Wei-Ting Liu, Yen-Sung Chen, Kuo-Shih Huang, are the beneficiary of the case. They should temporarily leave the meeting for interest avoidance.	No participation
8/2/2019 The 7 <sup>th</sup> , session 5	President, Chao-Yang Ho	Proposal 4: Approval of internal personnel salary adjustment.	President Chao-Yang Ho is the stakeholder of the case and shall fulfill interest avoidance by temporarily leaving the meeting.	No participation

3. Goal of strengthening the function of the Board of Directors in the current annual year and most recent fiscal year (such as setting audit committee and enhancing information transparency) and the evaluation of execution.

(1).In order to closely fit the spirit of corporate governance, our company established the Audit Committee on October 8<sup>th</sup>, 2010 to exercise the duty specified by Securities and Exchange Act, Company Act, and other legal regulation. Please refer to the page 25 in the annual report for the state of operation of Audit Committee.

(2).Our company established Remuneration Committee on April 26<sup>th</sup>, 2011 to assist the Board of Director regularly evaluate and set up salary and remuneration for directors and managers as well as regularly review the policy, system, standard, and structure of salary and remuneration for directors and managers. Please refer to the page 33 in the annual report for the state of operation of Remuneration Committee.

(3).Our company re-elected directors at the provisional shareholders' meeting on April 26<sup>th</sup>, 2019. Seven directors were elected

(including three independent directors) in order to enhance Board of Directors' function and corporate governance.

(4).Members of the Board of Directors should select courses covering finance, risk management, business, commerce, law, accounting, and corporate social responsibility related to corporate governance outside their professional knowledge every year or courses related to internal control system and responsibility of financial report in order to enhance members' knowledge and implementation towards corporate governance. Self-evaluation should be conducted by the members of the Board of Directors' for the further study and annual performance. Please refer to the page 31 to page 33 in the annual report.

## 2. Execution of the Board of Directors assessment

Assessment cycle	Assessment period	Assessment scope	Assessment method	Content
Once every year	Assessment and self-evaluation towards the performance of the Board of Directors' and the directors' from January 1 <sup>st</sup> 2019 to December 31 <sup>st</sup> 2019.	Performance assessment on the Board of Directors, individual director, and functional committee.	Internal evaluation done by the Board of Director, and self-evaluation done by the members.	(1)Content of the Board of Director assessment: It includes the participation level towards company operation, quality of decision-making done by the Board of Directors, and composition and structure of the Board of Directors, election of directors and continuous education or training, and internal control. (2)Content of assessment on individual director: It includes the control towards company goal and mission, the recognition towards director's duty, participation level towards company operation, internal relationship management and communication, director's professionalism and continuous training, internal control. (3) Performance assessment on functional committee: It includes participation level towards company operation, recognition of duty of functional committee, decision-making quality done by the functional committee, composition and member election of functional committee.

In compliance with the regulations of corporate governance core operation from Securities and Futures Institute, our company completes self-evaluation report for corporate governance regularly every year. Our company completed "Self-Evaluation by the Board of Directors or Peer Evaluation" in January 2020, and reported deficiency and improvement at the meeting of Board of Directors on March 18<sup>th</sup>, 2020.

## 2. State of operation of shareholders' meeting

Two shareholders' meetings were held in 2019 and before the printing date of the report on March 27<sup>th</sup> 2020: The first meeting of provisional shareholders' meeting was held on April 26<sup>th</sup> 2019 and the Shareholders' Assembly on June 28<sup>th</sup> 2019.

(1) The first provisional shareholders' meeting on April 26<sup>th</sup> 2019

① Directors' attendance:

Position	Name	Number of actual attendance	Remark
President	Chao-Yang Ho	1	The first provisional shareholders' meeting on April 26th 2019
Director	Mei-Li Yeh	0	
Director	Chun-Hsiung Chen	0	
Director	Chi-Pan Liang	0	
Independent Director	Shih-Chuan Tsai	0	
Independent Director	Wei-Ting Liu	1	

② Excerpt of declared proposal and the resolution of important proposals at the first provisional shareholders' meeting in 2019:

No.	Proposal	Excerpt of resolution result for important proposal		
1	Re-election of the directors			
	Position	Name in Chinese	Name in English	Weighting votes
	Director	Chao-Yang Ho	Jau-Yang, Ho	378,607,141
	Representative of Ba Yang Opto-Electronics Co., Ltd Director ( note 1 )	Lai-Huang Lo	Lai-Huang Li	371,516,814
	Representative of Ba Yang Opto-Electronics Co., Ltd Director (note 1 and 2 )	Hsiao-Ken Chuang	Hsiao-Ken Chuang	370,064,405
	Representative of Innolux Corporation Director	Hung-Wen Yang	Hong-Wen, Yang	296,841,497
	Independent Director	Wei-Ting Liu	Wei-Ting, Liu	368,063,135
	Independent Director	Yen-Sung Chen	Yen-Song, Chen	351,328,668
	Independent Director	Kuo-Shih Huang	Guo-Shin, Huang	301,193,511
2	Restricted proposal of dismissing new-appointed directors and their representatives' non-compete competition	● Proposal was approved after voting		
		Approval votes: 417,287,585		
		Disapproval votes: 748,851		
		Invalid votes: 0		
		Abstention votes/no votes): 8,317,951		
		Total votes by attended shareholders: 426,354,351		

Note 1: Ba Yang Opto-Electronics Co., Ltd. was officially renamed as Jiou Sheng Opto-Electronics Co., Ltd. on May 8<sup>th</sup> 2019.

Note 2: The representative of Ba Yang Opto-Electronics Co., Ltd. resigned on April 26<sup>th</sup> due to personal consideration, and Mr. Wei-Lun Lu was appointed as the representative.

(2) Shareholders' Assembly on June 28<sup>th</sup> 2019:

① Directors' attendance:

Position	Name	Number of actual attendance	Remark
President	Chao-Yang Ho	1	Shareholders' Assembly on June 28th 2019
Director	Hung-Wen Yang	0	
Director	Lai0Huang Lo	1	
Director	Wei-Lun Lu	1	
Independent Director	Wei-Ting Liu	1	
Independent Director	Yen-Sung Chen	0	
Independent Director	Kuo-Shih Huang	1	

② Excerpt of declared proposal and the resolution of important proposals at Shareholders' Assembly on June 28th 2019:

No.	Proposal	Excerpt of resolution result for important proposal
1	Dealing with common stock issuing through public fund or private fund or issuing new shares to participate in overseas depository receipt, or issuing overseas or domestic convertible bond (including secured and unsecured convertible bond)	●Proposal was approved after voting
		Approval votes: 428,225,847
		Disapproval votes: 21,221,713
		Invalid votes: 0
		Abstention votes/no votes: 19,125,225
		Total votes by the attended shareholders: 468,572,785
2	Revising "Article of Incorporation"	●Proposal was approved after voting
		Approval votes: 448,064,903
		Disapproval votes: 1,382,666
		Invalid votes: 0
		Abstention votes/no votes: 19,125,216
		Total votes by the attended shareholders: 468,572,785
3	Revising "Operational procedure for loan"	●Proposal was approved after voting
		Approval votes: 447,744,782
		Disapproval votes: 1,702,786
		Invalid votes: 0
		Abstention votes/no votes: 19,125,217
		Total votes by the attended shareholders: 468,572,785
4	Revising "Operational procedure for endorsement/guarantee"	●Proposal was approved after voting
		Approval votes: 447,743,717
		Disapproval votes: 1,702,851
		Invalid votes: 0
		Abstention votes/no votes: 19,126,217
		Total votes by the attended shareholders: 468,572,785
5	Dismissing restriction on director's non-compete competition	●Proposal was approved after voting
		Approval votes: 447,966,658
		Disapproval votes: 1,459,993
		Invalid votes: 0
		Abstention votes/no votes: 19,146,134
		Total votes by the attended shareholders: 468,572,785

(3) Resolution of "2018 surplus distribution execution" at 2019 Shareholders' meeting: The

resolution was no distribution, and therefore, it was not applicable.

(b) State of operation of Audit Committee:

1. There are two members in the Audit Committee in our company.

2. The term of the committee member:

The original term for the 4<sup>th</sup> Audit Committee in our company is from June 21<sup>st</sup> 2017 to June 20<sup>th</sup> 2020. Due to the re-election of directors on April 26<sup>th</sup> 2019, the term of the original member of the Audit Committee was terminated on an early date of April 26<sup>th</sup> 2019.

The term of the 5<sup>th</sup> Audit Committee in the company is from April 26<sup>th</sup> 2019 to April 25<sup>th</sup> 2022.

3. There were 23 meetings at Audit Committee in the most recent fiscal year (A: 21 meetings in 2019 and 2 meeting in 2020 before the report printing date). The attendance of the independent director's was as below:

Note:

1. Our company made a resolution of director re-election at provisional shareholders' meeting on April 26<sup>th</sup> 2019, and Mr. Wei-Ting Liu (renewed), Mr. Yen-Sung Chen (new), and Mr. Keo-Shih Huang (new) were elected as Independent Director. Independent Director, Yen-Sung Chen, resigned on March 17<sup>th</sup> 2020.
2. Independent Director, Mr. Shih-Chuan Tsai, was newly appointed on July 31<sup>st</sup> 2018 and was dismissed on April 26<sup>th</sup> 2019 after the re-election at the provisional shareholders' meeting.

4. State of supervisor participating in the operation of the Board of Directors: Not applicable. Audit Committee was established in the company on October 8<sup>th</sup> 2010.

(7). Number of employees in 2019 and expense for employee welfare:

Until December 31<sup>st</sup> 2019 and by March 27<sup>th</sup> 2020, the number of employees in our company was 1,130 people and 1,122 people respectively.

Year 2019

Unit: NT\$ 1000

Item	Operating cost	Business expense	Total
Expense of employee welfare			
Salary and wage	563,150	122,476	685,627
Labor and health insurance	60,757	11,239	71,996
Pension	29,455	6,128	35,583
Others	56,593	11,855	68,448
Director's reward	-	6,685	6,685
Total	709,955	153,384	868,339
Depreciation expense	365,453	15,818	381,271
Amortized expense	3,024	10,961	13,985

2. Employee welfare and its implementation: Company trip is provided regularly every year and various health seminars are held irregularly for employees. Our company started to implement employee stock ownership trust program in 2019 to allow our employees investing our company's stock in long term as well as manage and exercise trust property for the interests of the employees participating the program in order to achieve the accumulation of employees' wealth and secure future life. Our company also holds further education and training for internal employees every year irregularly. Our company's regular internal employee education and training:

(1) The implementation of education and training in 2019:

Type of training	Total class (class)	Number of people attended (people)	Total hours (hour)
Various professional courses and others	149	2,620	428
Safety and health	52	301	127
Legal education	0	0	0
Management skill	4	6	50
Total	205	2,927	605

(2) Retirement system and its implementation:

① (Voluntary retirement) Any employee in our company can apply for retirement if he/ she meets one of the following situations:

- ① Who has been worked for more than 15 years and is at least 55 years old.
- ② Who has worked for more than 25 years.

② (Mandatory retirement) The company must not force any employee to retire unless he/she meets any of the following situations:

- ① Who has more than 65 years old.

② Who is in the state of insanity or is disabled and is not competent for work.

In terms of the work description involving with danger or requiring good physical strength, the specified age on the subparagraph 1 has been submitted to the competent authority by our company for adjustment. However, it must not be less than 55 years old.

③ (Age for retirement) The recognition of the age for employee's retirement shall be based on the record in the household registration.

④ (Pension payment and its calculation method) The pension should be paid and calculated as below:

i. Individual labor pension account:

\*Monthly pension payment: The principal and accrued dividends from an employee's individual labor pension account are to be paid in fixed installments. The amount of each installment shall be calculated based upon the Terms Life Chart of Annuity, average life expectancy, interest rate and other factors.

\*Lump-sum payment upon retirement: The principal and accrued dividends from an employee's individual labor pension account are to be claimed in a lump sum at one time.

ii. Annuity insurance: The amount of payment will be based on the insurance contract.

⑤ (Retirement application) Employees entitled to voluntary retirement must submit the application in person and it should be submitted to General Manager for approval. If it is mandatory retirement, Human Resource Department will inform the employee pending to retire through his/her manager. The employee should handle proper resignation procedure and job handing-over according to the relevant regulations before the effective date of retirement.

※Implementation status: The implementation based on Labor Standards Act and Labor Pension Act in our company is carried out well.

3. Investor relations: Our company holds Shareholders' Meeting according to Company Act and relevant legal regulations, provides shareholders sufficient opportunities to ask questions and propose as well as establishes spokesman system to deal with suggestions from shareholders, doubt and dispute. Our company also carries out information publication and declaration according to the regulations from the competent authority in order to provide information that might affect decision made by investors timely.

4. Supply relations: In terms of communication with suppliers, our company has established "Operating procedure for purchasing management" as well as "Employee code of conduct" for the employees in our company. We build up long-term close relationship with our suppliers based on the principle of win-win with the expectation of mutual trust and mutual benefit to pursue sustainable development together.

5. Stakeholders' rights: Our company maintains open and smooth communication channel with banks, employees, customers, and suppliers. We respect and protect their legal rights and interests and we set up spokesman and deputy spokesman to reply questions from investors in order to provide high transparent financial information to our investors and stakeholders. In addition, our company has established "Employee code of conduct" to ask the employees in our company dealing with

stakeholders in an appropriate method.

We also set up stakeholder zone on our website ([www.cmmt.com.tw](http://www.cmmt.com.tw)) with clear information of contact details: Spokesman: Mr. Wen-Chin Chen and Deputy Spokesman: Hai-Tien Sheng, tel (06-5889988), and email ([cmmt\\_ir@cmmt.com.tw](mailto:cmmt_ir@cmmt.com.tw)) in order to provide contact and communication channel.

6.State of further education and training:

(1).Directors' and independent directors' training: Since December, 2010, the new-appointed directors and independent directors in our company must participate in 12-hour training course of "Practical seminar for directors and independent directors" held by "Securities and Futures Institute" according to legal regulations. Training based on legal regulations will be carried out subsequently every year. In 2019, we have participated in the course held by "Securities and Futures Institute". Our company will continue arranging proper training courses for directors and independent directors irregularly in the future.

7.Personel related to disclosure and financial information transparency:

Accounting Supervisor for 2019:

Accounting Supervisor Shih-En Hsu (initial appointment): completed 18-hour "Accounting Supervisor Continuing Training".

8.Risk management policy and execution of risk evaluation standard:

Our company has established internal control system, internal auditing system, self-evaluation procedure, and relevant management methods or operating procedures as the accordance of risk control and standard of risk evaluation for each department in our company and auditing unit when implementing above business operation.

9.Implementation of customer protection or customer policy:

For the comprehensive service and protection to customers and clients, our company always carried out instant communication to customers in terms of their complaints to understand customers' demand in order to enhance the interaction between the company and the customers. It will be regularly discussed for improvement at production and marketing meeting as well as at quality meeting.

10.The status of liability insurance that our company takes out for directors and independent directors:

Since 2011, our company has continued taking out liability insurance for directors and independent directors every year and the information will be published at Market Observation Post System. It has been submitted to the Board of Directors for report at the meeting on March 18<sup>th</sup> 2020.

11.Communication among independent directors, internal auditing manager, and accountants:

(1)"Auditing report key point summary" is prepared every month and sent to audit committee member along with the copy of auditing report for them to review.

(2)If audit committee members have any doubt and instruction after reviewing the auditing report,

they will call the audit manager to check or inform for further handling.

- (3) Each auditing report must be followed up the improvement for the internal deficiency and abnormality after three months. The follow-up result should be produced into a report and submit to the audit committee members.
- (4) Internal auditing manager should attend Audit Committee Meeting to report the auditing business according to the regulations.
- (5) The communication channels between the internal auditing manager and the Audit Committee in our company is multiple layers and smooth.
- (6) The certified public accountant for our company will report the audit results of the financial reports of the year during the Audit Committee meeting and Board of Directors meeting which are held for reviewing annual financial reports as well as other communications based on relevant legal requirements. The members in our Audit Committee in our company carry very smooth communication with the certified public accountants.
- (7) In summary, independent directors are able to understand the operational status of the company (including financial status) through the Board of Directors, Audit Committee, and regular auditing report by auditors. They can also carry out good communication with the accountants through various reports and channels (such as telephone and e-mail).

12. If there is any self-evaluation report about corporate governance or assessment report done by the entrusted professional institution, it should clearly remark self-evaluation (or outsourcing assessment) result, main deficiency (or suggestions), and improvement status: Our company completed “Board of Directors Self-Evaluation or Peer Assessment” in January 2020, and the status of deficiency and improvement was reported at the meeting of the Board of Directors on March 18<sup>th</sup> 2020.

(d) The composition, duty, and state of operation of the Remuneration Committee:

1. Our company established Remuneration Committee on April 26<sup>th</sup> 2011 according to Article 2, “Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Taiwan Stock Exchange or the Taipei Exchange” and its duty is to fulfill corporate governance, solid supervision functions, and strengthen management mechanism.

2. The chairman of the 5th Remuneration Committee in our company is the independent director, Mr. Wei-Ting Liu.

3. Information on the members in Remuneration Committee is as below:

Date: March 27<sup>th</sup>, 2020

Identity type (note 1)	Qualification	Meeting one of the following professional qualification requirements, together with at least five years' work experience	Compliance with the independence (note 2)	Number of concurrence	Remark (note 3)
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	Name	An instructor or higher in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the company in a public or private junior college, college, or university	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialist who has passed a national examination and been awarded a certificate in a profession necessary for the business of the company	Have work experience in the area of commerce, law, finance, or accounting, or otherwise necessary for the business of the company	1	2	3	4	5	6	7	8	9	10	nt works at the remuneration committee in other public offering companies
Independent Director	Shih-Chuan Tsai (note 4)	V		V	V	V	V	V	V	V	V	V	V	V	0
Independent Director	Wei-Ting Liu (note 5)	V	V	V	V	V	V	V	V	V	V	V	V	V	0
Independent Director	Yen-Sung Chen (note 5)			V	V	V	V	V	V	V	V	V	V	V	0
Independent Director	Kuo-Shih Huang (note 5)		V	V	V	V	V	V	V	V	V	V	V	V	3

Meeting the regulations of Article 6-5 "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Taiwan Stock Exchange or the Taipei Exchange"

Note 1: Please fill in the identity type as Director, Independent Director or others.

Note 2: If each member meets following condition two years before the appointment and during the post, please check the column indicating the code below on above table.

- (1) Not an employee of the company or any of its affiliates.
- (2) Not a director or supervisor of the company or any of its affiliates.
- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate of one percent or more of the total number of issued shares of the company or ranking in the top 10 in holdings.
- (4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of a managerial officer under subparagraph 1 or any of the persons in the preceding two subparagraphs.
- (5) Not a director (including independent director), supervisor, or employee of a corporate shareholder that directly holds five percent or more of the total number of issued shares of the company, or that ranks among the top five in shareholdings
- (6) Not A director, supervisor, officer, or shareholder holding five percent or more of the shares, of a specified company or institution that has a financial or business relationship with the company.
- (7) Not the business owner, partner, director, independent director (supervisor), or manager of a professional person, single proprietorship, joint venture, company or institution that provides commerce, legal affairs, accounting services or consultation to the company or its affiliates or spouse of any above.
- (8) No involvement with any of the situations specified in Article 30, Company Act.

(9) No a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides auditing services to the company or any affiliate of the company, or that provides commercial, legal, financial, accounting or related services to the company or any affiliate of the company for which the provider in the past 2 years has received cumulative compensation exceeding NT\$500,000, or a spouse thereof; provided, this restriction does not apply to a member of the remuneration committee, public tender offer review committee, or special committee for merger/consolidation and acquisition, who exercises powers pursuant to the Act or to the Business Mergers and Acquisitions Act or related laws or regulations.

(10) No involvement with any of the situations specified in Article 30, Company Act.

Note 3: If the identity type is director, please explain whether meets the regulations of Article 6-5, “請“Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Taiwan Stock Exchange or the Taipei Exchange”.

Note 4: Independent Director, Mr. Shih-Chuan Tsai, was newly appointed on July 31<sup>st</sup>, 2018, and was dismissed on April 26<sup>th</sup> 2019 after the re-election at the provisional shareholders' meeting.

Note 5: Independent Director, Yen-Sung Chen, Kuo-Shih Huang, and Wei-Ting Liu were newly appointed as members in Remuneration Committee on April 29<sup>th</sup> 2019. Independent Director, Yen-Sung Chen, resigned on March 17<sup>th</sup> 2020.

4. Information of state of operation of Remuneration Committee:

(1) There are two members at Remuneration Committee in our company.

(2) The term for the members:

1. According to the organizational regulations for Remuneration Committee, the term of the members at the committee is the same as the term for the appointed Board of Directors. Our company approved on June 21<sup>st</sup> 2017 the resolution of the 4<sup>th</sup> Remuneration Committee members' appointment proposed by the Board of Directors.
2. Re-election was done at the provisional shareholders' meeting on April 26<sup>th</sup> 2019, and the resolution at the Board of Directors for the 5<sup>th</sup> Remuneration Committee members appointment was approved on April 29<sup>th</sup> 2019.
3. The members in the Remuneration Committee from April 29<sup>th</sup> 2019 to the report printing date are Mr. Wei-Ting Liu, Mr. Yen-Sung Chen, and Mr. Kuo-Shih Huang. The chairman of the 5<sup>th</sup> Remuneration Committee is Mr. Wei-Ting Liu.
4. The term of the 4<sup>th</sup> Remuneration Committee is from June 21<sup>st</sup> 2017 to June 20<sup>th</sup> 2020. Due to the re-election of directors on April 26<sup>th</sup> 2019, the term of original Audit Committee was terminated early on April 26<sup>th</sup> 2019.
5. The term for the 5<sup>th</sup> Remuneration Committee is from April 29<sup>th</sup> 2019 to April 25<sup>th</sup> 2022.

(3) There were 6 meetings in the Remuneration Committee during the most recent fiscal year (A: 5 meetings in 2019 and 1 meeting in 2020):

Other matters that need to be reported:

1. If the Board of Directors reject to adopt or modify the suggestion provided by the Remuneration Committee, it should clearly remark the date of the meeting of the Board of Directors, number of session, content of the proposal, resolution from the Board of Directors, and the handling done by the company for the suggestion from the Remuneration Committee (if the salary and reward that the Board of Directors approved is better than the suggestion from the Remuneration Committee, the difference and reason should be clearly remarked): None.
2. If members reject or reserve opinions and keep record or with written statement for the resolution from Remuneration Committee, it should clearly remark the date of the meeting at Remuneration Committee, number of session, content of the proposal, opinions from all members, and the handling towards the opinions: None.

Note 1: The Remuneration Committee was dismissed upon the re-election at the provisional shareholders' meeting on April 26<sup>th</sup> 2019. The appointment of new member of Mr. Yen-Sung Chen, Kuo-Shih Huang, and Wei-Ting Liu was approved by the resolution at the Board of Directors' meeting on April 29<sup>th</sup> 2019. Wei-Ting Liu will be the chairman of the 5<sup>th</sup> Remuneration Committee; Independent Director, Yen-Sung Chen, resigned on March 17<sup>th</sup> 2020.

(e) Implementation status of corporate social responsibility:

**Implementation of corporate social responsibility and the difference with best ethical practice principle of corporate social responsibility for TWSE/GTSM listed companies and its reason**

Information update date: March 27<sup>th</sup>, 2020

Items for assessment	State of operation (note 1)			The difference with best ethical practice principle of corporate social responsibility for TWSE/GTSM listed companies and its reason
	Yes	No	Summary (note 2)	
1. Whether the company carried out risk evaluation on the topics of environment, society and corporate governance related to company operation according to materiality principle as well as establish policies or strategies related to risk management? (note 3)	V		<p>1.Our company passed “Corporate Social Responsibility Best Practice Principles” through the Board of Directors on May 12<sup>th</sup> 2011. In terms of critical issues for the stakeholders of the company, we disclose the relevant information on the annual CRS report. In addition, we proposed special analysis on risks and the company’s action plan.</p> <p>2.Full-time (part-time) unit to promote corporate social responsibility: Planning Section.</p> <p>※The operation of the unit that establishes it: In charge of implementing the promotion of corporation governance as well as preparing annual “corporate social responsibility report” regularly by referencing international report preparation guidance and reporting the implementation status to the Board of Directors in order to strengthen the information disclosure of corporate social responsibility.</p> <p>3.</p> <p>( 1 ) Our company has established the appropriate environmental management according to the industrial characteristics. In terms of main materials, they fully meet RoHS regulations. Non-hazardous substance specified in the forbidden instruction is used for production to reduce the impact to the environment.</p> <p>( 2 ) Our company has made good use of the utilization efficiency on various resources. In terms of waste water treatment, waste water treatment equipment is installed in order to recycle and reuse water resource and</p>	No
2. Whether the company established a full-time (part-time) unit to promote corporate social responsibility and it is authorized by the Board of Directors for high management level to handle it as well as report the implementation status to the Board of Directors?	V			No
3. Environmental issues				No
( 1 )Whether the company established an appropriate environmental management system based on its industrial characteristics?	V			No
( 2 ) Whether the company works hard to enhance the utilization efficiency for various resources and use the recycled materials that are with lower impact on the environment?	V			No
( 3 ) Whether the company evaluates the potential risk and opportunity that climate change has towards to the corporate as well as takes responding measures towards climate related topics?	V		No	
( 4 ) Whether the company carried out the statistics of the greenhouse gas emission, in the past two years amount of water consumption, and total weight of the wastes as well as				

Items for assessment	State of operation (note 1)			The difference with best ethical practice principle of corporate social responsibility for TWSE/GTSM listed companies and its reason
	Yes	No	Summary (note 2)	
established the policies for energy conservation and carbon reduction, greenhouse gas reduction, water consumption reduction or management for other wastes?			<p>reduce the impact to the load of the environment.</p> <p>( 3 ) In terms of critical issues for stakeholders, our company disclose the information on the annual CSR report. In addition, we dedicates a chapter to analyze risks and propose the company’s action plans.</p> <p>( 4 ) In terms of direct greenhouse gas emission, our company enhances air pollution prevention control measures to reduce the emission. Various measures for energy conservation are carried out, and equipment with high energy consumption is installed frequency conversion device to enhance efficiency application. Other than necessary lighting, the amount of light tubes in the public area is reduced. We also advise our employees to use stairs instead of lift in order to help the energy conservation and carbon reduction in the company. Moreover, we carry out greenhouse gas check in the plant and entrust the independent third party to implement the verification of greenhouse gas emission in the plant according to relevant regulations (14064-1) issued by Environmental Protection Administration, Executive Yuan in order to precisely supervise the data of emission as the standard for energy conservation and carbon reduction in the future.</p>	
4. Social issues				
( 1 ) Whether the company establishes relevant management policy and procedure according to related legal regulations and International Bill of Human Rights?	V		( 1 ) Company’s management regulations (including various employee welfare measures and retirement system) are fully complied legal labor regulations. Our company passed OHSAS18001 certification and obtained occupational safe and health management system certification in order to eliminate or reduce the risks during the work of employees’.	No
( 2 ) Whether the company establishes and implements reasonable employee welfare measures (include remuneration, leave, and other welfare), and appropriately reflect business performance or results on employees’ remuneration?	V		( 2 ) The Board of Directors in our company approved “Employee Code of Conduct” on November 3 <sup>rd</sup> 2011. In addition, our company also promotes corporate ethics through morning gathering or irregular meetings as well as	No
( 3 ) Whether the company provides employees a safe and healthy	V			No

Items for assessment	State of operation (note 1)			The difference with best ethical practice principle of corporate social responsibility for TWSE/GTSM listed companies and its reason
	Yes	No	Summary (note 2)	
working environment and regularly carries out employee safety and health education?	V		combines relevant effects with employee performance when necessary. ( 3 ) Our company fully complies with Labor Standards Act and the regulations of OHSAS18001 to provide employees a safe and healthy working environment. In addition, we carry out employee safety and health education irregularly as well as regular employee health examination in order to understand the health status of employees’.	No
( 4 ) Whether the company established effective career capability development and training program for employees?	V		( 4 ) Our company carries out regular internal employee education and training every year to establish effective career capability development and training program, such as: (a) ISO9001 and QC080000 internal auditor training (every year). (b) Management Training Program (MTP) for middle managers. (c) Training Within Industry for Supervisors (TWD)- job instruction and job improvement. (d)The recognition and promotion of Personal Data Protection Act- legal regulations for personal information and skills for personal data inventory-taking. (e)Law-compliance of corporate behavior identity course- Antitrust Law.	No
( 5 ) In terms of customer health and safety, client privacy, marketing and labelling related to products and services, whether the company complies with relevant legal regulations and international standards as well as establishes relevant consumer rights and interests protection and complaint procedure?	V		( 5 ) The products provided by our company is complied with relevant legal regulations and international standards; they all meet RoHS regulations.	No
( 6 ) Whether the company establishes supplier management policy to request suppliers follow relevant regulations for environmental protection, occupational safety and health, or			( 6 ) Before working with the suppliers, our company asked supplier to fill in and sign on “Supplier Basic Information”. Its content has included Q&A for relevant evaluation, like “whether evaluating the supplier’s history in	

Items for assessment	State of operation (note 1)			The difference with best ethical practice principle of corporate social responsibility for TWSE/GTSM listed companies and its reason
	Yes	No	Summary (note 2)	
labor human rights as well as its implementation status?			<p>environmental and social impact in the past?” Our company also entered “Supplier Social Responsibility Implementation Agreement” with suppliers, including the provision of terminating or cancelling contract at any time when the supplier involves with the violation of corporate social responsibility and causes significant impact to the environment and the society. Our company approved “Procedures for Ethical Management and Guidelines for Conduct” by the Board of Director on November 11<sup>th</sup> 2015 and by Shareholders’ Assembly on June 20<sup>th</sup> 2016 and it also includes supplier’s “Code of Conduct Declaration” in order to fulfill corporate governance. “Supplier Code of Conduct Declaration” and “CCMT Supplier Social Responsibility and Moral Commitment” can be found in our official website at <a href="http://www.cmmt.com.tw">www.cmmt.com.tw</a> (Company responsibility→ Corporate governance).</p> <p>Yes. Our company follows the GRI standards: Core issued by Global Reporting Initiative every year to prepare the report. The report issued by our company has not been verified or guaranteed by the third verification party.</p>	
5. Whether the company prepares corporate social responsibility report that discloses the company’s non-financial information by referencing international report preparation standard or guidance? Whether the above report is verified or guaranteed by the third verification party?				
6. If the company establishes its own corporate social responsibility code according to “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies”, please state its operation and the difference with the code established: Our company passed “Corporate Social Responsibility Practice Code” by the Board of Director on May 12 <sup>th</sup> , 2011 and its operation has no significant difference with the code established.				
7. Other important information that is helpful for understanding the state of operation of corporate social responsibility: (1)In order to perform our social responsibility of protecting global environment, the main materials that our company used at the moment are complied with Restriction of Hazardous Substances Directive (RoHS) issued by European Union and has been effective in July 2006. The hazardous substances specified in the regulations are forbidden to use for production and the relevant information has been delivered to each department in order to ensure our products meet EU Directive or customer’s demand. Our company has passed ISO 14001: 2004 Environment Management System Certification. We continue our improvement in environmental pollution, energy and resource conservation, and wastes reduction in order to reduce potential risk for environmental protection.				

Items for assessment	State of operation (note 1)			The difference with best ethical practice principle of corporate social responsibility for TWSE/GTSM listed companies and its reason
	Yes	No	Summary (note 2)	
<p>(2)Our company also passed OHSAS 18001: 2007 Occupational Safety and Health Management System Certification. We effectively eliminate or reduce the risks of employees' at work as well as enhance occupational health and safety and reduce medical claim and insurance fee.</p> <p>(3)Our company contributes when there is any social emergency, such as supporting Taiwan native plant activity in 2016 to promote sustainable environmental protection.</p> <p>※Our company implements the promotion of corporate social responsibility for corporate governance, and we continue irregular charity donation since 2009.</p> <p>※Our company encourages our employees to show their empathy and participate in the donation, making some contribution to the society.</p>				

Note 1: If “yes” is ticked for the state of operation, please explain the important policy, strategy, measure, and the implementation status performed. If “no” is ticked, please state the reason and the relevant policy, strategy, measure, and plan that is to be taken in the future.

Note 2: If the company has prepared corporate social responsibility report, please remark in the state of operation for the method of looking up corporate social responsibility report and the index page.

Note 3: Materiality principle refers to the issues related to the environment, the society, and corporate governance that have significant impact on company's investors and other stakeholders.

(f) The state of performance of sincerity managing and the measures taken:

**Implementation of sincerity managing and the difference with best ethical practice principle of sincerity managing for TWSE/GTSM listed companies and its reason**

Information update date: March 27th, 2020

Items for assessment	State of operation			The difference with ethical best practice principle of sincerity managing for TWSE/GTSM listed companies and its reason
	Yes	No	Summary	
<p>1. Establishment of sincerity managing policy and proposal</p> <p>( 1 ) Whether the company has established the sincerity managing policy that is approved by the Board of Directors and clearly specified its sincerity managing policy and approach in the regulations and external documents as well as the commitment from the Board of Directors and high management for the active implementation of the managing policy?</p> <p>( 2 ) Whether the company has established the evaluation mechanism for the risk of non-sincerity behavior to regularly analyze and assess the business activities that are with higher risk of non-sincerity behavior in the business scope. A proposal of preventing non-sincerity behavior is established accordingly and it should at least cover the provision of Article 7-2 of “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies”?</p>	V		<p>( 1 ) The Board of Directors in our company approved “Sincerity Managing Code” on April 26<sup>th</sup>, 2011 and “Corporate Governance Practice Code” on May 12<sup>th</sup> 2011. The sincerity managing policy and approach are clearly specified in the regulations and external documents in order to achieve the commitment of the active implementation of the managing policy made by the Board of Directors and management level.</p> <p>( 2 ) The content of “Sincerity Managing Code” and “Corporate Governance Practice Code” in our company has specified the proposal for preventing non-sincerity behavior. Our company also establishes sound complaint and punishment system as well as report and complaint channel:</p> <p>a. Internal reporting channel includes:</p> <p>(1) Line manager (2) HRM manager (3) Legal affair department (3) Auditing personnel (4) General Manager’s email.</p> <p>b. External reporting channel is “Administrative Management department” e-mail: <a href="mailto:cmmt_ir@cmmt.com.tw">cmmt_ir@cmmt.com.tw</a>. In addition, punishment will be effectively implemented. If there is any sincerity violation, the company will call for Human Resources Arbitration Committee consists of high managers from different departments to review,</p>	<p>No</p> <p>No</p> <p>No</p>

Items for assessment	State of operation			The difference with ethical best practice principle of sincerity managing for TWSE/GTSM listed companies and its reason
	Yes	No	Summary	
( 3 ) Whether the company establishes clear operating procedure, conduct guidance, punishment for violation, and complaint system for the proposal of preventing non-sincerity behavior as well as carry out effective implementation and review and modify the above proposal regularly?			<p>and it will be handled according to relevant internal operation. If the person to be punished hold the position as manager (or above), the company will also report it to the Board of Director other than handling it with the relevant rules.</p> <p>( 3 ) a. Our company promotes the concepts of corporate governance and sincerity managing at weekly meeting or irregular meeting. If there is any sincerity violation, the company will call for Human Resources Arbitration Committee consists of high managers from different departments to review.</p> <p>b. Our company has established “Sincerity Managing Code” to carry out bribe taking and receiving prevention in terms of the business activities that are with higher risks of non-sincerity behavior in the business scope as well as the event of offering illegal political party funding.</p>	
<p>2. Implementation of sincerity managing</p> <p>( 1 ) Whether the company evaluates the sincerity history of the parties they deals with and specifies clear provision related sincerity behavior in the contract entered with?</p>	V		<p>( 1 ) Other than evaluating the legality of the parties we deal with before establishing business relationship, we also execute credit evaluation to avoid trading with the party who is involved with non-sincerity behavior. Our Board of Director passed “Sincerity Managing Operating Procedure and Conduct Guidance” on November 11<sup>th</sup> 2015, and it includes “Acceptance of Gifts from manufactures and customers without reporting”, supplier’s “Sincerity Behavior Declaration”, and employee’s “Integrity Commitment” to fulfill the sincerity behavior for corporate governance.</p>	No
	V			No



Items for assessment	State of operation			The difference with ethical best practice principle of sincerity managing for TWSE/GTSM listed companies and its reason
	Yes	No	Summary	
<p>( 3 ) Whether the company establishes the policy of preventing conflict of interest, provides proper complaint channel, and carries out effective implementation?</p> <p>( 4 ) Whether the company has established an effective accounting system and internal control system in order to fulfill sincerity managing and sets up relevant auditing plan according to the evaluation result of risk of non-sincerity behavior in order to verify the compliance of preventing non-sincerity behavior proposal or entrust certified accountant for verification?</p> <p>( 5 ) Whether the company holds internal and external educational training for sincerity managing regularly?</p>			<p>regularly. Managers in the company, especially General Manager and Chief Financial Officer, must ensure the financial and accounting information that our company declared to the competent securities authority and disclosed externally is complete, fair, accurate, timely and easy to understand.</p> <p>( 3 ) "Board of Directors Meeting Regulation" in our company specifies the provision of interest avoidance. If any of the directors in our company involves with interest conflict with the topics at the meeting, he/she should temporarily leave during the resolution.</p> <p>( 4 ) The effective accounting system and internal control system established by our company for the implementation of sincerity managing will be verified regularly by the internal auditing unit and the certified accountants from the entrusted PricewaterhouseCoopers.</p> <p>( 5 ) Our company not only holds regular educational training for sincerity managing but also participates in the courses related to corporate governance and sincerity managing held by the competent authority and banking industry.</p>	
<p>3. State of offense-reporting system in the company</p> <p>( 1 ) Whether the company establishes concrete offense-reporting and reward system as well as establishes convenient offense-reporting channel and assign proper dedicated handling person for the reported object?</p>	V		<p>( 1 ) Chapter seven of "Employee Moral Conduct Standard" in our company specify the offense-reporting system.</p> <p>The offense-reporting channel in our company:</p> <p>a. The internal channel includes:</p> <p>(1)Direct manager (2)HRM manager (3)Legal affairs unit (3)Auditing</p>	Our company hasn't set up concrete reward system. The system establishment will be evaluated if there is an

Items for assessment	State of operation			The difference with ethical best practice principle of sincerity managing for TWSE/GTSM listed companies and its reason
	Yes	No	Summary	
<p>( 2 ) Whether the company establishes SOP for investigating offense-reporting acceptance and the follow-up measure and relevant confidential mechanism after completing investigation?</p> <p>( 3 ) Whether the company takes any measure to protect the offence-reporter from improper treatment due to the offense-reporting?</p>	V		<p>personnel (4)General Manager’s email.</p> <p>b. External reporting channel can be through “Administrative Management Department” e-mail: <a href="mailto:cmmt_ir@cmmt.com.tw">cmmt_ir@cmmt.com.tw</a> and it will be effectively implemented.</p> <p>( 2 ) It is specified in Chapter seven “Offense-Reporting, Protection and Exemption” of “Employee Moral Conduct Standard” issued by our company.</p> <p>( 3 ) It is specified in Chapter seven “Offense-Reporting, Protection and Exemption” of “Employee Moral Conduct Standard” issued by our company.</p>	actual demand.
<p>4. Reinforcement of information disclosure</p> <p>Whether the company discloses the content of its sincerity managing code and implementation performance on its website and Market Observation Post System?</p>	V		<p>(1)On the webpage of “Corporate governance” under “Social responsibility” at our website (<a href="http://www.cmmt.com.tw">www.cmmt.com.tw</a>), the electronic version of “Sincerity Managing Code” has been released for employees to look up/ download online at any time. In addition, relevant information is also disclosed on our website or published on Market Observation Post System according to legal regulations at <a href="http://mops.twse.com.tw/index.htm">http://mops.twse.com.tw/index.htm</a> in order to achieve effective promotion.</p>	No
<p>5. If the company has established its own sincerity managing code according to “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies”, please state the difference between the operation and the code established: None.</p>				
<p>6. Other important information that is helpful for understanding the state of operation of sincerity managing in the company: (such as the discussion and modification on the sincerity managing code established by the company):</p> <p>Our company has always carried out sincerity managing and has established “Directors (including Independent Director) and Managers Code of Conduct Standard” and “Employee Moral Conduct Standard” and our Board of Directors has passed “Sincerity Managing Code”, “Corporate Governance Practice Code”, and “Sincerity Managing Operating Procedure and Conduct Guidance” on April 26<sup>th</sup> 2011, May 12<sup>th</sup> 2011, and November 11<sup>th</sup> 2015 respectively. The Board of Directors will be informed the implementation of sincerity managing regularly.</p>				

Items for assessment	State of operation			Summary	The difference with ethical best practice principle of sincerity managing for TWSE/GTSM listed companies and its reason
	Yes	No			
<p>Above codes have been clearly specified the policy and approach for sincerity managing in the regulation and in the external documents in order to achieve the effect of active implementation of managing policy committed by the Board of Directors and employees (refer to directors, manager, employees, and people with actual control in the company and organization) in our company. Information of relevant regulations in our company has been published on “Corporate governance and relevant regulations” in our website (<a href="http://www.cmmt.com.tw">www.cmmt.com.tw</a>) for the public and shareholders to review.</p>					

(g)Method of reviewing our governance code and disclosure of relevant regulations: Regulations related to corporate governance established by our company have been disclosed on the webpage of “Corporate social responsibility” on our website, including “Corporate Governance Practice Code”, “Corporate Social Responsibility Practice Code”, “Trading Operating Procedures for Group Enterprise, Specific Company, and Stakeholders”, “Shareholders’ Meeting Regulation”, “Directors (including Independent Director) and Managers Moral Conduct Standard”, “Regulations for Independent Directors’ Duty”, “Board of Directors Meeting Regulation”, “Audit Committee Organizational Rules”, “Employee Moral Conduct Standard”, “Internal Critical Information Handling Procedure”, “Sincerity Managing Code”, “Sincerity Managing Operating Procedure and Conduct Guidance”, “Employee Integrity Commitment”, “Supplier Sincerity Conduct Declaration”, “Supplier Social Responsibility and Moral Commitment”, and “SOP for Sincerity Managing and Conduct Guidance”.

(h)Other important information that enhances the state of operation of corporate governance: None.

(i)State of implementation of internal control system:

1.Internal control declaration: Please refer to page 43.

2.If certified accountants are entrusted to audit the internal control system, the accountant’s audit report should be disclosed: None.

(j) During the most recent fiscal year and before printing date of annual report, if the company and its internal personnel have been punished according to law or the company carries out punishment to the internal personnel who violate internal control system and the result might have significant impact towards shareholders' equity or securities value, the content of the punishment should be specified as well as the main deficiency and improvement implementation: None.

(k) During the most recent fiscal year and before printing date of annual report, the important resolutions from the Shareholders' Meeting and the Board of Directors:

No	Date	Summary of Meeting Minutes	Name of meeting	Rejected or reserved opinions by directors or independent directors
1	01/14/2019	<ol style="list-style-type: none"> <li>1. Approved the capital increase proposal for the subsidiary, Kunshan CHIMEI Materials Technology Corporation.</li> <li>2. Proposal of dismissing the President in our company.</li> <li>3. Proposal of appointing new President.</li> <li>4. Proposal of appointing new Vice President.</li> <li>5. Proposal of re-appointing legal director for subsidiary, Kunshan CHIMEI.</li> </ol>	Board of Directors	Reserved opinion from Independent Director, Shih-Chuan Tsai: Other than the identity as general director, the Independent Director is also with the function of the supervisor and social public interests. In terms of the proposals addressed by the provisional motion, it is difficult to hear the statement from both sides due to the unexpected submission nor to understand the impact of relevant scenario towards the company. Therefore, I cannot express my opinion or vote for the provisional motion.
2	01/30/2019	<ol style="list-style-type: none"> <li>1. Approved the change of offshore subsidiary, CHIMEI Materials Technology Investment Corporation.</li> <li>2. Approved remuneration adjustment for the independent director in our company.</li> </ol>	Board of Directors	Reserved opinion from Independent Director, Shih-Chuan Tsai and Wei-Ting Liu: The personnel proposal is directly related to the topic at the former Board of Directors meeting, and it seems that there are some disputes on the solution at former Board of Directors meeting. I am not able to judge whether it is appropriate and therefore, will not able to express my opinion.
3	01/30/2019	<ol style="list-style-type: none"> <li>1. Approved capital loan for the subsidiary, Mao Feng Trading Co., Ltd. and for parent company, Cheng Mei Materials Technology Corporation.</li> </ol>	Board of Directors	None
4	02/26/2019	The meeting was failed to be convened for lack of a quorum.	Board of Directors	None
5	03/07/2019	The meeting was failed to be convened for lack of a quorum.	Board of Directors	None
6	03/11/2019	<ol style="list-style-type: none"> <li>1. Approved the proposal of debt extension that our company negotiated with the banks.</li> <li>2. Approved the proposal of capital increase at Kunshan CHIMEI Materials Technology Corporation by subsidiary, CHIMEI Materials Technology Investment Corporation.</li> </ol>	Board of Directors	None
7	03/14/2019	<ol style="list-style-type: none"> <li>1. Approved the proposals of capital decrease at subsidiaries, Mao Feng Trading Co., Ltd. and Mao Yu Investment Co., Ltd.</li> <li>2. Approved the debt extension discussion proposal that our company negotiated with banks.</li> </ol>	Board of Directors	None

No	Date	Summary of Meeting Minutes	Name of meeting	Rejected or reserved opinions by directors or independent directors
8	03/20/2019	1. Approved the imitation of debt negotiation procedure.	Board of Directors	None
9	03/28/2019	1. Approved 2018 business report and financial report. 2. Approved 2018 “internal control system effectiveness evaluation” and “internal control system declaration”. 3. Approved the holding of 2019 Shareholders’ Assembly. 4. Approved the provision of company’s current land and plant for the creation of mortgage to release bank credit.	Board of Directors	None
10	04/17/2019	1. Proposal of phase 1 of the capital increase from our company to the subsidiary, Kunshan CHIMEI Materials Technology Corporation. 2. Continue above, proposal of phase 2 of the capital increase from our company to the subsidiary, Kunshan CHIMEI Materials Technology Corporation. 3. Shareholding system restructuring at Kunshan CHIMEI Materials Technology Corporation and introduced other shareholders (external investors). 4. Capital loan to the parent company from the subsidiary of our company, Mao Feng Trading Co., Ltd and Mao Yu Investment Co., Ltd. 5. Proposal of supervision and management discussion towards 100% re-investment company, Mao Feng and Mao Yu, by our company.	Board of Directors	None
11	4/26/2019	Election related matters 1. Proposal of re-electing directors and independent directors at an early date. Other topic 2. Proposal of dismissing the restriction on the competition behavior of new directors and their representatives.	Shareholders’ Meeting	Not applicable
12	4/26/2019	1. Proposal of electing President. 2. Proposal of dismissing General Manager. 3. Proposal of re-appointing the institutional director of our 100% re-invested subsidiary, Mao Feng Trading Co., Ltd. 4. Proposal of re-appointing the representative of the institutional director of our 100% re-invested subsidiary, Mao Yu Investment Co., Ltd. 5. Proposal of re-appointing chairman and members for “Strategy Development and Investment Committee” in our company. 6. Proposal of re-appointing the representative of the institutional director at our important subsidiary, Kunshan CHIMEI Materials Technology Corporation. 7. Proposal of re-appointing the representative of the institutional director at “Shih Lien Fine Chemicals Co., Ltd.” invested by our company. 8. Proposal of dismissing Associate Manager at Administration Department, Hsiang-Ju Chen.	Board of Directors	None

No	Date	Summary of Meeting Minutes	Name of meeting	Rejected or reserved opinions by directors or independent directors
13	4/29/2019	<ol style="list-style-type: none"> <li>1. Proposal of 2018 financial report re-preparation.</li> <li>2. Proposal of appointing members for the 5<sup>th</sup> Remuneration Committee in our company.</li> <li>3. Approved “2019 certified public accountant appointment”.</li> </ol>	Board of Directors	None
14	5/13/2019	<ol style="list-style-type: none"> <li>1. Our company prepared the consolidated financial report for Q1 in 2019.</li> <li>2. Established “2019 remuneration, salary adjustment and various rewards for internal personnel”.</li> <li>3. Proposal of 2018 appropriation of profit &amp; loss.</li> <li>4. Proposal of suspending common share issuance by cash capital increase to participated in overseas depository receipt.</li> <li>5. Proposal of handling common share issuance through public funds or private funds or issuing new shares to participate in overseas depository receipt, or issuing overseas or domestic convertible bond (including secured or unsecured convertible bond) with amount less than 200,000,000 shares. It is submitted for approval.</li> <li>6. Proposal of revising the Article of Incorporation in our company.</li> <li>7. Proposal of revising “Operating procedure for the fund loaned to other people”.</li> <li>8. Proposal of revising “Operating procedure of endorsement and guarantee”.</li> <li>9. Proposal of dismissing restriction on competition behavior on the directors.</li> <li>10. Modified relevant matters for 2019 Shareholders’ Assembly.</li> <li>11. Application for credit amount in financial bank.</li> <li>12. Proposal of business direction discussion for Mao Feng Trading Co., Ltd. and Mao Yu Investment Co., Ltd.</li> <li>13. Request in writing to ask the subsidiary, the Board of Directors at Kunshan CHIMEI Materials Technology Corporation (hereinafter referred to as Kunshan CHIMEI) to instruction affiliate company, Kunshan CHIMEI Materials Trading Corporation (hereinafter referred to as Kunshan Trading) to propose a lawsuit to Zhechiang Cheng Chieh Business Trading Co., Ltd. (hereinafter referred to as Zhechiang Cheng Chieh) for the unsettled payment as well as investigate whether relevant personnel at Kunshan Trading neglect their duty.</li> <li>14. Proposal of appointing Deputy General Manager.</li> <li>15. Proposal of legal matters related to Shih Lien Investment.</li> <li>16. Proposal of legal matters related to illegal transaction at Mao Feng Trading Co., Ltd. and Mao Yu Investment Co., Ltd..</li> </ol>	Board of Directors	None

15	2019/6/28	<p>Reports</p> <ol style="list-style-type: none"> <li>1. The 2018 business report.</li> <li>2. 2018 Audit committee report</li> <li>3. Report on the Company's 2018 shareholders general meeting resolution on "Share capital increase in the form of a cash issue and sponsoring issuance of overseas depositary receipts".</li> </ol> <p>Ratification Topics</p> <ol style="list-style-type: none"> <li>1. 2018 business report and financial statements.</li> <li>2. 2018 loss offsetting.</li> </ol> <p>Discussion Topics</p> <ol style="list-style-type: none"> <li>1. Issue common stocks through public offering or private placement. Issue new shares to participate in the issuance of overseas depositary receipts. Issue overseas or domestic convertible corporate bonds (including secured or unsecured convertible corporate bonds).</li> <li>2. Amendment to the Articles of Incorporation.</li> <li>3. Amendment to the Procedures for Lending Funds to Others.</li> <li>4. Amendment to the Procedures for Endorsements/Guarantees.</li> <li>5. Lift restrictions on the non-compete clause of the board of directors.</li> </ol>	Shareholder Meeting	Not applicable
16	2019/7/12	<ol style="list-style-type: none"> <li>1. Passed the capital increase, joint venture agreement and the amendment of the articles of incorporation in Kunshan CHIMEI Materials Technology Corporation (referred to as Kunshan CHIMEI), the Company's reinvestment.</li> <li>2. Passed the restructuring of the "Strategic Development and Investment Committee".</li> <li>3. Passed the changes to the organizational chart.</li> <li>4. Passed the amendment to the Board Meeting Rules of Procedures.</li> <li>5. Passed the personnel appointment of the executive vice president.</li> <li>6. Change of supervisor of the research and development center.</li> <li>7. Appointment of supervisor of the finance center.</li> <li>8. Promotion of the supervisor of the manufacturing center.</li> <li>9. Change of financial and accounting supervisors.</li> <li>10. Change of spokesperson and acting spokesperson.</li> <li>11. Appointment of managers of subsidiaries.</li> <li>12. Adjustment to salary for internal personnel.</li> </ol>	Board of Directors	No
17	2019/8/2	<ol style="list-style-type: none"> <li>1. Passed the internally-prepared 2019 Q2 consolidated financial statements.</li> <li>2. Passed the application for line of credit from banks.</li> <li>3. Passed the amendment to the Company's employee share ownership trust plan.</li> <li>4. Passed the adjustment to salary for internal personnel.</li> </ol>	Board of Directors	No
18	2019/8/27	<ol style="list-style-type: none"> <li>1. Passed the amendment to the capital increase in Kunshan CHIMEI Materials Technology Corporation (referred to as Kunshan CHIMEI), the Company's reinvestment.</li> </ol>	Board of Directors	No
19	2019/10/24	<ol style="list-style-type: none"> <li>1. Passed CHIMEI Materials Technology Investment Co., Ltd.'s (referred to as CHIMEI Materials Investment) renouncing participation in the cash capital increase in Kunshan CHIMEI Materials</li> </ol>	Board of Directors	Independent director Eddie Chen's proposal for

		<p>Technology Corporation (referred to as Kunshan CHIMEI).</p> <ol style="list-style-type: none"> <li>2. Passed Kunshan CHIMEI's, one of the Company's reinvestment companies, capital increase through external investors such as Homwon Capital Management or its controlled investment institutions (including CHIMEI Huisheng (Fujian) Electronic Technology Co., Ltd., referred to as the new investor), the signing of the corresponding capital increase agreement and the amendment to the Articles of Incorporation.</li> <li>3. Passed the recommendation for the president position of the Company's reinvestment company, Kunshan CHIMEI.</li> </ol>		<p>amendment: (Motion 3) President Jau-Yang Ho continues to hold office. Nomination and appointment will be made after the new investor completes the capital increase and the board is re-elected.</p>
20	2019/11/11	<ol style="list-style-type: none"> <li>1. Passed the internally-prepared 2019 Q3 consolidated financial statements.</li> <li>2. Passed the Company's loan of NT\$ 584,307 thousand to Kunshan CHIMEI.</li> <li>3. Approved subsidiary Ningbo CHIMEI Materials Technology Co., Ltd.'s loan of NT\$256,617 thousand to Kunshan CHIMEI.</li> <li>4. Approved the lending of funds to the subsidiary CM Visual Technology Corporation.</li> <li>5. Passed the application for line of credit from banks.</li> <li>6. Approved the remuneration to the acting president.</li> <li>7. Approved the adjustment to salary for managers and senior executives.</li> <li>8. Approved the lifting restrictions on the non-compete clause of managers.</li> <li>9. Reassignment of the representative of legal person director for the Company's wholly-owned subsidiary Chenghui Trading Co., Ltd.</li> <li>10. Reassignment of the representative of legal person director for the Company's wholly-owned subsidiary Chenghui Investment Co., Ltd.</li> </ol>	Board of Directors	<p>Independent director Eddie Chen's proposal for amendment: (Motion 7) Approved respecting and authorizing the chairman's decision in the adjustment to salary for managers and senior executives.</p>
21	2019/11/27	<ol style="list-style-type: none"> <li>1. Approved Kunshan CHIMEI's capital increase through external investors such as Hefei Beicheng No. 2 Optoelectronic Industry Investment Partnership (limited partnership), the signing of the corresponding capital increase agreement and the amendment to the Articles of Incorporation, and authorized the chairman to make adjustments as needed.</li> <li>2. Propose to postpone the resolution on approving Kunshan CHIMEI's capital increase through external investors such as Homwon Capital Management or its controlled investment institutions (including CHIMEI Huisheng (Fujian) Electronic Technology Co., Ltd., referred to as the new investor), the signing of the corresponding capital increase agreement and the amendment to the Articles of Incorporation, which was resolved on October 24, 2019 at the 8th meeting of the 7th batch of board.</li> </ol>	Board of Directors	<p>Independent director Wei-Ting Liu abstained from voting: (Motion 1) The relevant information for the proposal has been incomplete and there were still negative opinions in the internal assessment reports compiled by the legal affairs. The independent director abstained from</p>

				voting as he agreed that the proposal had a significant impact on the Company's operations and respected the opinions of most directors. Chairman President Jau-Yang Ho: (Motion 2) 反對 Against
22	2019/12/20	<ol style="list-style-type: none"> <li>1. Improvement to the amount over the endorsement and guarantee ceilings.</li> <li>2. Amendment to the Procedures for Lending Funds to Others.</li> <li>3. Amendment to the Procedures for Endorsements/Guarantees.</li> <li>4. Approved the 2020 annual audit plan.</li> <li>5. Independent experts' opinions on the Company's losing control of Kunshan CHIMEI.</li> </ol>	Board of Directors	No
23	2020/1/31	<ol style="list-style-type: none"> <li>1. Application for the Company's debt negotiation and extension.</li> <li>2. Approved the 2020 annual operating budget.</li> <li>3. Stipulated the issues related to the 2020 shareholders general meeting.</li> <li>4. Independent experts' opinions on the Company's losing control of Kunshan CHIMEI.</li> <li>5. Ratification of the Company's endorsement and guarantee of the reinvestment company Kunshan CHIMEI Materials Technology Corporation.</li> <li>6. Ratification of Kunshan CHIMEI's capital increase through external investors such as Hefei Beicheng No. 2 Optoelectronic Industry Investment Partnership (limited partnership).</li> </ol>	Board of Directors	Representative of legal person director Innolux Corporation, Chao-Shien Liu: (Motion 5 and 6) Against Independent director Eddie Chen abstained from voting: (Motion 6) Quoted the opinions of external lawyers that the board's resolution on November 27, 2019 was valid. If the resolution at the time was valid, the board should not need to ratify.
24	2020/3/18	<ol style="list-style-type: none"> <li>1. Appointment of accounting supervisors.</li> <li>2. 2019 business report and financial statements.</li> <li>3. 2019 loss offsetting.</li> <li>4. Proposed to not proceed with Issuing common stocks through public offering or private placement, issuing new shares to participate in the issuance of overseas depositary receipts or issuing overseas or domestic convertible corporate bonds (including secured or unsecured convertible corporate bonds).</li> <li>5. Issue common stocks through public offering, or issue new shares to participate in the issuance of</li> </ol>	Board of Directors	Representative of legal person director Beyond PV, Wei-Ping Yeh: (Motion 2) Abstained from voting All directors in attendance voted to not

	overseas depositary receipts, or issue common stocks through private placement or issue overseas or domestic convertible corporate bonds (including secured or unsecured convertible corporate bonds). 6. Amendment to the Procedures for Lending Funds to Others. 7. Amendment to the Procedures for Endorsements/Guarantees. 8. Reviewed and processed shareholders rights on proposals. 9. Amended the issues related to the 2020 shareholders general meeting. 10. Proposed to ratify the applications for line of credit with banks and leasing companies. 11. 2019 evaluation of the effectiveness of internal control system and the Statement on Internal Control. 12. Amended the Audit Committee Charter. 13. Amended the Salary and Remuneration Committee Charter.		include Motion 8 as part of the agenda of the shareholders meeting.
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( 十二 ) (XII) Where, during the most recent fiscal year or during the current fiscal year up to the date of publication of the annual report, a director or independent director has expressed a dissenting opinion with respect to a key resolution passed by the board, and the dissenting opinion has been recorded or prepared as a written declaration: Yes, please refer to (XI).

( 十三 ) (XIII) A summary of resignations and dismissals, during the most recent fiscal year or during the current fiscal year up to the date of publication of the annual report, of the Company's chairman, president, principal accounting officer, principal financial officer, chief internal auditor and principal research and development officer: Shown in the following table:

March 27, 2020

Title	Name	Starting Date	Termination / Resignation Date	Reason for Resignation or Termination
Principal financial officer	Wei-Chung Lien	March 1, 2018	July 12, 2019	Due to the Company's restructuring, Mr. Wen-Chin Chen was appointed as the vice president and the principal financial officer, and Ms. Shih-En Hsu was appointed as the principal financial officer.
Principal research and development officer	Wang-Yang Li	May 1, 2012	June 30, 2019	Due to the Company's restructuring, vice president Chien-Chih Wang was appointed to take the position.
Principal accounting officer	Shih-En Hsu	February 13, 2017	February 20, 2020	Resigned from the position due to the personnel career planning, and Mr. Wei-Chung Lien was appointed as the principal accounting officer.

## V. Auditor Information

### (I) Audit fee of independent auditors

Name of accounting firm:

Name of Accounting Firm	Name of Accountant		Audit Period	Remarks
PricewaterhouseCoopers, Taiwan	James Liu	Chien-Chih Wu	2019/01/01~ 2019/12/31	No

Audit fee of independent auditors:

December 31, 2019, Unit: NT\$ 1,000

Name of Accounting Firm	Name of Accountant	Audit Fee	Non-Audit Service					Audit Period	Remarks
			System Design	Company Registration	Human Resources	Others	Subtotal		
PricewaterhouseCoopers, Taiwan	James Liu	7,410	Not applicable	0	Not applicable	2,835	2,835	2019/01/01-2019/12/31	
	Chien-Chih Wu								

Audit fee range of independent auditors:

December 31, 2019, Unit: NT\$ 1,000

(II) When non-audit fees paid to the certified public accountant, the accounting firm of the certified public accountant and/or to any affiliated enterprise of such accounting firm are more than one quarter of the audit fees paid, the amounts of both audit and non-audit fees as well as details of non-audit services shall be disclosed:

PwC Taiwan's non-audit fee was NT\$2,835 thousand, in which the internal control special review was NT\$400,000, transfer pricing report was NT\$350,000 and others were NT\$2,085 thousand.

(III) When the Company changes its accounting firm and the audit fees paid for the fiscal year in which such change took place are lower than those for the previous fiscal year: Not applicable.

(IV) When the audit fees paid for the current fiscal year are lower than those for the previous fiscal year by 15 percent or more: Not applicable.

(V) Assessment of the independence of certified public accountant: The Company's audit committee conducts regular assessment of the independence of certified public accountants and reports the assessment results to the board.

VI. Change of auditors: Date of approval by the board (date of occurrence) -- 2018/07/31, 2019/04/29.

VII. If the chairman, president and managers in charge of the Company's finance and accounting operations held any positions within the Company's independent audit firm or its affiliates during the past one year: No.

IX. Information on top ten shareholders and their mutual relationship as spouse or blood relative within the second degree:

March 2, 2020. Unit: Shares

Name/Company and Its Representative	Shareholding		Shareholding of Spouse and Minor Children		Shares Held in the Name of Others		Title, name and relationship of the top ten shareholders who have mutual relationship as spouse or blood relative within the second degree		Remarks
	Number of Shares	Ownership	Number of Shares	Ownership	Number of Shares	Ownership	Name	Relationship	
							(Or Name)		
1 Far Eastern International Bank entrusted with the custody of Munsun Capital Taiwan's investment in new materials	59,271,760	8.90%	0	0.00%	0	0.00%	None	None	None
2 Inluxe Corporation	57,211,305	8.59%	0	0.00%	0	0.00%	None	None	None
2 Representative: Chin-Yang Hung	0	0.00%	0	0.00%	0	0.00%	None	None	None
3 Ou-Chi Investment	21,741,000	3.27%	0	0.00%	0	0.00%	None	None	None
4 Yi-Ming Chang	8,190,000	1.23%	0	0.00%	0	0.00%	None	None	None
5 Citibank DFA emerging market core equity investment account	7,388,200	1.11%	0	0.00%	0	0.00%	None	None	None
6 Chien-Fu Kan	7,240,000	1.09%	0	0.00%	0	0.00%	None	None	None
7 Yuan-Jie Investment	7,000,000	1.05%	0	0.00%	0	0.00%	None	None	None
8 Tung-Chun Chiang	5,704,000	0.86%	0	0.00%	0	0.00%	None	None	None
9 Jau-Yang Ho	5,610,906	0.84%	109,548	0.02%	0	0.00%	None	None	None
10 Wiseman Investment	5,544,000	0.83%	0	0.00%	0	0.00%	None	None	None

## Four. Financing Activities

### I. Capital and Shares

(I) Source of capital:

Type of shares

Stock stop-transfer date: March 2, 2020, Unit: Thousand shares

Type of Shares	Authorized Share Capital			Remarks
	Shares outstanding	Un-issued Shares	Total	
Common stock	665,729	534,271	1,200,000	The Company's shares are all publicly traded.

### History of capital formation

#### Capital formation

Year / Month	Issue Price (NT\$)	Authorized Share Capital		Paid-in Capital		Remarks		
		Number of Shares (Thousands)	元)Amount (Thousands)	Number of Shares (Thousands)	Amount (Thousands)	Source of Capital (Thousands)	Capital Increase by Assets Other than Cash	Others
94.05	10	35,000	350,000	35,000	350,000	Capital at establishment	None	Note 1
94.11	10	100,000	1,000,000	100,000	1,000,000	Cash capital increase	650,000	None Note 2
95.07	10	250,000	2,500,000	250,000	2,500,000	Cash capital increase	1,500,000	None Note 3
96.11	10	250,000	2,500,000	230,000	2,300,000	Capital reduction	1,000,000	None Note 4
						Cash capital increase	800,000	
97.06	10	300,000	3,000,000	285,000	2,850,000	Cash capital increase	550,000	None Note 5
98.12	12.5	500,000	5,000,000	385,000	3,850,000	Cash capital increase	1,000,000	None Note 6
99.05	10	500,000	5,000,000	419,650	4,196,500	Capitalization of retained earnings	346,500	None Note 7
100.10	15.7	500,000	5,000,000	443,170	4,431,700	Cash capital increase	235,200	None Note 8
101.08	23	500,000	5,000,000	491,170	4,911,700	Cash capital increase	480,000	None Note 9
103.09	10	600,000	6,000,000	515,729	5,157,285	Capitalization of retained earnings	245,585	None Note 10
106.09	13	700,000	7,000,000	665,729	6,657,285	Cash capital increase to participate in the issuance of overseas	1,500,000	None Note 11

						depository receipts			
108.08	10	1,200,000	12,000,000	665,729	6,657,285	Change in total capital		None	Note 12z

Note 1: Approved by the Ministry of Economic Affairs Jing-Shou-Zhong-Zhi Document #09432129860 on May 17, 2005.

Note 2: Approved by the Ministry of Economic Affairs Jing-Shou-Shang-Zhi Document #09401234500 on November 28, 2005.

Note 3: Approved by the Ministry of Economic Affairs Jing-Shou-Shang-Zhi Document #09501140250 on July 7, 2006.

Note 4: Approved by the Ministry of Economic Affairs Jing-Shou-Shang-Zhi Document #09601280820 on November 19, 2007.

Note 5: Approved by the Ministry of Economic Affairs Jing-Shou-Shang-Zhi Document #09701137240 on June 12, 2008.

Note 6: Approved by the Ministry of Economic Affairs Jing-Shou-Shang-Zhi Document #09801284260 on December 17, 2009.

Note 7: Approved by the Ministry of Economic Affairs Jing-Shou-Shang-Zhi Document #09901132820 on June 29, 2010.

Note 8: Approved by the Financial Supervisory Commission Jin-Guan-Zheng-Fa-Zhi Document #1000038081 on August 16, 2011. Approved by the Ministry of Economic Affairs Jing-Shou-Shang-Zhi Document #10001253860 on November 4, 2011.

Note 9: Approved by the Financial Supervisory Commission Jin-Guan-Zheng-Fa-Zhi Document #1010026539 on June 21, 2012. Approved by the Ministry of Economic Affairs Jing-Shou-Shang-Zhi Document #10101190820 on September 17, 2012.

Note 10: Approved by the Financial Supervisory Commission Jin-Guan-Zheng-Fa-Zhi Document #1030026619 on July 14, 2014. Approved by the Ministry of Economic Affairs Jing-Shou-Shang-Zhi Document #10301180400 on September 3, 2014.

Note 11: Approved by the Financial Supervisory Commission Jin-Guan-Zheng-Fa-Zhi Document #1060008354 on March 30, 2017. Approved by the Ministry of Economic Affairs Jing-Shou-Shang-Zhi Document #10601137520 on September 30, 2017.

Note 12: Approved by the Ministry of Economic Affairs Jing-Shou-Shang-Zhi Document #10801117980 on August 23, 2019.

Information on the shelf registration: Not applicable.

## (II) Shareholder structure:

Stock stop-transfer date: March 2, 2020

Number / Composition of Shareholders:	Financial Institutions	Financial Institutions	Other Legal Persons	Individual	Foreign Institutions and Natural Persons	Total
Number of People	0	8	191	34,952	68	35,219
No. of Shares Held	0	3,925,552	119,773,852	458,257,189	83,771,907	665,728,500
Ownership	0.00%	0.59%	17.99%	68.84%	12.58%	100.00%

## (III) Composition of Shareholders:

Stock stop-transfer date: March 2, 2020

Shareholding Levels	Number of Shareholders	No. of Shares Held	Shareholding Percentage (%)
1 ~ 999	12,495	891,662	0.13%
1,000 ~ 5,000	13,340	32,130,125	4.83%
5,001 ~ 10,000	3,907	32,308,670	4.85%
10,001 ~ 15,000	1,290	16,435,437	2.47%
15,001 ~ 20,000	1,040	19,606,332	2.95%
20,001 ~ 30,000	906	23,721,889	3.56%
30,001 ~ 40,000	481	17,635,487	2.65%
40,001 ~ 50,000	363	17,175,394	2.58%
50,001 ~ 100,000	707	52,601,508	7.90%
100,001 ~ 200,000	337	48,279,770	7.25%
200,001 ~ 400,000	188	53,064,052	7.97%
400,001 ~ 600,000	62	31,065,610	4.67%
600,001 ~ 800,000	32	22,511,160	3.38%
800,001 ~ 1,000,000	16	14,506,100	2.18%
1,000,001 More than 1,000,001	55	283,795,304	42.63%
Total	35,219	665,728,500	100.00%

(IV) List of Principal Shareholders: Name of shareholders who hold more than 5% of the total shares or are ranked top ten of all shareholders and the number of shares they own and the ownership percentage.

Stock stop-transfer date: March 2, 2020, Unit: Shares

Name / Shares of Principal Shareholders	No. of Shares Held	Ownership
Far Eastern International Bank entrusted with the custody of Munsun Capital Taiwan's investment in new materials	59,271,760	8.90%
Innolux Corporation	57,211,305	8.59%
Ou-Chi Investment	21,741,000	3.27%
Yi-Ming Chang	8,190,000	1.23%
Citibank DFA emerging market core equity investment account	7,388,200	1.11%
Chien-Fu Kan	7,240,000	1.09%
Yuan-Jie Investment	7,000,000	1.05%
Tung-Chun Chiang	5,704,000	0.86%
Jau-Yang Ho	5,610,906	0.84%
Wiseman Investment	5,544,000	0.83%
Far Eastern International Bank entrusted with the custody of Munsun Capital	59,271,760	8.90%

Taiwan's investment in new materials		
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(V) Market price, net worth, earnings and dividends per share and the related information for the most recent two years:

Unit: Thousand shares, NT\$

Item		Year	2018	2019	Year ended March 27, 2020 (Note 8)
Market Value per Share (Note 1)	Highest		13.5	14.45	7.49
	Lowest		6.8	6.00	4.14
	Average		10.33	9.59	6.80
Net Worth Per Share	Before distribution		15.75	14.51	-
	After distribution		Note 2	Note 2	-
Earnings Per Share	Weighted Average Shares		665,729	665,729	665,729
	Earnings per share (Note 3)		-0.98	-1.03	-
Dividends Per Share	Cash Dividends		Note 2	Note 2	-
	Bonus Share	-	-	-	-
		-	-	-	-
	Dividends in Arrears (Note 4)		-	-	-
ROI Analysis	Price/Earnings Ratio (Note 5)		-10.54	-7.09	-
	Price/Dividends Ratio (Note 6)		Note 2	Note 2	-
	Cash Dividends Yield (Note 7)		Note 2	Note 2	-

\* If earnings or capital surplus are transferred to issue bonus shares as a capital increase, the information on the market value and cash dividends retrospectively adjusted according to the number of shares issued should be disclosed.

Note 1: List the highest and lowest market price per share of common stock in each fiscal year. Calculate each fiscal year's average market price based upon each fiscal year's actual trading prices and volume.

Note 2: The net loss of 2019 fiscal year was NT\$688,558,502. The proposal to not issue the board's remuneration, employees' compensation and surplus distribution has been approved by the audit committee and the board on March 18, 2020, and will be submitted to the shareholders general meeting for ratification.

Note 3: If retrospective adjustment is needed due to bonus shares, the earnings per share before and after the adjustment should be listed.

Note 4: If the provisions for the issuance of equity securities stipulate that the unpaid dividends of the current year may be accumulated to be distributed in the year when there is a surplus, the dividends that have been accumulated and unpaid for the year should be separately disclosed.

Note 5: Price-Earnings ratio = Average closing price per share / Earnings per share of the year.

Note 6: Price-Dividends ratio = Average closing price per share / Cash dividends per share of the year.

Note 7: Cash dividends yield = Cash dividend per share / Average closing price per share of the year.

Note 8: Data verified (audited) by the accountant for the most recent quarter as of the publication date of the annual report should be filled in the net worth and earnings per share. The remaining fields should be filled with data of the year as of the publication date of the annual report.

## Five. Overview of Operations

### 1. Contents of business:

#### (1) Scope of business:

The business scope of the Company is as the follows:

The Company is primarily engaged in the upstream optical film materials and components of LCD and focuses its business on such important component "Polarizer." Its specialty covers dyeing technology and precision bar coating technology. By integrating the optical and chemical engineering materials, the Company provides products of economic scale and mass production effect on the market.

Following the increasing demand for touch panels in the recent years, the demand for related parts and materials has also increased relatively. Therefore, the Company started to develop the optical pressure sensitive adhesive exclusively for the module of touch panel since 2011. For the time being, the Company still maintains its sales of such adhesive.

Subject to the diversity of customers, the Company has increasingly developed and extended new production application areas. After achieving the relevant sales, the Company's entire business sales is expected to be developed upward.

#### 1.Weight of business

Unit: NTD thousand; %

Main product	Purpose	2019	
		Net Revenues	Weight of business (%)
Polarizer	Polarizer refers to a component critical to LCD, which enables plastic materials to possess the polarized light characteristics through chemical engineering and optics technologies to display captions or pictures.	14,844,070	99.65
others	Chemicals, et al.	52,180	0.35
Total		14,896,250	100.00

※Current products:

(1). Upstream key components of TFT-LCD- " Polarizer"

Focus on the application products for large-size LCDs, such as the grinding LCD with economic size of 40, 50 and 58 inches, and the polarizers with high-contrast, high-penetration, high-resolution, heat-resistance and humidity-resistance characteristics.

- (2). The ultra-thin polarizer exclusive for IPS LCD and the high-durability polarizer exclusive for vehicles, and transparent optical adhesive with high-contrast, high-penetration, special surface treatment and exclusive for touch device characteristics.
- (3). High-humidity-resistant PET and COP Polarizer
- (4). Polarizers for OLED of small and medium sizes.
- (5). Key components for touch module - " General optical pressure sensitive adhesive" and "UV hardness optical pressure sensitive adhesive."

※Future products: The Company will develop and sell the following per the demand in the market:

- (1). Primarily engaged in the Polarizer for large-size TV.
- (2). Continue to develop and produce ultra-thin polarizers exclusive for IPS mobile phone with characteristics like high-contrast, high-penetration and low-rank touch-surface treatment.
- (3). Development of new recipes to increase the optical and weather resistance characteristics of polarizer products.
- (4). Develop and manufacture vehicle onboard polarizer products.
- (5). Develop and manufacture polarizers for OLED of small and medium sizes.

## (2) Overview of the industry:

### 1. Industry status and development

Polarizer refers to an important material of the upstream component for LCD. Each piece of LCD needs two pieces of Polarizer to work with the LCD to control light and form the picture.

For the time being, among the downstream industries which apply Polarizers, the large-size TFT-LCD has been applied extensively due to LCD TV, LCD monitor, notebook and pad. Meanwhile, the size of devices which apply the Polarizer tends to be larger and larger, and the demand for such consumable electronic products as pad, smart phone, digital camera and onboard devices, and personal wearable device, expansion and virtual-reality monitor still drive the demand for Polarizer in the market.

For the time being, there is difficulty in entering into the polarizer industry. Technically, as the 10.5th-generation LCD plant has been developed, the difficulty to enter into the polarizer manufacturers' production technology will increase relatively, and the R&D expenditure will be expanded constantly. As a result, it is difficult for newcomers in the industry to achieve similar output and production scale. Meanwhile, the key raw materials of the polarizer industry are still monopolized by a few Japanese manufacturers. The newcomers shall establish stable raw materials supply sources and then may have the chance to achieve stable production. Generally speaking, a polarizer is still an important component for LCD for the time being and there is no other alternative for it. Besides, the threshold for launching into the polarizer industry is strict and the industrial structure is unlikely to change substantially in the near future. Following the growth of the LCD industry scale, the polarizer industry's growth is still as expected .

In 2017, the new LCD production capacities developed continuously in Mainland China indeed created huge market opportunities for polarizer manufacturers.

According to the data published by Displaybank, the global demand for polarizer was about 463 million square meters in 2016, including 114 million square meters in the territories of Mainland China, i.e. 24.6%, while the GAGR was 39%, higher than the global GAGR, 8%. The Company took the chance to arrange its layout, and invested in the establishment of the full-process polarizer plant for the front-end engineering in Kunshan in 2014. So far, the plant is still under construction. After the plant is completed in 2017, the Company's production capacity of polarizer is expected to

increase, and the Company will work hard to develop and seek its market share of polarizer in Mainland China.

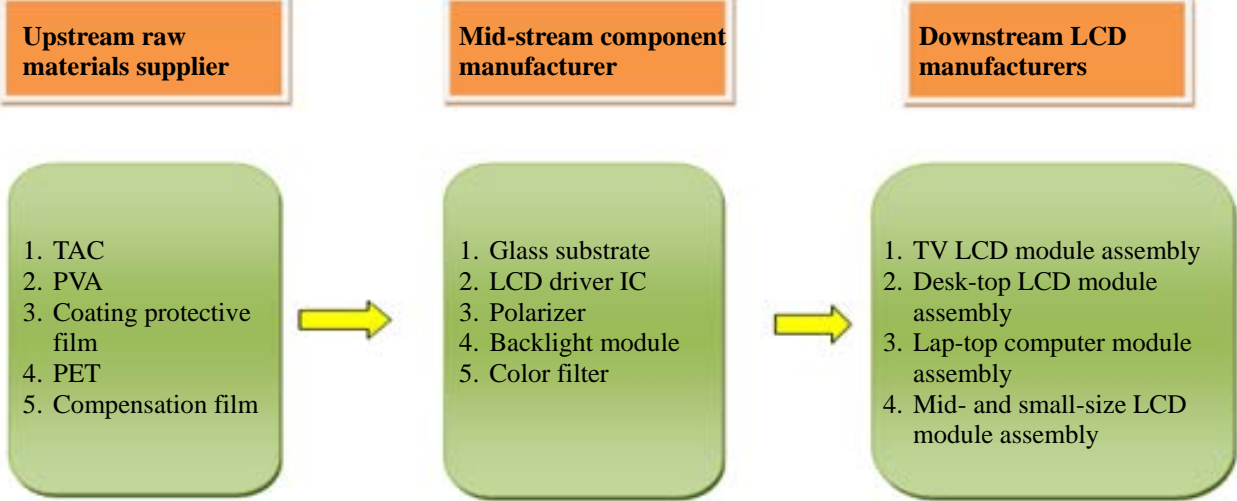
Manufacture		Number of generations	Yearly production capacity (10 thousand pieces)	Yearly demand for polarizers (10 thousand square meters)	Commissioning time (A.D.)
BOE	Hefei BOE	10.5	108	2400	2017
BOE	Fuzhou BOE	8.5	144	1800	2017
BOE	Jin Yang BOE	8.5	144	1800	2017
HKC	HKC	8.6	72	940	2017
CEC	Xianyang CEC	8.6	108	1400	2017
BOE	BOE	6	54	350	2017
CSO T	China Star Optoelectronics Technology	6	36	230	2016
AU O	AU Optronics Corp.	6	36	230	2016
CSO T	China Star Optoelectronics Technology	8.5	120	1500	Q2 of 2015
CSO T	China Star Optoelectronics Technology	11	140	2800	2019
CEC	Nanjing China Electronics Panda Crystal Technology Corporation (CEC Xtal)	8.5	72	900	Q1 of 2015
BOE	Chongqing BOE	8.5	108	1400	Q1 of 2015

For the time being, among the mainstream raw materials of the polarizer market, the TAC film for the TFT-LCD are primarily supplied by the two Japan-based manufacturers, FUJIFILM (FUJIFILM Holdings Corporation) (hereinafter referred to as "FUJIFILM") and Konica Minolta (Konica Minolta Holdings, Inc. (hereinafter referred to as "Konica Minolta") globally. Recently, TacBright Optronics Corp. based in Taiwan and HYOSUNG based in Korea have joined the TAC industrial chain. PVA films

are primarily supplied by Kuraray (Kuraray Trading Co., Ltd.) (hereinafter referred to as “Kuraray” ) and The Nippon Synthetic Chemical Industry Co.,Ltd. (hereinafter referred to as “Nippon Synthetic Chemical” ). The primary coating treatment film manufacturers are Dai Nippon Printing Co., Ltd. (hereinafter referred to as “DNP” ) and TOPPAN. Further, PET and compensation film suppliers are primarily Japan-based leading manufacturers. Apparently, the main raw materials of polarizer are still controlled by Japan-based manufacturers and, therefore, subject to the upstream suppliers, the polarizer manufacturers’ negotiation for price is subject to some restrictions when they wish to purchase the materials. Recently, the Mainland China manufacturers also worked hard to arrange their layout. The types of applied technologies and products are still under development.

Since then, the Company will continue to strengthen the layout for cooperation with upstream materials suppliers and work with downstream customers for product development. Generally speaking, the new LCD size and new product output increase constantly. Therefore, the demand for polarizers is expected to increase year by year.

2. Links between the upstream, midstream and downstream segments of the industry



(3) Overview of technology and R&D:

The products of the Company have gained a promising share in the market; therefore, in the future, in addition to stabilizing the production capacity of polarizers, new products will be developed continuously in order to achieve the objective of diversity of products.

1. With the growth of shipments of TV LCDs, the demand for large TV polarizers also increases. To cope with the market demand, the weight of polarizer

products for large TVs is adjusted higher accordingly, and the research and development direction will head toward the production of polarizers with the characteristics of high contrast, high transmissivity, resistance to high temperature and high humidity etc. in order to provide products of high quality and low cost to customers such that the competitive advantages of products of Chimei Materials are increased.

2. R&D and production of ultra-thin Polarizer exclusive for IPS mobile phone with such characteristics as high-contrast, high-penetration and low-rank touch-surface treatment.
3. Development of new recipes to increase the optical and weather resistance characteristics of polarizer products.
4. Research and development as well as manufacturing process with increased production machine speed as the improvement goals in order to significantly increase the product competitiveness of the Company.
5. Develop and manufacture vehicle onboard polarizer products.
6. Develop and manufacture polarizers for OLED of small and medium sizes.

The Company will continue to obtain the market demand and trend information and perform research and development as well as manufacturing of relevant products according to the future market demands at all times in order to achieve the objective of product diversity and in light of closely associating the product characteristics of the Company with the industry.

#### 1. R&D personnel and their educational background and work experience

Unit: person

Items \ Year	2018		2019		2020 and until March 27	
	Number of person	Percentage	Number of person	Percentage	Number of person	Percentage
Master and above	33	58.93%	2732	44.45%	28	43.08%
College	20	35.71%	33	45.83%	30	46.15%
High school	3	5.36%	7	9.72%	7	10.77%
Total	56		72		65	

Average seniority	5.17	6.72	7.02
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Note: Since 2015, the R&D process technicians' related expenses have been classified into the manufacturing expenses, instead of R&D expenses.

2. Further expenditures expected for research and development work in the most recent five years

Unit: NT\$ thousand

Year Items	2015	2016	2017	2018	2019
R&D expenses (A)	277,126	338,671	440,846	449,827	459,168
Net operating revenues (B)	12,747,295	10,374,172	11,440,772	12,767,162	14,896,250
(A)/(B) (%)	2.17%	3.26%	3.85%	3.52%	3.08%

(3) Technologies and products successfully developed in the past five years

Year	R&D Results
2015	Low-bending IPS type polarizer UV-curing type OCA OCA integrated polarizer EWV TYPE vehicle polarizer IPS TYPE vehicle polarizer Ultra-thin 78u IPS( 20u Zero TAC) polarizer
2016	Industry Improvement and Innovation Platform by the Ministry of Economic Affairs Development of weather- and water-resistant vehicle polarizer materials
2017	HCLR/COP VA Polarizer Ultra-thin 98u IPS ULTRA-NOTEBOOK polarizer 96u OLED 96u ultra-thin OLED polarizer IPS 76u FOR INCELL DESIGN Ultra-high conductivity IPS 76u polarizer for in cell design Sunglass-free 82u medium to small polarizers 85°C/85% Industrial control high temperature- and humidity-resistant 85°C/85% polarizer
2018	PET/PK3 VA polarizer PET/ZERO IPS polarizer 76u IPS ULTRA-NOTEBOOK Ultra-thin 76u IPS ULTRA-NOTEBOOK polarizer Total thickness of upper and lower plates at 150u-APCF polarizer for mobile phones U-SHAPE/ NOTCH SHAPE polarizer for mobile phones 115u OLED Integrated black OLED polarizer for mobile phones IPS TYPE vehicle front E-MODE TYPE compensation film polarizer
2019	180u double Z structure – Mobile phone polarizer TAC/PK3 industrial control high temperature-resistant polarizer MEGAZONE HDRTV special HDR (high-dynamic-range imaging) TV polarizer TAC/NR01 TV polarizer 190u & 210u TOD type Notebook Total thickness of upper and lower plates at 180u-APCF Notebook polarizer Ultra-thin 76u IPS 300ppi high-resolution NOTEBOOK polarizer IPS ink MNT bezel-less polarizer

#### **(IV) Long- and short-term business development plans:**

Short-term business development plan:

Marketing and manufacturing strategies

Marketing strategy:

Expand the client base and continue to improve the percentage of revenue contributed by the markets in China and Japan.

Increase the market share of the Company's medium- and small-sized products.

Develop polarizers which have the latest technology and the best quality to serve customers and maintain the exchange of technology and market of both parties. Become customers' trustworthy and reliable supplier and steadily expand our market share.

In terms of the manufacturing strategy, expand automation, reduce labor cost and improve capacity utilization to improve the Company's competitiveness in the market of polarizers.

The Company understands the supply and demand of polarizers in the market and continues to collaborate with clients in building a closer communication channel in manufacturing, sales and supply. We are committed to meeting customer needs and timely develop and sell product which can meet their demand to ensure that we achieve our profitability goals.

Manufacturing strategy:

Continuously improve the manufacturing process and the rationalization of the manufacturing system.

Quickly respond to customer needs and value both quality and quantity.

Conserve raw materials and resources to reduce losses and wastes during the manufacturing process.

Focus on safety and environmental protection.

Direction of product development

Increase the optical characteristics of polarizers on LCD. Develop new materials to improve the performance of basic polarizers and integrate additional functions to manufacture products which are even better in environmental protection and energy conservation.

Economies of scale

The automation of manufacturing and sales information closely links the market information, in-house manufacturing plan and procurement strategy. It also efficiently controls the inventory of raw materials, semi-finished products and finished products to reduce operating costs and increase profitability.

Financial cooperation

Conduct the best planning for the financial structure. Actively manage the working capital. Reduce the operational risks.

Establish sound and diverse financing channels and close collaborative relationships with financial institutions.

## Long-term business development plan

### Marketing strategy:

Develop polarizers which have the latest technology and the best quality to serve customers and maintain the exchange of technology and market of both parties. Become customers' trustworthy and reliable supplier and steadily expand our market share.

In terms of the manufacturing strategy, expand automation, reduce labor cost and improve capacity utilization to improve the Company's competitiveness in the market of polarizers.

### Economies of scale

Expand our business scale with our competitive medium- and small-sized polarizers used in large-size TVs and mobile devices that have TFT-LCD. Develop products for optical film applications and expand our product line in the market of optical films.

### Financial cooperation

In response to the growth of our long-term operation scale, we will reinforce our financial structure and use sound and diverse financing channels to build the most appropriate capital structure.

## II. Overview of the Market and Its Marketing:

### (I) Market analysis:

#### Main product sales and services regions

Unit: In NT\$1,000

Year		2018		2019	
		Sales Revenue	Percentage(%)	Sales Revenue	Percentage(%)
Domestic		3,046,250	23.86%	3,165,325	21.25%
Overseas	Asia	9,720,912	76.14%	11,730,925	78.75%
	Overseas Subtotal	9,720,912	76.14%	11,730,925	78.75%
Total		12,767,162	100%	14,896,250	100%

#### Market share

According to the latest report from the market research agency Rising Sun Display and Touch, the overall market capacity for polarizers in 2018 has reached 2.294 million square meters, and it is expected to reach 2.536 million in 2020.

In term of the market share of major suppliers, Nitto Denko is ranked No. 1. LG Chem, including its FPR market, is ranked No. 2. Sumitomo Chemical is ranked No. 3. With different types of competitiveness in technology, auxiliary materials and manufacturing capability, each supplier has different advantages and disadvantages in various applications and products. In terms of the polarizer market share, CMMT is currently among the top 4 suppliers.

#### Future supply and demand and growth of the market

Chen Mei Materials Technology has maintained the stable yield, conducted debottlenecking and increased output of the Tainan plant since 2018. In the field of polarizers used in TVs, the Company has collaborated with its upstream raw materials suppliers to use the next generation of raw film materials and develop new materials to replace TAC films. The Company also has collaborated in-house with panel plants to adopt new types of manufacturing process to improve the yield of TV polarizers and capacity utilization.

In terms of polarizers for mobile devices, the Company has continued to jointly develop ultra-thin, multi-functional and specialized polarizers (such as for the vehicle market) with major customers. We also have continued to explore new customers and maintained flexible allocation of manufacturing capacity to meet our customers' needs and ensure that we have the best flexibility in our manufacturing and sales and reasonable inventory levels.

#### Competitive niche

Rich professional experience of R&D personnel

The dyeing and extension of PVA film and the bonding of PVA and TAC films in the

manufacturing process of polarizers can affect the overall manufacturing efficiency and quality level. In terms of the design of our manufacturing process and equipment, our personnel have accumulated years of professional experience, and the technology level has reached the level of the world's advanced suppliers. We participate in the initial design and development of equipment and conduct detailed modifications in-house to meet our needs of manufacturing process and improve our efficiency and quality. We have adopted a conservative and stable strategy in our equipment design and conducted rigorous assessment. All design considerations aim at the feasibility of mass production, and the manufacturing efficiency is our criteria for judgment.

We have an excellent R&D team and we conduct continuous improvement to our manufacturing technology, product characteristics and quality to provide customers with samples which they can certify in response to their needs for development of new products, further enhancing our competitiveness.

#### Product and equipment development capabilities

A polarizer is an important component in the upstream of panel supply chain. The performance in functions and specifications can play a significant impact on the performance and quality of panels; therefore, polarizer manufacturers must understand the needs of panel manufacturers in the initial design stage of products and equipment and select the most appropriate materials and design. Due to the gaps in specialization and information between panel manufacturers and raw materials suppliers, polarizer manufacturers need to actively conduct two-way communication and integration. We have developed good collaborative partnerships with our upstream and downstream partners. Our rich experience in quickly placing products in mass production enables us to align raw materials suppliers, polarizer manufacturers and panel manufacturers to build mutually beneficial partnerships and further promote the development for new products. The vertical integration can greatly shorten the development time and reduce cost for downstream panel manufacturers, which also shortens their time to market and enhances their product competitiveness, further fulfilling the purpose of mutual benefits.

#### Early entry into potential markets

Our competitive advantages in the manufacturing technology and price for the mainstream LCD panel products have enabled us to stay competitive with the world's major manufacturers, and we can fully collaborate with panel manufacturers to supply them from a short distance. The government of China has vigorously supported the local panel industry and promoted the localized manufacturing of panels, which greatly boosted the production capacity of local panel manufacturers, causing the short supply in polarizers.

We have improved our product quality and actively understood the development

trends and needs of our customers. We can develop products which can stay in line with the market trends, and cultivate the collaborative relationships with customers to retain future orders. We have actively developed local customers in response to the growing demand for polarizers in China. We have continuously refined our product quality and improved the manufacturing process, and our polarizers have obtained the certification from China's main panel manufacturers and won their orders.

As we are optimistic about the automobile audio-video equipment market in China, we have been actively trying to set a foot in the automobile panel market there to gain sustainable orders.

#### Cost advantage

Adopting reasonable measures to seek cost advantages is part of our philosophy in our manufacturing technology. Therefore, we constantly implement improvement programs for various indicators, such as production yield, wear and tear, utilization rate in cuts of products and throughput, as well as manpower allocation, to continuously reduce our production costs. We have possessed in-house research and development capabilities of testing equipment. The capabilities enable us to improve automation and reduce labor cost. We are committed to shortening the development time of products and stabilizing the production scale within the shortest amount of time. All these efforts enhance our overall competitiveness. Therefore, we have the advantage in product cost compared with other industry peers. As we have maintained stable and trusting collaborative relationships with our downstream customers, we can grasp the change in their orders in advance and conduct effective inventory control of all materials. We are able to reduce the amount of idling materials and prevent the occurrence of insufficient preparation and work stoppage caused by materials shortage, relieving us from the concerns with scraps caused by the expiration of inventory and further reinforcing our cost advantage in our polarizers.

#### Factors favorable and unfavorable to the development, and countermeasures

##### \* Favorable factors

The market applications of LCD panels remain common and popular.

From medium to small-sized consumer electronic products, LCD panels can be used on LCD TVs, mobile phones, smart phones, digital cameras, monitors and others. The wide and popular adoption in the market leads to a great demand for LCD panels in the overall consumer market. New electronic products are constantly being introduced, and new technologies often set off a wave of demand. In view of the current market trends, the applications in LED backlight modules and 3D imaging will further expand the demand for LCD TVs or facilitate the replacement of TVs. As large-sized TVs and medium- and small-sized mobile devices and tablet computers will become the mainstream of future products and the growth in consumer electronics market will occur after the economy recovers, the demand for LCD panels will continue to growth, indirectly driving the growth in upstream panel components

industry such as polarizers.

China's active investment in the LCD panel industry, further expanding the demand for components in the upstream

Based on the expected production capacity of panels for the next three years announced by China back in 2018, the huge market opportunity remains for polarizer manufacturers. The rapid expansion of production capacity for LCD panels in China will drive the substantial growth in components from the upstream suppliers, and polarizers are considered a key component in the upstream. China will have additional production capacity for panels in the next three years, driving up the demand for polarizers. Once our plant in Kushan is completed, we will be able to improve our market share in polarizers.

As we are optimistic about the automobile audio-video equipment market in China, we have been actively trying to set a foot in the automobile panel market there to gain sustainable orders.

Product certification takes a long time, so it is difficult for new market entrants

As polarizers are a key component of panels, panel manufacturers will always certify and conduct quality control of production lines of polarizers to prevent upstream products from failing to meet the established standard specifications. As the certification process takes time, panel manufacturers often avoids trying materials provided by new vendors in order to maintain product quality. As the domestic panel manufacturers are current in oligopoly, it is quite favorable for the companies who are stable suppliers to the panel manufacturers, which makes it a barrier to entry for new polarizer manufacturers.

\* Unfavorable factors and countermeasures

Unfavorable Factors (2)	Countermeasures
Main raw materials needed for manufacturing require import	<p>The annual production rate of the polarizer industry is highly correlated with the speed of raw materials supply. The main suppliers of the materials used in TAC, PET and COP are mostly Japanese companies, such as FUJIFILM, Konica Minolta, Toyobo and Zeon.</p> <p>We make purchases in large quantities to arrive at a reasonable price reduction from suppliers and maintain long-term collaborative relationships with main suppliers. In order to prevent Japan's natural disasters from affecting the overall global economy, which may lead to difficulties in obtaining raw materials, we have added secondary suppliers, and actively searched for alternative raw materials to diversify the concentration risk.</p> <p>As for the raw materials in oligopoly market, such as TAC, PET and COP, we have also continued to track the domestic manufacturers who have invested in the manufacturing of TAC films and tested their product</p>

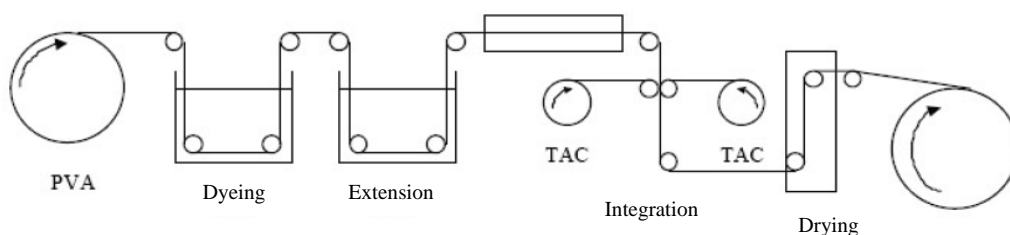
Unfavorable Factors (2)	Countermeasures
	quality. It is hoped that the competitive structure of the raw materials suppliers in upstream can be improved. We have reinforced our quality control, assessed the safety stock and established emergency response organizations and structure to carry out countermeasures in the event of an accident, minimizing the Company's risks and losses to reduce the risk associated with the shortage in materials.
Price reduction in polarizers to meet downstream customers' demand	In order to meet downstream panel manufacturers' large demand and seek a stable profit margin, we will adjust our product mix to continuously improve our yield, maximize capacity utilization and reduce cost to improve products' competitiveness. In response to the growing needs for future consumer electronics, we have actively tried to expand the market for medium- and small-sized panel. Composite cutting is adopted to improve the utilization of raw materials and create additional profit. We also constantly develop new products to meet the downstream customers' requests for price reduction.
Fluctuation in the Japanese currency, further affecting the Company's material costs	In order to reduce the exchange rate risk, we undertake forward exchange contracts in our finances to mitigate the impact caused by sharp fluctuations in the exchange rate. We have also planned to source from domestic suppliers, hoping that we can shorten the delivery time, reduce the dependence on Japanese suppliers and reduce currency exchange risk by hedging.

(2) Usage and manufacturing process of the Company's main products:

1. Important purpose of main products

Main products (commodities)	Important purpose or function
Polarizer	<ul style="list-style-type: none"> <li>■Polarizer enables plastic materials to possess the polarized light characteristics through chemical engineering and optics technologies, which refer to a light guide plate which permits only one-direction light permeability.</li> <li>■One piece of polarizer is required in the process of production of LCD at the top and bottom, respectively, and shall be embedded in alternate directions.</li> <li>■The main purpose is to enable the source of light to generate a phased difference to reflect brightness and darkness in electric field and non-electric field, so as to display caption or picture.</li> </ul>

2. Production process of main products: As shown in the following chart.



Source of data: Topology Research Institute, 2010/06

### (III) Supply status of main raw materials:

Polarizers' main materials and the suppliers are shown as follows:

Constituent Materials	Functions	Main Suppliers
Surface treatment film	Reduce reflection and is anti-glare Increase visual performance	FUJIFILM, DNP ,Toppan, Nippon Paper
PVA (Polyvinyl alcohol film)	Polarization	Kuraray, Nippon Synthetic Chem Industry
Release film	Adhesive protection	Mitsubishi Chemical, Toray, Nanya
Protective film	Protective polarizer	Fujimori Kogyo, Nitto Denko, Sun A. Kaken, LG Chem
Compensation film *TAC (Cellulose triacetate film) *COP (Cyclo olefin polymer)	Reduce the amount of light leakage when the LCD is in a dark state. Compensation of contrast and chromaticity. Support and protection of polarizers and other functions.	FUJIFILM, Konica Minolta, Zeon, HYOSUNG, TacBright Optronics Corporation
PSA (Pressure-sensitive adhesives)	High weather-resistance	Soken, Saiden, NCI, Fujimori Kogyo
PET	Replace TAC to be the protective layer for PVA and provide water blocking.	Toyobo

Main suppliers are currently in Japan, and it is currently an oligopoly. However, we have maintained good relationship with our suppliers, and the supply of materials can meet the needs in manufacturing. In recent years, several companies both at home and abroad have been committed to the development of materials in the field, which will further benefit in securing the supply of main materials. Currently, the sources of raw materials supply to us are stable and reliable.

(IV) Parties who deliver more than 10% of the total raw materials or buy more than 10% of goods sold any one of the past two years:

Information on the main suppliers the past two years

Unit: In NT\$1,000

Year	2018				2019				2020 up to the previous quarter			
Item	Name	Amount	% of the net purchase of the year	Relationship	Name	Amount	% of the net purchase of the year	Relationship	Name	Amount	Percentage of the net purchase as of the end of the previous quarter in the year (%)	Relationship
1	FUJIFILM CORPORATION	1,634,947	16.11	None	KONICA MINOLTA , INC.	1,672,602	14.59	None	-	-	-	-
2	KONICA MINOLTA , INC.	1,301,969	12.83	None	FUJIFILM CORPORATION	1,197,903	10.45	None	-	-	-	-
3	KURARAY TRADING CO LTD	1,127,495	11.11	None	Kuraray Trading CO., LTD	1,328,845	11.59	None	-	-	-	-
	Others	6,082,773	59.95	None	Others	7,262,703	63.37	None	Others	-	-	-
	Net purchase	10,147,184	100	None	Net purchase	11,462,053	100	None	Net purchase	-	-	-

Note 1: List the names of suppliers whose deliveries account for more than 10% of the total purchase, and their amounts and percentages. Supplier codes may be used if the names cannot be disclosed as required by the contract or if the transaction counterparty is an individual and is not a related party.

### III. Employees:

Unit: Number of people, and %

Year		2018	2019	2020 As of March 18
Number of Employees	Direct labor	818	793	770
	Indirect labor	353	351	352

	Total	1171	1144	1122
Average age		35.17	36.05	36.31
Average service tenure (year)		6.57	6.95	7.14
Distribution of educational background (%)	Master's degree / PhD	9.48%	10.23%	10.07%
	College	59.01%	61.28%	61.50%
	Senior high school (vocational school)	31.43%	28.50%	28.43%
	Below senior high school	0.08%	0.00%	0.00%

#### IV. Environmental Protection Expenditure:

For those who are required to apply for a pollution facility installation permit or pollution discharge permit, or those who are required to pay pollution prevention fees or organize staff for environmental protection in accordance with the law, the process for application, payment or establishment is described as follows:

The Company's related environmental permit, approval documents and document number:

Name of public and private facility: Chen Mei Materials Technology Co., Ltd. Control Number: R90A0401 Address: No. 13, Mushangang West Road, Shanhua District, Tainan City
Operating permits for stationary sources I. Manufacturing procedures (M01) for other photoelectric materials (polarizers) and components. October 5, 2018 Tainan City Government Huan-Chao-Cheng-Zhi Document #D0051-03. II. Boiler steam generation procedures (M02) September 5, 2018 Tainan City Government Huan-Chao-Cheng-Zhi Document #D0537-02. III. Manufacturing procedures (M03) for other photoelectric materials (polarizers) and components. October 5, 2018 Tainan City Government Huan-Chao-Cheng-Zhi Document #D0930-02.
Water pollution prevention permit November 21, 2018 Tainan City Government Huan-Shui-Zhi Document #01264-13.
Proposal for disposal of business waste August 31, 2018 Tainan City Government Fu-Huan-Shi-Zhi Document #1070960703. Approval number for disposal proposal: R09512080001
Approval documents for toxic chemical substances I. Tainan City Government approval document for the Class 4 toxic chemical substances: 079-21-J0078 September 26, 2018 Tainan City Government Fu-Huan-Shui-Zhi Document #1071010329. II. Tainan City Government approval document for the Class 4 toxic chemical substances: 107-21-O0003 September 26, 2018 Tainan City Government Fu-Huan-Shui-Zhi Document #1071010329. III. Tainan City Government approval document for the Class 4 toxic chemical substances: 117-21-O0003 September 26, 2018 Tainan City Government Fu-Huan-Shui-Zhi Document #1071010329. IV. Tainan City Government approval document for the Class 4 toxic chemical substances: 164-21-O0001 September 26, 2018 Tainan City Government Fu-Huan-Shui-Zhi Document #1071010329.

The Company's payments for air pollution control fees

Unit: NT\$

Year	Air pollution control fee
2017	152,160
2018	150,877
2019	182,965

The Company's payments for the use of sewage treatment system

Unit: NT\$

Year	Sewage treatment system fee
2017	18,404,442
2018	18,976,303
2019	17,059,353

Appointment of the Company's environmental protection personnel

Class A air pollution control specialist: Guang-Wang Wu (105) Huan-Shu-Shun-Zheng-Zhi Document #FA130671
Class A sewage treatment specialist: Meng-Zong Liu (90) Huan-Shu-Shun-Zheng-Zhi Document #GA160143 Lien-Jie Su (102) Huan-Shu-Shun-Zheng-Zhi Document #GA160143 Class A waste disposal specialist: Jing-Ru Hung (103) Huan-Shu-Shun-Zheng-Zhi Document #GHA050590 Class B sewage treatment specialist: Chi-Hao Wang (96) Huan-Shu-Shun-Zheng-Zhi Document #GB100871
Class A waste disposal specialist: Jing-Ru Hung (103) Huan-Shu-Shun-Zheng-Zhi Document #GHA050590

Annual emissions of carbon dioxide or other greenhouse gases in the past two years:

\* The industry's effects on the greenhouse gas emissions, or the extent of impact:

( I) Enterprises' risks being subject to regulations and rules related to climate change: In accordance with the Greenhouse Gas Reduction and Management Act and the measures for stationary sources of greenhouse gas emissions to be reported for public and private facilities, the Company has not yet met the reporting requirements for the 2nd batch of public and private facilities which generate annual greenhouse gas emissions of at least 25,000 metric tons from burning of petrochemical products, so no reporting is required for the time being. However, we have started to take the greenhouse gas inventories since 2010, at our customers' request, and commissioned a third-party audit agency to verify our emissions.
(II) Enterprises' substantial risks being exposed to climate change:

- 1 ∙ Changes in supply and quality of water.
- 2 ∙ Potential impact from the continuous high temperature of the environment.
- 3 ∙ Rising sea level and the increasing frequency of natural disasters such as heavy rain, typhoon, flood and others.
- 4 ∙ The increased frequency and intensity of extreme climate events.
- 5 ∙ The impact from industry stakeholders which directly affects the development of industries.

(III) Opportunities presented to enterprises due to climate change:

- 1 ∙ Efficiency of resources utilization during the manufacturing process. Reduce the use of water resources and improve the recovery rate.
- 2 ∙ Design a new standard weather-resistant infrastructure. Adopt the new standard to design the air-conditioning or improve the efficiency of existing equipment.
- 3 ∙ Examine the existing system, and replace or upgrade it. Establish responsive measures for accidents and natural disasters.
- 4 ∙ Establish product life cycle and market development. Build brand awareness and product features to improve the flexible work-life balance.

(IV) Enterprises' (direct or indirect) greenhouse gas emissions (specify the scope and time) and whether they have passed external verification:

Verification criteria: The Greenhouse Gas Reduction and Management Act (excluding the relevant provisions of Taiwan' s National Greenhouse Gas Registry), Environmental Protection Administration's Greenhouse Gas Inspection Guidelines (excluding the relevant provisions of Taiwan' s National Greenhouse Gas Registry), and CNS 14064-1 Greenhouse gases Part 1: Specification with guidance at the organization level for quantification and reporting of greenhouse gas emissions and removals.

Verification scope: Chen Mei Materials Technology, located at No. 13, Mushangang West Road, Shanhua District, Tainan City, has and operates 1 LCD polarizer (film) factory, and there is a total of 1 facility.

Inventory period: January 1, 2018 to December 31, 2018.

Verification data: There is a total of 50,825.146 metric tons of carbon dioxide equivalent in accordance with the GWP values of the 2007 IPCC AR4 Fourth Assessment Report, which includes,  
 Direct greenhouse gas emissions (Scope 1): 17,425.7674 metric tons of carbon dioxide equivalent  
 Indirect greenhouse gas emissions from energy (Scope 2): 33,399.3790 metric tons of carbon dioxide equivalent

(The greenhouse gas emissions of purchased electricity from Taiwan Power Company are calculated based on the 2018 coefficient of 0.533 kg CO<sub>2</sub>-e / kW announced by the Bureau of Energy of the Ministry of Economic Affairs on July 5, 2019.

The information on the verifications which have been completed by external verification agencies are shown as follows:

Statement Number: 00096-2019-AP-TWN-TAF

Verification organization: DNV GL Business Assurance Co., Ltd.

Date of verification process: August 9 to September 2019.

Issuance date of verification statement: September 11, 2019.

\* Enterprises' strategy, method and goals with respect to greenhouse gas management:

(I) The Company's strategy for climate change or greenhouse gas management:

1. Internal: Establish the Company's adjustment strategy, quantitative data or explain the associated risks and opportunities.

2. Interactions between the industry and market: Appropriate information disclosure. Co-create useful tools and experience analysis with the industry. Provide technical assistance to or jointly develop with customers and suppliers to come up with products and services which can meet their needs.

We reinforce our air pollution control measures with respect to direct greenhouse gas to reduce emissions. Conduct a variety of energy-saving measures. For equipment which consume high energy, we have inverters to improve the efficiency. The indirect greenhouse gas emissions can relatively be reduced by 90 metric tons CO<sub>2</sub>-e / year.

(III) The budgeted target and plan for reduction of greenhouse gas emissions:

The solar power generation system generated a total of 815,051 kW in 2018, and all the electricity generated were for in-house use. Therefore, we reduced the external purchase of electricity from Taiwan Power Company by 815,051 kW, cutting about 434 metric tons of CO<sub>2</sub> emissions (Calculated based on the 2018 coefficient of 0.533 kg CO<sub>2</sub>-e / kW from Taiwan Power Company announced by the Bureau of Energy of the Ministry of Economic Affairs. We have also started to apply for renewable energy certification from the National Renewable Energy Certification Center since May 2017 and obtained a total of 815 certificates in 2018 (each certificate represents 1,000 kW)).

(IV) Carbon reduction effects for customers or consumers brought by products or services:

Based on the 2018 greenhouse gas emissions, we derive that the unit product emissions are 0.00025 metric tons CO<sub>2</sub>-e / PCS.

5. Labor relations:

**(1) Present the availability and execution of employee welfare, continue education, training and retirement policies, the agreements between employers and employees, and protection measures of employees' rights:**

1. Employee welfare, employees' continuing education and training

(1) Employee welfare

The Company is used to respecting and caring employees as one of its management philosophies. In order to take care of colleagues and their family members physically and mentally, and to establish various life protection measures to rest assure the colleagues when they work hard for the Company, the Company provides various welfare plans. Meanwhile, the Company's colleagues form the Welfare Commission responsible for planning and boosting employee welfare matters.

The status of implementation of employee welfare includes providing related activities, tourism subsidies, health lectures, etc. in accordance with the budget of employee welfare committee.

(2) Employees' continuing education and training

Considering that educational training plays a role specialized in enabling enterprises to reach consensus, the Company boosts systematic training in the following manner each year to enable colleagues to share the training resources completely.

A. Complete orientation training

The Company will perform training on all new employees for two days to enable them to verify the environment and work requirements in the Plant through the program series.

For the administrative and engineering staff, the Company also provides additional training about production process and operations, in hopes of enabling colleagues to know better about the production, process, product and service.

B. Promotion of internal trainer training plan

The "internal trainer" is the best spokesperson for an enterprise to communicate knowledge. Therefore, the Company will boost the professional internal trainer training plan step by step to reflect the internal professionals' knowledge systematically to help the Company accumulate professional human resources rapidly.

C. Execution of various full-time jobs' systematic training

Each full-time staff shall execute the training operations according to the relevant certification system, and perform the training course series by topic and function to be in line with the training topic each year.

In addition to full-time staff, the management also initiate training for various management level per the requirement about their function.

(3) Strive for more training resources through various subsidies

In order to enable colleagues to share plentiful training resources, the Company has boosted diversified training under the plans cooperated with government plan.

2. Retirement system and status of implementation thereof: The Company complies with Labor Standard Law and Labor Pension Act, and implements the retirement system fairly.

(1) Labor and management settlement: The Company values employees' opinion and calls the labor-management meeting periodically.

(2) Status of measures implemented to protect employees' interest and right: The Company values employees' opinion, encourages colleagues to communicate with related staff in a public and transparent manner if they have any opinion, and demand that the supervisors and related departments should respond to employees soon, to fulfill the purpose of two-way communication.

**(2) Identify actual or estimated losses arising as a result of employment disputes in the most recent year and until the date of publication of the annual report, and any responsive measures taken:**

1. The Company so far has not been involved in any labor dispute. No dispute arises between the Company and employees, nor loss from the labor dispute is caused.

2. Current and possible measures:

✓Comply with labor laws and strengthen welfare measures.

✓Establish an open and honest communication and complaining channel between the Company and its employees.

✓Establish the operation management system involved by all employees.

3. Estimation of current and possible losses: The Company upholds the harmonious and ethical management policy. Unless any incident occurs, the labor management relationship tends to be harmonious and no loss is expected to arise.

**6. Important contracts:**

Nature	Parties	Term	Main contents	Restrictive clauses	Note
Technology License Agreement	The Company and Kunshan CHIMEI Materials Technology Corporation	Both parties signed the "Technology License Agreement and Supplemental Agreement" on March 17, 2017.  The Agreement shall become effective from December 1, 2016 retroactively, until November 30, 2022.	Polarizer Technology License	Not applicable	1
Technology License	Kunshan CHIMEI Materials Technology Corporation, Hangzhou Jinjiang Group Co., Ltd, Shenzhen	Kunshan CHIMEI Materials Technology Corporation, Hangzhou Jinjiang Group Co., Ltd, Shenzhen Shengbo	Polarizer Technology	Not applicable	2

Agreement	Shengbo Optoelectronics Technology Co., Ltd., and Nitto Denko Corporation	Optoelectronics Technology Co., Ltd., and Nitto Denko Corporation signed the polarizer technology cooperation agreement on November 6, 2017.	License		
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Note 1: The Agreement refers to the “Polarizer Technology License Agreement signed with Kunshan CHIMEI Materials Technology Corporation” passed by Audit Committee and Board of Directors on March 10, 2015. Both parties then signed the “Technology License Agreement and Addendum” on March 17, 2017 to be in line with the construction progress of Kunshan CHIMEI Materials Technology Corporation and planning of mass production timeframe. The Agreement became effective from December 1, 2016 retroactively, and will expire on November 30, 2022.

Note 2: The Agreement refers to the polarizer technology license agreement passed by Audit Committee and Board of Directors on November 2, 2017 and signed by Kunshan CHIMEI Materials Technology Corporation, Hangzhou Jinjiang Group Co., Ltd, Shenzhen Shengbo Optoelectronics Technology Co., Ltd., and Nitto Denko Corporation. This agreement will introduce the world's most advanced manufacturing technology, along with the large-size LCD panel cutting utilization rate, to increase the unit capacity utilization rate and reduce the manufacturing cost, thereby enhancing the Company's competitiveness, jointly entering the panel market in China, and maximizing the interests of shareholders.

7. Other important notes: None.

## VI. Overview of Finance

~ Omitted ~

(2) Names of the independent auditors and audited opinions for the most recent five years

1. Names of the independent auditors and audited opinions for the most recent five years

Year	Accounting Firm	Independent auditor	Audit opinion
2015	Deloitte & Touche	Ming Hui Chen, Shu Chieh Huang	Unqualified opinion
2016	Deloitte & Touche	Ming Hui Chen, Shu Chieh Huang	Unqualified opinion
2017	Deloitte & Touche	Ming Hui Chen, Shu Chieh Huang	Unqualified opinion
2018	PricewaterhouseCoopers Taiwan	Yi Chang Lin, Tzu Meng Liu	Unqualified opinion with the paragraphs of material uncertainty related to going concern and other matter.
2019	PricewaterhouseCoopers Taiwan	Tzu Meng Liu, Chien Chih Wu	Unqualified opinion

**The Company and its affiliates have experienced financial difficulties in the most recent fiscal year and during the current fiscal year up to the date of publication of the annual report:**

The Company changed its chairman on the temporary board of directors on January 14, 2019, which caused unstable management rights. The creditor banks have doubts about the guarantee of the creditors' rights under the uncertainty of the chairman. Therefore, all banks have frozen the credit limit of Cheng Mei Materials.

The Company has communicated and discussed with banks many times. However, the conditions proposed by the banks cannot be fully satisfied by Cheng Mei Materials and some directors, thereby banks did not unfreeze the limit after all. Due to the continued tightening of liquidity and the continuous outflow of funds due to repayment of bank financing and prepaid purchase materials, Cheng Mei Materials passed a proposal on March 22, 2019 by the board of directors to apply for debt negotiations with the Industrial Development Bureau of the Ministry of Economy. Afterwards, Industrial Development Bureau of the Ministry of Economy transferred the application to the largest creditor bank on April 3, 2019 and requested the bank to preside over the relevant procedures for debt negotiation.

The Company expects that more bank credit lines can be agreed to resume, so that the Company can use this bank credit line to improve liquidity and thereby make the Company's operations return to normal track as soon as possible.

On January 31, 2020, the board of directors of the Company passed the proposal to apply for debt negotiations with the Industrial Development Bureau of the Ministry of Economy. Afterward, Industrial Development Bureau of the Ministry of Economy transferred the application to the largest creditor bank on February 19, 2020 and requested the bank to preside over the relevant procedures for debt negotiation. On February 21, 2020, the largest creditor bank convened a consultation meeting on the creditors' rights and debts of all creditor financial institutions. On February 27, 2020, the Company received the minutes of the debt negotiation meeting held on February 21, 2020 from the largest creditor bank.

The Company expects that more bank credit lines can be agreed to resume, so that the Company can use this bank credit line to improve liquidity and thereby make the Company's operations return to normal track as soon as possible.

### 3. Analysis of cash flows:

Any cash flow changes during the most recent year, corrective measures to be taken in response to illiquidity, and liquidity analysis for the coming year.

#### (1) Analysis of cash flow changes during the most recent fiscal year:

Unit: NT\$ thousand

Items	2018	2019	Amount of increase or decrease
Operating activities	-1,079,300	723,030	1,802,330
Investing activities	-4,972,929	-4,527,761	445,168
Financing activities	4,506,408	498,645	-4007,763
Total	-1,545,821	-3,306,086	-1,760,265

Analysis of changes in cash flow:

1. Operating activities: The decreased net loss before tax in 2019, the increased accounts receivable and inventory, the decreased accounts payable and prepayment resulted in the increase in net cash outflow from operating activities in 2019.

2. Investing activities: The Company's investment in the real estate, plant, and equipment of Kunshan CHIMEI Materials resulted in the increase in cash outflow.

3. Financing activities: The case increase from non-controlling interests of subsidiaries was made, NT\$872,572 thousand, thereby resulted in the increase in net cash inflow from financing activities in 2019.

#### (2) Corrective measures to be taken in response to insufficient liquidity: N/A.

#### (3) Liquidity analysis for the coming year (2020)

Unit: NT\$

thousand

Cash -beginning Balance(1)	Projected net cash flow from operating activities for the year(2)	Projected cash outflow for the year(3)	Projected cash balance (1)+(2)-(3)	Countermeasures against cash insufficiency	
				Investment plan	Wealth management plan
192,942	173,309	656,573	849,515	-355,836	839,100

Analysis of changes in cash flow in the coming year:changes in cash flow in the coming year:

A. Operating activities: Operating income increased in 2019, thereby improved profit and loss. In addition, customer and product adjustments continued to shorten the requirements of working capital, thus resulted in the increase in net cash inflow from operating activities.

B. Investing activities: The major capital expenditure was for process improvement and capacity optimization. Taiwan and Ningbo did not have much capital expenditure.

C. Financing activities: To cope with revenue growth, the Company expects to repay the current loan and meet the funding requirements for revenue growth through the syndicated loan arrangement.

※ Potential effect of the sales quantity expected for the coming year and basis thereof to the Company's future financial business, and countermeasures thereof:

The Company drafts the following countermeasures to deal with the potential effect on the Company's overview of operation and future financial business in 2019:

**A. Improve customer dispersion and increase the proportion of high-value products**

According to the sales analysis of 2019, 80 to 90 percent customers of the Company are in Innolux and customers in the Mainland China who sell through Kunshan CHIMEI Materials (the aforementioned Kunshan OEM). Customers are quite concentrated, and thus the planned strategies for 2020 are listed below:

- The Company has introduced the Japanese panel factories to its TV products since 2019, and thus the Company will continue to expand the supply ratio to Japanese customers in 2020.
- Introduction of Monitor from South Korea and Mainland China and NB customers, which is expected to increase gradually in 2020.
- Increase the sales in small and medium-sized mobile phone, aiming to catch up with the 5G mobile phone replacement wave by the end of 2020 so as to increase the revenue.
- Enter AMOLED and automotive production supply chain.

**B. Reaching the production scale of Taiwan factory**

Limited to the financial and business conditions of 2019, the capacity utilization rate in Taiwan is not high enough. Therefore, the goal of the first half of 2020 will be to achieve economies of scale by adding new customers; from the second half of the year, the Company will increase the proportion of high-value products (such as OLED, vehicle onboard polarizer products) and other products to enhance profitability.

**C. Restore financial flexibility**

According to the 2019 operating plan, revenue growth will increase additional capital requirements. Under the current framework of debt negotiation, bank loan are limited. The top priority is to break through the capital restriction through the assistance of the bank, so that the operation can reach the economic scale and create cash inflows for business activities.

**4. Effect upon financial operations of any major capital expenditures during the most recent year:**

**(1) Utilization of major capital expenditures and source of funding:**

1. The major capital expenditure in the most recent year (2019) (for procurement of machine and equipment, and routine maintenance of equipment and plant) totaled NT\$ 350 million.
2. The major capital expenditure expected in 2020 is mainly to upgrade the equipment purchased for Taiwan. The source of funds includes self-owned funds and bank loans.

**(2) Expected benefits:** The company continues to improve the production process, introduce new technologies and new materials, remove bottlenecks of the existing production lines, and increase product added value and production quality.

**(3) Investment plan for the coming year:** The major investment activities in 2020 is the upgrade of Taiwan's production line. There is no other large amount investment.

**5. Reinvestment policy for the most recent year, the main reasons for the profits/losses generated thereby, the plan for improving re-investment profitability, and investment plans for the coming year:**

**(1) Investment plans for the coming year:**

The Company's investment plans are subject to the need for development of principal businesses and in line with the customers' global supply chain layout and long-term strategic investment, instead of short-term financial investment.

**(2) Main causes of profits or losses incurred on investments in the most recent year (2019):**

December 31, 2019; Unit: NT\$ thousand

Investees	Shareholding ratio	Recognized investment income	Main causes of profits or losses	Corrective action plan
CHENG MEI MATERIALS TECHNOLOGY(SAMOA) CORPORATION	100%	49,170	Recognized revenue from investment in NINGBO CHI MEI MATERIALS TECHNOLOGY CORPORATION	N/A
CM VISUAL TECHNOLOGY CORPORATION	68.33%	(56,566)	The progress of product introduction into the panel factory is lagging behind, and the high resolution product technology of the panel factory is not yet mature	The defect rate of the tumble was decreased, so that the customer orders increased.
NINGBO CHI MEI MATERIALS TECHNOLOGY CORPORATION	100%	49,195	Changed the product prices in 2019 slightly	Introduced new materials to reduce costs, continued to improve product quality, and thereby increased profitability
CHI MEI MATERIALS TECHNOLOGY INVESTMENT CO., LTD.	100%	87,091	Recognized the reinvestment income of KUNSHAN CHIMEI MATERIALS TECHNOLOGY CORPORATION	N/A
KUNSHAN CHIMEI MATERIALS TRADING CORPORATION	38.4%	41,317	No business sales transactions in the second half of 2019	N/A
KUNSHAN CHIMEI MATERIALS TECHNOLOGY	38.4%	(53,336)	The production utilization in 2019 was slightly improved. The related costs and fixed expenses cannot be absorbed, so that the	The process of capacity cutting went well, the machine speed kept rising, the product continued to be of high quality,

CORPORATION			unit cost was high.	and the profit was improved
CHENG HUI INVESTMENT LTD. CO., LTD.	100%	(46,524)	Recognized the reinvestment loss of CM VISUAL TECHNOLOGY CORPORATION	N/A
CHENG HUI TRADING CO., LTD.	100%	(23,200)	The inventory was not sold as scheduled, so the loss was recognized.	N/A
XI'AN JINYAO HONGTAI NEW MATERIAL TECHNOLOGY CO., LTD.	38.4%	(954)	Company has not yet started operations, so it currently only have fixed operating expenses	N/A

### (3) Investment plans for the coming year:

Kunshan CHIMEI Materials Technology Corporation officially began mass production of the second world's largest wide-format production line in the third quarter of 2019. After the mass production in the future, Kunshan CHIMEI Materials will be able to increase the production of polarizer and will cooperate with the panel factory to establish the polarizer in-house, along with the high-generation production line to be built in China in the future to reduce production capacity. All of these investments will help to provide high-quality and low-cost polarizers to customers, increasing market share, and improve the utilization rate in Taiwan. The revenue will be also increased substantially.

**6. The section on risks shall analyze and assess the following matters in the most recent year and until the date of publication of the annual report:**

**(1) The effect upon the Company's profits (losses) of interest, foreign exchange rate fluctuations and changes in the inflation rate, and response measures to be taken in the future:**

1. Interest rate:

The Company has suffered continuous losses from 2016 to 2019. It's funding sources are mainly sales income and short-term bank loans. The Company applied for debt negotiations in early 2019, so the estimated borrowing rate of interest may be raised accordingly. Assuming a full-year loan balance of NT\$ 3 billion, every 0.125% increase in interest rate affects an increase in interest of NT\$ 3,750 thousand, will not have a significant impact on the Company's profit and loss.

2. Foreign exchange rate:

The Company delegates dedicated personnel in its financial department to collect the information about foreign exchange rate from time to time, and also keeps in touch with its correspondent banks to verify the bank's vision toward the trend of foreign exchange rate and the global economic information, to help the Company judge the future trend of foreign exchange rate. Meanwhile, the Company will underwrite forward foreign exchange contracts in a timely manner to reduce the effect of foreign exchange risk on the Company's income.

3. Inflation:

In the future, the Company will continue to maintain the close and fair interaction with suppliers and customers, and expand its productivity to achieve the scale economies effect, and continue to improve production process to reduce the production cost, in hopes of mitigating the effect of inflation on the Company's income.

**(2) The Company's policy regarding high-risk investments, highly leveraged investments, loans to other parties, endorsements, guarantees, and derivatives transactions, the main reasons for the profits/losses generated thereby, and the plan for improving re-investment profitability:**

1. For the most recent year and until the date of publication of the prospectus (March 27, 2020), the Company has never engaged in high-risk investment, highly leveraged investment or loaning to others.

2. Statement of loans to others and endorsements/guarantees: Please see Page 107~109.

3. The Company's derivative trading policy is stated as following:

The Company engages in derivative trading primarily in order to hedge against foreign currency net position. In the future, the Company will continue to observe the trend of foreign currency exchange rate and engage in derivative trading in a timely manner to reduce the foreign exchange risk over the Company's foreign currency net position.

**(3) Research and development plans to be carried out in the future, and further expenditures expected for research and development work:**

①. Future R&D plans:

The Company is a professional optimal film manufacturer. Its short-term R&D plans will aim at polarizer. The mid-term and long-term R&D plan will extend to the other film materials after the Company attains specific scale, in order to keep enriching the integrity of products and strengthening the Company's competitiveness.

②. Further expenditures expected for research and development work:

The Company schedules to invest NT\$253,000 thousand for R&D expenditure in 2020, which accounts for 2.1% of the Company's turnover.

③. New technology of strategic importance to be available in the future:

a. Continue to develop vehicle-related technologies:

1. CMMT has now started mass production of automotive polarizers, and listed the viewing compensators required by European standard 5.0 as the development focus.
2. Introduction of the special-shaped processing technology in response to the special-shaped requirements of the center console of the automobiles.
3. Development of car polarizer for OLED.
4. Improvement of the weather resistance for car polymer impregnated with iodine.

b. OLED related technology:

1. Introduction and mass production of OLED polarizer with Integrated black technology.
2. Development of car polarizer for OLED
3. Development of flexible OLED polarizer.

c. Optimize the processing ability of special-shaped polarizing plates:

Equipped with laser and special-shaped edging machine to achieve the most efficient processing and meet the customer's needs of weather resistance.

**(4) Effect on the Company's financial operations of important policies adopted and changes in the legal environment at home and abroad, and measures to be taken in response:**

The Company is used to complying with the related domestic and foreign laws and regulations, and keeps watching any policies and laws which might affect the Company's operation to ensure the Company's normal operation. If necessary, the Company will consult with such professional entities as attorney-at-law and CPA firms, or entrust them to evaluate, suggest and plan the countermeasures to achieve compliance with laws and reduce the adverse effect to the Company's financial business.

**(5) Effect on the Company's financial operations of developments in science and technology as well as industrial change, and measures to be taken in response:**

The Company is used to valuing developments in science and technology and industrial change. The Company is still not satisfied with its current achievements, but works hard to seek insightful electronic chemical products and continues to invest fund in R&D of new product lines, in hopes of achieving the Company's sustainable development.

**(6) Effect on the Company's crisis management of changes in the Company's corporate image, and measures to be taken in response:**

Since the Company was incorporated, it has upheld the ethical management and sustainable development as its objective, and strictly complied with related laws and internal control requirements, and also adjusted related operations in a timely manner to deal with the changes.

**(7) Expected benefits and possible risks associated with any merger and acquisitions, and measures to be taken in response:**

The Company has no plan for merger and acquisition to date.

**(8) Expected benefits and possible risks associated with any plant expansion, and measures to be taken in response:**

In order to respond to the rapid increase in the demand for polarizers from mainland panel factories and to increase the Company's market share of polarizers in the Chinese market and the world, the Company invests in Kunshan CHIMEI Materials Technology Corporation (Hereinafter referred to as Kunshan CHIMEI Materials). The first production line had been built, and mass production began in the second quarter of 2017.

With the rapid production of panel production capacity, the demand for polarizer will also increase. As such, in addition to the 1.5M production line that has been put into production in Kunshan, the Company plans to cooperate with Nitto Denko Co., Ltd. (hereinafter referred to as Nitto), one of the world's leading polarizer manufacturers. Nitto will authorize 2.5M width production technology and provide necessary technical guidance, and thereby Kunshan CHIMEI Materials will invest in a 2.5M width polarizer production line.

With the current production capacity in China, the demand for the polarizer is expected to grow rapidly by more than 20 million square meters per month. The current production capacity of polarizer manufacturers in China is very limited, so most of the supply depends on imports, which leads to the need of localization. In addition, China imposes tariffs on imported polarizer. Kunshan CHIMEI Materials will invest in a 2.5M production line to meet the rapid growth of polarizer demand in China, along with the benefit a tariffs-free competitive advantage. In addition, coupled with the advanced technology provided by Nitto, we will be able to strengthen the competitiveness of Kunshan CHIMEI Materials in China.

The Company and suppliers are negotiating contracts based on quarterly bargaining. The upstream raw materials are limited to large factories such as Japan and South Korea, which limits the company's bargaining space for purchasing materials. After the mass production of the first production line of the Kunshan plant, the Company plans to negotiate a bargaining space with upstream manufacturers by way of quantity and price in order to strengthen competitiveness.

The above investments have been carefully evaluated by the Company and approved by the Investment Commission of the Ministry of Economic Affairs. The Company has invested

its own funds to build Line 1 in 2014, and plans to invest its own funds in 2018 to expand Line 2. Thus, there is no risk to the Company's operations.

**(9) Risks associated with any consolidation of sales or purchasing operations, and measures to be taken in response:**

Consolidation of purchasing operations:

The upstream raw material supply refers to a monopolized market, which is held as the industrial characteristic. The Company is used to keeping fair relationship with suppliers and never stops communicating with them. The Company establishes the safety control over inventory and increases the second source of supply to seek the possibility for replacement of the suppliers with local manufacturers.

Consolidation of sales operations:

The downstream customers are concentrated in Innolux Corporation (“Innolux”) and its affiliates, primarily as a result of the industrial characteristics. Notwithstanding, in addition to said customer, the Company’s customers also include Chunghwa Picture Tube, Ltd. (“Chunghwa Picture”) and its affiliates and HannStar Display Corporation (“HannStar”) and other customers. Under the advantages of the continuous production capacity and localization of Kunshan Line 1, the sales volume in China has gradually increased

**(10) Effect upon and risk to the Company in the event a major quantity of shares belonging to a director (including independent director), or a major shareholder holding greater than a 10 percent stake in the company has been transferred or has otherwise changed hands, and measures to be taken in response: N/A**

**(11) Effect upon and risk to Company associated with any change in governance personnel or top management, and measures to be taken in response: None.**

**(12) Litigious and non-litigious matters. List major litigious, non-litigious or administrative disputes that involve the Company and/or any of the Company’s directors (including independent directors), presidents, any persons with actual responsibility for the Company, any major shareholder holding a stake of greater than 10 percent, and/or any company or companies controlled by the Company and have been concluded by means of a final and unappealable judgment, or are still pending. Where such a dispute could materially affect shareholders' equity or the prices of the Company's securities, the annual report shall disclose the facts of the dispute, amount of money at stake in the dispute, the date of litigation commencement, the main parties to the dispute, and the status of the dispute as of the date of publication of the annual report: None.**

**(13) Other important risks, and measures to be taken in response: None.**

7. Other important matters: None.

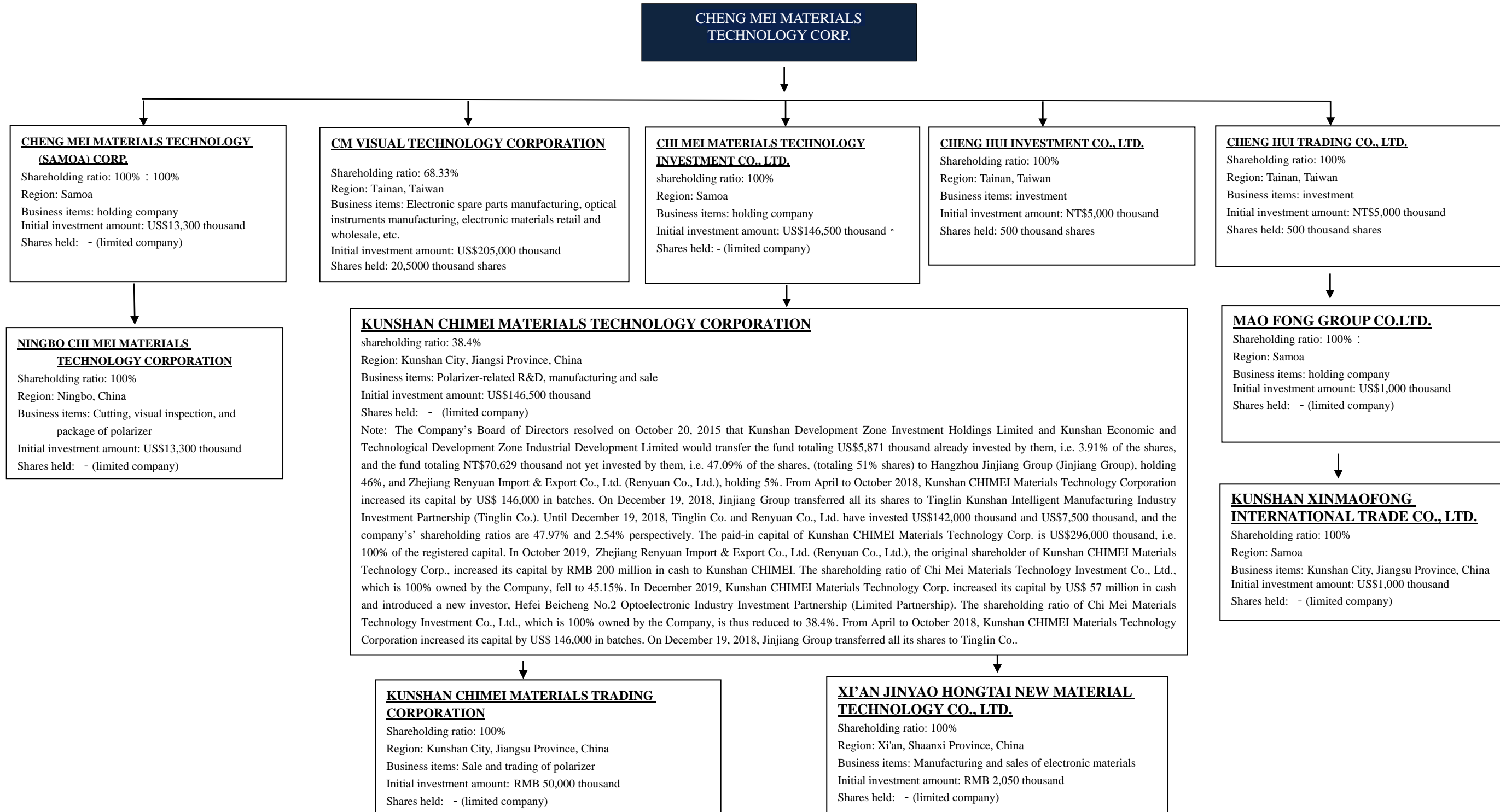
VIII. Special items to be included

1. Information related to the Company's affiliates:

<I> Overview of affiliates:

Affiliates' Organizational Chart:

Date: March 27, 2020





**CHENG MEI MATERIALS TECHNOLOGY  
CORPORATION (FORMERLY CHI MEI  
MATERIALS TECHNOLOGY  
CORPORATION) AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS AND  
REPORT OF INDEPENDENT ACCOUNTANTS  
DECEMBER 31, 2019 AND 2018**

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

## **Representation Letter**

In connection with the Consolidated Financial Statements of Affiliated Enterprises of CHENG MEI MATERIALS TECHNOLOGY CORPORATION (the “Consolidated FS of the Affiliates”), we represent to you that, the entities required to be included in the Consolidated FS of the Affiliates as of and for the year ended December 31, 2019 in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” are the same as those required to be included in the Consolidated Financial Statements of CHENG MEI MATERIALS TECHNOLOGY CORPORATION and its subsidiaries (the “Consolidated FS of the Group”) in accordance with International Financial Reporting Standard 10. Additionally, the information required to be disclosed in the Consolidated FS of Affiliates is disclosed in the Consolidated FS of the Group. Consequently, CHENG MEI MATERIALS TECHNOLOGY CORPORATION does not prepare a separate set of Consolidated FS of Affiliates.

Very truly yours,

CHENG MEI MATERIALS TECHNOLOGY CORPORATION

By

Jau-Yang Ho, Chairman

March 25, 2020

## REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of Cheng Mei Materials Technology Corporation Co., Ltd.

### ***Opinion***

We have audited the accompanying consolidated balance sheets of Cheng Mei Materials Technology Corporation (formerly Chi Mei Materials Technology Corporation) and subsidiaries (collectively referred herein as the “Group”) as at December 31, 2019 and 2018, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

### ***Basis for opinion***

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of the Group 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements of the current period are stated as follows:

### ***Fair value measurement of investment in unlisted stock without active market***

#### Description

In terms of the fair value of unlisted stock without active market, refer to Note 4(8) for the relevant accounting policies, Note 5(2) for the uncertainty of accounting estimates and assumptions, Note 6(3) for details of financial assets, and Note 12(3) for fair value information of financial instruments.

Unlisted stock investments without active market are recognised as financial assets at fair value through other comprehensive income, and any changes in the fair value of these financial assets are recognised in other comprehensive income.

Given that the fair values of unlisted stocks without an active market were evaluated by an external appraiser commissioned by the management and the estimation involves multiple assumptions and a high degree of uncertainty that may affect the share price, we consider the fair value measurement of unlisted stocks without an active market one of the key audit matters.

#### How our audit addressed the matter

Our audit procedures in respect of the above key audit matter included:

1. Obtained the stock fair value appraisal report provided by the commissioned appraiser and evaluated the professional expertise, competence and objectivity of the appraiser.
2. Reviewed the content of the appraisal report to understand and assess the reasonableness of source of the information used, valuation method and conclusions.

## ***Impairment assessment of property, plant and equipment***

### Description

In terms of property, plant and equipment, refer to Note 4(16) for the relevant accounting policies, Note 5(2) for uncertainty of accounting estimates and assumptions and Note 6(9) for account details.

Due to the recurring losses in recent years, the management assesses that there is an indication that the above assets are impaired and measures the recoverable amounts based on estimated future cash flows discounted at an appropriate discount rate. Given that the estimation of future cash flows rely on multiple assumptions that may affect the recoverable amounts, we consider impairment assessment as one of the key audit matters.

### How our audit addressed the matter

Our audit procedures in respect of the above key audit matter included:

1. Obtained an understanding and assessed the estimation of future cash flows and checked whether the forecasting revenue in the following year used in the valuation model is consistent with the budget approved by the Board of Directors.
2. Obtained the source information referenced to determine the recoverable amounts, examined the management's intention and capability to perform the business plans and compared business performance during certain period after the balance sheet date based on the management's projection on expected income and expenses.
3. Verified that the discount rate uses reasonable parameters such as risk-free rate for cost of equity capital, industry risk coefficient, returns of similar assets and equity-to-capital ratio.
4. Checked the formula in the valuation model.

### ***Other matter – Parent company only financial reports***

We have audited the parent company only financial statements of Cheng Mei Materials Technology Corporation as at and for the years ended December 31, 2019 and 2018, on which we have expressed an unqualified opinion and an opinion with explanatory paragraphs on the significant uncertainty for operating as a going concern and other matter on these parent company only financial statements, respectively.

## ***Responsibilities of management and those charged with governance for the consolidated financial statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’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 Group 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 Group’s financial reporting process.

## ***Auditor’s responsibilities for the audit of the consolidated financial statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ROC GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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Liu, Zi-Meng

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Wu, Chien-Chih

For and on behalf of PricewaterhouseCoopers, Taiwan

March 25, 2020

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The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

**CHENG MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**(FORMERLY CHI MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES)**  
**CONSOLIDATED BALANCE SHEETS**

(Expressed in thousands of New Taiwan dollars)

Assets	Notes	December 31, 2019		December 31, 2018		
		AMOUNT	%	AMOUNT	%	
<b>Current assets</b>						
1100	Cash and cash equivalents	6(1)	\$ 192,942	1	\$ 3,105,426	11
1110	Current financial assets at fair value through profit or loss	6(2)	571	-	84,525	-
1136	Current financial assets at amortised cost	6(4) and 8	202,507	1	1,313,826	5
1150	Notes receivable, net	6(5) and 8	-	-	186,620	1
1160	Notes receivable, net - related parties	6(5) and 7	-	-	18,806	-
1170	Accounts receivable, net	6(5)	417,955	3	4,199,939	16
1180	Accounts receivable, net - related parties	6(5) and 7	1,933,610	14	197,791	1
1200	Other receivables	6(7)	58,028	-	114,977	1
1210	Other receivables - related parties	7	805,391	6	88,256	-
1220	Current tax assets	6(26)	1,006	-	1,230	-
130X	Inventories	5 and 6(6)	2,146,069	15	3,883,297	14
1410	Prepayments		71,868	1	259,968	1
1479	Other current assets	6(12)	18,282	-	43,882	-
11XX	<b>Total current assets</b>		<u>5,848,229</u>	<u>41</u>	<u>13,498,543</u>	<u>50</u>
<b>Non-current assets</b>						
1517	Non-current financial assets at fair value through other comprehensive income	5, 6(3) and 7	169,740	1	215,727	1
1550	Investments accounted for using equity method	6(8)	3,638,064	26	-	-
1600	Property, plant and equipment	5, 6(9) and 8	4,358,111	31	10,693,045	39
1755	Right-of-use assets	6(10)	30,996	-	-	-
1780	Intangible assets	6(11)	32,087	-	91,846	-
1840	Deferred tax assets	6(26)	76,381	1	112,646	-
1915	Prepayments for equipment	7	50,775	-	1,567,878	6
1990	Other non-current assets	6(12)	9,124	-	1,054,232	4
15XX	<b>Total non-current assets</b>		<u>8,365,278</u>	<u>59</u>	<u>13,735,374</u>	<u>50</u>
1XXX	<b>Total assets</b>		<u>\$ 14,213,507</u>	<u>100</u>	<u>\$ 27,233,917</u>	<u>100</u>

(Continued)

**CHENG MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**(FORMERLY CHI MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES)**

**CONSOLIDATED BALANCE SHEETS**

(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity	Notes	December 31, 2019		December 31, 2018		
		AMOUNT	%	AMOUNT	%	
<b>Current liabilities</b>						
2100	Short-term borrowings	6(5)(13) and 8	\$ 2,788,425	20	\$ 5,441,325	20
2120	Current financial liabilities at fair value through profit or loss	6(2)	-	-	2,681	-
2130	Contract liabilities	6(20) and 7	22,169	-	33,760	-
2150	Notes payable		-	-	156,037	-
2170	Accounts payable		1,072,008	8	2,350,148	9
2180	Accounts payable - related parties	7	1,240	-	375,639	1
2200	Other payables	6(14)	423,098	3	1,076,211	4
2230	Current tax liabilities	6(26)	-	-	147	-
2280	Current lease liabilities		55	-	-	-
2320	Current portion of long-term bank loans	6(15)	200,000	1	3,170,244	12
2399	Other current liabilities	6(31)	8,890	-	23,360	-
21XX	<b>Total current liabilities</b>		<u>4,515,885</u>	<u>32</u>	<u>12,629,552</u>	<u>46</u>
<b>Non-current liabilities</b>						
2540	Long-term borrowings	6(15)	-	-	202,996	1
2570	Deferred tax liabilities	6(26)	22,674	-	22,674	-
2580	Non-current lease liabilities		145	-	-	-
2645	Guarantee deposits		40	-	49	-
2670	Other non-current liabilities	6(31)	-	-	193,877	1
25XX	<b>Total non-current liabilities</b>		<u>22,859</u>	<u>-</u>	<u>419,596</u>	<u>2</u>
2XXX	<b>Total liabilities</b>		<u>4,538,744</u>	<u>32</u>	<u>13,049,148</u>	<u>48</u>
<b>Equity attributable to the owners of the company</b>						
<b>Share capital</b>						
3110	Common shares	6(17)	6,657,285	47	6,657,285	24
<b>Capital surplus</b>						
3200	Capital surplus	6(18)	944,026	7	851,689	3
<b>Retained earnings</b>						
		6(19)				
3310	Legal reserve		1,085,124	8	1,085,124	4
3320	Special reserve		447,530	3	246,224	1
3350	Unappropriated retained earnings		1,201,658	8	2,091,473	8
<b>Other equity interest</b>						
3400	Other equity interest		( 676,861 )	( 5 )	( 447,530 )	( 2 )
31XX	<b>Total equity attributable to owners of the Company</b>		<u>9,658,762</u>	<u>68</u>	<u>10,484,265</u>	<u>38</u>
36XX	<b>Non-controlling interest</b>	4(3) and 6(28)	<u>16,001</u>	<u>-</u>	<u>3,700,504</u>	<u>14</u>
3XXX	<b>Total equity</b>		<u>9,674,763</u>	<u>68</u>	<u>14,184,769</u>	<u>52</u>
<b>Significant contingent liabilities and unrecognized contract commitments</b>						
		9				
<b>Significant events after the balance sheet date</b>						
		11				
3X2X	<b>Total liabilities and equity</b>		<u>\$ 14,213,507</u>	<u>100</u>	<u>\$ 27,233,917</u>	<u>100</u>

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

**CHENG MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**(FORMERLY CHI MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES)**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Expressed in thousands of New Taiwan dollars, except for loss per share amount)

		Year ended December 31			
Items		2019		2018	
		AMOUNT	%	AMOUNT	%
4000	<b>Net sales</b>	\$ 14,896,250	100	\$ 12,767,162	100
5000	<b>Cost of sales</b>				
		( 14,326,772)	( 96)	( 12,205,208)	( 96)
5900	<b>Gross loss</b>	569,478	4	561,954	4
	<b>Operating expenses</b>				
6100	Selling and marketing expenses	( 255,549)	( 2)	( 309,435)	( 2)
6200	General and administrative expenses	( 390,150)	( 3)	( 314,634)	( 2)
6300	Research and development expenses	( 459,168)	( 3)	( 449,827)	( 4)
6450	Impairment gain and reversal of impairment loss (impairment loss) determined in accordance with IFRS 9	85,223	1	( 94,926)	( 1)
6000	<b>Total operating expenses</b>	( 1,019,644)	( 7)	( 1,168,822)	( 9)
6900	<b>Loss from operations</b>	( 450,166)	( 3)	( 606,868)	( 5)
	<b>Non-operating income and expenses</b>				
7010	Other income	119,006	1	99,516	1
7020	Other gains and losses	( 73,582)	( 1)	( 274,928)	( 2)
7050	Finance costs	( 332,685)	( 2)	( 290,580)	( 2)
7060	Share of loss of associates and joint ventures accounted for using equity method	( 1,421)	-	-	-
7000	<b>Total non-operating income and expenses</b>	( 288,682)	( 2)	( 465,992)	( 3)
7900	<b>Loss before income tax</b>	( 738,848)	( 5)	( 1,072,860)	( 8)
7950	Income tax benefit	( 21,598)	-	24,714	-
8200	<b>Loss for the period year</b>	( \$ 760,446)	( 5)	( \$ 1,048,146)	( 8)
	<b>Other comprehensive income (loss)</b>				
	<b>Items that may not be reclassified subsequently to profit or loss</b>				
8316	Unrealised gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	( \$ 58,915)	( 1)	( \$ 124,273)	( 1)
	<b>Items that may be reclassified subsequently to profit or loss</b>				
8361	Exchange differences on translating of foreign financial statements	( 308,425)	( 2)	( 141,173)	( 1)
8300	<b>Total other comprehensive loss</b>	( \$ 367,340)	( 3)	( \$ 265,446)	( 2)
8500	<b>Total comprehensive loss for the year</b>	( \$ 1,127,786)	( 8)	( \$ 1,313,592)	( 10)
	<b>Net loss attributable to</b>				
8610	Owners of the Company	( \$ 688,559)	( 5)	( \$ 655,080)	( 5)
8620	Non-controlling interests	( 71,887)	-	( 393,066)	( 3)
	<b>Net loss</b>	( \$ 760,446)	( 5)	( \$ 1,048,146)	( 8)
	<b>Total comprehensive loss attributable to</b>				
8710	Owners of the Company	( \$ 917,840)	( 7)	( \$ 856,386)	( 6)
8720	Non-controlling interests	( 209,946)	( 1)	( 457,206)	( 4)
	<b>Net loss</b>	( \$ 1,127,786)	( 8)	( \$ 1,313,592)	( 10)
	<b>Loss per share</b>				
9750	<b>Basic loss per share</b>	( \$ 1.03)		( \$ 0.98)	
9850	<b>Diluted loss per share</b>	( \$ 1.03)		( \$ 0.98)	

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

**CHENG MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**  
(Expressed in thousands of New Taiwan dollars)

Notes	Equity attributable to owners of the parent										Non-controlling interest	Total equity
	Retained Earnings				Other equity interest		Unrealised gains (losses) from financial assets measured at fair value through other comprehensive income					
	Share capital - common Shares	Capital surplus, additional paid-in capital	Legal reserve	Special reserve	Unappropriated retained earnings	Exchange differences on translation of foreign financial statements	Unrealised gains (losses) from financial assets measured at fair value through other comprehensive income	Total	Total	Total		
	\$ 6,657,285	\$ 856,768	\$ 1,085,124	\$ 202,973	\$ 2,789,804	(\$ 246,224)	\$ -	\$ 11,345,730	\$ 1,935,541	\$ 13,281,271		
Year ended December 31, 2018												
Balance at January 1, 2018	-	-	-	-	( 655,080 )	-	-	( 655,080 )	( 393,066 )	( 1,048,146 )		
Net loss for the year	-	-	-	-	-	( 77,033 )	( 124,273 )	( 201,306 )	( 64,140 )	( 265,446 )		
Other comprehensive loss for the year	-	-	-	-	( 655,080 )	( 77,033 )	( 124,273 )	( 856,386 )	( 457,206 )	( 1,313,592 )		
Total comprehensive loss for the year	-	-	-	-	( 655,080 )	( 77,033 )	( 124,273 )	( 856,386 )	( 457,206 )	( 1,313,592 )		
Distribution of 2017 earnings												
Special reserve	-	-	-	43,251	( 43,251 )	-	-	-	-	-		
Difference between consideration and carrying amount of the subsidiaries' disposal	-	3,714	-	-	-	-	-	3,714	2,286	6,000		
Changes in ownership interests in subsidiaries	-	( 8,793 )	-	-	-	-	-	( 8,793 )	2,219,883	2,211,090		
Balance at December 31, 2018	\$ 6,657,285	\$ 851,689	\$ 1,085,124	\$ 246,224	\$ 2,091,473	(\$ 323,257)	(\$ 124,273)	\$ 10,484,265	\$ 3,700,504	\$ 14,184,769		
Year ended December 31, 2019												
Balance at January 1, 2019	\$ 6,657,285	\$ 851,689	\$ 1,085,124	\$ 246,224	\$ 2,091,473	(\$ 323,257)	(\$ 124,273)	\$ 10,484,265	\$ 3,700,504	\$ 14,184,769		
Net loss for the year	-	-	-	-	( 688,559 )	-	-	( 688,559 )	( 71,887 )	( 760,446 )		
Other comprehensive loss for the year	-	-	-	-	-	( 170,366 )	( 58,915 )	( 229,281 )	( 138,059 )	( 367,340 )		
Total comprehensive loss for the year	-	-	-	-	( 688,559 )	( 170,366 )	( 58,915 )	( 917,840 )	( 209,946 )	( 1,127,786 )		
Distribution of 2018 earnings												
Special reserve	-	-	-	201,306	( 201,306 )	-	-	-	-	-		
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	50	-	( 50 )	-	-	-		
Changes in ownership interests in subsidiaries	-	92,337	-	-	-	-	-	92,337	780,235	872,572		
Decrease in non-controlling interests	-	-	-	-	-	-	-	-	( 4,254,792 )	( 4,254,792 )		
Balance at December 31, 2019	\$ 6,657,285	\$ 944,026	\$ 1,085,124	\$ 447,530	\$ 1,201,658	(\$ 493,623)	(\$ 183,238)	\$ 9,658,762	\$ 16,001	\$ 9,674,763		

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

**CHENG MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**(FORMERLY CHI MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**  
(Expressed in thousands of New Taiwan dollars)

	Notes	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before tax		(\$ 738,848 )	(\$ 1,072,860 )
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation expense	6(9)(10)(24)	968,586	1,096,227
Amortization expense	6(11)(24)	46,828	54,051
Expected credit (gain) loss	12(2)	( 85,223 )	94,926
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	6(22)	35,062	( 5,121 )
Interest expense	6(23)	332,685	290,580
Interest income	6(21)	( 32,748 )	( 28,568 )
Dividend income	6(2)(21)	( 712 )	( 430 )
Share of loss of associates and joint ventures accounted for using equity method	6(8)	1,421	-
Loss on disposal of property, plant and equipment	6(22)	5,294	7,315
Property, plant and equipment transferred to expenses		-	8,221
Loss on disposal of investments	6(22)(28)	( 140,450 )	-
Impairment loss on financial assets	6(22)	49,000	-
Gain arising from lease modification	6(10)(22)	( 110 )	-
Changes in operating assets and liabilities			
Changes in operating assets			
Current financial assets at fair value through profit or loss		112,056	( 55,936 )
Notes receivable		43,131	297,772
Notes receivable - related parties		18,806	( 14,241 )
Accounts receivable		2,091,097	( 1,138,634 )
Accounts receivable - related parties		( 1,964,923 )	( 197,791 )
Other receivables		127,047	116,393
Other receivables due from related parties		33,702	-
Inventories		658,092	( 1,600,587 )
Prepayments		( 281,085 )	354,227
Other current assets		( 182,846 )	64,639
Changes in operating liabilities			
Financial liabilities at fair value through profit or loss		( 65,845 )	( 23,861 )
Current contract liabilities		( 11,591 )	24,281
Notes payable		( 156,037 )	23,574
Accounts payable		( 421,940 )	375,797
Accounts payable - related parties		660,394	375,639
Other payables		( 70,391 )	129,773
Other current liabilities		( 1,899 )	( 1,729 )
Cash inflow (outflow) generated from operations		1,028,553	( 826,343 )
Interest received		40,362	26,538
Dividends received		712	430
Interest paid		( 345,677 )	( 281,652 )
Income tax paid		( 1,389 )	( 10,985 )
Income tax refund receivable		469	3
Net cash flows from (used in) operating activities		<u>723,030</u>	<u>( 1,092,009 )</u>

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**CHENG MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**(FORMERLY CHI MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**  
(Expressed in thousands of New Taiwan dollars)

	Notes	2019	2018
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of non-current financial assets at fair value through other comprehensive income	12(3)	(\$ 14,478 )	(\$ 340,000 )
Proceeds from disposal of financial assets at fair value through other comprehensive income	6(3) and 12(3)	1,550	-
Decrease in current financial assets at amortised cost		( 48,130 )	( 1,037,562 )
Increase in other receivables		-	( 68,681 )
Increase in other receivables - related parties		( 750,837 )	( 167,329 )
Acquisition of property, plant and equipment	6(29)	( 3,134,115 )	( 1,346,543 )
Proceeds from disposal of property, plant and equipment		2,240	75,253
Acquisition of intangible assets	6(11)	( 15,944 )	( 40,970 )
Increase in equipment prepayments		( 117,442 )	( 1,450,214 )
Decrease in refundable deposits		-	2,834
Increase in other non-current assets		( 24,109 )	( 587,008 )
Proceeds from disposal of subsidiaries	6(28)	( 426,496 )	-
Net cash flows used in investing activities		( 4,527,761 )	( 4,960,220 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from short-term loans	6(30)	12,051,891	17,362,686
Repayments of short-term loans	6(30)	( 13,492,388 )	( 15,798,012 )
Decrease in short-term notes and bills payable	6(30)	-	( 100,000 )
Payments of principal portion of lease liabilities	6(30)	( 14,226 )	-
Proceeds from long-term debt	6(30)	7,598,783	1,237,006
Repayments of long-term debt	6(30)	( 6,500,009 )	( 606,117 )
Decrease in guarantee deposits received	6(30)	( 9 )	( 122 )
(Decrease) increase in other non-current liabilities		( 17,969 )	193,877
Proceeds from disposal of ownership interests in subsidiaries (without losing control)	6(28)	-	6,000
Change in non-controlling interests	6(28)	872,572	2,211,090
Net cash flows from financing activities		498,645	4,506,408
Effect of exchange rate changes on cash and cash equivalents		393,602	153,951
Net decrease in cash and cash equivalents		( 2,912,484 )	( 1,391,870 )
Cash and cash equivalents at beginning of year	6(1)	3,105,426	4,497,296
Cash and cash equivalents at end of year	6(1)	\$ 192,942	\$ 3,105,426

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

**CHENG MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES**  
**(FORMERLY CHI MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2019 AND 2018**

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

**1. HISTORY AND ORGANISATION**

- (1) Cheng Mei Materials Technology Corporation (the “Company”) was incorporated under the provisions of the Company Act of the Republic of China (R.O.C.) on May 17, 2005. The Company and its subsidiaries (collectively referred herein as the “Group”) are primarily engaged in manufacturing and selling optoelectronic material and components (polarizing film).
- (2) On October 24, 2011, the Company’s shares were listed on the Taiwan Stock Exchange (TWSE). Since September 2017, the Company’s common shares have been traded on the Singapore Exchange Limited (SGX) under the symbol “US16412W1071” in the form of global depositary shares.
- (3) The shareholders at the shareholders’ meeting approved the change of name of the Company from Chi Mei Materials Technology Corporation to Cheng Mei Materials Technology Corporation on June 22, 2018.

**2. THE DATE OF AUTHORISATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORISATION**

These consolidated financial statements were authorised for issuance by the Board of Directors on March 18, 2020.

**3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS**

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

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

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

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

IFRS 16, 'Leases'

- A. IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognise a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.
- B. The Group 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 Group increased 'right-of-use asset' by \$310,076, increased 'lease liability' by \$58,020 and decreased prepaid lease by \$252,056 (which is shown as "other current assets" amounting to \$5,648 and "other non-current assets" amounting to \$246,408) with respect to the lease contracts of lessees on January 1, 2019.
- C. The Group has used the following practical expedients permitted by the standard at the date of initial application of IFRS 16:
- (a) Reassessment as to whether a contract is, or contains, a lease is not required, instead, the application of IFRS 16 depends on whether or not the contracts were previously identified as leases applying IAS 17 and IFRIC 4.
  - (b) The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.
  - (c) The accounting for operating leases whose period will end before December 31, 2019 are treated as short-term leases and accordingly, rent expense of \$3,526 was recognised for the year ended December 31, 2019.
  - (d) The exclusion of initial direct costs for the measurement of 'right-of-use asset'.
- D. The Group calculated the present value of lease liabilities by using the weighted average incremental borrowing interest rate range from 1.50% to 4.96%.
- E. The Group recognised 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 recognised as of January 1, 2019 is as follows:

Operating lease commitments disclosed by applying IAS 17 as at December 31, 2018	\$ 63,851
Less: Short-term leases	( 2,033)
Total lease contracts amount recognised as lease liabilities by applying IFRS 16 on January 1, 2019	<u>\$ 61,818</u>
Incremental borrowing interest rate at the date of initial application	<u>1.50%~4.96%</u>
Lease liabilities recognised as at January 1, 2019 by applying IFRS 16	<u>\$ 58,020</u>

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

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

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendment to IAS 1 and IAS 8, 'Disclosure Initiative-Definition of Material'	January 1, 2020
Amendments to IFRS 3, 'Definition of a business'	January 1, 2020
Amendments to IFRS 9, IAS 39 and IAS 7, 'Interest rate benchmark reform'	January 1, 2020

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers", International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs").

## (2) Basis of preparation

- A. Except for the following items, the consolidated financial statements have been prepared under the historical cost convention:
- (a) Financial assets and liabilities (including derivative instruments) at fair value through profit or loss.
  - (b) Financial assets at fair value through other comprehensive income.
- 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 Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

## (3) Basis of consolidation

### A. Basis for preparation of consolidated financial statements:

- (a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
- (b) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- (c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.
- (d) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity.
- (e) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognised in profit or loss. All amounts previously recognised in other comprehensive income in relation to the subsidiary are reclassified to profit or loss on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or

losses previously recognised in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

#### B. Subsidiaries included in the consolidated financial statements:

Name of investor	Name of subsidiary	Main business activities	Ownership(%)		Description
			December 31, 2019	December 31, 2018	
Cheng Mei Materials Technology Corporation ("CMMT")	Cheng Mei Materials Technology (SAMOA) Corp. ("CMMTS")	Investment Company	100%	100%	-
	(Formerly Chi Mei Materials Technology (SAMOA) Corp.) ("CMMTS")				
	CM Visual Technology Corporation ("CMVT")	Electronic component manufacturing and selling	68.33%	68.33%	-
	(Formerly Chi Mei Visual Technology Corporation) ("CMVT")				
	Chi Mei Materials Technology Investment Co., Ltd. ("CMMTI")	Investment Company	100%	100%	-
	Cheng Hui Investment Co., Ltd. ("CHI")	Investment Company	100%	100%	-
	(Formerly Mao Yu Investment Co., Ltd.)				
CMMTS	Cheng Hui Trading Co., Ltd. ("CHT")	Trading business	100%	100%	-
	(Formerly Mao Fong Trading Co., Ltd.)				
	Ningbo Cheng Mei Materials Technology Co., Ltd.	Electronic component manufacturing and selling	100%	100%	-
	(Formerly Ningbo Chi Mei Materials Technology Co., Ltd.) ("NBCMMT")				
CMMTI	Kunshan Chimei Materials Technology Co., Ltd. ("KSCMMT")	Electronic component manufacturing and selling	-	49.5%	Note 1
KSCMMT	Kunshan Chimei Materials Trading Corp. ("KSCMS")	Trading business	-	100%	Note 2
	Xi'an Jinyaohongtai New Materials Technology Co., Ltd. ("XJHM")	Electronic component manufacturing and selling	-	100%	Note 2
CHI	CMVT	Electronic component manufacturing and selling	11%	11%	Note 3
CHT	Mao Fong Group Co., Ltd. (Mao Fong Group)	Investment Company	100%	-	Note 4
Mao Fong Group	Kunshan Xin Mao Fong International Trading Co., Ltd. ("KSMF")	Trading business	100%	-	Note 5

Note 1: The Group holds 49.5% of the shares of KSCMMT, and the Group is the single largest shareholder. According to the agreement among shareholders, the Group is entitled to appoint a Chairman and recommend a person for the position of General Manager. Because the Group has control over KSCMMT, KSCMMT is classified as a subsidiary. In October 2019 and December 2019, KSCMMT increased its capital in cash. The Group did not participate in the capital increase proportionately to ownership, therefore the shareholding ratio was decreased to 38.4%. Additionally, because of the reelection of directors of KSCMMT, the Group lost its control over KSCMMT. Therefore, KSCMMT is no longer included in the Group's consolidated financial statements. Please refer to Note 6(28) for details.

Note 2: Due to KSCMS and XJHM both were the subsidiaries of KSCMMT, the Group lost its control over KSCMS and XJHM when the control over KSCMMT was lost. Therefore, KSCMS and XJHM are no longer included in the Group's consolidated financial statements.

Note 3: CHI disposed of a portion of its shareholding in CMVT for NT\$6,000 thousand in January 2018, reducing its continuing interest from 13% to 11%, refer to Note 6(28).

Note 4: The Group set up the company in August 2018 and it paid the capital for shares in February 2019.

Note 5: The Group set up the company in November 2018, and it paid the capital for shares in February 2019.

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Significant restrictions: None.

F. Subsidiaries that have non-controlling interests that are material to the Group:

As of December 31, 2019 and 2018, the non-controlling interest amounted to \$16,001 and \$3,700,504, respectively. The information on non-controlling interest and respective subsidiaries is as follows:

Name of subsidiary	Principal place of business	Non-controlling interest	
		December 31, 2018	
		Amount	Ownership (%)
KSCMMT	China	\$ 3,668,813	50.5

Summarised financial information of the subsidiaries:

Balance sheets

	KSCMMT
	December 31, 2018
Current assets	\$ 5,817,921
Non-current assets	8,696,270
Current liabilities	( 7,052,337)
Non-current liabilities	( 196,877)
Total net assets	\$ 7,264,977

### Statement of comprehensive income

	<u>KSCMMT</u>
	<u>Year ended December 31, 2018</u>
Revenue	\$ 4,907,223
Loss for the year	(\$ 765,974)
Total comprehensive loss for the year	(\$ 765,974)
Comprehensive loss attributable to non-controlling interest	(\$ 387,113)

### Statement of cash flows

	<u>KSCMMT</u>
	<u>Year ended December 31, 2018</u>
Net cash used in operating activities	(\$ 349,360)
Net cash used in investing activities	( 3,946,904)
Net cash provided by financing activities	4,723,013
Increase in cash and cash equivalents	\$ 426,749

#### (4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan Dollars, which is the Company's functional and the Group's presentation currency.

##### A. Foreign currency transactions and balances

- (a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised 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 re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.
- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

- (d) All other foreign exchange gain and losses based on the nature of those transactions are presented in the statement of comprehensive income within other gains and losses.

**B. Translation of foreign operations**

- (a) The operating results and financial position of all the group entities, associates and joint arrangements that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
  - i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
  - ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
  - iii. All resulting exchange differences are recognised in other comprehensive income.
- (b) When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation. In addition, even when the Group retains partial interest in the former foreign subsidiary after losing control of the former foreign subsidiary, such transactions should be accounted for as disposal of all interest in the foreign operation.

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

(6) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts 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 commitments in operations are classified as cash equivalents.

(7) 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 amortised cost or fair value through other comprehensive income.
- B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value and recognises the transaction costs in profit or loss. The Group subsequently measures the financial assets at fair value, and recognises the gain or loss in profit or loss.
- D. The Group recognises the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

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

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

(9) Financial assets at amortised cost

- A. Financial assets at amortised cost are those that meet all of the following criteria:
  - (a) The objective of the Group's business model is achieved by collecting contractual cash flows.
  - (b) The assets' contractual cash flows represent solely payments of principal and interest.
- B. On a regular way purchase or sale basis, financial assets at amortised cost are recognised and derecognised using trade date accounting.

- C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. Interest income from these financial assets is included in finance income using the effective interest method. A gain or loss is recognised in profit or loss when the asset is derecognised or impaired.
- D. The Group's time deposits which do not fall under cash equivalents are those with a short maturity period and are measured at initial investment amount as the effect of discounting is immaterial.

(10) Accounts and notes receivable

- A. Accounts and notes receivable entitle the Group 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.

(11) Impairment of financial assets

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

(12) Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expire.

(13) Leasing arrangements (lessor) – operating leases

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

(14) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labor, 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 realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(15) Investments accounted for using equity method / associates

- A. Associates are all entities over which the Group has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognised at cost.

- B. The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.
- C. When changes in an associate's equity do not arise from profit or loss or other comprehensive income of the associate and such changes do not affect the Group's ownership percentage of the associate, the Group recognises the Group's share of change in equity of the associate in 'capital surplus' in proportion to its ownership.
- D. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- E. When the Group disposes its investment in an associate and loses significant influence over this associate, the amounts previously recognised in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it retains significant influence over this associate, the amounts previously recognised in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.

(16) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.
- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each 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 property, plant and equipment are as follows:

Buildings and structures	14 ~ 25 years
Machinery and equipment	4 ~ 10 years
Office equipment	3 ~ 5 years
Factory equipment	5 ~ 10 years
Other equipment	3 ~ 10 years

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

Effective 2019

A. Leases are recognised 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 Group. For short-term leases or leases of low-value assets, lease payments are recognised as an expense on a straight-line basis over the lease term.

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

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

C. At the commencement date, the right-of-use asset is stated at cost comprising the amount of the initial measurement of lease liability.

The right-of-use asset is measured subsequently using the cost model and is depreciated from the commencement date to the earlier of the end of the asset's useful life or the end of the lease term.

When the lease liability is remeasured, the amount of remeasurement is recognised as an adjustment to the right-of-use asset.

(18) Operating leases (lessee)

Prior to 2018

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.

(19) Intangible assets

A. Computer software is stated at cost and amortised on a straight-line basis over its estimated useful life of 1 to 3 years.

B. Internally generated intangible assets—research and development expenditures

- (a) Research expenditures are recognised as an expense as incurred.
- (b) Development expenditures that do not meet the following criteria are recognised as expenses as incurred, but are recognised as intangible assets when the following criteria are met:
  - i. It is technically feasible to complete the intangible asset so that it will be available for use or sale;
  - ii. An entity intends to complete the intangible asset and use or sell it;
  - iii. An entity has the ability to use or sell the intangible asset;
  - iv. It can be demonstrated how the intangible asset will generate probable future economic benefits;
  - v. Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
  - vi. The expenditure attributable to the intangible asset during its development can be reliably measured.
- (c) Upon being available for use, internally generated intangible assets are amortised on a straight-line basis over their estimated useful life of 3 years.
- C. Goodwill arises in a business combination accounted for by applying the acquisition method.
- D. Core technology and licenses and franchises, are amortised on a straight-line basis over their estimated useful lives of 3~10 and 5 years, respectively.

(20) Impairment of non-financial assets

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

(21) Borrowings

Borrowings comprise long-term and short-term bank borrowings and other short-term loans. Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

(22) Notes and accounts payable

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

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

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

A. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorised as financial liabilities held for trading unless they are designated as hedges.

B. At initial recognition, the Group measures the financial liabilities at fair value. All related transaction costs are recognised in profit or loss. The Group subsequently measures these financial liabilities at fair value with any gain or loss recognised in profit or loss.

(24) Derecognition of financial liabilities

A financial liability is derecognised when the obligation specified in the contract is either discharged or cancelled or expires.

(25) Non-hedging derivatives

Non-hedging derivatives are initially recognised 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 recognised in profit or loss.

(26) 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 recognised as expense in that period when the employees render service.

B. Pensions

Defined contribution plans

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

### C. Employees' compensation and directors' remuneration

Employees' compensation and directors' remuneration are recognised 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.

### (27) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised 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 recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated 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 or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group 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 realised or the deferred tax liability is settled.
- D. Deferred tax assets are recognised 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, unrecognised and recognised deferred tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.

(28) Share capital

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

(29) Revenue recognition

The Group identifies contracts with customers, allocates the transaction price to performance obligations, and recognizes revenue when performance obligations are satisfied.

Revenue from the sale of goods comes from the sale of polarizing film. Sales of polarizing film are recognized as revenue when the goods are delivered to the customer's specific location or the goods are shipped (according to the terms of trade), because it is the time when the customer has full discretion over the manner of distribution and the price to sell the goods, has the primary responsibility for sales to future customers, and bears the risks of obsolescence. Trade receivables are recognized concurrently.

The Group does not recognize revenue on materials delivered to subcontractors because this delivery does not involve a transfer of control.

(30) Government grants

Government grants are recognised at their fair value only when there is reasonable assurance that the Group will comply with any conditions attached to the grants and the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises expenses for the related costs for which the grants are intended to compensate.

(31) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker. The Group's Chief Operating Decision-Maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

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

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group'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 Group's accounting policies

A. Revenue recognition on a net/gross basis

The Group determines whether the nature of its performance obligation is to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for the other party to provide those goods or services (i.e. the Group is an agent) based on the transaction model and its economic

substance. The Group is a principal if it controls a promised good or service before it transfers the good or service to a customer. The Group recognises revenue at gross amount of consideration to which it expects to be entitled in exchange for those goods or services transferred. The Group is an agent if its performance obligation is to arrange for the provision of goods or services by another party. The Group recognises revenue at the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the other party to provide its goods or services.

Indicators that the Group controls the good or service before it is provided to a customer include the following:

- (a) The Group is primarily responsible for the provision of goods or services;
- (b) The Group assumes the inventory risk before transferring the specified goods or services to the customer or after transferring control of the goods or services to the customer; and
- (c) The Group has discretion in establishing prices for the goods or services.

#### B. Control over subsidiaries

Note 4(3) describes that Kunshan Chimei Materials Technology Corp. (“KSCMMT”) is a subsidiary of the Group although the Group only holds less than half of the voting power of KSCMMT. After considering the Group’s absolute size of holding in KSCMMT and the contractual arrangements between the Group and other investors, and other factors, management concluded that the Group has a sufficiently dominant voting interest to direct the relevant activities of KSCMMT, and therefore, the Group has control over KSCMMT.

### (2) Critical accounting estimates and assumptions

#### A. Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Group must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Group 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 realisable 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 \$2,146,069.

#### B. Financial assets-fair value measurement of unlisted stocks without active market

The fair value of unlisted stocks held by the Group that are not traded in an active market is determined considering those companies’ recent funding raising activities and technical development status, fair value assessment of other companies of the same type, market conditions and other economic indicators existing on balance sheet date. Any changes in these judgements and estimates will impact the fair value measurement of these unlisted stocks. Please refer to Note 12(3) for the financial instruments fair value information.

As of December 31, 2019, the carrying amount of unlisted stocks without active market was \$169,740.

### C. Impairment of property, plant and equipment

The Group assesses impairment based on its subjective judgement and determines the separate cash flows of a specific group of assets, useful lives of assets and the future possible income and expenses arising from the assets depending on how assets are utilised and industrial characteristics.

Any changes of economic circumstances or estimates due to the change of Group strategy might cause material impairment on assets in the future.

As of December 31, 2019, the Group recognised property, plant and equipment, net of impairment loss, amounting to \$4,358,111.

## 6. DETAILS OF SIGNIFICANT ACCOUNTS

### (1) Cash and cash equivalents

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Cash on hand and revolving funds	\$ 428	\$ 851
Checking accounts and demand deposits	106,242	2,865,537
Time deposits	86,272	239,038
	<u>\$ 192,942</u>	<u>\$ 3,105,426</u>

A. The Group 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. Information about cash and cash equivalents that were pledged to others as collaterals is provided in Note 8.

C. Time deposits were classified as cash and cash equivalents with original maturities of less than three months. The Group has no time deposits pledged to others.

### (2) Financial instruments at fair value through profit or loss

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Current items:		
Financial assets mandatorily measured at fair value through profit or loss		
Listed stocks	\$ -	\$ 84,127
Derivatives	571	11,897
Debt instruments	3,500	2,500
	<u>4,071</u>	<u>98,524</u>
Valuation adjustment	( 3,500)	( 13,999)
	<u>\$ 571</u>	<u>\$ 84,525</u>
Current items:		
Financial liabilities held for trading		
Short selling	\$ -	\$ 2,725
Valuation adjustment	-	( 44)
	<u>\$ -</u>	<u>\$ 2,681</u>

A. Amounts recognised in profit or loss in relation to financial assets and liabilities at fair value through profit or loss are listed below:

	Year ended December 31, 2019	Year ended December 31, 2018
Financial assets mandatorily measured at fair value through profit or loss		
Equity instruments	\$ 23,719	(\$ 12,438)
Derivatives	8,595	41,457
Debt instruments	( 3,500)	-
Financial liabilities held for trading		
Derivatives	( 63,164)	( 23,468)
	<u>\$ 34,350</u>	<u>\$ 5,551</u>

B. The Group entered into contracts relating to derivative financial assets and liabilities which were not accounted for under hedge accounting. The information is listed below:

Derivative Financial Assets	December 31, 2019		December 31, 2018	
	Contract Amount (notional principal)	Contract Period	Contract Amount (notional principal)	Contract Period
Current items:				
Foreign exchange option agreement	-	-	USD 3,000 thousand (BUY)	2018.12~2019.3
Forward foreign exchange contracts	JPY 109,340 thousand	2019.12 ~ 2020.1	-	-
Forward foreign exchange contracts	JPY 218,600 thousand	2019.12 ~ 2020.1	-	-

The Group entered into foreign exchange option contracts and forward foreign exchange contracts to hedge exchange rate risk of assets and liabilities denominated in foreign currencies whose values would be affected by the exchange rate fluctuations. However, these forward foreign exchange contracts are not accounted for under hedge accounting.

C. Information relating to credit risk of financial assets at fair value through profit or loss are provided in Note 12(2).

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

Items	December 31, 2019	December 31, 2018
Non-current items:		
Equity instruments		
Unlisted stocks	\$ 352,978	\$ 340,000
Valuation adjustment	( 183,238)	( 124,273)
	<u>\$ 169,740</u>	<u>\$ 215,727</u>

- A. The Group has elected to classify equity instruments that are considered to be strategic investments as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to \$169,740 and \$215,727 as at December 31, 2019 and 2018, respectively.
- B. In response to the modified investment strategy, the Group sold \$1,550 of unlisted stocks at fair value and resulted in cumulative gains on disposal of \$50 for the year ended December 31, 2019.
- C. Amounts recognised in profit or loss and other comprehensive income in relation to the financial assets at fair value through other comprehensive income are listed below:

	Year ended December 31, 2019	Year ended December 31, 2018
Equity instruments at fair value through other comprehensive income		
Fair value change recognised in other comprehensive income	(\$ 58,915)	(\$ 124,273)
Cumulative gains reclassified to retained earnings due to derecognition	\$ 50	-

- D. The Group has no financial assets at fair value through other comprehensive income pledged to others.

(4) Financial assets at amortised cost

Items	December 31, 2019	December 31, 2018
Current items:		
Escrow demand deposits	\$ 60,061	\$ -
Pledged deposit	7,000	1,253,226
Investment in debt instrument without active market	49,000	50,000
Time deposits with original maturities of more than three months	135,446	10,600
	251,507	1,313,826
Less : Accumulated impairment	( 49,000)	-
	\$ 202,507	\$ 1,313,826

- A. The Group entered into a concert cooperation agreement with a partner company in August 2018. The contract is effective from August 2018 to the completion of entertainment activities. The investment amount was \$50,000. The Group collected the return on the investment amounting to \$1,000 in January 2019 and recognised the impairment loss of \$49,000 for the year ended December 31, 2019 as the Group assessed that the cooperation has no future recoverable amount. The Group has carried out the relevant legal action.
- B. As at December 31, 2019 and 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the financial assets at amortised cost held by the Group was \$202,507 and \$1,313,826, respectively.

C. Details of the Group's financial assets at amortised cost pledged to others as collateral are provided in Note 8.

D. Information relating to credit risk of financial assets at amortised cost is provided in Note 12(2).

(5) Notes and accounts receivable

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Notes receivable (including related parties)	\$ -	\$ 205,426
Less: Allowance for uncollectible accounts	-	-
	<u>\$ -</u>	<u>\$ 205,426</u>
Accounts receivable (including related parties)	\$ 2,359,233	\$ 4,399,358
Less : Allowance for uncollectible accounts	( 7,668)	( 1,628)
	<u>\$ 2,351,565</u>	<u>\$ 4,397,730</u>

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

	<u>December 31, 2019</u>		<u>December 31, 2018</u>	
	<u>Notes receivable</u>	<u>Accounts receivable</u>	<u>Notes receivable</u>	<u>Accounts receivable</u>
Not past due	\$ -	\$ 2,348,091	\$ 205,426	\$ 4,394,899
Up to 30 days	-	8,813	-	4,459
31 to 60 days	-	359	-	-
61 to 90 days	-	568	-	-
Over 91 days	-	1,402	-	-
	<u>\$ -</u>	<u>\$ 2,359,233</u>	<u>\$ 205,426</u>	<u>\$ 4,399,358</u>

The above ageing analysis was based on past due date.

B. As of December 31, 2019, December 31, 2018, and January 1, 2018, the balances of receivables (including notes receivable) from contracts with customers amounted to \$2,359,233, \$4,604,784 and \$3,551,890, respectively.

C. As of December 31, 2019 and 2018, the Group had outstanding discounted notes receivable amounting to \$0 and \$164,177, respectively. However, in general, the Group does not expect that the drawers of the notes would refuse to pay for the notes at maturity. The liabilities arising on discounted notes receivable were presented as short-term borrowings.

D. The Group does not hold any collateral as guarantee for notes and accounts receivable.

E. As at December 31, 2019 and 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the Group's notes and accounts receivable were \$0 and \$205,426; \$2,351,565 and \$4,397,730, respectively.

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

(6) Inventories

	December 31, 2019		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 1,366,158	(\$ 193,991)	\$ 1,172,167
Work in progress	553,389	( 90,795)	462,594
Finished goods	868,722	( 357,414)	511,308
Commodities	76,750	( 76,750)	-
	<u>\$ 2,865,019</u>	<u>(\$ 718,950)</u>	<u>\$ 2,146,069</u>

	December 31, 2018		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 2,274,630	(\$ 224,806)	\$ 2,049,824
Work in progress	1,372,903	( 139,713)	1,233,190
Finished goods	1,265,703	( 670,756)	594,947
Commodities	83,272	( 77,936)	5,336
	<u>\$ 4,996,508</u>	<u>(\$ 1,113,211)</u>	<u>\$ 3,883,297</u>

The cost of inventories recognized as expense for the years ended December 31, 2019 and 2018, were \$14,326,772 and \$12,205,208, respectively, including the amount of \$265,587 and \$332,579, respectively, that the Group reversed from a previous inventory write-down and accounted for as reduction of cost of goods sold because of the clearance of inventories that was already provisioned loss in market value decline.

(7) Other receivables

	December 31, 2019	December 31, 2018
Financing provided to others(Note)	\$ -	\$ 68,681
Others	58,028	46,296
	<u>\$ 58,028</u>	<u>\$ 114,977</u>

Note : This represents the accounts receivable which resulted from the triangular trade conducted in KSCMS. The Group regarded it as a loan to the companies with business relationship.

(8) Investments accounted for using equity method

	December 31, 2019	December 31, 2018
Associates:		
KSCMMT	<u>\$ 3,638,064</u>	<u>\$ -</u>

A. In October 2019 and December 2019, KSCMMT increased its capital in cash. The Group did not participate in the capital increase proportionately to ownership, therefore the shareholding ratio was decreased to 38.4%. Additionally, because of the reelection of directors of KSCMMT, the Group lost its control over KSCMMT. However, the Group still has significant influence over KSCMMT, refer to Note 6(28).

B. Associates

(a) The basic information of the associates that are material to the Group is as follows:

Company name	Principal place of business	Shareholding ratio	Nature of relationship	Methods of measurement
		December 31, 2019		
KSCMMT	China	38.4%	Strategic investment	Equity method

(b) The summarised financial information of the associates that are material to the Group is as follows:

Balance sheet

	KSCMMT	
	December 31, 2019	
Current assets	\$	6,925,069
Non-current assets		11,299,643
Current liabilities	(	6,092,394)
Non-current liabilities	(	2,658,193)
Total net assets	\$	<u>9,474,125</u>
Share in associate's net assets	\$	<u>3,638,064</u>

Statement of comprehensive income

	KSCMMT	
	Year ended December 31, 2019	
Revenue	\$	<u>7,102,299</u>
Loss for the period from discontinued operations	(\$	<u>108,111)</u>

(c) The share of loss of associates and joint ventures accounted for using equity method for the year ended December 31, 2019 was \$1,421.

(9) Property, plant and equipment

2019

	Land	Buildings and structures	Machinery and equipment	Office equipment	Factory equipment	Miscellaneous equipment	Construction in progress and equipment under acceptance	Total
<u>At January 1</u>								
Cost	\$ 1,428,543	\$ 7,524,465	\$ 7,212,313	\$ 72,305	\$ 4,682,095	\$ 341,469	\$ 170,187	\$ 21,431,377
Accumulated depreciation and impairment	-	( 2,025,767)	( 4,925,982)	( 49,297)	( 3,495,367)	( 241,919)	-	( 10,738,332)
	<u>\$ 1,428,543</u>	<u>\$ 5,498,698</u>	<u>\$ 2,286,331</u>	<u>\$ 23,008</u>	<u>\$ 1,186,728</u>	<u>\$ 99,550</u>	<u>\$ 170,187</u>	<u>\$ 10,693,045</u>
Opening net book amount as at January 1	\$ 1,428,543	\$ 5,498,698	\$ 2,286,331	\$ 23,008	\$ 1,186,728	\$ 99,550	\$ 170,187	\$ 10,693,045
Additions	-	8,992	36,172	8,054	33,359	10,783	3,257,967	3,355,327
Disposals	-	-	( 320)	( 2,548)	( 473)	( 4,193)	-	( 7,534)
Reclassifications	-	( 88,076)	39,148	-	( 292,474)	6,221	2,748,683	2,413,502
Depreciation charge	-	( 324,894)	( 389,857)	( 9,625)	( 184,270)	( 35,409)	-	( 944,055)
Decrease in consolidated entities	(	2,914,463)	( 1,311,165)	( 5,821)	( 491,142)	( 54,471)	( 5,942,352)	( 10,719,414)
Net exchange differences	-	( 119,708)	( 56,926)	( 278)	( 19,169)	( 2,194)	( 234,485)	( 432,760)
Closing net book amount as at December 31	<u>\$ 1,428,543</u>	<u>\$ 2,060,549</u>	<u>\$ 603,383</u>	<u>\$ 12,790</u>	<u>\$ 232,559</u>	<u>\$ 20,287</u>	<u>\$ -</u>	<u>\$ 4,358,111</u>
<u>At December 31</u>								
Cost	\$ 1,428,543	\$ 3,906,315	\$ 5,501,783	\$ 66,460	\$ 3,663,079	\$ 251,853	\$ -	\$ 14,818,033
Accumulated depreciation and impairment	-	( 1,845,766)	( 4,898,400)	( 53,670)	( 3,430,520)	( 231,566)	-	( 10,459,922)
	<u>\$ 1,428,543</u>	<u>\$ 2,060,549</u>	<u>\$ 603,383</u>	<u>\$ 12,790</u>	<u>\$ 232,559</u>	<u>\$ 20,287</u>	<u>\$ -</u>	<u>\$ 4,358,111</u>

2018

	Land	Buildings and structures	Machinery and equipment	Office equipment	Factory equipment	Miscellaneous equipment	Construction in progress and equipment under acceptance	Total
<u>At January 1</u>								
Cost	\$ 1,428,543	\$ 7,263,777	\$ 6,799,675	\$ 70,449	\$ 4,638,174	\$ 337,523	\$ 409,419	\$ 20,947,560
Accumulated depreciation and impairment	-	( 1,434,198)	( 4,594,076)	( 49,403)	( 3,212,644)	( 213,503)	( 274,041)	( 9,777,865)
	<u>\$ 1,428,543</u>	<u>\$ 5,829,579</u>	<u>\$ 2,205,599</u>	<u>\$ 21,046</u>	<u>\$ 1,425,530</u>	<u>\$ 124,020</u>	<u>\$ 135,378</u>	<u>\$ 11,169,695</u>
Opening net book amount as at January 1	\$ 1,428,543	\$ 5,829,579	\$ 2,205,599	\$ 21,046	\$ 1,425,530	\$ 124,020	\$ 135,378	\$ 11,169,695
Additions	-	96,426	160,669	11,657	52,331	17,120	463,959	802,162
Disposals	-	( 7,754)	( 72,729)	( 161)	( 1,329)	( 595)	-	( 82,568)
Reclassifications	-	( 14,143)	446,345	-	28,602	( 1,606)	( 425,580)	33,618
Depreciation charge	-	( 333,431)	( 415,589)	( 9,356)	( 300,010)	( 37,841)	-	( 1,096,227)
Net exchange differences	-	( 71,979)	( 37,964)	( 178)	( 18,396)	( 1,548)	( 3,570)	( 133,635)
Closing net book amount as at December 31	<u>\$ 1,428,543</u>	<u>\$ 5,498,698</u>	<u>\$ 2,286,331</u>	<u>\$ 23,008</u>	<u>\$ 1,186,728</u>	<u>\$ 99,550</u>	<u>\$ 170,187</u>	<u>\$ 10,693,045</u>
<u>At December 31</u>								
Cost	\$ 1,428,543	\$ 7,524,465	\$ 7,212,313	\$ 72,305	\$ 4,682,095	\$ 341,469	\$ 170,187	\$ 21,431,377
Accumulated depreciation and impairment	-	( 2,025,767)	( 4,925,982)	( 49,297)	( 3,495,367)	( 241,919)	-	( 10,738,332)
	<u>\$ 1,428,543</u>	<u>\$ 5,498,698</u>	<u>\$ 2,286,331</u>	<u>\$ 23,008</u>	<u>\$ 1,186,728</u>	<u>\$ 99,550</u>	<u>\$ 170,187</u>	<u>\$ 10,693,045</u>

A. Amount of borrowing costs capitalised as part of property, plant and equipment and the range of the interest rates for such capitalisation are as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
Amount capitalised	\$ 70,625	\$ 8,799
Range of the interest rates for capitalisation	0.29%~5.58%	2.00%~2.69%

B. As of December 31, 2019 and 2018, the accumulated impairment of property, plant and equipment was \$258,433 and \$268,459, respectively, and the reportable segment was in Mainland China.

C. The above property, plant and equipment were used for the operations of the Group and were not available for lease.

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

(10) Leasing arrangements – lessee

Effective 2019

A. The Group leases various assets including land, buildings and other equipment. Rental contracts are typically made for periods of 1 to 50 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose covenants, but leased assets may not be used as security for borrowing purposes and parts of lease are not allowed to be subletted, leased, sold or any ways for others to use.

B. Short-term leases with a lease term of 12 months or less comprise of buildings and multifunction printers.

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

	Year ended December 31, 2019	Year ended December 31, 2019
	Carrying amount	Depreciation charge
Land	\$ 30,709	\$ 5,648
Buildings	89	18,828
Other equipment	198	55
	<u>\$ 30,996</u>	<u>\$ 24,531</u>

D. For the year ended December 31, 2019, the additions to right-of-use assets was \$30,970.

E. The information on income and expense accounts relating to lease contracts is as follows:

	Year ended December 31, 2019
<u>Items affecting profit or loss</u>	
Interest expense on lease liabilities	\$ 2,355
Expense on short-term lease contracts	18,173
Gain arising from lease modification	110

F. For the year ended December 31, 2019, the Group's total cash outflow for leases was \$34,754.

(11) Intangible assets

	2019				
	<u>Computer Software</u>	<u>Core Technology</u>	<u>Goodwill</u>	<u>Licenses and Franchises</u>	<u>Total</u>
<u>At January 1</u>					
Cost	\$ 135,585	\$ 67,622	\$ 8,056	\$ 9,200	\$ 220,463
Accumulated amortisation and impairment	( 87,104)	( 33,233)	-	( 8,280)	( 128,617)
	<u>\$ 48,481</u>	<u>\$ 34,389</u>	<u>\$ 8,056</u>	<u>\$ 920</u>	<u>\$ 91,846</u>
At January 1	\$ 48,481	\$ 34,389	\$ 8,056	\$ 920	\$ 91,846
Additions-acquired separately	15,944	-	-	-	15,944
Reclassifications	990	-	-	-	990
Amortisation charge	( 34,334)	( 11,574)	-	( 920)	( 46,828)
Decrease in consolidated entities	( 17,714)	( 11,029)	-	-	( 28,743)
Net exchange differences	( 694)	( 428)	-	-	( 1,122)
At December 31	<u>\$ 12,673</u>	<u>\$ 11,358</u>	<u>\$ 8,056</u>	<u>\$ -</u>	<u>\$ 32,087</u>
<u>At December 31</u>					
Cost	\$ 88,057	\$ 47,000	\$ 8,056	\$ 9,200	\$ 152,313
Accumulated amortisation and impairment	( 75,384)	( 35,642)	-	( 9,200)	( 120,226)
	<u>\$ 12,673</u>	<u>\$ 11,358</u>	<u>\$ 8,056</u>	<u>\$ -</u>	<u>\$ 32,087</u>

	2018				
	Computer Software	Core Technology	Goodwill	Licenses and Franchises	Total
<u>At January 1</u>					
Cost	\$ 113,901	\$ 47,000	\$ 8,056	\$ 9,200	\$ 178,157
Accumulated amortisation and impairment	( 49,843)	( 26,242)	-	( 6,440)	( 82,525)
	<u>\$ 64,058</u>	<u>\$ 20,758</u>	<u>\$ 8,056</u>	<u>\$ 2,760</u>	<u>\$ 95,632</u>
At January 1	\$ 64,058	\$ 20,758	\$ 8,056	\$ 2,760	\$ 95,632
Additions-acquired separately	19,942	-	-	-	19,942
Additions-from internal development	-	21,028	-	-	21,028
Reclassifications	4,542	-	-	-	4,542
Amortisation charge	( 39,416)	( 7,036)	-	( 1,840)	( 48,292)
Net exchange differences	( 645)	( 361)	-	-	( 1,006)
At December 31	<u>\$ 48,481</u>	<u>\$ 34,389</u>	<u>\$ 8,056</u>	<u>\$ 920</u>	<u>\$ 91,846</u>
<u>At December 31</u>					
Cost	\$ 135,585	\$ 67,622	\$ 8,056	\$ 9,200	\$ 220,463
Accumulated amortisation and impairment	( 87,104)	( 33,233)	-	( 8,280)	( 128,617)
	<u>\$ 48,481</u>	<u>\$ 34,389</u>	<u>\$ 8,056</u>	<u>\$ 920</u>	<u>\$ 91,846</u>

A. Details of amortisation on intangible assets are as follows:

	Year ended	Year ended
	December 31, 2019	December 31, 2018
Cost of sales	\$ 13,862	\$ 8,927
General and administrative expenses	27,207	32,825
Research and development expenses	5,759	6,540
	<u>\$ 46,828</u>	<u>\$ 48,292</u>

B. Goodwill is allocated as follows to the Group's cash-generating units:

	December 31, 2019	December 31, 2018
CMVT	<u>\$ 8,056</u>	<u>\$ 8,056</u>

Goodwill is allocated to the cash-generating units identified by the Group. The recoverable amount of all cash-generating units has been determined based on value-in-use calculations. These calculations use future cash flow projections covering a five-year period. The recoverable amount of all cash-generating units calculated using the value-in-use exceeded their carrying amount, so goodwill was not impaired. The calculation of value in use mainly considers the operating profit margin, growth rate and discount rate. Management determined gross margin

based on past performance and its expectations of market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments.

(12) Other assets

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Current		
Import VAT	\$ -	\$ 833
Temporary payments	8,958	26,732
Prepayments for leases	-	5,648
Payments on behalf of others	3,052	5,483
Other	6,272	5,186
	<u>\$ 18,282</u>	<u>\$ 43,882</u>
	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Non-Current		
Prepayments for technical royalty (Note)	\$ -	\$ 786,006
Prepayments for leases	-	246,408
Refundable deposits	8,790	11,368
Others	334	10,450
	<u>\$ 9,124</u>	<u>\$ 1,054,232</u>

Note: Refer to details on Note 9 (4).

(13) Short-term borrowings

<u>Type of borrowings</u>	<u>December 31, 2019</u>	<u>Interest rate range</u>	<u>Collateral</u>
Bank borrowings			
Bank unsecured borrowings	\$ 2,422,816	0.63%~4.50%	-
Bank secured borrowings	319,775	0.82%~2.67%	Land、buildings and structures
Other short-term borrowings	45,834	4.11%	Machinery and equipment
	<u>\$ 2,788,425</u>		
<u>Type of borrowings</u>	<u>December 31, 2018</u>	<u>Interest rate range</u>	<u>Collateral</u>
Bank borrowings			
Bank unsecured borrowings	\$ 5,277,148	0.59%~5.66%	-
Bank secured borrowings	164,177	4.02%~4.62%	Notes receivable
- Transferred receivables			
	<u>\$ 5,441,325</u>		

A. Information about interest expense recognised in profit or loss is provided in Note 6(23).

B. The Company proposed a debt repayment plan to Taiwan Cooperative Bank and other financial institutions during the debt negotiation meeting held on April 11, 2019. The resolutions of the meeting are as follows:

- (a) During the debt negotiation, the bank loans are secured by the Company's chairman, Ho, Jau-Yang, as a joint guarantor.
- (b) The principal is extended for one year (until the end of March 2020) and the interest is repayable monthly.
- (c) The Company is willing to pledge additional land and plants as collateral to creditor banks for providing greater protection of creditor's rights.
- (d) The Company sets up an escrow account and funds are remitted into the account for a centralised management and supervision. (The escrow account is set up in the largest creditor bank)

On July 26, 2019, the resolutions made during the debt negotiation meeting were approved in writing by all the creditor institutions.

C. The Company proposed a debt repayment plan to Taiwan Cooperative Bank and other financial institutions during the debt negotiation meeting held on February 21, 2020. The resolutions of the meeting are as follows:

- (a) The principal is extended for two years (until March 31, 2022) and the interest is paid normally.
- (b) Taiwan Cooperative Bank and Changhua Bank will negotiate with headquarter for increasing facilities (issuing letters of credit and hedge amount) to support the operation cashflow of the Company. Remaining banks will extend the maturity to March 31, 2022 or extend the drawing period of drawn facilities to March 31, 2022.

The resolutions made during the debt negotiation meeting will become effective after obtaining the written approval from two-thirds of total claims of all creditor banks. As of March 18, 2020, the written approval of each creditor bank has not been completed.

D. In November 2019, the Group was financed by IBT Leasing Co., Ltd. through sales with buyback agreements. As of December 31, 2019, the Group issued unexpired notes in the amount of \$47,718 for the aforementioned transaction.

(14) Other payables

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Payables for salaries or bonuses	\$ 175,118	\$ 275,416
Payables for annual leave	39,442	38,304
Payables for insurance premiums	14,379	17,641
Payables for purchase of equipment	9,925	375,950
Payables for interest	9,233	22,225
Accrued taxes payable	7,539	23,574
Payables for purchase of land or buildings	-	12,709
Other	167,462	310,392
	<u>\$ 423,098</u>	<u>\$ 1,076,211</u>

(15) Long-term borrowings

Type of borrowings	December 31, 2019	December 31, 2018
<u>Unsecured borrowings</u>		
Syndicated loan: Lead bank - Bank of Taiwan		
Repayable quarterly on interest from September 23, 2016; repayable from March 23, 2019 to September 23, 2021. (Note)	\$ -	\$ 3,161,300
Borrowings		
Repayable monthly on interest from December 17, 2018. The principal was repaid in full on the maturity date (December 17, 2020).	200,000	200,000
Borrowings		
Repayable monthly on interest from November 15, 2018; repayable from November 6, 2019 to November 14, 2023 (Note)	-	11,940
	200,000	3,373,240
Less: Current portion	(200,000)	(3,170,244)
	\$ -	\$ 202,996
Interest rate range	1.50%	1.50%~4.75%

Note: It was bank borrowings of KSCMMT. In December 2019, KSCMMT increased its capital in cash. The Group did not participate in the capital increase proportionately to ownership, therefore the shareholding ratio was decreased to 38.4%. Additionally, because of the reelection of directors of KSCMMT, the Group lost its control over KSCMMT. Therefore, KSCMMT is no longer included in the Group's consolidated financial statements.

A. Information on interest expense recognised in profit or loss is provided in Note 6(23).

B. In September 2016, KSCMMT signed the syndicated loan agreement with Bank of Taiwan and other banks for the purpose of enriching long-term operating capital. CMMT, Hangzhou Jinjiang Group Co., Ltd. ("HJ") and Zhejiang Renyuan Import & Export Co., Ltd. jointly stood for KSCMMT's credit line.

The above long-term bank loan agreement requires the maintenance of certain financial ratios based on the Group's annual financial statements. The related restrictions are as follows:

- (a) Current ratio: at least 100%;
- (b) Debt ratio: no more than 100%;
- (c) Interest coverage ratio: at least 3; and
- (d) Tangible net worth: at least \$10 billion.

During 2018 and 2017, the Group breached certain terms of its long-term loan agreements, which are primarily related to the interest coverage ratio of the Group. The management had applied for an exemption when the ratios were breached, and the Group has reach an agreement for the exemption with the bank for year 2017. In addition, the bank has informed KSCMMT to raise capital to repay the syndicated loan and settle the remaining principal by December 23, 2019. KSCMMT agreed to raise capital to repay the principal and interest of the syndicated loan. The loan was classified as a current liability as at December 31, 2018, in the amount of \$3,161,300.

C. Due to the difficulty of repayment, the Group started a debt negotiation meeting with creditor banks to negotiate the debt repayment, please refer to Note 6(10) for details.

(16) Pensions

- A. The Company and its domestic subsidiaries have 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 and its domestic subsidiaries contribute 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. NBCMMT, KSCMMT, KSCMS, XJHM and KSMF makes monthly contributions based on certain percentages of the basic salaries of their employees.
- C. The pension costs under defined contribution pension plans of the Group for the years ended December 31, 2019 and 2018 were \$87,022 and \$78,038, respectively.

(17) Share capital

- A. As of December 31, 2019, the Company’s authorised capital was \$12,000,000, consisting of 1,200,000 thousand shares and the paid-in capital was \$6,657,285 with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected.

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

	(Units: in thousand shares)	
	2019	2018
At January 1 (and December 31)	<u>665,729</u>	<u>665,729</u>

B. GDRS

- (a) On December 20, 2016, the Company’s Board of Directors approved to increase its capital by the issuance of 150,000 thousand shares of common shares by sponsoring the issuance of global depositary receipts (GDRs), which was approved by the FSC. Each GDR represents 40 common shares, which have been listed on the SGX since September 12, 2017, with a per-unit issue price of USD17.31 and a total amount of USD 64,913 thousand. As of December 31, 2019, the outstanding 3 thousand units of GDRs represented 116 thousand common shares. The agreement clause of a GDR purchase stipulates the following:

i. Voting rights

Unless stipulated otherwise by applicable laws and regulations, the Bank of New York Mellon (the “Depositary”) may exercise the voting rights associated with the underlying common shares represented by the GDRs on behalf of the holders of the GDRs in accordance with the Deposit Agreement (the “Deposit Agreement”) entered into by the Company, the Depositary, and the individual holders of the GDRs as well as in accordance with the laws and regulations of the ROC.

ii. Sale and withdrawal of the underlying common shares

The holders of the GDRs may request to withdraw and hold the common shares represented by the GDRs pursuant to the relevant laws and regulation of the ROC and the Deposit Agreement; or the holders of the GDRs may request to withdraw and ask the Depositary to sell such withdrawn common shares on behalf of the holders of the GDRs

and pay the sales proceeds after deducting tax and other relevant fees to the holders of the GDRs pursuant to the relevant laws and regulation of the ROC and the Deposit Agreement.

iii. Distribution of dividends, pre-emptive rights, and other interests

Unless otherwise provided in the Deposit Agreement, the holders of the GDRs shall be entitled to the same rights on dividends distribution or on their distributions as the holders of common shares of the Company. If the Company distributes share dividends or makes other share distributions in the future, the Depositary will, in accordance with the Deposit Agreement and the relevant laws and regulations, issue additional GDRs to the holders of the GDR unit, or sell such distributed shares on behalf of the holder of the GDRs and then pay the sales proceeds after deducting tax and other relevant fees to the holder of the GDRs on a pro rata basis.

(18) 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	Difference between consideration and carrying amount of subsidiaries acquired or disposed	Changes in ownership interests in subsidiaries	Total
At January 1	\$ 803,494	\$ 6,776	\$ 41,419	\$ 851,689
Changes in ownership interests in subsidiaries	-	-	92,337	92,337
At December 31	<u>\$ 803,494</u>	<u>\$ 6,776</u>	<u>\$ 133,756</u>	<u>\$ 944,026</u>
	2018			
	Share premium	Difference between consideration and carrying amount of subsidiaries acquired or disposed	Changes in ownership interests in subsidiaries	Total
At January 1	\$ 803,494	\$ 3,062	\$ 50,212	\$ 856,768
Purchase price and carrying amount arising from disposal of subsidiaries	-	3,714	-	3,714
Changes in ownership interests in subsidiaries	-	-	( 8,793)	( 8,793)
At December 31	<u>\$ 803,494</u>	<u>\$ 6,776</u>	<u>\$ 41,419</u>	<u>\$ 851,689</u>

(19) Retained earnings

A. Under the Company's Articles of Incorporation, surplus should be used to pay tax, offset the aggregated loss, and 10% surplus in mandatory reserve. However, 10 % mandatory reserve may not to be executed as the reserve reaches to the amount of registered capital of the company; the

Board of Directors is authorized to assign dividend and bonus wholly or partially in cash and report to shareholders' meeting if mandatory reserve, tax and levies have been paid out.

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

C. Special reserve

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.

D. On June 28, 2019 and June 22, 2018, the shareholders resolved that the Company will not distribute dividends, but set aside special reserve amounting to \$201,306 and \$43,251, respectively.

E. On March 18, 2020, the Board of Directors of the Company proposed not to appropriate dividends and provisioned special reserves amounting to \$229,331.

(20) Operating revenue

A. Disaggregation of revenue from contracts with customers

The Group derives revenue from contracts with customers, divided into the following major geographical regions:

<u>Year ended December 31, 2019</u>	<u>Taiwan</u>	<u>China</u>	<u>Total</u>
Total segment revenue	\$ 4,599,132	\$ 10,297,118	\$ 14,896,250
Inter-segment revenue	3,589,889	834,373	4,424,262
Elimination of internal transaction	( 3,589,889)	( 834,373)	( 4,424,262)
Revenue from external customer	<u>\$ 4,599,132</u>	<u>\$ 10,297,118</u>	<u>\$ 14,896,250</u>
<u>Year ended December 31, 2018</u>	<u>Taiwan</u>	<u>China</u>	<u>Total</u>
Total segment revenue	\$ 4,040,256	\$ 8,726,906	\$ 12,767,162
Inter-segment revenue	4,238,318	537,672	4,775,990
Elimination of internal transaction	( 4,238,318)	( 537,672)	( 4,775,990)
Revenue from external customer	<u>\$ 4,040,256</u>	<u>\$ 8,726,906</u>	<u>\$ 12,767,162</u>

## B. Contract liabilities

The Group has recognised the following revenue-related contract liabilities:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>	<u>January 1, 2018</u>
Contract liabilities –			
sale of goods	\$ 22,169	\$ 33,760	\$ 9,479

Revenue recognised that was included in the contract liability balance at the beginning of the period.

	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
Revenue recognised that was included in the contract liability balance at the beginning of the period		
Sale of goods	\$ 4,156	\$ 9,428

### (21) Other income

	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
Interest income:		
Interest income from bank deposits	\$ 32,748	\$ 28,568
Rental income	1,564	596
Dividend income	712	430
Government grants	11,239	11,461
Disgorgement income	11,033	-
Technical service income	19,700	-
Others	42,010	58,461
	<u>\$ 119,006</u>	<u>\$ 99,516</u>

### (22) Other gains and losses

	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
Losses on disposals of property, plant and equipment	(\$ 5,294)	(\$ 7,315)
Gains on disposals of investments	140,450	-
Foreign exchange losses	( 82,439)	( 252,553)
Net (losses) gains on financial assets or liabilities at fair value through profit or loss	( 35,062)	5,121
Gain arising from lease modification	110	-
Compensation losses	( 26,966)	-
Impairment loss recognised in profit or loss, financial assets	( 49,000)	-
Others	( 15,381)	( 20,181)
	<u>(\$ 73,582)</u>	<u>(\$ 274,928)</u>

(23) Finance costs

	Year ended <u>December 31, 2019</u>	Year ended <u>December 31, 2018</u>
Interest expense - bank borrowings	\$ 330,330	\$ 290,580
Interest expense - lease liabilities	<u>2,355</u>	<u>-</u>
	<u>\$ 332,685</u>	<u>\$ 290,580</u>

(24) Expenses by nature

	Year ended <u>December 31, 2019</u>	Year ended <u>December 31, 2018</u>
Employee benefit expense	\$ 1,720,352	\$ 1,604,720
Depreciation charges on property, plant and equipment	944,055	1,096,227
Depreciation charges on right-of-use assets	24,531	-
Amortisation charges on intangible assets	46,828	48,292
Amortisation charges on prepayment for leases	-	5,759

(25) Employee benefit expense

	Year ended <u>December 31, 2019</u>	Year ended <u>December 31, 2018</u>
Pension costs	\$ 87,022	\$ 78,038
Short-term employee benefits	<u>1,633,330</u>	<u>1,526,682</u>
	<u>\$ 1,720,352</u>	<u>\$ 1,604,720</u>

- A. In accordance with the Articles of Incorporation of the Company, a ratio of distributable profit of the current year, after covering accumulated losses, shall be distributed as employees' compensation and directors' remuneration. The ratio shall not be lower than 2% for employees' compensation and shall not be higher than 1% for directors' remuneration.
- B. The Company incurred losses for the years ended December 31, 2019 and 2018; thus, neither employees' compensation nor remuneration of directors were estimated. Information about employees' compensation and directors' remuneration of the Company as approved at the meeting of Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(26) Income tax

A. Income tax expense (benefit)

	Year ended December 31, 2019	Year ended December 31, 2018
Current tax:		
Current tax on profit in current period	\$ -	\$ 9,464
Prior year income tax underestimation	967	9
Total current tax	<u>967</u>	<u>9,473</u>
Deferred tax:		
Origination and reversal of temporary differences	20,631	( 24,944)
Impact of change in tax rate	-	( 9,243)
Total deferred tax	<u>20,631</u>	<u>( 34,187)</u>
Income tax expense (benefit)	<u>\$ 21,598</u>	<u>(\$ 24,714)</u>

B. Reconciliation between income tax expense (benefit) and accounting loss:

	Year ended December 31, 2019	Year ended December 31, 2018
Tax calculated based on loss before tax and statutory tax rate (note)	(\$ 170,001)	(\$ 311,785)
Expenses disallowed by tax regulation	2,969	53,701
Temporary differences not recognised as deferred tax assets	( 29,327)	28,826
Taxable loss not recognised as deferred tax assets	216,990	204,535
Prior year income tax underestimation	967	9
Income tax expense (benefit)	<u>\$ 21,598</u>	<u>(\$ 24,714)</u>

Note: The basis for computing the applicable tax rate are the rates applicable in the respective countries where the Group entities operate.

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

	2019				
	January 1	Recognised in profit or loss	Effect of foreign exchange	Decrease in consolidated entities	December 31
Temporary differences:					
- Deferred tax assets:					
Allowance for obsolescence and decline in market value of inventories	\$ 104,996	(\$ 20,631)	(\$ 583)	(\$ 15,051)	\$ 68,731
Unrealised gain on financial assets	59	-	-	-	59
Deferred revenue	4,160	-	-	-	4,160
Unrealized exchange gain	108	-	-	-	108
Provision	2,074	-	-	-	2,074
Others	1,249	-	-	-	1,249
	<u>112,646</u>	<u>(20,631)</u>	<u>(583)</u>	<u>(15,051)</u>	<u>76,381</u>
-Deferred tax liabilities:					
Gain on foreign investment accounted for under equity method	( 6,768)	-	-	-	( 6,768)
Others	( 15,906)	-	-	-	( 15,906)
	<u>( 22,674)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 22,674)</u>
Total	<u>\$ 89,972</u>	<u>(\$ 20,631)</u>	<u>(\$ 583)</u>	<u>(\$ 15,051)</u>	<u>\$ 53,707</u>
	2018				
	January 1	Recognised in profit or loss	Reclassification	Effect of foreign exchange	December 31
Temporary differences:					
- Deferred tax assets:					
Allowance for obsolescence and decline in market value of inventories	\$ 68,731	\$ 36,979	\$ -	(\$ 714)	\$ 104,996
Unrealised gain on financial assets	59	-	-	-	59
Deferred revenue	4,160	-	-	-	4,160
Unrealized exchange gain	108	-	-	-	108
Provision	2,074	-	-	-	2,074
Others	( 11,683)	( 2,792)	15,727	( 3)	1,249
	<u>63,449</u>	<u>34,187</u>	<u>15,727</u>	<u>( 717)</u>	<u>112,646</u>
-Deferred tax liabilities:					
Gain on foreign investment accounted for under equity method	( 6,768)	-	-	-	( 6,768)
Others	( 179)	-	( 15,727)	-	( 15,906)
	<u>( 6,947)</u>	<u>-</u>	<u>( 15,727)</u>	<u>-</u>	<u>( 22,674)</u>
Total	<u>\$ 56,502</u>	<u>\$ 34,187</u>	<u>\$ -</u>	<u>(\$ 717)</u>	<u>\$ 89,972</u>

D. Expiration dates of unused tax losses and amounts of unrecognized deferred tax assets are as follows:  
The company and its domestic subsidiaries:

December 31, 2019

Year incurred	Amount filed/ assessed	Imputation credit amount	Unused amount	Unrecognised deferred tax assets	Expiry year
2010	Amount assessed	\$ 4,714	\$ 4,714	\$ 4,714	2020
2011	Amount assessed	38,616	38,616	38,616	2021
2012	Amount assessed	52,328	52,328	52,328	2022
2013	Amount assessed	35,846	35,846	35,846	2023
2014	Amount assessed	16,480	16,480	16,480	2024
2015	Amount assessed	4,767	4,767	4,767	2025
2016	Amount assessed	1,134,124	1,134,124	1,134,124	2026
2017	Amount assessed	601,784	601,784	601,784	2027
2018	Amount filed	183,843	183,843	183,843	2028
2019	Expected filed amount	850,788	850,788	850,788	2029

Foreign subsidiaries:

December 31, 2019

Year incurred	Amount filed/ assessed	Imputation credit amount	Unused amount	Unrecognised deferred tax assets	Expiry year
2016	Amount filed	\$ 204,336	\$ 204,336	\$ 204,336	2021
2017	Amount filed	303,456	303,456	303,456	2022
2018	Amount filed	82,341	82,341	82,341	2023
2019	Expected amount filed	204,196	204,196	204,196	2024

The company and its domestic subsidiaries:

December 31, 2018

Year incurred	Amount filed/ assessed	Imputation credit amount	Unused amount	Unrecognised deferred tax assets	Expiry year
2010	Amount assessed	\$ 4,714	\$ 4,714	\$ 4,714	2020
2011	Amount assessed	38,616	38,616	38,616	2021
2012	Amount assessed	52,328	52,328	52,328	2022
2013	Amount assessed	35,846	35,846	35,846	2023
2014	Amount assessed	16,480	16,480	16,480	2024
2015	Amount assessed	4,767	4,767	4,767	2025
2016	Amount assessed	1,134,124	1,134,124	1,134,124	2026
2017	Amount filed	559,936	559,936	559,936	2027
2018	Expected filed amount	413,382	413,382	413,382	2028

Foreign subsidiaries:

December 31, 2018

Year incurred	Amount filed/ assessed	Imputation credit amount	Unused amount	Unrecognised deferred tax assets	Expiry year
2016	Amount filed	\$ 204,336	\$ 204,336	\$ 204,336	2021
2017	Amount filed	837,906	837,906	837,906	2022
2018	Expected amount filed	181,260	181,260	181,260	2023

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Deductible temporary differences	\$ <u>651,180</u>	\$ <u>1,181,230</u>

F. The Company's income tax returns through 2017 have been assessed and approved by the Tax Authority.

G. Under the amendments to the Income Tax Act which was promulgated in February, 7, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from the year 2018. The Group has assessed the impact of the change in income tax rate.

(27) Loss per share

	<u>Year ended December 31, 2019</u>		
	<u>Weighted average number of ordinary shares outstanding</u>		<u>Loss per share</u>
	<u>Amount after tax (share in thousands)</u>		<u>(in dollars)</u>
<u>Basic and diluted loss per share</u>			
Loss attributable to ordinary shareholders of the parent	(\$ <u>688,559</u> )	<u>665,729</u>	(\$ <u>1.03</u> )
		<u>Year ended December 31, 2018</u>	
		<u>Weighted average number of ordinary shares outstanding</u>	<u>Loss per share</u>
		<u>Amount after tax (share in thousands)</u>	<u>(in dollars)</u>
<u>Basic and diluted loss per share</u>			
Loss attributable to ordinary shareholders of the parent	(\$ <u>655,080</u> )	<u>665,729</u>	(\$ <u>0.98</u> )

(28) Transactions with non-controlling interest

A. Disposal of equity interest in a subsidiary (that did not result in a loss of control)

In January 2018, the Group disposed of 2% of its interest in CMVT, reducing its continuing interest from 81.33% to 79.33%.

The above transactions were accounted for as equity transactions, since the Group did not cease to have control over these subsidiaries.

	<u>CMVT</u>
Cash consideration received	\$ 6,000
Proportionate share of the carrying amount of the net assets of the subsidiary transferred from non-controlling interests	( 2,286)
Differences recognized from equity transactions	<u>\$ 3,714</u>
<u>Line items adjusted for equity transactions</u>	
Capital surplus - purchase price and carrying amount differences from acquisitions or disposals of subsidiaries	<u>\$ 3,714</u>

B. The Group did not participate in the capital increase raised by a subsidiary proportionally to its interest to the subsidiary.

The Group and another shareholder of KSCMMT increased their equity capital of KSCMMT by US\$73 million respectively over the period of May to December, 2018. The transaction increased non-controlling interest by \$2,219,883 and decreased equity attributable to owners of parent by \$8,793.

In October 2019, KSCMMT increased its capital in cash. The Group did not participate in the capital increase proportionately to ownership, therefore the shareholding ratio was decreased from 49.5% to 45.15%. The transaction increased non-controlling interest by \$780,235 and increased equity attributable to owners of parent by \$92,337.

The effect of changes in interest in KSCMMT on the equity attributable to owners of the parent for the years ended December 31, 2019 and 2018 is shown below:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Cash	\$ 872,572	\$ 2,211,090
Increase in the carrying amount of non-controlling interest	( 780,235)	( 2,219,883)
Capital surplus - recognition of changes in ownership interest in subsidiaries	<u>\$ 92,337</u>	<u>(\$ 8,793)</u>

C. Disposal of subsidiaries

In December 2019, KSCMMT increased its capital in cash. CMMTI did not participate in the capital increase proportionately to ownership, therefore the shareholding ratio was decreased from 45.15% to 38.4%. Additionally, because of the reelection of directors of KSCMMT, the Group lost its control over KSCMMT.

(a) Details of the carrying amount of those assets and liabilities that KSCMMT lost its control are as follows:

	<u>December 31, 2019</u>
Cash and cash equivalents	\$ 426,496
Current financial assets at amortised cost	1,110,449
Notes receivable	143,489
Accounts receivable	1,684,847
Accounts receivable - related parties	229,104
Other receivables	13,291
Inventories	1,207,810
Allowance for inventory valuation losses	( 128,674)
Prepayments	463,537
Other current assets	208,446
Property, plant and equipment	10,719,414
Right-of-use assets	257,580
Intangible assets	28,743
Deferred tax assets	15,051
Prepayments for equipment	6,059
Other non-current assets	36,803
Short-term borrowings	( 1,636,849)
Accounts payable	( 856,200)
Accounts payable - related parties	( 1,034,793)
Other payables	( 790,942)
Current lease liabilities	( 18,028)
Current portion of long-term bank loans	( 1,657,728)
Other current liabilities	( 12,571)
Non-current lease liabilities	( 37,519)
Long-term bank loans	( 2,444,766)
Other non-current liabilities	( 175,908)
The carrying amount of net assets of subsidiaries at the date when control is lost	<u>\$ 7,757,141</u>

(b) Gains on disposal of subsidiaries

	<u>KSCMMT</u>
Fair value of the remaining investments	\$ 3,642,799
Less: Carrying amount of the investment at the date when control is lost	( 3,502,349)
Gains on disposal of investments	<u>\$ 140,450</u>

(29) Supplemental cash flow information

A. Investing activities with partial cash payments

	Year ended <u>December 31, 2019</u>	Year ended <u>December 31, 2018</u>
Purchase of property, plant and equipment	\$ 3,355,327	\$ 802,162
Add: Opening balance of payable on equipment	375,950	933,040
Opening balance of payable for purchase of land or building	12,709	-
Less: Discount of payable on equipment	-	-
Ending balance of payable on equipment	( 9,925)	( 375,950)
Ending balance of payable for purchase of land or building	-	( 12,709)
Ending balance of payable on equipment - effect of decrease in consolidated entities	( 599,946)	-
Cash paid	<u>\$ 3,134,115</u>	<u>\$ 1,346,543</u>

B. Investing activities with no cash flow effects

	Year ended <u>December 31, 2019</u>	Year ended <u>December 31, 2018</u>
Prepayments for equipment transferred to property, plant and equipment	<u>\$ 1,627,496</u>	<u>\$ 48,042</u>
Prepayments for equipment transferred to other intangible assets	<u>\$ 990</u>	<u>\$ -</u>
Property, plant and equipment transferred to other intangible assets	<u>\$ -</u>	<u>\$ 209</u>
Property, plant and equipment transferred to prepayments	<u>\$ -</u>	<u>\$ 5,994</u>
Property, plant and equipment transferred to expenses	<u>\$ -</u>	<u>\$ 8,221</u>
Other non-current assets transferred to property, plant and equipment	<u>\$ 786,006</u>	<u>\$ -</u>
Other non-current assets transferred to other intangible assets	<u>\$ -</u>	<u>\$ 4,333</u>

(30) Changes in liabilities from financing activities

	At January 1, 2019	Changes in cash flow from financing activities	Changes in other non-cash items	Decrease in consolidated entities	Effect of foreign exchange	At December 31, 2019
Short-term borrowings	\$ 5,441,325	(\$ 1,440,497)	\$ -	(\$ 1,636,849)	\$ 424,446	\$ 2,788,425
Lease liabilities	58,020	( 14,226)	14,108	( 55,547)	( 2,155)	200
Long-term borrowings	3,373,240	1,098,774	-	( 4,102,494)	( 169,520)	200,000
Guarantee deposits received	49	( 9)	-	-	-	40
Liabilities from financing activities-gross	<u>\$ 8,872,634</u>	<u>(\$ 355,958)</u>	<u>\$ 14,108</u>	<u>(\$ 5,794,890)</u>	<u>\$ 252,771</u>	<u>\$ 2,988,665</u>

	At January 1, 2018	Changes in cash flow from financing activities	Effect of foreign exchange	At December 31, 2018
Short-term borrowings	\$ 3,813,259	\$ 1,564,674	\$ 63,392	\$ 5,441,325
Short-term notes payable	100,000	( 100,000)	-	-
Long-term borrowings	2,639,833	630,889	102,518	3,373,240
Guarantee deposits received	171	( 122)	-	49
Liabilities from financing activities-gross	<u>\$ 6,553,263</u>	<u>\$ 2,095,441</u>	<u>\$ 165,910</u>	<u>\$ 8,814,614</u>

(31) Government grants

KSCMMT acquired government subsidy for the amount of RMB 48,380 thousand dollars in January 2018. The government grant is from the Kunshan government to encourage enterprises to set up factories in the Kunshan development zone. After the establishment of a factory is completed, grants are granted. It is an asset-related government grant, which is recognised as deferred revenue. As of December 31, 2019 and 2018, the balance of this deferred revenue is \$0 and \$205,116 (which is shown as “other current liabilities” amounting to \$ 11,239 and “other non-current liabilities” amounting to \$193,877), respectively. For the years ended December 31, 2019 and 2018, the revenue realized based on the service life of the factory was \$11,239 and \$11,461, respectively.

## 7. RELATED PARTY TRANSACTIONS

### (1) Names of related parties and relationship

<u>Names of related parties</u>	<u>Relationship with the Group</u>
Hangzhou Jinjiang Group Co., Ltd ("HJ")	Affiliates (Note 1)
Zhejiang Zhengjie Commercial and Trading Co., Ltd. ("ZZ")	Affiliates
Shenzhen SAPO Photoelectric Co., Ltd. ("SAPO")	Affiliates (Note 9)
Jun Hong Optronics Corporation ("JH")	Affiliates (Note 2)
Bao Dui International Limited (BAO DUI)	Affiliates (Note 3)
Yeh Mei Li	Former vice chairman of the Company (Note 4)
Ki Kin Corporation ("KK")	Affiliates (Note 5)
Innolux Corporation ("Innolux")	Persons as director of the Company (Note 6)
Foshan Innolux Optoelectronics Ltd. ("Foshan Innolux")	Affiliates (Note 7)
Shanghai Innolux Optoelectronics Ltd. ("Shanghai Innolux")	Affiliates (Note 7)
Nanjing Innolux Optoelectronics Ltd. ("Nanjing Innolux")	Affiliates (Note 7)
Ningbo Innolux Optoelectronics Ltd. ("Ningbo Innolux")	Affiliates (Note 7)
Ningbo Innolux Display Ltd. ("Ninbo Innolux Display")	Affiliates (Note 7)
Kunshan Chimei Materials Technology Co., Ltd. ("KSCMMT")	Associates (Note 8)

Note 1: HJ originally held a 47.97% equity interest in KSCMMT, and subsequently transferred its ownership to Tinglin (Kunshan) Intelligent Manufacturing Industry Investment Partnership Enterprise Co. Ltd. on December 19, 2018, However, Tinglin (Kunshan) Intelligent Manufacturing Industry Investment Partnership Enterprise Co. Ltd.'s partner is Zhejiang Hengjie Co., Ltd. which is the subsidiary owned by HJ. Therefore, HJ is still the Group's related party.

Note 2: During the transaction, Mei-Li, Yeh served as the general manager and director of the company.

Note 3: During the transaction, the Company's representative is the first degree of kinship of Mei-Li, Yeh.

Note 4: Mei-Li, Yeh had served as the vice chairman of the Group from July 18, 2018 until April 26, 2019.

Note 5: It is the subsidiary owned by HJ.

Note 6: It had served as the legal persons as director of the Company from April 26, 2019.

Note 7: It is the subsidiary owned by Innolux.

Note 8: On October 15, 2019, the former shareholder, Zhejiang Renyuan Import & Export Co., Ltd, increased its investment in KSCMMT in the amount of USD 28.5 million, the shareholding ratio of the Group was decreased from 49.5% to 45.15%. On December 17, 2019, Hefei Northtown Optoelectronic Industry Fund No.2 (LLP) increased its investment in KSCMMT in the amount of USD 57 million, causing the Group's shareholding ratio was decreased to 38.4%. In addition, KSCMMT's directors have been reelected on December 24, 2019, the Group lost its control over KSCMMT. However, the Group still has significant influence over KSCMMT, thus KSCMMT is one of associates of the Group.

Note 9: During the transaction, the general manager of SAPO, Huang Yuan, has served as vice chairman of KSCMMT.

(2) Significant related party transactions

A. Operating revenue

	<u>Year ended</u> <u>December 31, 2019</u>	<u>Year ended</u> <u>December 31, 2018</u>
Sales of goods:		
Innolux	\$ 1,718,460	\$ -
Affiliates	<u>3,209,013</u>	<u>181,572</u>
	<u>\$ 4,927,473</u>	<u>\$ 181,572</u>

The selling price and collection term are conducted by mutual agreement, and there is no significant difference between related parties and non-related parties.

B. Purchases

	<u>Year ended</u> <u>December 31, 2019</u>	<u>Year ended</u> <u>December 31, 2018</u>
Purchases of goods:		
Affiliates	<u>\$ 748,433</u>	<u>\$ 334,474</u>

Because there is no similar counterparty or transaction, the purchase prices and payment terms with related parties are conducted by mutual agreement.

C. Receivables from related parties

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Notes receivable:		
Affiliates	<u>\$ -</u>	<u>\$ 18,806</u>
Accounts receivable:		
Innolux	\$ 671,606	\$ -
Ningbo Innolux	534,302	-
Foshan Innolux	478,716	-
Associates	55,122	-
Affiliates	<u>193,864</u>	<u>197,791</u>
	<u>\$ 1,933,610</u>	<u>\$ 197,791</u>
Other receivables:		
KSCMMT	\$ 54,554	\$ -
BAO DUI (Note 1)	-	88,256
ZZ (Note 2)	-	91,495
	<u>54,554</u>	<u>179,751</u>
Less: Allowance for credit losses	-	( 91,495)
	<u>\$ 54,554</u>	<u>\$ 88,256</u>

Note 1: The Group prepaid certain payments to BAO DUI. However, since BAO DUI did not deliver goods based on the contract terms, the contract was cancelled under mutual agreement in January 2019. The Group classified BAO DUI as a counterparty of loans to others, which has a business relationship.

Note 2: This is the accounts receivable resulting from the triangular trade conducted in KSCMS. The Group regarded it as a loan to the companies with business relationship.

D. Payables to related parties

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Accounts payable:		
SAPO	\$ -	\$ 375,639
Associates	<u>1,240</u>	<u>-</u>
	<u>\$ 1,240</u>	<u>\$ 375,639</u>

E. Contract liabilities

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
JH	\$ -	\$ 29,560
KSCMMT	<u>13,928</u>	<u>-</u>
	<u>\$ 13,928</u>	<u>\$ 29,560</u>

The Group's advance receipts arising from JH have been returned to JH in March 2019, because the Group did not deliver goods based on the contract terms, and the contract has been cancelled under mutual agreement in the same month.

F. Loans to related parties (categorized as "other receivable – related parties")

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Outstanding balance		
KSCMMT	<u>\$ 750,837</u>	<u>\$ -</u>

On November 11, 2019, the Board of Directors resolved to reclassify the accounts receivable of KSCMMT that exceeded a certain period from loans to others to other receivables. The loan period was 6 months.

G. In October 2018, the Group acquired 6 million shares of JH from a non-related party, at a price of NT\$15 per share, the total consideration is \$90,000, and this transaction was recognised in 'Financial assets at fair value through other comprehensive income-non-current'. The fair value on December 31, 2019 and 2018 is \$22,097 and \$27,060, respectively. These shares were formerly held by Mei-li, Yeh. Such transactions were made in one month.

H. Prepayment for equipment

The subsidiary, KSCMMT, signed an equipment purchasing agreement with Ki Kin Corporation on March 15, 2018, and paid RMB 135,985 thousand in advance on May 17, 2018. Because the progress of the machine was delayed, KSCMMT cancelled this agreement on July 27, 2018 and required KK to return the advance payment. As of December 31, 2019, the advance payment has been returned in full.

I. Endorsements and guarantees provided by the related parties to the Group:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
HJ	\$ -	\$ 1,454,198

J. Endorsements and guarantees provided by the Group to the related parties:

	<u>December 31, 2019</u>		<u>December 31, 2018</u>	
	Outstanding endorsements / guarantee amount	Actual amount drawn down	Outstanding endorsements / guarantee amount	Actual amount drawn down
KSCMMT	\$ 3,444,732	\$ 2,342,259	\$ -	\$ -

(3) Key management compensation

	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
Salaries and other short-term employee benefits	\$ 28,014	\$ 14,309
Post-employment benefits	420	296
	<u>\$ 28,434</u>	<u>\$ 14,605</u>

8. PLEDGED ASSETS

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

<u>Pledged asset</u>	<u>Book value</u>		<u>Purpose</u>
	<u>December 31, 2019</u>	<u>December 31, 2018</u>	
Demand deposit (Note)	\$ 60,061	\$ -	An escrow account for debt negotiation procedures
Pledged deposits (Note)	7,000	1,253,226	Provided as collateral for the letters of credit for purchases of raw materials
Notes receivable	-	164,177	Short-term loan resulting from notes receivable factoring
Property, plant and equipment - land	1,428,543	-	Short-term loan and provided as collateral for credit line
Property, plant and equipment - buildings and structures	1,888,751	-	Short-term loan and provided as collateral for credit line
Property, plant and equipment - machinery and equipment	155,821	-	Short-term loan
	<u>\$ 3,540,176</u>	<u>\$ 1,417,403</u>	

Note: It is categorized as "financial assets at amortized cost".

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT  
COMMITMENTS

In addition to those disclosed in other notes to the consolidated financial statements, significant commitments and contingencies of the Group as of December 31, 2019 and 2018 were as follows:

- (1) As of December 31, 2019 and 2018, unused letters of credit for purchases of raw materials and equipment were as follows:

	Units: Foreign currency (in thousand)	
	December 31, 2019	December 31, 2018
JPY	\$ 1,926,574	\$ 9,490,383
USD	-	15,744
TWD	-	20,454

- (2) As of December 31, 2019 and 2018, the amounts of guarantees provided by financial institutions for the purpose of importing goods were \$71,575 and \$183,880, respectively.
- (3) As of December 31, 2019 and 2018, the unpaid amounts of the construction contracts that the Group entered into for the expansion of factories and machinery equipment were \$982 and \$1,984,517, respectively.
- (4) The technology licensing agreement with Nitto Denko Corporation is for up to JPY 15 billion and was signed by KSCMMT, Hangzhou Jinjiang Group, which is the strategic partner and major shareholder of KSCMMT, and SAPO, which is an investee of Hangzhou Jinjiang Group. KSCMMT will have the rights to three 2,500 mm production lines, of which the total value will be JPY 7.5 billion. The total contract price is JPY 15 billion. As of December 31, 2019 and 2018, KSCMMT's unpaid amount were all JPY 4.5 billion.

#### 10. SIGNIFICANT DISASTER LOSS

None.

#### 11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

- (1) The Company proposed a debt repayment plan to Taiwan Cooperative Bank and other financial institutions during the debt negotiation meeting held on February 21, 2020. For the resolution of the meeting, please refer to 6(13) for details.
- (2) On March 18, 2020, the Company's Board of Directors resolved to terminate the resolution adopted from the stockholders at their annual stockholders' meeting on June 28, 2019 in relation to issuing its common shares through public or private offering, issuing new shares to participate in overseas depository receipts, or issuing overseas or domestic convertible corporate bonds, which includes secured or unsecured convertible corporate bonds.
- (3) On March 18, 2020, the Company's Board of Directors approved to issue its common shares through public or private offering, issue new shares to participate in overseas depository receipts, or issue overseas or domestic convertible corporate bonds, which includes secured or unsecured convertible corporate bonds. The amount is limited to 200,000 thousand shares.

#### 12. OTHERS

##### (1) Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged.

The key management personnel of the Group reviews the capital structure on a periodic basis. As part of this review, the key management personnel considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel,

in order to balance the overall capital structure, the Group may adjust the amount of dividends paid to shareholders and/or the number of new shares issued.

The gearing ratios at December 31, 2019 and 2018 were as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Total liabilities	\$ 4,538,744	\$ 13,049,148
Total assets	\$ 14,213,507	\$ 27,233,917
Gearing ratio	32%	48%

## (2) Financial instruments

### A. Financial instruments by category

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<u>Financial assets</u>		
Financial assets at fair value through profit or loss		
Financial assets mandatorily measured at fair value through profit or loss	\$ 571	\$ 84,525
Financial assets at fair value through other comprehensive income		
Designation of equity instruments	\$ 169,740	\$ 215,727
Financial assets at amortised cost/Loans and receivables		
Cash and cash equivalents	\$ 192,942	\$ 3,105,426
Financial assets at amortised cost	202,507	1,313,826
Notes receivable	-	205,426
Accounts receivable	2,351,565	4,397,730
Other receivables	863,419	203,233
Refundable deposits	8,790	11,368
	<u>\$ 3,619,223</u>	<u>\$ 9,237,009</u>
<u>Financial liabilities</u>		
Financial liabilities at fair value through profit or loss		
Financial liabilities held for trading	\$ -	\$ 2,681
Financial liabilities at amortised cost		
Short-term borrowings	\$ 2,788,425	\$ 5,441,325
Notes payable	-	156,037
Accounts payable	1,073,248	2,725,787
Other payables	423,098	1,076,211
Long-term borrowings (including current portion)	200,000	3,373,240
Guarantee deposits received	40	49
	<u>\$ 4,484,811</u>	<u>\$ 12,772,649</u>
Lease liabilities	\$ 200	\$ -

### B. Financial risk management policies

- (a) The Group's Corporate Treasury function monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk. To minimise any adverse effects on the

financial performance of the Group, derivative financial instruments, such as foreign exchange forward contracts and foreign currency option contracts are used to hedge certain exchange rate risk. Derivatives are used exclusively for hedging purposes and not as trading or speculative instruments.

- (b) The Group sought to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives was governed by the Group's policies approved by the board of directors, which provided written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments and the investment of excess liquidity. Compliance with policies and exposure limitations was reviewed by the internal auditors on a continuous basis. The Group did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.
- (c) The Group Treasury function is an independent body that monitors risks and policies implemented to mitigate risk exposures.
- (d) Information about derivative financial instruments that are used to hedge certain exchange rate risk are provided in Note 6(2).

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- i. The Group operates internationally and is exposed to foreign exchange risk arising from the transactions of the Company and its subsidiaries used in various functional currency, primarily with respect to the USD and RMB. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.
- ii. Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The Group manages its foreign currency risk and interest rate by using derivative financial instrument, including foreign exchange forward contracts to hedge the risk arising from US dollar-denominated assets generated by sales and Japanese yen-denominated liabilities generated by the importation of raw materials from Japan.
- iii. The Group hedges foreign exchange rate by using foreign exchange option and forward exchange contracts. However, the Group does not adopt hedging accounting. Details of financial assets and liabilities at fair value through profit or loss are provided in Note 6(2).
- iv. The Group's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: NTD; other certain subsidiaries' functional currencies: USD and RMB). 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)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 103,040	29.98	\$ 3,089,139
JPY:NTD	70,790	0.276	19,538
RMB:NTD	135,100	4.305	581,606
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	52,384	29.98	1,570,472
JPY:NTD	6,302,193	0.276	1,739,405
RMB:NTD	595	4.305	2,561
December 31, 2018			
Foreign currency			
	amount	Exchange rate	Book value
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 131,906	30.72	\$ 4,052,152
JPY:NTD	274,402	0.2782	76,339
RMB:NTD	375,483	4.47	1,678,409
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	157,307	30.72	4,832,471
JPY:NTD	15,959,991	0.2782	4,440,069
RMB:NTD	131,436	4.47	587,519

- v. Total exchange loss, including realized and unrealized arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2019 and 2018 amounted to \$82,439 and \$252,553, respectively.
- vi. Analysis of foreign currency market risk arising from significant foreign exchange variation:

Year ended December 31, 2019			
Sensitivity analysis			
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	0.5%	\$ 15,446	-
JPY:NTD	0.5%	98	-
RMB:NTD	0.5%	2,908	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	0.5%	7,852	-
JPY:NTD	0.5%	8,697	-
RMB:NTD	0.5%	13	-

Year ended December 31, 2018			
Sensitivity analysis			
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	0.5%	\$ 20,261	-
JPY:NTD	0.5%	382	-
RMB:NTD	0.5%	8,396	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	0.5%	24,162	-
JPY:NTD	0.5%	22,200	-
EUR:NTD	0.5%	5	-
RMB:NTD	0.5%	2,939	-

#### Price risk

- i. The Group's equity securities, which are exposed to price risk, are the held financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

- ii. The Group invests mainly in equity instruments issued by domestic companies. The equity's price will be affected by the uncertainty of the future value of the investment target. If the equity instrument price had increased/decreased by 1% with all other variables held constant, net profit of fair value through profit or loss for the years ended December 31, 2019 and 2018, would have increased/decreased by \$0 and \$704, respectively; Other comprehensive income classified as equity investment at fair value through other comprehensive income for the years ended December 31, 2019 and 2018, would have increased/decreased by \$1,697 and \$2,157, respectively.

#### Interest rate risk

The Group's main interest rate risk arises from borrowings with variable rates. If the borrowing interest rate had increased/decreased by 1% with all other variables held constant, net profit for the years ended December 31, 2019 and 2018, would have increased/decreased by \$29,426 and \$60,830, respectively.

#### (b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group 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 debt instruments stated at amortised cost and at fair value through profit or loss.
- ii. The Group's concentration of credit risk, was related to the Group's five largest customers. The average credit period of sales of goods was 90 to 120 days. No interest was charged on trade receivables. The Group adopted a policy of only dealing with entities that are rated the equivalent of the investment grade or higher. Credit rating information used to rate the Group's major customers is obtained from other publicly available financial information or the Group's own trading records. The Group's exposure and the credit ratings of its counterparties are continuously monitored, and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee periodically.
- iii. When the trade parties have major financial difficulties, or overdue amount exists for period of time that will obviously not be recovered, it is deemed that a default has occurred.
- iv. The Group applies the simplified approach to provisions for expected credit losses prescribed by IFRS 9, which permits the use of a lifetime expected losses provision for all trade receivables. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience with the respective debtor and an analysis of the debtor's current financial position, adjusted for the general economic conditions of the industry in which the debtor operates and an assessment of both the current as well as the forecasted direction of economic conditions at the reporting date. As the

Group's historical credit losses experience does not show significantly different loss patterns for different customer segments, the provision for losses based on the past due status of receivables is not further distinguished according to different segments of the Group's customer base. The Group's credit risk of other receivables is assessed individually. Impairment gains on other receivables that an impairment loss recognised in prior periods have recovered for the year ended December 31, 2019 is \$91,500. Impairment loss due to other receivables which were past due was \$93,298 for the year ended December 31, 2018.

v. 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 reorganization due to their 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;
- (iv) Adverse changes in national or regional economic conditions that are expected to cause a default.

vi. The loss allowance of trade receivables based on the Group's provision matrix is as follows:

On December 31, 2019, the Group estimated expected loss rate for customers' accounts receivable as follows: not past due were 0.02%, past due up to 30 days were 0.02%, past due 31 to 90 days were 0.02%~0.04%, past due 91 to 180 days were 0.06%~0.11%, past due 181 to 270 days were 0.02%~0.96%, past due 271 to 360 days were 4.35%~25.04%, and past due over 360 days were 100%. As of December 31, 2018, the Company's estimated expected loss rate for customers' accounts receivable was 0%. As of December 31, 2019 and 2018, the total amount of the Group's accounts receivable which past due over 31 days were 0.01% and 0.00%, respectively.

vii. Movements in relation to the Group applying the modified approach to provide (loss allowance for accounts receivable) is as follows:

	2019	2018
January 1	\$ 1,628	\$ -
Provision for impairment	6,318	1,628
Reversal of impairment loss	( 41)	-
Effects on exchange rate	( 237)	-
December 31	<u>\$ 7,668</u>	<u>\$ 1,628</u>

viii. For provisioned loss for the years ended December 31, 2019 and 2018, the impairment losses arising from customers' contract amounts to \$6,277 and \$1,628, respectively.

(c) Liquidity risk

- i. The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank loans

and ensures compliance with loan covenants. The forecast considers the debt financing plan, debt clauses, and financial ratio targets which compare to the internal balance sheet of the company. However, the Group breached certain terms of its long-term loan agreement during 2018. Refer to Note 6(15) for details.

- ii. Group treasury invests surplus cash in interest bearing current accounts, check deposit, time deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts. As of December 31, 2019 and 2018, the Group held money market position of \$327,960 and \$3,185,603, respectively, that are expected to readily generate cash inflows for managing liquidity risk.
- iii. The Group relies on bank loans as a significant source of liquidity, the Group had available unutilized short-term bank loan facilities as below:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Unsecured bank overdraft facility		
Amount unused	\$ 2,109,122	\$ 12,284,861
Secured bank overdraft facility		
Amount unused	<u>243,014</u>	<u>-</u>
	<u>\$ 2,352,136</u>	<u>\$ 12,284,861</u>

iv. Liquidity and interest rate risk table for non-derivative financial liabilities

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

December 31, 2019

	<u>Less than 1 year</u>	<u>1 year to 5 years</u>	<u>Over 5 years</u>
<u>Non-derivative financial liabilities</u>			
Short-term borrowings	\$ 2,804,696	\$ -	\$ -
Accounts payable	1,073,248	-	-
Other payables	423,098	-	-
Long-term borrowings	203,000	-	-
(including current portion)			
Lease liabilities	57	148	-

December 31, 2018

	<u>Less than 1 year</u>	<u>1 year to 5 years</u>	<u>Over 5 years</u>
<u>Non-derivative financial liabilities</u>			
Short-term borrowings	\$ 5,479,881	\$ -	\$ -
Financial liabilities at fair value through profit or loss	2,681	-	-
Notes payable	156,037	-	-
Accounts payable	2,725,787	-	-
Other payables	1,076,211	-	-
Long-term borrowings (including current portion)	3,316,864	206,073	-

(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. The fair value of the Group's investment in listed stocks is included in Level 1.

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

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

B. Financial instruments not measured at fair value

The management considers that the carrying amounts of financial assets and financial liabilities not measured at fair value approximate their fair values or cannot be reliably measured.

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

(a) Fair value hierarchy

December 31, 2019

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at FVTPL				
Debt instruments	\$ -	\$ 571	\$ -	\$ 571
Financial assets at FVOCI				
Equity securities	-	-	169,740	169,740
	<u>\$ -</u>	<u>\$ 571</u>	<u>\$ 169,740</u>	<u>\$ 170,311</u>

December 31, 2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at FVTPL				
Equity securities	\$ 70,428	\$ -	\$ -	\$ 70,428
Debt instruments	-	-	2,500	2,500
Derivative instruments	-	11,597	-	11,597
Financial assets at FVOCI				
Equity securities	-	-	215,727	215,727
	<u>\$ 70,428</u>	<u>\$ 11,597</u>	<u>\$ 218,227</u>	<u>\$ 300,252</u>
Financial liabilities at FVTPL				
Short selling	<u>\$ 2,681</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,681</u>

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

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

	<u>Listed shares</u>
	Closing price
Market quoted price	

- ii. The valuation of derivative financial instruments is based on valuation model widely accepted by market participants, such as present value techniques and option pricing models. Foreign exchange option and forward exchange contracts are usually valued based on the current spot exchange rate.
- iii. The fair value of financial instruments without active market 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.

(c) Valuation techniques and inputs applied for the purpose of Level 2 fair value measurement

<u>Financial Instruments</u>	<u>Listed shares</u>
Derivatives-foreign exchange forward contracts	Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates.
Derivatives-foreign exchange option contracts	Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates.

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

E. The following chart is the movement of Level 3:

	Year ended	
	December 31, 2019	
	Equity instrument	Debt instrument
At January 1	\$ 215,727	\$ 2,500
Acquired in the period	14,478	1,000
Sold in the period	( 1,550)	-
Losses recognised in profit or loss	-	( 3,500)
Losses recognised in other comprehensive income	( 58,915)	-
At December 31	<u>\$ 169,740</u>	<u>\$ -</u>
Movement of unrealised gain or loss in profit or loss of assets and liabilities held as at December 31, 2019 (Note)	<u>\$ -</u>	<u>\$ 3,500</u>

	Year ended	
	December 31, 2018	
	Equity instrument	Debt instrument
At January 1	\$ -	\$ -
Acquired in the period	340,000	2,500
Losses recognised in other comprehensive income	( 124,273)	-
At December 31	<u>\$ 215,727</u>	<u>\$ 2,500</u>

Note: Recorded as non-operating income and expense.

- F. For the years ended December 31, 2019 and 2018, there was no transfer into or out from Level 3.
- G. Either the financial department segment or the external appraiser is in charge of valuation procedures for fair value measurements being categorised within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price.
- H. 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:

	<u>Fair value at December 31, 2019</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average)</u>	<u>Relationship of inputs to fair value</u>
Non-derivative equity instruments					
Unlisted shares	\$ 147,643	Market comparable companies	Multiple price-book ratio	0.70~2.46	The higher the price-book ratio, the higher the fair value
Unlisted shares	22,097	Market comparable companies	Multiple price-book ratio	0.42~1.37	The higher the price-book ratio, the higher the fair value
	<u>Fair value at December 31, 2018</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average)</u>	<u>Relationship of inputs to fair value</u>
Non-derivative equity instruments					
Unlisted shares	\$ 188,667	Market comparable companies	Multiple price-book ratio	1.02~2.61	The higher the price-book ratio, the higher the fair value
Unlisted shares	27,060	Market comparable companies	Multiple price-book ratio	0.40~1.26	The higher the price-book ratio, the higher the fair value

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

		<u>December 31, 2019 Recognised in other comprehensive income</u>			
		<u>Input</u>	<u>Change</u>	<u>Favourable change</u>	<u>Unfavourable change</u>
Financial assets					
Equity instruments	Multiple price-book ratio		±1%	\$ <u>1,716</u>	(\$ <u>1,885</u> )
		<u>December 31, 2018 Recognised in other comprehensive income</u>			
		<u>Input</u>	<u>Change</u>	<u>Favourable change</u>	<u>Unfavourable change</u>
Financial assets					
Equity instruments	Multiple price-book ratio		±5%	\$ <u>10,893</u>	(\$ <u>10,659</u> )

### 13. SUPPLEMENTARY DISCLOSURES

#### (1) Significant transactions information

- A. Loans to others: Please refer to table 1.
- B. Provision of endorsements and guarantees to others: Please refer to table 2.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 3.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: None.
- E. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: Please refer to table 4.
- F. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 5.
- H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 6.
- I. Trading in derivative instruments undertaken during the reporting periods: Please refer to Notes 6(2) and 12(3).
- J. Significant inter-company transactions during the reporting periods: Please refer to table 7.

#### (2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China) : Please refer to table 8.

#### (3) Information on investments in Mainland China

- A. Basic information: Please refer to table 9
- B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 10.

### 14. SEGMENT INFORMATION

#### (1) General information

The Group considers the business and formulates the strategies from a geographic perspective, therefore the management identifies the reportable segments with the same approach.

The Group has two reportable segments and the operation is located in Taiwan and Mainland China individually. Both are primarily engaged in manufacturing and selling optoelectronic material and components (polarizing film).

#### (2) Measurement of segment information

The Group evaluates the performance based on operating profit (loss) in each operating segments. Segment profit represented the profit before tax earned by each segment without the allocation of central administrator costs and directors' salaries, interest income, exchange gains or losses, valuation gains or losses on financial instruments, finance costs and income tax expenses. This was the measure reported to the Chief Operating Decision-Maker for the purpose of resource allocation and the assessment of segment performance.

### (3) Segment revenue and results

The segment information provided to the chief operating decision-maker for the reportable segments is as follows:

	Year ended December 31, 2019			
	Taiwan	Mainland China	Adjustment and write-off (Note)	Total
Revenue from external customers	\$ 4,599,132	\$ 10,297,118	\$ -	\$ 14,896,250
Inter-segment revenue	3,589,889	834,373	( 4,424,262)	-
Total segment revenue	\$ 8,189,021	\$ 11,131,491	(\$ 4,424,262)	\$ 14,896,250
Segment income (loss)	(\$ 845,159)	\$ 327,828	\$ 67,165	(\$ 450,166)
Other income				119,006
Other gain and loss				( 73,582)
Financial cost				( 332,685)
Share of profit (loss) of associates and joint ventures accounted for using equity method				( 1,421)
Income before income tax from continuing operations				(\$ 738,848)
Segment assets	\$ 3,927,766	\$ 461,341	\$ -	\$ 4,389,107
Other assets				9,824,400
Total assets				\$ 14,213,507
Depreciation and amortisation	\$ 440,812	\$ 574,602	\$ -	\$ 1,015,414
Capital Expenditure	\$ 63,057	\$ 3,292,270	\$ -	\$ 3,355,327
Segment liabilities	\$ 4,071,692	\$ 1,458,478	(\$ 991,426)	\$ 4,538,744

Note: Refer to the internal revenue write-offs.

	Year ended December 31, 2018			
	Taiwan	Mainland China	Adjustment and write-off (Note)	Total
Revenue from external customers	\$ 4,040,256	\$ 8,726,906	\$ -	\$ 12,767,162
Inter-segment revenue	4,238,318	537,672	( 4,775,990)	-
Total segment revenue	\$ 8,278,574	\$ 9,264,578	(\$ 4,775,990)	\$ 12,767,162
Segment income (loss)	(\$ 503,668)	(\$ 183,919)	\$ 80,719	(\$ 606,868)
Other income				99,516
Other gain and loss				( 274,928)
Financial cost				( 290,580)
Income before income tax from continuing operations				(\$ 1,072,860)
Segment assets	\$ 4,241,866	\$ 6,451,179	\$ -	\$ 10,693,045
Other assets				16,540,872
Total assets				\$ 27,233,917
Depreciation and amortisation	\$ 555,795	\$ 594,483	\$ -	\$ 1,150,278
Capital Expenditure	\$ 143,123	\$ 662,737	(\$ 3,698)	\$ 802,162
Segment liabilities	\$ 5,329,262	\$ 9,483,383	(\$ 1,763,497)	\$ 13,049,148

Note: Refer to the internal revenue write-offs.

The adoption of IFRS 16, 'Leases', had the following impact on the segment information in 2019.

	Taiwan	China	Adjustment and write-off	Total
Depreciation expense increased	\$ 7,071	\$ 21,498	(\$ 4,038)	\$ 24,531
Segment assets increased	\$ 5,876	\$ 30,798	(\$ 5,678)	\$ 30,996
Segment liabilities increased	\$ 5,920	\$ -	(\$ 5,720)	\$ 200

(4) Reconciliation for segment income (loss)

The total amounts and other significant disclosures in relation to the reportable segments mentioned in item (2) above are in agreement with those presented as related corresponding items in the Group's financial statements and are measured in a manner consistent with those thereon.

(5) Information on products and services

Revenue from external customers is mainly from the sales of polarizing films and relative raw materials. Details of revenue is as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
Polarizing films	\$ 14,844,070	\$ 12,404,609
Others	52,180	362,553
	<u>\$ 14,896,250</u>	<u>\$ 12,767,162</u>

(6) Geographical information

Geographical information for the years ended December 31, 2019 and 2018 is as follows:

	Year ended December 31, 2019		Year ended December 31, 2018	
	Revenue	Non-current assets	Revenue	Non-current assets
Taiwan	\$ 3,165,325	\$ 4,015,240	\$ 3,046,250	\$ 4,341,379
Mainland China	11,201,640	465,853	9,720,465	9,065,622
Others	529,285	-	447	-
	<u>\$ 14,896,250</u>	<u>\$ 4,481,093</u>	<u>\$ 12,767,162</u>	<u>\$ 13,407,001</u>

Non-current assets excludes non-current financial assets measured at fair value through other comprehensive income and deferred tax assets.

(7) Major customer information

Major customer information of the Group for the years ended December 31, 2019 and 2018 is as follows:

	<u>Year ended</u> <u>December 31, 2019</u>	<u>Year ended</u> <u>December 31, 2018</u>
	<u>Revenue</u>	<u>Revenue</u>
A	\$ 3,007,928	\$ 3,078,406
B	2,246,044	1,897,948
C	1,930,368	1,746,519
D	1,524,659	1,086,771

Cheng Mei Materials Technology Corporation And Subsidiaries  
Loans to others  
Year ended December 31, 2019

Table 1

Expressed in thousands of NTD

No. (Note 1)	Materials	Borrower	General ledger account	Is a related party	Maximum outstanding balance during Year ended December 31, 2019	Balance at December 31, 2019	Actual amount drawn down	Interest rate	Nature of loan	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral		Limit on loans granted to a single party (Note 2)	Ceiling on total loans granted (Note 3)	Footnote
													Other receivables - related parties	Item			
0	Cheng Mei Materials Technology Co., Ltd.	CM Visual Technology Corporation	Other receivables - related parties	Yes	108,387	\$ -	\$ -	1.82%~4.16%	Business relationship	51,768	-	\$ -	None	\$ -	51,768	\$ 5,795,527	Notes 2
0	Cheng Mei Materials Technology Co., Ltd.	CM Visual Technology Corporation	Other receivables - related parties	Yes	85,000	85,000	85,000	2.50%	Short-term financing	-	Operating capital	-	None	-	3,863,505	5,795,527	Notes 2
0	Cheng Mei Materials Technology Co., Ltd.	Kunshan Chimei Materials Technology Co., Ltd.	Other receivables - related parties	Yes	584,307	584,307	529,119	-	Business relationship	735,305	-	-	None	-	735,305	5,795,527	Notes 2, 8
1	Kunshan Chimei Materials Technology Co., Ltd.	Kunshan Chimei Materials Trading Corp.	Other receivables - related parties	Yes	228,800	-	-	4.35%	Short-term financing	-	Operating capital	-	None	-	3,789,650	5,684,475	Note 3, 11
2	Kunshan Chimei Materials Trading Corp.	Huangzhou Rong Jie Trading Co., Ltd.	Other receivables	No	121,099	-	-	-	Business relationship	287,949	-	-	None	-	-	-	Notes 4, 5, 6, 12
2	Kunshan Chimei Materials Trading Corp.	Kunshan Chimei Materials Technology Co., Ltd.	Other receivables - related parties	Yes	129,150	129,150	129,150	4.35%	Short-term financing	-	Operating capital	-	None	-	94,083	141,126	Note 4, 12
2	Kunshan Chimei Materials Trading Corp.	Xi'an Jinyao Hongtai New Materials Technology Co., Ltd.	Other receivables - related parties	Yes	2,256	-	-	4.35%	Short-term financing	-	Operating capital	-	None	-	94,083	141,126	Note 4, 12
2	Kunshan Chimei Materials Trading Corp.	Zhejiang Zheng Jie Trading Co., Ltd.	Other receivables - related parties	Yes	270,459	-	-	-	Business relationship	529,234	-	-	None	-	-	-	Notes 4, 5, 6, 12
3	Ningbo Cheng Mei Materials Technology Co., Ltd.	Kunshan Chimei Materials Technology Co., Ltd.	Other receivables - related parties	Yes	256,617	256,617	221,718	-	Business relationship	169,426	-	-	None	-	169,426	318,293	Notes 7, 8, 13
4	Cheng Hui Trading Co., Ltd.	Cheng Mei Materials Technology Co., Ltd.	Other receivables - related parties	Yes	490,000	-	-	2.2%	Short-term financing	-	Operating capital	-	None	-	-	-	Notes 9
5	Cheng Hui Investment Co., Ltd.	Cheng Mei Materials Technology Co., Ltd.	Other receivables - related parties	Yes	100,000	-	-	2.2%	Short-term financing	-	Operating capital	-	None	-	-	-	Notes 10

Note 1: The numbers filled in for the loans provided by the Company or subsidiaries are as follows:

(1)The Company is '0'.

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

Note 2: According to the Company's "Procedures for Provision of Loans", when nature of the loan is related to short-term financing, the ceiling on total loans granted shall no more than 60% of net assets in the latest financial statements of the Company, limit on loans to a single party ceiling on total loans is 40% of the Company's net assets. When nature of the loan is related to business transactions, the ceiling on total loans granted shall no more than 60% of net assets in the latest financial statements of the Company; the limit on loans granted to a single party shall no more than the amount of business transactions occurred between the creditor and borrower in the latest year.

Note 3: According to the Kunshan Chimei Materials Technology Co., Ltd.'s "Procedures for Provision of Loans", limit on loans to a single party ceiling on total loans is 40% of the Kunshan Chimei Materials Technology Co., Ltd.'s net assets. Ceiling on total loans is 60% of the Kunshan Chimei Material Technology Co., Ltd.'s net asset.

Note 4: According to the Kunshan Chimei Materials Trading Corp.'s "Procedures for Provision of Loans", loans are limited to Kunshan Chimei Materials Trading Corp.'s and wholly-owned subsidiaries, and do not be loaned to others. Limit on a single party ceiling on loans to total loans is 40% of the Kunshan Chimei Material Trading Corp.'s net assets, ceiling on total loan is 60% of the Kunshan Chimei Material Trading Corp.'s net assets.

Note 5: Kunshan Chimei Material Trading Corp and the companies are traded by triangle trade, and the amount of business transactions is calculated based on the total revenue.

Note 6: This is the summation of accounts receivables and the advance payment of inventory which resulted from the triangular trade conducted in Kunshan Chimei Material Trading Corp. The Group regarded it as a loan to the companies with business relationship.

Note 7: According to the Ningbo Cheng Mei Materials Technology Co., Ltd.'s "Procedures for Provision of Loans", when nature of the loan is related to business transactions, the ceiling on total loans granted shall no more than 40% of net assets in the latest financial statements of the Ningbo Cheng Mei Materials Technology Co., Ltd.; the limit on loans granted to a single party shall no more than the amount of business transactions occurred between the creditor and borrower in the latest year.

Note 8: The amount is the accounts receivable due from related parties that is past due a certain period of time over the normal credit term and is the other receivables transferred from loans granted based on the assessment.

Note 9: In accordance with Cheng Hui Trading Co., Ltd.'s "Procedures for Provision of Loans", loans are limited to wholly-owned parent company and subsidiaries, and do not loan to others.

Limits on total loan and a single party ceiling on loans to total loans is 40% of the Cheng Hui Trading Co., Ltd.'s net assets.

Note 10: In accordance with Cheng Hui Investment Co., Ltd.'s "Procedures for Provision of Loans", loans are limited to wholly-owned parent company and subsidiaries, and do not loan to others.

Limits on total loan and a single party ceiling on loans to total loans is 40% of the Cheng Hui Investment Co., Ltd.'s net assets.

Note 11: In December 2019, KSCMMT increased its capital in cash. The Group did not participate in the capital increase proportionately to ownership, therefore the shareholding ratio was decreased to 38.4%. Additionally, because of the reelection of directors of KSCMMT, the Group lost its control over KSCMMT. Therefore, KSCMMT is no longer included in the Group's consolidated financial statements.

Note 12: Due to KSCMS and XJHM both were the subsidiaries of KSCMMT, the Group lost its control over KSCMS and XJHM when the control over KSCMMT was lost. Therefore, KSCMS and XJHM are no longer included in the Group's consolidated financial statements.

Note 13: Ningbo Cheng Mei Materials Technology Co. Ltd. reclassified its accounts receivable due from Kunshan Chimie Material Trading Corp. as loans to others and transferred those accounts receivable to other receivables due to they had past due over a certain period.

Therefore, Ningbo Cheng Mei Materials Technology Co. Ltd.'s limit on loans to Kunshan Chimie Material Trading Corp. had exceeded the limit specified in Ningbo Cheng Mei Materials Technology Co. Ltd.'s "Procedures for Provision of Loans". As of March 18, 2020, the improvement plan is still under study.

Cheng Mei Materials Technology Corporation And Subsidiaries  
Provision of endorsements and guarantees to others  
Year ended December 31, 2019

Expressed in thousands of NTD

Table 2

Number (Note 1)	Endorser/ guarantor	Party being endorsed/guaranteed		Relationship with the endorser/ guarantor (Note 2)	Limit on endorsements/ guarantees provided for a single party	Maximum outstanding endorsement/ guarantee amount as of December 31, 2019	Outstanding endorsement/ guarantee amount at December 31, 2019	Actual amount drawn down	Amount of endorsements/ guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company	Ceiling on total amount of endorsements/ guarantees provided	Provision of endorsements/ guarantees by parent company to subsidiary	Provision of endorsements/ guarantees by subsidiary to parent company	Provision of endorsements/ guarantees to the party in Mainland China	Footnote
		Company name	Cheng Hui Trading Co., Ltd.												
0	Cheng Mei Materials Technology Corporation	Cheng Hui Trading Co., Ltd.	4		\$ 4,829,381	\$ 1,199,200	\$ 1,199,200	\$ -	\$ -	12.42	\$ 9,658,762	Y	N	N	Note 3, 4
0	Cheng Mei Materials Technology Corporation	Kunshan Chimei Materials Technology Co., Ltd.	6		4,829,381	3,444,732	3,444,732	2,342,259	-	35.66	9,658,762	Y	N	Y	Note 3, 4, 7
1	Kunshan Chimei Materials Technology Co., Ltd.	Kunshan Chimei Materials Trading Corp.	4		5,684,475	1,722,000	861,000	91,609	-	18.18	9,474,125	N	N	Y	Note 5, 6, 8

Note 1: The numbers filled in for the endorsements/guarantees provided by the Company or subsidiaries are as follows:

(1) The Company is '0'

(2) The subsidiaries are numbered in order starting from '1'. The same Company will have the same number.

Note 2: Relationship between the endorser/guarantor and the party being endorsed/guaranteed is classified into the following seven categories:

(1) Having business relationship.

(2) The endorser/guarantor parent company owns directly or indirectly more than 50% voting shares of the endorsed/guaranteed subsidiary.

(3) The endorsed/guaranteed company owns directly and indirectly more than 50% voting shares of the endorser/guarantor parent company.

(4) The endorser/guarantor parent company owns directly and indirectly more than 90% voting shares of the endorsed/guaranteed company.

(5) Mutual guarantee of the trade as required by the construction contract.

(6) Due to joint venture, each shareholder provides endorsements/guarantees to the endorsed/guaranteed company in proportion to its ownership.

(7) Joint guarantee of the performance guarantee for pre-sold home sales contract as required under the Consumer Protection Act.

Note 3: In accordance with the Group's related regulations, the limit on endorsements and guarantees for any single entity is 50% of the Company's net worth based on the latest financial statements.

Note 4: In accordance with the Group's related regulations, the limit on accumulated amount of transactions of endorsements and guarantees is the Company's net worth based on the latest financial statements.

Note 5: In accordance with Kunshan Chimei Materials Technology Co., Ltd.'s related regulations, the limit of endorsements and guarantees for any single entity is 60% of the Kunshan Chimei Materials Technology Co., Ltd.'s net worth based on the latest financial statements.

Note 6: In accordance with Kunshan Chimei Materials Technology Co., Ltd.'s related regulations, the limit of endorsements and guarantees for total accumulated amount is Kunshan Chimei Materials Technology Co., Ltd.'s net worth based on the latest financial statements.

Note 7: The Company's endorsement/guarantee amount to Kunshan Chimei Material Technology Co., Ltd. Corp. is calculated based on the current shareholding ratio. Because Kunshan Chimei Material Technology Co., Ltd. increased its capital in cash, the Company's shareholding ratio was decreased. The Company has set up an improvement plan and submitted to the audit committee. The Company implemented the improvement plan as scheduled.

Note 8: In December 2019, Kunshan Chimei Materials Technology Co., Ltd. increased its capital in cash. The Group did not participate in the capital increase proportionately to ownership, therefore the shareholding ratio was decreased to 38.4%. Additionally, because of the reelection of directors of Kunshan Chimei Materials Technology Co., Ltd., the Group lost its control over Kunshan Chimei Materials Technology Co., Ltd. Therefore, Kunshan Chimei Materials Technology Co., Ltd. is no longer included in the Group's consolidated financial statements.

Cheng Mei Materials Technology Corporation And Subsidiaries

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

Table 3

Expressed in thousands of NTD

Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	As of December 31, 2019			Footnote	
				Number of shares	Book value	Ownership (%)		Fair value
Cheng Mei Materials Technology Corporation	SHIHLIEN FINE CHEMICALS CO., LTD.(Stock)	None	Non-current financial assets at fair value through other comprehensive income	16,667	\$ 147,643	6.54%	\$ 147,643	-
Cheng Hui Investment Co., Ltd.	JEOUTAI TECHNOLOGY CO., LTD.(Stock)	None	Non-current financial assets at fair value through other comprehensive income	381	-	Note	-	-
Cheng Hui Investment Co., Ltd.	JUN HONG OPTRONICS CORPORATION(Stock)	None	Non-current financial assets at fair value through other comprehensive income	2,500	9,363	Note	9,363	-
Cheng Hui Trading Co., Ltd.	JUN HONG OPTRONICS CORPORATION(Stock)	None	Non-current financial assets at fair value through other comprehensive income	3,400	12,734	Note	12,734	-

Note: The shareholding ratio is less than 5% and therefore will not be disclosed.

Cheng Mei Materials Technology Corporation And Subsidiaries

Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more

Year ended December 31, 2019

Table 4

Expressed in thousands of NTD  
(Except as otherwise indicated)

If the counterparty is a related party, information as to the last transaction of  
the real estate is disclosed below:

Real estate acquired by	Real estate acquired	Date of the event	Transaction amount	Status of payment	Counterparty	Relationship		Date of the original transaction	Amount	Basis or reference used in setting the price	Reason for acquisition of real estate and status of the real estate	Other commitments
						Original owner who sold the real estate to the counterparty	Relationship between the original owner and the acquirer					
Kunshan Chimei Materials Technology Co., Ltd.	Electrical equipment of clean room and warehouse	2018/10/30	RMB 146,966 thousands	RMB 89,482 thousands	CTCI Shanghai Co., Ltd.	with the counterparty	None	None	None	Based on the price specified in the order	Production line and warehouse	N/A

Cheng Mei Materials Technology Corporation And Subsidiaries

Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more

Year ended December 31, 2019

Table 5

Expressed in thousands of NTD

Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount	Percentage of total purchases (sales)	Differences in transaction terms compared to third party transactions				Notes/accounts receivable (payable)	Percentage of total notes/accounts receivable (payable)	Footnote
						Credit term	Unit price	Credit term	Balance			
Cheng Mei Materials Technology Co., Ltd.	Ningbo Cheng Mei Materials Technology Co., Ltd.	Subsidiary	Sales	(\$ 2,906,266)	(36%)	-	-	-	\$ 464,737	24%	Note2	
Cheng Mei Materials Technology Co., Ltd.	Kunshan Chimei Materials Technology Co., Ltd.	Subsidiary	Sales	( 735,305)	(9%)	-	-	-	52,995	3%	Note1	
Cheng Mei Materials Technology Co., Ltd.	Innolux Corporation	Related party	Sales	( 1,704,889)	(21%)	-	-	-	668,132	34%		
Cheng Mei Materials Technology Co., Ltd.	Foshan Innolux Optoelectronics Ltd.	Related party	Sales	( 674,639)	(8%)	-	-	-	387,872	20%		
Ningbo Cheng Mei Materials Technology Co., Ltd.	Cheng Mei Materials Technology Co., Ltd.	Parent	Sales	( 152,278)	(4%)	-	-	-	46,101	5%	Note2	
Ningbo Cheng Mei Materials Technology Co., Ltd.	Kunshan Chimei Materials Technology Co., Ltd.	Brother-Sister	Sales	( 169,426)	(5%)	-	-	-	2,130	0%	Note 1	
Ningbo Cheng Mei Materials Technology Co., Ltd.	Ningbo Innolux Optoelectronics Ltd.	Related party	Sales	( 1,300,220)	(35%)	-	-	-	534,302	57%		
Ningbo Cheng Mei Materials Technology Co., Ltd.	Foshan Innolux Optoelectronics Ltd.	Related party	Sales	( 271,926)	(7%)	-	-	-	89,766	10%		
Ningbo Cheng Mei Materials Technology Co., Ltd.	Ningbo Innolux Display Ltd.	Related party	Sales	( 362,087)	(10%)	-	-	-	189,779	20%		
Kunshan Chimei Materials Technology Co., Ltd.	Kunshan Chimei Materials Trading Corp.	Subsidiary	Sales	( 338,499)	(5%)	-	-	-	85,941	4%	Note 1	
Kunshan Chimei Materials Technology Co., Ltd.	Shengzhen SAPO photoelectric Co., Ltd.	Related party	Sales	( 607,333)	(9%)	-	-	-	296,148	15%	Note 1	
Kunshan Chimei Materials Technology Co., Ltd.	Shengzhen SAPO photoelectric Co., Ltd.	Related party	Purchases	654,128	11%	-	-	-	( 229,832)	(12%)	Note 1	

Note 1: Kunshan Chimei Materials Technology Co., Ltd. has not been a subsidiary of the Company since December 24, 2019.

Note 2: The Company has reversed the sales revenue (from sales of materials and supplies) and operating cost (from purchase of goods) arising from raw material processing which are provided by Ningbo Cheng Mei Materials Technology Co., Ltd. The eliminated amount for the year ended December 31, 2019 was \$112,437.

Cheng Mei Materials Technology Corporation And Subsidiaries  
Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more

December 31, 2019

Table 6

Expressed in thousands of NTD

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2019	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts
					Amount	Action taken		
Cheng Mei Materials Technology Corporation	Ningbo Cheng Mei Materials Technology Co., Ltd.	Subsidiary	Accounts receivable \$ 464,737	4.37	\$ -	-	174,372	\$ -
Cheng Mei Materials Technology Corporation	Kunshan Chimei Materials Technology Co., Ltd.	Associates	Accounts receivable 52,995	6.82	12,080	Dunning	-	-
Cheng Mei Materials Technology Corporation	Kunshan Chimei Materials Technology Co., Ltd.	Associates	Other receivable 583,673	-	-	-	80,416	-
Cheng Mei Materials Technology Corporation	Innolux Corporation	Related party	Accounts receivable 668,132	3.12	-	-	176,985	-
Cheng Mei Materials Technology Corporation	Foshan Innolux Optoelectronics Ltd	Related party	Accounts receivable 387,872	3.19	-	-	68,159	-
Ningbo Cheng Mei Materials Technology Co., Ltd.	Kunshan Chimei Materials Technology Co., Ltd.	Associates	Other receivable 221,718	-	-	-	-	-
Ningbo Cheng Mei Materials Technology Co., Ltd.	Ningbo Innolux Optoelectronics Ltd	Related party	Accounts receivable 534,302	2.98	-	-	104,742	-
Ningbo Cheng Mei Materials Technology Co., Ltd.	Ningbo Innolux Display Ltd	Related party	Accounts receivable 189,779	2.53	-	-	44,983	-

Cheng Mei Materials Technology Corporation And Subsidiaries  
Significant inter-company transactions during the reporting periods  
Year ended December 31, 2019

Expressed in thousands of NTD

Table 7  
Details of significant inter-company transactions reaching NT\$ 10 million or more are as follows:

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			
				General ledger account	Amount	Transaction terms (Note 3)	Percentage of consolidated total operating revenues or total assets (Note 4)
0	Cheng Mei Materials Technology Corporation	Ningbo Cheng Mei Materials Technology Co., Ltd.	1	Sales	\$ 2,906,266	-	20%
0	Cheng Mei Materials Technology Corporation	Ningbo Cheng Mei Materials Technology Co., Ltd.	1	Accounts receivable	464,737	-	3%
0	Cheng Mei Materials Technology Corporation	CM Visual Technology Corporation	1	Sales	53,367	-	0%
0	Cheng Mei Materials Technology Corporation	CM Visual Technology Corporation	1	Accounts receivable	34,487	-	0%
0	Cheng Mei Materials Technology Corporation	CM Visual Technology Corporation	1	Other receivable	85,000	-	1%
0	Cheng Mei Materials Technology Corporation	Kunshan Chimei Materials Technology Co., Ltd.	1	Sales	735,305	-	5%
0	Cheng Mei Materials Technology Corporation	Kunshan Chimei Materials Technology Co., Ltd.	1	Other revenue	60,357	-	0%
0	Cheng Mei Materials Technology Corporation	Cheng Hui Trading Co., Ltd.	1	Other receivable	206,000	-	1%
0	Cheng Mei Materials Technology Corporation	Cheng Hui Investment Co., Ltd.	1	Other receivable	146,870	-	1%
0	Cheng Mei Materials Technology Corporation	Cheng Hui Trading Co., Ltd.	1	Endorsement / Guarantee	1,199,200	-	8%
1	Ningbo Cheng Mei Materials Technology Co., Ltd.	Cheng Mei Materials Technology Corporation	2	Sales	152,278	-	1%
1	Ningbo Cheng Mei Materials Technology Co., Ltd.	Cheng Mei Materials Technology Corporation	2	Accounts receivable	46,101	-	0%
1	Ningbo Cheng Mei Materials Technology Co., Ltd.	Kunshan Chimei Materials Technology Co., Ltd.	3	Sales	169,426	-	1%
2	Kunshan Chimei Materials Technology Co., Ltd.	Kunshan Chimei Materials Trading Corp.	3	Sales	338,499	-	2%

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 the 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: Prices and terms were determined in accordance with mutual agreements.

Note 4: 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.

Cheng Mei Materials Technology Corporation And Subsidiaries

Information on investees (not including investees in Mainland China)

Year ended December 31, 2019

Expressed in thousands of NTD

Table 8

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2019		Ownership (%)	Book value	Net profit (loss) of the investee for the Year ended December 31, 2019 (Note 1)	Investment income(loss) recognised by the Company for year ended December 31, 2019	Footnote
				Balance as at December 31, 2019	Balance as at December 31, 2018	Number of shares (in thousand)						
Cheng Mei Materials Technology Corporation	Cheng Mei Materials Technology (SAMOA) Corporation	Samoa	Investment company	\$ 431,482	\$ 431,482	13,300	100%	\$ 795,498	\$ 49,170	\$ 49,170	Note 1	
Cheng Mei Materials Technology Corporation	CM Visual Technology Corporation	Taiwan	Electronic component manufacture and sale	205,000	205,000	20,500	68.33%	13,337 (	75,906)	( 56,566)	Note 1	
Cheng Mei Materials Technology Corporation	Chi Mei Materials Technology Investment Co., Ltd.	Samoa	Investment company	4,447,763	4,447,763	146,500	100%	3,637,806	87,091	87,091	Note 1	
Cheng Mei Materials Technology Corporation	Cheng Hui Investment Co., Ltd.	Taiwan	Investment company	5,000	350,000	500	100%	( 123,657)	( 46,524)	( 46,524)	Note 1	
Cheng Mei Materials Technology Corporation	Cheng Hui Trading Co., Ltd.	Taiwan	Trading company	5,000	1,001,000	500	100%	( 149,198)	( 23,200)	( 23,200)	Note 1	
Cheng Hui Investment Co., Ltd.	CM Visual Technology Corporation	Taiwan	Electronic component manufacture and sale	33,000	33,000	3,300	11%	1,226 (	75,906)	Note 2	Note 1	
Cheng Hui Trading Co., Ltd.	Mao Fong Group Co., Ltd.	Samoa	Investment company	30,870	-	1,000	100%	28,792 (	177)	Note 2	Note 1	

Note 1: The financial statements that are audited and attested by R.O.C. parent company's CPA.

Note 2: According to the regulations, the amount recognised for investment profit or loss of the Company could be exempt from disclosure.

Cheng Mei Materials Technology Corporation And Subsidiaries  
Information on investments in Mainland China  
Year ended December 31, 2019

Expressed in thousands of NTD

Table 9

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remitance from Taiwan to Mainland China as of January 1, 2019	Amount remitted from Taiwan to Mainland China /Amount remitted back to December 31, 2019	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2019	Net income of investee as of December 31, 2019	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2019	Book value of investments in Mainland China as of December 31, 2019	Accumulated amount of investment income remitted back to Taiwan	Footnote
Ningbo Cheng Mei Materials Technology Co., Ltd.	Electronic component manufacture and sale	\$ 568,026	2	\$ 398,734	\$ -	\$ 398,734	\$ 49,195	100.00	\$ 49,195	\$ 795,732	\$ -	Note 2
Kunshan Chimei Materials Technology Co., Ltd.	Electronic component manufacture and sale	10,870,797	2	4,392,070	-	4,392,070	( 108,111)	38.40	( 53,336)	3,638,064	-	Note 2
Kunshan Chimei Materials Trading Corp.	Trading	215,250	2	-	-	-	83,468	38.40	41,317	90,320	-	Note 2
Xi'an Jinyahongtai New Materials Technology Co., Ltd.	Electronic component manufacture and sale	8,825	2	-	-	-	( 1,947)	38.40	( 954)	1,349	-	Note 2
Kunshan Shin Mao Fong International Trading Co., Ltd.	Trading	29,980	2	-	29,080	29,080	( 55)	100.00	( 55)	29,808	-	Note 2
Company name				2019								
Cheng Mei Materials Technology Corporation		\$ 4,820,784		\$ 4,820,784	\$ 5,804,858							

Note 1: Investment methods are classified into the following three categories; fill in the number of category each case belongs to:

- (1) Directly invest in a company in Mainland China.
- (2) Through investing in Cheng Mei Materials Technology (Simon) Corporation, Chi Mei Materials Technology Investment Co., Ltd and Mao Fong Group Co., LTD. in the third area, which then invested in the investee in Mainland China.
- (3) Others

Note 2: The investment profit or loss was recognised basing on the financial statements that were audited and attested by R.O.C. parent company's CPA.

Note 3: The numbers in this table are expressed in New Taiwan dollars. Amount denominated in foreign currencies related to income and expenses in this table are re-translated at average exchange rates of NTD 30.92 to US\$1 from January 1, 2019 to December 31, 2019, otherwise are re-translated at the exchange rates of NTD 29.98 to US\$1 prevailing at the end of the financial reporting period.

Note 4: The Ceiling is calculated based on 60% of the consolidated net value.

Cheng Mei Materials Technology Corporation And Subsidiaries

Significant transactions conducted with investees in Mainland China directly or indirectly through other companies in the third areas

Year ended December 31, 2019

Expressed in thousands of NTD

Table 10

Investee in Mainland China	Sale (purchase)		Property transaction		Maximum outstanding Accounts receivable (payable)		Provision of endorsements/guarantees or collaterals		Financing				
	Amount	%	Amount	%	Balance at December 31, 2019	%	Balance at December 31, 2019	Maximum balance during the year ended December 31, 2019	Balance at December 31, 2019	Interest rate	Interest during the year ended December 31, 2019	Others	
Ningbo Cheng Mei Materials Technology Co., Ltd.	\$ 2,906,266	36%	\$ -	-	\$ 464,737	24%	\$ -	-	\$ -	-	\$ -	-	
Ningbo Cheng Mei Materials Technology Co., Ltd.	( 152,278)	2%	-	-	( 46,101)	4%	-	-	-	-	-	-	
Kunshan Chimei Materials Technology Co., Ltd.	735,305	9%	-	-	52,995	3%	3,444,732	Endorsement / Guarantee	584,307	584,307	-	-	Other revenue \$ 60,357 Other receivables 583,673

Note: The Company has reversed the sales revenue (from sales of materials and supplies) and operating cost (from purchase of goods) arising from raw material processing which are provided by Ningbo Cheng Mei Materials Technology Co., Ltd.  
The eliminated amount for the year ended December 31, 2019 was \$112,437.