

**POLYTRONICS TECHNOLOGY CORP. AND  
SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS AND  
REVIEW REPORT OF INDEPENDENT  
ACCOUNTANTS  
MARCH 31, 2020 AND 2019**

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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.

## REVIEW REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

PWCR 20000002

To the Board of Directors and Shareholders of Polytronics Technology Corp.

### **Introduction**

We have reviewed the accompanying consolidated balance sheets of Polytronics Technology Corp. and subsidiaries (“the Group”) as of March 31, 2020 and 2019, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the three-month periods then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

### **Scope of our review**

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

### **Conclusion**

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020 and 2019, and of its consolidated financial performance and its consolidated cash flows for the three-month periods then ended in accordance with “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission.

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Lin, Yu-Kuan

Tsang, Kwok-Wah

For and on behalf of PricewaterhouseCoopers, Taiwan  
May 14, 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.

**POLYTRONICS TECHNOLOGY CORP. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**MARCH 31, 2020, DECEMBER 31, 2019 AND MARCH 31, 2019**  
(Expressed in thousands of New Taiwan dollars)  
(The balance sheets as of March 31, 2020 and 2019 are reviewed, not audited)

Assets	Notes	March 31, 2020		December 31, 2019		March 31, 2019		
		AMOUNT	%	AMOUNT	%	AMOUNT	%	
<b>Current assets</b>								
1100	Cash and cash equivalents	6(1)	\$ 1,138,454	38	\$ 997,914	34	\$ 978,441	34
1110	Financial assets at fair value	6(2)						
	through profit or loss - current		-	-	94	-	-	-
1136	Current financial assets at	8						
	amortised cost, net		3,235	-	3,223	-	3,201	-
1150	Notes receivable, net	6(3)	136,037	4	134,567	4	105,231	4
1170	Accounts receivable, net	6(3)	245,973	8	283,769	10	213,196	7
1180	Accounts receivable - related	6(3) and 7						
	parties		84,472	3	106,163	4	58,953	2
1200	Other receivables		7,364	-	10,740	-	12,164	-
130X	Inventories, net	6(4)	230,833	8	219,700	7	280,397	10
1410	Prepayments		49,928	2	61,527	2	20,017	1
1470	Other current assets		1,174	-	579	-	1,097	-
11XX	<b>Total current assets</b>		<u>1,897,470</u>	<u>63</u>	<u>1,818,276</u>	<u>61</u>	<u>1,672,697</u>	<u>58</u>
<b>Non-current assets</b>								
1535	Non-current financial assets at	8						
	amortised cost, net		6,881	-	6,826	-	6,826	-
1600	Property, plant and equipment, net	6(5) and 8	753,661	25	776,198	26	833,538	29
1755	Right-of-use assets	6(6)	221,739	7	223,516	8	230,861	8
1760	Investment property, net	6(8) and 8	113,451	4	114,089	4	116,005	4
1780	Intangible assets		2,037	-	2,572	-	2,764	-
1840	Deferred income tax assets		17,410	1	21,049	1	14,803	1
1900	Other non-current assets		11,848	-	8,854	-	10,349	-
15XX	<b>Total non-current assets</b>		<u>1,127,027</u>	<u>37</u>	<u>1,153,104</u>	<u>39</u>	<u>1,215,146</u>	<u>42</u>
1XXX	<b>Total assets</b>		<u>\$ 3,024,497</u>	<u>100</u>	<u>\$ 2,971,380</u>	<u>100</u>	<u>\$ 2,887,843</u>	<u>100</u>

(Continued)

**POLYTRONICS TECHNOLOGY CORP. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**MARCH 31, 2020, DECEMBER 31, 2019 AND MARCH 31, 2019**  
(Expressed in thousands of New Taiwan dollars)  
(The balance sheets as of March 31, 2020 and 2019 are reviewed, not audited)

Liabilities and Equity	Notes	March 31, 2020		December 31, 2019		March 31, 2019		
		AMOUNT	%	AMOUNT	%	AMOUNT	%	
<b>Current liabilities</b>								
2100	Short-term borrowings	6(9)	\$ 75,477	3	\$ 75,057	3	\$ 77,202	3
2120	Financial liabilities at fair value through profit or loss - current	6(2)	54	-	-	-	-	-
2130	Current contract liabilities	6(17)	5,668	-	3,165	-	1,032	-
2150	Notes payable		31,528	1	27,634	1	821	-
2170	Accounts payable	6(10)	120,557	4	126,608	4	108,021	4
2200	Other payables	6(11)	502,061	17	203,533	7	155,799	5
2230	Current income tax liabilities		126,430	4	116,405	4	104,131	4
2280	Current lease liabilities		11,919	-	11,141	-	9,970	-
2300	Other current liabilities		1,948	-	1,853	-	1,750	-
21XX	<b>Total current liabilities</b>		<u>875,642</u>	<u>29</u>	<u>565,396</u>	<u>19</u>	<u>458,726</u>	<u>16</u>
<b>Non-current liabilities</b>								
2580	Non-current lease liabilities		201,807	7	203,867	7	210,530	7
2600	Other non-current liabilities		39,629	1	40,125	1	37,161	1
25XX	<b>Total non-current liabilities</b>		<u>241,436</u>	<u>8</u>	<u>243,992</u>	<u>8</u>	<u>247,691</u>	<u>8</u>
2XXX	<b>Total liabilities</b>		<u>1,117,078</u>	<u>37</u>	<u>809,388</u>	<u>27</u>	<u>706,417</u>	<u>24</u>
<b>Equity</b>								
<b>Equity attributable to owners of parent</b>								
<b>Share capital</b>								
3110	Share capital - common stock	6(13)	800,018	26	800,018	27	800,018	28
<b>Capital surplus</b>								
3200	Capital surplus	6(14)	235,900	8	235,900	8	235,900	9
<b>Retained earnings</b>								
3310	Legal reserve	6(15)	481,790	16	481,790	16	446,786	15
3320	Special reserve		50,367	2	50,367	2	35,563	1
3350	Unappropriated retained earnings		426,819	14	673,810	23	695,265	24
<b>Other equity interest</b>								
3400	Other equity interest	6(16)	( 87,475)	( 3)	( 79,893)	( 3)	( 32,106)	( 1)
31XX	<b>Equity attributable to owners of the parent</b>		<u>1,907,419</u>	<u>63</u>	<u>2,161,992</u>	<u>73</u>	<u>2,181,426</u>	<u>76</u>
3XXX	<b>Total equity</b>		<u>1,907,419</u>	<u>63</u>	<u>2,161,992</u>	<u>73</u>	<u>2,181,426</u>	<u>76</u>
<b>Significant contingent liabilities and unrecognised contract commitments</b>								
<b>Significant events after the balance sheet date</b>								
3X2X	<b>Total liabilities and equity</b>		<u>\$ 3,024,497</u>	<u>100</u>	<u>\$ 2,971,380</u>	<u>100</u>	<u>\$ 2,887,843</u>	<u>100</u>

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

**POLYTRONICS TECHNOLOGY CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE THREE-MONTHS PERIODS ENDED MARCH 31, 2020 AND 2019**  
(Expressed in thousands of New Taiwan dollars, except earnings per share amounts)  
(UNAUDITED)

Items	Notes	Three-month periods ended March 31			
		2020		2019	
		AMOUNT	%	AMOUNT	%
4000 <b>Operating revenue</b>	6(17) and 7	\$ 358,021	100	\$ 300,296	100
5000 <b>Operating costs</b>	6(4)	( 182,815)	( 51)	( 183,068)	( 61)
5950 <b>Net operating margin</b>		<u>175,206</u>	<u>49</u>	<u>117,228</u>	<u>39</u>
<b>Operating expenses</b>	6(21)(22)				
6100 Selling expenses		( 22,404)	( 7)	( 20,366)	( 7)
6200 General and administrative expenses		( 45,701)	( 13)	( 33,384)	( 11)
6300 Research and development expenses		( 28,988)	( 8)	( 27,453)	( 9)
6450 Expected credit losses	12(2)	( 411)	-	( 1,666)	-
6000 <b>Total operating expenses</b>		<u>( 97,504)</u>	<u>( 28)</u>	<u>( 82,869)</u>	<u>( 27)</u>
6900 <b>Operating profit</b>		<u>77,702</u>	<u>21</u>	<u>34,359</u>	<u>12</u>
<b>Non-operating income and expenses</b>					
7010 Other income	6(18)	15,864	4	15,347	5
7020 Other gains and losses	6(19)	( 1,169)	-	1,543	-
7050 Finance costs	6(20)	( 1,304)	-	( 1,481)	-
7000 <b>Total non-operating income and expenses</b>		<u>13,391</u>	<u>4</u>	<u>15,409</u>	<u>5</u>
7900 <b>Profit before tax</b>		<u>91,093</u>	<u>25</u>	<u>49,768</u>	<u>17</u>
7950 Income tax expense	6(23)	( 18,077)	( 5)	( 11,902)	( 4)
8200 <b>Profit for the period</b>		<u>\$ 73,016</u>	<u>20</u>	<u>\$ 37,866</u>	<u>13</u>
<b>Other comprehensive (loss) income</b>					
<b>Components of other comprehensive income that will be reclassified to profit or loss</b>					
8361 Cumulative translation differences of foreign operations	6(16)	( \$ 7,582)	( 2)	\$ 18,261	6
8360 <b>Components of other comprehensive (loss) income that will be reclassified to profit or loss</b>		<u>( 7,582)</u>	<u>( 2)</u>	<u>18,261</u>	<u>6</u>
8300 <b>Other comprehensive (loss) income for the period, net of tax</b>		<u>( \$ 7,582)</u>	<u>( 2)</u>	<u>\$ 18,261</u>	<u>6</u>
8500 <b>Total comprehensive income for the period</b>		<u>\$ 65,434</u>	<u>18</u>	<u>\$ 56,127</u>	<u>19</u>
<b>Profit attributable to:</b>					
8610 Owners of the parent		<u>\$ 73,016</u>	<u>20</u>	<u>\$ 37,866</u>	<u>13</u>
<b>Comprehensive income attributable to:</b>					
8710 Owners of the parent		<u>\$ 65,434</u>	<u>18</u>	<u>\$ 56,127</u>	<u>19</u>
9750 <b>Basic earnings per share</b>	6(24)	<u>\$ 0.91</u>		<u>\$ 0.47</u>	
9850 <b>Diluted earnings per share</b>	6(24)	<u>\$ 0.90</u>		<u>\$ 0.47</u>	

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

POLYTRONICS TECHNOLOGY CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE THREE-MONTHS PERIODS ENDED MARCH 31, 2020 AND 2019  
(Expressed in thousands of New Taiwan dollars)  
(UNAUDITED)

	Equity attributable to owners of the parent								Financial statements translation differences of foreign operations	Total equity
	Capital Surplus				Retained Earnings					
	Notes	Share capital - common stock	Additional paid-in capital	Treasury stock transactions	Employee stock warrants	Legal reserve	Special reserve	Unappropriated retained earnings		
<u>For the three-month period ended March 31, 2019</u>										
		\$ 800,018	\$ 203,343	\$ 14,924	\$ 17,633	\$ 446,786	\$ 35,563	\$ 657,399	(\$ 50,367)	\$2,125,299
		-	-	-	-	-	-	37,866	-	37,866
	6(16)	-	-	-	-	-	-	-	18,261	18,261
		-	-	-	-	-	-	37,866	18,261	56,127
		\$ 800,018	\$ 203,343	\$ 14,924	\$ 17,633	\$ 446,786	\$ 35,563	\$ 695,265	(\$ 32,106)	\$2,181,426
<u>For the three-month period ended March 31, 2020</u>										
		\$ 800,018	\$ 203,343	\$ 14,924	\$ 17,633	\$ 481,790	\$ 50,367	\$ 673,810	(\$ 79,893)	\$2,161,992
		-	-	-	-	-	-	73,016	-	73,016
	6(16)	-	-	-	-	-	-	-	( 7,582 )	( 7,582 )
		-	-	-	-	-	-	73,016	( 7,582 )	65,434
	6(15)	-	-	-	-	-	-	( 320,007 )	-	( 320,007 )
		\$ 800,018	\$ 203,343	\$ 14,924	\$ 17,633	\$ 481,790	\$ 50,367	\$ 426,819	(\$ 87,475)	\$1,907,419

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

POLYTRONICS TECHNOLOGY CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THREE-MONTHS PERIODS ENDED MARCH 31, 2020 AND 2019  
(Expressed in thousands of New Taiwan dollars)  
(UNAUDITED)

	Notes	For the three-months periods ended March 31	
		2020	2019
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>			
Profit before tax		\$ 91,093	\$ 49,768
Adjustments			
Adjustments to reconcile profit (loss)			
Net profit on financial liabilities at fair value			
through profit or loss		148	-
Expected credit losses	12(2)	411	1,666
Depreciation (including investment property and right-of-use assets)	6(19)(21)	27,328	27,683
Amortisation	6(21)	558	501
Interest expense	6(20)	1,304	1,481
Interest income	6(18)	( 1,579 )	( 927 )
Loss on disposal of property, plant and equipment	6(19)	977	312
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable, net		( 2,488 )	( 15,765 )
Accounts receivable, net		36,130	37,984
Accounts receivable, net - related parties		21,691	6,858
Other receivables		3,376	( 276 )
Inventories		( 11,133 )	23,402
Prepayments		11,599	8,665
Other current assets		( 596 )	( 139 )
Changes in operating liabilities			
Current contract liabilities		2,503	( 556 )
Notes payable		3,894	( 6,625 )
Accounts payable		( 6,051 )	23,559
Other payables		( 20,704 )	( 26,322 )
Other current liabilities		95	760
Defined benefit liabilities		( 20 )	( 281 )
Cash inflow generated from operations		158,536	131,748
Interest paid		( 1,304 )	( 1,481 )
Interest received		1,579	927
Income tax paid		( 4,414 )	( 6,686 )
Net cash flows from operating activities		<u>154,397</u>	<u>124,508</u>

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POLYTRONICS TECHNOLOGY CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THREE-MONTHS PERIODS ENDED MARCH 31, 2020 AND 2019  
(Expressed in thousands of New Taiwan dollars)  
(UNAUDITED)

	Notes	For the three-months periods ended March 31	
		2020	2019
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Increase in financial assets at amortised cost, net		(\$ 67 )	(\$ 12 )
Increase in other non-current assets		( 1,933 )	( 2,247 )
Acquisition of property, plant and equipment	6(25)	( 4,716 )	( 43,738 )
Proceeds from disposal of property, plant and equipment		-	338
Acquisition of intangible assets		( 32 )	( 136 )
Increase in deposits - out		( 1,060 )	-
Net cash flows used in investing activities		( 7,808 )	( 45,795 )
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Repayment of principal portion of lease liabilities	6(26)	( 2,557 )	( 2,625 )
Decrease in deposits - in	6(26)	( 476 )	-
Net cash flows used in financing activities		( 3,033 )	( 2,625 )
Effect of exchange rate		( 3,016 )	5,193
Net increase in cash and cash equivalents		140,540	81,281
Cash and cash equivalents at beginning of period		997,914	897,160
Cash and cash equivalents at end of period	6(1)	\$ 1,138,454	\$ 978,441

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

POLYTRONICS TECHNOLOGY CORP. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2020 AND 2019

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

1. HISTORY AND ORGANISATION

Polytronics Technology Corporation (the “Company”) was incorporated on December 18, 1997 and commenced operations on August 1, 1999. The Company and its subsidiaries (collectively referred herein as the “Group”) are primarily engaged in the research, development, manufacturing and sale of Polymeric Positive Temperature Coefficient, Overvoltage protection element and its production related semi-finished goods, modules, heat conductive substrate, thermal module, heat dispersing materials, and LED lightings and modules.

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

These consolidated financial statements were reported to the Board of Directors on May 14, 2020.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
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 IFRS 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.

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

None.

(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 noncurrent’	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 adopted are consistent with Note 4 in the consolidated financial statements for the year ended December 31, 2019, except for the compliance statement, basis of preparations, basis of consolidation and additional policies as set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

- A. These consolidated financial statements of the Group have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and International Accounting Standards 34, “Interim Financial Reporting” as endorsed by the FSC.
- B. These consolidated financial statements are to be read in conjunction with the consolidated financial statements for the year ended December 31, 2019.

(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 financial liabilities (including derivative instruments) at fair value through profit or loss.
  - (b) Defined benefit liabilities recognized based on the net amount of pension fund assets less present value of defined benefit obligation.
- B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the 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:

The same basis of consolidation have been followed in these consolidated financial statements as were applied in the preparation of the Group's consolidated financial statements for the year ended December 31, 2019.

(blank below)

B. Subsidiaries included in the consolidated financial statements:

Name of Investor	Name of Subsidiaries	Activities	Ownership (%)			Note
			March 31, 2020	December 31, 2019	March 31, 2019	
Polytronics Technology Corporation	Polytronics (B.V.I.) Corporation	Investments and general business operations	100	100	100	
Polytronics (B.V.I.) Corporation	P-Circuit Corporation	Investments and general business operations	100	100	100	
P-Circuit Corporation	Polystar Electronics Co., Ltd.	Production and sale of varistor and potentiometer	100	100	100	
Polystar Electronics Co., Ltd.	Polystar Senchip Microelectronics, Inc.	Production and sale of resistors, discrete semiconductor devices and other resistive elements	100	100	100	
Polystar Electronics Co., Ltd.	PolyStellar Electronics Co.,Ltd.	Production and sale of resistors, discrete semiconductor devices and other resistive elements	100	100	100	Note

Note: It was invested by Polystar Electronics Co., Ltd. and established on December 11, 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: None.

(4) Employee benefits

Defined benefit plans

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

(5) Income tax

- A. The interim period income tax expense is recognised based on the estimated average annual effective income tax rate expected for the full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.  
B. If a change in tax rate is enacted or substantively enacted in an interim period, the Group recognises the effect of the change immediately in the interim period in which the change occurs. The effect of the change on items recognised outside profit or loss is recognised in other comprehensive income or equity while the effect of the change on items recognised in profit or loss is recognised in profit or loss.

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

There have been no significant changes as of March 31, 2020. Please refer to Note 5 in the consolidated financial statements for the year ended December 31, 2019.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
Cash on hand and revolving funds	\$ 176	\$ 376	\$ 537
Checking accounts and demand deposits	300,200	298,925	241,691
Time deposits	788,078	698,613	674,573
Cash equivalents-short-term notes	50,000	-	61,640
Total	<u>\$ 1,138,454</u>	<u>\$ 997,914</u>	<u>\$ 978,441</u>

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.

(2) Financial assets/liabilities at fair value through profit or loss

Items	March 31, 2020	December 31, 2019	March 31, 2019
Current items:			
Financial assets(liabilities) mandatorily measured at fair value through profit or loss			
Derivative instrument- forward foreign exchange contracts	\$ -	\$ -	\$ -
Valuation adjustment	( 54)	94	-
Total	( <u>\$ 54</u> )	<u>\$ 94</u>	<u>\$ -</u>

A. The Group recognized net (loss) profit of (\$935) and \$206 on financial assets /liabilities held for trading for the three-month periods ended March 31, 2020 and 2019, respectively.

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

		March 31, 2020	
Derivative instruments		Contract amount (Notional principal)	Contract period
Forward foreign exchange contracts	USD	\$ 800	2020/03/16~2020/04/30
		December 31, 2019	
Derivative instruments		Contract amount (Notional principal)	Contract period
Forward foreign exchange contracts	USD	\$ 1,500	2019/12/18~2020/01/31

March 31, 2019: None.

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

(3) Notes and accounts receivable

	March 31, 2020	December 31, 2019	March 31, 2019
Notes receivable	\$ 136,037	\$ 134,567	\$ 105,231
Accounts receivable	\$ 247,803	\$ 285,197	\$ 215,268
Accounts receivable-related parties	84,472	106,163	58,953
Less: Allowance for bad debts	( 1,830)	( 1,428)	( 2,072)
	<u>\$ 330,445</u>	<u>\$ 389,932</u>	<u>\$ 272,149</u>

A. The ageing analysis of accounts receivable and notes receivable that were past due but not impaired is as follows:

	March 31, 2020		December 31, 2019	
	Accounts	Notes	Accounts	Notes
	receivable	receivable	receivable	receivable
Not past due	\$ 254,621	\$ 136,037	\$ 308,195	\$ 134,567
Up to 30 days	49,653	-	52,549	-
31 to 90 days	26,035	-	28,755	-
91 to 180 days	168	-	81	-
Over 180 days	1,798	-	1,780	-
	<u>\$ 332,275</u>	<u>\$ 136,037</u>	<u>\$ 391,360</u>	<u>\$ 134,567</u>

  

	March 31, 2019	
	Accounts	Notes
	receivable	receivable
Not past due	\$ 220,886	\$ 105,231
Up to 30 days	35,781	-
31 to 90 days	9,386	-
91 to 180 days	8,030	-
Over 180 days	138	-
	<u>\$ 274,221</u>	<u>\$ 105,231</u>

The above ageing analysis was based on past due date.

- B. As of March 31, 2020, December 31, 2019 and March 31, 2019, accounts receivable and notes receivable were all from contracts with customers. And as of January 1, 2019, the balance of receivables from contracts with customers amounted to \$403,139.
- C. As at March 31, 2020, December 31, 2019 and March 31, 2019, 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 \$136,037, \$134,567 and \$105,231 ; \$330,445, \$389,932 and \$272,149, respectively.
- D. Information relating to credit risk of accounts receivable and notes receivable is provided in Note 12(2).

(4) Inventories

	March 31, 2020	December 31, 2019	March 31, 2019
Raw materials	\$ 84,943	\$ 72,864	\$ 92,514
Work-in-progress	75,590	75,684	95,312
Finished goods	70,300	71,152	92,571
Total	<u>\$ 230,833</u>	<u>\$ 219,700</u>	<u>\$ 280,397</u>



The cost of inventories recognized as expense for the period:

	For the three-month periods ended March 31,	
	2020	2019
Cost of goods sold	\$ 177,815	\$ 182,614
Loss on decline in market value	5,000	454
	<u>\$ 182,815</u>	<u>\$ 183,068</u>

(Blank below)

(5) Property, plant and equipment

2020

	Buildings	Machinery	Office equipment	Transportation equipment	Computer and communication equipment	Leasehold improvements	Others	Total
At January 1								
Cost	\$ 792,117	\$ 565,905	\$ 8,099	\$ 11,065	\$ 10,010	\$ 19,926	\$ 170,903	\$ 1,578,025
Accumulated depreciation and impairment	( 272,844)	( 377,983)	( 6,212)	( 5,521)	( 7,441)	( 17,041)	( 114,785)	( 801,827)
	<u>\$ 519,273</u>	<u>\$ 187,922</u>	<u>\$ 1,887</u>	<u>\$ 5,544</u>	<u>\$ 2,569</u>	<u>\$ 2,885</u>	<u>\$ 56,118</u>	<u>\$ 776,198</u>
Opening net book amount	\$ 519,273	\$ 187,922	\$ 1,887	\$ 5,544	\$ 2,569	\$ 2,885	\$ 56,118	\$ 776,198
Additions	-	1,232	28	-	1,388	-	2,568	5,216
Disposals	-	( 977)	-	-	-	-	-	( 977)
Depreciation charge	( 8,446)	( 8,394)	( 210)	( 348)	( 318)	( 147)	( 5,871)	( 23,734)
Net exchange differences	( 1,524)	( 1,389)	( 17)	( 16)	-	-	( 96)	( 3,042)
Closing net book amount	<u>\$ 509,303</u>	<u>\$ 178,394</u>	<u>\$ 1,688</u>	<u>\$ 5,180</u>	<u>\$ 3,639</u>	<u>\$ 2,738</u>	<u>\$ 52,719</u>	<u>\$ 753,661</u>
At March 31								
Cost	\$ 789,591	\$ 549,225	\$ 8,057	\$ 11,023	\$ 11,398	\$ 19,926	\$ 173,098	\$ 1,562,318
Accumulated depreciation and impairment	( 280,288)	( 370,831)	( 6,369)	( 5,843)	( 7,759)	( 17,188)	( 120,379)	( 808,657)
	<u>\$ 509,303</u>	<u>\$ 178,394</u>	<u>\$ 1,688</u>	<u>\$ 5,180</u>	<u>\$ 3,639</u>	<u>\$ 2,738</u>	<u>\$ 52,719</u>	<u>\$ 753,661</u>

2019

	Buildings	Machinery	Office equipment	Transportation equipment	Computer and communication equipment	Leasehold improvements	Construction in progress	Others	Total
At January 1									
Cost	\$ 704,539	\$ 580,059	\$ 8,360	\$ 8,080	\$ 10,746	\$ 19,666	\$ 79,497	\$ 158,742	\$ 1,569,689
Accumulated depreciation and impairment	( 243,602)	( 369,643)	( 5,743)	( 5,791)	( 8,165)	( 16,412)	-	( 94,558)	( 743,914)
	<u>\$ 460,937</u>	<u>\$ 210,416</u>	<u>\$ 2,617</u>	<u>\$ 2,289</u>	<u>\$ 2,581</u>	<u>\$ 3,254</u>	<u>\$ 79,497</u>	<u>\$ 64,184</u>	<u>\$ 825,775</u>
Opening net book amount	\$ 460,937	\$ 210,416	\$ 2,617	\$ 2,289	\$ 2,581	\$ 3,254	\$ 79,497	\$ 64,184	\$ 825,775
Additions	1,040	2,884	113	621	279	-	12,681	3,586	21,204
Disposals	-	( 592)	-	( 58)	-	-	-	-	( 650)
Reclassifications	-	-	-	-	-	-	-	2,877	2,877
Depreciation charge	( 8,059)	( 9,124)	( 310)	( 197)	( 256)	( 161)	-	( 5,961)	( 24,068)
Net exchange differences	2,033	4,137	65	40	-	-	1,872	253	8,400
Closing net book amount	<u>\$ 455,951</u>	<u>\$ 207,721</u>	<u>\$ 2,485</u>	<u>\$ 2,695</u>	<u>\$ 2,604</u>	<u>\$ 3,093</u>	<u>\$ 94,050</u>	<u>\$ 64,939</u>	<u>\$ 833,538</u>
At March 31									
Cost	\$ 709,983	\$ 588,933	\$ 8,658	\$ 8,226	\$ 11,025	\$ 19,666	\$ 94,050	\$ 166,094	\$ 1,606,635
Accumulated depreciation and impairment	( 254,032)	( 381,212)	( 6,173)	( 5,531)	( 8,421)	( 16,573)	-	( 101,155)	( 773,097)
	<u>\$ 455,951</u>	<u>\$ 207,721</u>	<u>\$ 2,485</u>	<u>\$ 2,695</u>	<u>\$ 2,604</u>	<u>\$ 3,093</u>	<u>\$ 94,050</u>	<u>\$ 64,939</u>	<u>\$ 833,538</u>

1. For the three-month periods ended March 31, 2020 and 2019, there was no capitalization of borrowing interests attributable to the property, plant and equipment.
2. Information about the property, plant and equipment that were pledged to others as collaterals is provided in Note 8.
3. Above property, plant and equipment are owner-occupied.

(6) Leasing arrangements — lessee

A. The Group leases various assets including land, buildings and business vehicles. Rental contracts are typically made for periods of 2 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.

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

	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
	<u>Carrying amount</u>	<u>Carrying amount</u>	<u>Carrying amount</u>
Land	\$ 203,262	\$ 204,704	\$ 209,402
Buildings	15,514	16,690	20,216
Transportation equipment	2,963	2,122	1,243
	<u>\$ 221,739</u>	<u>\$ 223,516</u>	<u>\$ 230,861</u>

	<u>For the three-month periods ended March 31,</u>	
	<u>2020</u>	<u>2019</u>
	<u>Depreciation charge</u>	<u>Depreciation charge</u>
Land	\$ 1,346	\$ 1,272
Buildings	1,176	1,176
Transportation equipment	434	529
	<u>\$ 2,956</u>	<u>\$ 2,977</u>

C. For the three-month periods ended March 31, 2020 and 2019, the additions to right-of-use assets amounted to \$1,275 and \$0, respectively.

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

	<u>For the three-month periods ended March 31,</u>	
	<u>2020</u>	<u>2019</u>
<u>Items affecting profit or loss</u>		
Interest expense on lease liabilities	\$ 753	\$ 777

E. For the three-month periods ended March 31, 2020 and 2019, the Group's total cash outflow for leases amounted to \$3,310 and \$3,402, respectively.

F. Extension and termination options

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

(7) Leasing arrangements – lessor

- A. The Group leases various assets including buildings. Rental contracts are typically made for periods of 1 and 5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. To protect the lessor's ownership rights on the leased assets, leased assets may not be used as security for borrowing purposes, or a residual value guarantee was required.
- B. For the three-month periods ended March 31, 2020 and 2019, the Group recognised rent income in the amounts of \$12,071 and \$12,560, respectively, based on the operating lease agreement, which does not include variable lease payments.
- C. The maturity analysis of the lease payments under the operating leases is as follows:

	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
2019	\$ -	\$ -	\$ 28,231
2020	29,775	41,654	15,887
2021	32,604	32,604	15,887
2022	32,604	32,604	15,887
2023	31,930	31,930	15,225
2024	13,681	-	-
Total	<u>\$ 140,594</u>	<u>\$ 138,792</u>	<u>\$ 91,117</u>

(8) Investment property

	<u>2020</u>	<u>2019</u>
	<u>Buildings</u>	<u>Buildings</u>
At January 1		
Cost	\$ 130,238	\$ 130,238
Accumulated depreciation	( 16,149)	( 13,595)
	<u>\$ 114,089</u>	<u>\$ 116,643</u>
Opening net book amount	\$ 114,089	\$ 116,643
Depreciation charge	( 638)	( 638)
Closing net book amount	<u>\$ 113,451</u>	<u>\$ 116,005</u>
At March 31		
Cost	\$ 130,238	\$ 130,238
Accumulated depreciation	( 16,787)	( 14,233)
	<u>\$ 113,451</u>	<u>\$ 116,005</u>

A. Rental income from investment property and direct operating expenses arising from investment property are shown below:

	<u>For the three-month periods ended March 31,</u>	
	<u>2020</u>	<u>2019</u>
Rental income from investment property	<u>\$ 12,071</u>	<u>\$ 12,560</u>
Direct operating expenses arising from the investment property that generated rental income during the period	<u>\$ 638</u>	<u>\$ 638</u>

B. The fair value of investment property held by the Group as of March 31, 2020, December 31, 2019 and March 31, 2019 were \$238,688, \$238,688 and \$238,688, respectively. The fair value is estimated using the valuation method frequently used by market participants. The valuation is based on evidence of similar trading prices.

C. There were no borrowing costs capitalized as part of investment property.

D. Information about the investment property that were pledged to others as collaterals is provided in Note 8.

(9) Short-term borrowings

<u>Type of borrowings</u>	<u>March 31, 2020</u>	<u>Interest rate range</u>	<u>Collateral</u>
Bank borrowings			
Unsecured borrowings	<u>\$ 75,477</u>	2.71%	None
<u>Type of borrowings</u>	<u>December 31, 2019</u>	<u>Interest rate range</u>	<u>Collateral</u>
Bank borrowings			
Unsecured borrowings	<u>\$ 75,057</u>	2.73%	None
<u>Type of borrowings</u>	<u>March 31, 2019</u>	<u>Interest rate range</u>	<u>Collateral</u>
Bank borrowings			
Unsecured borrowings	<u>\$ 77,202</u>	3.41%	None

Interest expense recognised in profit or loss amounted to \$538 and \$694 for the three-month periods ended March 31, 2020 and 2019, respectively.

(10) Accounts payable

	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
Accounts payable	\$ 106,780	\$ 113,868	\$ 99,097
Estimated accounts payable	<u>13,777</u>	<u>12,740</u>	<u>8,924</u>
	<u>\$ 120,557</u>	<u>\$ 126,608</u>	<u>\$ 108,021</u>

(11) Other payables

	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
Wages and salaries payable	\$ 48,080	\$ 71,300	\$ 49,881
Employee bonus and directors' remuneration payable	59,548	49,998	52,367
Payables on machinery and equipment	8,629	8,129	5,555
Dividends payable	320,007	-	-
Others	65,797	74,106	47,996
	<u>\$ 502,061</u>	<u>\$ 203,533</u>	<u>\$ 155,799</u>

(12) Pensions

- A. (a) The Company and its domestic subsidiaries have a defined benefit pension plan in accordance with the Labor Standards Act, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Act. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company and its domestic subsidiaries contribute monthly an amount equal to 2.5% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company and its domestic subsidiaries would assess the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company and its domestic subsidiaries will make contributions for the deficit by next March.
- (b) For the aforementioned pension plan, the Group recognised pension costs of \$392 and \$412 for the three-month periods ended March 31, 2020 and 2019, respectively
- (c) Expected contributions to the defined benefit pension plans of the Group for the year ending December 31, 2020 amounts to \$2,752.
- B. (a) Effective July 1, 2005, 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) The Company's Mainland China subsidiaries, Polystar Electronics Co., Ltd., Hanpu (Kunshan) Trading Co., Ltd. and Polystar Senchip Microelectronics, Inc., have a defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People's Republic of China (PRC) are based on a certain percentage of employees' monthly salaries and wages. Other than the monthly contributions, the Group has no further obligations.
- (c) The pension costs under defined contribution pension plans of the Group for the three-month periods ended March 31, 2020 and 2019 were \$2,741 and \$4,073, respectively.

(13) Share capital

As of March 31, 2020, the Company's authorised capital was \$1,000,000, consisting of 100 million shares of ordinary stock (including 5 million shares reserved for employee stock options), and the paid-in capital was \$800,018 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 (in thousands of shares):

	2020	2019
At January 1 / At March 31	80,002	80,002

(14) 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 capitalized 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.

(15) Retained earnings

A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior years' operating losses and then 10% of the remaining amount shall be set aside as legal reserve, if legal reserve has accumulated to an amount equal to the paid-in capital, then legal reserve is not required to be set aside any more, then setting aside or reversing special reserve according to the resolution of shareholders during their meeting or the request by competent authorities. Appropriation of remainder shall be proposed by the Board of Directors and resolved by the stockholders.

In accordance with Company Act Article 240, Item 5 and Article 241, Item 2, the resolution, for all or partial of distributable dividends, legal reserve and capital surplus are distributed in the form of cash, will be adopted by a majority vote at a meeting of the Board of Directors attended by two-thirds of the total number of directors, and will be reported to the shareholders, shall not



- be subject to the resolution of the shareholders' meeting.
- B. Dividend policy: As the Company is in a rapidly changing industry and in the growing stage, and considering the Company's long-term financial plans, shareholders' long-term profit and stabilizing performance target, cash dividend distribution shall not be lower than 10% of the total dividend distribution.
- C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.
- D. (a) 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.
- (b) The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently.
- E. The appropriations for 2019 earnings proposed by the Board of Directors on March 20, 2020, and the appropriations of 2018 had been resolved at shareholders' meeting on June 19, 2019 are as follows:

	2019		2018	
	Amount	Dividends per share (in NT dollars)	Amount	Dividends per share (in NT dollars)
Legal reserve	\$ 36,622		\$ 35,004	
Special reserve	29,526		14,804	
Cash dividends	320,007	\$ 4.00	300,006	\$ 3.75
Total	\$ 386,155		\$ 349,814	

The appropriation of 2018 earnings were the same as that approved by the Board of Directors on March 15, 2019.

The distribution of 2019 earnings, except cash dividends were resolved by the Board of Directors on March 20, 2020, others were pending for approval from the shareholders' meeting.

(16) Other equity items

	<u>Currency translation</u>
At January 1, 2020	(\$ 79,893)
Currency translation differences	( 7,582)
At March 31, 2020	<u>(\$ 87,475)</u>
	<u>Currency translation</u>
At January 1, 2019	(\$ 50,367)
Currency translation differences	18,261
At March 31, 2019	<u>(\$ 32,106)</u>

(17) Operating revenue

	<u>For the three-month periods ended March 31,</u>	
	<u>2020</u>	<u>2019</u>
Sales revenue	<u>\$ 358,021</u>	<u>\$ 300,296</u>

A. Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods at a point in time in the following major product lines and geographical regions:

<u>For the three-month period ended March 31, 2020</u>	<u>China</u>	<u>Taiwan</u>	<u>USA</u>	<u>Others</u>	<u>Total</u>
Sales revenue	<u>\$ 192,938</u>	<u>\$ 77,996</u>	<u>\$ 61,296</u>	<u>\$ 25,791</u>	<u>\$ 358,021</u>
Timing of revenue recognition					
At a point in time	<u>\$ 192,938</u>	<u>\$ 77,996</u>	<u>\$ 61,296</u>	<u>\$ 25,791</u>	<u>\$ 358,021</u>
<u>For the three-month period ended March 31, 2019</u>	<u>China</u>	<u>Taiwan</u>	<u>USA</u>	<u>Others</u>	<u>Total</u>
Sales revenue	<u>\$ 174,993</u>	<u>\$ 43,334</u>	<u>\$ 59,188</u>	<u>\$ 22,781</u>	<u>\$ 300,296</u>
Timing of revenue recognition					
At a point in time	<u>\$ 174,993</u>	<u>\$ 43,334</u>	<u>\$ 59,188</u>	<u>\$ 22,781</u>	<u>\$ 300,296</u>

B. Contract assets and liabilities

(a) The Group has recognised the following revenue-related contract assets and liabilities:

	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>	<u>January 1, 2019</u>
Contract liabilities:				
Contract liabilities –				
Advance sales receipts	<u>\$ 5,668</u>	<u>\$ 3,165</u>	<u>\$ 1,032</u>	<u>\$ 1,588</u>

(b) Revenue recognised that was included in the contract liability balance at the beginning of the period:

	For the three-month periods ended March 31,	
	2020	2019
Revenue recognised that was included in the contract liability balance at the beginning of the period	\$ 2,641	\$ 1,470
<b>(18) <u>Other income</u></b>		
	For the three-month periods ended March 31,	
	2020	2019
Interest income :		
Interest income from bank deposits	\$ 1,505	\$ 915
Interest income from financial assets measured at amortised cost	74	12
Total interest income	1,579	927
Rent income	12,071	12,560
Others	2,214	1,860
	\$ 15,864	\$ 15,347
<b>(19) <u>Other gains and losses</u></b>		
	For the three-month periods ended March 31,	
	2020	2019
Losses on disposals of property, plant and equipment	(\$ 977)	(\$ 312)
Foreign exchange gains	1,854	2,869
(Losses) gains on financial assets at fair value through profit or loss	( 935)	206
Depreciation charge-investment property	( 638)	( 638)
Other losses	( 473)	( 582)
	(\$ 1,169)	\$ 1,543
<b>(20) <u>Finance costs</u></b>		
	For the three-month periods ended March 31,	
	2020	2019
Interest expense	\$ 1,304	\$ 1,481

(21) Expenses by nature

	For the three-month periods ended March 31,	
	2020	2019
Employee benefit expenses	\$ 82,526	\$ 81,153
Depreciation charges on property, plant and equipment (Note)	27,328	27,683
Amortisation charges on intangible assets	558	501
Total	<u>\$ 110,412</u>	<u>\$ 109,337</u>

Note: Including investment property and right-of-use assets.

(22) Employee benefit expenses

	For the three-month periods ended March 31,	
	2020	2019
Wages and salaries	\$ 68,597	\$ 63,883
Labor and health insurance fees	3,815	3,862
Pension costs	3,133	4,485
Other personnel expenses	6,981	8,923
	<u>\$ 82,526</u>	<u>\$ 81,153</u>

- A. In accordance with 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 6% for employees' compensation and shall not be higher than 1.5% for directors' remuneration.
- B. For the three-month periods ended March 31, 2020 and 2019, employees' compensation was accrued at \$8,544 and \$4,430, respectively; while directors' remuneration was accrued at \$1,314 and \$682, respectively. The aforementioned amounts were recognized in salary expenses. The employees' compensation and directors' remuneration were estimated and accrued based on distributable profit of current year as of the end of reporting period, the estimated ratios are 8.58% and 1.32%, respectively. Employees' compensation and directors' remuneration for 2019 as resolved by the Board of Directors were in agreement with those amounts recognized in the 2019 financial statements. Information about the employees' compensation and directors' remuneration of the Company as resolved by the Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(23) Income tax

A. Income tax expense

(a) Components of income tax expense:

	For the three-month periods ended March 31,	
	2020	2019
Current tax:		
Current tax on profits for the period	\$ 14,438	\$ 11,602
Prior year income tax overestimation	-	-
Total current tax	14,438	11,602
Deferred tax:		
Origination and reversal of temporary differences	3,639	300
Impact of change in tax rate	-	-
Total deferred tax	3,639	300
Income tax expense	<u>\$ 18,077</u>	<u>\$ 11,902</u>

(b) The income tax (charge)/credit relating to components of other comprehensive income: None.

(c) The income tax charged/(credited) to equity during the period: None.

B. The Company's income tax returns through 2018 have been assessed and approved by the Tax Authority.

(24) Earnings per share

	For the three-month period ended March 31, 2020		
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 73,016	80,002	<u>\$ 0.91</u>
<u>Diluted earnings per share</u>			
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	1,040	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 73,016</u>	<u>81,042</u>	<u>\$ 0.90</u>

For the three-month period ended March 31, 2019			
		Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
	Amount after tax		
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 37,866	80,002	\$ <u>0.47</u>
<u>Diluted earnings per share</u>			
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	855	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ <u>37,866</u>	<u>80,857</u>	\$ <u>0.47</u>

(25) Supplemental cash flow information

A. Investing activities with partial cash payments:

	For the three-month periods ended March 31,	
	2020	2019
Purchase of property, plant, and equipment	\$ 5,216	\$ 21,204
Net change of payable on machinery and equipment	( 500)	22,534
Cash paid during the period	\$ <u>4,716</u>	\$ <u>43,738</u>

B. Financing activities with no cash flow effects

	For the three-month periods ended March 31,	
	2020	2019
Dividends payable	\$ <u>320,007</u>	\$ -

(26) Changes in liabilities from financing activities

	2020				
	Short-term borrowings	Lease liabilities	Deposits received	Dividends payable	Total liabilities from financing activities
At January 1	\$ 75,057	\$ 215,008	\$ 10,648	\$ -	\$ 300,713
Changes in cash flow from financing activities	-	( 2,557)	( 476)	-	( 3,033)
Interest paid	-	( 753)	-	-	( 753)
Interest expense	-	753	-	-	753
Increase in lease liabilities	-	1,275	-	-	1,275
Declaration of the cash dividends	-	-	-	320,007	320,007
Impact of changes in foreign exchange rate	420	-	-	-	420
At March 31	\$ <u>75,477</u>	\$ <u>213,726</u>	\$ <u>10,172</u>	\$ <u>320,007</u>	\$ <u>619,382</u>

	2019			
	Short-term borrowings	Lease liabilities	Deposits received	Total liabilities from financing activities
At January 1	\$ 76,758	\$ 223,125	\$ 10,078	\$ 309,961
Changes in cash flow from financing activities	-	( 2,625)	-	( 2,625)
Interest paid	-	( 777)	-	( 777)
Interest expense	-	777	-	777
Impact of changes in foreign exchange rate	444	-	-	444
At March 31	<u>\$ 77,202</u>	<u>\$ 220,500</u>	<u>\$ 10,078</u>	<u>\$ 307,780</u>

## 7. RELATED PARTY TRANSACTIONS

### (1) Names of related parties and relationship

Names of related parties	Relationship with the Group
Littelfuse, Inc.	A Board of Director of the Parent Company

### (2) Significant related party transactions and balances

#### A. Operating revenue

	For the three-month periods ended March 31,	
	2020	2019
Sales of goods:		
Other associates	<u>\$ 60,780</u>	<u>\$ 58,920</u>

There are no significant differences in sales prices and collection terms between related parties and third parties.

#### B. Accounts receivable

	March 31, 2020	December 31, 2019	March 31, 2019
Accounts receivable			
Other associates	<u>\$ 84,472</u>	<u>\$ 106,163</u>	<u>\$ 58,953</u>

The receivables from related parties arise mainly from sale transactions. The receivables are due 60 days after the date of sale. The receivables are unsecured in nature and bear no interest. There are no provisions held against receivables from related parties.

### (3) Key management compensation

	For the three-month periods ended March 31,	
	2020	2019
Short-term employee benefits	\$ 12,028	\$ 10,149
Termination benefits	335	335
Total	<u>\$ 12,363</u>	<u>\$ 10,484</u>

## 8. PLEGGED ASSETS

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

Pledged asset	Book value			Purpose
	March 31, 2020	December 31, 2019	March 31, 2019	
Time deposit (recorded under 'current financial assets at amortised cost')	\$ 3,235	\$ 3,223	\$ 3,201	Guarantee for duty paid after customs release
Time deposit (recorded under 'non-current financial assets at amortised cost')	6,881	6,826	6,826	Guarantee for land lease in science park
Building construction and investment real estate	200,253	201,378	204,754	Guarantee for short-term borrowing credit line

## 9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

### (1) Contingencies

In April 2020, Ventec claimed that the Company allegedly revealed their trade secret in relation to dielectric withstanding voltage test. Therefore, Ventec filed a lawsuit against the Company in a German court. However, the test method and details of steps were published by a trade association, IPC, in 2009 Test Methods Manual which became a standard in the industry and should not be a protected object of trade secret. Ventec only provided opinion letters of employees of associates. No objective evidence, such as independent opinions from external experts or appraisal reports, were provided. Thus, the claim from Ventec had no basis. The Company had commissioned German lawyers to reply to the lawsuit. The lawsuit has no significant impact to the Company's financial and operation.

### (2) Commitments

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

	March 31, 2020	December 31, 2019	March 31, 2019
Property, plant and equipment	\$ 11,391	\$ 17,580	\$ 15,617

## 10. SIGNIFICANT DISASTER LOSS

None.

## 11. SIGNIFICANT SUBSEQUENT EVENTS

None.

## 12. OTHERS

### (1) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure. The Group may adjust the amount of dividends paid to shareholders, return capital or issue new shares to achieve the optimal capital structure.



(2) Financial instruments

A. Financial instruments by category

	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
<u>Financial assets</u>			
Financial assets measured at fair value through profit or loss			
Financial assets designated as at fair value through profit or loss	<u>\$ -</u>	<u>\$ 94</u>	<u>\$ -</u>
Financial assets at amortised cost			
Cash and cash equivalents	1,138,454	997,914	978,441
Financial assets at amortised cost	10,116	10,049	10,027
Notes receivable	136,037	134,567	105,231
Accounts receivable (including related parties)	330,445	389,932	272,149
Other accounts receivable	7,364	10,740	12,164
Guarantee deposits paid	4,089	3,029	3,529
	<u>\$ 1,626,505</u>	<u>\$ 1,546,231</u>	<u>\$ 1,381,541</u>
<u>Financial liabilities</u>			
Financial liabilities measured at fair value through profit or loss			
Financial liabilities designated as at fair value through profit or loss	<u>\$ 54</u>	<u>\$ -</u>	<u>\$ -</u>
Financial liabilities at amortised cost			
Short-term borrowings	75,477	75,057	77,202
Notes payable	31,528	27,634	821
Accounts payable	120,557	126,608	108,021
Other accounts payable	502,061	203,533	155,799
Guarantee deposits received	10,172	10,648	10,078
	<u>\$ 739,795</u>	<u>\$ 443,480</u>	<u>\$ 351,921</u>
Lease liabilities	<u>\$ 213,726</u>	<u>\$ 215,008</u>	<u>\$ 220,500</u>

B. Financial risk management policies

(a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. To 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, and interest rate swaps are used to fix variable future cash flows. Derivatives are used exclusively for hedging purposes and not as trading or speculative instruments.

- (b) Risk management is carried out by a central treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.
  - (c) 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 companies are required to hedge their entire foreign exchange risk exposure with the Group treasury. Exchange rate risk is measured through a forecast of highly probable USD and RMB expenditures. Forward foreign exchange contracts are adopted to minimise the volatility of the exchange rate affecting cost of forecast inventory purchases.
      - iii. The Group hedges foreign exchange rate by using forward exchange contracts. However, the Group does not adopt hedging accounting. Details of financial assets or 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 functional currency: NTD; other certain subsidiaries' functional currency: 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:

March 31, 2020

Foreign currency				
	amount		Exchange	Book value
	(In thousands)		rate	(NTD/RMB)

(Foreign currency: functional currency)

Financial assets

Monetary items

USD:NTD	USD	9,126	30.225	\$	275,842
USD:RMB	USD	1,322	7.0931		39,910
HKD:RMB	HKD	540	0.9149		2,103
RMB:NTD	RMB	126	4.255		535

Non-monetary items: None.

Financial liabilities

Monetary items

USD:NTD	USD	114	30.225	\$	3,453
JPY:NTD	JPY	6,700	0.2788		1,868
USD:RMB	USD	123	7.0931		3,722

Non-monetary items: None.

December 31, 2019

Foreign currency				
	amount		Exchange	Book value
	(In thousands)		rate	(NTD/RMB)

(Foreign currency: functional currency)

Financial assets

Monetary items

USD:NTD	USD	8,966	29.980	\$	268,788
USD:RMB	USD	1,204	6.966		36,094
HKD:RMB	HKD	540	0.895		2,081
RMB:NTD	RMB	841	4.305		3,621

Non-monetary items: None.

Financial liabilities

Monetary items

USD:NTD	USD	542	29.980	\$	16,259
JPY:NTD	JPY	11,450	0.276		3,160

Non-monetary items: None.

March 31, 2019

Foreign currency					
	amount		Exchange		Book value
	(In thousands)		rate		(NTD/RMB)
(Foreign currency: functional currency)					
<u>Financial assets</u>					
<u>Monetary items</u>					
USD:NTD	USD	7,372	30.820	\$	227,209
USD:RMB	USD	967	6.720		29,767
RMB:NTD	RMB	603	4.580		2,761
<u>Non-monetary items:</u> None.					
<u>Financial liabilities</u>					
<u>Monetary items</u>					
USD:NTD	USD	3,945	30.820	\$	121,593
<u>Non-monetary items:</u> None.					

- v. The total exchange (loss) gain, including realised and unrealised arising from significant foreign exchange variation on the monetary items held by the Group for the three-month periods ended March 31, 2020 and 2019, amounted to \$1,854 and \$2,869, respectively.
- vi. Analysis of foreign currency market risk arising from significant foreign exchange variation:

For the three-month period ended March 31, 2020

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	1%	\$	2,758	\$	-
USD:RMB	1%		399		-
HKD:RMB	1%		21		-
RMB:NTD	1%		5		-
<u>Non-monetary items:</u> None.					
<u>Financial liabilities</u>					
<u>Monetary items</u>					
USD:NTD	1%	(\$	35)	\$	-
JPY:NTD	1%	(	19)		-
USD:RMB	1%	(	37)		-
<u>Non-monetary items:</u> None.					

For the three-month period ended March 31, 2019

Sensitivity analysis

	<u>Degree of variation</u>	<u>Effect on profit or loss</u>		<u>Effect on other comprehensive income</u>
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	1%	\$ 2,272	\$	-
USD:RMB	1%	298		-
RMB:NTD	1%	28		-
<u>Non-monetary items:</u> None.				
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	1%	(\$ 1,216)	\$	-
<u>Non-monetary items:</u> None.				

Price risk

The Group's equity securities, which are exposed to price risk, are the held financial assets at fair value through profit or loss, 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.

(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, at fair value through profit or loss and at fair value through other comprehensive income.
- ii. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored.
- iii. The Group adopts the assumptions under IFRS 9, the default occurs when the contract payments are past due over 90 days.

- iv. The Group adopts following assumptions under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition:  
If the contract payments were past due over 60 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.
- v. If the credit rating grade of an investment target degrades two scales, there has been a significant increase in credit risk on that instrument since initial recognition.
- vi. The Group classifies customers' accounts receivable, contract assets and rents receivable in accordance with customer types. The Group applies the simplified approach using provision matrix to estimate expected credit loss under the provision matrix basis.
- vii. 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.
- viii. The Group used the forecastability to adjust historical and timely information to assess the default possibility of accounts receivable, contract assets and lease payments receivable. As of March 31, 2020, December 31, 2019 and March 31, 2019, the provision matrix is as follows:

	Not past due	Up to 30 days past due	31~90 days past due	91~180 days past due	Up to 181 days	Total
<u>At March 31, 2020</u>						
Expected loss rate	0.01%	0.02%~0.64%	0.1%~5.74%	0.21%~13.05%	45.57%~58.30%	
Total book value	\$ 254,621	\$ 49,653	\$ 26,035	\$ 168	\$ 1,798	\$ 332,275
Loss allowance	\$ -	\$ -	\$ 63	\$ 32	\$ 1,735	\$ 1,830

	Not past due	Up to 30 days past due	31~90 days past due	91~180 days past due	Up to 181 days	Total
<u>At December 31, 2019</u>						
Expected loss rate	0.01%	0.01%~0.66%	0.02%~5.96%	0.03%~17.68%	30.96%~60.44%	
Total book value	\$ 308,195	\$ 52,549	\$ 28,755	\$ 81	\$ 1,780	\$ 391,360
Loss allowance	\$ -	\$ -	\$ 30	\$ 813	\$ 585	\$ 1,428

	Not past due	Up to 30 days past due	31~90 days past due	91~180 days past due	Up to 181 days	Total
<u>At March 31, 2019</u>						
Expected loss rate	0%~0.01%	0%~0.01%	10%	20%	30%~100%	
Total book value	\$ 220,886	\$ 35,781	\$ 9,386	\$ 8,030	\$ 138	\$ 274,221
Loss allowance	\$ -	\$ -	\$ 321	\$ 1,613	\$ 138	\$ 2,072

ix. Movements in relation to the group applying the simplified approach to provide loss allowance for accounts receivable is as follows:

	2020	
	<u>Accounts receivable</u>	<u>Notes receivable</u>
At January 1	\$ 1,428	\$ -
Provision for impairment	411	-
Effect of foreign exchange	(9)	-
At March 31	<u>\$ 1,830</u>	<u>\$ -</u>
	2019	
	<u>Accounts receivable</u>	<u>Notes receivable</u>
At January 1	\$ 390	\$ -
Provision for impairment	1,666	-
Effect of foreign exchange	16	-
At March 31	<u>\$ 2,072</u>	<u>\$ -</u>

(c) Liquidity risk

i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, and compliance with internal balance sheet ratio targets.

ii. The Group has the following undrawn borrowing facilities:

	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
Floating rate:			
Expiring within one year	\$ 1,795,137	\$ 745,207	\$ 457,502

The facilities expiring within one year are annual facilities subject to review at various dates during 2019.

iii. The table below analyzes the Group's non-derivative financial liabilities and net-settled or cross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities:

	Less than 3	Between 3	Between 1	Between 2	Over 5
March 31, 2020	months	months	and 2 years	and 5 years	years
	and 1 year	and 1 year	and 2 years	and 5 years	years
Short-term borrowings	\$ -	\$ 75,477	\$ -	\$ -	\$ -
Notes payable	31,528	-	-	-	-
Accounts payable	-	120,557	-	-	-
Lease liabilities	3,140	9,807	12,557	26,607	221,689
Other payables	320,007	182,054	-	-	-

Non-derivative financial liabilities:

	Less than 3	Between 3	Between 1	Between 2	Over 5
December 31, 2019	months	months	and 2 years	and 5 years	years
	and 1 year	and 1 year	and 2 years	and 5 years	years
Short-term borrowings	\$ -	\$ 75,057	\$ -	\$ -	\$ -
Notes payable	27,634	-	-	-	-
Accounts payable	-	126,608	-	-	-
Lease liabilities	3,250	9,561	12,330	27,531	223,348
Other payables	-	203,533	-	-	-

Non-derivative financial liabilities:

	Less than 3	Between 3	Between 1	Between 2	Over 5
March 31, 2019	months	months	and 2 years	and 5 years	years
	and 1 year	and 1 year	and 2 years	and 5 years	years
Short-term borrowings	\$ 77,202	\$ -	\$ -	\$ -	\$ -
Notes payable	426	-	395	-	-
Accounts payable	-	108,021	-	-	-
Lease liabilities	3,426	9,498	11,884	31,607	228,327
Other payables	-	155,799	-	-	-



Derivative financial liabilities:

	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
March 31, 2020					
Foreign exchange contracts	\$ 54	\$ -	\$ -	\$ -	\$ -

Derivative financial liabilities:

December 31, 2019: None.

Derivative financial liabilities:

March 31, 2019: None.

(3) Fair value information

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

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

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

Level 3: Unobservable inputs for the asset or liability.

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

March 31, 2020

**Assets: None.**

**Liabilities:**

<u>Recurring fair value measurement</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial liabilities at fair value through profit or loss-forward foreign exchange contracts	\$ -	\$ 54	\$ -	\$ 54

December 31, 2019

**Assets:**

<u>Recurring fair value measurement</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at fair value through profit or loss-forward foreign exchange contracts	\$ -	\$ 94	\$ -	\$ 94

**Liabilities: None.**

March 31, 2019

**Assets:** None

**Liabilities:** None.

- C. The methods and assumptions the Group used to measure fair value are as follows:
- (a) 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. Forward exchange contracts are usually valued based on the current forward exchange rate.
  - (b) Under “Regulations Governing the Preparation of Financial Reports by Securities Issuers”, the Group makes self-assessment using the income approach to calculate the fair value of investment property. Related assumption and information of inputs are as follows:
    - i. Cash flow: Cash flow shall be evaluated on the basis of existing lease contracts, rent at local market rates, or current market rents for similar comparable properties in the same location and condition, and overvalued and undervalued comparable properties shall be excluded. If there is a period-end value, the discounted present period-end value may be added.
    - ii. Analysis period: When there is no specified period for the income, the analysis period in principle shall not be longer than 10 years; when there is a specified period for the income, the income shall be estimated for the remainder of the specified period.
    - iii. Discount rate: The discount rate shall be determined using the risk premium approach only, with the calculation based on a certain interest rate, plus the estimate for the individual characteristics of the investment property. The phrase "certain interest rate" means the interest rate may not be lower than the floating interest rate on a 2-year time deposit of a small amount, as posted by the Chunghwa Post Co. Ltd., plus 0.75 percentage points.
  - (c) The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Group’s financial and non-financial instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs, for example, model risk or liquidity risk and etc. In accordance with the Group’s management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial and non-financial instruments at the consolidated balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.
  - (d) The Group takes into account adjustments for credit risks to measure the fair value of financial and non-financial instruments to reflect credit risk of the counterparty and the Group’s credit quality.
- D. For the three-month periods ended March 31, 2020 and 2019, there was no transfer between Level 1 and Level 2.

### 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): None.
- 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: None.
- 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: None.
- H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: None.
- I. Trading in derivative instruments undertaken during the reporting periods: Please refer to Notes 6(2) and 12.
- J. Significant inter-company transactions during the reporting periods: Please refer to table 3.

#### (2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China) : Please refer to table 4.

#### (3) Information on investments in Mainland China

- A. Basic information: Please refer to table 5.
- B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 6.

#### (4) Major shareholders information

Major shareholders information: Please refer to table 7.

#### 14. SEGMENT INFORMATION

##### 1. General information

The Group mainly operates in a single industry. The Chief Operating Decision-Maker reviews the Group's reporting to assess performance and allocate resources. The Group mainly has a single reportable segment.

##### 2. Segment information

The Group's Chief Operating Decision-Maker evaluates the performance of operating segments based on the consolidated financial statements. The accounting policies of the operating segments are in accordance with the significant accounting policies summarized in Note 4.

##### 3. Information about segment profit or loss, assets and liabilities

	For the three-month periods ended March 31,	
	2020	2019
Revenue from external customers	\$ 358,021	\$ 300,296
Inter-segment revenue	\$ -	\$ -
Segment income	\$ 91,093	\$ 49,768
Segment assets	\$ 3,024,497	\$ 2,887,843

##### 4. Reconciliation for segment income (loss), assets and liabilities

None.

Polytronics Technology Corp. and subsidiaries

Loans to others

For the three-month period ended March 31, 2020

Table 1

Expressed in thousands of NTD

(Except as otherwise indicated)

No.	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding balance during the three-month period ended March 31, 2020	Balance at March 31, 2020	Actual amount drawn down	Interest rate	Nature of loan	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts		Limit on loans granted to a single party	Ceiling on total loans granted	
												Item	Value			
0	Polytronics Technology Corp.	Polystar Electronics Co., Ltd.	Other receivables - related party	Y	\$ 259,440	\$ 85,100	\$ -	4.35%	Reason for short-term financing	\$ -	Operational need	\$ -	\$ -	\$ -	\$ 381,483	\$ 762,967

Note 1: Follow the group policy "Procedure for Provision of Loans".

Polytronics Technology Corp. and subsidiaries  
Provision of endorsements and guarantees to others  
For the three-month period ended March 31, 2020

Table 2

Expressed in thousands of NTD  
(Except as otherwise indicated)

Number	Endorser/ guarantor	Party being endorsed/guaranteed		Limit on endorsements/ guarantees provided for a single party	Maximum outstanding endorsement/ guarantee amount as of March 31, 2020	Outstanding endorsement/ guarantee amount at March 31, 2020	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 (Note)	Provision of endorsements/ guarantees by parent company to subsidiary (Note)	Provision of endorsements /guarantees by subsidiary to parent company (Note)	Provision of endorsements/ guarantees to the party in Mainland China (Note)
		Company name	Relationship with the endorser/ guarantor										
0	Polytronics Technology Corp.	Polytronics (B.V.I.) Corporation	100%, owned subsidiary	\$ 476,854	\$ 110,500	\$ 110,450	\$ -	\$ -	5.79	\$ 953,709	Y	N	N
0	Polytronics Technology Corp.	Polystar Electronics Corp.	100%, owned subsidiary	476,854	207,940	178,563	75,563	-	9	953,709	Y	N	Y

Note: Follow the corporation policy "Procedure for Provision of Endorsements and Guarantees to Others".

Polytronics Technology Corp. and subsidiaries  
 Significant inter-company transactions during the reporting periods  
 For the three-month period ended March 31, 2020

Table 3

Expressed in thousands of NTD  
 (Except as otherwise indicated)

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets
				General ledger account	Amount	Transaction terms	
0	Polytronics Technology Corp.	Polystar Electronics Co., Ltd.	1	Sales	\$ 53,934	Net 60 days	15%
0	"	"	1	Purchases	10,858	Net 45 days	3%
0	"	"	1	Processing charges	12,630	"	4%
0	"	"	1	Accounts receivable	45,863	Net 60 days	2%
0	"	"	1	Accounts payable	61,861	Net 45 days	2%
2	Polystar Electronics Co., Ltd.	Polystar Senchip Microelectronics Inc.	3	Sales	1,082	"	0%
2	"	"	3	Accounts receivable	867	"	0%
2	"	"	3	Accounts payable	44,643	"	1%
2	"	"	3	Other payable	44,647	"	1%

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

Note 4: Interest payable of parent loan to subsidiary.

Note 5: Pay temporary debits for subsidiary.

Note 6: Follow the policy "Procedure for Provision of endorsements and guarantees to others".

Polytronics Technology Corp. and subsidiaries  
Information on investees  
For the three-month period ended March 31, 2020

Table 4

Expressed in thousands of NTD  
(Except as otherwise indicated)

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at March 31, 2020			Net profit (loss) of the investee for the three-month period ended March 31, 2020	Investment income (loss) recognised by the Company for the three-month period ended March 31, 2020	Footnote
				Balance as at March 31, 2020	Balance as at December 31, 2019	Number of shares	Ownership (%)	Book value			
Polytronics Technology Corp.	Polytronics (B.V.I) Corporation	British Virgin Islands	Investment and general business operations	\$ 211,431	\$ 211,431	2,644	100	\$ 788,050	\$ 6,000	\$ 6,000	Subsidiary
Polytronics (B.V.I) Corporation	P-Circuit Corp.	U.S	Investment business operations	258,424	212,858	2	100	768,221	6,493	6,493	Subsidiary

Table 4



Polytronics Technology Corp. and subsidiaries  
Information on investments in Mainland China  
For the three-month period ended March 31, 2020

Table 5

Expressed in thousands of NTD  
(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method	Accumulated	Amount remitted from Taiwan to		Accumulated	Net income of	Ownership	Investment income	Book value of	Accumulated	Footnote
				amount of remittance from Taiwan to Mainland China as of January 1, 2020	Mainland China/ Amount remitted back to Taiwan for the three-month period ended March 31, 2020		amount of remittance from Taiwan to Mainland China as of March 31, 2020					investee as of March 31, 2020	
Polystar Electronics Co., Ltd.(Note 1)	Production and sale of varistor and potentiometer	\$ 667,350	Through investing in an existing company in the third area, which then invested in the investee in Mainland China.	\$ 195,254	\$ -	\$ -	\$ 195,254	\$ 6,493	100	\$ 6,493	\$ 774,311	\$ -	
Polystar Senchip Microelectronics Inc.	Production and sale of resistors, discrete semiconductor devices and other resistive elements	149,141	Other ways to invest in Mainland China.	-	-	-	-	278	100	278	103,668	-	
Polystellar Electronics Co., Ltd.	Production and sale of resistors, discrete semiconductor devices and other resistive elements	55,395	Other ways to invest in Mainland China.	-	-	-	-	289	100	289	55,680	-	Note 5

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of March 31, 2020	Investment amount approved by the	
		Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA
Polytronics Technology Corp.	\$ 195,254	\$ 667,350	\$ 1,144,451

Note 1: Including retained earnings capitalized of RMB\$89,286 and RMB\$16,964 (In thousands of dollars).

Note 2: The financial statements were not audited by R.O.C. parent company's CPA.

Note 3: Under 'Regulations Governing the Permission of Investment or Technical Cooperation in Mainland Area', amendment to Jing-Shen-Zi No. 09704604680 of Ministry of Economic Affairs, effective August 2008, ceiling of accumulated investment in Mainland China may not exceed 60% of the net assets and the ceiling is effective from August 1.

Note 4: Mainland China's investees information are translated using the exchange rates of USD:NTD = 1:30.113 and RMB:NTD = 1:4.312 for recognised investment income (loss) and remaining using the exchange rates of USD:NTD=1:30.225 and RMB:NTD= 1:4.261.

Note 5: It was invested by Polystar Electronics Co., Ltd and the investment amount was RMB\$ 13,000 (in thousands of dollars).

Polytronics Technology Corp. and subsidiaries  
 Significant transactions conducted with investees in Mainland China directly or indirectly through other companies in the third areas  
 For the three-month period ended March 31, 2020

Table 6

Expressed in thousands of NTD  
 (Except as otherwise indicated)

Investee in Mainland China	Sale (purchase)		Accounts receivable (payable)		Financing			Others-processing charges		
	Amount	%	Balance at March 31, 2020	%	Maximum balance during the three-month period ended March 31, 2020	Balance at March 31, 2020	Interest rate	Interest during the three-month period ended March 31, 2020	Balance at March 31, 2020	%
Polystar Electronics Co., Ltd.	\$ 53,934	15.06%	\$ 45,863	13.88%	\$ 259,440	\$ 85,100	4.35%	\$ -	\$ 12,630	22.14%
Polystar Electronics Co., Ltd.	( 10,858)	7.87%	( 61,861)	51.31%	-	-	-	-	-	-

Polytronics Technology Corp. and subsidiaries

Major shareholders information

March 31, 2020

Table 7

Name of major shareholders	Name of shares held	Shares	
			Ownership (%)
Everlight Chemical Industrial Corp.		10,000,000	12.50%
Littlefuse Europe GmbH		5,771,601	7.21%