

**Hiwin Technologies Corporation and
Subsidiaries**

**Consolidated Financial Statements for the
Years Ended December 31, 2019 and 2018 and
Independent Auditors' Report**

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The companies required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2019 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10 “Consolidated Financial Statements”. Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we do not prepare a separate set of consolidated financial statements of affiliates.

Very truly yours,

HIWIN TECHNOLOGIES CORPORATION

By:

Chuo-, Wen, Hen
President

March 25, 2020

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Hiwin Technologies Corporation

Opinion

We have audited the accompanying consolidated financial statements of Hiwin Technologies Corporation (the "Corporation") and its subsidiaries (collectively the "Group"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 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 International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters of the Group's consolidated financial statements for the year ended December 31, 2019 are as follows:

Revenue recognition

The sales of the Group mainly rely on distribution channels. Revenue from the sale of goods is recognized when the Group satisfied the performance obligations. There is a risk that revenue might be recognized even when specific conditions have not been satisfied. Because of the risk of misstatement and materiality of sales revenue generated by distribution channels, we identified sales revenue as a key audit matter. The accounting policy on sales revenue recognition is disclosed in Note 4 to the consolidated financial statements.

Our key audit procedures performed in respect of revenue recognition included the following:

1. We understood the internal control and evaluated the design of key control. We determined whether the key control has been implemented and tested the operating effectiveness of key control over the acceptance of order and shipping procedures; we selected sample sales transactions of distribution channels and verified that the receiving of the order and the timing of the revenue recognition were in accordance with the terms of transaction.
2. We validated the terms of transactions against sales contracts and orders with major distributors to ensure that the terms of transaction and the timing of the revenue recognition are consistent; we tested the records of sales returns against source documents and we checked whether there was any unusual item during the year and after the balance sheet date.

Impairment assessment of accounts receivable

As of December 31, 2019, the net notes receivable and trade receivables were \$4,827,679 thousand (net of allowance of \$28,104 thousand). Since the recognition of allowance for impairment loss and the recoverability of receivables are subject to the management's judgment and estimation in which uncertainty is involved, the impairment assessment of accounts receivable was identified as a key audit matter.

The accounting policy for the recognition of allowance for impairment loss and the detailed information of receivables are disclosed in Notes 4, 5 and 9.

Our key audit procedures performed in respect of the abovementioned impairment assessment included the following:

1. We understood and tested the internal controls over the recognition of allowance for impairment loss to ensure that the controls have been approved and implemented appropriately.
2. We obtained and sampled the aging report to verify the accuracy and completeness of the accounts receivables.
3. We evaluated the management's assumptions used in the calculation of the allowance for bad debt and checked the calculations supporting the amount of allowance.
4. We compared the aging of receivables of the current year with those of prior years and reviewed the level of amounts written off in the current year and those in the prior years to assess the reasonableness of the allowance.

Valuation and impairment assessment of inventory

As of December 31, 2019, the carrying amount of inventory was \$7,552,944 thousand. Such carrying amount of inventory is the lower of cost or net realizable value which is determined subject to the management's judgment and estimation uncertainty. Therefore, valuation and impairment assessment of inventory was identified as a key audit matter. The accounting policy on the valuation and impairment assessment of inventory and the details of inventory are disclosed in Notes 4, 5 and 10 to the consolidated financial statements.

Our key audit procedures performed in respect of the valuation and impairment assessment included the following:

1. We understood the related internal control and procedures on the valuation of inventory and assessed that valuation including impairment assessment conforms to the approved procedures.
2. We assessed the reasonableness of allowance for impairment of inventory by reference to aging of inventories and the level of inventory consumed and sold during the year.
3. We tested the net realizable value of sample inventory items against the selling price, and we checked the completeness and accuracy of the information of net realizable value.
4. We compared the actual sales amount of the sample inventory items with the carrying amount to ascertain that the carrying amount of the inventory does not exceed the net realizable value.
5. We evaluated the adequacy of provision for obsolete and damaged stock based on the condition of inventory during our observation of inventory counts.

Other Matter

We have also audited the parent company only financial statements of Hiwin Technologies Corporation as of and for the years ended December 31, 2019 and 2018 on which we have issued an unmodified report.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the 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.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the 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 and appropriate audit evidence regarding the financial information of 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 for the year ended December 31, 2019 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Done-Yuin Tseng and Li-Tung Wu.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 25, 2020

Notice to Readers

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

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

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

ASSETS	2019		2018	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 2,008,745	4	\$ 2,787,232	6
Financial assets at fair value through profit or loss - current (Notes 4 and 7)	2,584	-	282	-
Notes receivable from unrelated parties, net (Notes 4, 5 and 9)	404,636	1	1,032,146	2
Notes receivable from related parties, net (Notes 4, 5 and 28)	878	-	1,449	-
Trade receivables from unrelated parties, net (Notes 4, 5 and 9)	4,404,813	9	5,022,035	10
Trade receivables from related parties, net (Notes 4, 5 and 28)	17,352	-	23,845	-
Inventories (Notes 4, 5 and 10)	7,552,944	16	8,933,731	18
Other current assets (Notes 6, 16, 28 and 29)	455,503	1	653,564	2
Total current assets	14,847,455	31	18,454,284	38
NON-CURRENT ASSETS				
Financial assets at fair value through other comprehensive income - non-current (Notes 4 and 8)	1,026,394	2	934,160	2
Financial assets at amortized cost - non-current (Note 4)	2,922	-	2,803	-
Investments accounted for using the equity method (Notes 4 and 12)	192,144	-	179,532	-
Property, plant and equipment (Notes 4, 13, 28 and 29)	28,279,428	58	25,226,895	52
Right-of-use assets (Notes 4, 14, 28 and 29)	792,490	2	-	-
Goodwill (Note 4)	256,163	1	256,163	1
Deferred tax assets (Notes 4 and 22)	388,328	1	461,625	1
Prepayments for machinery and equipment (Note 15)	2,293,112	5	2,965,011	6
Refundable deposits (Note 4)	80,711	-	79,840	-
Long-term prepayments for lease (Notes 16 and 29)	-	-	163,314	-
Other non-current assets (Notes 4, 9 and 28)	172,709	-	169,215	-
Total non-current assets	33,484,401	69	30,438,558	62
TOTAL	\$ 48,331,856	100	\$ 48,892,842	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Notes 17 and 29)	\$ 9,762,417	20	\$ 6,194,778	13
Financial liabilities at fair value through profit or loss - current (Notes 4 and 7)	29	-	5,775	-
Contract liabilities - current (Note 4)	120,069	-	185,501	-
Notes payable	8,581	-	12,431	-
Trade payables to unrelated parties	2,141,878	5	5,410,616	11
Trade payables to related parties (Note 28)	131,925	-	179,292	-
Other payables (Notes 18 and 28)	1,541,424	3	2,889,502	6
Current tax liabilities (Notes 4 and 22)	145,818	-	846,332	2
Lease liabilities - current (Notes 4, 14 and 28)	157,851	1	-	-
Current portion of long-term borrowings (Notes 17 and 29)	1,519,285	3	1,799,826	4
Other current liabilities (Note 4)	93,593	-	114,846	-
Total current liabilities	15,622,870	32	17,638,899	36
NON-CURRENT LIABILITIES				
Long-term borrowings (Notes 17 and 29)	7,833,258	16	6,011,746	12
Deferred tax liabilities (Notes 4 and 22)	450,354	1	456,389	1
Lease liabilities - non-current (Notes 4, 14 and 28)	482,527	1	-	-
Net defined benefit liabilities - non-current (Notes 4 and 19)	276,353	1	310,863	1
Other non-current liabilities (Note 28)	12,017	-	36,545	-
Total non-current liabilities	9,054,509	19	6,815,543	14
Total liabilities	24,677,379	51	24,454,442	50
EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION				
Ordinary shares	3,095,789	6	3,005,620	6
Capital surplus	3,236,274	7	3,236,274	6
Retained earnings				
Legal reserve	2,706,052	5	2,166,826	4
Special reserve	-	-	250,940	1
Unappropriated earnings	14,410,303	30	15,145,659	31
Other equity	294,835	1	375,140	1
Total equity attributable to owners of the Corporation	23,743,253	49	24,180,459	49
NON-CONTROLLING INTERESTS	(88,776)	-	257,941	1
Total equity	23,654,477	49	24,438,400	50
TOTAL	\$ 48,331,856	100	\$ 48,892,842	100

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

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
SALES (Notes 4 and 28)	\$ 20,209,798	100	\$ 29,333,129	100
COST OF GOODS SOLD (Notes 10, 21 and 28)	<u>13,434,783</u>	<u>66</u>	<u>17,703,549</u>	<u>60</u>
GROSS PROFIT	<u>6,775,015</u>	<u>34</u>	<u>11,629,580</u>	<u>40</u>
OPERATING EXPENSES (Notes 21 and 28)				
Selling and marketing expenses	1,664,827	8	1,815,214	6
General and administrative expenses	1,608,177	8	2,009,174	7
Research and development expenses	<u>1,101,121</u>	<u>6</u>	<u>1,385,997</u>	<u>5</u>
Total operating expenses	<u>4,374,125</u>	<u>22</u>	<u>5,210,385</u>	<u>18</u>
PROFIT FROM OPERATIONS	<u>2,400,890</u>	<u>12</u>	<u>6,419,195</u>	<u>22</u>
NON-OPERATING INCOME AND EXPENSES				
Subsidy revenue (Note 4)	53,743	-	73,623	-
Finance costs (Notes 4, 21 and 28)	(197,357)	(1)	(146,985)	-
Share of profit of associates accounted for using equity method (Notes 4 and 12)	15,857	-	29,611	-
Interest income (Note 4)	11,147	-	53,757	-
Other income (Note 28)	161,547	1	108,458	-
Other expenses	-	-	-	-
Net foreign exchange gain (loss) (Notes 4 and 31)	(179,342)	(1)	39,496	-
Valuation gain (loss) on financial assets (liabilities) at fair value through profit or loss (Note 4)	15,433	-	(17,757)	-
Impairment loss (Notes 4 and 13)	<u>(35,327)</u>	<u>-</u>	<u>(424,000)</u>	<u>(1)</u>
Total non-operating income and expenses	<u>(154,299)</u>	<u>(1)</u>	<u>(283,797)</u>	<u>(1)</u>
PROFIT BEFORE INCOME TAX	2,246,591	11	6,135,398	21
INCOME TAX EXPENSE (Notes 4 and 22)	<u>568,972</u>	<u>3</u>	<u>1,205,537</u>	<u>4</u>
NET PROFIT FOR THE YEAR	<u>1,677,619</u>	<u>8</u>	<u>4,929,861</u>	<u>17</u>

(Continued)

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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

	2019		2018	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (Note 4)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note19)	\$ 41,679	-	\$ (12,610)	-
Unrealized gain (loss) on investments in equity instruments at fair value through other comprehensive income	64,130	1	519,283	1
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 22)	<u>(7,751)</u>	<u>-</u>	<u>5,403</u>	<u>-</u>
	<u>98,058</u>	<u>1</u>	<u>512,076</u>	<u>1</u>
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(165,766)	(1)	(45,889)	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 22)	<u>33,482</u>	<u>-</u>	<u>17,517</u>	<u>-</u>
	<u>(132,284)</u>	<u>(1)</u>	<u>(28,372)</u>	<u>-</u>
Other comprehensive income (loss) for the year, net of income tax	<u>(34,226)</u>	<u>-</u>	<u>483,704</u>	<u>1</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 1,643,393</u>	<u>8</u>	<u>\$ 5,413,565</u>	<u>18</u>
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 1,865,316	9	\$ 5,392,257	19
Non-controlling interests	<u>(224,439)</u>	<u>(1)</u>	<u>(501,834)</u>	<u>(2)</u>
	<u>\$ 1,640,877</u>	<u>8</u>	<u>\$ 4,890,423</u>	<u>17</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 1,827,643	9	\$ 5,878,542	20
Non-controlling interests	<u>(220,992)</u>	<u>(1)</u>	<u>(504,415)</u>	<u>(2)</u>
	<u>\$ 1,606,651</u>	<u>8</u>	<u>\$ 5,374,127</u>	<u>18</u>
EARNINGS PER SHARE (Note 23)				
Basic	<u>\$ 6.03</u>		<u>\$ 17.90</u>	
Diluted	<u>\$ 6.01</u>		<u>\$ 17.76</u>	

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

(Concluded)

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Dividends Per Share)

	Equity Attributable to Owners of the Corporation (Note 20)						Other Equity		Total	Non-controlling Interests (Notes 11 and 25)	Total Equity
	Ordinary Shares	Capital Surplus		Retained Earnings			Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) Financial Assets at Fair Value through Other Comprehensive			
		Additional Paid-in Capital	Employee Stock Option	Legal Reserve	Special Reserve	Unappropriated Earnings					
BALANCE AT JANUARY 1, 2018	\$ 2,801,573	\$ 308,630	\$ -	\$ 1,893,024	\$ 265,533	\$ 11,275,276	\$ (250,940)	\$ -	\$ 16,293,096	\$ 306,753	\$ 16,599,849
Effect of retrospective application	-	-	-	-	-	33,915	-	139,447	173,362	-	173,362
BALANCE AT JANUARY 1, 2018, AS RESTATED	2,801,573	308,630	-	1,893,024	265,533	11,309,191	(250,940)	139,447	16,466,458	306,753	16,773,211
Appropriation of 2017 earnings											
Legal reserve	-	-	-	273,802	-	(273,802)	-	-	-	-	-
Special reserve	-	-	-	-	(14,593)	14,593	-	-	-	-	-
Cash dividends - NT\$3.5 per share	-	-	-	-	-	(980,551)	-	-	(980,551)	-	(980,551)
Share dividends - NT\$0.3 per share	84,047	-	-	-	-	(84,047)	-	-	-	-	-
	84,047	-	-	273,802	(14,593)	(1,323,807)	-	-	(980,551)	-	(980,551)
Issuance of ordinary shares for cash	120,000	2,922,204	5,440	-	-	-	-	-	3,047,644	-	3,047,644
Difference between consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition	-	-	-	-	-	(231,634)	-	-	(231,634)	231,634	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	223,969	223,969
Disposals of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	8,396	-	(8,396)	-	-	-
Net profit for the year ended December 31, 2018	-	-	-	-	-	5,392,257	-	-	5,392,257	(501,834)	4,890,423
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	-	-	(8,744)	(24,254)	519,283	486,285	(2,581)	483,704
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	-	5,383,513	(24,254)	519,283	5,878,542	(504,415)	5,374,127
BALANCE AT DECEMBER 31, 2018	3,005,620	3,230,834	5,440	2,166,826	250,940	15,145,659	(275,194)	650,334	24,180,459	257,941	24,438,400
Appropriation of 2018 earnings											
Legal reserve	-	-	-	539,226	-	(539,226)	-	-	-	-	-
Special reserve	-	-	-	-	(250,940)	250,940	-	-	-	-	-
Cash dividends - NT\$7.0 per share	-	-	-	-	-	(2,103,934)	-	-	(2,103,934)	-	(2,103,934)
Share dividends - NT\$0.3 per share	90,169	-	-	-	-	(90,169)	-	-	-	-	-
	90,169	-	-	539,226	(250,940)	(2,482,389)	-	-	(2,103,934)	-	(2,103,934)
Difference between consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition	-	-	-	-	-	(160,915)	-	-	(160,915)	160,915	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	(286,640)	(286,640)
Disposals of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	9,995	-	(9,995)	-	-	-
Net profit for the year ended December 31, 2019	-	-	-	-	-	1,865,316	-	-	1,865,316	(224,439)	1,640,877
Other comprehensive income (loss) for the year ended December 31, 2019, net of income tax	-	-	-	-	-	32,637	(134,440)	64,130	(37,673)	3,447	(34,226)
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	-	-	1,897,953	(134,440)	64,130	1,827,643	(220,992)	1,606,651
BALANCE AT DECEMBER 31, 2019	\$ 3,095,789	\$ 3,230,834	\$ 5,440	\$ 2,706,052	\$ -	\$ 14,410,303	\$ (409,634)	\$ 704,469	\$ 23,743,253	\$ (88,776)	\$ 23,654,477

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

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 2,209,849	\$ 6,095,960
Adjustments for :		
Depreciation expenses	2,191,307	1,764,557
Amortization expenses	58,945	52,852
Expected credit loss recognized on trade receivables	12,071	15,749
Net (profit) loss on fair value changes of financial assets and liabilities at fair value through profit or loss	(2,555)	5,493
Finance costs	197,357	146,985
Interest income	(11,147)	(53,757)
Compensation costs of employee share options	-	52,644
Share of profit or loss of associates accounted for using equity method	(15,857)	(29,611)
Loss on disposal of property, plant and equipment	12,077	11,777
Impairment loss recognized on non-financial assets	141,607	542,734
Dividend income	(66,401)	(26,193)
Unrealized foreign currency exchange loss (gain), net	73,816	(37,732)
Other	(307)	116
Changes in operating assets and liabilities		
Financial assets mandatorily classified as at fair value through profit or loss	(5,493)	(2,490)
Notes receivable	618,353	(242,041)
Trade receivables	480,525	(1,394,898)
Inventories	1,388,845	(3,430,873)
Other current assets	202,762	(77,579)
Contract liabilities	(65,432)	67,791
Notes payable	(3,850)	3,616
Trade payables	(3,241,239)	1,253,238
Other payables	(1,461,398)	1,145,181
Other current liabilities	(17,611)	26,526
Net defined benefit liabilities	8,002	(21,604)
Cash generated from operations	<u>2,704,226</u>	<u>5,868,441</u>
Interest received	22,158	55,717
Dividend received	66,401	26,193
Interest paid	(205,955)	(145,969)
Income taxes paid	<u>(1,193,037)</u>	<u>(654,527)</u>
Net cash generated from operating activities	<u>1,393,793</u>	<u>5,149,855</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through other comprehensive income	(36,000)	(32,334)
Proceeds from sale of financial assets at fair value through other comprehensive income	7,896	14,750
Return of capital from financial assets at fair value through other comprehensive income	-	96,533

(Continued)

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	2019	2018
Purchase of financial assets at amortized cost	\$ (2,922)	\$ -
Proceeds from disposal of financial assets at amortized cost	2,700	-
Net cash outflow on acquisition of subsidiaries (Note 24)	-	(218,850)
Payments for property, plant and equipment	(3,265,274)	(3,882,160)
Proceeds from disposal of property, plant and equipment	36,266	21,800
Increase in refundable deposits	(1,766)	(19,016)
Decrease (increase) in other financial assets	(3,300)	10,883
Increase in other non-current assets	(68,488)	(93,696)
Increase in prepayments for machinery and equipment	(1,409,147)	(3,326,344)
Dividend received from associates	<u>6,014</u>	<u>5,123</u>
Net cash used in investing activities	<u>(4,734,021)</u>	<u>(7,423,311)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	3,599,141	1,240,039
Proceeds from long-term borrowings	3,466,921	1,760,924
Repayments of long-term borrowings	(1,893,956)	(2,783,349)
Repayment of the principal portion of lease liabilities	(171,944)	-
Increase (decrease) in other non-current liability	(24,550)	8,576
Dividends paid	(2,103,934)	(980,551)
Proceeds from issuance of ordinary shares	-	2,995,000
Acquisition of additional shares of subsidiary	(302,123)	-
Changes in non-controlling interests	<u>15,483</u>	<u>71,921</u>
Net cash generated from financing activities	<u>2,585,038</u>	<u>2,312,560</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES		
	<u>(23,297)</u>	<u>(4,748)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(778,487)	34,356
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>2,787,232</u>	<u>2,752,876</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 2,008,745</u>	<u>\$ 2,787,232</u>

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

(Concluded)

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

Hiwin Technologies Corporation (the “Corporation”) was incorporated on October 11, 1989. It manufactures and sells ballscrews, linear guideways, industrial robots, aerospace automation equipment parts, computer numerical control (CNC) milling machines and medical equipment.

The Corporation was approved by the Securities and Futures Bureau (SFB), Financial Supervisory Commission (FSC) to become a public corporation on April 16, 1997. The shares of the Corporation have been listed on the Taiwan Stock Exchange (TWSE) since June 26, 2009.

The consolidated financial statements are presented in the Corporation’s functional currency, the New Taiwan dollars.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Corporation’s board of directors on March 25, 2020.

3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

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

Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC did not have material impact on the accounting policies of the Corporation and its subsidiaries (collectively referred to as the “Group”):

IFRS 16 “Leases”

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessee and lessor. It supersedes IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, and a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

Definition of a lease

The Group elects to apply the guidance of IFRS 16 in determining whether contracts are, or contain, a lease only to contracts entered into (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 are not reassessed and are accounted for in accordance with the transitional provisions under IFRS 16.

The Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value asset and short-term leases are recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group presents the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within operating activities. Prior to the application of IFRS 16, payments under operating lease contracts were recognized as expenses on a straight-line basis. Prepaid lease payments for land use rights in China were recognized as prepayments for leases. Cash flows for operating leases were classified within operating activities on the consolidated statements of cash flows.

The Group elects to apply IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized in retained earnings on January 1, 2019. Comparative information is not restated.

Lease liabilities were recognized on January 1, 2019 for leases previously classified as operating leases under IAS 17. Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. The Group applies IAS 36 to all right-of-use assets.

The Group also applies the following practical expedients:

- 1) The Group applies a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- 2) The Group accounts for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 is 1.64%. The difference between the lease liabilities recognized and operating lease commitments disclosed under IAS 17 on December 31, 2018 is explained as follows:

The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018	\$ 594,757
Less: Recognition exemption for short-term leases	(14,508)
Less: Recognition exemption for leases of low-value assets	<u>(2,709)</u>
Undiscounted amounts on January 1, 2019	<u>\$ 577,540</u>
Discounted amounts using the incremental borrowing rate on January 1, 2019	\$ 550,623
Add: Adjustments as a result of a different treatment of extension	<u>200,493</u>
Lease liabilities recognized on January 1, 2019	<u>\$ 751,116</u>

The impact on assets, liabilities and equity as of January 1, 2019 from the initial application of IFRS 16 is set out as follows:

	As Originally Stated on January 1, 2019	Adjustments Arising from Initial Application	Restated on January 1, 2019
Prepayments for leases - current	\$ 3,547	\$ (3,547)	\$ -
Prepayments for leases - non-current	163,314	(163,314)	-
Right-of-use assets	<u>-</u>	<u>917,977</u>	<u>917,977</u>
Total effect on assets	<u>\$ 166,861</u>	<u>\$ 751,116</u>	<u>\$ 917,977</u>
Lease liabilities - current	\$ -	\$ 117,124	\$ 117,124
Lease liabilities - non-current	<u>-</u>	<u>633,992</u>	<u>633,992</u>
Total effect on liabilities	<u>\$ -</u>	<u>\$ 751,116</u>	<u>\$ 751,116</u>
Retained earnings	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total effect on equity	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The Group as lessor

The Group does not make any adjustments for leases in which it is a lessor, and it accounts for those leases with the application of IFRS 16 starting from January 1, 2019.

- b. The IFRSs endorsed by the FSC for application starting from 2020

<u>New IFRSs</u>	<u>Effective Date Announced by IASB</u>
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 1)
Amendments to IFRS 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform”	January 1, 2020 (Note 2)
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 3)

Note 1: The Group shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 2: The Group shall apply these amendments retrospectively for annual reporting periods beginning on or after January 1, 2020.

Note 3: The Group shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

As of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of above standards and interpretations will have on the Group’s financial position and financial performance and will disclose the relevant impact when the assessment is completed.

- c. New IFRSs in issue by IASB but not yet endorsed and issued into effect by the FSC

New IFRSs	Effective Date Announced by IASB (Note)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2022

Note: Unless stated otherwise, the above New IFRSs are effective for annual reporting periods beginning on or after their respective effective dates.

As of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of above standards and interpretations will have on the Group’s financial position and financial performance and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed and issued into effect by the FSC.

- b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, are described as follows:

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- 3) Level 3 inputs are unobservable inputs for an asset or liability.

- c. Classification of current and non-current assets and liabilities

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within twelve months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within 12 months after the reporting period; and
- 3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

Assets and liabilities that are not classified as current are classified as non-current.

d. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Corporation and the entities controlled by the Corporation (i.e., its subsidiaries).

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective dates of acquisitions up to the effective dates of disposals, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Corporation.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Corporation and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the interests of the Group and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Corporation.

See Note 11, Tables 8 and 9 for detailed information on subsidiaries (including the percentages of ownership and main businesses).

e. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as they are incurred.

Goodwill is measured as the excess of the sum of the consideration transferred and the fair value of the acquirer's previously held equity interests in the acquire over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

f. Foreign currencies

In preparing the financial statements of the entities in the Group, transactions in currencies other than the entity's functional currency (i.e. foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of transaction.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including the subsidiaries or associates in other countries that use currencies which are different from the Corporation) are translated into the New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income and attributed to the owners of the Corporation and non-controlling interests as appropriate.

g. Inventories

Inventories consist of raw materials, supplies, work-in-process, finished goods and merchandise and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. The net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at weighted-average cost on the balance sheet date.

h. Investment in associates

An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor an interest in a joint venture.

The Group uses the equity method to account for its investments in associates.

Under the equity method, investments in an associate is initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. The Group also recognizes the changes in the Group's share of equity of associates.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of an associate at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Group subscribes for additional new shares of an associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in capital surplus from investments in associates accounted for using the equity method. If the Group's ownership interest is reduced due to its additional subscription of the new shares of associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required had the investee directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for using the equity method is insufficient, the shortage is debited to retained earnings.

When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

The entire carrying amount of an investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Impairment loss is deducted from the carrying amount. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate. Any retained investment is measured at fair value at that date, and the fair value is regarded as the investment's fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required had that associate directly disposed of the related assets or liabilities.

When an entity in the Group transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

i. Property, plant, and equipment

Property, plant and equipment are measured at cost, less accumulated depreciation recognized and accumulated impairment loss recognized. Before January 1, 2019, property, plant and equipment also included assets held under finance leases.

Property, plant and equipment in the course of construction are measured at cost less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for their intended use.

Except for freehold land which is not depreciated, the depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. For assets which were held under finance leases before January 1, 2019, if their respective lease terms are shorter than their useful lives, such assets are depreciated over their lease terms. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in the estimates accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

j. Goodwill

Goodwill arising from the acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment loss.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units or groups of cash-generating units (referred to as "cash-generating units") that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributed goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then pro rata to the other assets of the unit

based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. Any impairment loss recognized on goodwill is not reversed in subsequent periods.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation which is disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal, and is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

k. Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization. Amortization is recognized on a straight-line basis. The estimated useful lives, residual values, and amortization methods are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

2) Internally-generated intangible assets - research and development expenditures

Expenditures on research activities are recognized as expenses in the period in which they are incurred.

An internally-generated intangible asset arising from the development phase of an internal project is recognized if, and only if, all of the following have been demonstrated:

- a) The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- b) The intention to complete the intangible asset and use or sell it;
- c) The ability to use or sell the intangible asset;
- d) How the intangible asset will generate probable future economic benefits;
- e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- f) The ability to measure reliably the expenditures attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditures incurred from the date when such an intangible asset first meets the recognition criteria listed above. Subsequent to initial recognition, such intangible assets are measured on the same basis as intangible assets that are acquired separately.

3) Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

l. Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets (excluding goodwill) to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation.

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

When an impairment loss is subsequently reversed, the carrying amount of the corresponding asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount (less amortization and depreciation) that would have been determined had no impairment loss been recognized on the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

m. Financial instruments

Financial assets and financial liabilities are recognized when an entity in the Group becomes a party to the contractual provisions of the instruments.

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

1) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a settlement date basis.

a) Measurement categories

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost and equity instruments at FVTOCI.

i. Financial asset at FVTPL

Financial asset is classified as at FVTPL when such financial asset is mandatorily classified as at FVTPL. Financial assets mandatorily classified as at FVTPL do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 27.

ii. Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

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

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, notes receivable, trade receivables, and refundable deposits at amortized cost, are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of such financial asset, except for:

- i) Purchased or originated credit-impaired financial asset, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such financial asset; and
- ii) Financial assets that are not credit impaired on purchase or origination but have subsequently become credit impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets in subsequent reporting periods.

A financial asset is credit impaired when one or more of the following events have occurred:

- i) Significant financial difficulty of the issuer or the borrower;
- ii) Breach of contract, such as a default;
- iii) It is becoming probable that the borrower will enter bankruptcy or undergo a financial reorganization; or
- iv) The disappearance of an active market for that financial asset because of financial difficulties.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

iii. Investments in equity instruments at FVTOCI

On initial recognition, the Group may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, it will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

b) Impairment of financial assets

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables).

The Group always recognizes lifetime expected credit loss (i.e. ECL) for trade receivables. For all other financial instruments, the Group recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Expected credit losses reflect the weighted average of credit losses with the respective risks of default occurring as the weights. Lifetime ECL represents the expected credit loss that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

For internal credit risk management purposes, the Group determines that the following situations indicate that a financial asset is in default (without taking into account any collateral held by the Group):

- i. Internal or external information shows that the debtor is unlikely to pay its creditors.
- ii. When a financial asset is more than 90 days past due unless the Group has reasonable and corroborative information to support a more lagged default criterion.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

c) Derecognition of financial assets

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

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

2) Financial liabilities

a) Subsequent measurement

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

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when such financial liabilities are held for trading.

Financial liabilities held for trading are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss. The fair value is determined in the manner described in Note 27.

b) Derecognition of financial liabilities

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

3) Derivative financial instruments

The Group enters into foreign exchange forward to manage its exposure to foreign exchange rate risks.

Derivatives are initially recognized at fair value at the date on which the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately. When the fair value of derivative financial instrument is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instrument is negative, the derivative is recognized as a financial liability.

n. Provision

Provisions are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Provisions for the expected cost of warranty obligations to assure that products comply with agree-upon specifications are recognized on the date of sale of the relevant products at the best estimate of the expenditure required to settle the Group's obligation.

o. Revenue recognition

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

For contract where the period between the date on which the Group transfers a promised good or service to a customer and the date on which the customer pays for that good or service is one year or less, the Group does not adjust the promised amount of consideration for the effects of a significant financing component.

Sales of goods are recognized as revenue when the goods are delivered to the customer's specific location/the goods are shipped/the goods are picked up because it is the time when the customer acquisition of control. Trade receivable is recognized concurrently. The transaction price received is recognized as a contract liability until the customer acquisition control of the good.

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

p. Leases

2019

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease.

1) The Group as lessor

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Lease payments (less any lease incentives payable) from operating leases are recognized as income on a straight-line basis over the terms of the relevant leases. Initial direct costs incurred in obtaining operating leases are added to the carrying amounts of the underlying assets and recognized as expenses on a straight-line basis over the lease terms.

2) The Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the consolidated balance sheets.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term, the Group remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the consolidated balance sheets.

2018

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

1) The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

2) The Group as lessee

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheets as a finance lease obligation.

Finance expenses implicit in lease payments for each period are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets; in which case, they are capitalized.

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

q. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Other than that which is stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

r. Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

s. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related services.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as expenses when employees have rendered service entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost and net interest on the net defined benefit liabilities are recognized as employee benefits expense in the period in which they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liabilities represent the actual deficit in the Group's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

t. Share-based payment arrangements

The fair value at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Group's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options; it is recognized as an expense in full at the grant date if vested immediately. The grant date of issued ordinary shares for cash which are reserved for employees is the date on which the number of shares that the employees purchase is confirmed.

At the end of each reporting period, the Group revises its estimate of the number of employee share options expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expenses reflect the revised estimate, with a corresponding adjustment to capital surplus - employee share options.

u. Taxation

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

1) Current tax

According to the Income Tax Law, an additional tax on unappropriated earnings is provided for as income tax in the year the shareholders approve to retain earnings.

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

2) Deferred tax

Deferred tax is calculated on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

3) Current and deferred taxes for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

Key Sources of Estimation Uncertainty

a. Estimated impairment of financial assets

The provision for impairment of trade receivables and investments in debt instruments is based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and in selecting the inputs to the impairment calculation, based on the Group's historical experience, existing market conditions as well as forward looking estimates as of the end of each reporting period. For details of the key assumptions and inputs used, see Note 9. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

b. Write-down of inventories

The net realizable value of inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and disposal. The estimation of net realizable value is based on current market conditions and historical experience with product sales of a similar nature. Changes in market conditions may have a material impact on the estimation of the net realizable value.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2019	2018
Cash on hand	\$ 2,262	\$ 2,091
Checking accounts and demand deposits	1,654,407	2,512,010
Pledged time deposits	5,300	2,000
Cash equivalents		
Time deposits (investments with original maturities of less than 3 months)	<u>352,076</u>	<u>273,131</u>
	2,014,045	2,789,232
Less: Pledged time deposits (classified as other current assets)	<u>(5,300)</u>	<u>(2,000)</u>
	<u>\$ 2,008,745</u>	<u>\$ 2,787,232</u>
 <u>Rate of interest per annum (%)</u>		
Cash in bank	0.00-0.40	0.00-0.48
Time deposits (investments with original maturities of less than 3 months)	0.05-2.60	0.05-1.76
Pledged time deposits	0.81-1.07	1.07

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

The financial assets and liabilities at fair value through profit or loss (FVTPL) were derivative financial instruments of foreign exchange forward contracts. They have been classified as mandatorily measured at FVTPL. At the end of the reporting period, outstanding foreign exchange forward contracts not under hedge accounting were as follows:

	Currency	Maturity Date	Notional Amount (In Thousands)
<u>December 31, 2019</u>			
Sell	EUR/NTD	2020.1.30-2020.3.16	EUR2,700/NTD91,280
Sell	CNY/NTD	2020.1.13-2020.3.17	CNY114,000/NTD490,284
 <u>December 31, 2018</u>			
Sell	EUR/NTD	2019.2.1-2019.3.22	EUR2,100/NTD73,964
Sell	CNY/NTD	2019.1.28-2019.4.16	CNY165,000/NTD728,028

The Group entered into foreign exchange forward contracts to manage exposures due to exchange rate fluctuations of foreign currency denominated assets and liabilities.

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME NON - CURRENT

	<u>December 31</u>	
	2019	2018
Investments in equity instruments at FVTOCI		
<u>Domestic listed ordinary shares</u>		
Hiwin Mikrosystem Corp. (Hiwin Mikrosystem)	\$ 787,509	\$ 719,894
<u>Domestic unlisted ordinary shares</u>		
Ever Fortune. AI CO., Ltd. (Ever Fortune.)	28,010	-
Taichung International Country Club	2,500	2,620
Sunengine Corporation Ltd. (Sunengine)	-	-
King Kong Iron Work Ltd.	-	-
<u>Overseas unlisted ordinary shares</u>		
Kaland Holdings Corp. (Kaland)	205,055	208,326
Hiwin (Schweiz) GmbH	<u>3,320</u>	<u>3,320</u>
	<u>\$ 1,026,394</u>	<u>\$ 934,160</u>

The Investment Commission of Ministry of Economic Affairs (MOEA) approved the Corporation's investment in Suzhou YIFU Finance Leasing Co., Ltd. (YIFU Finance). The investment in the amount of USD8,168 thousand was made through investments in Kaland and Cheer Tone Group Limited in British Virgin Islands (BVI). YIFU Finance mainly engages in finance leasing services.

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes.

In April 2019, the Group acquired ordinary shares of Ever Fortune. in the amount of \$36,000 thousand for medium to long-term strategic purposes; the management designated these investment as at FVTOCI.

In September 2019 and October 2018, the Group sold its shares in Hiwin Mikrosystem with a fair value of \$7,896 thousand and \$14,750 thousand and the Group transferred the unrealized gain of \$9,995 thousand and \$8,396 thousand from other equity to retained earnings, respectively.

9. NOTES RECEIVABLE AND TRADE RECEIVABLES

	<u>December 31</u>	
	2019	2018
<u>Notes receivable from unrelated parties</u>		
At amortized cost		
Gross carrying amount	\$ 405,233	\$ 1,034,168
Less: Allowance for impairment loss	<u>(597)</u>	<u>(2,022)</u>
	<u>\$ 404,636</u>	<u>\$ 1,032,146</u>

	<u>December 31</u>	
	2019	2018
<u>Trade receivables from unrelated parties</u>		
At amortized cost		
Gross carrying amount	\$ 4,432,320	\$ 5,040,320
Less: Allowance for impairment loss	<u>(27,507)</u>	<u>(18,285)</u>
	<u>\$ 4,404,813</u>	<u>\$ 5,022,035</u>

a. Notes receivable

The aging of notes receivable for the Group was as follows:

	<u>December 31</u>	
	2019	2018
Not past due	\$ 405,233	\$ 1,034,168
Past due	<u>-</u>	<u>-</u>
	<u>\$ 405,233</u>	<u>\$ 1,034,168</u>

The above aging schedule was based on the past due days.

b. Trade receivables

The Group determines the credit period of sales of goods based on the counterparty's credit rating, location and transaction terms.

In order to minimize credit risk, the management of the Group has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowance is made for possible irrecoverable amounts. In this regard, the management believes the Group's credit risk was significantly reduced.

The Group applies the approach to providing for expected credit losses, which permits the use of lifetime expected loss provision for all trade receivables. The expected credit losses on trade receivables are estimated by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of economic conditions at the reporting date. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished according to the Group's different customer base.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. For trade receivables that have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of trade receivables.

	Not Past Due	1 to 120 Days	121 to 360 Days	Over 360 Days	Total
<u>December 31, 2019</u>					
Expected credit loss rate	0.001%-0.1%	0.01%-40%	2%-100%	10%-100%	
Gross carrying amount	\$ 2,769,020	\$ 1,537,171	\$ 118,296	\$ 7,833	\$ 4,432,320
Loss allowance (Lifetime ECL)	<u>(9,687)</u>	<u>(8,906)</u>	<u>(4,494)</u>	<u>(4,420)</u>	<u>(27,507)</u>
Amortized cost	<u>\$ 2,759,333</u>	<u>\$ 1,528,265</u>	<u>\$ 113,802</u>	<u>\$ 3,413</u>	<u>\$ 4,404,813</u>
<u>December 31, 2018</u>					
Expected credit loss rate	0.001%-0.1%	0.01%-40%	2%-100%	10%-100%	
Gross carrying amount	\$ 4,469,106	\$ 541,941	\$ 15,727	\$ 13,546	\$ 5,040,320
Loss allowance (Lifetime ECL)	<u>(3,986)</u>	<u>(3,387)</u>	<u>(3,268)</u>	<u>(7,644)</u>	<u>(18,285)</u>
Amortized cost	<u>\$ 4,465,120</u>	<u>\$ 538,554</u>	<u>\$ 12,459</u>	<u>\$ 5,902</u>	<u>\$ 5,022,035</u>

The movements of the loss allowance were as follows (other receivables are classified as other non-current assets):

	For the Year Ended December 31, 2019		
	Notes Receivable	Trade Receivables	Other Receivables
Balance at January 1, 2019	\$ 2,022	\$ 18,285	\$ 13,697
Net remeasurement of loss allowance	(1,425)	13,496	-
Amounts written off	-	(3,409)	-
Foreign exchange gains and losses	<u>-</u>	<u>(865)</u>	<u>-</u>
Balance at December 31, 2019	<u>\$ 597</u>	<u>\$ 27,507</u>	<u>\$ 13,697</u>
	For the Year Ended December 31, 2018		
	Notes Receivable	Trade Receivables	Other Receivables
Balance at January 1, 2018	\$ 6,749	\$ 18,622	\$ 13,697
Net remeasurement of loss allowance	(4,723)	20,472	-
Amounts written off	-	(21,628)	-
Foreign exchange gains and losses	<u>(4)</u>	<u>819</u>	<u>-</u>
Balance at December 31, 2018	<u>\$ 2,022</u>	<u>\$ 18,285</u>	<u>\$ 13,697</u>

10. INVENTORIES

	December 31	
	2019	2018
Merchandise	\$ 3,432	\$ 3,427
Finished goods	2,275,276	2,844,562
Work in process	1,546,353	2,084,429
Raw materials and supplies	3,459,706	3,614,625
Inventory in transit	<u>268,177</u>	<u>386,688</u>
	<u>\$ 7,552,944</u>	<u>\$ 8,933,731</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2019 and 2018 was \$13,434,783 thousand and \$17,703,549 thousand, respectively.

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2019 and 2018 included inventory write-downs of \$106,280 thousand and \$118,734 thousand, and unallocated fixed overhead of \$353,611 thousand and \$244,814 thousand, respectively.

11. SUBSIDIARIES

a. Subsidiaries included in the consolidated financial statements

Investor	Investee	Main Business	% of Ownership	
			2019	2018
The Corporation	Hiwin Corporation, U.S.A. ("Hiwin USA")	Manufacture and sale of aerospace parts, ballscrews, linear guideways and industrial robots	100	100
	Hiwin Corporation, Japan ("Hiwin Japan")	Manufacture and sale of aerospace parts, ballscrews, linear guideways and industrial robots	100	100
	Hiwin GmbH ("Hiwin Germany")	Manufacture and sale of aerospace parts, ballscrews, linear guideways and industrial robots	100	100
	Eterbright Solar Corporation ("Eterbright")	Research, development, design, manufacture and sale of solar cell, electronic components, electric power supply, electric transmission and power distribution machinery products	74	74
	Hiwin Singapore Pte. Ltd. ("Hiwin Singapore")	Manufacture and sale of aerospace parts, ballscrews, linear guideways and industrial robots	100	100
	Hiwin Corporation Co., Ltd. ("Hiwin Korea")	Manufacture and sale of aerospace parts, ballscrews, linear guideways and industrial robots	100	100
	Hiwin Technologies (China) Corporation ("Hiwin China")	Manufacture and sale of aerospace parts, ballscrews, linear guideways and industrial robots	100	100
	Matrix Precision Co., Ltd. (formerly, Luren Precision Co., Ltd.) ("Matrix Precision")	Research, development, production, manufacture and sale of gear cutting tools and machinery	71	58
	Hiwin Healthcare Corp.	Sale of medical robots	100	100
	Hiwin S.R.L. ("Hiwin Italy")	Sale of aerospace parts, ballscrews, linear guideways and industrial robots	100	100

(Continued)

Investor	Investee	Main Business	% of Ownership	
			December 31 2019	December 31 2018
The Corporation	Matrix Machine Tool (Coventry) Limited (Matrix)	Design, integrated application, research, development, manufacture and sale of thread forming machinery	100	52
Matrix Precision	Luren Precision Machinery (Shanghai) Co., Ltd. ("Luren Shanghai")	Sale of gear cutting tools and machinery	100	100
	Luren Precision Chicago Co., Ltd. ("Luren USA")	Sale of gear cutting tools and machinery	-	100
	Suzhou Matrix Precision Machinery Co., Ltd. ("Suzhou Matrix")	Sale of gear cutting tools and machinery	100	-

(Concluded)

Luren USA is not a major subsidiary; its financial statements have not been audited. The management believes that an audit of the financial statements of Luren USA would not result in significant impact on the Group's consolidated financial statements. Luren USA has been liquidated in June 2019.

The Corporation proceeds 6% of Hiwin Italy's shares which were owned by Hiwin Germany with the amount of \$228,540 thousand by return of capital from Hiwin Germany in 2018.

The Corporation acquired 48% shares of Matrix with the amount of \$220,864 thousand in July 2019, increasing its ownership from 52% to 100%.

Matrix Precision invested CNY2,000 thousand in July 2019 to set up a 100% owned company, Suzhou Matrix.

b. Details of subsidiaries that have material non-controlling interests

Name of Subsidiary	Proportion of Ownership and Voting Rights Held by Non-controlling Interests	
	December 31 2019	December 31 2018
Eterbright	26%	26%
Matrix Precision	29%	42%
Matrix	-	48%

See Tables 8 and 9 for the information on place of incorporation and principal place of business.

Name of Subsidiary	Loss and Comprehensive Loss Allocated to Non-controlling Interests For the Year Ended December 31		Accumulated Non-controlling Interests December 31	
	2019	2018	2019	2018
Eterbright	\$ (143,835)	\$ (378,881)	\$ (81,983)	\$ 61,852
Matrix Precision	(66,874)	(107,130)	(6,793)	62,444
Matrix	(10,283)	(18,404)	-	133,645
	<u>\$ (220,992)</u>	<u>\$ (504,415)</u>	<u>\$ (88,776)</u>	<u>\$ 257,941</u>

Summarized financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarized financial information below represents amounts before intragroup eliminations.

Eterbright

	December 31	
	2019	2018
Current assets	\$ 259,983	\$ 329,932
Non-current assets	1,202,962	1,192,712
Current liabilities	(1,626,893)	(1,195,102)
Non-current liabilities	<u>(153,445)</u>	<u>(88,083)</u>
Equity	<u>\$ (317,393)</u>	<u>\$ 239,459</u>
Equity attributable to:		
Owners of Eterbright	\$ (235,410)	\$ 177,607
Non-controlling interests of Eterbright	<u>(81,983)</u>	<u>61,852</u>
	<u>\$ (317,393)</u>	<u>\$ 239,459</u>
	For the Year Ended December 31	
	2019	2018
Revenue	<u>\$ 183,483</u>	<u>\$ 282,010</u>
Net loss for the year	\$ (556,852)	\$ (1,070,898)
Other comprehensive income (loss) for the year	<u>-</u>	<u>-</u>
Total comprehensive loss for the year	<u>\$ (556,852)</u>	<u>\$ (1,070,898)</u>
Loss and total comprehensive loss attributable to:		
Owners of Eterbright	\$ (413,017)	\$ (692,017)
Non-controlling interests of Eterbright	<u>(143,835)</u>	<u>(378,881)</u>
	<u>\$ (556,852)</u>	<u>\$ (1,070,898)</u>
Net cash inflow (outflow) from:		
Operating activities	\$ (371,941)	\$ (503,544)
Investing activities	(48,075)	(94,065)
Financing activities	<u>388,643</u>	<u>558,409</u>
Net cash outflow	<u>\$ (31,373)</u>	<u>\$ (39,200)</u>

Matrix Precision and Matrix Precision's subsidiaries

	December 31	
	2019	2018
Current assets	\$ 610,890	\$ 718,689
Non-current assets	1,391,702	593,238
Current liabilities	(1,060,204)	(810,474)
Non-current liabilities	<u>(996,268)</u>	<u>(345,078)</u>
Equity	<u>\$ (53,880)</u>	<u>\$ 156,375</u>
Equity attributable to:		
Owners of Matrix Precision	\$ (49,332)	\$ 90,400
Non-controlling interests of Matrix Precision	<u>(4,548)</u>	<u>65,975</u>
	<u>\$ (53,880)</u>	<u>\$ 156,375</u>
	For the Year Ended December 31	
	2019	2018
Revenue	<u>\$ 277,173</u>	<u>\$ 550,151</u>
Net loss for the year	\$ (229,449)	\$ (230,617)
Other comprehensive income (loss) for the year	<u>3,709</u>	<u>4,417</u>
Total comprehensive loss for the year	<u>\$ (225,740)</u>	<u>\$ (226,200)</u>
Loss attributable to:		
Owners of Matrix Precision	\$ (160,247)	\$ (121,448)
Non-controlling interests of Matrix Precision	<u>(69,202)</u>	<u>(109,169)</u>
	<u>\$ (229,449)</u>	<u>\$ (230,617)</u>
Total comprehensive loss attributable to:		
Owners of Matrix Precision	\$ (157,579)	\$ (118,927)
Non-controlling interests of Matrix Precision	<u>(68,161)</u>	<u>(107,273)</u>
	<u>\$ (225,740)</u>	<u>\$ (226,200)</u>
Net cash inflow (outflow) from:		
Operating activities	\$ (228,017)	\$ (106,063)
Investing activities	(783,007)	(93,538)
Financing activities	<u>1,032,637</u>	<u>208,038</u>
Net cash inflow	<u>\$ 21,613</u>	<u>\$ 8,437</u>

Matrix

		December 31, 2018
Current assets		\$ 317,668
Non-current assets		178,297
Current liabilities		(65,779)
Non-current liabilities		<u>(124,014)</u>
Equity		<u>\$ 306,172</u>
Equity attributable to:		
Owners of Matrix		\$ 158,409
Non-controlling interests of Matrix		<u>147,763</u>
		<u>\$ 306,172</u>
	For the Six Months Ended June 30, 2019	For the Six Months Ended December 31, 2018
Revenue	<u>\$ 85,486</u>	<u>\$ 70,461</u>
Net income (loss) for the period	\$ (11,884)	\$ 396
Other comprehensive income (loss) for the period	<u>4,221</u>	<u>(8,504)</u>
Total comprehensive loss for the period	<u>\$ (7,663)</u>	<u>\$ (8,108)</u>
Income (loss) attributable to:		
Owners of Matrix	\$ (6,134)	\$ 204
Non-controlling interests of Matrix	<u>(5,750)</u>	<u>192</u>
	<u>\$ (11,884)</u>	<u>\$ 396</u>
Total comprehensive loss attributable to:		
Owners of Matrix	\$ (4,319)	\$ (3,822)
Non-controlling interests of Matrix	<u>(3,344)</u>	<u>(4,286)</u>
	<u>\$ (7,663)</u>	<u>\$ (8,108)</u>
Net cash inflow (outflow) from:		
Operating activities	\$ (34,764)	\$ 120,693
Investing activities	(16,553)	(105,257)
Financing activities	<u>(2,164)</u>	<u>108,484</u>
Net cash inflow (outflow)	<u>\$ (53,481)</u>	<u>\$ 123,920</u>

12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2019	2018
Associates that are not individually materials	\$ 192,144	\$ 179,532
	For the Year Ended	
	December 31	
	2019	2018
The Group's share of:		
Profit for the year	\$ 15,857	\$ 29,611
Other comprehensive income (loss) for the year	-	-
Total comprehensive income for the year	<u>\$ 15,857</u>	<u>\$ 29,611</u>

Except for Hiwin S.R.O., investments accounted for by the equity method and the share of profit or loss and other comprehensive income of those investments were calculated based on the financial statements that have been audited. Management believes there is no material impact on the equity method accounting or the calculation of the share of profit or loss and other comprehensive income, from the financial statements of Hiwin S.R.O. that have not been audited.

13. PROPERTY, PLANT AND EQUIPMENT

	For the Year Ended December 31, 2019							
	Beginning Balance	Adjustments on Initial Application of IFRS 16	Beginning Balance (Restated)	Additions	Disposals	Reclassified Amount	Translation Adjustments	Ending Balance
Cost								
Land	\$ 3,990,126	\$ -	\$ 3,990,126	\$ 1,606,821	\$ -	\$ 23,112	\$ (21,746)	\$ 5,598,313
Buildings and improvements	9,997,986	-	9,997,986	119,424	(48,513)	3,726,087	(79,285)	13,715,699
Machinery and equipment	14,678,814	-	14,678,814	600,913	(1,076,199)	1,809,166	(27,514)	15,985,180
Transportation equipment	194,485	-	194,485	36,735	(12,760)	(9,220)	(6,088)	203,152
Leased assets	6,802	(6,802)	-	-	-	-	-	-
Leasehold improvements	110,441	-	110,441	4,465	-	4,795	(1,408)	118,293
Miscellaneous equipment	2,345,440	-	2,345,440	224,216	(50,646)	287,524	(11,137)	2,795,397
Construction in progress	3,610,609	-	3,610,609	800,301	-	(3,726,087)	(13,184)	671,639
Prepayments for land	23,112	-	23,112	-	-	(23,112)	-	-
	<u>34,957,815</u>	<u>(6,802)</u>	<u>34,951,013</u>	<u>3,392,875</u>	<u>(1,188,118)</u>	<u>2,092,265</u>	<u>(160,362)</u>	<u>39,087,673</u>
Accumulated depreciation and impairment								
Buildings and improvements	1,525,719	\$ -	\$ 1,525,719	\$ 330,427	\$ (17,407)	\$ -	\$ (12,343)	1,826,396
Machinery and equipment	6,598,831	-	6,598,831	1,638,993	(1,061,134)	2,682	(10,489)	7,168,883
Transportation equipment	96,771	-	96,771	32,586	(12,511)	(8,517)	(3,455)	104,874
Leased assets	6,149	(6,149)	-	-	-	-	-	-
Leasehold improvements	93,780	-	93,780	6,830	-	3,753	(883)	103,480
Miscellaneous equipment	1,409,670	-	1,409,670	245,069	(48,723)	5,835	(7,239)	1,604,612
	<u>9,730,920</u>	<u>(6,149)</u>	<u>9,724,771</u>	<u>2,253,905</u>	<u>(1,139,775)</u>	<u>3,753</u>	<u>(34,409)</u>	<u>10,808,245</u>
	<u>\$ 25,226,895</u>							<u>\$ 28,279,428</u>

	For the Year Ended December 31, 2018						
	Beginning Balance	Acquisitions through Business Combinations	Additions	Disposals	Reclassified Amount	Translation Adjustments	Ending Balance
Cost							
Land	\$ 3,920,528	\$ 64,336	\$ 4,371	\$ -	\$ -	\$ 891	\$ 3,990,126
Buildings and improvements	7,537,359	113,165	146,450	(1,174)	2,223,696	(21,510)	9,997,986
Machinery and equipment	12,164,422	28,251	1,061,323	(628,851)	2,056,255	(2,586)	14,678,814
Transportation equipment	162,989	-	45,002	(9,369)	(3,082)	(1,055)	194,485
Leased assets	2,203	4,607	-	-	-	(8)	6,802
Leasehold improvements	105,614	-	7,782	(3,635)	-	680	110,441
Miscellaneous equipment	1,930,596	10,744	268,252	(59,834)	195,240	442	2,345,440
Construction in progress	3,525,700	-	2,323,421	-	(2,236,387)	(2,125)	3,610,609
Prepayments for land	-	-	23,112	-	-	-	23,112
	<u>29,349,411</u>	<u>221,103</u>	<u>3,879,713</u>	<u>(702,863)</u>	<u>2,235,722</u>	<u>(25,271)</u>	<u>34,957,815</u>

(Continued)

For the Year Ended December 31, 2018

	Beginning Balance	Acquisitions through Business Combinations	Additions	Disposals	Reclassified Amount	Translation Adjustments	Ending Balance
<u>Accumulated depreciation and impairment</u>							
Buildings and improvements	\$ 1,290,229	\$ -	\$ 237,970	\$ (1,174)	\$ -	\$ (1,306)	\$ 1,525,719
Machinery and equipment	5,553,545	26,850	1,626,238	(607,387)	-	(415)	6,598,831
Transportation equipment	79,561	-	26,763	(7,312)	(1,753)	(488)	96,771
Leased assets	2,203	3,668	266	-	-	12	6,149
Leasehold improvements	53,266	-	42,133	(2,331)	-	712	93,780
Miscellaneous equipment	<u>1,066,776</u>	<u>8,980</u>	<u>382,540</u>	<u>(51,082)</u>	<u>1,753</u>	<u>703</u>	<u>1,409,670</u>
	<u>8,045,580</u>	<u>\$ 39,498</u>	<u>\$ 2,315,910</u>	<u>\$ 669,286</u>	<u>\$ -</u>	<u>\$ (782)</u>	<u>9,730,920</u>
	<u>\$21,303,831</u>						<u>\$25,226,895</u> (Concluded)

Part of the plant layout of Hiwin Italy did not meet the production needs and its expected future economic benefits have declined. As the result, Hiwin Italy recognized an impairment loss of \$35,327 thousand, for the year ended December 31, 2019.

As a result of the declining selling price of the products of Eterbright due to strong competition, the estimated future cash flows expected from the related equipment decreased. Eterbright carried out a review of the recoverable amount of that related equipment and determined that the carrying amount exceeded the recoverable amount. The review led to the recognition of an impairment loss of \$424,000 thousand, in the year ended December 31, 2018. Eterbright determined the recoverable amount of the relevant assets on the basis of their value in use. The discount rate used in measuring the value in use was 6.96% per annum.

The above impairment loss was recognized under impairment loss in the consolidated statements of comprehensive income.

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful life of the asset:

Buildings and improvements	
Main buildings	20-55 years
Electrical power equipment	35 years
Engineering system	8-55 years
Machinery and equipment	
Machinery equipment	3-20 years
Inspection equipment	3-10 years
Transportation equipment	2-10 years
Leased assets	5 years
Leasehold improvements	2-15 years
Miscellaneous equipment	2-15 years

Property, plant and equipment pledged as collateral for bank borrowings were set out in Note 29.

14. LEASE ARRANGEMENTS

a. Right-of-use assets - 2019

	December 31, 2019
<u>Carrying amounts</u>	
Land	\$ 345,596
Buildings	423,772
Transportation equipment	21,829
Miscellaneous equipment	<u>1,293</u>
	<u>\$ 792,490</u>
	For the Year Ended December 31, 2019
Additions to right-of-use assets	<u>\$ 155,846</u>
Depreciation charge for right-of-use assets	
Land	\$ 20,453
Buildings	151,709
Transportation equipment	8,233
Miscellaneous equipment	<u>658</u>
	<u>\$ 181,053</u>

b. Lease liabilities - 2019

	December 31, 2019
<u>Carrying amounts</u>	
Current	<u>\$ 157,851</u>
Non-current	<u>\$ 482,527</u>

Range of discount rate for lease liabilities was as follows:

	December 31, 2019
Land	1.45%-1.50%
Buildings	1.45%-4.10%
Transportation equipment	1.48%-4.10%
Miscellaneous equipment	1.48%-4.10%

c. Material lease-in activities and terms

The Group leases certain transportation and miscellaneous equipment for the use of product manufacturing and marketing with lease terms of 1 to 7 years. These arrangements do not contain renewal or purchase options.

The Group also leases land and buildings for the use of plants and offices with lease terms of 1 to 50 years. The lease contract for land located in our country specifies that lease payments will be adjusted on the basis of changes in the consumer price index or announced land value prices. The Group does not have bargain purchase options to acquire the leasehold land and buildings at the end of the lease terms.

d. Other lease information

2019

	For the Year Ended December 31, 2019
Expenses relating to short-term leases	\$ <u>18,640</u>
Expenses relating to low-value asset leases	\$ <u>2,767</u>
Total cash outflow for leases	\$ <u>(204,775)</u>

The Group leases certain equipment which qualifies as short-term leases and certain equipment which qualifies as low-value asset leases. The Group has elected to apply the recognition exemption and thus, did not recognize right-of-use assets and lease liabilities for these leases.

2018

The Group's future minimum lease payments on land, factory building, inventory warehouse and employee dormitory based on operating lease agreements are as follows:

	Amount
<u>December 31, 2018</u>	
2019	\$ 131,736
2020	89,531
2021	73,520
2022	37,133
2023	<u>31,822</u>
	<u>\$ 363,742</u>

15. PREPAYMENTS FOR MACHINERY AND EQUIPMENT

The aging of prepayments for machinery and equipment was as follows:

The Date of Initial Cost Contribution	December 31	
	2019	2018
Within 1 year	\$ 699,983	\$ 1,803,689
1-2 years	1,111,265	872,359
2-5 years	474,946	273,966
More than 5 years	<u>6,918</u>	<u>14,997</u>
	<u>\$ 2,293,112</u>	<u>\$ 2,965,011</u>

In order to master key manufacturing technology, reduce product costs and improve the automation of equipment, the Group designs, develops, and assembles equipment by itself. The above-mentioned prepayments for machinery and equipment include both internally-developed and outsourced equipment.

16. PREPAYMENTS FOR LEASE

	December 31, 2018
Current (classified as other current asset)	\$ 3,547
Non-current	<u>163,314</u>
	<u>\$ 166,861</u>

The prepayment for lease is land use right of Hiwin China. Within the land use right usage period, the holder of right has the right of usufruct, ownership transfer and sublease and is responsible for paying taxes and dues levied on the holding and use of the land use right. The leased land is utilized to build manufacturing facilities, research and development center and office buildings.

Prepayments for lease pledged as collateral for bank borrowings were set out in Note 29.

17. BORROWINGS

a. Short-term borrowings

	December 31	
	2019	2018
Secured borrowings (Note 29)		
Working capital loans	\$ 3,226,538	\$ 1,575,944
Loans for export sales	1,000,000	820,500
Loans for purchasing raw material	25,269	48,334
Usance letters of credit	<u>2,622</u>	<u>-</u>
	4,254,429	2,444,778
<u>Unsecured borrowings</u>		
Line of credit borrowings	<u>5,507,988</u>	<u>3,750,000</u>
	<u>\$ 9,762,417</u>	<u>\$ 6,194,778</u>
<u>Rate of interest per annum (%)</u>		
Working capital loans	0.24-3.65	0.88-4.10
Loans for export sales	0.81	0.80-1.56
Loans for purchasing raw material	1.37-1.90	1.06-1.50
Usance letters of credit	1.15	-
Line of credit borrowings	0.82-3.65	0.82-0.98

b. Long-term borrowings

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>Secured borrowings</u> (Note 29)		
Secured loans	\$ 8,981,491	\$ 7,754,076
<u>Unsecured borrowings</u>		
Unsecured loans	<u>371,052</u>	<u>57,496</u>
	9,352,543	7,811,572
Less: Current portion	<u>(1,519,285)</u>	<u>(1,799,826)</u>
Long-term borrowings	<u>\$ 7,833,258</u>	<u>\$ 6,011,746</u>
<u>Rate of interest per annum (%)</u>		
Secured loans	1.03-4.90	1.02-4.90
Unsecured loans	1.05-4.90	1.50-2.10

18. OTHER PAYABLES

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Payables for salaries and bonuses	\$ 597,117	\$ 1,182,992
Payables for purchases of building and equipment	200,671	63,850
Payables for compensation to employees	152,322	514,662
Payables for annual leave	124,915	179,312
Payables for remuneration to directors	74,652	246,182
Others	<u>391,747</u>	<u>702,504</u>
	<u>\$ 1,541,424</u>	<u>\$ 2,889,502</u>

19. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Corporation, Eterbright and Matrix Precision adopted a pension plan under the Labor Pension Act (LPA), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

Hiwin Germany, Hiwin Japan, Hiwin Singapore, Hiwin Korea, Hiwin China, Matrix, Suzhou Matrix and Luren Shanghai have pension plans which pay for an annuity and certain types of insurance under the local regulations.

Hiwin USA has defined contribution pension plans, which are independently administered.

b. Defined benefit plans

The defined benefit plans adopted by the Corporation and Matrix Precision of the Group in accordance with the Labor Standards Law is operated by the government of the ROC. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Corporation and Matrix Precision contribute amounts equal to 2% and 4%, respectively of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Group assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Group has no right to influence the investment policy and strategy. Hiwin Italy also adopted the defined benefit plans in accordance with the local laws.

The amounts included in the consolidated balance sheets in respect of the Group's defined benefit plans were as follows:

	December 31	
	2019	2018
Present value of defined benefit obligation	\$ 400,604	\$ 447,382
Fair value of plan assets	<u>(124,251)</u>	<u>(136,519)</u>
Net defined benefit liabilities	<u>\$ 276,353</u>	<u>\$ 310,863</u>

Movements in net defined benefit liability were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Balance at January 1, 2018	<u>\$ 456,443</u>	<u>\$ (136,586)</u>	<u>\$ 319,857</u>
Service cost			
Current service cost	4,587	-	4,587
Net interest expense (income)	<u>5,667</u>	<u>(1,706)</u>	<u>3,961</u>
Recognized in profit or loss	<u>10,254</u>	<u>(1,706)</u>	<u>8,548</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(3,698)	(3,698)
Actuarial profit - changes in demographic assumptions	(3,492)	-	(3,492)
Actuarial loss - changes in financial assumptions	13,129	-	13,129
Actuarial loss - experience adjustments	<u>6,671</u>	-	<u>6,671</u>
Recognized in other comprehensive income	<u>16,308</u>	<u>(3,698)</u>	<u>12,610</u>
Contributions from the employer	-	(22,368)	(22,368)
Benefits paid	<u>(35,623)</u>	<u>27,839</u>	<u>(7,784)</u>
Balance at December 31, 2018	447,382	(136,519)	310,863

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Service cost			
Past service cost	\$ (2,734)	\$ -	\$ (2,734)
Current service cost	2,698	-	2,698
Net interest expense (income)	<u>4,653</u>	<u>(1,286)</u>	<u>3,367</u>
Recognized in profit or loss	<u>4,617</u>	<u>(1,286)</u>	<u>3,331</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(5,370)	(5,370)
Actuarial loss - changes in demographic assumptions	407	-	407
Actuarial loss - changes in financial assumptions	12,570	-	12,570
Actuarial profit - experience adjustments	<u>(49,286)</u>	<u>-</u>	<u>(49,286)</u>
Recognized in other comprehensive income	<u>(36,309)</u>	<u>(5,370)</u>	<u>(41,679)</u>
Contributions from the employer	-	(17,670)	(17,670)
Benefits paid	(36,594)	36,594	-
Reclassification adjustments	21,683	-	21,683
Exchange differences on foreign plans	<u>(175)</u>	<u>-</u>	<u>(175)</u>
Balance at December 31, 2019	<u>\$ 400,604</u>	<u>\$ (124,251)</u>	<u>\$ 276,353</u> (Concluded)

Through the defined benefit plans under the Labor Standards Law, the Group is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plans' debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2019	2018
Discount rates	0.75%、0.75%、 0.77%	1.00%
Expected rates of salary increase	2.00%、3.00%	2.00%、3.00%
Turnover rate	1.01%、0.42%	1.14%、0.44%

If possible reasonable changes in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

The Corporation

	December 31	
	2019	2018
Discount rate		
0.25% increase	\$ (8,361)	\$ (10,234)
0.25% decrease	\$ 8,691	\$ 10,651
Expected rate of salary increase		
0.25% increase	\$ 8,561	\$ 10,518
0.25% decrease	\$ (8,281)	\$ (10,610)
Turnover rate		
10% increase	\$ (325)	\$ (556)
10% decrease	\$ 327	\$ 559

Matrix Precision

	December 31	
	2019	2018
Discount rate		
0.25% increase	\$ (1,745)	\$ (2,164)
0.25% decrease	\$ 1,817	\$ 2,259
Expected rate of salary increase		
0.25% increase	\$ 1,772	\$ 2,209
0.25% decrease	\$ (1,711)	\$ (2,128)
Turnover rate		
10% increase	\$ (4)	\$ (15)
10% decrease	\$ 4	\$ 15

Hiwin Italy

	December 31, 2019
Discount rate	
0.25% increase	\$ (27,742)
0.25% decrease	\$ 28,839

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2019	2018
The expected contributions to the plan for the next year	\$ 20,392	\$ 11,925
The average duration of the defined benefit obligation	11 years, 11 years, 13 years	11 years, 12 years

20. EQUITY

a. Ordinary shares

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Number of shares authorized (in thousands)	<u>1,000,000</u>	<u>500,000</u>
Shares authorized	<u>\$ 10,000,000</u>	<u>\$ 5,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>309,579</u>	<u>300,562</u>
Shares issued	<u>\$ 3,095,789</u>	<u>\$ 3,005,620</u>

Fully paid ordinary shares, which have a par value of \$10, carry one vote per share and carry a right to dividends.

On May 10, 2018, the Corporation's board of directors resolved to issue 12,000 thousand ordinary shares, with a par value of NT\$10, for a consideration of NT\$250 per share. On June 28, 2018, the above transaction was approved by the FSC, and the subscription base date was determined as at September 5, 2018 by the board of directors.

b. Capital surplus

The capital surplus arising from shares issued in excess of par may be used to offset a deficit; in addition, when the Corporation has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Corporation's capital surplus and to once a year).

Capital surplus arising from expired employee share option (issuance of ordinary shares for cash) is used to offset a deficit only.

c. Retained earnings and dividends policy

The shareholders held their regular meeting on June 28, 2019 and, in that meeting resolved amendments to the Articles of Incorporation of the Corporation, under the dividend policy as set forth in the amended Articles, where distributed profit in every fiscal year, the profit shall be first utilized for offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, until the accumulated legal capital reserve equal to the Corporation's paid-in capital and setting aside special reserve in accordance with the laws and regulations, then setting less than 6% (inclusive) as dividends. The Corporation's profit may be distributed in cash dividend and/or stock dividend, provided that the ratio for stock dividend shall not exceed two-thirds of the Corporation's dividends and bonus to shareholders. A distribution plan is also to be made by the board of directors and should be resolved in the shareholder's meeting. The dividends could be distributed in the whole or in part by cash after a resolution has been adopted by a majority of directors present at a meeting of the board of directors attended by two-thirds of the total number of directors, and in addition thereto, a report of such distribution shall be submitted to the shareholder's meeting. For the policies on distribution of employees' compensation and remuneration of directors after the amendment, refer to c. Employees' compensation and remuneration of directors in Note 21-c.

The legal reserve may be used to offset deficits. If the Corporation has no deficit and the legal reserve has exceeded 25% of the Corporation's paid-in capital, the excess may be transferred to capital or distributed in cash.

The appropriations of earnings for 2018 and 2017 which have been approved in the shareholders' meetings on June 28, 2019, and June 27, 2018, respectively, were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share (NT\$)</u>	
	<u>For the Year Ended</u>		<u>For the Year Ended</u>	
	<u>December 31</u>		<u>December 31</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Legal reserve	\$ 539,226	\$ 273,802		
Reversal special reserve	(250,940)	(14,593)		
Cash dividends	2,103,934	980,551	\$ 7	\$ 3.5
Share dividends	90,169	84,047	0.3	0.3

As of the date the consolidated financial report was authorized for issue, the appropriation and distribution of 2019 earnings of the Corporation have not yet been proposed by the board of directors.

The appropriation of earnings for 2019 is subject to the resolution in the shareholders' meeting to be held on June 19, 2020.

21. NET PROFIT FROM CONTINUING OPERATIONS

a. Finance costs

	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Interest on bank loans	\$ 185,933	\$ 146,985
Interest on lease liabilities	<u>11,424</u>	<u>-</u>
	<u>\$ 197,357</u>	<u>\$ 146,985</u>

Information about capitalized interest is as follows:

	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Capitalized interest	\$ 44,743	\$ 55,947
Capitalization rates (%)	1.35-4.90	1.38-4.90

b. Employee benefits expense, depreciation and amortization expenses

	<u>Operating</u>	<u>Operating</u>	<u>Total</u>
	<u>Costs</u>	<u>Expenses</u>	
<u>For the Year Ended December 31, 2019</u>			
Short-term employee benefits	\$ 2,570,376	\$ 2,009,270	\$ 4,579,646
Post-employment benefits			
Defined contribution plans	105,428	71,725	177,153
Defined benefit plans (Note 19)	2,481	850	3,331
Other employee benefits	181,205	139,240	320,445
Depreciation expenses	1,830,008	361,299	2,191,307
Amortization expenses	27,743	31,202	58,945

	Operating Costs	Operating Expenses	Total
<u>For the Year Ended December 31, 2018</u>			
Short-term employee benefits	\$ 4,663,793	\$ 2,553,123	\$ 7,216,916
Post-employment benefits			
Defined contribution plans	140,245	93,028	233,273
Defined benefit plans (Note 19)	6,823	1,725	8,548
Other employee benefits	238,453	133,126	371,579
Depreciation expenses	1,475,461	289,096	1,764,557
Amortization expenses	15,110	37,742	52,852

c. Employees' compensation and remuneration of directors

According to the Articles of Incorporation of the Corporation, the Corporation accrued employees' compensation and remuneration of directors at rates of no less than 1% and no higher than 4%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors. The employees' compensation and remuneration of directors for the years ended December 31, 2019 and 2018 which have been approved by the Corporation's board of directors on March 25, 2020 and March 26, 2019, respectively, were as follows:

Cash	For the Year Ended December 31			
	2019		2018	
	Accrual rate	Amount	Accrual rate	Amount
Employees' compensation	5.9%	\$ 149,304	7.0%	\$ 492,363
Remuneration of directors	2.9%	74,652	3.5%	246,182

If there is a change in the amounts after the annual consolidated financial statements were authorized for issue, the differences are recorded as a change in the accounting estimate.

There was no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the consolidated financial statements for the year ended December 31, 2018 and 2017.

Information on the employees' compensation and remuneration of directors resolved by the Corporation's board of directors in 2020 and 2019 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

22. INCOME TAXES

a. Major components of income tax expense recognized in profit or loss

	For the Year Ended December 31	
	2019	2018
Current tax		
In respect of the current year	\$ 391,607	\$ 957,582
Income tax of unappropriated earnings	58,654	137,142
Adjustments for prior years	25,718	69,379

(Continued)

	For the Year Ended December 31	
	2019	2018
Deferred tax		
In respect of the current year	\$ 92,993	\$ 37,546
Adjustments to deferred tax attributable to changes in tax rates and laws	<u>-</u>	<u>3,888</u>
Income tax expense recognized in profit or loss	<u>\$ 568,972</u>	<u>\$ 1,205,537</u> (Concluded)

A reconciliation of accounting profit and income tax expense is as follows:

	For the Year Ended December 31	
	2019	2018
Income tax expense calculated at the statutory rate	\$ 510,274	\$ 1,700,554
Non-deductible expenses in determining taxable income	1,532	1,490
Tax-exempt income	(58,948)	(262,407)
Others	17,082	(1,083)
Income tax on unappropriated earnings	58,654	137,142
Investment tax credits used	(117,490)	(370,877)
Loss carryforwards used	<u>-</u>	<u>(154,157)</u>
Current tax	411,104	1,050,662
Unrecognized deductible temporary differences and loss carryforwards	132,150	81,608
Adjustments to deferred tax attributable to changes in tax rates and laws	-	3,888
Adjustments for prior years' tax	<u>25,718</u>	<u>69,379</u>
Income tax expense recognized in profit or loss	<u>\$ 568,972</u>	<u>\$ 1,205,537</u>

The Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings was reduced from 10% to 5%. The applicable tax rate used by subsidiaries in China is 25%. Tax rates used by other entities in the Group operating in other jurisdictions are based on the tax laws in those jurisdictions.

In July 2019, the President of the ROC announced the amendments to the Statute for Industrial Innovation, which stipulate that the amounts of unappropriated earnings in 2018 and thereafter that are reinvested in the construction or purchase of certain assets or technologies are allowed as deduction when computing the income tax on unappropriated earnings. The Group has already deducted the amount of capital expenditure from the unappropriated earnings in 2018 that was reinvested when calculating the tax on unappropriated earnings for the year ended December 2019.

b. Income tax expense (gain) recognized in other comprehensive income

	For the Year Ended December 31	
	2019	2018
<u>Deferred tax</u>		
In respect of the current year:		
Translation of foreign operations	\$ (33,482)	\$ (8,437)
Remeasurement of defined benefit plans	7,751	(3,251)
Effect of change in tax rate	<u>-</u>	<u>(11,232)</u>
	<u>\$ (25,731)</u>	<u>\$ (22,920)</u>

c. Deferred tax assets and liabilities

	For the Year Ended December 31, 2019			
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Unrealized intercompany profit	\$ 235,579	\$ (114,105)	\$ -	\$ 121,474
Doubtful debts	337	8,203	-	8,540
Allowance for inventory devaluation	62,487	13,765	-	76,252
Payable for annual leave	24,393	(6,474)	-	17,919
Defined benefit obligation	26,832	1,065	(7,751)	20,146
Impairment loss on financial assets	7,022	-	-	7,022
Provisions	7,663	(2,819)	-	4,844
FVTPL financial liabilities	5,910	(5,910)	-	-
Exchange difference on foreign operations	68,974	-	33,482	102,456
Deferred expenses	7,525	(2,308)	-	5,217
Unrealized foreign currency exchange loss	23	14,714	-	14,737
Loss carryforwards	-	7,454	-	7,454
Others	<u>14,880</u>	<u>(12,613)</u>	<u>-</u>	<u>2,267</u>
	<u>\$ 461,625</u>	<u>\$ (99,028)</u>	<u>\$ 25,731</u>	<u>\$ 388,328</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Unappropriated earnings of subsidiaries	\$ 412,487	\$ (13,280)	\$ -	\$ 399,207
Unrealized foreign currency exchange gain	8,766	(8,766)	-	-
FVTPL financial assets	-	511	-	511
Depreciation expenses	3,655	(3,655)	-	-
Intangible assets	5,663	(1,020)	-	4,643
Others	<u>25,818</u>	<u>20,175</u>	<u>-</u>	<u>45,993</u>
	<u>\$ 456,389</u>	<u>\$ (6,035)</u>	<u>\$ -</u>	<u>\$ 450,354</u>

For the Year Ended December 31, 2018

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Unrealized intercompany profit	\$ 101,499	\$ 134,080	\$ -	\$ 235,579
Doubtful debts	3,096	(2,759)	-	337
Allowance for inventory devaluation	38,852	23,635	-	62,487
Payable for annual leave	18,178	6,215	-	24,393
Defined benefit obligation	21,609	(180)	5,403	26,832
Impairment loss on financial assets	8,226	(1,204)	-	7,022
Provisions	5,335	2,328	-	7,663
FVTPL financial liabilities	423	5,487	-	5,910
Exchange difference on foreign operations	51,457	-	17,517	68,974
Deferred expenses	3,512	4,013	-	7,525
Unrealized foreign currency exchange loss	90	(67)	-	23
Others	9,919	4,961	-	14,880
	<u>\$ 262,196</u>	<u>\$ 176,509</u>	<u>\$ 22,920</u>	<u>\$ 461,625</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Unappropriated earnings of subsidiaries	\$ 201,265	\$ 211,222	\$ -	\$ 412,487
Unrealized foreign currency exchange gain	5,344	3,422	-	8,766
Depreciation expenses	7,738	(4,083)	-	3,655
Intangible assets	6,529	(866)	-	5,663
Others	17,570	8,248	-	25,818
	<u>\$ 238,446</u>	<u>\$ 217,943</u>	<u>\$ -</u>	<u>\$ 456,389</u>

- d. Deductible temporary differences and unused loss carryforwards for which no deferred tax assets have been recognized in the consolidated balance sheets

	December 31	
	2019	2018
Loss carryforwards	\$ 5,365,316	\$ 4,757,464
Investment loss	1,910,137	1,497,120
Deductible temporary difference	<u>978,066</u>	<u>303,019</u>
	<u>\$ 8,253,519</u>	<u>\$ 6,557,603</u>

e. Information about unused loss carryforwards

Loss carryforwards as of December 31, 2019 comprised of:

Investee	Unused Amount	Expiry Year
Eterbright	\$ 3,809,310	2021-2029
Matrix Precision	641,079	2023-2029
Hiwin Japan	444,114	2020-2027
Hiwin Korea	209,093	2023-2029
Matrix	156,000	no limit
Hiwin Singapore	105,720	no limit
Hiwin China	<u>29,814</u>	2024
	<u>\$ 5,395,130</u>	

f. Information about tax-exemption

As of December 31, 2019, profits attributable to the following expansion projects were exempted from income tax for a 5-year period:

<u>Expansion of Construction Project</u>	<u>Tax-exemption Period</u>
Cash injection in 2009	January 2016 to December 2020

g. Income tax assessments

The tax returns of the Corporation, Eterbright and Matrix Precision through 2017 have been assessed by the tax authorities.

23. EARNINGS PER SHARE

	Net profit Attributable to Owners of the Corporation	Number of Shares (In Thousands)	Earnings Per Share (NT\$)
<u>For the Year Ended December 31, 2019</u>			
Basic earnings per share			
Profit for the year attributable to owners of the Corporation	\$ 1,865,316	309,579	<u>\$6.03</u>
Effect of potentially dilutive ordinary shares:			
Employees' compensation	<u>-</u>	<u>962</u>	
Diluted earnings per share			
Profit for the year attributable to owners of the Corporation plus effect of potentially dilutive ordinary shares	<u>\$ 1,865,316</u>	<u>310,541</u>	<u>\$6.01</u>

	Net profit Attributable to Owners of the Corporation	Number of Shares (In Thousands)	Earnings Per Share (NT\$)
<u>For the Year Ended December 31, 2018</u>			
Basic earnings per share			
Profit for the year attributable to owners of the Corporation	\$ 5,392,257	301,214	<u>\$17.90</u>
Effect of potentially dilutive ordinary shares:			
Employees' compensation	<u>-</u>	<u>2,358</u>	
Diluted earnings per share			
Profit for the year attributable to owners of the Corporation plus effect of potentially dilutive ordinary shares	<u>\$ 5,392,257</u>	<u>303,572</u>	<u>\$17.76</u>

The weighted average number of shares outstanding used for the earnings per share computation was adjusted retroactively for the issuance of bonus shares on August 13, 2019. The basic and diluted earnings per share adjusted retrospectively for the year ended December 31, 2018 were as follows:

	Unit: NT\$ Per Share	
	Before Retrospective Adjustment	After Retrospective Adjustment
Basic earnings per share	<u>\$ 18.44</u>	<u>\$ 17.90</u>
Diluted earnings per share	<u>\$ 18.29</u>	<u>\$ 17.76</u>

If the Group offered to settle compensation paid to employees in cash or shares, the Group assumed the entire amount of the compensation will be settled in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

24. BUSINESS COMBINATIONS

a. Subsidiaries acquired

Subsidiary	Principal Activity	Date of Acquisition	Proportion of Voting Equity Interests Acquired (%)	Consideration Transferred (Cash)
Matrix	Design, integrated application, research, development, manufacture and sale of thread forming machinery	June 29, 2018	52	<u>\$ 240,480</u>

Matrix was acquired in order to obtain the key technologies of manufacturing equipment.

b. Assets acquired and liabilities assumed at the date of acquisition

Current assets	
Cash and cash equivalents	\$ 21,630
Trade receivables	2,947
Inventories	99,952
Other current assets	48,211
Non-current assets	
Property, plant and equipment	181,605
Other non-current assets	1,073
Current liabilities	
Trade and other payables	(21,905)
Other current liability	(452)
Non-current liabilities	
Other non-current liability	<u>(18,781)</u>
	<u>\$ 314,280</u>

c. Goodwill arising on acquisition

Consideration transferred	\$ 240,480
Less: Fair value of identifiable net assets acquired	<u>(162,232)</u>
Goodwill arising on acquisition	<u>\$ 78,248</u>

The goodwill recognized in the acquisitions of Matrix mainly represents the control premium included in the cost of the combinations. In addition, the consideration paid for the combinations effectively included amounts attributed to the benefits of expected synergies, revenue growth, future market development and the assembled workforces of Matrix. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

d. Net cash outflow on the acquisition of subsidiaries

Consideration paid in cash	\$ 240,480
Less: Cash and cash equivalent balances acquired	<u>(21,630)</u>
	<u>\$ 218,850</u>

25. EQUITY TRANSACTIONS WITH NON-CONTROLLING INTERESTS

On July 1, 2019, the Corporation acquired additional shares of Matrix, increasing its continuing interest from 52% to 100%.

On January 14, April 1 and April 30, 2019, the Corporation acquired additional shares of Matrix Precision, increasing its continuing interest from 58% to 71%.

On November 30, 2018, the Corporation subscribed for additional new shares of Matrix Precision at a percentage different from its existing ownership percentage, increasing its continuing interest from 48% to 58%.

On December 31, 2018, the Corporation subscribed for additional new shares of Eterbright at a percentage different from its existing ownership percentage, increasing its continuing interest from 65% to 74%.

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

26. CAPITAL MANAGEMENT

To support the need to expand and enhance the plant and equipment, the Group has to maintain appropriate amount of capital. Therefore, the capital management of the Group focuses on ensuring that it has the necessary financial resources and operation plans to support operating funds, capital expenditure, research and development, repayment of debt and dividend payment in the future 12 months.

Key management personnel of the Group review the capital structure periodically. As part of this review, the key management personnel consider 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 the amount of new debt issued or existing debt redeemed.

27. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments measured at fair value on a recurring basis

1) Fair value hierarchy

The Corporation's financial assets and liabilities at FVTPL are measured at fair value using Level 2 inputs, and the financial assets at FVTOCI are measured at fair value using Level 1 inputs and Level 3 inputs.

2) Valuation techniques and inputs applied for the purpose of measuring Level 2 fair value measurement

<u>Financial Instruments</u>	<u>Valuation Techniques and Inputs</u>
Derivatives - foreign currency forward contracts	Discounted cash flow. Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

b. Categories of financial instruments

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>Financial assets</u>		
FVTPL		
Mandatorily classified as at FVTPL	\$ 2,584	\$ 282
Financial assets at amortized cost (1)	6,920,057	8,949,350
Financial assets at FVTOCI		
Equity instruments	1,026,394	934,160

	December 31	
	2019	2018
<u>Financial liabilities</u>		
FVTPL		
Mandatorily classified as at FVTPL	\$ 29	\$ 5,775
Financial liabilities at amortized cost (2)	22,938,768	22,498,191

- 1) The balances included financial assets measured at amortized cost, which comprise cash and cash equivalents, notes receivable (including from related parties), trade receivables (including from related parties), financial assets at amortized cost non-current and refundable deposits.
- 2) The balances included financial liabilities measured at amortized cost, which comprise short-term borrowings, notes payable, trade payables (including from related parties), other payables and long-term borrowings (including due within one year).

c. Financial risk management objectives and policies

The Group's major financial instruments include equity and debt investments, trade receivables, trade payables, lease liabilities and borrowings. The Group's Corporate Treasury function provides services to the business, monitors and manages the financial risks relating to the operations of the Group. These risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

The plans for material treasury activities are reviewed by the audit committee and the board of directors in accordance with procedures required by relevant regulations and internal controls.

1) Market risk

The Group entered into some derivative financial instruments, mainly forward foreign exchange contracts, to manage its exposure to foreign currency risk on translation of sales and receivables that arise from export of precision component to USA, Germany, Japan and China.

There had been no change to the Group's exposure to market risks or the manner in which these risks were managed and measured.

a) Foreign currency risk

The Group's operating activities and net investment in foreign operations are denominated in foreign currencies. Consequently, the Group is exposed to foreign currency risk. To protect against reductions in value and the volatility of future cash flows caused by changes in foreign exchange rates, the Group utilizes foreign exchange forward contracts to hedge its currency exposure. These instruments help to reduce, but do not eliminate, the impact of foreign currency exchange rate movements.

Net investment in foreign operations is a strategic investment. Therefore, the Group does not hedge its investment in foreign operations.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities and derivatives exposed to foreign currency risk at the end of the reporting period are set out in Note 31.

Sensitivity analysis

The Group was mainly exposed to the USD, EUR, JPY and CNY.

The sensitivity analysis of foreign currency risk used in reporting foreign currency risk internally to key management personnel mainly focuses on the foreign currency monetary items at the end of the reporting period. Assuming a 1% increase movement in the levels of the NTD against the relevant foreign currency, the post-tax profit for the years ended December 31, 2019 and 2018 would have decreased by \$40,946 thousand and \$52,320 thousand, respectively.

b) Interest rate risk

The Group is exposed to interest rate risk because entities in the Group borrowed funds at fixed and floating interest rates.

The carrying amounts of the Group's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

	December 31	
	2019	2018
Fair value interest rate risk		
Deposits in bank	\$ 222,926	\$ 339
Lease liabilities	640,378	-
Short-term borrowings	2,020,000	-
Long-term borrowings	302,923	-
Cash flow interest rate risk		
Deposits in bank	1,720,881	2,642,345
Short-term borrowings	7,742,417	6,194,778
Long-term borrowings	9,049,620	7,811,572

Sensitivity analysis

For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 1% increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1% higher and all other variables were held constant, the Group's post-tax profit for the years ended December 31, 2019 and 2018 would have decreased by \$120,569 thousand and \$90,912 thousand, respectively.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. As at the end of the reporting period, the counterparties are reputable organizations; thus, the Group is not expected to have a significant credit risk.

Trade receivables consisted of a large number of customers, spread across diverse industries. On-going credit evaluation is performed on the financial condition of trade receivables.

The Group's concentration of credit risk by geographical locations was mainly in Asia, which accounted for 70% and 79% of the total trade receivables as of December 31, 2019 and 2018, respectively.

3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash 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 borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As of December 31, 2019 and 2018, the Group had available unutilized bank loan facilities of \$6,445,816 thousand and \$8,371,563 thousand, respectively.

The following table details the Group's remaining contractual obligations for its financial liabilities with agreed repayment periods. The tables below had been drawn up based on the undiscounted contractual maturities of the financial liabilities.

	Less Than 1 Year	1-5 Years	5+ Years
<u>December 31, 2019</u>			
Non-derivative financial liabilities			
Non-interest bearing	\$ 3,823,808	\$ -	\$ -
Lease liabilities	169,695	351,492	188,578
Fixed interest rate liabilities	2,063,432	152,468	107,023
Variable interest rate liabilities	<u>9,218,270</u>	<u>3,658,858</u>	<u>3,914,909</u>
	<u>\$ 15,275,205</u>	<u>\$ 4,162,818</u>	<u>\$ 4,210,510</u>
Derivative financial liabilities			
Foreign exchange forward contracts	<u>\$ 29</u>	<u>\$ -</u>	<u>\$ -</u>

Additional information about the maturity analysis for lease liabilities:

	Less than 1 Year	1-5 Years	5-10 Years	10-15 Years	15-20 Years
Lease liabilities	<u>\$ 169,695</u>	<u>\$ 351,492</u>	<u>\$ 110,698</u>	<u>\$ 57,475</u>	<u>\$ 20,405</u>

	Less Than 1 Year	1-5 Years	5+ Years
<u>December 31, 2018</u>			
Non-derivative financial liabilities			
Non-interest bearing	\$ 8,491,841	\$ -	\$ -
Variable interest rate liabilities	<u>7,994,604</u>	<u>3,604,902</u>	<u>2,406,844</u>
	<u>\$ 16,486,445</u>	<u>\$ 3,604,902</u>	<u>\$ 2,406,844</u>
Derivative financial liabilities			
Foreign exchange forward contracts	<u>\$ 5,775</u>	<u>\$ -</u>	<u>\$ -</u>

28. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Corporation and its subsidiaries, which are related parties of the Corporation, have been eliminated on consolidation and are not disclosed in this note. Details of significant transactions between the Group and other related parties are disclosed below.

a. Related party name and categories

<u>Related Party</u>	<u>Relationship with the Consolidated Corporation</u>
Hiwin S.R.O.	Associates
Mega-Fabs Motion Systems Ltd. (Mega-Fabs)	Associates
Coventry Matrix Technologies Ltd.	Others (since July 1, 2019, it's not related party)
Hiwin Mikrosystem	Others
Hiwin Investment and Holding Corporation	Others
Hiwin Technologies Foundation in Education (Hiwin Education Foundation)	Others
All Horng Gear Industry Co., Ltd	Others
Taiwan Gong Ji Chang Co., Ltd	Others

b. Operating transactions

	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
1) Sales of goods		
Associates	\$ 189,870	\$ 224,120
Others	<u>64,704</u>	<u>127,938</u>
	<u>\$ 254,574</u>	<u>\$ 352,058</u>

Due to the specific differences of the products, the selling prices for related parties and those for third parties are not comparable. The selling price is primarily quoted at cost plus a reasonable margin according to the market price.

	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
2) Purchases of goods		
Others	\$ 624,496	\$ 1,167,761
Associates	<u>-</u>	<u>46</u>
	<u>\$ 624,496</u>	<u>\$ 1,167,807</u>

The products purchased from related parties and those from third parties are not the same; therefore, their prices are not comparable.

3) Other operating transactions

	For the Year Ended December 31	
	2019	2018
Non-operating income - dividend income (classified as other revenue)		
Hiwin Mikrosystem	\$ <u>7,613</u>	\$ <u>1,213</u>
Non-operating income - other income		
Others	\$ <u>2,347</u>	\$ <u>240</u>
Manufacturing and operating expenses		
Others	\$ 3,031	\$ 6,740
Associates	<u>-</u>	<u>4,226</u>
	<u>\$ 3,031</u>	<u>\$ 10,966</u>
Operating expenses - donations		
Hiwin Education Foundation	\$ <u>18,000</u>	\$ <u>34,480</u>
	December 31	
	2019	2018
4) Notes receivable		
Others	\$ <u>878</u>	\$ <u>1,449</u>
5) Trade receivables		
Associates	\$ 15,724	\$ 20,463
Others	<u>1,628</u>	<u>3,382</u>
	<u>\$ 17,352</u>	<u>\$ 23,845</u>
6) Other receivables (classified as other current assets)		
Others	\$ <u>515</u>	\$ <u>112</u>
7) Trade payables		
Others	\$ <u>131,925</u>	\$ <u>179,292</u>
8) Other payables		
Others	\$ <u>554</u>	\$ <u>1,809</u>
9) Other non-current liabilities		
Others	\$ <u>-</u>	\$ <u>18,157</u>

c. Acquisition of property, plant and equipment

Purchase Price	
For the Year Ended December 31	
2019	2018

Others	\$ <u>5,400</u>	\$ <u>-</u>
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d. Disposals of property, plant and equipment

Proceeds		Gain on Disposal	
For the Year Ended		For the Year Ended	
December 31		December 31	
2019	2018	2019	2018

Others	\$ <u>-</u>	\$ <u>300</u>	\$ <u>-</u>	\$ <u>20</u>
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e. Acquisition of intangibles assets (classified as other non-current assets)

Purchase Price	
For the Year Ended December 31	
2019	2018

Others	\$ <u>1,372</u>	\$ <u>-</u>
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f. Lease arrangements

Lease arrangements represented the lease prices that the Corporation leased factory. The lease prices were determined in accordance with mutual agreements and were based on the market price of the factory nearby and the lease area. The rental expenses were paid monthly.

**For the Year
Ended
December 31,
2019**

Acquisition of right-of-use assets

Others	\$ <u>8,303</u>
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**December 31,
2019**

Lease liabilities

Others	\$ <u>6,304</u>
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	For the Year Ended December 31	
	2019	2018
<u>Finance costs</u>		
Others	\$ 44	\$ -
<u>Lease expense</u>		
Others	\$ -	\$ 2,347

g. Compensation of key management personnel

	For the Year Ended December 31	
	2019	2018
Short-term employee benefits	\$ 228,297	\$ 492,262
Termination benefits	952	-
Post-employment benefits	770	1,066
Share-based payments	-	2,281
Other long-term employee benefits	-	1,583
	<u>\$ 230,019</u>	<u>\$ 497,192</u>

The remuneration of directors and key executives was determined by the remuneration committee with regard to the performance of individuals and market trends.

29. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets had been pledged or mortgaged as collateral for short-term and long-term bank loans:

	December 31	
	2019	2018
Property, plant and equipment	\$ 16,769,287	\$ 14,265,514
Right-of-use assets	76,142	-
Pledge deposits (classified as other current assets)	5,300	2,000
Land use right (classified as prepayments for leases)	-	80,866
	<u>\$ 16,850,729</u>	<u>\$ 14,348,380</u>

30. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

- a. As of December 31, 2019 and 2018, unused letters of credit for purchases of raw materials and machinery and equipment amounted to \$150,507 thousand and \$397,191 thousand, respectively.
- b. As of December 31, 2019 and 2018, commitment for acquisition of property, plant and equipment amounted to \$1,275,485 thousand and \$1,892,393 thousand, respectively.

31. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the group entities and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

	December 31, 2019			December 31, 2018		
	Foreign Currencies	Exchange Rate	Carrying Amount	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>						
Monetary items						
USD	\$ 17,384	29.980	\$ 521,175	\$ 36,693	30.715	\$ 1,127,027
EUR	28,963	33.59	972,871	46,251	35.20	1,628,020
JPY	1,957,608	0.2760	540,300	3,260,177	0.2782	906,981
CNY	758,276	4.305	3,264,379	804,447	4.472	3,597,488
Non-monetary items						
USD	5,017	29.980	150,410	5,017	30.715	154,118
ILS	11,397	8.666	98,764	10,871	8.152	88,615
<u>Financial liabilities</u>						
Monetary items						
USD	3,168	29.980	94,979	10,910	30.715	335,088
EUR	747	33.59	25,098	4,411	35.20	155,275
JPY	179,855	0.2760	49,640	731,384	0.2782	203,471
CNY	2,501	4.305	10,765	5,732	4.472	25,633

The Group is mainly exposed to USD, EUR, JPY and CNY. The following information was aggregated by the functional currencies of the group entities, and the exchange rates between respective functional currencies and the presentation currency were disclosed. The significant (realized and unrealized) foreign exchange gains (losses) were as follows:

	For the Year Ended December 31			
	2019		2018	
Foreign Currencies	Exchange Rate	Net Foreign Exchange Loss	Exchange Rate	Net Foreign Exchange Gain
NTD	1 (NTD:NTD)	\$ <u>(171,597)</u>	1 (NTD:NTD)	\$ <u>47,077</u>

32. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

- 1) Financing provided to others. (Table 1)
- 2) Endorsements/guarantees provided. (Table 2)
- 3) Marketable securities held (excluding investments in subsidiaries, associates and joint controlled entities). (Table 3)
- 4) Marketable securities acquired and disposed at costs or prices at least NT\$300 million or 20% of the paid-in capital. (None)
- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital. (Table 4)

- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital. (None)
 - 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 5)
 - 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 6)
 - 9) Trading in derivative instruments. (Notes 7 and 27)
 - 10) Other: intercompany relationships and significant intercompany transactions. (Table 7)
 - 11) Information on investees. (Table 8)
- b. Information on investments in mainland China
- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area. (Table 9)
 - 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses:
 - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period. (None)
 - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period. (Tables 5 and 7)
 - c) The amount of property transactions and the amount of the resultant gains or losses. (None)
 - d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the year and the purposes. (None)
 - e) The highest balance, the end of year balance, the interest rate range, and total current period interest with respect to financing of funds. (None)
 - f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receipt of services. (None)

33. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. The Group's reportable segments are linear guideways, ballscrews and others.

a. Segment revenues and results

The following was an analysis of the Group's revenue and results from continuing operations by reportable segment.

	For the Year Ended December 31			
	Segment Revenue		Segment Profit	
	2019	2018	2019	2018
Linear guideways	\$ 13,667,485	\$ 17,337,365	\$ 2,667,167	\$ 4,565,165
Ballscrews	3,545,332	7,129,981	242,031	1,800,919
Others	<u>2,996,981</u>	<u>4,865,783</u>	<u>(508,308)</u>	<u>53,111</u>
Total from continuing operations	<u>\$ 20,209,798</u>	<u>\$ 29,333,129</u>	2,400,890	6,419,195
Subsidy revenue			53,743	73,623
Finance costs			(197,357)	(146,985)
Share of profit of associates accounted for using the equity method			15,857	29,611
Interest income			11,147	53,757
Other income			161,547	108,458
Other expenses			(36,742)	(39,438)
Net foreign exchange gain (loss)			(179,342)	39,496
Valuation loss on financial assets (liabilities) at FVTPL			15,433	(17,757)
Impairment loss			<u>(35,327)</u>	<u>(424,000)</u>
Profit before income tax			<u>\$ 2,209,849</u>	<u>\$ 6,095,960</u>

Segment revenue reported above represents revenue generated from external customers. The intersegment sales are eliminated or the years ended December 31, 2019 and 2018.

Segment profit represented the profit before tax earned by each segment without subsidy revenue, finance costs, share of profit of associates accounted for using the equity method, interest income, other income, other expenses, net foreign exchange gain (loss), valuation loss on financial assets (liabilities) at FVTPL, impairment loss and income tax expense. This was the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

b. Segment total assets and liabilities

The Group had not reported segment assets and liabilities information to the chief operating decision maker. Thus, no disclosure is made.

c. Geographical information

The Group operates in Taiwan, Germany, China, Japan, and USA.

The Group's revenue from continuing operations from external customers and information about its non-current assets by location of assets are detailed below.

	Revenue from External Customers		Non-current Assets	
	Year Ended December 31		December 31	
	2019	2018	2019	2018
Taiwan	\$ 10,800,977	\$ 17,316,281	\$ 27,303,788	\$ 25,388,901
Germany	3,195,886	3,533,755	1,073,117	1,053,574
China	2,162,162	2,968,077	1,540,602	1,364,661
Japan	1,292,002	2,216,685	845,519	63,196
USA	1,045,061	1,207,781	474,973	476,403
Others	<u>1,713,710</u>	<u>2,090,550</u>	<u>380,451</u>	<u>257,540</u>
	<u>\$ 20,209,798</u>	<u>\$ 29,333,129</u>	<u>\$ 31,618,450</u>	<u>\$ 28,604,275</u>

d. Information about major customers

	For the Year Ended December 31			
	2019		2018	
	Amount	%	Amount	%
Customer A	\$ 2,365,611	12	\$ 2,614,936	9
Customer B	2,292,954	11	2,594,320	9

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

No.	Lender	Borrower	Financial Statement Account	Related Parties	Highest Balance for the Year (Note 4)	Ending Balance (Note 4)	Actual Borrowing Amount (Note 6)	Interest Rate	Nature of Financing (Note 2)	Business Transaction Amounts	Reasons for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower (Note 1)	Aggregate Financing Limits (Note 3)
													Item	Value		
0	The Corporation	Hiwin Japan	Other receivables from related parties	Yes	\$ 174,833	\$ 161,664	\$ 161,664	1.76%	1	Sales \$1,449,817	-	\$ -	-	\$ -	\$ 3,561,488	\$ 7,122,976
0	The Corporation	Hiwin Italy	Other receivables from related parties	Yes	295,479	133,996	133,996	1.76%	1	Sales 771,056	-	-	-	-	3,561,488	7,122,976
0	The Corporation	Matrix	Other receivables from related parties	Yes	39,360	39,360	-	1.76%	2	-	Operating capital	-	-	-	3,561,488	7,122,976
1	Matrix Precision	Luren Shanghai	Other receivables from related parties	Yes	16,354	-	-	1.895%	1	Sales 65,796	-	-	-	-	- (Note 5)	- (Note 5)

Note 1: The total amount for lending to a company for funding shall not exceed 15% of the net assets of the Corporation and Matrix Precision in the latest financial report. When the lending is for business relationship by the Corporation and Matrix Precision, the lending shall be subject to not only the restriction set forth in the above instructions but also the principle that the business has occurred. The amount for lending to a company for funding shall not exceed the maximum amount of sales or purchases in the latest year or the latest twelve months when the lending occurs.

Note 2: Nature of the loan funds:

1. Business relationship.
2. Necessary for short-term financing.

Note 3: For the financing provided by each subsidiary, the maximum amount should not exceed 30% of the Corporation's and Matrix Precision's net assets as shown in their each latest financial statements.

Note 4: The ending balance amount has been approved by the board of directors.

Note 5: Matrix Precision has a negative balance of net assets as of December 31, 2019; therefore, the financing limit is \$0.

Note 6: Significant intercompany accounts and transactions have been eliminated.

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars and Foreign Currency)

No.	Endorser/Guarantor	Endorsee/Guaranteed Party		Limits on Endorsement/ Guarantee Given on Behalf of Each Party (Note 1)	Maximum Amount Endorsed/ Guaranteed During the Year	Outstanding Endorsement/ Guarantee at the End of the Year	Actual Borrowing Amount	Amount Endorsed/ Guaranteed by Collaterals	Ratio of Accumulated Endorsement/ Guarantee to Net Equity in Latest Financial Statements (%)	Aggregate Endorsement/ Guarantee Limit (Note 2)	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China
		Name	Relationship										
0	The Corporation	Matrix	Subsidiary	\$ 2,374,325	\$ 78,720 (GBP 2,000)	\$ 78,720 (GBP 2,000)	\$ -	\$ -	0.3	\$ 8,310,139	Yes	-	-
0	The Corporation	Hiwin Italy	Subsidiary	2,374,325	335,900 (EUR 10,000)	335,900 (EUR 10,000)	108,400 (EUR 3,227)	-	1.4	8,310,139	Yes	-	-
0	The Corporation	Eterbright	Subsidiary	2,374,325	1,900,000	1,900,000	1,434,000	-	8.0	8,310,139	Yes	-	-
0	The Corporation	Hiwin Singapore	Subsidiary	2,374,325	209,860 (USD 7,000)	119,920 (USD 4,000)	82,445 (USD 2,750)	-	0.5	8,310,139	Yes	-	-
0	The Corporation	Hiwin Korea	Subsidiary	2,374,325	209,860 (USD 7,000)	209,860 (USD 7,000)	151,399 (USD 5,050)	-	0.9	8,310,139	Yes	-	-
0	The Corporation	Hiwin Japan	Subsidiary	2,374,325	1,190,664 (JPY 4,314,000)	595,332 (JPY 2,157,000)	594,965 (JPY 2,155,671)	-	2.5	8,310,139	Yes	-	-
0	The Corporation	Matrix Precision	Subsidiary	2,374,325	1,000,000	600,000	599,000	-	2.5	8,310,139	Yes	-	-

Note 1: The maximum is 10% of the net assets of the Corporation as shown in the latest financial statements. However, the amount of guarantee to subsidiaries is not subject to the above restrictions after the approval of the board of director, and the amount shall not exceed 50% of the Corporation's net assets in the latest financial statements.

Note 2: The maximum amount of the total guarantee is 35% of the Corporation's net assets as shown in its latest financial statements.

Note 3: The amounts denominated in foreign currency were translated into New Taiwan dollars at prevailing exchange rate on December 31, 2019.

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars and Foreign Currency)

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2019				Note
				Shares	Carrying Amount	Percentage of Ownership	Fair Value	
The Corporation	<u>Government bonds</u>							
	Central Government Bonds 2012-1	-	Financial assets at amortized cost - non-current	-	\$ 2,922	-	\$ 2,922	
	<u>Share capital</u>							
	Hiwin Mikrosystem	-	Financial assets at FVTOCI - non-current	9,375,113	787,509	8	787,509	
	Ever Fortune. AI Co., Ltd.	-	Financial assets at FVTOCI - non-current	2,000,000	28,010	5	28,010	
	Taichung International Country Club	-	Financial assets at FVTOCI - non-current	1	2,500	-	2,500	
	Sunengine	-	Financial assets at FVTOCI - non-current	2,063,681	-	10	-	
King Kong Iron Work Ltd.	-	Financial assets at FVTOCI - non-current	76,300	-	-	-		
Kaland	-	Financial assets at FVTOCI - non-current	323,289	205,055	19	205,055		
Hiwin Germany	<u>Share capital</u>							
	Hiwin (Schweiz) GmbH	-	Financial assets at FVTOCI - non-current	-	3,320 (EUR 72)	19	3,320 (EUR 72)	

Note: Information about the investment in subsidiary and associates; please see Tables 8 and 9.

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

**ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST \$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2019**

(In Thousands of New Taiwan Dollars and Foreign Currency)

Buyer	Property	Event Date	Transaction Amount	Payment Status	Counterparty	Relationship	Information on Previous Title Transfer if Counterparty is a Related Party				Pricing Reference	Purpose of Acquisition	Other Terms
							Property Owner	Relationship	Transaction Date	Amount			
Hiwin China	Factory in Suzhou Industrial Park	2019.3.4	\$ 814,528 (CNY 176,000)	\$ 196,768 (CNY 44,000)	China Nuclear Industry Fifth Construction Co., Ltd.	None	-	-	-	\$ -	Contractors bid	Factory Construction	-

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note
			Purchase/Sale	Amount (Note)	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance (Note)	% to Total	
The Corporation	Hiwin Germany	Subsidiary	Sale	\$ (1,184,755)	(8)	O/A 90 days	\$ -	-	\$ 229,547	5	
	Hiwin China	Subsidiary	Sale	(1,564,865)	(11)	O/A 120 days	-	-	601,582	13	
	Hiwin Japan	Subsidiary	Sale	(560,400)	(4)	O/A 150 days	-	-	249,700	5	
	Hiwin Italy	Subsidiary	Sale	(457,867)	(3)	O/A 180 days	-	-	307,643	7	
	Hiwin USA	Subsidiary	Sale	(229,365)	(2)	O/A 120 days	-	-	53,640	1	
	Hiwin Korea	Subsidiary	Sale	(243,173)	(2)	O/A 180 days	-	-	121,025	3	
	Hiwin Mikrosystem	Others	Purchase	155,051	3	Net 90 days after monthly closing	-	-	(6,362)	-	
Hiwin Germany	The Corporation	Parent Company	Purchase	1,184,755	55	O/A 90 days	-	-	(229,547)	(82)	
	Hiwin Mikrosystem	Others	Purchase	164,389	8	O/A 90 days	-	-	(20,181)	(7)	
	Hiwin S.R.O	Associate	Sale	(189,784)	(6)	O/A 45 days	-	-	15,724	13	
Hiwin China	The Corporation	Parent Company	Purchase	1,564,865	89	O/A 120 days	-	-	(601,582)	(98)	
Hiwin Japan	The Corporation	Parent Company	Purchase	560,400	75	O/A 150 days	-	-	(249,700)	(91)	
Hiwin Italy	The Corporation	Parent Company	Purchase	457,788	70	O/A 180 days	-	-	(307,643)	(66)	
Hiwin USA	The Corporation	Parent Company	Purchase	229,365	48	O/A 120 days	-	-	(53,640)	(46)	
	Hiwin Mikrosystem	Others	Purchase	147,908	31	O/A 90 days	-	-	(56,031)	(48)	
Hiwin Korea	The Corporation	Parent Company	Purchase	243,173	75	O/A 180 days	-	-	(121,025)	(96)	

Note: Significant intercompany accounts and transactions have been eliminated except Hiwin Mikrosystem and Hiwin S.R.O.

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Relationship	Ending Balance (Note)	Turnover Rate	Overdue		Amounts Received in Subsequent Year	Allowance for Impairment Loss
					Amount	Actions Taken		
The Corporation	Hiwin Japan	Subsidiary	Trade receivables from related parties \$ 249,700	1.11	\$ -	-	\$ 56,761	\$ -
	Hiwin Japan	Subsidiary	Other receivables from related parties 161,901	-	-	-	-	-
	Hiwin Germany	Subsidiary	Trade receivables from related parties 229,547	3.79	-	-	161,343	-
	Hiwin Italy	Subsidiary	Trade receivables from related parties 307,643	0.98	-	-	144,078	-
	Hiwin Italy	Subsidiary	Other receivables from related parties 134,193	-	-	-	-	-
	Hiwin China	Subsidiary	Trade receivables from related parties 601,582	2.26	-	-	300,003	-
	Hiwin Korea	Subsidiary	Trade receivables from related parties 121,025	1.44	-	-	36,044	-

Note: Significant intercompany accounts and transactions have been eliminated.

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)**

No.	Investee Company	Counterparty	Relationship (Note 1)	Transaction Details				
				Financial Statement Account	Amount (Note 2)	Payment Terms	% to Total Sales or Assets	
0	The Corporation	Hiwin Germany	1	Sales	\$ 1,184,755	O/A 90 days	6	
			1	Trade receivables	229,547	O/A 90 days	-	
		Hiwin Japan	1	Sales	560,400	O/A 150 days	3	
			1	Trade receivables	249,700	O/A 150 days	1	
		Hiwin China	1	Other receivables	161,901	-	-	
			1	Sales	1,564,865	O/A 120 days	8	
		Hiwin Italy	1	Trade receivables	601,582	O/A 120 days	1	
			1	Sales	457,867	O/A 180 days	2	
		Hiwin USA	1	Trade receivables	307,643	O/A 180 days	1	
			1	Other receivables	134,193	-	-	
		Hiwin Korea	1	Sales	229,365	O/A 120 days	1	
			1	Trade receivables	53,640	O/A 120 days	-	
				1	Sales	243,173	O/A 180 days	1
				1	Trade receivables	121,025	O/A 180 days	-

Note 1: Relationship of counterparty; (1) parent company to subsidiary; (2) subsidiary to parent company.

Note 2: Significant intercompany accounts and transactions have been eliminated.

Note 3: Unrealized gains from Hiwin China are \$70,577 thousand.

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

INFORMATION ON INVESTEEES

FOR THE YEAR ENDED DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars and Foreign Currency)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2019			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				December 31, 2019	December 31, 2018	Shares	%	Carrying Amount			
The Corporation	Hiwin Germany	Germany	Manufacture and sale of aerospace parts, ballscrews, linear guideways and industrial robots	\$ 224,257	\$ 224,257	-	100	\$ 1,589,621	\$ 196,943	\$ 196,943	Subsidiary
	Hiwin USA	United States of America	Manufacture and sale of aerospace parts, ballscrews, linear guideways and industrial robots	353,844	353,844	2,148,000	100	546,203	59,444	59,444	Subsidiary
	Hiwin Japan	Japan	Manufacture and sale of aerospace parts, ballscrews, linear guideways and industrial robots	817,642	817,642	54,200	100	183,404	(38,652)	(38,652)	Subsidiary
	Mega-Fabs	Israel	Research, manufacture and sale of drivers and controllers	42,444	42,444	240,000	40	131,594	11,418	4,567	Investments accounted for using the equity method
	Eterbright	Taiwan	Research, development, design, manufacture and sale of solar cell, electronic components, electric power supply, electric transmission and power distribution machinery products	2,983,556	2,983,556	171,449,427	74	(235,410)	(556,852)	(413,017)	Subsidiary
	Hiwin Singapore	Singapore	Manufacture and sale of aerospace parts, ballscrews, linear guideways and industrial robots	117,550	117,550	5,000,000	100	(53,375)	(16,550)	(16,550)	Subsidiary
	Hiwin Korea	Korea	Manufacture and sale of aerospace parts, ballscrews, linear guideways and industrial robots	202,945	202,945	1,440,000	100	(73,892)	(53,815)	(53,815)	Subsidiary
	Matrix Precision	Taiwan	Research, development, production, manufacture and sale of gear cutting tools and machinery	603,244	521,983	21,710,747	71	120,994	(229,449)	(160,839)	Subsidiary
	Hiwin Healthcare Corp.	Samoa	Sale of medical robots	3,108	3,108	100,000	100	2,881	(22)	(22)	Subsidiary
	Hiwin Italy	Italy	Sale of aerospace parts, ballscrews, linear guideways, and industrial robots	296,580	296,580	-	100	23,882	15,114	15,114	Subsidiary
	Matrix	United Kingdom	Design, integrated application, research, development, manufacture and sale of thread forming machinery	461,344	240,480	4,649,500	100	315,544	(29,229)	(30,575)	Subsidiary
Hiwin Germany	Hiwin S.R.O.	Czech Republic	Sale of aerospace parts, ballscrews, linear guideways, and industrial robots	104 (CZK 70)	104 (CZK 70)	-	32	60,551 (EUR 1,803)	(Note 1)	(Note 1)	Investments accounted for using the equity method
Matrix Precision	Luren USA	United States of America	Sale of gear cutting tools and machinery	14,721	14,721	-	-	(Note 2)	(Note 1)	(Note 1)	Indirectly owned subsidiary

Note 1: Not applicable.

Note 2: Luren USA has been liquidated in June 2019.

Note 3: Significant intercompany accounts and transactions have been eliminated except Mega-Fabs and Hiwin S.R.O.

Note 4: Information on investment in Mainland China, please see Table 9.

HIWIN TECHNOLOGIES CORPORATION AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars and Foreign Currency)

Investee Company	Main Businesses and Products	Paid-in Capital	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2019	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2019	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of December 31, 2019	Accumulated Repatriation of Investment Income as of December 31, 2019
					Outward	Inward						
YIFU Finance	Finance lease	\$ 252,222 (USD 8,413)	(Note 1)	\$ 139,733 (USD 5,017)	\$ -	\$ -	\$ 139,733 (USD 5,017)	\$ 269,125	19	(Note 3)	\$ 205,055	\$ 75,617 (USD 2,424)
Hiwin China	Manufacture and sale of aerospace parts, ball screws, linear guideways and industrial robots	1,498,040 (CNY 300,000)	(Note 2)	1,498,040 (CNY 300,000)	-	-	1,498,040 (CNY 300,000)	(42,014)	100	\$ 42,014 (Notes 4 and 7)	1,709,476 (Note 7)	-
Luren Shanghai	Sale of gear cutting tools and machinery	14,047 (USD 439)	(Note 2)	14,047 (USD 439)	-	-	14,047 (USD 439)	24,457	71	16,932 (Notes 4 and 7)	7,846 (Note 7)	-
Suzhou Matrix	Sale of gear cutting tools and machinery	9,076 (CNY 2,000)	(Note 2)	-	9,076 (CNY 2,000)	-	9,076 (CNY 2,000)	(3,505)	71	(1,257) (Notes 4 and 7)	3,723 (Note 7)	-

Investor Company	Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2019	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
The Corporation	\$ 1,637,773 (USD 5,017 and CNY 300,000)	\$ 1,576,310 (USD 9,500 and CNY 300,000)	(Note 5)
Matrix Precision	\$ 23,123 (USD 439 and CNY 2,000)	\$ 23,123 (USD 439 and CNY 2,000)	\$ - (Notes 5 and 6)

Note 1: The investment was made through a corporation established in a third country, which, in turn, invested in companies located in Mainland China.

Note 2: The investment in Mainland China was made directly.

Note 3: The investment in Kaland is financial asset measured at FVTOCI; thus, no investment gain or loss is recognized.

Note 4: The investment gain (loss) is recognized according to the financial statements audited by the Corporation's independent auditors.

Note 5: According to the "Regulation on Screening and Approval of Investment and Technical Cooperation in Mainland China" issued by the Investment Commission of Ministry of Economic Affairs, the investment in Mainland China has no maximum limitation since the Corporation had acquired the Industrial Development Bureau's approval of the establishment of an operating headquarters in Taiwan. The upper limit investment amount of Matrix Precision is 60% of the net assets of Matrix Precision.

Note 6: Matrix Precision has a negative balance of net assets as of December 31, 2019; therefore, the financing limit in Mainland China is \$0.

Note 7: Significant intercompany accounts and transactions have been eliminated.