



# Kinik Company



**2020 Annual Report**



**2021 General Shareholders' Meeting**

URL of the Market Observation Post System of the Taiwan Stock Exchange Corporation <http://mops.twse.com.tw>  
URL of the annual report of Kinik Company <http://www.kinik.com.tw>

**2020 Annual Report**



## **Kinik Company**

No. 64, Zhongshan Rd., Yingge Dist.,  
New Taipei City 23942, Taiwan (R.O.C.)

Tel: (02)2679-1931

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

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### IV. Name, firm name, address, website and telephone number of the independent auditors of the financial report for the most recent year:

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### V. Name of the trading place where the overseas securities are listed for trading and the method of inquiring about the overseas securities information:

No such situation.

### VI. Company website: <http://www.kinik.com.tw>

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# One | Report to Shareholders

Hello, dear shareholders,

Looking back at the overall international situation in 2020, the most significant events are the U.S.-China conflicts ranging from the trade war to the technological war and the global impact of COVID-19 that began at the beginning of the year. In order to prevent the spread of the pandemic, countries adopted strict control measures such as lockdowns, closed borders and restriction of personnel activities which caused the global economic demand to shrink rapidly, and the rising international freight rates caused factors like increased export costs, resulting in a sharp decline in the global economy. It was inevitable that Taiwan's economy was dragged down in the first half of the year, and its economy declined significantly. Fortunately, Taiwan's pandemic prevention was adequate. As major countries restarted their economic activities since the third quarter, some of Taiwan's domestic industries recovered month by month as overseas demand rebounded. In particular, the electronic and information industries benefited from the strong demand for emerging technology applications and long-distance business opportunities. The large semiconductor manufacturers received new orders from Europe and the United States, making the overall manufacturing industry boom in the second half of the year.

In response to such a harsh business environment, the company also took countermeasures to protect the staff's safety and maintain the company's continuous operations to minimize the impact. Therefore, the company is still able to move forward steadily towards the goals set and successfully completed the construction of the factory in the Jhunan Science Park for reclaimed wafers in March to meet the new demand of customers with the most advanced plant. The company also smoothly promoted lean production and management as scheduled to improve the efficiency of the overall operation, and for the long-term plan, purchased in Yingge a new piece of industrial land for the overall development of the company in the future. On the whole, the consolidated revenue of Kinik Company in 2020 reached NT\$ 5.157 billion, representing a growth of 6 % from 2019; the net profit after tax was NT\$ 539 million, and the after-tax earnings per share is NT\$ 3.63 ; a stable level is still maintained. The comparison with the budget is shown in the following table:

The whole year of 2020			(Unit: Thousand NTD)
KINIK	Budget amount	Actual amount	Achievement rate
Sales	5,729,000	5,156,550	90%
Operating Income	868,000	706,973	81%
Net Income before tax	874,000	683,548	78%
Net Income after tax	698,000	539,476	77%

This year, the pandemic is still rampant, and factors including the integration of the RCEP regional economy, the devaluation of the U.S. dollar and the high uncertainty of the new U.S. government's policies will affect future changes in the world economy. However, the company will still follow the principle of "Keep creating innovative values for shareholders and customers," and has formulated the following action plan:

1. In response to the strong demand of semiconductor customers, the company will strengthen the development and production of semiconductor-related products such as next-generation diamond disks, reclaimed wafers, and cutting wheel and grinding wheel for packaging.
2. In the improvement of digital management capabilities, in addition to continuing to refine the SAP ERP system, the company will integrate SCM, CRM, and RPA systems to improve the overall operating efficiency.

In the future, the company will move in the direction of intelligent automation, continue to strengthen its core capabilities, and move towards the goal of "Become an excellent, intelligent smart manufacturing and service center for grinding solutions." To create a greater value for society, I hope that everyone can continue to give us guidance and support.

Finally, I wish you all good health and the best of luck!

Chairman of the Board

PO-CHUAN, LIN

February 24, 2021

## Two | Company Profile

### I. Date of establishment

July 8, 1964

### II. Company History

- 1964** Kinik was expanded and reorganized from "China Grinding Wheel Company" to "China Grinding Wheel Enterprise Corp" with a registered capital of NT\$1.2 million. The chairman of the board of directors is Mr. Yung-Chuan Pai. The capital increase is used to expand the scope of original products, and in addition to the original "vitrified bonded method" and "resinoid bonded method," the "shellac bonded method" is added to the grinding wheel manufacturing method.
- 1965** The Jin Word brand CNS 991 vitrified bonded grinding wheel is approved to use the R.O.C. national ® trade mark.
- 1967** Technical cooperation with Mitsui Kinzoku of Japan to comprehensively improve product quality.
- 1969** With the addition of automatic molding machines and automatic finishing machines, the production efficiency was greatly improved, and the products, "rubber bonded method" and "PVA bonded method" were added.
- 1972** Expanded equipment and purchased American-made Bickley furnaces to make product quality up to international standards, and added "magnesia bonded method" products to expand the export market.
- 1973** Fully introduced high-efficiency automated production equipment and inspection equipment to ensure product quality and reduce non-conformity costs.
- 1978** The three major categories of resinoid bonded grinding wheels, resinoid flat grinding wheels and cut-off wheels are all approved to use the R.O.C. national ® trade mark.
- 1983** Introduced a 3000-ton large-scale precision hydraulic forming machine and joined the ranks of producing super-sized grinding wheels with an outer diameter of 60 inches (about 1500 mm).
- 1984** With a monthly production capacity of more than 250 metric tons, the company ranked among the top five grinding wheel factories in the free regions of Asia. It also cooperated with Mitsui Grinding Wheel Co., Ltd. of Japan to produce high-quality products such as boron nitride grinding wheels and diamond grinding wheels.
- 1985** Established the B.D. Manufacturing Department and began to produce porcelain, resin diamond, and CBN grinding wheels.
- 1986** To meet the needs of the company's business development, the capital was increased by NT\$65 million to total of NT\$150 million.

<b>1988</b>	Established the Kinik Corporate Identification System(CIS).
<b>1989</b>	Awarded the "Bronze Tower Award" at the 2nd National Unity Circle Activity Competition by the Ministry of Economic Affairs. Joined BIPA of the Republic of China.
<b>1990</b>	Expanded the production capacity of diamond saw blades and supplied them in a large amount to the stone processing industry to replace imported products. Awarded the "Silver Tower Award" at the 3rd National Unity Circle Activity Competition by the Ministry of Economic Affairs.
<b>1991</b>	The mesh grinding wheel was successfully developed and its mass production began.
<b>1993</b>	Certified to the ISO 9002 certification by the Commodity Inspection Bureau of the Ministry of Economic Affairs.
<b>1994</b>	Certified to the ISO 9002 by BSI, U.K.
<b>1995</b>	The earnings were transferred to an increase of capital of NT\$45 million, bringing the company's total capital to NT\$195 million. Continued to expand production equipment to produce P.C.D.(Poly Crystalline Diamond) tools and saw blades. The Grinding Center expanded ELID grinding, the high-efficiency, high-quality and ultra-precision grinding surface processing technology.
<b>1996</b>	Certified to the ISO-9002 by DQS, Germany.
<b>1997</b>	Added the PVDD amorphous diamond coating equipment of physical vapor vacuum evaporation method to produce wear-resistant tools. Developed the diamond matrix arrangement K method and obtained the world patent to produce wire saw products for stones. The company's four major CNS mark products passed the grinding wheel quality certification of the Council of Labor Affairs, Executive Yuan. The Grinding Center participated in the four-year program of nano engineering and equipment technology research of the Mechanical and Mechatronics System Lab., Industrial Technology Research Institute and invested in the establishment of Kinik Precision Grinding Corp.
<b>1998</b>	Introduced the Chemical Vapor Deposition (CVD) diamond coating production.
<b>1999</b>	Merged Kinik Grinding Wheel Company and applied with the Securities and Futures Institute for supplementary public offering after the capital increase to a share capital of NT\$380 million.
<b>2000</b>	Transferred earnings and capital reserve to an additional capital of NT\$38 million to bringing the company's total capital to NT\$418 million.
<b>2001</b>	Transferred earnings and capital reserve to an additional capital of NT\$42 million to bringing the company's total capital to NT\$460 million.

- Successfully developed a polishing pad finisher (CMP diamond disk) used in the semiconductor CMP process, which passed the certification of TSMC, and started mass production and shipment.
- DiaGrid® CMP Conditioner won the R.O.C. MOEA "CERTIFICATE OF GOOD DESIGN PRODUCT"
- 2002** Merged House Technology Corp., and transferred earnings and capital reserve to an additional capital of NT\$102.5 million to bring the company's total capital to NT\$562.5 million.
- The CMP diamond disk was issued the "Ship-To-Stock Certificate" by TSMC.
- Won "The Most Outstanding Award" of the Industrial Technology Advancement of the Ministry of Economic Affairs.
- 2003** Transferred earnings and employee bonus to an additional capital of NT\$37.5 million to bring the company's total capital to NT\$600 million.
- 2004** Transferred earnings and employee bonus to an additional capital of NT\$76 million to bring the company's total capital to NT\$676 million.
- The company and its CMP diamond disk products were awarded the "National Enterprise Gold Award."
- Won the ROHM HAAS Best Outstanding Strategic Partner Award.
- 2005** The stock was officially listed on January 31 in the electrical machinery category, and the stock code is 1560.
- Transferred earnings and employee bonus to an additional capital of NT\$119 million and issued new shares for NT\$189,639,540 to merged Kinik Precision Grinding Corp. to bringing the company's total capital to NT\$984,639,540.
- Merged Kinik Precision Grinding Corp. and made this company the surviving company.
- 2006** Transferred earnings and employee bonus to an additional capital of NT\$168,360,460 to bringing the company's total capital to NT\$1,153,000,000.
- Passed ISO 14001 (Environmental Management System) certification.
- Won the 2006 Taiwan Superior Brand Award from the Ministry of Economic Affairs.
- Received the 2006 Taiwan Superior Product Excellence Award from the Nanotechnology and Micro System Association of the Republic of China.
- 2007** Transferred earnings and employ bonus to an additional capital of NT\$182,000,000 to bringing the company's total capital to NT\$1,335,000,000.
- Passed OHSAS 18001 (Occupational Health and Safety Management Systems) certification.
- 2008** In June, the company passed the evaluation of the corporate governance system of listed and OTC companies by the Taiwan Corporate Governance Association. It was awarded the "CG6003 Assessment Criteria for the Corporate Governance System."
- Transferred earnings and employ bonus to an additional capital of NT\$75 million to

- bringing the company's total capital to NT\$1,410 million.
- 2010** Chairman Hsin-Cheng Lin retired, and Mr. YANG-LIANG, PAI served as the Chairman, Mr. WEN-LIANG, PAI as the Deputy Chairman, and Mr. JUNG-CHE, HSIEH as the CEO.
- 2011** CEO JUNG-CHE, HSIEH was selected for the Outstanding President Award by the Chinese Professional Management Association of Hsinchu.  
The company won the "Top 100 Taiwan Brands" award from the Ministry of Economic Affairs.
- 2013** The company won the "Industrial Sustainable Excellence Award" from the Ministry of Economic Affairs.  
The company won the "Excellent Industrial Model Award for Enterprise Sustainable Management" from the New Taipei City Industrial Association.  
The company's Yingge Factory obtained the certification mark of Healthy Workplace.
- 2014** The company was awarded "Certificate of Potential Taiwan Mittelstand Award" by the Ministry of Economic Affairs.  
Ms. MAN-LI, LIN CHENn served as the chairman of the company.  
The company's Yingge Factory won the Excellent Manufacturer award of the "Participation in the 2014 Clean Energy Saving and Carbon Reduction Production Plan."
- 2015** Honored with" CNS Mark 50-Year Achievement Award "from the the Ministry of Economic Affairs, R.O.C.  
Honored with" the 5th Award of Remarkable Membership Contribution "from the Taiwan Association of Machinery Industry.
- 2016** The company won the "2016 Excellent Businessperson Award for Issuing Uniform Invoices" from the Taipei National Taxation Bureau of the Ministry of Finance.
- 2017** The company's "CMP Diamond Disk" won the 2017 Taiwan Excellence Award.  
The company's Shulin Factory passed the CNS 15506:2011 verification.  
The company won the "Taiwan Excellence Award - CMP Pyradia CMP diamond disk" from the Ministry of Economic Affairs.  
The company won the honor of "The 4th Taiwan Mittelstand Award" by the Ministry of Economic Affairs.
- 2018** The head office of the company moved to the Yingge Factory.  
The company issued employee stock option certificates.  
The company invested in Kinik - Thai Co., Ltd. in Thailand.  
The company invested in Hongia Industry Co.  
The company and Nihon Yamamura Glass Co., Ltd. jointly established Yamamura Kinik Optical Co., Ltd.  
The company won the "Corporate Promoting Family Friendly Program Award" from the New Taipei City Government.



**2019**

The company won the "Innovative R&D and Corporate Sustainable Development Award" from the New Taipei City Industrial Association.

The company won the "25th National Quality Certificate of Namination" from the Ministry of Economic Affairs.

The company was awarded the "Waste Resource Circular Economy Evaluation - Excellent Two-Star" by the Environmental Protection Administration Executive Yuan.

The company won the "Certificate of Outstanding Health Workplace Health Management Award" from the Health Promotion Administration, Ministry of Health and Welfare.

The company's SAP ERP went online

The company's Yingge Factory and Shulin Factory passed the ISO 14064-1:2006 certification.

The company's Yingge, Shulin, Hsinchu, and Zhubei factories passed the ISO 45001:2018 certification.

**2020**

The board of directors of the company adopted the business philosophy "Good together: Good to You, Good to Me, Good to All" with the mission: Keep creating innovative values for industries and customers, and the vision: to become an excellent manufacturing and service center for grinding solutions.

The construction of the company's factory in the Hsinchu Science Park for reclaimed wafer business unit was completed in the Jhunan Science Park; the mass production started and became one of the world's top three reclaimed wafer suppliers.

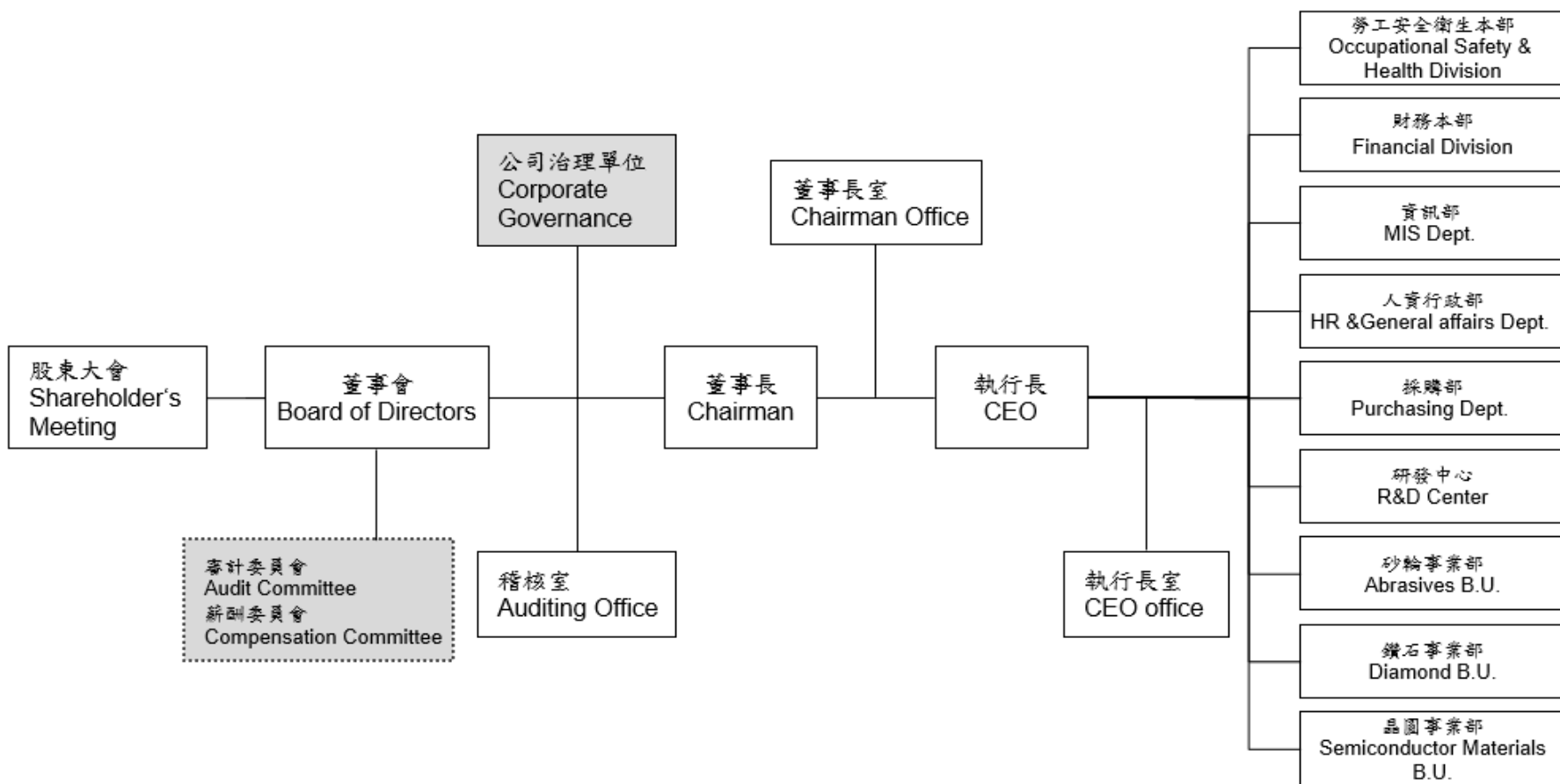
Mr. PO-CHUAN, LIN served as the chairman of the company.

The company's Shulin Factory passed the ISO 50001:2018 energy management system verification

# Three | Corporate Governance Report

## I. Organization system

### (I) Organizational Structure



(II) Business operations of each major department

Department	Main responsibilities	Department	Main responsibilities		
Chairman's Office	<ol style="list-style-type: none"> <li>1. Strategic planning of the Company's business</li> <li>2. Parliamentary unit of the Board of Directors meetings and shareholders' meetings.</li> <li>3. Shareholders services.</li> </ol>	Financial Division	<p><b>Financial management - management matters concerning finance, accounting, investment and stock affairs.</b></p> <p><b>Performance management - the setting of performance indicators, the setting of goals and the tracking of their achievement and improvement.</b></p> <ol style="list-style-type: none"> <li>1. Fundraising and scheduling and cashier operations.</li> <li>2. Planning and execution of accounting, budgeting and taxation operations.</li> <li>3. Supply of management information.</li> <li>4. Management of reinvestment business.</li> <li>5. Preparation for board of directors' meetings and shareholders' meetings.</li> </ol> <p><b>Operational performance management - the establishment of operational performance indicators, the establishment of goals and the tracking of their achievement and improvement.</b></p>		
CEO Office	<p><b>Planning of the Company's overall operations and supervision on the execution thereof, patent management, legal affairs</b></p> <ol style="list-style-type: none"> <li>1. Assist the CEO to deal with the Company's affairs and plan the Company's sustainable business directions.</li> <li>2. Coordination of project planning.</li> <li>3. Follow up, communication and coordination of sales departments' operations.</li> <li>4. Patent-related management</li> </ol>		MIS Dept.	<p><b>Information management - software, hardware and communication equipment management</b></p> <ol style="list-style-type: none"> <li>1. Writing and boosting of the programs for the Company's computerization.</li> <li>2. System analysis and planning.</li> <li>3. Network management and maintenance.</li> <li>4. Procurement of software and control over access to the software.</li> <li>5. Evaluation on maintenance and procurement of hardware information equipment.</li> </ol>	
Auditing Office	<p><b>Responsible for planning of audit operations and implementation thereof</b></p> <ol style="list-style-type: none"> <li>1. Assist the Board of Directors and managers to check and review the deficiencies in internal control system and measure the effect and efficiency of operations.</li> <li>2. Ensure the continuing valid implementation of internal control system as the basis for review on the amendments thereto.</li> </ol>	HR & General affairs Dept.			<p><b>Human Resources Administration - Human resources, training, general administration and document management.</b></p> <ol style="list-style-type: none"> <li>1. General administrative affairs processing.</li> <li>2. Implementing various human resource plans.</li> <li>3. Environmental cleaning and rectification of the factories.</li> </ol>
Occupational Safety & Health Division	<p><b>Occupational Safety Health and Environmental Protection Management</b></p> <ol style="list-style-type: none"> <li>1. Deciding, planning, supervising and boosting the safety and health management operations.</li> <li>2. Instruction and assisting various units to implement environmental protection and safety and health plans.</li> </ol>				

Department	Main responsibilities	Department	Main responsibilities
R&D Center	<p><b>Mission: Strengthen basic capabilities and create a new future.</b> core work:</p> <ul style="list-style-type: none"> <li>• Become a world-class grinding technology development center.</li> <li>• Establish a service platform for intelligent manufacturing and solutions.</li> <li>• Create new across-field industrial chains and ecosystems.</li> </ul> <p><b>R&amp;D direction:</b></p> <ul style="list-style-type: none"> <li>• Basic research</li> <li>• Product improvement</li> <li>• Intelligent automation</li> <li>• Circular Economy</li> <li>• New business development</li> </ul>		<ol style="list-style-type: none"> <li>4. Management of property and wealth-producing appliances.</li> <li>5. Handling of labor and health insurance matters.</li> <li>6. Handling of work maintenance matters.</li> <li>7. Handling of training matters.</li> <li>8. Maintenance of company management rules.</li> <li>9. Company vehicle management.</li> <li>10. Issuance of company periodicals</li> </ol>
		Purchasing Dept.	<p><b>Procurement Management-</b></p> <ol style="list-style-type: none"> <li>1. Raw materials and supplies, commodities and equipment procurement projects.</li> <li>2. General miscellaneous materials management.</li> </ol>
Abrasives B.U.	<p><b>Design, production, sales and process improvement of traditional products such as Al<sub>2</sub>O<sub>3</sub>, SiC, diamond, and CBN abrasives.</b></p> <ol style="list-style-type: none"> <li>1. Planning and implementation of the quality policy of the Business Unit.</li> <li>2. Promotion of products, shipment and delivery, payment receipt and credit management for domestic and foreign markets.</li> <li>3. Service and handling of domestic and foreign customer complaints.</li> <li>4. Development, intelligence collection and marketing of the international market.</li> <li>5. Management of overseas agents.</li> <li>6. Marketing planning and execution of products for distribution.</li> <li>7. Manufacturing and promotion of various grinding wheel products such as V, B, Mg, and fiber discs.</li> <li>8. Manufacturing and promotion of BD grinding wheels and trimming knife products.</li> <li>9. Manufacturing and processing of worktable metal tools and mold products.</li> <li>10. The processing of subcontract processing.</li> <li>11. Manufacturing and promotion of vacuum suction cups and ceramic carriers for air-floating transmission.</li> <li>12. Manufacturing and promotion of bonding tools.</li> <li>13. Grinding, manufacturing and promotion of precision molds and jigs.</li> <li>14. Processing, manufacturing and promotion of DLC type diamond film products.</li> <li>15. Inventory management of raw materials, products and products.</li> </ol>	Diamond B.U.	<p><b>Design, production, sales and process improvement of new application products of diamond, CBN, and PCD abrasives.</b></p> <ol style="list-style-type: none"> <li>1. Processing, manufacturing and promotion of diamond-coated products.</li> <li>2. Production and promotion of polycrystalline diamond tool products.</li> <li>3. Manufacturing and promotion of DG products.</li> <li>4. Processing, manufacturing and promotion of tool coating products.</li> <li>5. Manufacturing and promotion of dicing blades.</li> <li>6. Product inventory management.</li> <li>7. Handling of shipment and delivery matters.</li> <li>8. Planning and implementation of the quality policy of the Business Unit.</li> <li>9. Coordination and handling of customer complaints.</li> <li>10. Inspection of incoming materials and products.</li> <li>11. Inventory management of raw materials and products.</li> <li>12. Outsourced processing of products, molds and worktable metal tools.</li> <li>13. Inspection of the calibration of instruments.</li> </ol>
		Semiconductor Materials B.U.	<p><b>Technical services for the processing of 6/8-inch and 12-inch reclaimed wafers, 8-inch and 12-inch test wafers, carrier wafers, wafering and other semiconductor materials.</b></p> <ol style="list-style-type: none"> <li>1. Handling of shipment and delivery matters.</li> <li>2. Planning and implementation of the quality policy of the Business Unit.</li> <li>3. Coordination and handling of</li> </ol>

Department	Main responsibilities	Department	Main responsibilities
			customer complaints. 4. Inspection of incoming materials and products. 5. Inventory management of raw materials and products.

II. Information of directors, supervisors, presidents, vice presidents, function directors and heads of various departments and branches

(I) Director and supervisor information

April 26, 2021 Unit: share

Title (note 1)	Nationality or place of registration	Name	Gender	Election date (note 2)	Term of office	Date of first appointment	Shareholding at the time of appointment		Number of shares currently held		Current shareholding of spouse and minor children		Shareholding in the name of others		Major experience (education) (note 3)	Concurrent position held in the company and other companies	Other business heads, directors or supervisors with a spouse or second-tier relative relationship			Remarks (note 4)
							Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio			Title	Name	Relationship	
Chairman	Republic of China	Kinmean company LTD.	-	June 15, 2020	3 years	June 13, 2017	9,892,423	7.02%	9,892,423	6.99%	0	0.00%	0	0%	None	None	None	None	None	
	Republic of China	Legal representative of Kinmean company LTD.: PO-CHUAN, LIN	Male	June 15, 2020	3 years	June 15, 2020	1,830,292	1.30%	1,830,292	1.29%	0	0.00%	0	0%	In-service education program of Professional Master's Program in Business Administration, National Taiwan University Department of Public Administration, National Chengchi University	Chairman of Kinki Investment Ltd. Co. Chairman of Hongia Industry Co. Chairman of Kinik-Thai Co., LTD	None	None	None	
Director	Republic of China	WEN-LIANG, PAI	Male	June 15, 2020	3 years	June 13, 2005	3,190,605	2.26%	3,190,605	2.25%	1,309,089	0.92%	0	0%	Ph.D., Business and Management, Huron International University, USA	Deputy Chairman of the company Chairman of Kinchuan Investment Ltd. Co..	None	None	None	

Title (note 1)	Nationality or place of registration	Name	Gender	Election date (note 2)	Term of office	Date of first appointment	Shareholding at the time of appointment		Number of shares currently held		Current shareholding of spouse and minor children		Shareholding in the name of others		Major experience (education) (note 3)	Concurrent position held in the company and other companies	Other business heads, directors or supervisors with a spouse or second-tier relative relationship			Remarks (note 4)
							Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio			Title	Name	Relationship	
Director	Republic of China	Kinki investment LTD. CO.	-	June 15, 2020	3 years	June 15, 2020	4,796,000	3.40%	4,796,000	3.39%	0	0%	0	0%	None	None	None	None	None	
	Republic of China	Legal representative of Kinki investment LTD. CO.: JUNG-CHE, HSIEH	Male	June 15, 2020	3 years	June 13, 2008	212,943	0.15%	287,943	0.2%	69,482	0.05%	0	0%	Master of Mechanical Engineering, Keio University, Japan EMBA, National Taiwan University Leader of the Fine Components Technology Group, Mechanical and Mechatronics System Lab., Industrial Technology Research Institute Host of the Ministry of Economic Affairs Program	CEO of the company Director of Yamamura Kinik Optical Co., Ltd. Supervisor of Nano-TEM International Taiwan, Co. Director of Hongia Industry CO., LTD. Director of Kinik-Thai Co., LTD	None	None	None	
Director	Republic of China	LI-HE INV. LTD. COMPANY	-	June 15, 2020	3 years	June 13, 2017	2,471,420	1.75%	2,471,420	1.75%	0	0%	0	0%	None	None	None	None	None	

Title (note 1)	Nationality or place of registration	Name	Gender	Election date (note 2)	Term of office	Date of first appointment	Shareholding at the time of appointment		Number of shares currently held		Current shareholding of spouse and minor children		Shareholding in the name of others		Major experience (education) (note 3)	Concurrent position held in the company and other companies	Other business heads, directors or supervisors with a spouse or second-tier relative relationship			Remarks (note 4)
							Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio			Title	Name	Relationship	
	Republic of China	Legal representative of LI-HE INV. LTD. COMPANY: CHING-CHUNG, PAI	Male	June 15, 2020	3 years	June 13, 2017	400,000	0.28%	400,000	0.28%	0	0%	0	0%	Master of Materials, University of Southern California Assistant R&D Manager, TSMC	Vice President of the Chairman's Office of the Company Director of LI-HE INV. LTD. COMPANY Supervisor of Yamamura Kinik Optical Co., Ltd.	None	None	None	
Independent Director	Republic of China	SHING-YUAN, TSAI	Male	June 15, 2020	3 years	June 13, 2017	0	0%	0	0%	0	0%	0	0%	PhD, University of Wisconsin-Madison Campus Chief Executive Officer of Southern Region Campus of Industrial Technology Research Institute Director of the Mechanical and Mechatronics System Lab., Industrial Technology Research Institute	Chairman of Intellectual Property Innovation Corporation	None	None	None	

Title (note 1)	Nationality or place of registration	Name	Gender	Election date (note 2)	Term of office	Date of first appointment	Shareholding at the time of appointment		Number of shares currently held		Current shareholding of spouse and minor children		Shareholding in the name of others		Major experience (education) (note 3)	Concurrent position held in the company and other companies	Other business heads, directors or supervisors with a spouse or second-tier relative relationship			Remarks (note 4)
							Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio			Title	Name	Relationship	
Independent Director	Republic of China	BAUL-HSIE, LIAO	Male	June 15, 2020	3 years	June 13, 2017	221,126	0.16%	221,126	0.16%	0	0%	0	0%	Master of Business Administration, University of San Francisco, USA Master of Electrical Engineering, Rensselaer Institute of Technology, USA Chairman of China Electric Corporation Vice Chairman of South China Insurance Co., Ltd.	Chairman of The Howard PLAZA HOTEL Taipei	None	None	None	
Independent Director	Republic of China	WEN-YI, HSIAO	Male	June 15, 2020	3 years	June 15, 2020	0	0%	0	0%	0	0%	0	0%	PhD, Institute of Electronic Engineering, National Kaohsiung University of Science and Technology	Chairman of Xin Wang Management Consultant Co., Ltd.	None	None	None	

Note 1: For corporate shareholders, list the names of corporate shareholders and their representatives separately (for representatives of corporate shareholders, indicate the names of the corporate shareholders), and fill in Table 1 below.

Note 2: Fill in the time when first serving as a director or supervisor of the company. If there is any interruption, it shall be noted.

Note 3: The experience related to the current position. If the person has worked in the company's auditing firm or its related company during the aforementioned period, state the title and responsibilities.

Note 4: If the chairman of the company and the president or the person with an equivalent position (the top manager) are the same person or each other's spouse or relatives, state the reason, rationality, necessity and countermeasures (such as increasing the number of independent directors, and there should be more than half of the directors who are not concurrent employees or managers, etc.).

1. Major shareholders of corporate shareholders

- (1) For a representative of a corporate shareholder, list the name of the corporate shareholder, and the name and shareholding ratio of the corporate's top ten shareholders:

April 26, 2021

Name of corporate shareholder	Major shareholders of corporate shareholders
Kinmean company LTD.	MAN-LI, LIN CHEN (33.17%), PO-CHUAN, LIN (28.87%), PO-YIN, LIN (28.87%), YANG-LIANG, PAI (3.03%), WEN-LIANG, PAI (2.02%), FENG-MEI, CHIANG PAI (1.01%), YU-HUA, LIN (1.01%), WEBSTER COMPANY LTD. (2.02%)
LI-HE INV. LTD. COMPANY	YANG-LIANG, PAI (50.00%), FENG-MEI, CHIANG PAI (37.50%), CHING-CHUNG, PAI (4.50%), CHING-FANG, PAI (4.00%), YU-CHUANG, PAI (4.00%)
Kinki Investment Ltd. Co.	PO-CHUAN, LIN (38.06%), PO-YIN, LIN (38.04%), PRICELITE LIMITED (23.90%)

- (2) If a major shareholder is a legal person, the name of the legal person and the shareholding ratio of the legal person's shareholders account for the top ten shareholders and their shareholding ratio:

April 26, 2021

Corporate name	Major shareholder of the corporate
WEBSTER COMPANY LTD.	Kinmean company LTD. (48.34%), MAN-LI, LIN CHEN (18.39%), YANG-LIANG, PAI (10.00%), WEN-LIANG, PAI (9.44%), FENG-MEI, CHIANG PAI (5.00%), YU-HUA, LIN (4.17%), PO-CHUAN, LIN (2.33%), PO-YIN, LIN (2.33%)

## 2. Professional knowledge and independence of directors

April 26, 2021

Name	Having more than five years of work experience and the following professional qualifications.			Compliance with the independence requirement (note 1).												Number of concurrent independent director position of other public companies.
	Lecturer or above of a public or private college or university in business, legal, finance, accounting or a relevant discipline required for the company's business.	Judge, prosecutor, lawyer, accountant or another type of professional or technical personnel who has passed the national examination required for the company's business.	Work experience in business, legal, finance, accounting or any other field required for the company's business.	1	2	3	4	5	6	7	8	9	10	11	12	
Kinmean company LTD. Representative: PO-CHUAN, LIN (Chairman)			✓						✓	✓	✓	✓	✓	✓	None	
WEN-LIANG, PAI (Director)			✓					✓	✓	✓	✓	✓	✓	✓	None	
Kinki Investment Ltd. Co. Representative: JUNG-CHE, HSIEH (Director)			✓			✓		✓	✓	✓	✓	✓	✓	✓	None	
LI-HE INV. LTD. COMPANY Representative: CHING-CHUNG, PAI (Director)			✓			✓			✓	✓	✓	✓	✓	✓	None	
SHING-YUAN, TSAI (Independent Director)			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None	
BAUL-HSIE, LIAO (Independent Director)			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None	
WEN-YI, HSIAO (Independent Director)			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None	

Note 1: If the director or supervisor meets the following conditions in the two years before their election and during the term of office, please mark “✓” in the space below each condition code.

- (1) The director or supervisor is not an employee of the Company or its affiliated enterprises.
- (2) The director or supervisor is not a director or supervisor of the company or its affiliated enterprises (except for concurrent independent directors of the company and its parent company, subsidiaries, or subsidiaries of the same parent company in accordance with this Act or local laws and regulations).
- (3) A natural person shareholder who or whose spouse or minor children or in another person's name does not hold more than 1% of the total issued shares of the company or is not a top ten shareholder.
- (4) The director or supervisor is not a manager in (1) or the spouse, second-tier relative or third-tier relative of the persons listed in (2) or (3).
- (5) The director or supervisor is not a director, supervisor or employee of a corporate shareholder who directly holds more than 5% of the total issued shares of the company or a top-five shareholder, or is designated as a representative to serve as a director or supervisor of the company in accordance with paragraph 1 or 2 of Article 27 of the Company Act (except for concurrent independent directors of the Company and its parent company, subsidiaries, or subsidiaries of the same parent company in accordance with this Act or local laws and regulations).

- (6) The director or supervisor is not a director, supervisor or employee of another company that has a seat on the board of directors, or more than half of its shares with voting rights are controlled by the same owner of this company (except for concurrent independent directors of the company and its parent company, subsidiaries, or subsidiaries of the same parent company in accordance with this Act or local laws and regulations).
- (7) The director or supervisor is not a director, supervisor or employee of another company or institution who is the same person or spouse as the Chairman, President or an equivalent position of the company (except for concurrent independent directors of the company and its parent company, subsidiaries, or subsidiaries of the same parent company in accordance with this Act or local laws and regulations).
- (8) The director or supervisor is not a director, supervisor or manager of another company or institution which has financial or business dealings with the Company, or is a shareholder holding more than 5% of the shares of the company (not applicable if the company or institution holds more than 20% but no more than 50% of the total issued shares of the company, with concurrent independent directors of the company and its parent company, subsidiaries, or subsidiaries of the same parent company in accordance with this Act or local laws and regulations).
- (9) The director or supervisor is not a professional, sole proprietor, partner, business owner or partner, or a director, supervisor, manager or the spouse of the above of a company or institution which provides audit services to the company or its affiliated enterprises, or the cumulative remuneration amount of which in the past two years exceeds NT\$500,000 for business, legal affairs, finance or accounting related services. However, this does not apply to the members of the Compensation Committee or Special Committee for Merger/Consolidation and Acquisition who perform their responsibilities in accordance with the Securities and Exchange Act or the Business Mergers and Acquisitions Act.
- (10) The director or supervisor has no spouse or second-tier relative relationship with other directors.
- (11) There are no such circumstances as in Article 30 of the Company Act.
- (12) The director or supervisor is not a government agency, a legal person or their representative as stipulated in Article 27 of the Company Act.

(II) Information of presidents, vice presidents, function directors and heads of various departments and branches

April 26, 2021 Unit: share

Title (note 1)	Nationality	Name	Gender	Election date	Shareholding		Shareholding of spouse and minor children		Shareholding in the name of others		Major experience (education) (note 2)	Concurrent positions at other companies at the moment	Managers with a spouse or second-tier relative relationship			Remarks (note 3)
					Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio			Title	Name	Relationship	
CEO	Republic of China	JUNG-CHE, HSIEH	Male	February 9, 2010	287,943	0.2%	69,482	0.05%	0	0%	Master of Mechanical Engineering, Keio University, Japan EMBA, National Taiwan University Leader of the Fine Components Technology Group, Mechanical and Mechatronics System Lab., Industrial Technology Research Institute Host of the Ministry of Economic Affairs Program	(note 4)	None	None	None	None
President of Abrasives B.U.	Republic of China	BING-HSIUNG, SU	Male	July 26, 2018	36,087	0.03%	18	0%	0	0%	Master of Management, Central University	(note 5)	None	None	None	None
Diamond B.U. President	Republic of China	WEI-CHANG, LI	Male	January 1, 2001	203,427	0.14%	121	0%	0	0%	Master of Institute of Geosciences, National Taiwan University	None	None	None	None	None
Semiconductor Materials B.U. President	Republic of China	FU-I, HUNG	Male	March 15, 2010	30,000	0.02%	0	0%	0	0%	College of Technology Management, Tsing Hua University Deputy Engineer of Mechanical and Mechatronics System Lab., Industrial Technology Research Institute	None	None	None	None	None

Vice President of Chairman's Office	Republic of China	CHING-CHUNG, PAI	Male	June 13, 2017	400,000	0.28%	0	0%	0	0%	Master of Materials, University of Southern California	(note 6)	None	None	None	None
Vice President of Diamond B.U.	Republic of China	JUI-LIN, CHOU	Male	January 1, 2021	0	0%	100	0%	0	0%	Institute of Materials Science and Engineering, National Taiwan University	None	None	None	None	None
CFO	Republic of China	YUNG-SHENG, KU	Male	February 24, 2021	0	0%	0	0%	0	0%	Bachelor, Department of Accounting, Tamkang University	None	None	None	None	None
Audit Director	Republic of China	YI-CHUN, KO	Female	November 30, 2007	0	0%	0	0%	0	0%	Institute of accounting, Tamkang University	None	None	None	None	None
Director of Abrasives B.U.	Republic of China	SHAO-CHUNG, HU	Male	May 1, 2007	11,325	0.01%	0	0%	0	0%	PhD of Materials Science and Engineering, National Taiwan University	None	None	None	None	None
Director of Abrasives B.U.	Republic of China	CHIEN-CHUNG, TENG	Male	September 10, 2019	10,212	0.01%	0	0%	0	0%	Doctor of Nanoengineering, North Illinois University	None	None	None	None	None
Director of Semiconductor Materials B.U.	Republic of China	CHI-TUNG, TSAI	Male	May 1, 2016	35,572	0.03%	0	0%	0	0%	Department of Industrial Engineering, Chung Yuan Christian University	None	None	None	None	None
Director of Semiconductor Materials B.U.	Republic of China	WEN-HSIUNG, CHOU	Male	May 1, 2016	35,000	0.02%	0	0%	0	0%	Institute of Industrial and Systems Engineering, Chung Hua University	None	None	None	None	None
Director of Semiconductor Materials B.U.	Republic of China	TIEN-CHI, CHENG	Male	May 1, 2020	0	0%	0	0%	0	0%	Advanced Master of Management Program, National Taiwan Normal University	None	None	None	None	None
R&D Director	Republic of China	CHIA-CHE, HO	Male	February 1, 2016	0	0%	0	0%	0	0%	PhD of Institute of Mechanical Engineering, National Central University	None	None	None	None	None

Note 1: Please include the information of presidents, vice presidents, function directors and heads of various departments and branches, and those whose positions are equivalent to presidents, vice presidents or function directors; such information shall be disclosed regardless of their professional titles.

Note 2: The experience related to the current position. If the person has worked in the company's auditing firm or its related company during the aforementioned period, state the title and responsibilities.

Note 3: If the chairman of the company and the president or the person with an equivalent position (the top manager) are the same person or each other's spouse or relatives, state the reason, rationality, necessity and countermeasures (such as increasing the number of independent directors, and there should be more than half of the directors who are not concurrent employees or managers, etc.).

Note 4: Director of Yamamura Kinik Optical Co., Ltd. (appointed corporate representative), Supervisor of Nano-TEM International Taiwan, Co., Director of Kinik-Thai Co., LTD (appointed corporate representative)

Note 5: Director of Hongia Industry Co. (appointed corporate representative)

Note 6: Supervisor of Yamamura Kinik Optical Co., Ltd.



Independent Director	SHING-YUAN, TSAI	1,800	1,800	0	0	3,600	3,600	48	48	1.06	1.01	0	0	0	0	0	0	0	1.06	1.01	None
Independent Director	BAUL-HSIE, LIAO																				
Independent Director-Incumbent	CHIEN-WEN, CHOU																				
Independent Director-New	WEN-I, HSIAO																				

1. Please state the remuneration policies, systems, standards and structures about independent directors and the connection of the factors, such as responsibilities, risk and contributed hours, with the amount of remuneration: According to Article 25 of the Articles of Incorporation, if the Company retains earnings at the end of any fiscal year, the Company shall allocate no less than 1% of the earnings as the remuneration to employees, which shall be distributed in the form of stock or in cash upon a resolution adopted at a meeting of the Board of Directors. The recipients entitled to receive the remuneration include the employees of subsidiaries of the Company meeting certain specific requirements. The Company may also allocate no more than 2% of said earnings as the remuneration to directors upon a resolution adopted at a meeting of the Board of Directors. It should be considered reasonable if the remuneration to directors and supervisors varies depending on the earnings.
2. In addition to the disclosure in the above table, in the most recent fiscal year, the compensation received by Directors from all companies included in the financial statements for service rendered (e.g. in the capacity of non-Employee consultant): No such situation.

Note 1: Including the cost of providing the car, NT\$5,780 thousand. 2: The Company did not actually pay or allocate retirement benefits to directors in 2020.

Directors' Remuneration Tier Table

Tiers of remuneration of directors of the company	Name of director			
	Total remuneration of the first four items (A + B + C + D)		Total remuneration of the first seven items (A + B + C + D + E + F + G) (note 1)	
	All companies	in the financial report of the company	All companies	in the financial report of the company
Below NT\$1,000,000	MAN-LI, LIN CHEN WEN-LIANG, PAI Kinmean company LTD. Representative: PO-CHUAN, LIN KINKI INV. LTD. COMPANY Representative of KINKI INV. LTD. COMPANY: JUNG-CHE, HSIEH LI-HE INV. LTD. COMPANY Representative of LI-HE INV. LTD. COMPANY: CHING- CHUNG, PAI CHIEN-WEN, CHOU WEN-I, HSIAO	MAN-LI, LIN CHEN WEN-LIANG, PAI Kinmean company LTD. Representative: PO- CHUAN, LIN KINKI INV. LTD. COMPANY Representative of KINKI INV. LTD. COMPANY: JUNG-CHE, HSIEH LI-HE INV. LTD. COMPANY Representative of LI-HE INV. LTD. COMPANY: CHING-CHUNG, PAI CHIEN-WEN, CHOU WEN-I, HSIAO	MAN-LI, LIN CHEN LI-HE INV. LTD. COMPANY KINKI INV. LTD. COMPANY CHIEN-WEN, CHOU WEN-I, HSIAO	MAN-LI, LIN CHEN LI-HE INV. LTD. COMPANY KINKI INV. LTD. COMPANY CHIEN-WEN, CHOU WEN-I, HSIAO
NT\$1,000,000 (inclusive)~ NT\$2,000,000 (exclusive)	Kinmean company LTD. SHING-YUAN, TSAI BAUL-HSIE, LIAO	Kinmean company LTD. SHING-YUAN, TSAI BAUL-HSIE, LIAO	Kinmean company LTD. Kinmean company LTD. Representative: PO- CHUAN, LIN SHING-YUAN, TSAI BAUL-HSIE, LIAO	Kinmean company LTD. Kinmean company LTD. Representative: PO- CHUAN, LIN SHING-YUAN, TSAI BAUL-HSIE, LIAO
NT\$2,000,000 (inclusive)~ NT\$3,500,000 (exclusive)	None	None	Representative of LI-HE INV. LTD. COMPANY: CHING-CHUNG, PAI	Representative of LI-HE INV. LTD. COMPANY: CHING-CHUNG, PAI

NT\$3,500,000 (inclusive)~ NT\$5,000,000 (exclusive)	None	None	None	None
NT\$5,000,000 (inclusive)~ NT\$10,000,000 (exclusive)	None	None	WEN-LIANG, PAI	WEN-LIANG, PAI
NT\$10,000,000 (inclusive)~ NT\$15,000,000 (exclusive)	None	None	Representative of KINKI INV. LTD. COMPANY: JUNG-CHE, HSIEH	Representative of KINKI INV. LTD. COMPANY: JUNG-CHE, HSIEH
Total	10 people	10 people	10 people	10 people

Note 1: Including the cost of providing the car, NT\$5,780 thousand.

(II) Supervisors' Remuneration (consolidated and name disclosure by tier)

Unit: Thousand NT\$

Title	Name	Remuneration of supervisors						Ratio of the total of A, B and C to net income after tax (%)		Remuneration received from a non-subsidary reinvested enterprise or parent company
		Remuneration (A)		Remuneration (B)		Business execution fee (C)		All companies	in the financial report of the company	
		All companies	in the financial report of the company	All companies	in the financial report of the company	All companies	in the financial report of the company			
Supervisor	Representative of WEBSTER COMPANY LTD.: SSU-TANG, TENG	495	495	1,200	1,200	12	12	0.33	0.32	None
Supervisor	Representative of Kinki Inv Ltd. Company: JEN-HUNG, HSIAO									
Supervisor	HUNG-CHI, LIN									

Note: The company did not actually pay or allocate retirement benefits to supervisors in 2020.

Supervisors' Remuneration Tier Table

Tiers of remuneration of supervisors of the company	Name of supervisor	
	Total remuneration of the first three items (A + B + C)	
	All companies	in the financial report of the company
Below NT\$1,000,000	WEBSTER COMPANY LTD. Representative of WEBSTER COMPANY LTD.: SSU-TANG, TENG Kinki Inv Ltd. Company. Representative of Kinki Investment Ltd. Co.: JEN-HUNG, HSIAO HUNG-CHI, LIN	WEBSTER COMPANY LTD. Representative of WEBSTER COMPANY LTD.: SSU-TANG, TENG Kinki Inv Ltd. Company Representative of Kinki Investment Ltd. Co.: JEN-HUNG, HSIAO HUNG-CHI, LIN
Total	3 people	3 people

## (III) Remuneration of Presidents and Vice Presidents (consolidated and name disclosure by tier):

Unit: Thousand NT\$

Title	Name	Salary (A)		Retirement pension (B)		Bonus and special fee (C) (note 1)		Employee remuneration (D)				Ratio of the total of A, B, C and D to net income after tax (%)		Remuneration received from a non-subsidary reinvested enterprise or parent company
		All companies	in the financial report of the company	All companies	in the financial report of the company	All companies	in the financial report of the company	All companies		in the financial report of the company		All companies	in the financial report of the company	
								Cash amount	Monetary amount of shares	Cash amount	Monetary amount of shares			
CEO	JUNG-CHE, HSIEH	11,989	11,989	0	0	13,290	13,290	13,248	0	13,248	0	7.52	7.14	None
President of Abrasives B.U.	BING-HSIUNG, SU													
Diamond B.U. President	WEI-CHANG, LI													
Semiconductor Materials B.U. President	FU-I, HUNG													
Vice President of Chairman's Office	CHING-CHUNG, PAI													
Vice President of Diamond B.U.	JUI-LIN, CHOU													

Note 1: Including the cost of providing the car, NT\$10,480 thousand.

Remuneration Tier Table

Tiers of remuneration of presidents and vice presidents of the company	Names of the president and vice president	
	All companies (note 1)	in the financial report of the company
Below NT\$1,000,000	None	None
NT\$1,000,000 (inclusive)~NT\$2,000,000 (exclusive)	None	None
NT\$2,000,000 (inclusive)~NT\$3,500,000 (exclusive)	CHING-CHUNG, PAI	CHING-CHUNG, PAI
NT\$3,500,000 (inclusive)~ NT\$5,000,000 (exclusive)	None	None
NT\$5,000,000 (inclusive)~NT\$10,000,000 (exclusive)	BING-HSIUNG, SU WEI-CHANG, LI FU-I, HUNG	BING-HSIUNG, SU WEI-CHANG, LI FU-I, HUNG
NT\$10,000,000 (inclusive)~NT\$15,000,000 (exclusive)	JUNG-CHE, HSIEH	JUNG-CHE, HSIEH
Total	5 people	5 people

Note 1: Including the cost of providing the car, NT\$10,480 thousand.

(IV) Name of the manager to whom employees' remuneration is distributed and the distribution situation

Unit: Thousand NT\$

	Title	Name	Monetary amount of shares	Cash amount	Total	Percentage of net profit after tax (%)
Managers	CEO	JUNG-CHE, HSIEH	0	18,749	18,749	3.66
	President of Abrasives B.U.	BING-HSIUNG, SU				
	Diamond B.U. President	WEI-CHANG, LI				
	Semiconductor Materials B.U. President	FU-I, HUNG				
	Vice President of Chairman's Office	CHING-CHUNG, PAI				
	Vice President of Semiconductor Materials B.U.	JUI-LIN, CHOU				
	CFO	YUNG-SHENG, KU				
	Director of Abrasives B.U.	SHAO-CHUNG, HU				
	Director of Abrasives B.U.	CHIEN-CHUNG, TENG				
	Director of Semiconductor Materials B.U.	CHI-TUNG, TSAI				
	Director of Semiconductor Materials B.U.	WEN-HSIUNG, CHOU				
	Director of Semiconductor Materials B.U.	TIEN-CHI, CHENG				
	R&D Director	CHIA-CHE, HO				
	Audit Director	YI-CHUN, KO				

- (V) Analysis of the proportion of total remuneration paid by the company and all companies in the financial report to the company's directors, supervisors, presidents and vice presidents to the net profit after tax in the last two years, and explanation of the remuneration policy, standard and combination, the procedure of remuneration setting and the relevance with business performance.

See the table on the right.

The remuneration of directors and supervisors includes remuneration, salary and traveling expenses. The remuneration is based on the provisions of the company's articles of association, and the board of directors prepares a distribution plan and submits it to the shareholders' meeting for payment. Traveling expenses are paid according to the market standard. The remuneration of presidents and vice presidents includes salary, bonus and employees' remuneration. The standard of payment varies in accordance with the company's salary management measures, position and responsibility assumed, and the company's operating performance. The 2020 year-end bonus policy was passed by the Compensation Committee.

Year Title	2020 (note)		2019	
	All companies	in the financial report of the company	All companies	in the financial report of the company
Director	11.09%	10.53%	10.85%	10.80%
Supervisor				
Presidents and vice presidents				
Note: The amount of remuneration distributed in 2020 is the proposed amount.				

#### IV. Corporate Governance Operation

##### (I) Operation of the board of directors

##### 1. Information on the operation of the board of directors

A total of 7 general board meetings and 2 extraordinary board of directors were held in the

most recent year, and the attendance of directors and supervisors is as follows:

Title	Name	Actual number of attendance	Number of delegated attendance	Actual rate of attendance	Remarks
Chairman	MAN-LI, LIN CHEN	2	0	100.00	Incumbent
Chairman	Kinik Inv Company., Ltd. Representative: PO- CHUAN, LIN	7	0	100.00	New
Director	WEN-LIANG, PAI	8	0	88.89	Re-elected
Director	Kinki Inv Ltd. Company. Representative: JUNG- CHE, HSIEH	8	0	88.89	Re-elected
Director	LI-HE INV. LTD. COMPANY Representative: CHING- CHUNG, PAI	8	0	88.89	Re-elected
Independent Director	SHING-YUAN, TSAI	8	0	88.89	Re-elected
Independent Director	BAUL-HSIE, LIAO	8	0	88.89	Re-elected
Independent Director	CHIEN-WEN, CHOU	2	0	100.00	Incumbent
Independent Director	WEN-I, HSIAO	6	0	85.71	Re-elected
Supervisor	HUNG-CHI, LIN	2	0	100.00	After the shareholders' meeting on June 15, 2020, the supervisory system is replaced with the Audit Committee system.
Supervisor	WEBSTER COMPANY LTD. Representative: SSU- TANG, TENG	2	0	100.00	
Supervisor	Kinki Invt Ltd. Company. Representative: JEN- HUNG, HSIAO	2	0	100.00	

Other matters to be recorded:

- I. If the operation of the board of directors has any of the following circumstances, state the date, session number and proposal contents of the board of directors' meeting, all independent directors' opinions, and the company's handling of independent directors' opinions:
  - (I) Matters listed in Article 14-3 of the Securities and Exchange Act: No such situation.
  - (II) In addition to the previous matters, other board of directors resolutions that were opposed to or with opinions reserved by independent directors, and the records or written statements are retained: No such situation.
- II. On the implementation of directors' avoidance of interest related proposals, state the name of the director, the content of the proposal, the reason for avoidance and the status of participation in voting: There were no avoidance circumstances other than those related to salary.
- III. Listed and OTC companies shall disclose the evaluation cycle and period, scope, method, and content of the board of directors' self (or peer) evaluation, and fill in the attached Table 2 (2) Implementation status of the

board of directors' evaluation.

IV. The objectives of strengthening the board of directors' responsibilities in the current and recent years (such as establishing an audit committee, enhancing information transparency, etc.) and evaluation of the implementation: The company established the Audit Committee in 2020.

2. Implementation of performance assessment on the Board of Directors

(1) The implementation of performance assessment on the Board of Directors in 2020:

Frequency of assessment (note 1)	Assessment period (note 2)	Scope of assessment (note 3)	Method of assessment (note 4)	Content of assessment (note 5)
Once a year	June 15, 2020~December 31, 2020 (Re-election of directors on June 15)	Board of Directors	Self-evaluation of the Board of Directors	The indicators consist of the participation level in the management of the Company, enhancement of the decision-making quality of the Board, composition and structure of the Board of Directors, election and continuing education of directors and internal controls.
Once a year	June 15, 2020~December 31, 2020 (Re-election of directors on June 15)	Individual Board members	Self-evaluation of Board members	The indicators consist of alignment with the Company's goals and mission, comprehension of the responsibilities of the Directors, participation level in the management of the Company, management of internal relations and communication, profession and continuing education of directors and internal controls.

Once a year	June 15, 2020~December 31, 2020 (Re-election of directors on June 15)	Functional committee	Self-evaluation of the functional committee.	The indicators consist of participation level in the management of the Company, comprehension of the responsibilities of the functional committee, enhancement of the decision-making quality of the functional committee and composition of functional committee and appointment of members and internal controls.
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(2) The Board of Directors' performance assessment result 2020 is stated as following:

A. Board of Directors' performance appraisal

Dimension	Index	Weight	Scores
A. Participation level in the management of the Company.	11	20%	19.27
B. Enhancement of the decision-making quality of the Board.	12	30%	29.00
C. Composition and structure of the Board of Directors.	7	15%	14.57
D. Appointment of Director and continued education.	7	10%	9.14
E. Internal control.	7	25%	23.57
<b>Total</b>	<b>44</b>	<b>100%</b>	<b>95.56</b>

Assessment results: 5 major dimensions, 44 indicators and overall scores 95.56; the overall operations and communication considered fair accordingly.

Dimension to be corrected: Appointment of Director and continuing education.

Suggestion: Arrange the continuing professional development plan for directors to enable the directors to improve their knowledge and skills.

B. Self-evaluation of the Board members

<b>Dimension</b>	<b>Index</b>	<b>Weight</b>	<b>Scores</b>
A. Alignment with the Company's goals and mission	3	20%	19.62
B. Comprehension of the responsibilities of the Directors.	3	20%	19.62
C. Participation level in the management of the Company.	8	20%	19.14
D. Management of internal relations and communication	3	15%	14.00
E. Appointment of Director and continued education.	3	10%	9.62
F. Internal control.	3	15%	14.57
<b>Total</b>	<b>23</b>	<b>100%</b>	<b>96.57</b>

Assessment results: 6 major dimensions, 23 indicators and overall scores 96.57; the overall operation considered successful.

Dimension to be corrected: Management of internal relations and communication

Suggestion: Arrange the communication and exchange between directors and CPAs and management team.

#### C. Performance appraisal of functional committees

<b>Dimension</b>	<b>Index</b>	<b>Weight</b>	<b>Scores</b>
A. Participation level in the management of the Company.	4	30%	30.00
B. Comprehension of the responsibilities of the functional committee.	7	25%	22.86
C. Enhancement of the decision-making quality of the functional committee.	7	25%	22.86
D. Composition of functional committee and appointment of members.	3	10%	9.33
E. Internal control.	3	10%	9.33
<b>Total</b>	<b>24</b>	<b>100%</b>	<b>94.38</b>

Assessment results: 5 major dimensions, 24 indicators and overall scores 94.38; the overall operation considered effective.

Dimension to be corrected: Comprehension of the responsibilities of the

functional committee.

Suggestion: Review the performance assessment and remuneration policy on directors and managers periodically.

(II) Operation of the Audit Committee or the Participation of the Supervisor in the Operation of the Board of Directors

1. Operation of the Audit Committee:

The audit committee of the Company consists of three independent directors. The purpose of the audit committee is to assist the performance of the board of directors in terms of the quality and integrity with respect to accounting, audit, financial report processes and financial control.

The audit committee has held five times of meeting in 2020, and the main meeting agenda includes the following:

1. Financial statements audit and accounting policies and procedures
2. Internal control system and relevant policies and procedures
3. Material asset transactions
4. Information security
5. Company risk management
6. Issuance of employee stock options

- (1) The number of audit committee meetings in the most recent year and the attendance rate of each independent director:

A total of 5 audit committee meetings and 1 extraordinary audit committee meeting were held in the most recent year. The attending members are as follows:

Title	Name	Actual attendance number	Actual attendance rate (%)	Remarks
Independent Director	SHING-YUAN, TSAI	6	100.00	
Independent Director	BAUL-HSIE, LIAO	6	100.00	
Independent Director	WEN-I, HSIAO	6	100.00	
<p>Other matters to be recorded:</p> <p>I. If the operation of the Audit Committee has any of the following circumstances, state the date, session number and proposal contents of the board of directors' meeting, the resolution of the Audit Committee, and the company's handling of the Audit Committee's opinions.</p> <p>See (2) for details. For matters listed in Article 14-5 of the Securities and Exchange Act and other matters that have not been approved by the Audit Committee but agreed by more than two-thirds of all directors, state the date, session number and proposal contents of the board of directors' meeting, the resolution of the Audit Committee, and the company's handling of the Audit Committee's opinions.</p> <p>II. On the implementation of independent directors' avoidance of interest-related proposals, state the name of the independent director, the content of the proposal, the reason for avoidance and the status of participation in voting: No such situation.</p> <p>III. Status of communication between independent directors, the head of internal audit and the accountant:</p> <p>(I) Status of communication between independent directors and the head of internal audit</p> <ol style="list-style-type: none"> <li>1. The head of internal audit attends each audit committee meeting, reports on the audits' status, and communicates face-to-face with independent directors.</li> <li>2. The internal auditors will immediately report to the independent directors if they find a major violation or the company is in danger of major damage.</li> <li>3. The communication channel between the company's independent directors and the head of internal audit is smooth and good.</li> </ol> <p>(II) Communication between independent directors and the accountant</p> <p>The accountants report the results of the quarterly audit or review of the financial statements and other communications required by relevant laws and regulations at the quarterly audit committee meetings. If there are special circumstances, they will immediately report to the members of the audit committee. There was no such special situation during the year. The company's audit committee communicates well with the accountant.</p>				

- (2) For matters listed in Article 14-5 of the Securities and Exchange Act and other matters that have not been approved by the Audit Committee but agreed by more than two-thirds of all directors, state the date, session number and proposal contents of the board of directors' meeting, the resolution of the Audit Committee, and the company's handling of the Audit Committee's opinions:

Audit Committee meeting date	Session number	Proposal contents	Resolution	Handling of opinions
July 29, 2020	1	<ol style="list-style-type: none"> <li>1. Report on the company's consolidated financial statements for the first half of 2020.</li> <li>2. Amendment to the ratification proposal on the company's 2020 employee stock option issuance and stock subscription method.</li> <li>3. The company's issuance of employee stock options in 2020.</li> </ol>	It was agreed by all the members present, and the proposal was passed.	No such situation.
October 7, 2020	2	<ol style="list-style-type: none"> <li>1. The real estate transaction of the company's intention to purchase No. 2 and No. 2-1 in Yucuo Lane, Dahu Road, Yingge District, New Taipei City.</li> </ol>	After discussion by the present members, it was believed that some information needed to be supplemented	<ol style="list-style-type: none"> <li>1. Enhancement of information in the real estate appraisal report.</li> <li>2. Supplement of a more detailed 5-year financial risk assessment.</li> <li>3. Supplement of the company's overall long-term 10-year planning and goals.</li> </ol>
October 15, 2020	3	<ol style="list-style-type: none"> <li>1. The real estate transaction of the company's intention to purchase No. 2 and No. 2-1 in Yucuo Lane, Dahu Road, Yingge District, New Taipei City.</li> </ol>	It was agreed by all the members present, and the proposal was passed.	No such situation.
October 28, 2020	4	<ol style="list-style-type: none"> <li>1. Report on the audit report.</li> <li>2. The company's formulation of the "risk management policy."</li> <li>3. Decision on the base date for the conversion of employee stock options into new shares for the third quarter of 2020.</li> </ol>	It was agreed by all the members present, and the proposal was passed.	No such situation.

December 23, 2020	5	<ol style="list-style-type: none"> <li>1. The company's 2021 audit plan.</li> <li>2. Revision of the internal control system and internal audit system.</li> <li>3. The company's formulation of "Measures for the Handling of Important Internal Information and Prevention of Insider Transactions."</li> <li>4. Appointment of the company's Head of Corporate Governance.</li> </ol>	It was agreed by all the members present, and the proposal was passed.	No such situation.
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- (3) Other than the matters above, matters that have not been approved by the Audit Committee but agreed by more than two-thirds of all directors:

No such situation.

- (4) On the implementation of independent directors' avoidance of interest related proposals, state the name of the independent director, the content of the proposal, the reason for avoidance and the status of participation in voting:

No such situation.

2. Supervisors' participation in the operation of the board of directors:

A total of 7 general board meetings and 2 extraordinary board of directors'

meetings were held in the most recent year, and the attendance of supervisors is as follows:

Title	Name	Actual attendance number	Actual attendance rate (%)	Remarks
Supervisor	HUNG-CHI, LIN	2	100.00	After the shareholders' meeting on June 15, 2020, the supervisory system is replaced with the Audit Committee system.
Supervisor	WEBSTER COMPANY LTD. Representative: SSU-TANG, TENG	2	100.00	
Supervisor	Kinki Inv Ltd. Company. Representative: JEN-HUNG, HSIAO	2	100.00	
<p>Other matters to be recorded:</p> <p>I. Composition and duties of supervisors:</p> <p>(I) The communication between supervisors and the company's employees and shareholders (such as the communication channels, methods, etc.): The supervisors use e-mail and personally participate in the shareholders' meeting to communicate with the company's employees and shareholders.</p> <p>(II) Communication between supervisors and the head of internal audit and the accountant (such as the matters, methods and results of communicating the company's financial and business conditions): The supervisors use e-mail and participate in the forums with the head of internal audit, independent directors and the accountant to personally communicate and understand the company's financial and business conditions.</p> <p>II. If the supervisors attend the board of directors and express their opinions, state the date of the board meeting, the session number, the proposal content, the resolutions of the board of directors and the company's handling of the supervisors' opinions: No such situation.</p>				

(III) The regulations, member composition, responsibilities and operating conditions of the company's Compensation Committee

1. Regulations:

(Basis for formulation)

In order to improve the compensation system for directors and managers of the company, the company follows the provisions of Article 3 of the "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Taiwan Stock Exchange or the Taipei Exchange" (hereinafter referred to as the "Regulations Governing the Exercise of Powers by the Compensation Committee") to formulate the Organizational Rules of the Compensation Committee (hereinafter referred to as the "Organizational Rules") to be followed.

(Organization member)

The committee's function is to evaluate the compensation policy and system of the directors and managers of the company from a professional and objective viewpoint and make recommendations to the board of directors for its decision-making reference.

The number of committee members is three. The board of directors appoints the members by its resolution; at least one member of the committee shall be an independent director, and all the members shall elect an independent director as the convener and chairman of the committee meeting.

The professional qualifications and independence of the committee members shall comply with the provisions of Article 5 and Article 6 of the "Regulations Governing the Exercise of Powers by the Compensation Committee."

The term of office of the committee members is the same as the term of the board of directors that makes the appointment. If some of the committee members are dismissed for some reason, making the number of members less than three, then the board of directors shall be convened to make appointments within three months from the day when the fact occurs.

(Committee Responsibilities and Powers)

The committee shall faithfully perform the following responsibilities and powers with the attention of a good manager and submit its proposals to the board of directors for discussion:

- I. Review the Organizational Rules regularly and propose amendments.
- II. Formulate and regularly review the company directors' and managers' annual and long-term performance goals and the compensation policy, system, standard and structure.
- III. Regularly evaluate the achievement of the performance goals of the directors and managers of the company and determine the content and amount of their individual compensation.

When performing the responsibilities and powers of the preceding paragraph, the committee shall follow the following principles:

- I. Ensure that the company's compensation arrangements comply with relevant laws and regulations and are sufficient to attract outstanding talents.
- II. For the performance evaluation and compensation of directors and managers, the usual level of payment in the same industry shall be referred to, and the time invested by the individual, the responsibilities of the individual, the status of personal goal achievement, the performance of concurrent positions, and the compensation given by the company to the same position in recent years shall be considered. The achievement of the company's short-term and long-term business goals and the company's financial status shall be used to assess the rationality of the relationship between personal performance and the company's operating performance and future risks.
- III. Directors and managers shall not be guided to engage in behaviors that exceed the company's risk appetite in pursuit of compensation.
- IV. The ratio of the short-term performance bonus of directors and senior managers and the payment time of part of the variable compensation shall be determined by considering the characteristics of the industry and the nature of the company's business.

The compensation referred to in the preceding two paragraphs include cash remuneration, stock options, dividends, retirement benefits or severance payments, various allowances and other measures with substantial incentives; the scope shall be consistent with the criteria for items to be recorded in the annual report of public issuing companies concerning directors' and managers' remuneration.

If the remuneration of directors and managers of a subsidiary of the company is subject to the approval of the company's board meeting according to the

subsidiary's hierarchical responsibility, the committee shall make a proposal and submit it to the board of directors for discussion.

(Convening of Meeting)

The committee meeting is convened twice a year. The reason for the convening shall be stated at the time of convening, and the committee members shall be notified seven days in advance. However, the requirement does not apply in case of an emergency.

If the convener is on leave or unable to convene the meeting for some reason, he shall appoint another independent director of the committee as the proxy; if there is no other independent director on the committee, the convener shall appoint another member of the committee as the proxy; if the convener does not appoint a proxy, the other committee members shall nominate one person to act as the proxy. The agenda of the committee meeting is to be set by the convener, and other members may also provide proposals for the committee to discuss. The meeting agenda shall be provided to the committee members in advance.

When the committee is convened, the company shall prepare a signature book for attending members to sign in and for review and reference.

The committee members shall attend the committee in person. If they are unable to attend in person, they may entrust other members to attend as proxies. Each member may be entrusted by one other member only. Those who participate in the meeting via video conferencing are deemed to be present in person.

When a committee member entrusts another member to attend the committee as a proxy, he shall issue a power of attorney each time and list the scope of authorization on the reasons for convening.

(Meeting Resolution)

When the committee is making a resolution, the consent of more than half of all the members shall be obtained. At the time of voting, if there is no objection after consultation by the chairman of the committee, the resolution shall be deemed passed, and the effect of consultation shall be the same as that of voting.

The results of the voting in the preceding paragraph shall be reported on the spot and recorded.

If the members have objections to or reservations on the resolutions of the

committee meeting, and if relevant records or written statements are available, in addition to having them included in the meeting minutes, they shall be announced and declared on the information reporting website designated by the competent authority within two days from the day when the fact occurs.

When the board of directors discusses the committee's proposals, it shall comprehensively consider the amount of compensation, the payment method and the company's future risks.

If the board of directors does not adopt or amends the committee's proposal, two-thirds of all the directors shall be present at the meeting, and more than half of the directors present shall consent to the rejection or amendment. In addition, the board meeting shall explain in the resolution how the compensation passed based on the aforementioned comprehensive consideration is superior to the committee's proposed one.

If the compensation approved by the board of directors is superior to the committee's proposed one, in addition to stating the difference and the reason in the minutes of the board meeting, they shall be announced and declared on the information reporting website designated by the competent authority within two days from the day when the fact occurs.

The committee members shall avoid meeting items in which they have personal interests that may cause harm to the company.

If the committee is unable to convene a meeting or make a resolution due to reasons in the proviso to item four or the preceding paragraph, it shall report to the board of directors for its discussion and resolution.

(Meeting Minutes)

The proceedings of the committee shall be made into minutes, which shall record the following items in detail:

- I. The session number, time and place of the meeting.
- II. The name of the chairman.
- III. The attendance status of the members, including the names and number of those who are present, on leave, and absent.
- IV. The names and titles of attendees.
- V. The name of the minutes taker.
- VI. Report items.

VII. Discussion items: The resolution method and results of each proposal, and the opposition or reservations of committee members.

VIII. Extraordinary motion: The name of the proposer, resolution method and result of the proposal, summary of the speeches of committee members, experts and other personnel, and objections or reservations.

IX. Other matters to be recorded.

The sign-in book of the committee is a part of the minutes of the proceedings; if a video conference is held, the video and audio materials are also part of the minutes. The minutes of the proceedings shall be signed or stamped by the chairman and the minutes taker of the meeting, distributed to the committee members within 20 days after the meeting, and shall be presented to the board of directors and included in the company's important files, and kept for five years; the production and distribution of the minutes can be done by electronic means.

Before the expiry of the retention period mentioned in the preceding paragraph, if a lawsuit occurs regarding matters related to the committee, the minutes shall be preserved until the lawsuit's termination.

(Check Consultation)

When a committee meeting is convened, the company's directors, relevant department managers, internal auditors, accountant, legal adviser or other personnel may be invited to attend the meeting and provide the relevant and necessary information.

The committee meeting may, by resolution, appoint lawyers, accountants or other professionals to conduct necessary inspections or provide consultations on matters related to the exercise of powers, and the related expenses shall be borne by the company.

(Subsequent Execution)

The convener or other committee members may be authorized to handle the follow-up execution work of the resolutions of the committee meeting and submit a written report to the committee during the execution period; if necessary, the report shall be submitted to the committee for ratification or report at the next meeting.

2. Information of members of the company's Compensation Committee:

Identity status (note 1)	Name	Qualification	Having more than five years of work experience and the following professional qualifications.	Compliance with the independence requirement (note 2)										Number of concurrent compensation committee member of other public companies	Remarks		
				Lecturer or above of a public or private college or university in business, legal, finance, accounting or a relevant discipline required for the company's business.	Judge, prosecutor, lawyer, accountant or another type of professional or technical personnel who has passed the national examination required for the company's business.	Work experience in business, legal, finance, accounting or any other field required for the company's business.	1	2	3	4	5	6	7			8	9
Independent Director	SHING-YUAN, TSAI			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None	Re-elected
Independent Director	BAUL-HSIE, LIAO			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None	Re-elected
Independent Director	WEN-I, HSIAO	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None	New
Independent Director	CHIEN-WEN, CHOU			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	Incumbent

Note 1: Please fill in the identity as a director, independent director or other.

Note 2: For members who meet the following conditions two years before and during their term of office, please type "✓" in the space below each condition code.

- (1) Not an employee of the company or its affiliated enterprises.
- (2) Not a director or supervisor of the company or its affiliated enterprises (except for concurrent independent directors of the company and its parent company, subsidiaries, or subsidiaries of the same parent company in accordance with this Act or local laws and regulations).
- (3) A natural person shareholder who or whose spouse or minor children or in another person's name does not hold more than 1% of the total issued shares of the company or is not a top ten shareholder.
- (4) The director or supervisor is not a manager in (1) or the spouse, second-tier relative or third-tier relative of the persons listed in (2) or (3).
- (5) Not a director, supervisor or employee of a corporate shareholder who directly holds more than 5% of the total issued shares of the company, or who is a top 5 shareholder, or which appoints its representative as the company's director or supervisor according to subparagraph 2, paragraph 1, Article 27 of the Company Act (except for concurrent independent directors of the company and its parent company, subsidiaries, or subsidiaries of the same parent company in accordance with this Act or local laws and regulations).

- (6) Not a director, supervisor or employee of another company which has a seat on the board of directors, or more than half of its shares with voting rights are controlled by the same owner of this company (except for concurrent independent directors of the company and its parent company, subsidiaries, or subsidiaries of the same parent company in accordance with this Act or local laws and regulations).
  - (7) Not a director, supervisor or employee of another company or institution who is the same person or spouse as the chairman, president or an equivalent position of the company (except for concurrent independent directors of the company and its parent company, subsidiaries, or subsidiaries of the same parent company in accordance with this Act or local laws and regulations).
  - (8) Not a director, supervisor or manager of another company or institution which has financial or business dealings with the company, or is a shareholder holding more than 5% of the shares of the company (not applicable if the company or institution holds more than 20% but no more than 50% of the total issued shares of the company, with concurrent independent directors of the company and its parent company, subsidiaries, or subsidiaries of the same parent company in accordance with this Act or local laws and regulations).
  - (9) Not a professional, sole proprietor, partner, business owner or partner, or a director, supervisor, manager or the spouse of the above of a company or institution which provides audit services to the company or its affiliated enterprises, or the cumulative remuneration amount of which in the past two years exceeds NT\$500,000 for business, legal affairs, finance or accounting related services. However, this does not apply to the members of the Compensation Committee or Special Committee for Merger/Consolidation and Acquisition who perform their responsibilities in accordance with the Securities and Exchange Act or the Business Mergers and Acquisitions Act.
  - (10) There are no such circumstances as in Article 30 of the Company Act.
3. Information on the operation of the Compensation Committee:

- (1) There are 3 members on the Compensation Committee of the company.
- (2) The term of office of the current members: June 15, 2020 to June 14, 2023.

The Compensation Committee held 4 regular meetings and 1 temporary meeting in the most recent year. The qualifications and attendance of the members are as follows:

Title	Name	Actual attendance (B)	Number of delegated attendance	Actual attendance rate (%) (B/A) (note)	Remarks
Convener	SHING-YUAN, TSAI	5	0	100%	Re-elected
Member	BAUL-HSIE, LIAO	5	0	100%	Re-elected
Member	WEN-I, HSIAO	3	0	100%	New
Member	CHIEN-WEN, CHOU	2	0	100%	Incumbent

Other matters to be recorded:

- I. If the board meeting does not adopt or amends the proposal of the Compensation Committee, state the date, session number, proposal contents, the resolution of the board of directors, and the company's handling of the Compensation Committee's proposal (if the compensation approved by the board meeting is superior to the committee's proposed one, state the difference and the reason).

No such situation.

- II. If the members have objections to or reservations on the resolutions of the Compensation Committee meeting, and if relevant records or written statements are available, state the date, session number, proposal contents of the committee meeting, opinions of all the members and the handling of the members' opinions.

No such situation.

III. The reasons and resolutions of the most recent Compensation Committee meeting:

Session number	Date	Reason for discussion	Resolution
1	February 25, 2020	Distribution of the company's 2019 employees' remuneration and directors' and supervisors' remuneration.	Agreed by all members present and passed.
2	April 29, 2020	<ol style="list-style-type: none"> <li>1. The company's salary adjustment this year.</li> <li>2. Approval of compensation proposal for directors of the company's Semiconductor Materials B.U..</li> <li>3. Proposed employee stock option certificate issuance measures of the company.</li> <li>4. Proposed "Management Measures for Directors' and Managers' Compensation" of the company.</li> <li>5. Amendment to the "Compensation Committee Organization Rules."</li> </ol>	Agreed by all members present and passed.
Extemporaneous motion 1	June 15, 2020	<ol style="list-style-type: none"> <li>1. Election of the convener of the Compensation Committee.</li> <li>2. Report on the independent directors' compensation.</li> <li>3. Distribution of the directors' and supervisors' compensation.</li> <li>4. The senior managers' bonus of this year.</li> </ol>	<ol style="list-style-type: none"> <li>1. Election of Mr. SHING-YUAN, TSAI as the convener.</li> <li>2-4 Agreed by all members present and passed.</li> </ol>
3	July 29, 2020	<ol style="list-style-type: none"> <li>1. Approval of the compensation of the chairman of the company.</li> <li>2. Amendment to the ratification of the company's 2020 employee stock option issuance and stock subscription methods.</li> <li>3. The company's issuance of employee stock options in 2020.</li> </ol>	Agreed by all members present and passed.
4	December 23, 2020	<ol style="list-style-type: none"> <li>1. The total amount of year-end bonuses this year and the distribution of year-end bonuses for managers and executive directors.</li> <li>2. Salary proposal for Director JUI-LIN, CHOU of Diamond B.U. for promotion to Vice President of Diamond B.U.</li> </ol>	Agreed by all members present and passed.

Note:

(1) If a member of the Compensation Committee resigns before the end of the year, the date of the resignation shall be indicated in the remarks column. The actual attendance rate (%) is calculated based on the number of meetings of the Compensation Committee during the term of service and the actual number of attendance.

(2) Before the end of the year, if the Compensation Committee is re-elected, the new and incumbent Compensation Committee members shall be listed. Whether the member is incumbent, new or re-elected and the date of reelection shall be indicated in the remarks column. The actual attendance rate (%) is calculated based on the number of meetings of the Compensation Committee during their term of office and their actual attendance.

(IV) Relevant disclosure information of the Special Committee for Merger/Consolidation and Acquisition of the company

1. Organization Rules

(Organization Members)

These rules are formulated in accordance with the provisions of Article 3 of the "Regulations Governing the Establishment and Related Matters of Special Committees of Public Companies for Merger/Consolidation and Acquisition."

Matters related to the responsibilities and powers of the Special Committee for Merger/Consolidation and Acquisition of the company (hereinafter referred to as the committee) shall be handled in compliance with the Organization Rules unless otherwise provided by laws or regulations.

The number of committee members shall not be less than three and the members shall be composed of independent directors, one of whom shall be the convener. If there is no independent director or the independent directors do not meet the qualification in paragraph 2 or there is an insufficient number of independent directors, then the committee shall be composed of members selected by the board of directors of the company.

The qualifications of the committee members shall comply with the provisions of Articles 2 and 3 of the "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies," and the members shall not be related parties of M&A transactions or have a personal interest to affect the independence.

The related parties mentioned in paragraph 2 above and paragraph 2 of Article 6 shall be identified in accordance with the provisions of the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

The committee shall review the fairness and rationality of M&A plans and transactions, and the company shall submit the review results to the board of directors' meeting and the shareholders' meeting. However, if there is no need to convene a shareholders' meeting to resolve the M&A matter in accordance with the provisions of the Business Mergers and Acquisitions Act, it may not be reported to the shareholders' meeting.

(Committee's Responsibilities and Powers)

The committee members shall faithfully perform the duties set out in the Organizational Rules with the attention of good managers.

When the committee conducts its review, independent experts shall be appointed to provide opinions on the rationality of the share swap ratio or the distribution of cash or other assets to shareholders.

Independent experts refer to accountants, lawyers or securities underwriters. They shall not be related parties or have a personal interest relationship with the parties to an M&A transaction that may affect the independence.

The appointment of independent experts shall be agreed upon by more than half of all committee members.

(Meeting Convening and Resolution)

The convening of the committee shall be notified to committee members seven days in advance. However, the requirement does not apply in case of an emergency. The committee members include three independent directors, and the convener serves as the chairman of the meeting.

The agenda of the committee meeting is set by the convener, and other members may also provide proposals for discussion by the committee. The meeting agenda shall be provided to the committee members in advance. When the committee meeting is convened, the company shall set up a sign-in book for the attending members to sign-in, and it shall be a part of the meeting minutes.

When the committee is making a resolution, more than half of all members shall agree, and the results of the review, the opinions of the members' agreement or disagreement and the reasons for their disagreement shall be reported to the board of directors.

The committee members shall attend the committee in person and shall not attend as a proxy. In their opinions, the members present shall express their agreement or disagreement and shall not abstain. Those who participate in the meeting by video conferencing are deemed to attend the meeting in person.

The company shall, within two days from the date of the first resolution of the board of directors, report the resolutions of the board of directors and the results of the committee's review on the website designated by the securities authority, and specify the names and reasons of the directors and committee members who disagree.

(Rules of Procedure)

The proceedings of the committee shall be made into minutes, which shall record the following items in detail:

- I. Meeting time and place.
- II. The name of the chairman.
- III. Names of the members present.
- IV. The names and titles of attendees.
- V. The name of the minutes taker.
- VI. Report items.
- VII. Matters for discussion: The resolution method and results of each proposal, summary of the speeches of committee members, experts and other personnel, and opinions of the members' agreement or disagreement and the reasons for their disagreement.
- VIII. Extemporaneous motion: The name of the proposer, resolution method and result of the motion, and summary of speeches and opposition or reservations of committee members, experts and other personnel.
- IX. Other matters to be recorded.

The minutes of the proceedings shall be signed or stamped by the chairman and minutes takers of the meeting and distributed to the committee members within 20 days after the meeting. The meeting minutes shall be kept permanently and properly for future review.

The company shall record the whole process of the committee's meeting by audio or video, and keep it for at least five years; the retention may be done via electronic means. Before the expiry of the retention period mentioned in the preceding paragraph, if a lawsuit concerning a related resolution occurs, the relevant audio or video recording shall be kept until the end of the lawsuit.

If an extraordinary committee meeting is convened by video conferencing, the audio or video data of the meeting shall be part of the meeting minutes and shall be kept properly and permanently.

The committee may invite independent experts, managers of relevant departments of the company, internal auditors, accountants, lawyers or other personnel to attend the meeting and provide the relevant and necessary information.

Anyone who participates in or knows about its merger and acquisition plan shall issue a written confidentiality commitment. Before the information is announced, such personnel shall not disclose the content of the plan externally, nor shall they buy or sell the shares, marketable securities and their derivatives with equity nature of all companies related to the merger and acquisition by themselves or in the name of others.

The Organization Rules will be implemented after the board of directors' approval, and the same applies when they are revised.

## 2. Member Composition

Identity status (note 1)	Qualification	Having more than five years of work experience and the following professional qualifications.			Compliance with the independence requirement (note 2)										Number of concurrent special Committee for merger/consolidation and acquisition of other public companies	Remarks	
		Lecturer or above of a public or private college or university in business, legal, finance, accounting or a relevant discipline required for the company's business.	Judge, prosecutor, lawyer, accountant or another type of professional personnel who has passed the national examination required for the company's business.	Work experience in business, legal, finance, accounting or any other field required for the company's business.	1	2	3	4	5	6	7	8	9	10			
Name																	
Independent Director	SHING-YUAN, TSAI			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None	Re-elected
Independent Director	BAUL-HSIE, LIAO			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None	Re-elected
Independent Director	WEN-I, HSIAO	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None	New
Independent Director	CHIEN-WEN, CHOU			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None	Incumbent

Note 1: Please fill in the identity as a director, independent director or other.

Note 2: For members who meet the following conditions two years before and during their term of office, please type "✓" in the space below each condition code.

- (1) Not an employee of the company or its affiliated enterprises.
- (2) Not a director or supervisor of the company or its affiliated enterprises (except for concurrent independent directors of the company and its parent company, subsidiaries, or subsidiaries of the same parent company in accordance with this Act or local laws and regulations).
- (3) A natural person shareholder who or whose spouse or minor children or in another person's name does not hold more than 1% of the total issued shares of the company or is not a top ten shareholder.
- (4) The director or supervisor is not a manager in (1) or the spouse, second-tier relative or third-tier relative of the persons listed in (2) or (3).
- (5) Not a director, supervisor or employee of a corporate shareholder who directly holds more than 5% of the total issued shares of the company, or who is a top 5 shareholder, or which appoints its representative as the company's director or supervisor according to subparagraph 2, paragraph 1, Article 27 of the Company Act (except for concurrent independent directors of the company and its parent company, subsidiaries, or subsidiaries of the same parent company in accordance with this Act or local laws and regulations).
- (6) Not a director, supervisor or employee of another company which has a seat on the board of directors, or more than half of its shares with voting rights are controlled by the same owner of this company (except for concurrent independent directors of the company and its parent company, subsidiaries, or subsidiaries of the same parent company in accordance with this Act or local laws and regulations).

- (7) Not a director, supervisor or employee of another company or institution who is the same person or spouse as the chairman, president or an equivalent position of the company (except for concurrent independent directors of the company and its parent company, subsidiaries, or subsidiaries of the same parent company in accordance with this Act or local laws and regulations).
  - (8) Not a director, supervisor or manager of another company or institution which has financial or business dealings with the company, or is a shareholder holding more than 5% of the shares of the company (not applicable if the company or institution holds more than 20% but no more than 50% of the total issued shares of the company, with concurrent independent directors of the company and its parent company, subsidiaries, or subsidiaries of the same parent company in accordance with this Act or local laws and regulations).
  - (9) Not a professional, sole proprietor, partner, business owner or partner, or a director, supervisor, manager or the spouse of the above of a company or institution which provides audit services to the company or its affiliated enterprises, or the cumulative remuneration amount of which in the past two years exceeds NT\$500,000 for business, legal affairs, finance or accounting related services. However, this does not apply to the members of the Compensation Committee or Special Committee for Merger/Consolidation and Acquisition who perform their responsibilities in accordance with the Securities and Exchange Act or the Business Mergers and Acquisitions Act.
  - (10) There are no such circumstances as in Article 30 of the Company Act.
3. Operation Status

There was no meeting discussion of M&A issues this year.

(V) Corporate Governance Implementation and Deviations from the “Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies”

Evaluation items	Operation Status			Performance of Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and the reasons
	Yes	No	Summary description	
I. Has the company established and disclosed its corporate governance principles based on the “Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies?”	V		In order to establish and fulfill the corporate governance system, in reference to the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies established by TWSE and TPEX jointly, the Company enacts its own corporate governance best practice principles and construct the valid corporate governance framework, and discloses the same on the Company’s official website.	Already completed in accordance with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.
II. Shareholding structure and shareholders’ interests				
(I) Has the Company implemented a set of internal procedures to handle Shareholders’ recommendations, queries, disputes, and litigations?	V		The Company establishes the spokesperson system, and also set up the email box for investors, so that it may handle shareholders’ recommendation or disputes rapidly and respond to shareholders via email.	Already completed in accordance with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.
(II) Is the Company constantly informed of the identities of its major Shareholders and the ultimate controller?	V		The Company may be constantly informed of the identities of its major shareholders and the ultimate controller through interaction with major shareholders.	Already completed in accordance with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.
(III) Has the Company established and implemented risk management practices and firewalls for companies it is affiliated with?	V		The Company has established the “Operating Procedure for Transactions with Specific Companies, Group Entities and Related Parties” to govern the business and financial transactions between the Company and its affiliates.	Already completed in accordance with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.
(IV) Has the Company established internal policies that prevent insiders from trading securities against non-public information?	V		The Company has established the “Regulations Governing Handling of Material Inside Information and Prevention of Insider Trading” to govern the insider trading.	Already completed in accordance with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.

Evaluation items	Operation Status			Performance of Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and the reasons
	Yes	No	Summary description	
<p>III. Composition and responsibilities of the Board of Directors</p> <p>(I) Has the Board established and implemented policies to ensure the diversity of its members?</p>	V		<p>The Board members who satisfy the Company's operating model and development needs will be appointed as the first priority. Meanwhile, the members' professional background, their skills and experience needed by the Company's business, and diversity policy will also be taken into consideration. (The Company's Board consists of 7 members in total, including 3 independent directors served by famous persons in the industry. For details, please refer to <b>Three. Corporate Governance Report/IV. Corporate Governance Implementation/(V) Deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and Reasons Thereof/1. Board Diversification.</b>)</p>	<p>Already completed in accordance with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.</p>
<p>(II) Apart from the Remuneration Committee and Audit Committee, has the Company assembled other functional committees at its own discretion?</p>	V		<p>Apart from the Remuneration Committee and Audit Committee, has the Company assembled other functional committees at its own discretion?</p>	<p>The Company has not yet established any other functional committee.</p>
<p>(III) Has the Company established a set of policies and assessment methodology to evaluate the performance of the Board? Is regular performance evaluation conducted, at least once a year, and the evaluation result is submitted to the Board to serve as a reference in determining the remuneration of individual Directors and a nomination for re-election?</p>	V		<p>In order to fulfill the corporate governance and improve the Board of Directors' performance and set the goals to improve the Board of Directors' operations, the Company establishes the Regulations Governing Performance Assessment on the Board of Directors in reference to Article 37 of the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies." The performance assessment for the previous year performed in Q1 of each year serves as the reference for salary paid to directors and re-nomination of the directors.</p>	<p>Already completed in accordance with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.</p>

Evaluation items	Operation Status			Performance of Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and the reasons
	Yes	No	Summary description	
(IV) Does the Company assess the independence of external auditors regularly?	V		<p>The Company appoints the trustworthy Deloitte Taiwan and its CPAs to certify the Company's financial statements. They have no conflict of interest with the Company and all act independently. According to Article 14-3 of the Securities and Exchange Act, the Company reports the hiring or dismissal of its independent auditors or the compensation given thereto to the Board of Directors for approval by resolution. Meanwhile, the Company also practiced the period assessment on independence and competency of the independent auditors retained by it in accordance with Article 29 of the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies, and also prepared the "Independent Auditor's Independence Assessment Form" in accordance with Article 47 of the "Certified Public Accountant Act" and Article 10 of the "the Norm of Professional Ethics for Certified Public Accountant of the Republic of China" - "Integrity, Objectivity and Independence". By the end of the year, the Board of Directors held based on the Assessment Form (see Note 3) that CHEN-TSAI TSAI, and Yung-Hsiang, Chao CPAs of Deloitte Taiwan should be competent. Besides, both CPAs have issued their "Declaration for Statement of Independence" (for details, please refer to <b>Three. Corporate Governance Report/IV. Corporate Governance Implementation/(V) Deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and Reasons Thereof/3. Declaration for Statement of Independence issued by CPAs</b>).</p>	<p>Already completed in accordance with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.</p>

Evaluation items	Operation Status			Performance of Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and the reasons
	Yes	No	Summary description	
IV. Does the TWSE/TPEX listed company dedicate competent managers or a sufficient number of managers to take charge of corporate governance, and designate supervisors thereof to oversee the corporate governance affairs (including but not limited to providing information required for director/supervisor's operations, assisting the Board and Supervisors in legal compliance, convening Board/Shareholders' meetings in accordance with the law, applying for/changing company registry, and producing meeting minutes of Board/Shareholders' meetings)?	V		The corporate governance officers appointed by the Company all satisfy the qualifications referred to in Article 23 of the "Taiwan Stock Exchange Corporation Operating Directions for Compliance with the Establishment of Board of Directors by TWSE Listed Companies and the Board's Exercise of Powers" (hereinafter referred to as the "Operating Directions"). The Board resolution dated February 25, 2020 approved the Company's own corporate governance best practice principles. Then, in December 23, 2020, the Board appointed the CFO, YUNG-SHENG, KU, who had the experience in the industry for more than three years to serve as the Company's chief corporate governance officer concurrently since January 1, 2021, responsible for the Company's corporate governance practices, including, organizing the Board of Directors meetings and shareholders' meetings under laws, providing directors/supervisors with the information needed to perform their duties and in helping directors/supervisors hold the position, complete continuing education and comply with laws.	No significant deviation exists.
V. Has the Company established a means of communicating with its stakeholders (including but not limited to Shareholders, Employees, customers, suppliers, et cetera) or created a stakeholder section on the Company website? Does the Company respond to stakeholders' questions on corporate responsibilities?	V		The Company has set up the spokesperson system, and the email box dedicated to processing complaints from employees, suppliers and consumers/customers. Meanwhile, the Company establishes the communication channel with stakeholders via the Company's website, email, Tel. No. and fax, and also sets up the Stakeholders Section on the Company's website.	Already completed in accordance with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.
VI. Whether or not the Company has appointed any professional shareholders service agency to handle the shareholders service?	V		The Company has appointed the Shareholders Service Agency Dept., KGI Securities to handle the shareholders' services for the Company.	Already completed in accordance with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.

Evaluation items	Operation Status			Performance of Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and the reasons
	Yes	No	Summary description	
VII. Information disclosure				
(I) Has the company established a website that discloses financial, business, and corporate governance-related information?	V		Investors may access the information about the Company's finance, business and corporate governance practices via the Company's website and MOPS.	Already completed in accordance with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.
(II) Does the Company adopt other avenues for information disclosure (e.g. setting up an English website, designating specific personnel to collect and provide disclosure on the Company, implementing spokesperson system, disclosing the process of institutional investor conferences on the Company website and et cetera)?	V		The Company has established the spokesperson system. Meanwhile, dedicated personnel are sent to collect and process the information on the Company's official website. The information about investors' meetings will be posted on the Company's official website.	Already completed in accordance with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.
(III) Does the Company publicly announce and file the annual financial reports within two months after the accounting year-end, and publicly announce and file the first, second and third quarterly financial reports and monthly operating status reports before the stipulated deadlines?		V	In the spirit of information disclosure and transparency of operations, the Company will publish and file the annual financial report within 2 months at the end of the year, and publish and file the quarterly financial report within 30 days at the end of each quarter.	Already completed in accordance with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.

Evaluation items	Operation Status			Performance of Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and the reasons
	Yes	No	Summary description	
VIII. Does the Company have other important information for better understanding the Company's corporate governance system (including but not limited to interests and rights of Employees, care for Employees, investor relations, relations with suppliers, relations with interested parties, continuing education of directors and supervisors, execution of risk management policies and risk measuring standards, execution of customer policies, liability insurance for the Company's directors and supervisors)?	V		While keeping normal business development and maximizing shareholders' equity, the Company values its customers' interests and rights too. The directors and supervisors have completed the continuing education program pursuant to laws. The Company has also taken out the liability insurance for directors and supervisors.	Already completed in accordance with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.
<p>IX. Please describe improvements that have been made about the results of the corporate governance evaluation as prescribed by the Taiwan Stock Exchange Corporate Governance Center, as well as priorities and measures for matters that have yet to be improved:</p> <ol style="list-style-type: none"> <li>1. Assessment indicator 2.21: the chief corporate governance officer's practicing and attendance to the continuing education program are expected to be disclosed in the annual report and on the website this year.</li> <li>2. Assessment indicators 1.7 and 1.10: the parliamentary handbook and supplementary meeting materials (in Chinese and English) are expected to be uploaded within 30 days prior to the shareholders' meeting.</li> <li>3. Assessment indicators 1.8 and 1.11: the Company is expected to prepare the annual report in English and upload the same within the prescribed time limit this year.</li> </ol>				

1. Board/supervisor diversification:

According to Paragraph 2 of Article 20 of the Company’s “Corporate Governance Best Practice Principles,” the Company’s Board of Directors shall be composed by more than five directors in response to the practical needs, subject to the Company’s business development scale and major shareholders’ shareholding.

Meanwhile, according to Paragraph 3 and Paragraph 4 of the same Article, the Board member diversification shall be taken into account. The directors who serve as the Company’s managers concurrently shall be no more than one-thirds of the total directors. Meanwhile, the Company shall set forth adequate Board diversity policy subject to its own operations, business type and development needs. The Board members shall possess the knowledge, skills and competency required by performance of their duties.

Therefore, the Company adopts the “candidate nomination system” and requests shareholders to elect directors upon resolution of the Board of Directors. All nominated candidates shall be the best choice in the industry or academic sector.

Core competency  Name	Basic qualifications and value							Professional knowledge and skill							
	Title	Gender	Nationality	Age				Industry experience			Professional ability				
				Less than 40	41~50	51~60	More than 60	Financial insurance	Electric machinery	Semi-conductor	Business administration and accounting	Financial insurance	Technology and intellectual property	Public relationship	
PO-CHUAN, LIN	Chairman	Male	Native	√					√						√
WEN-LIANG, PAI	Vice chairman	Male	Native				√		√		√				
JUNG-CHE, HSIEH	Directors	Male	Native				√			√			√		
CHING-CHUNG, PAI	Directors	Male	Native		√					√			√		
SHING-YUAN, TSAI	Independent Director	Male	Native				√		√				√		
BAUL-HSIE, LIAO	Independent Director	Male	Native				√	√				√			
WEN-I, HSIAO	Independent Director	Male	Native		√						√				√

2. Independent Auditor's Independence Assessment Form and Assessment Results

**KINIK Company**  
**Independent Auditor's Independence Assessment Form**  
**December 2020**

2020 Independent Auditor's Firm Name: Deloitte Taiwan

2020 Independent Auditor: CHEN-TSAI TSAI, CPA and YUNG-HSIANG CHAO, CPA

Item	Independence Assessment Item	Independent or not?	
		Yes	No
1	The independent auditors have no material financial interest relations with the Company, directly or indirectly.	V	
2	The independent auditors have no material business relationship with the Company.	V	
3	The independent auditors have no potential employment relationship with the Company.	V	
4	The independent auditors shall procure their assistants to strictly comply with the principles of Integrity, Objectivity and Independence.	V	
5	The independent auditors never accept any precious gifts or presents from the Company and the Company's directors, supervisors and managers (with the value more than that commensurate to the Social Etiquette).	V	
6	The independent auditors never engage in the loaning of fund with the Company.	V	
7	The independent auditors never concurrently engage in any other profession that might result in their loss of independence.	V	
8	The independent auditors never collect any commission related to the business.	V	
9	The independent auditors never hold the Company's shares.	V	
10	The independent auditors never concurrently engage in any routine work of the Company with fixed pay.	V	
11	The independent auditors never engage in any joint venture or share profits with the Company.	V	
12	The Company never involves in the management function related to the Company's decision making.	V	
13	The independent directors do not serve as the Company's directors, supervisors or managers or perform any function that would pose material impact to the audit concurrently or have never done so in the most recent two years. Meanwhile, they confirm that they would never serve any of said functions during the future audit period.	V	
14	During the audit period, the independent auditors <i>per se</i> and their spouses or dependents have never served as the Company's directors, supervisors, managers or any function that would pose a direct and significant impact to the audit work.	V	
15	The independent auditors issued the "Statement of Independence."	V	



Conclusion:

To the Statement of Independence issued by CHEN-TSAI TSAI, CPA and YUNG-HSIANG CHAO, CPA of Deloitte Taiwan retained by the Company this year and in reference to Article 47 of the “Certified Public Accountant Act” and “Bulletin of Norm of Professional Ethics for Certified Public Accountant of the Republic of China No. 10,” both CPAs are held satisfying the Company’s independence assessment standards based on the Company’s comprehensive evaluation.

3. The Statement of Independence issued by the CPAs.

(1) CHEN-TSAI TSAI, CPA

Qin Shen No. 10912363 dated December 8, 2020

Addressee: KINIK Company

Subject: We are contracted to audit your 2020 financial statements. According to the “Bulletin of Norm of Professional Ethics for Certified Public Accountant of the Republic of China No. 10, Integrity, Objectivity and Independence,” the audit team members have declared to comply with the following rules free from violation of the independence requirements:

Explanation:

- I. The audit team members and their spouses and dependents are free from the following circumstances:
  1. Holding a direct or material indirect financial interest in you.
  2. Having close business relationship that affects the independence with you or your directors, supervisors or managers.
- II. During the audit period, the audit team members and their spouses or dependents have never served as your directors, supervisors, managers or any function that would pose a direct and significant impact to the audit work.
- III. None of the audit team members is the spouse, lineal relative by blood, lineal relative by marriage or collateral relative by blood within the second degree of kinship of any of your directors, supervisors or managers.
- IV. The audit team members never accept any precious gifts or presents from you or your directors, supervisors, managers or major shareholders (with a value more than that commensurate to the Social Etiquette).
- V. The audit team members have executed the required independence/conflict of interest procedures. No violation of the independence requirements or pending conflict of interest is found.

Deloitte Taiwan

CHEN-TSAI TSAI, CPA

## (2) YUNG-HSIANG CHAO, CPA

Qin Shen No. 10912364 dated December 8, 2020

Addressee: KINIK Company

Subject: We are contracted to audit your 2020 financial statements. According to the “Bulletin of Norm of Professional Ethics for Certified Public Accountant of the Republic of China No. 10, Integrity, Objectivity and Independence,” the audit team members have declared to comply with the following rules free from violation of the independence requirements:

Explanation:

- I. The audit team members and their spouses and dependents are free from the following circumstances:
  1. Holding a direct or material indirect financial interest in you.
  2. Having close business relationship that affects the independence with you or your directors, supervisors or managers.
- II. During the audit period, the audit team members and their spouses or dependents have never served as your directors, supervisors, managers or any function that would pose a direct and significant impact to the audit work.
- III. None of the audit team members is the spouse, lineal relative by blood, lineal relative by marriage or collateral relative by blood within the second degree of kinship of any of your directors, supervisors or managers.
- IV. The audit team members never accept any precious gifts or presents from you or your directors, supervisors, managers or major shareholders (with a value more than that commensurate to the Social Etiquette).
- V. The audit team members have executed the required independence/conflict of interest procedures. No violation of the independence requirements or pending conflict of interest is found.

Deloitte Taiwan

YUNG-HSIANG CHAO, CPA

4. Continuing education and training related to corporate governance attended by the directors, supervisors and managers in 2019:

Title	Name	Course title	Hours
Chairman	Kinmean company LTD. Representative: PO-CHUAN, LIN	Prevention of Insider Trading, Legal Liability and Case Study Business Specialization and Family Specialization Information Security Governance Trend and Challenge Corporate Governance 3.0 - Sustainability Roadmap	12
Directors	WEN-LIANG, PAI	Prevention of Insider Trading, Legal Liability and Case Study The 9th Annual Chinese Family Business Forum Capital Market and Corporate Governance	9
Directors	KINKI INV. LTD. COMPANY Representative: JUNG-CHE, HSIEH	Prevention of Insider Trading, Legal Liability and Case Study Corporate Governance of Intellectual Property Global Risk Analysis and Corporate Sustainability	9
Directors	LI-HE INV. LTD. COMPANY Representative: CHING- CHUNG, PAI	Prevention of Insider Trading, Legal Liability and Case Study Corporate Governance of Intellectual Property Corporate Governance and Corporate Sustainability Outlook 2020	9
Independent Director	SHING-YUAN, TSAI	Prevention of Insider Trading, Legal Liability and Case Study Advanced Sharing of Audit Committee Practices	6
Independent Director	BAUL-HSIE, LIAO	Prevention of Insider Trading, Legal Liability and Case Study Cyber Crime Study on AML/CTF Practices	9
Independent Director	WEN-I, HSIAO	Prevention of Insider Trading, Legal Liability and Case Study Information Security Governance Trend and Challenge Corporate Governance 3.0 Takeover Contest and Case Study	12

(VI) Performance of social responsibility

Systems and measures adopted by the company for environmental protection, community participation, social contribution, social service, public social welfare, consumer rights and interests, human rights, safety and health, and other social responsibility activities and their implementation:

## Differences from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the reasons.

Evaluation items	Operation Status			Performance of Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the reasons
	Yes	No	Summary description	
I. Has the Company performed risk assessment pertaining to the environment, community and corporate governance issues related to the operation of the Company in accordance with the materiality principle, and established the corresponding risk management policies or strategies?	V		For the Company's robust risk management and sustainability, the Company established the risk management policy on October 28, 2020 and strictly executed various management policies or strategies. In addition to promoting the environmental protection, the Company also continues to improve the waste water and waste goods generated from the production process and mitigate the impact posed by the Company's products, activities and services to the environment, in order to prevent pollution.	No difference.
II. Does the company have a unit that specializes (or is involved) in CSR practices? Is the CSR unit run by senior management and report its progress to the Board of Directors?	V		The Chairman Office serves as the unit dedicated to promoting the corporate social responsibility concurrently, responsible for the communication and promotion of the corporate social responsibility in terms of economy, environment and society.	No difference.
III. Environmental issues				
(I) Has the Company developed an appropriate environmental management system, given the distinctive characteristics of its industry?	V		For the time being, the five factory premises (Yingge/Hsinchu/Chubei/Shulin/Hsinchu Science Park) have completed and passed the certification of, ISO14001:2015 environmental management system. In 2020, the Company continued to have SGS follow up the environmental performance and indicators set by various factory premises periodically. As a result, no major non-conformance was found. For the time being, the Company has identified the environment safety unit and personnel as the Company's first-level unit. The unit consists of 19 dedicated workers and largely benefited the Company's promotion of the environmental management system and related environment protection practices.	No difference.
(II) Is the Company committed to achieving efficient use of resources, and using renewable materials that produce less impact on the environment?	V		The Company uses the best effort to recycle waste. With the regeneration technology for grinding wheels, the Company has successfully developed the processing technology to recycle waste grinding wheels for recycling, and may produce the renewable grinding wheels amounting to 7.4 tons each month upon approval of the Ministry of Economic Affairs, so as to reduce the quantity of waste grinding wheels.	No difference.

Evaluation items	Operation Status			Performance of Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the reasons
	Yes	No	Summary description	
(III) Has the Company assessed the present and future potential risks and opportunities posed by climate change to the Company and undertaken countermeasures pertaining to climate change?	V		The Company has identified the existing and future potential risk and opportunities posed by climate transformation to enterprises and inspected the impact inside and outside the Company, and available countermeasures. At the same time, the Company uses the best effort to boost the energy conservation and carbon reduction policy, and manage the energy and carbon reduction targets effectively year by year, in order to mitigate the Company's business risk.	No difference.
(IV) Has the Company measured its greenhouse gas emission, water use, and the total weight of waste for the past two years, and established policies pertaining to energy conservation, reduction in carbon and greenhouse gas emission, reduction in water use, or management of waste disposal?	V		In order to practice the energy conservation and carbon reduction, the Company performs the GHG inspection periodically. It passed the GHG certification by SGG ISO 14064 in 2019 and 2020 and also disclose the annual emissions thereof on its official website. Meanwhile, the Company set the goal to conserve the energy by more than 1% each year and reduce carbon by 3% after five years from 2018 as the record year for inspection on GHG emission. Each factory premises will report and gather statistics about disposal and processing of waste pursuant to laws and regulations each year. Meanwhile, it will make every endeavor to reduce the quantity year by year and recycle the waste (reuse), or make products re-using the waste.	No difference.
IV. Social Issues				
(I) Has the company formulated relevant management policies and procedures in accordance with relevant laws and regulations of International Bill of Human Rights?	V		The company has established and implemented internal standard documents in line with labor related laws and regulations [category B General Affairs and Personnel Relations], and disclosed its standard documents in electronic form, so that employees can fully understand their own rights and interests and relevant application procedures.	No difference.
(II) Has the company established and implemented reasonable employee welfare measures (including compensation, vacation and other benefits), and properly reflected the operating performance or results in employee compensation?	V		In accordance with the Labor Standards Act, the company has established attendance management measures and promotion, transfer and salary adjustment management measures for employee benefits, so as to reasonably manage the rights and interests of employees in their work and development. In addition, performance management measures are formulated for employee performance evaluation, in order to reward employees with excellent performance and improve work morale.	No difference.

Evaluation items	Operation Status			Performance of Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the reasons
	Yes	No	Summary description	
(III) Does the company provide employees with a safe and healthy work environment? Are Employees trained regularly on safety and health issues?	V		<p>1. The Company provides its employees with safety protective gears to maintain a safe and healthy working environment for the employees (e.g., earplugs, mouth masks, gloves and safety footwear, etc.), and also boosts the 5S (namely, Seiri, Seicon, Seiso, Seiketsu and Shitsuke) to keep the operations safer in the workplace. The Company will also install dust collectors in the workplace, if necessary.</p> <p>2. Organize the necessary safety and health education and training in accordance with Article 32 of the Occupational Safety and Health Act (e.g., forklift truck operators, dust operations and noise operations, etc.); and provide new employees with the related orientation training (e.g., new employees' onboard and breakdown of work, etc.) Plan and organize the health promotion-related courses and activities</p> <p>3. Arrange the general health checkup for employees periodically and special health checkup with respect to special working environments (e.g., those full of dust and noise) periodically each year.</p>	No difference
(IV) Has the company established an effective career development training program for its employees?	V		The company has established the OJT training program for general employees and training programs for grassroots supervisors, so as to effectively develop and cultivate the functions required for employees' work.	No difference.
(V) Pertaining to the health and safety of customers when using the Company's products and services, consumer privacy, marketing and labeling, does the Company comply with the relevant regulations and international standards, and establish relevant policies on consumer protection and complaint procedure?	V		The Company's products and services are marketed and labelled in accordance with the laws and international standards. Notwithstanding, as the Company's main products refer to the immediate goods supplied to serve various production processes, there is no consumer rights-related policy available. Therefore, the Company will use the best effort to keep fair communication with the upstream/downstream dealer and keep improving the product quality and service, in order to satisfy various requirements.	No difference.

Evaluation items	Operation Status			Performance of Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the reasons
	Yes	No	Summary description	
(VI) Has the Company established policy on supplier management, demanding suppliers to observe code of conduct pertaining to environmental protection, labor safety, and health or labor rights, and monitoring their implementation?	V		The Company has established the supplier management regulations. The Company will assess the suppliers' qualifications at least once per year and include the suppliers' environmental protection, occupational safety and health or human right protection practices into the rating. Any supplier who is found suspected of violating labor safety requirements will not be contracted.	No difference.
V. Does the Company refer to universal standards or guidelines for report preparation when preparing for CSR Report and other non-financial disclosure reports? Does the Company obtain the confirmation or affirmation opinion from a third party for the aforementioned reports?		V	The Company doesn't prepare the CSR report, but tries hard to fulfill the following three requirements as its CSR objectives and mission: 1. Well-found the corporate governance and create value for shareholders; 2. Participate in social care and provide positive contribution; 3. Practice environmental protection to boost the sustainability.	The Company doesn't prepare the CSR report.
<p>VI. If the Company has established integrity management principles in accordance with "Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies," please describe the current practices and any deviations from the Best Practice Principles:</p> <p>The Company has not yet established its own Corporate Social Responsibility Best Practice Principles. However, the Company's contribution to the communities in the districts of Sanxia, Yingge and Shulin are positively recognized by the local community leaders and residents.</p>				
<p>VII. Other information relevant to understanding the company's business integrity:</p> <p>(1) Environmental protection and safety and health: The Company controls the high-quality service that not only help customers prolong the useful life of tools but also improve the processing quality, thus reducing the consumption of resources on the earth. In order to fulfill the corporate social responsibility and commitment, and the target of sustainability, the Company promotes the environmental protection and also continues to improve the waste water and waste goods generated from the production processes, and mitigates the impact posed by the Company's products, activities and services to the environment, in order to prevent pollution. The Company will also continue to boost the energy conservation policy, in order to save costs and also reduce the emission of the GHG, CO2 at the same time. The factory premises are also equipped with air and water pollution prevention equipment. The Company's air and waste water emissions are considered satisfying the emission standards required by laws. The Company also engages in promotion of environmental protection, safety and health policies periodically.</p> <p>(2) Social participation: The company has long-term adopted the green space of the Yingge Ceramics Museum to allow all visitors to the Ceramic Museum to enjoy better quality and service, In addition, the company has long-term sponsored Yingge Jianshan Junior High School, New Taipei City's Yingge Voluntary Firefighting Team, Hsinchu County's Voluntary Firefighting Team, Respect for the Elderly activity of Dongshan Village of Shulin District, New Taipei City, Meal with Silver-haired People activity of Xiying Village of Yingge District, New Taipei City, and the summer vacation basketball game of Yingge Youth Care Association. The company also arranged visits and internship activities with Taipei University of Technology, National Taiwan Ocean University, Shih</p>				

Evaluation items	Operation Status			Performance of Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the reasons
	Yes	No	Summary description	
			<p>Chien University, National Chin-Yi University of Technology and Oriental Institute of Technology. Through field visits to companies, students can learn about the workplaces and how to improve basic skills in career development, understand what the general knowledge required in the workplace is, and cultivate independent thinking and self-reflection to expand career development; they may also understand the relationship between the school, society and factories, to learn various methods and ways to develop a career.</p> <p>The New Taipei City Government promotes the "Safety and Health Registered Family" collective guidance. It selects large companies that can serve as role models for SMEs as the core enterprises for establishing the Safety and Health Registered Family. The New Taipei City Government's Labor Affairs Department proposes that the company's Yingge factory serves as a core enterprise to establish the KINIK Safety and Health Registered Family to further implement the company's business philosophy for mutual benefits and cooperate with the regional inspection agency through activity arrangement to improve safety and health knowledge.</p> <p>(3) For the disaster caused by earthquake in Hualien on February 6, 2018, the Company donated NT\$1 million, hoping to do something for the damages area and victims in Hualien and help them re-build their homeland.</p> <p>(4) The company won the "Corporate Promoting Family Friendly Program Award in 2018" from the New Taipei City Government.</p> <p>(5) In January 2018, Yingge Factory successfully renewed its healthy workplace promotion certification mark.</p> <p>(6) In June 2018, New Taipei City Yingge District Office executed the memorandum of understanding for disaster prevention with the Company.</p> <p>(7) In December 2018, the Company was awarded the 2018 "Waste Resource Circular Economy Evaluation" - Excellent Supplier (Excellent Two-Star) by the Environmental Protection Administration Executive Yuan.</p> <p>(8) In March 2019, New Taipei City Government awarded the Company's Yingge Factory the letter of gratitude for the Factory's engagement in the disaster prevention in 2018.</p> <p>(9) In December 2019, the Company won the "Excellent Healthy Workplace Health Management Award" from the Health Promotion Administration, Ministry of Health and Welfare.</p> <p>(10) In October 2020, Yingge Factory and Shulin Factory were awarded the "AED Certification" by New Taipei City Government.</p>	

(VII) The company's performance of ethical corporate management and the measures adopted.

Performance of ethical corporate management and the differences from the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies and the reasons:

Evaluation items	Operation Status			Causes for the Difference
	Yes	No	Summary description	
I. Establishment of ethical corporate management policy and plan				
(I) Does the company have an ethical corporate management policy approved by the board of directors and clearly state the ethical corporate management policy and practice in the internal regulations and external documents, as well as the commitment of the board of directors and senior management to actively implement the corporate management policy?	V		In order to implement the company's ethical behavior and ethical corporate management, the company has formulated the "Code of Professional Ethics" which has been approved by the board of directors. All directors, supervisors, managers and employees of the company shall maintain a high level of personal conduct and professional ethics when carrying out business, so as to maintain the company's reputation and gain the respect and trust of customers, suppliers and people from all walks of life to ensure the sustainable development of the company.	No difference.
(II) Has the company established an evaluation mechanism for the risk of unethical behavior, regularly analyzed and evaluated the business activities with high unethical behavior risk within the business scope, and formulated a plan to prevent unethical behavior accordingly which at least covers the preventive measures for the behaviors in paragraph 2, Article 7 of the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies"?	V		The company has formulated the "Code of Ethical Conduct" and "Code of Professional Ethics" in its internal control system. If employees find any person who violates laws, regulations, or the code of conduct, they should provide sufficient information to report to the company's appropriate personnel or supervisor. The company shall handle the information above confidentially and responsibly, and do its best to protect the safety of those who report in good faith to prevent any form of retaliation. The company has incorporated ethical behavior into work rules and reward and punishment measures, and established a clear reward and punishment and appeal system. The company pays attention to it through business meetings, examines internal and external risks, and makes immediate countermeasures. The company inspects internal and external risk factors according to internal control and other relevant operation methods.	No difference.

Evaluation items	Operation Status			Causes for the Difference
	Yes	No	Summary description	
(III) Does the company stipulate the operating procedures, behavior guidelines, and disciplinary and grievance systems in its unethical behavior prevention plan and implement them, and regularly review and revise the plan?	V		The company also has the "Code of Ethical Conduct" and "Code of Professional Ethics" which are applicable to all employees. There are also measures for managing business secrets to prohibit the disclosure of business secrets and infringement of intellectual property rights. The company's internal audit unit conducts regular audits on activities with a high risk of unethical behavior. The company pays attention to it through business meetings, examines internal and external risks, and makes immediate countermeasures.	No difference.
II. Implementation of ethical corporate management				
(I) Does the Company evaluate the integrity of all counterparties it has business relationships with? Are there any integrity clauses in the agreements it signs with business partners?		V	The company currently does not clearly stipulate the ethical behavior clause in the contract signed by the transaction counterparty.	N/A.
(II) Has the company set up a dedicated unit under the board of directors to promote ethical corporate management, and regularly (at least once a year) report to the board of directors its ethical corporate management policy and plan to prevent unethical behavior as well as its supervision of the implementation?		V	The company does not yet have a full-time corporate ethical behavior management unit. Still, it has an administrative department to implement the "Code of Professional Ethics" and regularly report to the board of directors on its implementation.	N/A.
(III) Does the company have a conflict of interest prevention policy to provide appropriate channels for explanation and implement it?	V		The company's internal control system and "Code of Professional Ethics" clearly state that the laws, regulations and company regulations shall be followed. Personal conflicts of interest or conflicts of interest that may intervene in the company's overall interests shall be avoided, and the company's best interests shall be acted upon. The company's purchase (sales) customers, competitors and employees shall be treated fairly, and improper benefits obtained by other unfair trading methods shall be prohibited.	No difference.

Evaluation items	Operation Status			Causes for the Difference
	Yes	No	Summary description	
(IV) Has the Company implemented effective accounting and internal control systems to maintain business integrity? Are these systems reviewed by internal or external auditors on a regular basis?	V		The company has established effective accounting and internal control systems regularly checked by the internal audit unit.	No difference.
(V) Does the company regularly conduct internal and external training for ethical corporate management?	V		The company has included ethical behavior management in the content of the training of new recruits and announced relevant regulations on the company's internal and external websites for employees to refer to at any time. In addition, it promotes issues related to ethical behavior management in various company meetings, anniversary celebrations and other activities.	No difference.
III. Operation of the company's accusation system				
(I) Does the company have a specific accusation and reward system, establish a convenient accusation channel, and assign appropriate personnel to the accused person?	V		1. The company has set up the "Code of Professional Ethics"; when company employees find a person who violates laws, regulations or the code of conduct, they shall submit sufficient information to report to appropriate personnel. The company will appropriately handle such accusation information confidentially and responsibly. It will make every effort to protect the safety of those who accuse in good faith and avoid any form of retaliation. 2. If there is a violation of the company's regulations, after investigation and punishment in accordance with the personnel management rules, the case shall be reported to the board of directors and the relevant violators shall be dealt with according to law.	No difference.
(II) Has the company established the standard operating procedures for the investigation of accused matters, follow-up measures after investigation and the relevant confidentiality mechanism?	V		The standard operating procedures for acceptance and investigation of accusation matters and confidentiality mechanism are all stipulated in the company's "Code of Ethical Conduct," "Employee Relations Management	No difference.

Evaluation items	Operation Status			Causes for the Difference
	Yes	No	Summary description	
(III) Does the company take measures to protect the accuser from improper treatment due to the accusation?	V		Measures," "Sexual Harassment Prevention Measures and Method of Appeals and Disciplinary Action for Unlawful Workplace Infringements" and "Code of Professional Ethics."  The company has established the "Code of Ethical Conduct" and "Code of Professional Ethics"; if employees find a person who violates laws, regulations or the codes of conduct, they shall submit sufficient information to the company's appropriate personnel or supervisor. The company will handle the above-mentioned accusation confidentially and responsibly, and will do everything possible to protect the safety of those who accuse in good faith and avoid any form of retaliation.	No difference.
IV. Enhancement of Information Disclosure Does the company disclose the content and promotion effect of its ethical corporate management best practice principles on its website and MOPS?	V		The company has established the "Code of Professional Ethics" and listed the code of ethical conduct on the company's website and the handling methods for accusation cases of illegal, immoral or unethical conduct, so as to disclose the information related to ethical operation.	No difference.
V. If the Company has established business integrity policies in accordance with "Ethical Corporate Management Best Practice Principles for TWSE/TPEX-Listed Companies," please describe its current practices and any deviations from the Best Practice Principles: the Company has not yet established its own business integrity policies with "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies".				
VI. Other important information helpful to understand the company's ethical corporate management operation: (such as the company's review and amendment of the ethical corporate management best practice principles) August 16, 2018 Reviewed and amended the original [Measures for Accusation Cases of Illegal and Unethical or Dishonest Behavior] to [Code of Professional Ethics].				

Measures adopted by the company to perform ethical corporate management:

1. Directors, supervisors and managers shall not offer or receive any improper benefits in the course of business conduct.
2. Company personnel are prohibited from offering or accepting bribes when

performing business.

3. It is prohibited to provide illegal political contributions and improper charitable donations or sponsorships.
4. Establish an effective accounting system and internal control system.

#### (VIII) Intellectual Property Management Plan

1. Intellectual property management goals
  - (1) Develop the company into an innovation-oriented work environment.
  - (2) Promote business profits by creating competitive advantages.
  - (3) Encourage employees of the company to apply for patents, thereby enhancing R&D performance and improving the company's technical standard.
  - (4) Establish a complete patent layout of the company's core technologies, and create R&D and patented products with higher values.
  - (5) Strengthen the management of patents, trademarks and business secrets, and provide companies with complete intellectual property protection.
2. Governance Structure of Intellectual Property Management

The company's CEO Office is in charge of the supervision of the company's overall operational planning and execution, patent management and legal affairs, including: (1) assisting the CEO in handling company-wide affairs and planning the company's sustainable business direction; (2) project planning coordination; (3) tracking, communication and coordination of the business of each business unit; (4) management of patent-related matters.

#### 3. Intellectual Property Management Plan

The company has established an intellectual property management system with a management cycle of "Plan, Do, Check and Action (PDCA)," including:

- (1) Plan: Set intellectual property management goals and comply with current laws and regulations to promote intellectual property management to achieve organizational goals with the ability to protect intellectual property and avoid infringement of rights.
- (2) Do: Establish the ISO quality management system (ISO M1-00-04, Patent Management Measures), and introduce the ISO quality management system into the company's patent cases; apply for new patent cases and approve the annual patent fee of the patent through the ISO quality management system to implement,

maintain and continuously improve the intellectual property management system.

(3) Check: Supervise and evaluate operational effectiveness in accordance with the policies and objectives of intellectual property management, and regularly supervise, analyze and evaluate the implementation effectiveness of intellectual property management through internal audits or management reviews by the "Auditing Office."

(4) Action: Based on the check results, take corrective measures and timely revise and adjust the patent management measures to continuously improve the suitability, completeness and effectiveness of the intellectual property management system.

#### 4. Report of Board of Directors

The implementation of the 2020 intellectual property management plan was reported to the board of directors on December 23, 2020.

#### 5. Implementation Status

Through the company's continuous and active deployment of intellectual property, as of the end of November 2020, the company's total number of patent applications at home and abroad has reached more than 450, and the cumulative number of patents (with patent certificates obtained) has reached more than 250. In addition, the company's cumulative number of domestic and foreign trademark applications has reached more than 90, and the cumulative number of trademarks (with trademark certificates obtained) has reached more than 70. These allow the company's products to obtain complete intellectual property protection and greatly improve the competitive advantage of the company's products.

In addition, the company has built a "patent map" system on its own to keep abreast of the latest patent layout trends of the company and competitors and serve as important reference information for the company's product development and patent layout, thereby enhancing the quality of the company's patent cases and the degree of patent protection, and effectively avoiding patent infringement disputes between the company and its competitors.

(IX) If the company has formulated corporate governance codes and related regulations, disclose its inquiry method.

The company has listed the "Code of Professional Ethics" and "Code of Practice in Corporate Governance" on the company's official website, which can be inquired from **the company's official website portal/investor service/corporate governance section/rules and operating procedures.**

- (X) Other important information to be disclosed to improve the understanding of the operation of corporate governance:

The company has listed on the company's official website the relevant measures and information on corporate governance. Investors or interested parties may inquire from **the company's official website portal/investor service/corporate governance section** to enhance the understanding of the corporate governance operation of the company by the interested parties and the public.

- (XI) The following matters shall be revealed in the implementation of the internal control system.

1. Statement of Internal Control:

See page 282 of this annual report.

2. If an independent auditor is entrusted with auditing the internal control system, the independent auditor's report shall be disclosed:

No such situation.

- (XII) During the most recent year and up to the date of printing of the annual report, the punishment of the company and its insiders in accordance with the law, the company's punishment on its insiders for violating the provisions of the internal control system, and the major deficiencies and improvements:

No such situation.

(XIII) Important resolutions of the shareholders' meetings and the board of directors in the most recent year and up to the date of printing of the annual report:

1. Board of Directors

Date	Session number	Important resolutions	Independent directors' opinions and the company's handling of independent directors' opinions
February 25, 2020	Board of Directors	<ol style="list-style-type: none"> <li>1. Distribution of the company's 2019 employees' remuneration and directors' and supervisors' remuneration.</li> <li>2. Reporting of the company's 2019 business report and consolidated and individual financial reports.</li> <li>3. Appointment of the company's independent auditor for 2020.</li> <li>4. Amendment to the company's "Articles of Association."</li> <li>5. Revision of the company's "Rules of Procedures for Shareholders' Meetings."</li> <li>6. Formulation of the company's "Code of Practice in Corporate Governance."</li> <li>7. Amendment to the company's "Method for Election of Directors and Supervisors."</li> <li>8. Amendment to the Company's "Regulations of Board of Directors."</li> <li>9. Amendment to the company's "Audit Committee Organization Regulations."</li> <li>10. Reelection of directors.</li> <li>11. Issuance of the company's internal control statement for 2019.</li> <li>12. Convening of the 2020 general shareholders' meeting.</li> </ol>	All independent directors approved.
April 29, 2020	Board of Directors	<ol style="list-style-type: none"> <li>1. Report on the company's consolidated financial statements for the first quarter of 2019.</li> <li>2. The company's salary adjustment this year.</li> <li>3. Change of registered address of Hsinchu Science Park Branch of the company.</li> <li>4. The company's plan to issue cash dividend with capital reserve.</li> <li>5. The company's 2019 earnings distribution plan.</li> <li>6. The company's formulation of measures for employee stock option certificate issuance and stock subscription.</li> <li>7. Nomination and review of candidates for 7 directors (including 3 independent directors).</li> <li>8. Removal of non-competition restriction on directors.</li> <li>9. Formulation of the company's "Evaluation Measures for the Performance of Board of Directors."</li> <li>10. Formulation of the company's "Management Measures for the Directors' and Managers' Compensation."</li> <li>11. Amendment to the company's "Compensation Committee Organization Rules."</li> <li>12. Amendment to the company's "Endorsement and Guarantee Measures."</li> <li>13. Amendment to the company's "Operating Procedures for Loans to Others."</li> <li>14. Amendment to the company's "Procedures for Acquisition</li> </ol>	All independent directors approved.

Date	Session number	Important resolutions	Independent directors' opinions and the company's handling of independent directors' opinions
		<p>or Disposal of Assets.”</p> <p>15. Addition to the company's "Code of Professional Ethics.”</p> <p>16. Addition of reasons for convening the company's 2020 general shareholders' meeting.</p>	
June 15, 2020	Extraordinary Board of Directors	<ol style="list-style-type: none"> <li>1. Election of the Chairman.</li> <li>2. Election of the Deputy Chairman.</li> <li>3. Appointment of the members of the company's Compensation Committee.</li> <li>4. Appointment of the members of the company's Audit Committee.</li> <li>5. Appointment of the members of the company's Special Committee for Merger/Consolidation and Acquisition.</li> </ol>	All independent directors approved.
June 15, 2020	Extraordinary Board of Directors	<ol style="list-style-type: none"> <li>1. Salary payment for the independent directors of the company.</li> <li>2. Salary distribution to the company's directors and supervisors.</li> <li>3. Bonus distribution to the company's senior managers this year.</li> </ol>	All independent directors approved.
July 29, 2020	Board of Directors	<ol style="list-style-type: none"> <li>1. Ms. MAN-LI, LIN CHEN, the former manager of the Hsinchu Science Park Branch of the company, will be dismissed and replaced by Chairman PO-CHUAN, LIN.</li> <li>2. Approval of the compensation of the company's Chairman PO-CHUAN, LIN.</li> <li>3. Amendment to the ratification of the company's 2020 employee stock option issuance and stock subscription method.</li> <li>4. The company's issuance of employee stock option in 2020.</li> </ol>	All independent directors approved.
October 7, 2020	Board of Directors	The real estate transaction of the company's intention to purchase No. 2 and No. 2-1 in Yucuo Lane, Dahu Road, Yingge District, New Taipei City.	The meeting was aborted because less than half of the directors attended the meeting.
October 15, 2020	Board of Directors	The real estate transaction of the company's intention to purchase No. 2 and No. 2-1 in Yucuo Lane, Dahu Road, Yingge District, New Taipei City.	All independent directors approved.
October 28, 2020	Board of Directors	<ol style="list-style-type: none"> <li>1. Report on the company's consolidated financial statements for the first three quarters of 2020.</li> <li>2. Formulation of the company's "risk management policy" for approval.</li> <li>3. Decision on the base date for the conversion of employee stock options into new shares for the third quarter of 2020.</li> </ol>	All independent directors approved.
December 23, 2020	Board of Directors	<ol style="list-style-type: none"> <li>1. The company intended to participate in the capital increase case of Yamamura Kinik Optical Co., Ltd.</li> <li>2. The company's 2021 budget.</li> <li>3. The company's 2021 audit plan.</li> <li>4. Revision of the internal control system and internal audit system.</li> <li>5. Assessment of the company's independent auditor.</li> <li>6. Formulation of the company's "Measures for the Handling of Important Internal Information and Prevention of Insider Trading.”</li> </ol>	All independent directors approved.

Date	Session number	Important resolutions	Independent directors' opinions and the company's handling of independent directors' opinions
		7. Appointment of the company's Head of Corporate Governance. 8. Total year-end bonus this year and distribution of year-end bonus to managers and executive business directors. 9. Compensation of JUI-LIN, CHOU for promotion from Director of Diamond B.U. to Vice President of Diamond B.U.	
April 28, 2021	Board of Directors	1. Approval of the compensation of the CFO of the Company. 2. The company's salary adjustment this year. 3. The Company's 2020 earnings distribution plan. 4. Decision on the base date for the conversion of employee stock warrants into new shares for the first quarter of 2021. 5. Amendments to the Company's "Rules of Procedure for Shareholders Meetings." 6. Addition of reasons for convening the Company's 2021 general shareholders' meeting.	All independent directors approved.
Other matters: (1) Implementation status of independent directors' avoidance of proposals with personal interests: None.			

## 2. Shareholders' Meeting

Date	Session number	Important resolutions
June 15, 2020	Shareholders' Meeting	<ol style="list-style-type: none"> <li>1. The company's 2019 business report and 2020 business prospects.</li> <li>2. Report on supervisors' review of the 2019 final accounts.</li> <li>3. Report on the company's distribution of 2019 employees' remuneration and directors' and supervisors' remuneration.</li> <li>4. Report on the revision of the company's "Regulations of Board of Directors"</li> <li>5. The company's 2019 earnings distribution plan.</li> <li>6. Revision of the company's "Rules of Procedures for Shareholders' Meetings."</li> <li>7. Amendment to some articles of the "Articles of Association."</li> <li>8. Amendment to the "Method for Election of Directors and Supervisors."</li> <li>9. The company's cash dividend from capital reserve.</li> <li>10. Amendment to some of the provisions of the "Endorsement and Guarantee Measures."</li> <li>11. Amendment to some of the provisions of the "Operating Procedures for Loans to Others."</li> <li>12. Amendment to some of the provisions of the "Procedures for Acquisition or Disposal of Assets."</li> <li>13. Election of directors.</li> <li>14. Removal of non-competition restriction on directors.</li> </ol>

(XIV) In the most recent year and as of the annual report's printing date, if the directors or supervisors have different opinions on important resolutions passed by the board of directors with records or written statements in place, the main content of them.

No such situation.

(XV) Summary of the resignation and dismissal of persons related to financial reports (including the chairman, president, accounting director, finance director, internal audit director and R&D director) in the most recent year and as of the printing date of the annual report.

April 26, 2021

Title	Name	Date of Appointment	Date of Dismissal	Cause of Resignation or Dismissal
Chairman	MAN-LI, LIN CHEN	June 12, 2014	June 15, 2020	Retirement
CFO	CHIN-HSING, CHANG	October 26, 2017	February 3, 2021	Retirement

Note: The so-called persons related to the Company refer to the chairman, president, accounting director, finance director, internal audit director and R&D director.

(XVI) Status of the company's personnel related to financial information transparency who have obtained relevant licenses required by the competent authority.

License	Department	Number of people	
		Internal Audit	Finance
Certified Public Accountant (CPA)		-	1
Certified public bookkeeper		-	2
Certified Internal Auditor (CIA)		1	-
Certification in Risk Management Assurance (CRMA)		1	-

(XVII) Important resolutions of the 2020 shareholders' meeting and implementation status.

1. Approved the company's 2019 final accounts:

Implementation status: The certification of the company's 2019 financial report was completed by independent auditors CHING-FU CHANG and YUNG-HSIANG CHAO of Deloitte Taiwan and reviewed by the supervisors; the independent auditor's report and review report were submitted, respectively.

2. Report on the distribution of the company's 2019 employees' remuneration and directors' and supervisors' remuneration:

Implementation status: Directors' and supervisors' cash remuneration was NT\$9,900,000, and employees' cash compensation was NT\$75,000,000; both were paid on July 31, 2020.

3. The company's 2019 earnings distribution plan:

Implementation status: The actual earnings distribution in 2019 was cash dividend for a total of NT\$183,300,000 to shareholders, with July 12, 2020 set as the ex-dividend date, and July 31, 2020 as the date of cash dividend distribution; the cash dividend was NT\$1.3 per share.

4. The company's cash distribution from capital reserve:

Implementation status: In accordance with Article 241 of the Company Act, the company issued a cash dividend of NT\$211.5 million from the capital reserve over the par value of the ordinary shares, with July 12, 2020 set as the ex-dividend date and July 31, 2020 as the date of cash dividend distribution; the cash dividend was NT\$1.5 per share.

5. Approved the revision of the "Rules of Procedures for Shareholders' Meeting" of the company:

Implementation status: Resolution passed.

6. Approved the amendment to the "Articles of Association" of the company:

Implementation status: Resolution passed.

7. Approved the amendment to the "Method for Election of Directors and Supervisors" of the company:

Implementation status: Resolution passed.

8. Approved the amendment to the "Endorsement and Guarantee Measures" of the company:

Implementation status: Resolution passed.

9. Approved the amendment to the "Operating Procedures for Loans to Others" of the company.

Implementation status: Resolution passed.

10. Election of directors:

Implementation status: The list of elected directors is as follows: PO-CHUAN, LIN (legal representative of Kinmean company LTD.), WEN-LIANG, PAI, JUNG-CHE, HSIEH (legal representative of Kinki Inv Ltd. Company.), CHING-CHUNG, PAI (legal representative of LI-HE INV. LTD. COMPANY), SHING-YUAN, TSAI (Independent Director), BAUL-HSIE, LIAO (Independent Director) and WEN-I, HSIAO (Independent Director).

V. Accountant Fee Information

Unit: Thousand NT\$

Accounting firm's name	Accountant's name	Audit fee	Non-audit public expense					Accountant review period	Remarks
			System design	Business registration	Human Resources	Other	Subtotal		
Deloitte Taiwan	CHEN-TSAI TSAI YUNG-HSIANG CHAO	4,300	0	0	0	354 (note 1)	354	January 1, 2020 ~ December 31, 2020	

Note: 1. Expenses for checking, reading, typing and printing of announcement information related to financial reports.

Accountant Fee Information:

1. If the non-audit fee paid to the independent auditor, the firm to which the independent auditor belongs and its affiliated enterprises account for more than a quarter of the audit fee, the company shall disclose the amount of the audit fee and non-audit fee and the contents of the non-audit services: Detailed in the table above.
2. If the accounting firm is changed and the audit fee paid in the year of change is less than that in the year before the change, the company shall disclose the amount of the audit fee before and after the change and the reason: No such situation.
3. If the audit fee is reduced by more than 10% compared with the previous year, the company shall disclose the amount in reduction, the ratio and the reason: No such situation.

VI. Change of independent auditor: None.

No such situation.

VII. If the chairman, president, or manager in charge of financial or accounting affairs of the company has worked in the firm of the independent auditor or its affiliated enterprises in the past year, the company shall disclose the name, job title and the period of working in the firm of the independent auditor or its affiliated enterprises.

No such situation.

VIII. Equity transfer and equity pledge by directors, supervisors, managers, and shareholders with a shareholding ratio of more than 10% in the most recent year and up to the date of printing of the annual report.

(I) Changes in Equity Pledge

Title	Name	2020		As of April 17, 2021	
		Increase (decrease) in the number of shares held	Increase (decrease) in pledged shares	Increase (decrease) in the number of shares held	Increase (decrease) in pledged shares
Chairman	MAN-LI, LIN CHEN (note 1)	0	0	0	0
Chairman	Kimean Company Ltd. Legal representative: PO-CHUAN, LIN (note 2)	0 0	0 0	0 0	0 0
Director	WEN-LIANG, PAI	0	0	0	0
Director	KINKI INV. LTD. COMPANY Legal representative: JUNG-CHE, HSIEH	160,000 0	0 0	0 75,000	0 0
Director	LI-HE INV. LTD. COMPANY Legal representative: CHING-CHUNG, PAI	0 0	0 0	0 0	0 0
Independent Director	SHING-YUAN, TSAI	0	0	0	0
Independent Director	BAUL-HSIE, LIAO	0	0	0	0
Independent Director	CHIEN-WEN, CHOU (note 3)	0	0	0	0
Independent Director	WEN-I, HSIAO (note 4)	0	0	0	0
Supervisor	HUNG-CHI, LIN (note 5)	0	0	0	0
Supervisor	WEBSTER COMPANY LTD. Legal representative: SSU-TANG, TENG (note 5)	0 0	0 0	0 0	0 0
Supervisor	Kinki Inv Ltd. Company Legal representative: JEN-HUNG, HSIAO (note 5)	160,000 0	0 0	0 0	0 0

Diamond B.U. President	WEI-CHANG, LI	0	0	0	0
Semiconductor Materials B.U. President	FU-I, HUNG	0	0	30,000	0
President of Abrasives B.U.	BING-HSIUNG, SU	1,000	0	30,000	0
CFO	CHIN-HSING, CHANG	0	0	0	0
Corporate Governance Director	YUNG-SHENG, KU (note 6)	0	0	0	0
Vice President of Diamond B.U.	JUI-LIN, CHOU	0	0	0	0
Director of Abrasives B.U.	SHAO-CHUNG, HU	0	0	0	0
Director of Abrasives B.U.	CHIEN-CHUNG, TENG	0	0	0	0
Director of Semiconductor Materials B.U.	CHI-TUNG, TSAI	0	0	35,000	0
Director of Semiconductor Materials B.U.	WEN-HSIUNG, CHOU	0	0	35,000	0
Director of Semiconductor Materials B.U.	TIEN-CHI, CHENG (note 7)	0	0	0	0
R&D Director	CHIA-CHE, HO	0	0	0	0

Note 1: Chairman Ms. MAN-LI, LIN CHEN resigned after the general shareholders' meeting on June 15, 2020.

Note 2: Mr. PO-CHUAN, LIN was elected as a director at the general shareholders' meeting on June 15, 2020, and was elected as the chairman of the board by the board of directors on that day; his shareholding was declared from that day onward.

Note 3: Independent Director Mr. CHIEN-WEN, CHOU resigned after the general shareholders' meeting on June 15, 2020.

Note 4: Mr. WEN-I, HSIAO was elected as an independent director at the general shareholders' meeting on June 15, 2020, and his shareholding was declared from that day onward.

Note 5: On June 15, 2020, the shareholders' meeting of the company approved the replacement of the supervisor system with an audit committee, and the supervisors were duly discharged after the shareholders' meeting.

Note 6: Mr. YUNG-SHENG, KU was promoted to the Head of Corporate Governance on January 1, 2021, and his shareholding was declared from that day onward.

Note 7: Mr. TIEN-CHI, CHENG was promoted to director on May 1, 2020, and his shareholding was declared from that day onward.

(II) If the counterparty of the equity transfer or pledge is a related party, the name of the counterparty, its relationship with the company, directors, supervisors, managers and shareholders with a shareholding ratio of more than 10%, and the number of shares acquired or pledged shall be disclosed:

No such situation.

IX. Shareholding Ratio of Top 10 Shareholders and Their Affiliated Persons, Spouses, or Other Relatives within Two Degrees of Kinship

Name	Shareholding of the person		Shareholdings of spouse and minor child(ren)		Shareholding under other person(s)		Top 10 Shareholders and Their Affiliated Persons, Spouses, or Other Relatives within Two Degrees of Kinship		Remarks
	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Name (Designation)	Relationship	
Representative of Kinmean company LTD.: MAN-LI, LIN CHEN	9,892,423	6.99	-	-	-	-	MAN-LI, LIN CHEN YANG-LIANG, PAI WEN-LIANG, PAI PO-CHUAN, LIN	The company's Chairman Relative within 2nd degree of kinship Relative within 2nd degree of kinship Relative within 1st degree of kinship	
MAN-LI, LIN CHEN	6,865,865	4.85	-	-	-	-	Kinmean company LTD. YANG-LIANG, PAI WEN-LIANG, PAI PO-CHUAN, LIN	The company's Chairman Relative within 2nd degree of kinship Relative within 2nd degree of kinship Relative within 1st degree of kinship	
YANG-LIANG, PAI	6,027,372	4.26	1,987,539	1.40	-	-	LI-HE INV. LTD. COMPANY WEN-LIANG, PAI MAN-LI, LIN CHEN	The company's Chairman Relative within 2nd degree of kinship Relative within 2nd degree of kinship	
HSBC as Trustee of HCL Investor Small-Size Enterprise Fund	6,005,000	4.24	-	-	-	-	None	None	
Representative of KINKI INV LTD. COMPANY: PO-CHUAN, LIN	4,796,000	3.39	-	-	-	-	MAN-LI, LIN CHEN	Relative within 1st degree of kinship	

Name	Shareholding of the person		Shareholdings of spouse and minor child(ren)		Shareholding under other person(s)		Top 10 Shareholders and Their Affiliated Persons, Spouses, or Other Relatives within Two Degrees of Kinship		Remarks
	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Name (Designation)	Relationship	
Representative of Kinchuan Investment Ltd. Co.: WEN-LIANG, PAI	4,117,167	2.91	-	-	-	-	WEN-LIANG, PAI YANG-LIANG, PAI MAN-LI, LIN CHEN	The company's Chairman Relative within 2nd degree of kinship Relative within 2nd degree of kinship	
WEN-LIANG, PAI	3,190,605	2.25	1,309,089	0.92	-	-	Kinchuan Investment Ltd. Co. YANG-LIANG, PAI MAN-LI, LIN CHEN	the Company's Director The company's Chairman Relative within 2nd degree of kinship Relative within 2nd degree of kinship	
Fubon Life Insurance Co., Ltd.	2,985,000	2.11	-	-	-	-	None	None	
Representative of LI-HE INV. LTD. COMPANY: YANG-LIANG, PAI	2,471,420	1.75	-	-	-	-	YANG-LIANG, PAI WEN-LIANG, PAI MAN-LI, LIN CHEN	The company's Chairman Relative within 2nd degree of kinship Relative within 2nd degree of kinship	
Representative of Kitco Investment Co., Ltd.: MING-SHENG KUAN	2,345,986	1.66	-	-	-	-	None	None	

Note: YANG-LIANG, PAI, WEN-LIANG, PAI and MAN-LI, LIN CHEN are relatives within 2nd degree of kinship. MAN-LI, LIN CHEN and PO-CHUAN, LIN are relatives within 1st degree of kinship.

X. Number of Shares and Consolidated Shareholding Percentage of Investee Company Held by the Company, Directors, Supervisor and Managerial Officers of the Company, and Entities in which the Company has Direct or Indirect Controlling Interests

Unit: Share, %

Investees (note)	Invested by the Company		Held by Directors, Supervisors, managerial officers, and directly/indirectly controlled entities		Aggregated investment	
	Number of shares	Percentage of shareholding	Number of shares	Percentage of shareholding	Number of shares	Percentage of shareholding
Yamamura Kinik Optical Co., Ltd.	9,000,000	30%	0	0%	9,000,000	30%
Nano-TEM International Taiwan, Co.	270,000	45%	0	0%	270,000	45%
Hongia Industry Co.	2,925,000	100%	0	0%	2,925,000	100%
KINIK-THAI CO., LTD	482,000	47.2%	0	0%	482,000	47.2%
Winsheng Material Technology (Wmt)	2,750,000	19.8%	0	0%	2,750,000	19.8%

Note: The Company's long-term investment under equity method.

## Four | Fundraising status

### I. Capital and shares

#### (I) Approved share capital:

April 26, 2021 Unit: share

Types of shares	Approved share capital			Remarks
	Outstanding shares	Unissued shares	Total	
Registered ordinary shares	141,535,000	58,465,000	200,000,000	Listed

Note: With respect to the employee stock options already executed from January 1, 2021 to April 26, 2021, 457,500 shares in total, no registration of changes has been done.

#### (II) Source of share capital:

April 26, 2021 Unit: share

Month/year	Issue price	Approved share capital		Paid-in capital		Remarks		
		Number of shares	Amount	Number of shares	Amount	Source of share capital	Payment of share price with property other than cash	Other
October 2004	10	90,000,000	900,000,000	67,600,000	676,000,000	Capital increase from earnings 67,600,000	None	Note 1
November 2005	10	110,000,000	1,100,000,000	79,500,000	795,000,000	Capital increase from earnings 101,400,000 Employee bonus 17,600,000	None	Note 2
November 2005	10	110,000,000	1,100,000,000	98,463,954	984,639,540	Issuance of new shares for merger 189,639,540	None	Note 3
September 2006	10	200,000,000	2,000,000,000	115,300,000	1,153,000,000	Capital increase from earnings 147,695,930 Employee bonus 20,664,530	None	Note 4
September 2007	10	200,000,000	2,000,000,000	133,500,000	1,335,000,000	Capital increase from earnings 172,950,000 Employee bonus 9,050,000	None	Note 5
September 2008	10	200,000,000	2,000,000,000	141,000,000	1,410,000,000	Capital increase from earnings 66,750,000 Employee bonus 8,250,000	None	Note 6
November 2020	10	200,000,000	2,000,000,000	141,077,500	1,410,775,000	Conversion of stock options 77,500	None	Note 7
April 2021	10	200,000,000	2,000,000,000	141,535,000	1,415,350,000	Conversion of stock options 457,500	None	Note 8

- Note 1: This capital increase was approved by the Financial Supervisory Commission of the Executive Yuan on July 28, 2004 via the letter referenced Jin-Guan-Cheng-Yi-Zi No. 0930133596 to increase capital and issue new shares.
- Note 2: This capital increase was approved by the Financial Supervisory Commission of the Executive Yuan on August 15, 2005 via the letter referenced Jin-Guan-Cheng-Yi-Zi No. 0940133462 to increase capital and issue new shares.
- Note 3: This capital increase was approved by the Financial Supervisory Commission of the Executive Yuan on August 22, 2005 via the letter referenced Jin-Guan-Cheng-Yi-Zi No. 0940133626 to increase capital and issue new shares.
- Note 4: This capital increase was approved by the Financial Supervisory Commission of the Executive Yuan on July 3, 2006 via the letter referenced Jin-Guan-Cheng-Yi-Zi No. 0950127962 to issue new shares.
- Note 5: This capital increase was approved by the Financial Supervisory Commission of the Executive Yuan on July 3, 2007 via the letter referenced Jin-Guan-Cheng-Yi-Zi No. 0960033676 to increase capital and issue new shares.
- Note 6: The capital increase was approved by the Financial Supervisory Commission of the Executive Yuan on July 2, 2008 via the letter referenced Jin-Guan-Cheng-Yi-Zi No. 0970032886 to increase capital and issue new shares.
- Note 7: This capital increase was approved by the Department of Commerce of the Ministry of Economic Affairs of the Executive Yuan on November 11, 2020 via the letter referenced Jing-Shou-Shang-Zi No. 202001212790 to increase capital and issue new shares.
- Note 8: With respect to the employee stock options already executed from January 1, 2021 to April 26, 2021, 457,500 shares in total, no registration of changes has been done.

(III) Shareholder structure:

April 26, 2021

Shareholder structure Quantity	Government agencies	Financial institutions	Other legal persons	Individuals	Foreign institutions and foreign individuals	Total
Number (persons)	0	3	74	14,371	74	14,522
Number of shares held (shares)	0	4,527,000	29,617,498	88,792,613	18,597,889	141,535,000
Shareholding ratio (%)	0	3.2	20.93	62.73	13.14	100

(IV) Decentralization of shareholding:

April 26, 2021

Tiers of shareholding	Number of shareholders (persons)	Number of shares held (shares)	Shareholding ratio (%)
1 to 999	2,291	450,467	0.32
1,000 to 5,000	10,144	19,579,844	13.83
5,001 to 10,000	1,111	8,872,027	6.27
10,001 to 15,000	292	3,736,379	2.64
15,001 to 20,000	192	3,571,352	2.52
20,001 to 30,000	167	4,252,656	3.00
30,001 to 40,000	77	2,725,005	1.93
40,001 to 50,000	44	2,043,044	1.44
50,001 to 100,000	99	6,861,855	4.85
100,001 to 200,000	42	5,928,864	4.19

April 26, 2021

Tiers of shareholding	Number of shareholders (persons)	Number of shares held (shares)	Shareholding ratio (%)
200,001 to 400,000	28	7,943,843	5.61
400,001 to 600,000	9	4,294,199	3.03
600,001 to 800,000	2	1,378,761	0.97
800,001 to 1,000,000	1	953,000	0.67
More than 1,000,001	23	68,943,704	48.73
Total	14,522	141,535,000	100.00

(V) List of major shareholders:

April 26, 2021

Name of major shareholders	Number of shares held (shares)	Shareholding ratio (%)
Kinmean company LTD.	9,892,423	6.99
MAN-LI, LIN CHEN	6,865,865	4.85
YANG-LIANG, PAI	6,027,372	4.26
HSBC as Trustee of HCL Investor Small-Size Enterprise Fund	6,005,000	4.24
KINKI INV LTD. COMPANY	4,796,000	3.39
Kinchuan Investment Ltd. Co.	4,117,167	2.91
WEN-LIANG, PAI	3,190,605	2.25
Fubon Life Insurance Co., Ltd.	2,985,000	2.11
LI-HE INV. LTD. COMPANY	2,471,420	1.75
Kitco Investment Co., Ltd.	2,345,986	1.66
Total	48,696,838	34.41

(VI) Market price, net worth, earnings, dividends and related information of each share in the last two years:

Unit: NTS

Item		Year		As of April 26, 2021	
		2019	2020		
Stock price per share	Highest	74	70.3	78.5	
	Lowest	55.6	47	64.1	
	Average	61.89	61.26	69.76	
Net value per share	Prior to distribution	30.42	31.36	32.84(note 2)	
	After distribution	29.12	Note 1	Note 1	
Earnings per share (EPS)	Weighted average outstanding shares (shares in thousands)	141,000	141,032	148,828	
	Earnings per share (before adjustment)	3.81	3.63	1.05(note 2)	
	Earnings per share (after adjustment)	3.81	Note 1	Note 1	
Dividend per share	Cash dividends		2.8	Note 1	NA
	Bonus shares	From earnings	NA	NA	NA
		From capital reserves	NA	NA	NA
	Cumulative unpaid dividends		NA	NA	NA
Analysis of investment returns	PE Ratio		16.24	16.88	NA
	Price to dividend ratio		22.10	Note 1	NA
	Dividend Yield		5.00%	Note 1	NA

Note 1: The earnings distribution proposal for 2020 is yet to be approved in the Shareholders' Meeting.

Note 2: The financial report amount until March 31, 2021.

(VII) Company dividend policy and implementation status:

1. The company's dividend policy

The company will balance dividend payments according to the operating and investment environment and capital requirements, and take into account the interests of shareholders and capital adequacy. If there are earnings in the company's annual final accounts, in addition to paying taxes and making up previous losses in accordance with the law, 10% will be first appropriated as the legal reserve, except when the legal reserve has reached the amount of the total capital; after the special reserve is allocated or reversed in accordance with the regulations of the competent authority, the board of directors shall draft an earnings distribution proposal for the remaining distributable earnings together with the previous retained earnings, and submit it to the general shareholders' meeting for a resolution of distribution; at least 50% shall be allocated for distribution of shareholder dividends. The distribution of dividends to shareholders may be handled in two ways: issuance of new shares and issuance of cash. The respective proportions shall be planned and formulated by the board of directors according to actual needs. However, the amount of cash dividend for distribution shall not be less than 20% of the total shareholder dividends to be distributed for the current year.

2. Proposal to distribute stock dividend this year

Unit: NT\$

Unappropriated retained earnings at the beginning of the period		\$ 579,584,590
Defined Benefit plan re-measurement recognized in retained earnings confirmed		6,066,027
Adjustment to unappropriated earnings due to the adoption of the equity method of investment		2,352,785
		588,003,402
Add: Net profit for the period	512,339,256	
Less: Legal reserve	(52,075,807)	
Subtotal		460,263,449
Earnings available for distribution for this period		1,048,266,851
The distribution is as follows:		
Bonus to shareholders - cash (2.8/share)		(396,113,200)
Unappropriated retained earnings at the end of the period		\$ 652,153,651

Note: priority is given to the distribution of 2020 earnings when distributing NT\$396,113,200 in bonuses to shareholders.

Chairman:  
PO-CHUAN, LIN

Managers:  
JUNG-CHE, HSIEH

Accountant Director:  
YUNG-SHENG, KU

(VIII) The impact on the operating performance of the Company and earnings per share by the proposal of the Shareholders' Meeting to issue bonus shares:

As it is expected that only cash dividends will be allocated, exclusive of stock dividends, this year, the Company's operating performance and EPS should remain unaffected.

(IX) Remuneration of Employees, Directors and Supervisors:

1. The amount or scope of the remuneration of employees, directors and supervisors as stated in the articles of association:

If the company has earnings after its annual settlement, no less than 1% shall be allocated as employees' remuneration, which shall be distributed in stock or cash by the resolution of the board of directors. The payment recipients include employees of affiliated companies who meet certain conditions. The company may allocate up to 2% of the earnings above as the remuneration of directors and supervisors by the resolution of the board meeting. The distribution of employees' remuneration and directors' and supervisors' remuneration shall be reported to the shareholders' meeting.

However, when the company still has a cumulative loss, it shall reserve the amount of compensation in advance and then allocate employees' remuneration and directors' and supervisors' remuneration in accordance with the proportion in the preceding paragraph.

2. The calculation basis for the estimated amount of remuneration for employees, directors and supervisors, the calculation basis for the number of shares of employee remuneration distributed by shares, and the accounting treatment if the actual distribution amount is different from the estimated amount:

If there is a discrepancy between the actual distribution amount and the estimated amount, it will be listed as the current year's expense and the assessment method will be reviewed in the next board of directors' meeting.

3. Remuneration distribution approved by the board of directors:

- (1) The amount of employees' remuneration and directors' and supervisors' remuneration paid in cash or shares. If there is a discrepancy from the annual estimated amount of recognized expenses, the discrepancy amount, reasons and handling shall be disclosed:

The Board of Directors approved the proposal for 2020 remuneration distribution to employees in cash, NT\$72,000,000, and to directors/supervisors, NT\$8,790,000.

- (2) The amount of employees' remuneration distributed by shares and its proportion to the total amount of individual or respective financial reports after tax, and the total employees' remuneration for the period:

The company does not distribute employees' remuneration by shares.

4. The actual distribution of the remuneration of employees, directors and supervisors in the previous year (including the number of shares distributed, amount and share price); if there is a difference with the remuneration of recognized employees, directors and supervisors, state the difference, reasons and handling:

The distribution in 2019 is cash remuneration of NT\$75,000,000 for employees and NT\$9,900,000 for directors and supervisors for the year of 2018. There is no difference from the proposed distribution approved by the original board of directors.

(X) The company's buyback of shares:

No such situation.

II. Status of corporate debt handling

No such situation.

III. Status of special shares handling

No such situation.

IV. Status of overseas depository receipts handling

No such situation.

V. Status of employee stock options handling

(I) Status of the handling of employee stock options that have not yet expired as of the printing date of the annual report

April 26, 2021

Type of employee stock options	1st employee stock option certificate in 2018
Date approved by the competent authority	July 20, 2018
Issuance (handling) date	July 26, 2018
Number of units issued	2,500
Ratio of subscription shares issued to total shares issued	1.773%
Duration of share subscription	6 years
Performance method	Issuance of new shares
Restricted subscription period and ratio (%)	50% after two years, and 100% after three years
Number of shares acquired after execution	535,000 shares
Amount of executed share subscriptions	NT\$33,009,501
Number of outstanding shares not converted from stock options	1,965,000 shares
Subscription price per share for unexecuted subscriptions	NT\$61.7
Ratio of the number of outstanding shares for number of outstanding shares not converted from stock options (%)	1.389%
Impact on shareholders' equity	Two years after the issuance date of the employee stock option certificate, the original shareholder's equity will be diluted year by year during its existence, so the dilution effect is limited.

Type of employee stock options	1st employee stock option certificate in 2020
Date approved by the competent authority	June 22, 2020
Issuance (handling) date	July 29, 2020
Number of units issued	2,500
Ratio of subscription shares issued to total shares issued	1.773%
Duration of share subscription	6 years
Performance method	Issuance of new shares
Restricted subscription period and ratio (%)	50% after two years, and 100% after three years
Number of shares acquired after execution	0
Amount of executed share subscriptions	0
Number of outstanding shares not converted from stock options	2,500,000 shares
Subscription price per share for unexecuted subscriptions	NT\$64.4
Ratio of the number of outstanding shares for number of outstanding shares not converted from stock options (%)	1.767%
Impact on shareholders' equity	Two years after the issuance date of the employee stock option certificate, the original shareholder's equity will be diluted year by year during its existence, so the dilution effect is limited.

(II) Names and subscription status of managers who have obtained employee stock warrants and of employees who rank among the top ten in terms of the number of shares to which they have subscription rights through employee stock warrants acquired, accumulated until the date of publication of the annual report

Title	Name	Number of shares to which they have subscription rights	Ratio of the number of shares to which they have subscription rights to the total number of	Executed				Not executed			
				Subscription quantity	Subscription price	Subscription amount	Ratio of the subscription quantity to the total number of outstanding shares	Subscription quantity	Subscription price	Subscription amount	Ratio of the subscription quantity to the total number of outstanding shares
CEO	JUNG-CHE, HSIEH	2,035,000	1.44%	205,000	61.7	12,648,500	0.14%	1,830,000	61.7 64.4	112,911,000	1.30%
President of Abrasives B.U.	BING-HSIUNG, SU										
Diamond B.U. President	WEI-CHANG, LI										
Semiconductor Materials B.U. President	FU-I, HUNG										
CFO (note)	YUNG-SHENG, KU										
Audit Director	YI-CHUN, KO										
Director of Abrasives B.U.	SHAO-CHUNG, HU										
Director of Abrasives B.U.	CHIEN-CHUNG, TENG										
Director of Diamond B.U.	JUI-LIN, CHOU										
Director of Semiconductor Materials B.U.	CHI-TUNG, TSAI										
Director of Semiconductor Materials B.U.	WEN-HSIUNG, CHOU										
Director of Semiconductor Materials B.U.	TIEN-CHI, CHENG										
R&D Director	CHIA-CHE, HO										
CFO (note)	CHIN-HSING, CHANG										

Title	Name	Number of shares to which they have subscription rights	Ratio of the number of shares to which they have subscription rights to the total number of	Executed				Not executed			
				Subscription quantity	Subscription price	Subscription amount	Ratio of the subscription quantity to the total number of outstanding shares	Subscription quantity	Subscription price	Subscription amount	Ratio of the subscription quantity to the total number of outstanding shares
Top Ten Employees	TIEN-YU WU	1,065,000	0.75%	197,000	61.7	12,154,900	0.14%	868,000	61.7 64.4	53,555,600	0.61%
	I-TSAO LIAO (note)										
	YU-YU LIU										
	CHIH-CHUN HSU										
	I-CHANG LIN										
	MIN-HUNG WU										
	CHUN-CHENG LIN										
	YUN-JU CHEN										
	HSIANG-KUN HSIEH										
	Affiliate's employee										

Remarks:

\*The former CFO, CHIN-HSING, CHANG, has retired on February 3, 2021. Mr. YUNG-SHENG, KU has served the Company's finance director and accounting director as of February 24. Mr. I-TSAO LIAO included in the Top Ten Employees retired on October 31, 2020.

VI. Status of handling of new shares with restricted employee rights

No such situation.

VII. Status of issuance of new shares for M&A or transfer of shares of other companies

No such situation.

VIII. Implementation status of capital utilization plan

(I) Plan content

As of the quarter before the publication date of the annual report, the previous issuances or private placements of securities which have not been completed or have been completed within the last three years, and the planned benefits of which have not yet manifested: No such situation.

(II) Implementation Status

Not applicable.

## Five | Operation Overview

### I. Business Content

#### (I) Business Scope

##### 1. Main businesses

- A. Metal Wire Products Manufacturing.
- B. Other Metal Products Manufacturing.
- C. Heat Treatment.
- D. Surface Treatments.
- E. Mold and Die Manufacturing.
- F. Mechanical Equipment Manufacturing.
- G. Electronics Components Manufacturing.
- H. Ceramic and Ceramic Products Manufacturing.
- I. Glass and Glass Products Manufacturing.
- J. Optical Instruments Manufacturing.
- K. Growing of Crops.
- L. Agricultural Products Preparations.
- M. Cutting, Shaping and Finishing of Stone.
- N. All business items that are not prohibited or restricted by law, except those that are subject to special approval.

##### 2. Total Sales of Main Products

Unit: %

Main product	Total Sales (note)	
	2019	2020
Conventional grinding wheel	31.38%	27.68%
CMP diamond disk	22.37%	25.97%
reclaimed wafer	43.17%	43.82%
Other	3.08%	2.53%
Total	100.00%	100.00%

Note: The information referred to in the Company's 2019 consolidated financial statements.

3. The Company's Current Products (Services) items

The company's main products items at present are grinding tools such as grinding wheels, CMP (Chemical Mechanical Polishing) diamond disks and reclaimed wafers. The types, materials, characteristics, importance and applications of various grinding and cutting tools and reclaimed wafers are summarized as follows:

Category		Materials, characteristics and importance
Traditional Products	Vitrified & Resinoid Grinding Wheels	The main abrasives are aluminium oxide and silicon carbide, with several manufacturing methods available depending on the bonding agent. The main production process is to mix the abrasive with the bonding agent, and then to form and fire for hardening of the wheel. The abrasive size, bonding strength, and structure of the wheel are tailored to each product's specification. In the grinding process, the appropriate grinding wheel is selected according to the characteristics of the workpiece and the processing conditions so as to obtain a good grinding and cutting results.
	Super Abrasive Grinding Wheels	The main abrasives are diamond and cubic boron nitride (cBN). cBN is mainly used in the grinding of hard and difficult-to-machine steel materials, such as tool steel, alloy steel, cast iron and superalloys. The grinding operations of super-hard alloy, non-ferrous metals, ceramics, glass, stone, silicon wafer, sapphire, etc., which should be processed with diamond abrasive. The applications of diamond material with many extremely superior properties will lead the development of the technology in the future.
Diamond Products	Diamond Disc or Pad Conditioner	As semiconductor manufacturing becomes increasingly layered and miniaturized, the CMP (chemical mechanical grinding) process is currently the most widely used overall planarization technology in the IC industry for line widths below 0.25 microns. In the CMP process, the holes on the surface of the grinding pad will be filled with impurities after a period of use, which deteriorates the grinding characteristics and reduces the wafer removal rate. In order to solve this problem, it is necessary to condition the grinding pad with a diamond conditioner in a timely manner to make the holes appear again on the grinding pad and restore the polishing function of the grinding pad. Today's pad conditioners usually have fixed diamond grains welded on the surface of the metal platform for conditioning. In the field of CMP, the diamond disc conditioner is the key to the stability, cost and wafer removal rate (output) of the entire process.
Wafer Products	Reclaimed Silicon Wafers	Reclaimed wafers are not regenerated from defective products during the production of ICs, but monitor wafers and dummy wafers in the IC manufacturing process. The purpose is to reduce the cost of new test wafers and dummy wafers.

4. New products (services) to be developed

- A. Advanced CMP diamond disks for the 3nm/2nm semiconductor manufacturing process.
- B. Reclaimed wafers from non-silicon-based hard and brittle materials.
- C. High-number semiconductor grinding wheels.
- D. Diamond Rollers

## 5. R&D Strategy and Goal

- R&D strategy: Exercising the most effective resilient approach to build technology and mass production, based on the grinding, in order to solve problems and create the leading edge.
- Mode of management: Helping the improvement on the contents and quality of work based on planning and technology, and boost the R&D momentum from basic research to improvement of products, and then innovation and development ultimately. Meanwhile, speed up the growth through industry-academia cooperation, resilient development of fields, and investment & MA.

R&D targets:

- (1) Become a world-class grinding technology development center.
- (2) Establish a service platform for intelligent manufacturing and solutions.
- (3) Create new across-field industrial chains and ecosystems.
- (4) Extend product life cycle through process improvement and technology upgrade.
- (5) Expand and supplement technology spectrum and basic research.
- (6) Establish mass production technology for next-generation products.
- (7) Strengthen the application and protection mechanisms of intellectual property rights to protect profits.

## (II) Industry Overview

### 1. Industry Status and Development

With the relocation of low entry-level industries and the upgrading of domestic precision industries, the grinding industry faces a technology-centered competition of elimination. Customers with the demand for products that small factories rely on for their livelihoods have shifted to lower-cost countries and set up factories there due to the high production cost in Taiwan; the customers with their roots in Taiwan, due to their own upgrading of technology, will have an increasing demand for the capabilities of the manufacturing and after-sales service of grinding tools. Therefore, due to the operation of market functions, the industry will develop towards a trend of high technical level, sufficient process capability and diversified product customization.

As for the company's CMP diamond disks, a number of new products have successively passed customer certifications and entered mass production. The demand for semiconductor customers is booming; in addition to the continuous increase in the market share of the advanced process market, it has achieved a leading position in the 3nm market.

Due to the particularity of Taiwan's position and its key position in the industrial chain, the semiconductor industry has become a target to win over by all countries in the geopolitical conflict. Its overall industrial chain, led by the leader TSMC, is continuously leading advanced manufacturing processes, and the demand for its mature processes is in short supply. Therefore, the demand for reclaimed wafers has also continued to rise in response.

## 2. Relevance of the upper, middle and lower reaches of the industry

### (1) Supply of Upstream Raw Materials

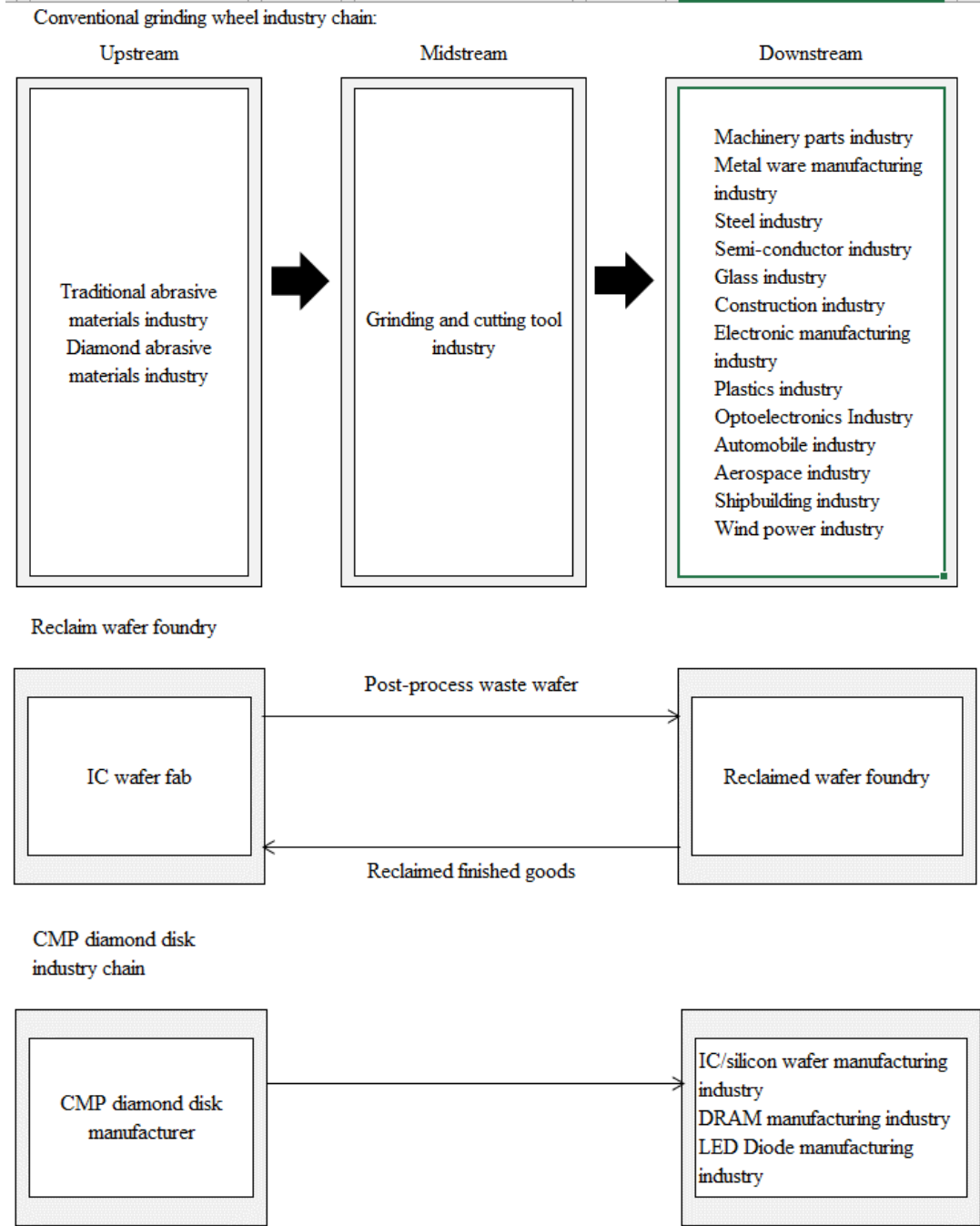
The company's main products are grinding and cutting tools, and the main raw materials are abrasives. The abrasive is a hard and tough substance used for grinding, finishing and polishing to remove and to smooth raw materials. It can be divided into traditional abrasives. (mainly aluminium oxide and silicon carbide) and super abrasives (diamond and cubic boron nitride). As there are no other alternative materials at present, the abrasive market has no product life cycle problem but only affected by the economy and the development of downstream industries. However, due to the limited global suppliers of traditional and diamond abrasives and the requirement for the quality of raw materials, the company mostly relies on imports for the demand on it. The main sources of imports for traditional abrasives are IFM, Niche, 3M and Saint Gobain; and for super abrasives are Element Six, HYPERION, ILJIN and Lands; diamond abrasives mainly come from Element Six, HYPERION, ILJIN and Lands. Among the products of the reclaimed wafer business, the raw materials for test wafers mainly come from the five major suppliers.

### (2) Demand for Downstream Products

As known from the relevance of the upstream, midstream, and downstream industries where the company is located, the applications of grinding and cutting tools cover the industries of mechanical parts, hardware manufacturing, steel, semiconductor, glass, construction, electronics manufacturing, plastics, optoelectronics, automobile and motorcycle, aerospace, shipbuilding, wind power and other downstream industries. They are necessary processing tools in the manufacturing of various industries. The industrial relevance is extremely high. However, because of its wide coverage of market and of its even distribution in various industries, the demand for the products is less susceptible to the ups and downs of a single industry.

CMP diamond disks are consumables in the wafer manufacturing process. They are used in the chemical mechanical grinding (CMP) process in semiconductor manufacturing, covering the manufacturing of IC/silicon wafers, DRAM and LED diodes in the global semiconductor industry. Currently, the global supply is limited and it is an oligopoly market.

The downstream customers of reclaimed wafers cover IDM, foundry and memory manufacturing; the customers come from all over the world and have extensive distribution. The company is already an industry service company that serves the entire world. With the semiconductor customers continuing to expand and the demand growing, the demand for reclaimed wafers is rising.



### 3. Development Trends and Competition of Product

The development trend of abrasive products is that the process capability of providing products suitable for the processing of customer machines and workpieces and towards the improvement of the grinding or cutting efficiency. For example, as the development trend of consumer electronic products goes "light, thin, short, and small," the grinding tools used for their grinding processing must match accordingly. Because grinding tools are not end consumer products but are consumables used in the processing, so the development trend is how to make products that meet customer needs.

CMP diamond disks are necessary and critical consumable products in the semiconductor wafer planarization process. As wafer manufacturing progresses from 8 inches to 12 inches and from micrometers to nanometers, the demand for planarization in wafer manufacturing is increasing. For CMP diamond disks, in addition to their quality which has been continuously improving with the progress of semiconductors, they have further transformed into the role of providing customers with a total solution of the flattening process, assisting customers in solving flattening problems, establishing closer partnerships, and continuing to advance to advanced manufacturing processes below 3nm.

Regarding the processing capability and product economic efficiency, the production of reclaimed wafers with 0.11 micron for 8-inch wafers is the limit of the process. In the future, the company's production process of 0.11 micron or less will be put into production mainly for 12-inch wafers; the existing wafer material quality is used for the 8-inch process to make the defect control in the raw material crystal pulling process or the subsequent processing quality meet the requirements. But when it is used in the production process of 0.11 micron or less, the quality requirements of 12-inch wafers will become more stringent as the size shrinks, and the quality of the wafers will directly reflect the product yield. Therefore, the quality of 12-inch wafers will be the focus of competition among wafer suppliers. The 18-inch reclaimed wafer market is still in the research and development stage, and there is not yet a great demand.

(III) Technological capability and R&D

1. R&D expenses invested in the most recent year and until the date of publication of the annual report

Unit: Thousand NT\$

Item \ Year	2020	March 31, 2021
R&D expenses (A)	125,888	28,705
Sales revenue, net (B)	5,156,550	1,464,737
Percentage of R&D expenses (A)/(B)	2.44%%	1.96%

2. Successfully Developed Technologies or Products in the Most Recent Year and as of the Date of Publication of the Annual Report
  - (1) CMP diamond disk for 3nm semiconductor process.
  - (2) Reclaimed wafers of 26nm/19nm specifications.
  - (3) Fine matte strips for high-number precision machinery.
  - (4) High-number thinning wheels for silicon wafers.
  - (5) Application technology of grinding wheel reclaiming.

(IV) Long-term and Short-term Business Development Plans

1. Direction of Short-term Development Plan
  - (1) Marketing Strategy

## A. Grinding Wheel

Stabilize the existing grinding wheel market, actively develop new customers, expand the market share, and gain the trust of customers with stable quality, on time delivery, and good after-sales service.

## B. CMP diamond disk

- (a) Reduce production costs based on existing technology and through product integration and improvement at this stage, and expand the scale of cooperation with existing customers.
- (b) By promoting new products such as Pyradia, CVD-W and Metal Free, expand the 12-inch wafer and advanced process market and increase market share.
- (c) Actively strengthen the training of overseas service personnel and strategic alliances with related manufacturers to expand overseas sales channels with a more competitive attitude.

## C. Reclaimed wafer

In addition to continuing to strengthen and improve services to existing Taiwanese customers, the company is actively obtaining certification with overseas semiconductor IDM factories, foundries or DRAM factories to expand the overseas market share.

## (2) Production Strategy

- A. Continue to invest in the research and improvement of production technology, and develop new products and new processes in response to market demand to improve market competitiveness.
- B. Strengthen product design and process management, and implement a quality control system to improve product quality.

## (3) Product Development Direction

- A. Deploy complete product lines and product supply capabilities, and develop new materials and technologies.
- B. Master the core technology and mass production capacity of products, and expand the depth and breadth of product sales.
- C. Use existing production equipment to improve product quality and produce high value-added products to enhance profitability.

## (4) Operating Scale

To become a leading brand in the grinding tool industry, the company continues to develop related technologies and products through investments in funds and talents to expand the company's operating scale in a timely manner, in order to strengthen the position as a leading manufacturer in the grinding tool industry.

## (5) Financial Cooperation

Strengthen comprehensive financial planning and cost control to reduce operational risks and improve competitiveness.

## 2. Strategy of Long-term Development Plan

### (1) Marketing Strategy

#### A. Grinding Wheel

Continue to develop long-term cooperative relations with customers and agents, and penetrate into other international markets, develop direct large-scale customers, and actively grasp vast business opportunities.

#### B. CMP diamond disk

Provide total differentiated solutions according to the individual needs of customers, and combine the downstream application requirements of the CMP market and the upstream machine specifications to develop new products and build a sales system that shares resources and profits.

#### C. Reclaimed wafer

Invest in the development of next-generation processes in a timely manner in line with customers' product line width reduction and process requirements. Actively apply core technology to high value-added hard and brittle material products in other semiconductor industries to increase product breadth and scale of operation; on the other hand, accelerate capacity expansion and quality improvement in response to the increasing demand for 12-inch wafer regeneration from domestic and foreign customers.

### (2) Production Strategy

Continue to improve process technology, shorten the production cycle, improve product quality and inventory turnover rate, achieve the goal of reducing production costs, and actively expand the deployment of overseas production bases.

### (3) Direction of Product Development

Strengthen the R&D team, continue to expand the leading position and advantages in diamond-related applications, cooperate with customers and manufacturers to develop new product technologies, and develop marketable and high value-added products in different application fields; expect to provide customers with total solutions of cutting, grinding and polishing and create value with customers.

### (4) Operational Scale

Strengthen the system integration of R&D, production, information, procurement and marketing, expand the production line in concert with the development of new products, and develop in the direction of product and business diversification.

### (5) Financial Cooperation

Use the money market or capital market in due course to raise funds for future operations.

## II. Overview of Market, Production and Sales

### (I) Market Analysis

#### 1. Sales (Supply) Regions of Major Products (Services)

Unit: Thousand NT\$

Region	Year	2018		2019		2020	
		Amount	%	Amount	%	Amount	%
Domestic sales		2,864,497	55.80	2,736,228	56.21	2,960,649	57.42
Export sales	Asia	1,358,934	26.47	1,386,093	28.47	920,643	17.85
	Other	910,035	17.73	745,682	15.32	1,275,258	24.73
	Total with foreign	2,268,969	44.20	2,131,775	43.79	2,195,901	42.58
Total		5,133,466	100	4,868,003	100	5,156,550	100

#### 2. Market Share

##### (1) Grinding Wheel

A combined market share of the company's traditional vitrified and resinoid grinding wheels is approximately 35%, and that of diamond-related tools is approximately 15%.

##### (2) CMP diamond disk

According to the statistical analysis of the American Dow Company, if the market share of CMP diamond disks is converted according to the sales amount of each manufacturer, the company's global market share in 2019 is approximately 25%.

##### (3) Reclaimed wafer

The company's domestic market share of reclaimed wafers has exceeded 30%, with domestic revenue accounting for 30% and foreign customers 70%. Since 2015, the proportion of foreign customers has gradually increased from 20% to 70%.

#### 3. Future Supply and Demand and Growth of the Market

##### (1) Possible Supply Situation in the Future

Grinding tools are consumables used in the machining process and are not end consumer products. The supply of such products depends on the manufacturing capability of providing products suitable for customer machines and workpiece processing, and on improvement of grinding and cutting efficiency. In addition, the manufacturing of grinding tools involves many technologies and belongs to a medium to a high level of labor-intensive industry. Besides the quality of the product itself, the technical guidance services provided by the seller can also improve the processing efficiency of the manufacturer and the added value of the product. In the future, with the structural changes from the overall industrial upgrading in Taiwan, suppliers that can support technical services will be able to enhance the sales capabilities of their products. Given the current situation where large and small manufacturers compete together, the phenomenon of growth and decline will gradually occur.

## (2) Possible Demand in the Future

### A. Traditional Grinding Products

In terms of market demand, the downstream application industries of traditional grinding tools are broad, but with the highest proportions mainly in the machine tool industry, the steel industry, the automobile industry and the hardware manufacturing industry. With the flourishing development of the current global semiconductor industry, the demand for diamond grinding wheel products used for the grinding in this industry will continue to grow.

### B. CMP diamond disk

The main application industry for CMP diamond disks is the semiconductor chemical mechanical grinding market. One of the grinding requirements of CMP (chemical mechanical grinding) is high productivity, which means that the output of wafers per unit time must meet certain criteria. In order to achieve the demand for wafer processing yield and the stability of quality, the grinding pad must be trimmed with a diamond conditioner during the process. As the grinding time progresses during the process, the by-products and reaction products of the grinding will be deposited in the polishing process. The fine holes or grooves on the pad will eventually block the holes. The grinding liquid cannot be evenly distributed on the grinding pad, which makes its grinding characteristics worse, resulting in the so-called glazing. Therefore, a diamond conditioner is required for conditioning to maintain the sustainable stability of the grinding ability of the polishing pad. According to foreign market research reports, the diamond disc conditioner market grows at a rate ranging from 15% to 20% every year; the future requirements for diamond conditioners in the chemical mechanical grinding process must meet the following requirements:

#### (a) Stable and fast wafer removal rate

The diamond disc conditioner needs to be able to properly condition the grinding pad and then regenerate the grinding pad function so that the grinding pad can provide a stable and fast wafer removal rate.

#### (b) Extending the life of the grinding pad

The grinding pad is a consumable item during the conditioning process. Therefore, based on cost considerations, over-conditioning the grinding pad by the diamond conditioner should be avoided to extend its life.

#### (c) Ensuring that the diamond does not fall off

The diamond attached to the diamond disc conditioner should be stable and not fall off to avoid scratching the wafer.

### C. Reclaimed Wafer:

The monthly domestic demand for 12-inch reclaimed silicon wafers has continued to increase due to the continuous increase of production by customers, and the volume has reached approximately 700,000 wafers at present. However, on the overall supply of reclaimed wafers in Taiwan, except for its expansion of the new Zhunan plant in 2020, other suppliers have only increased a small part of their production capacity by removing bottlenecks and have not expanded their production significantly. Therefore, with the increase in overall customer demand, the demand for high-end reclaimed wafers will become increasingly difficult to meet. In addition to developing foreign customers, the company pays close attention to changes in domestic customer needs.

Since 2019, due to the US-China trade war, the overall development of the semiconductor industry in mainland China has been restricted in every aspect. The company has also continued to pay attention to the influence and changes under this geopolitics and made appropriate adjustments in a timely manner. The demand for reclaimed wafers is still high at the moment.

## 4. Competitive Niche

### (1) Complete Marketing Channels and Customer Service

Since grinding and cutting tools are manufactured in accordance with the requirements of downstream industry customers for workpiece accuracy, they are consumable materials and are not directly sold to end consumers. As far as the grinding market is concerned, the scale of Taiwan's domestic market is limited and the company needs to rely on the international market. Therefore, the deployment of marketing channels is the key to the development in the global grinding market. With long-term efforts, the company has established a good model of interaction with domestic and foreign customers, such as TSMC, UMC, Powerchip, GF, Micron and other internationally renowned manufacturers and potential customers. It leads to active expansion of the export market through overseas agents and strategic alliances.

### (2) Integrated Technical Support and After-sales Service

With the professional division of human resources, the value that the company can provide to downstream players is no longer limited to products and prices. Still, it extends to logistical support, which has become part of the overall value chain of downstream customers to help downstream manufacturers to provide technical support of application at any time, thus effectively enhancing service value and efficiency to improve the satisfaction of the final market.

### (3) Innovation and Improvement of Technology Capabilities

Due to the rapid development of the grinding market, the application of various new processes and the promotion of new products significantly impact the industry. With the rapid changes of demand in downstream market, the company not only fully grasps the future movement of the market but also continues to apply new technologies in the manufacturing process and products. The company closely communicates and cooperates with customers in order to grasp the development trends of industrial

technology and to establish a channel for collecting market information, so as to facilitate the development of downstream markets and related products.

## 5. Advantages and Disadvantages of Development Prospects and Countermeasures

### (1) Favorable Factors

#### A. Grinding Wheel Products

1. Complete product line, extensive customer base and relatively low risk with industry.

Grinding wheel products have a wide range of applications, including in machinery, hardware, steel, molds, automobile, glass, aerospace and other industries that need to use this product. The company has its own marketing and manufacturing capabilities and can accept orders with special specifications from customers, making the available product line quite complete. The customer base is wide and covers various industries; therefore, the risk with the industry decline is relatively small.

2. Stable Customer Relationship

Since its establishment, the company has been adhering to the business philosophy of "Good together: Good to You, Good to Me, Good to All" regardless of the size of customers, to assist customers in solving the problems they face in manufacturing and processing, and provide them with what they need in a timely manner in the course of the upgrading of the customer's manufacturing process; therefore, the company has maintained a long-term and good cooperative relationship with customers. The company has a stable relationship with downstream customers and cannot be easily replaced by other manufacturers.

3. Regional Advantage

The company's location in Taiwan is convenient for downstream manufacturers to replace old grinding wheels with new ones and save a lot of costs for manufacturers to purchase grinding wheels abroad.

4. Development and Introduction of New Products and New Processes

With the development of new abrasives and new binders, the company has continued to develop many new products in recent years in response to the advancement of grinding and polishing technologies. The mass production of new products will enable the decentralization of the market and expand market share. In addition, in order to improve the quality and level of products, the company introduces new process technology to create high value-added products and achieve the company's operational goals.

## B. CMP diamond disk

### 1. Located in Taiwan Which Is the Center of Semiconductors

Taiwan is the center of global semiconductors. Therefore, domestic CMP diamond disk manufacturers have an excellent geographical advantage in the interaction with downstream semiconductor manufacturers. In addition to the supply of CMP diamond disk products, through cooperation between its R&D and production departments, the company has further evolved into a supplier of information, inventory management and other spare parts to provide customers with total solutions, thereby enhancing customers' willingness to cooperate in the long-term and the company's competitiveness in the market. In addition, in overseas business development, the rich Taiwanese technical experience can provide customers with the most suitable products and solutions.

### 2. Steady Growth of Major Semiconductor Manufacturers

Although the global semiconductor market is currently facing inventory adjustments, in the long term, the market demand, especially that of the mainland China market, is still growing steadily, including the demand of TSMC, UMC, SMIC, Intel, and Micron, etc.. In addition, technological upgrading is the main driving force for the growth of the semiconductor capital market. The demand for 7/10 nanometer and higher-end process equipment has continued to increase, which is also the main reason for the huge capital expenditure of wafer foundry. Chemical mechanical grinding is currently the only method to achieve global planarization in the world's IC industry with a line width of less than 0.25 microns. It is also one of the fast-growing technologies in the semiconductor equipment market in recent years. The CMP process, in addition to being widely used in the surface polishing of silicon wafers in the front-end process of silicon wafers, has produced various applications based on the type of IC, including the formation of components, the insulating layer between the component and the wiring layer. As the line width continues to shrink, the CMP diamond disks manufactured by the company are closely related and important to this technology which has development potential, so the room for market growth is quite large.

### 3. Product Quality and Goodwill Establishment

The CMP diamond disk is a necessary and critical consumable product in the semiconductor manufacturing process. Its diamond arrangement, height and the curved surface of the circular metal plate are all variable factors that affect the process results and are among the many process parameters. Since the semiconductor manufacturing process is complex and the gross profit rate directly affects the price competitiveness of wafers, the stability of the process and the yield rate of wafers are prioritized by general wafer foundries. However, due to its special patentability, the CMP diamond disks of Kinik Company can not only ensure that the diamonds do not fall off during the process, but also save the cost of grinding pads and grinding fluids during the process, and improve the removal rate and yield of wafers.

Therefore, the quality of the company's CMP diamond disks has been widely recognized by downstream semiconductor manufacturers.

#### C. Reclaimed wafer

##### 1. Market Demand Changes

- (1) The overall demand for Taiwan's reclaimed wafer demand for semiconductors, due to the expansion and acceleration of customers' production in recent years, has continued to rise, and the demand for high-end reclaimed wafers has become even tighter. After its expansion of the new plant in Zhunan, the company has been able to provide reclaimed wafers required for 3/5 nanometer process. It is in a leading position in the industry.
- (2) Because 8-inch wafers are less competitive in products with fine line widths, the demand for wafer reclamation services has no longer increased. Therefore, the company is actively expanding overseas markets; on the other hand, in conjunction with the business transformation of customers, many new semiconductor material applications have emerged, accompanied by new processing services and new product requirements. The company uses existing production line capabilities to respond to new customer needs and seize the industry opportunity for transformation.

##### 2. Recognition of Products and Service by Customers

The company's establishment of a complete WIP tracking and quality management system improves the quality of technology and service, and the performance has been highly recognized by customers.

#### (2) Disadvantages and Countermeasures

##### A. Grinding Wheel Products

##### 1. Imports Required for Most of the Main Raw Materials

The main raw materials of traditional abrasives need to be imported, and they are concentrated in Europe and mainland China. There is no domestic production, and the operation of foreign procurement takes a long time. Therefore, the safety stock of raw materials is not easily to reduce. Besides, the purchases are mostly priced in US dollars, so the cost of the raw material is susceptible to changes in exchange rates.

##### **Countermeasures:**

Stabilize the cooperative relationship with existing suppliers and actively look for other suppliers with competitive prices to increase the source of supply; in addition, the marketing department shall fully affirm the sales forecast to schedule the production plan in advance and properly manage the inventory of the raw materials, so that the restocking speed of raw materials will not affect sales.

## 2. Rapid Revolution of Product Technology

The industrial technology of the grinding industry is changing rapidly, and the introduction of new materials is fast. In particular, grinding wheel products are often replaced by new products as changes in generations; it challenges the capabilities of product and technology development.

### **Countermeasures:**

To develop new materials and new product lines along with the trend of technology and its application, strengthen the collection of market intelligence, and keeping a close eye on the trends of suppliers and customers.

## 3. Higher Inventory Position

As grinding and cutting tool manufacturers respond to the needs of downstream manufacturers in different types, their production method is mostly order-based production. However, based on the consideration of economic scale and in-time supply, a planned production is supplementarily adopted. Therefore, the company usually maintains at a higher inventory position.

### **Countermeasures:**

Strengthen the control management of product supply, purchase and inventory to improve inventory turnover and to reduce the risk of idle inventory.

## B. CMP diamond disk

### 1. Intense Market Competition

In order to gain market share, South Korean competitors launched a low-price attack which results in fierce market price competition, and even major U.S. manufacturers that had rarely cut prices have joined the battle.

### **Countermeasures:**

In response to the price strategy of competitors' products, provide improved products on the existing process to extend the life of CMP diamond disks to help customers save overall costs; on the other hand, actively gain customers' trust in the company's diamond discs in advanced manufacturing processes, in order to raise the entry barrier for competitors and increase the competitive advantage of the company's CMP diamond disks. At the same time, the long-term cooperation model established by the company with CMP application manufacturers can enhance product application efficiency and effectively provide customers with complete solutions for their manufacturing processes.

C. Reclaimed wafer

1. Specification Requirements Are Becoming Stricter

The 12-inch product specification has reached 26nm and will further shrink to 19nm in the future.

**Countermeasures:**

Actively improve process capabilities and grades to respond to 26nm and future 19nm process requirements.

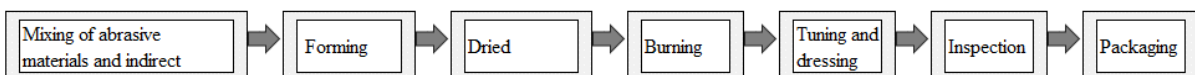
(II) Important Applications and Production Process of Main Products

1. Important Applications of Main Products

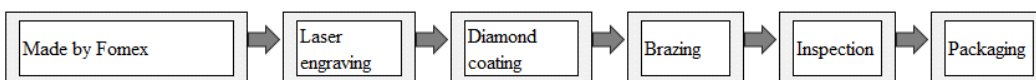
Product items	Main Applications	Application Industry
Grinding Wheel	It is the mother tool of machine tools used for grinding, removing defects and cutting machine parts. It can be widely used for all kinds of processing, grinding and precision polishing according to the different abrasives, bonding agents and manufacturing methods.	Machinery parts industry, hardware manufacturing industry, steel industry, semiconductor industry, glass industry, construction industry, electronics manufacturing industry, plastic industry, optoelectronics industry, automobile and motorcycle industry, aerospace industry, shipbuilding industry, wind power industry, etc.
CMP diamond disk	It is used in the CMP process of the semiconductor industry; the unique patented manufacturing method can ensure that the diamonds do not fall off and do not scratch the wafer.	Wafer foundries, DRAM factories, hard disk manufacturing factories, etc.
reclaimed wafer	Used in semiconductor manufacturing processes or products.	IDM, wafer foundries, DRAM factories and equipment vendors

2. Production Process

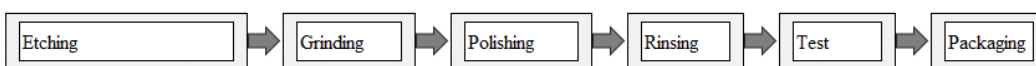
Grinding Wheel



CMP diamond disk



reclaimed wafer



(III) Supply status of main raw materials

Name of main raw materials	Main sources of supply	Supply status
Traditional abrasive materials	IFM	Good
	Niche	Good
	3M	Good
	Saint Gobain	Good
Diamond abrasive material PCD blank	Element Six	Good
	HYPERION	Good
	Lands	Good
	ILJIN	Good

(IV) Name List of Main Trade Creditors/Debtors

- For either fiscal year of the two most recent fiscal years, the suppliers with the total purchase of 10% or more.

Unit: Thousand NT\$

Item	2019				2020				As of the previous quarter in 2021			
	Name	Amount	As a percentage of net purchases for the year (%)	Relationship with the issuer	Name	Amount	As a percentage of net purchases for the year (%)	Relationship with the issuer	Name	Amount	Purchases as of the previous quarter of the year Net ratio (%)	Relationship with the issuer
1	Company E	237,455	19.04	None	Company E	141,927	11.12	None	Company E	40,472	11.76	None
	Other	1,009,471	80.96	-	Other	1,133,847	88.88	-	Other	303,713	88.24	-
	Net purchases	1,246,925	100	-	Net purchases	1,275,774	100	-	Net purchases	344,185	100	-

- For either fiscal year of the two most recent fiscal years, the customers with the total sale of 10% or more.

Unit: Thousand NT\$

Item	2019				2020				As of the previous quarter in 2021			
	Name	Amount	As a percentage of net sales for the year (%)	Relationship with the issuer	Name	Amount	As a percentage of net sales for the year (%)	Relationship with the issuer	Name	Amount	As a percentage to net sales as of the previous quarter of the year (%)	Relationship with the issuer
1	Company A	891,687	18.32	None	Company A	1,178,770	22.86	None	Company A	315,435	21.53	None
	Other	3,976,316	81.68	-	Other	3,977,780	77.14	-	Other	1,149,302	78.47	-
	Net sales	4,868,003	100	-	Net sales	5,156,550	100	-	Net sales	1,464,737	100	-

(V) Output volume/value in the most recent two years

Unit: Thousand PCS; NT\$ Thousand

Annual output volume/value	2019			2020		
	Production capacity	Production volume	Production value	Production capacity	Production volume	Production value
Main products (or by department)						
Traditional Products	—	5,464	720,166	—	5,504	642,421
CMP diamond disk	—	327	952,076	—	284	740,361
reclaimed wafer	—	3,825	1,475,458	—	4,566	1,800,768
Other	—	—	129,928	—	116	107,602
Total	—	9,616	3,277,628	—	10,470	3,291,152

(VI) Sales volume/value in the most recent two years

Annual sales volume/value	2019				2020			
	Domestic sales		Export sales		Domestic sales		Export sales	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Main products (or by department)								
Traditional Products	4,925	704,956	3,389	234,304	7,037	681,130	2,290	192,257
CMP diamond disk	140	838,354	52	250,702	173	974,738	76	364,606
reclaimed wafer	1,620	895,841	1,904	1,205,536	2,291	1,140,015	1,824	1,119,404
Other	—	149,900	—	—	—	162,551	—	—
Total	6,685	2,589,051	5,345	1,690,542	9,501	2,958,434	4,190	1,676,267

III. Number of Employees, Average Seniority, Average Age and Qualification Distribution and Percentage for the Past Two Years Until the Publication Date of the Annual Report and Ratios thereof

Year		2019	2020 (December 31, 2020)	April 30, 2021
Number of employees	Direct labor	869 people	958 people	974 people
	Indirect labor	828 people	722 people	730 people
	Total	1,697 people	1,680 people	1,704 people
Average age		39.30 years of age	39.72 years of age	39.70 years of age
Average years of service		10.80 years	11.12 years	11.10 years
Distribution of academic qualifications	PhD	0.41%	0.42%	0.42%
	Master's Degree	7.48%	7.86%	7.86%
	Bachelor's Degree	49.15%	49.46%	49.35%
	High School	33.94%	34.40%	34.92%
	Below High School	9.02%	7.86%	7.45%

IV. Expenditure on Environmental Protection

- (I) The total amount for losses (including compensation) and fines suffered by the Company due to environmental pollution in the last year and as of the date of publication of the annual report, future countermeasures (including improvement measures) and possible expenditures (including the anticipated loss, disposition and compensation amounts incurred for not adopting the response measures; and amounts cannot be reasonably estimated, describe why):

For the time being, the Company's all factory premises (Yingge/Hsinchu/Chubei/Shulin/Chunan) have completed the IOS 14001 system and passed the certification of ISO 45001 and CNS 45001. Some factory premises are engaged in boosting the GHG inspection, and already audited by external inspectors (ISO 14064-1). Shulin Factory Premises passed the certification of energy management system (ISO 50001). The Company continued to have SGS follow up the environmental performance, safety & health and energy indicators set by various factory premises periodically. So far, no major non-conformance was found. Meanwhile, the Company has identified the environment safety unit and personnel as the Company's first-level unit. The unit consists of 19 dedicated workers and benefit the Company's promotion of the environmental management system and related environment protection practices largely.

No losses have been caused to the Company due to environmental pollution in the most recent years and until the date of publication of the annual report.

## V. Labor-management Relations

- (I) The company's various employee welfare measures, advanced education, training, and retirement systems and their implementation status, as well as the agreements between labor and management and various employee rights protection measures

### 1. Employee Welfare Measures

The company has established the Employees Welfare Committee in accordance with the law on May 8, 1973, and the committee members are elected by both employers and employees to jointly perform employee welfare-related businesses. In addition, relevant management regulations and operating standards are handled in accordance with the provisions of the Labor Standards Act. The company's employee welfare measures are diversified, such as training grants, wedding, funeral and celebration subsidies, new year and festival gifts, birthday gifts, and group insurance for employees and family members. In response to the staff's training needs, the company offers various training courses for new recruits and on professional skills, management skills, and self-enlightenment to provide employees with complete courses of professional skills development, self-growth, and enlightenment.

### 2. Retirement System and Implementation

In accordance with the relevant provisions of the Labor Standards Act, employee retirement reserves are allocated at 6% of the total monthly salary and deposited at the Bank of Taiwan in a dedicated account. The payment of employee pensions is also handled in accordance with the provisions of the Labor Standards Act. Starting from July 1, 2005, employees who choose the pension system applicable under the Labor Pension Act will have 6% of their monthly salary allocated to the individual pension account of the Labor Insurance Bureau. According to the provisions of the Labor Standards Act, the balance of the dedicated account of the Workers' Retirement Reserve Fund shall be estimated before the end of each year. If the balance is insufficient to pay in the next year to the workers who meet the requirement in Article 53 or subparagraph 1, paragraph 1, Article 54, then based on the amount of pension calculated in accordance with the preceding article, the difference shall be allocated before the end of March of the following year. The figure shall be submitted to the Supervisory Committee of Workers' Retirement Reserve Fund of the business unit for review.

### 3. Agreement Between Labor and Management

The rights and obligations of both employers and employees shall be handled in accordance with the various provisions of the company's work rules.

### 4. Staff Training Status

The company has planned a variety of advanced studies and training courses for supervisors and employees at all levels and has formulated "Training Measures." The main training courses include pre-employment training, on-the-job training by work level, on-the-job training by function and general skills training; a total of NT\$1,775 thousand was spent on training in 2020.

- (II) Losses suffered due to labor disputes for the most recent year and up to the publication date of the annual report, and disclose the estimated amount and corresponding measures that may occur at present and in the future. If no estimation can be reasonably made, explain the fact of not being able to reasonably make the estimation:

The company has a good labor-management relationship, and there has been no labor dispute and no loss due to labor disputes. In addition, the company's management of employees is very humane, and the possibility of labor disputes and losses in the future is extremely low.

- (III) Code of Employee Conduct and Ethics

All the company's operations and employees' rights and obligations are clearly stipulated in relevant rules and regulations to be abided by, which are placed on the internal website for all employees to view at any time. The relevant regulations and methods of employee conduct or ethics code are listed as follows:

1. Hierarchical Responsibility

Set clear approval authority for each operation in compliance with the development needs of the organization in order to effectively regulate the authority of each rank and ensure the normal operation of the company. Relevant regulations and measures include "Organizational Regulations," "Job Authorization System," and so on.

2. Departmental Duties

According to the functions of the main departments, clearly regulate the duties and organizational functions of each department so as to implement the division of labor of each department and strengthen the company's competitiveness. Relevant regulations and measures include "Business Separation Measures for Division of Responsibilities" and so on.

3. Reward and Punishment Regulations

Based on employees' special contributions and the damage caused to the company, clearly regulate the work discipline and code of conduct of employees to achieve the purpose of encouragement or vigilance. Relevant regulations and measures include "Reward and Punishment Management Measures" and "Employee Relationship Management Measures."

4. Performance Management

Based on employees' work performance, the company regularly conducts performance appraisals every year to serve as a basis for reviewing work efforts and deficiencies. Relevant regulations and measures include "Performance Appraisal Management Measures."

5. Attendance and Business Travel Management

Implement the duty agent system, and establish good discipline to improve the quality of work to clearly regulate the related operations of business travels and leaves. Relevant regulations and measures include "Business Travel Management Measures" and "Attendance Management Measures."

## 6. Sexual Harassment Prevention Measures and Workplace Illegal Infringement Prevention Measures

In order to provide the company's employees and job seekers with a working and service environment free from sexual harassment and illegal infringement, appropriate preventive, corrective, disciplinary and handling measures are taken to protect the rights and privacy of the parties. Relevant regulations and measures include "Sexual Harassment Prevention Measures and Workplace Illegal Infringements, Appeals and Punishment Measures."

### (IV) Work environment and employee safety measures

#### 1. Employee insurance system:

- (A) Labor insurance: The benefits for childbirth, injury and sickness, disability, retirement and death under the Labor Insurance Act.
- (B) National health insurance: Employees and their dependents may receive the medical services under the National Health Insurance Act.
- (C) Employee group insurance: Enrolled in the insurance program at the Company's expenses, covering term life insurance, accidental injury insurance, accidental insurance, hospitalization medical insurance and cancer medical insurance.
- (D) Employee dependent insurance: Enrolled in the insurance program at the employee's expenses, covering accidental insurance for the employee's spouse, and hospitalization medical insurance for the employee's spouse, children and parents.

#### 2. Build the safe workplace:

The Company organizes the personal safety and fire protection drills and health promotion activities, including:

- (A) General safety and health education and training: The instructions to environmental safety and health and use of personal protective gears at factory premises.
- (B) General education and training for hazard: Instructions to characteristics and safety and health of hazardous chemicals and harmful goods at the factory premises.
- (C) Education and training for dust workplace: Environmental safety and health requirements at dust workplaces.
- (D) Education and training for noisy workplaces: Prevention of noise and use of personal protective gears.
- (E) Education and training for organic solvent workplace: Environmental safety and health requirements at organic solvent workplace.
- (F) Fire protection drill: Announcement of basic knowledge about fire protection, escape and firefighting drills.
- (G) In-service education and training for occupational safety and health: Have related personnel attend the training and workshop organized by contract externally.
- (H) Safety and health education and training for contractors: Train and advise contractors about the safety, health and environment requirements at the factory premises.

- (I) Safety and health education and training for new employees: Related instructions to the safety, health and environment and system controls at the factory premises.
- (J) Education and training for the management: Announcement of responsibility and duty to be performed by various supervisors, and preventive measures implemented in the workplace (*e.g.*, noise and dust, etc.).
- (K) Announcement of sexual harassment prevention measures and workplace infringement prevention measures
- (L) Announcement of maternal health protection
- (M) Health promotion conference and weight management planning: Announcement of the importance of health diet and fitness, and measures
- (V) Company Business Philosophy

**Good together**

1. Good to You: Keep improving and enhance quality to meet the grinding needs of customers.
2. Good to Me: Pay attention to shareholder rights and employee welfare, and emphasize humanization and rational management, so as to achieve harmonious and sustainable operation for all employees.
3. Good to All: Give full play to business performance, give back to society, and fulfill corporate social responsibility.

## VI. Important Contracts:

None

# Six | Financial Information

## I. Most Recent Five Years Concise Balance Sheet and Comprehensive Income Statement

### (I) Condensed Balance Sheet - IFRSs

#### 1. Condensed Balance Sheet - IFRSs (for parent company only financial statements)

Unit: Thousand NT\$

Item	Year	Financial information for the most recent five years					As of March 31, 2021
		2020	2019	2018	2017	2016	Financial information (note 1)
Current assets		2,531,032	2,416,170	2,348,158	2,146,413	1,852,415	
Fund and investment		427,710	385,942	0	795	0	
Property, plant and equipment		5,117,144	3,356,170	2,779,239	2,778,572	2,791,018	
Intangible assets		0	0	0	0	0	
Other assets		902,602	1,292,948	603,742	382,605	354,356	
Total assets		8,978,488	7,451,230	6,151,950	5,308,385	4,997,789	
Current liabilities	Prior to distribution	1,240,243	1,612,927	1,530,526	1,024,874	1,003,826	
	After distribution	註 2	1,429,627	2,024,026	1,518,374	1,426,826	
Non-current liabilities		3,314,118	1,549,687	384,144	229,302	212,826	
Total liabilities	Prior to distribution	4,554,361	3,162,614	1,914,670	1,254,176	1,216,652	
	After distribution	註 2	2,979,314	2,408,170	1,747,676	1,639,652	
Equity attributable to owners of the parent company		-	-	-	-	-	
Share capital		1,410,775	1,410,000	1,410,000	1,410,000	1,410,000	
Capital surplus		1,078,150	1,265,044	1,250,036	1,241,869	1,241,869	
Retained Earnings	Prior to distribution	1,921,818	1,584,361	1,564,124	1,401,234	1,128,162	
	After distribution	註 2	1,401,061	1,070,624	907,734	705,162	
Other equity interests		13,384	29,211	13,120	1,106	1,106	
Treasury stock		0	0	0	0	0	
Non-controlling interest		0	0	0	0	0	
Total	Prior to distribution	4,427,127	4,288,616	4,237,280	4,054,209	3,781,137	
Total amount	After distribution	註 2	4,105,316	3,743,780	3,560,709	3,358,137	

Note 1: Where the Company is listed or trades stocks on the TWSE or TPEX prior to the date of publication of the



annual report, the Company's most recent financial information audited, certified or reviewed by CPAs, if any, shall be disclosed altogether.

Note 2: Said figures after the distribution are specified per the resolution made by the annual general meeting of next year. Further, the Company's 2020 earnings distribution plan has not been proposed by the Board of Directors to a shareholders' meeting.

## 2. Condensed Balance Sheet - IFRSs (for consolidated financial statements)

Unit: Thousand NT\$

Item	Year	Financial information for the most recent five years					As of March 31, 2021
		2020	2019	2018	2017	2016	Financial information (note 1)
Current assets		3,178,483	3,024,195	2,978,563	2,146,413		3,335,004
Fund and investment		69,457	29,214	0	795		62,768
Property, plant and equipment		5,248,848	3,513,498	2,943,762	2,778,572		5,240,736
Intangible assets		58,297	55,020	45,922	0		58,969
Other assets		897,763	1,303,481	610,350	382,605		827,135
Total assets		9,452,848	7,925,408	6,630,642	5,308,385		9,524,612
Current liabilities	Prior to distribution	1,345,291	1,701,500	1,651,376	1,024,874		1,279,877
	After distribution	註 2	1,884,800	2,144,876	1,518,374		-
Non-current liabilities		3,371,566	1,618,358	430,330	229,302		3,357,049
Total liabilities	Prior to distribution	4,716,857	3,319,858	2,081,706	1,254,176		4,636,926
	After distribution	註 2	3,503,158	2,575,206	1,747,676		-
Equity attributable to owners of the parent company		4,424,127	4,288,616	4,237,280	4,054,209		4,590,671
Share capital		1,410,775	1,410,000	1,410,000	1,410,000		1,414,690
Capital surplus		1,078,150	1,265,044	1,250,036	1,241,869		1,103,605
Retained Earnings	Prior to distribution	1,921,818	1,584,361	1,564,124	1,401,234		2,070,646
	After distribution	註 2	1,401,061	1,070,624	907,734		-
Other equity interests		13,384	29,211	13,120	1,106		1,730
Treasury stock		0	0	0	0		0
Non-controlling interest		311,864	316,934	311,656	0		297,015
Total amount	Prior to distribution	4,735,991	4,605,550	4,548,936	4,054,209		4,887,686
	After distribution	註 2	4,422,250	4,055,436	3,560,709		-

Note 1: The financial information of Q1 2021 has been audited by the CPAs.

Note 2: Said figures after the distribution are specified per the resolution made by the annual general meeting of next year. Further, the Company's 2020 earnings distribution plan has not been proposed by the Board of Directors to a shareholders' meeting.

## (II) Condensed Statement of Comprehensive Income - IFRSs

## 1. Condensed Statement of Comprehensive Income - IFRSs (for parent company only financial statements)

Unit: Thousand NT\$

Item \ Year	Financial information for the most recent five years					As of March 31, 2021 (note 1)
	2020	2019	2018	2017	2016	
Operating revenue	4,634,702	4,279,593	4,753,469	4,525,051	4,128,658	
Operating margin	1,401,204	1,320,788	1,436,231	1,528,307	1,202,339	
Net operating income	639,528	653,875	743,699	885,327	630,829	
Non-operating income and expenses	2,153	23,514	116,431	(13,461)	13,375	
Net profit before tax	641,681	677,389	860,130	871,866	644,204	
Net income from continuing operations	-	-	-	-	-	
Net loss from discounting operations	-	-	-	-	-	
Net income (loss)	512,338	536,677	693,889	732,674	534,679	
Other comprehensive income/(loss) (net after tax)	(7,408)	(6,849)	(25,485)	(36,602)	(32,141)	
Total comprehensive income of the current period	504,930	529,828	668,404	696,072	502,538	
Net income attributes to shareholders of the parent	-	-	-	-	-	
Net profit attributable to non-controlling interest	-	-	-	-	-	
Comprehensive income attributed to owners of the parent	-	-	-	-	-	
Comprehensive income attributed to non-controlling interests	-	-	-	-	-	
Earnings per share (EPS)	3.63	3.81	4.92	5.20	3.79	

Note 1: Where the Company is listed or trades stocks on the TWSE or TPEx prior to the date of publication of the annual report, the Company's most recent financial information audited, certified or reviewed by CPAs, if any, shall be disclosed altogether.

## 2. Condensed Statement of Comprehensive Income - IFRSs (for consolidated financial statements)

Unit: Thousand NT\$

Item \ Year	Financial information for the most recent five years					As of March 31, 2021 (note 1)
	2020	2019	2018	2017	2016	
Operating revenue	5,156,550	4,868,003	5,133,466			1,464,737
Operating margin	1,546,592	1,426,443	1,513,484			410,662
Net operating income	706,973	673,187	770,857			184,535
Non-operating income and expenses	(23,425)	13,036	102,632			(8,786)
Net profit before tax	683,548	686,223	873,489			175,749
Net income from continuing operations	-	-	-			0
Net loss from discounting operations	-	-	-			0
Net income (loss)	539,476	539,200	699,665			162,007
Other comprehensive income/(loss) (net after tax)	(25,087)	11,245	(10,828)			(24,672)
Total comprehensive income of the current period	514,389	550,445	688,837			137,335
Net income attributes to shareholders of the parent	512,338	536,677	693,889			148,828
Net profit attributable to non-controlling interest	27,138	2,523	5,776			13,179
Comprehensive income attributed to owners of the parent	504,930	529,828	668,404			137,174
Comprehensive income attributed to non-controlling interests	9,459	20,617	20,433			161
Earnings per share (EPS)	3.63	3.81	4.92			1.05

Note 1: The financial information of Q1 2021 has been audited by the CPAs.

## (III) Names of CPAs for the past five years and the auditors' Opinions

Year	Independent Auditor's Name	Independent Auditor's Firm	Audit Opinion
105	CHING-FU CHANG, CHEN-TSAI TSAI	Deloitte Taiwan	Unqualified opinion
106	CHING-FU CHANG, CHEN-TSAI TSAI	Deloitte Taiwan	Unqualified opinion
107	CHING-FU CHANG, CHEN-TSAI TSAI	Deloitte Taiwan	Unqualified opinion
108	CHING-FU CHANG, YUNG-HSIANG CHAO	Deloitte Taiwan	Unqualified opinion
109	CHEN-TSAI TSAI, YUNG-HSIANG CHAO	Deloitte Taiwan	Unqualified opinion

## II. Financial Information for the Most Recent Five Years

## (I) Financial Analysis - IFRS (for parent company only financial statements)

Analyzed Item		Year	Financial Information for the Most Recent Five Years					As of March 31, 2021
			2020	2019	2018	2017	2016	(note 1)
Financial structure (%)	Total liabilities to total assets		50.73	42.44	31.12	23.63	24.34	
	Long-term capital to PP&E		151.22	173.96	166.28	154.16	143.1	
Debt-paying ability (%)	Current ratio		204.08	149.8	153.42	209.43	184.54	
	Quick ratio		98.52	71.54	76.97	122.66	120.61	
	Interest protection multiples		38.33	100.24	177.33	824.29	628.88	
Operating performance	Accounts receivable turnover (times)		6.29	5.66	5.71	5.52	5.52	
	Average collection days		58	64	64	66	66	
	Inventory turnover (times)		2.66	2.6	3.41	4.02	4.27	
	Accounts payable turnover (times)		19.51	18.1	19.08	17.83	21.56	
	Average inventory turnover days		137	140	107	91	85	
	Property, plant and equipment turnover (times)		1.09	1.4	1.71	1.62	1.48	
	Total Assets Turnover (times)		0.56	0.63	0.83	0.88	0.82	
Profitability	ROA (%)		6.4	7.97	12.18	14.24	10.58	
	ROE (%)		11.76	12.59	16.74	18.7	14.1	
	Pre-tax profit to paid-in capital (%)		45.48	48.04	61	61.83	45.69	
	Net profit margin (%)		11.05	12.54	14.6	16.19	12.95	
	Earnings per share (NT\$)		3.63	3.81	4.92	5.2	3.79	
Cash Flow Analysis	Cash flow ratio (%)		72.18	58.07	43.29	91.47	79.21	
	Cash flow adequacy (%)		55.17	67.2	76.09	96.82	99.93	
	Cash flow reinvestment ratio (%)		4.73	5.39	2.52	8.58	4.78	
Leverage	Operating leverage		1.75	1.59	1.55	1.42	1.56	
	Financial leverage		1.03	1.01	1.01	1	1	

Please specify the reasons for all financial ratio fluctuations within the most recent two years. (Analysis is not required if the increase or decrease is less than 20%.)

The comparison and analysis on difference in the financial information 2020 and 2019.

- (1) The increase in current ratio and quick ratio is primarily a result of the increase in long-term loan and decrease in short-term loan.
- (2) The increase in interest protection multiples is primarily a result of the increase in interest expenses resulting from the long-term loan for the expansion project in Hsinchu Science Park.
- (3) The decrease in property, plant and equipment turnover is primarily a result of the increase in fixed assets.
- (4) The increase in cash flow ratio is primarily a result of the decrease in current liabilities.

Note 1: Where the Company is listed or trades stocks on the TWSE or TPEX prior to the date of publication of the annual report, the Company's most recent financial information audited, certified or reviewed by CPAs, if any, shall be analyzed altogether.

## (II) Financial Analysis - IFRS (for consolidated financial statements)

Analyzed Item		Year	Financial Information for the Most Recent Five Years					As of March 31, 2021 (note 1)
			2020	2019	2018	2017	2016	
Financial structure (%)	Total liabilities to total assets		49.9	41.89	31.4	23.63		48.68
	Long-term capital to PP&E		154.46	177.14	169.15	154.16		157.32
Debt-paying ability (%)	Current ratio		236.27	177.74	180.37	209.43		260.57
	Quick ratio		126.11	92.81	97.16	122.66		151.01
	Interest protection multiples		40.45	98.34	179.48	824.29		18.91
Operating performance	Accounts receivable turnover (times)		5.75	5.18	6.17	5.52		5.86
	Average collection days		63	70	59	66		62
	Inventory turnover (times)		2.6	2.59	3.37	4.02		3.06
	Accounts payable turnover (times)		16.91	15.32	17.01	20.47		18.03
	Average inventory turnover days		141	141	108	91		119
	Property, plant and equipment turnover (times)		1.18	1.51	1.79	1.62		1.12
	Total Assets Turnover (times)		0.59	0.67	0.86	0.88		0.62
Profitability	ROA (%)		6.37	7.49	11.79	14.24		7.16
	ROE (%)		11.55	11.78	16.27	18.7		13.47
	Pre-tax profit to paid-in capital (%)		48.45	48.67	61.95	61.83		49.69
	Net profit margin (%)		10.46	11.08	13.63	16.19		11.06
	Earnings per share (NT\$)		3.63	3.81	4.92	5.2		1.05
Cash Flow Analysis	Cash flow ratio (%)		72.16	58.62	42.38	91.47		21.66
	Cash flow adequacy (%)		60.11	68.44	76.45	96.82		59.99
	Cash flow reinvestment ratio (%)		5.12	5.65	2.85	8.58		2.4
Leverage	Operating leverage		1.73	1.63	1.55	1.42		1.87
	Financial leverage		1.03	1.01	1.01	1		1.06

Please specify the reasons for all financial ratio fluctuations within the most recent two years. (Analysis is not required if the increase or decrease is less than 20%.)

The comparison and analysis on difference in the financial information 2020 and 2019.

- (1) The increase in current ratio and quick ratio is primarily a result of the increase in long-term loan and decrease in short-term loan.
- (2) The increase in interest protection multiples is primarily a result of the increase in interest expenses resulting from the long-term loan for the expansion project in Hsinchu Science Park.
- (3) The decrease in property, plant and equipment turnover is primarily a result of the increase in fixed assets.
- (4) The increase in cash flow ratio is primarily a result of the decrease in current liabilities.

1. Financial Structure

- (1) Liabilities to assets ratio = total liabilities/total assets.
- (2) Ratio of long-term funds to property, plant and equipment = (total equity + non-current liabilities)/net property, plant and equipment.

2. Solvency

- (1) Current ratio = current assets/current liabilities.
- (2) Quick ratio = (current assets – inventory - prepaid expenses)/current liabilities.
- (3) Times interest earned = net profit before income tax and interest expense/interest expense in the current period.

3. Operating Ability

(1) Receivables (including accounts receivable and notes receivable due to business) turnover rate = net sales/average balance of receivables (including accounts receivable and notes receivable due to business) of each period.

(2) Average cash collection days = 365/turnover rate of accounts receivable.

(3) Inventory turnover rate = cost of goods sold/average inventory value.

(4) Payables (including accounts payable and notes payable due to business) turnover rate = cost of goods sold/average balance of payables (including accounts payable and notes payable due to business) of each period.

(5) Average days of sales = 365/inventory turnover rate.

(6) Turnover rate of property, plant and equipment = net sales/average net property, plant and equipment.

(7) Turnover rate of total assets = net sales/total average assets.

4. Profitability

(1) Return on assets = [after-tax profit and loss + interest expense x (1 - tax rate)]/average total assets.

(2) Return on equity = after-tax profit and loss/average total equity.

(3) Net profit rate = after-tax profit and loss/net sales.

(4) Earnings per share = (profit and loss attributable to owners of the parent company - special stock dividends)/weighted average number of issued shares. (note 4)

5. Cash Flow

(1) Cash flow ratio = net cash flow from operating activities/current liabilities.

(2) Net cash flow adequacy ratio = net cash flow from operating activities in the most recent five years/(capital expenditure + inventory increase + cash dividends) of the most recent five years.

(3) Cash reinvestment ratio = (net cash flow from operating activities - cash dividends)/(gross property, plant and equipment + long-term investment + other non-current assets + working capital). (note 5)

6. Leverage:

(1) Operating leverage = (net operating income - variable operating costs and expenses)/operating profit (note 6).

(2) Financial leverage = operating profit/(operating profit - interest expense).

Note 3: In the formula above for calculating the earnings per share, special attention shall be paid to the following matters for measuring:

1. Based on the weighted average number of ordinary shares, rather than the number of issued shares at the end of the year.

2. For cash capital increase or treasury stock trading, the weighted average number of shares should be calculated with the consideration of the circulation period.

3. Where there is a capital increase from earnings or capital reserve when calculating the earnings per share of previous years and half-years, retrospective adjustments should be made according to the capital increase ratio, regardless of the period of the capital increase.

4. If the special shares are non-convertible cumulative special shares, the dividends for the current year (regardless of whether they are paid) should be deducted from the net profit after tax, or the net loss after tax should be increased. If the special shares are non-cumulative, in the case of net profit after tax, the dividend of the special shares shall be deducted from the net profit after tax; if the result is a loss, then no adjustment is necessary.

Note 4: Special attention should be paid to the following items when performing cash flow analysis:

1. Net cash flow from operating activities refers to the net cash inflow from operating activities in the cash flow statement.

2. Capital expenditure refers to the amount of cash outflow from capital investment each year.

3. The increase in inventory is only included when the ending balance is greater than the beginning balance. If the inventory decreases at the end of the year, it will be counted as zero.

4. Cash dividends include cash dividends for ordinary shares and special shares.

5. Gross property, plant and equipment refers to the total amount of property, plant and equipment before deduction of accumulated depreciation.

Note 5: The issuer should classify various operating costs and operating expenses as fixed and variable according to their nature. If estimates or subjective judgments are involved, attention should be paid to the reasonableness and



consistency should be maintained.

Note 6: If the company's shares have no denomination or the denomination per share is not NT\$10, the calculation of the paid-in capital ratio above should be calculated based on the equity ratio attributable to the owner of the parent company on the balance sheet.

## IV. Audit Report Issued by the Audit Committee for the Most Recent Financial Statements

## Audit Committee's Review Report

The Board of Directors has prepared the Company's 2020 Business Report, Financial Statements, and proposal for allocation of profits. The CPA firm of Deloitte & Touche was retained to audit Kinik Company's Financial Statements and has issued an audit report relating to the Financial Statements. The Business Report, Financial Statements, and profit allocation proposal have been reviewed and determined to be correct and accurate by the Audit Committee members of Kinik Company Limited. According to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Law, we hereby submit this report.

Kinik Company Limited.

Chairman of the Audit Committee:



April 28, 2021

IV. Most Recent Financial Reports

**Kinik Company and Subsidiaries**

**Consolidated Financial Statements for the  
Years Ended December 31, 2020 and 2019 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, 2020 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 No. 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,

KINIK COMPANY

By

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BO-CHIUAN LIN

February 24, 2021

### INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders  
Kinik Company

#### Opinion

We have audited the accompanying consolidated financial statements of Kinik Company and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, 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 (collectively referred to as the "consolidated financial statements").

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, 2020 and 2019, 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, 2020. 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.

The key audit matter of the Group's consolidated financial statements for the year ended December 31, 2020 is stated as follows:

#### Income Occurrence

Refer to Note 4 (1) to the accompanying financial statements for disclosures regarding the accounting policies and detailed information on income.

The Group's revenue mainly comes from the production and sale of grinding wheels, semiconductor diamond discs and recycled water products. The Group has customers in both the domestic and foreign markets. Sales revenue is one of the criteria for the evaluation of the operating performance of the Company, and the main significant risk of the Company is the occurrence of sales revenue. Therefore, we identified occurrence of revenue as a key audit matter.

In response to this key audit matter, we performed the following audit procedures:

1. We understood and evaluated the appropriateness of the accounting policies on revenue recognition.
2. We understood and evaluated the effectiveness of the internal control on revenue recognition and the occurrence of sales.
3. We sample-tested sales transactions of the current year and checked the relevant internal and external vouchers to support the facts of the shipment; we checked shipping and delivery receipts and payments received for any major abnormalities; we checked the general ledger of sales revenue for any significant debit amount; and we checked the sales returns and allowances ledger for any significant sales return and discounts to confirm that sales revenue transactions did occur.

#### **Other Matter**

We have also audited the parent company only financial statements of Kinik Company as of and for the years ended December 31, 2020 and 2019 on which we have issued an unmodified opinion.

#### **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 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, 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 supervisors, 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, 2020 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 audits resulting in this independent auditors' report are Cheng-Tsai Tsai and Yung-Hsiang Chao.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

February 24, 2021

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.*

# KINIK COMPANY AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

ASSETS	2020		2019	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Note 6)	\$ 713,533	8	\$ 707,318	9
Notes receivable (Note 7)	65,537	1	66,239	1
Trade receivables (Notes 7 and 25)	806,455	8	677,879	9
Trade receivables from related parties (Notes 7 and 25)	81,313	1	95,755	1
Other receivables (Note 25)	18,693	-	21,599	-
Inventories (Note 8)	1,413,043	15	1,368,638	17
Prepayments	68,902	1	76,364	1
Other current assets (Note 26)	11,007	-	10,403	-
Total current assets	<u>3,178,483</u>	<u>34</u>	<u>3,024,195</u>	<u>38</u>
<b>NON-CURRENT ASSETS</b>				
Investments accounted for using the equity method (Note 10)	69,457	1	29,214	1
Property, plant and equipment (Notes 11 and 25)	5,248,848	55	3,513,498	44
Right-of-use assets (Note 12)	59,659	1	71,082	1
Investment properties, net (Note 13)	379,976	4	100,693	1
Goodwill	7,388	-	7,388	-
Deferred tax assets (Note 20)	54,822	-	65,807	1
Prepayments for equipment	150,915	2	803,247	10
Refundable deposit (Note 27)	252,390	3	262,642	3
Other non-current assets	50,910	-	47,642	1
Total non-current assets	<u>6,274,365</u>	<u>66</u>	<u>4,901,213</u>	<u>62</u>
<b>TOTAL</b>	<u>\$ 9,452,848</u>	<u>100</u>	<u>\$ 7,925,408</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Note 14)	\$ 350,000	4	\$ 670,000	9
Short-term bills payable (Note 14)	50,000	1	150,000	2
Notes payable	60	-	-	-
Trade payables (Note 25)	222,378	2	204,292	3
Other payables (Notes 15 and 25)	590,654	6	579,489	7
Current tax liabilities	94,594	1	64,173	1
Lease liabilities - current (Notes 12 and 25)	12,733	-	12,757	-
Other current liabilities	24,872	-	20,789	-
Total current liabilities	<u>1,345,291</u>	<u>14</u>	<u>1,701,500</u>	<u>22</u>
<b>NON-CURRENT LIABILITIES</b>				
Long-term borrowings (Note 14)	2,300,000	24	1,080,000	14
Long-term notes payable (Note 14)	800,000	9	200,000	2
Deferred tax liabilities (Note 20)	49,406	1	46,387	1
Lease liabilities - non-current (Note 12)	47,429	1	58,572	1
Net defined benefit liabilities - non-current (Note 16)	122,873	1	178,280	2
Deposits received	20,477	-	27,900	-
Other non-current liabilities (Note 17)	31,381	-	27,219	-
Total non-current liabilities	<u>3,371,566</u>	<u>36</u>	<u>1,618,358</u>	<u>20</u>
Total liabilities	<u>4,716,857</u>	<u>50</u>	<u>3,319,858</u>	<u>42</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Note 18)</b>				
Ordinary shares	1,410,775	15	1,410,000	18
Capital surplus				
Issuance of ordinary shares	27,570	-	233,870	3
Acquisition or disposal of subsidiary's shares	663	-	663	-
Business combinations	1,007,999	11	1,007,999	13
Employee share options (Note 22)	41,918	1	22,512	-
Retained earnings				
Legal reserve	821,475	9	767,807	10
Unappropriated earnings	1,100,343	11	816,554	10
Other equity interests				
Exchange differences on translation of the financial statements of foreign operations	13,384	-	29,211	-
Total equity attributable to owners of the Company	<u>4,424,127</u>	<u>47</u>	<u>4,288,616</u>	<u>54</u>
<b>NON-CONTROLLING INTERESTS</b>	<u>311,864</u>	<u>3</u>	<u>316,934</u>	<u>4</u>
Total equity	<u>4,735,991</u>	<u>50</u>	<u>4,605,550</u>	<u>58</u>
<b>TOTAL</b>	<u>\$ 9,452,848</u>	<u>100</u>	<u>\$ 7,925,408</u>	<u>100</u>

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

## KINIK COMPANY AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2020		2019	
	Amount	%	Amount	%
OPERATING REVENUE (Note 25)	\$ 5,156,550	100	\$ 4,868,003	100
OPERATING COSTS (Notes 8, 19 and 25)	<u>(3,609,958)</u>	<u>(70)</u>	<u>(3,441,560)</u>	<u>(71)</u>
GROSS PROFIT	<u>1,546,592</u>	<u>30</u>	<u>1,426,443</u>	<u>29</u>
OPERATING EXPENSES (Notes 19 and 25)				
Selling and marketing expenses	(443,485)	(9)	(373,636)	(8)
General and administrative expenses	(266,113)	(5)	(273,702)	(5)
Research and development expenses	(125,888)	(2)	(116,180)	(2)
Expected credit loss (gain)	<u>(4,133)</u>	<u>-</u>	<u>10,262</u>	<u>-</u>
Total operating expenses	<u>(839,619)</u>	<u>(16)</u>	<u>(753,256)</u>	<u>(15)</u>
PROFIT FROM OPERATIONS	<u>706,973</u>	<u>14</u>	<u>673,187</u>	<u>14</u>
NON-OPERATING INCOME AND EXPENSES (Notes 19 and 25)				
Interest income	1,058	-	1,914	-
Other income	29,802	-	47,237	1
Other gains and losses	(16,863)	-	(1,783)	-
Finance costs	(17,325)	-	(7,050)	-
Share of profit (loss) of associates	<u>(20,097)</u>	<u>(1)</u>	<u>(27,282)</u>	<u>(1)</u>
Total non-operating income and expenses	<u>(23,425)</u>	<u>(1)</u>	<u>13,036</u>	<u>-</u>
PROFIT BEFORE INCOME TAX FROM CONTINUING OPERATIONS	683,548	13	686,223	14
INCOME TAX EXPENSE (Note 20)	<u>(144,072)</u>	<u>(3)</u>	<u>(147,023)</u>	<u>(3)</u>
NET PROFIT FOR THE YEAR	<u>539,476</u>	<u>10</u>	<u>539,200</u>	<u>11</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 16)	10,524	-	(28,675)	(1)
Income tax relating to items that will not be reclassified subsequently to loss or profit (Note 20)	(2,105)	-	5,735	-

(Continued)

## KINIK COMPANY AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2020		2019	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of the financial statements of foreign operations	\$ (33,506)	-	\$ 34,185	1
Other comprehensive income (loss) for the year, net of income tax	(25,087)	-	11,245	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<u>\$ 514,389</u>	<u>10</u>	<u>\$ 550,445</u>	<u>11</u>
<b>NET PROFIT ATTRIBUTABLE TO:</b>				
Owners of the Company	\$ 512,338	10	\$ 536,677	11
Non-controlling interests	<u>27,138</u>	-	<u>2,523</u>	-
	<u>\$ 539,476</u>	<u>10</u>	<u>\$ 539,200</u>	<u>11</u>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>				
Owners of the Company	\$ 504,930	10	\$ 529,828	11
Non-controlling interests	<u>9,459</u>	-	<u>20,617</u>	-
	<u>\$ 514,389</u>	<u>10</u>	<u>\$ 550,445</u>	<u>11</u>
<b>EARNINGS PER SHARE (Note 21)</b>				
From continuing operations				
Basic	<u>\$ 3.63</u>		<u>\$ 3.81</u>	
Diluted	<u>\$ 3.60</u>		<u>\$ 3.77</u>	

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

**KINIK COMPANY AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019  
(In Thousands of New Taiwan Dollars)**

	Ordinary Shares	Capital Surplus			Acquisition or Disposal of Subsidiary's Share	Retained Earnings		Other Equity Interests Exchange Differences on Translation of the Financial Statement of Foreign Operations	Non-controlling Interests	Total Equity
		Issuance of Ordinary Shares	Business Combinations	Employee Share Options		Legal Reserve	Unappropriated Earnings			
BALANCE AT JANUARY 1, 2019	\$ 1,410,000	\$ 233,870	\$ 1,007,999	\$ 7,504	\$ 663	\$ 698,418	\$ 865,706	\$ 13,120	\$ 311,656	\$ 4,548,936
Appropriation of 2018 earnings										
Legal reserve	-	-	-	-	-	69,389	(69,389)	-	-	-
Cash dividends distributed by the Company	-	-	-	-	-	-	(493,500)	-	-	(493,500)
Share-based payment	-	-	-	15,008	-	-	-	-	-	15,008
Cash dividends from subsidiary	-	-	-	-	-	-	-	-	(15,339)	(15,339)
Net profit for the year ended December 31, 2019	-	-	-	-	-	-	536,677	-	2,523	539,200
Other comprehensive income (loss) for the year ended December 31, 2019, net of income tax	-	-	-	-	-	-	(22,940)	16,091	18,094	11,245
BALANCE AT DECEMBER 31, 2019	1,410,000	233,870	1,007,999	22,512	663	767,807	816,554	29,211	316,934	4,605,550
Appropriation of 2019 earnings										
Legal reserve	-	-	-	-	-	53,668	(53,668)	-	-	-
Cash dividends distributed by the Company	-	-	-	-	-	-	(183,300)	-	-	(183,300)
Issuance of share dividends from capital surplus	-	(211,500)	-	-	-	-	-	-	-	(211,500)
Share-based payment	775	5,200	-	19,406	-	-	-	-	-	25,381
Cash dividends from subsidiary	-	-	-	-	-	-	-	-	(14,529)	(14,529)
Net profit for the year ended December 31, 2020	-	-	-	-	-	-	512,338	-	27,138	539,476
Other comprehensive income (loss) for the year ended December 31, 2020, net of income tax	-	-	-	-	-	-	8,419	(15,827)	(17,679)	(25,087)
BALANCE AT DECEMBER 31, 2020	\$ 1,410,775	\$ 27,570	\$ 1,007,999	\$ 41,918	\$ 663	\$ 821,475	\$ 1,100,343	\$ 13,384	\$ 311,864	\$ 4,735,991

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

## KINIK COMPANY AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 683,548	\$ 686,223
Adjustments for:		
Depreciation expense	502,906	423,882
Amortization expense	8,722	8,890
Expected credit loss (gain)	4,133	(10,262)
Finance costs	17,325	7,050
Interest income	(1,058)	(1,914)
Compensation costs of employee share options	20,599	15,008
Share of loss of associates	20,097	27,282
Loss (gain) on disposal of property, plant and equipment	1,100	(1,656)
Write-downs of inventories	33,009	44,878
Loss (gain) on disposal of intangible assets	-	(12,959)
Net (gain) loss on foreign currency exchange	(5,794)	7,881
Other income	(5,340)	-
Changes in operating assets and liabilities		
Notes receivable	(1,298)	33,724
Trade receivables	(128,590)	132,294
Trade receivables from related parties	14,442	38,048
Other receivables	2,906	95,101
Inventories	(85,689)	(128,168)
Prepayments	7,462	10,599
Other current assets	(604)	(530)
Notes payable	60	(890)
Trade payables	17,503	(39,320)
Other payables	17,724	(100,677)
Other current liabilities	4,083	879
Net defined benefit liabilities	(43,487)	(63,647)
Other non-current liabilities	4,162	8,451
Cash generated from operations	1,087,921	1,180,167
Interest received	1,058	1,914
Interest paid	(17,001)	(5,258)
Income tax paid	(101,245)	(179,474)
Net cash generated from operating activities	<u>970,733</u>	<u>997,349</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of investment accounted for using the equity method	(55,000)	(81,000)
Payments for property, plant and equipment	(1,587,750)	(1,552,007)
Proceeds from disposal of property, plant and equipment	80	19,867
Increase in refundable deposits	-	(10,431)
Decrease in refundable deposits	10,252	-
Proceeds from disposal of intangible assets	-	18,513

(Continued)

## KINIK COMPANY AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

	2020	2019
Payments for investment properties	\$ (280,616)	\$ -
Increase in other non-current assets	<u>(13,002)</u>	<u>(16,581)</u>
Net cash used in investing activities	<u>(1,926,036)</u>	<u>(1,621,639)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in short-term borrowings	-	150,000
Decrease in short-term borrowings	(320,000)	-
Increase in short-term bills payable	-	80,000
Decrease in short-term bills payable	(100,000)	-
Proceeds from long-term borrowings	1,220,000	980,000
Increase in long-term bills payable	600,000	200,000
Decrease in guarantee deposits received	(7,423)	(3,000)
Repayment of the principal portion of lease liabilities	(12,720)	(12,729)
Dividends paid to owners of the Company	(394,800)	(493,500)
Proceeds from employee share options exercised	4,782	-
Dividends paid to non-controlling interests	<u>(14,529)</u>	<u>(15,339)</u>
Net cash generated from financing activities	<u>975,310</u>	<u>885,432</u>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES</b>		
	<u>(13,792)</u>	<u>23,274</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,215	284,416
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>707,318</u>	<u>422,902</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 713,533</u>	<u>\$ 707,318</u>

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

# KINIK COMPANY AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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### 1. GENERAL INFORMATION

Kinik Company (the “Company”), founded by Mr. Bai Yong Chuan in 1953, started as Jin Ming Kiln Factory with Emery Product Department for production of vitrified bonded wheel and grinding stone and became the first grinding wheel plant in Taiwan. The Company restructured and increased capital in 1957 and 1964 and further increased capital in 1999, 2002 and 2005 and acquired Jin Ming Grinding Corp., House Technology Corp, and KINIK Precision Grinding Corp. The Company mainly manufactures conventional grinding wheel, diamond grinding wheel, CMP diamond disk and dicing blade; it also engages in buy and sell of wafers and import and export transactions.

The Company’s shares have been listed on the Taiwan Stock Exchange (TWSE) since January 1, 2005.

The financial statements are presented in the Company’s functional currency, the New Taiwan dollar.

### 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on February 24, 2021.

### 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)

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 Group’s accounting policies.

- b. The IFRSs endorsed by the FSC for application starting from 2021

New IFRSs	Effective Date Announced by IASB
Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”	Effective immediately upon promulgation by the IASB
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform - Phase 2”	January 1, 2021
Amendment to IFRS 16 “Covid-19 - Related Rent Concessions”	June 1, 2020

As of the date the financial statements were authorize for issue, the Group is continuously assessing the possible impact that the application of other 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 but not yet endorsed and issued into effect by the FSC

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note 1)</b>
“Annual Improvements to IFRS Standards 2018-2020”	January 1, 2022 (Note 2)
Amendments to IFRS 3 “Reference to the Conceptual Framework”	January 1, 2022 (Note 3)
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, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2023
Amendments to IAS 1 “Disclosure of Accounting Policies”	January 1, 2023 (Note 6)
Amendments to IAS 8 “Definition of Accounting Estimates”	January 1, 2023 (Note 7)
Amendments to IAS 16 “Property, Plant and Equipment - Proceeds before Intended Use”	January 1, 2022 (Note 4)
Amendments to IAS 37 “Onerous Contracts - Cost of Fulfilling a Contract”	January 1, 2022 (Note 5)

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual reporting periods beginning on or after their respective effective dates.

Note 2: The amendments to IFRS 9 will be applied prospectively to modifications and exchanges of financial liabilities that occur on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IAS 41 “Agriculture” will be applied prospectively to the fair value measurements on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IFRS 1 “First-time Adoptions of IFRSs” will be applied retrospectively for annual reporting periods beginning on or after January 1, 2022.

Note 3: The amendments are applicable to business combinations for which the acquisition date is on or after the beginning of the annual reporting period beginning on or after January 1, 2022.

Note 4: The amendments are applicable to property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after January 1, 2021.

Note 5: The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.

Note 6: The amendments will be applied prospectively for annual reporting periods beginning on or after January 1, 2023.

Note 7: The amendments are applicable to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the annual reporting period beginning on or after January 1, 2023.

As of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other 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 12 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 Company and the entities controlled by the Company (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 date of acquisition up to the effective date of disposal, 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 Company. 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 Company 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 Group's interests 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 Company.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and any investment retained in the former subsidiary at its fair value at the date when control is lost and (ii) the assets (including any goodwill) and liabilities and any non-controlling interests of the former subsidiary at their carrying amounts at the date when control is lost. The Group accounts for all amounts recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required had the Group directly disposed of the related assets or liabilities.

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition of an investment in an associate or a joint venture.

See Note 9 and Table 1 for detailed information on subsidiaries (including 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 acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred and the fair value of the acquirer's previously held interests in the acquiree, the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value.

f. Foreign currencies

In preparing the financial statements of each individual entity, 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 measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary item denominated in a foreign currency and measured at historical cost is stated at the reporting currency as originally translated from the foreign currency.

For the purpose of presenting the consolidated financial statements, the financial statements of the Group's foreign operations (including subsidiaries) that are stated in foreign currency are translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

Goodwill and fair value adjustments recognized on identifiable assets and liabilities of acquired foreign operation are treated as assets and liabilities of the foreign operation and translated at the rates of exchange prevailing at the end of each reporting period. Exchange differences are recognized in other comprehensive income.

g. Inventories.

Inventories consist of raw materials, supplies, finished goods and work in progress 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 the weighted-average cost on the consolidated balance sheet date.

h. Investments in associates

An associate is an entity over which the Group has significant influence and that 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 are 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 the 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 the Group's share of equity of associates. If the Group's ownership interest is reduced due to the 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 if the investee had 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 by 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 by 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 the 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. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

When 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 initially measured at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment loss.

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. 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. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties also include land held for a currently undetermined future use.

Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognized using the straight-line method.

For a transfer of classification from property, plant and equipment and right-of-use assets to investment properties, the deemed cost of an item of property for subsequent accounting is its carrying amount at the end of owner-occupation.

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

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 and accumulated impairment loss. 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 the estimates accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

2) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date. Subsequent to initial recognition, they 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. Goodwill

Goodwill arising from the acquisition of a business is measured 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 whenever 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 for 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.

m. Impairment of property, plant and equipment, right-of-use asset, intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use asset and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an 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 smallest group of 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 that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

n. Financial instruments

Financial assets and financial liabilities are recognized when 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 trade date basis.

a) Measurement categories

Financial assets are classified into the following categories: Financial assets at amortized cost.

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, trade receivables 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.

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 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.

b) Impairment of financial assets and contract assets

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

The Group always recognizes lifetime expected credit losses (ECLs) for trade receivables and contract assets. For all other financial instruments, the Group recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a 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 ECLs.

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

The impairment loss of all financial assets is recognized in profit or loss by a reduction in their carrying amounts through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and the carrying amounts of such financial assets are not reduced.

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.

## 2) Equity instruments

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

## 3) Financial liabilities

### a) Subsequent measurement

All financial liabilities are measured at amortized cost using the effective interest method.

### 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.

## o. Provisions

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.

## p. 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 contracts 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.

### Revenue from the sale of goods

Revenue from the sale of goods is recognized when the goods are delivered to the customer's specific location, because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility for sales to future customers and bears the risks of obsolescence. However, revenue is recognized when the goods are shipped if the term of the sale transfers the risk of ownership to the customer at the point of shipment. Revenue and trade receivables are recognized concurrently.

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

## q. Leases

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.

When a lease includes both land and building elements, the Group assesses the classification of each element separately as a finance or an operating lease based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the lessee. The lease payments are allocated to the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the contract. If the allocation of the lease payments can be made reliably, each element is accounted for separately in accordance with its lease classification. When the lease payments cannot be allocated reliably to the land and building elements, the entire lease is generally classified as a finance lease unless it is clear that both elements are operating leases; in which case, the entire lease is classified as an operating lease.

## 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 loss 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, in-substance fixed payments, variable lease payments which depend on an index or a rate, residual value guarantees, the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and payments of penalties for terminating a lease if the lease term reflects such termination, less any lease incentives receivable. 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, a change in the amounts expected to be payable under a residual value guarantee, a change in the assessment of an option to purchase an underlying asset, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments, 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.

r. Borrowing costs

Borrowing costs directly attributable to an 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.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other than those stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

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 an expense when employees have rendered service entitling them to the contributions.

Defined benefit costs (including service cost, net interest and rereasurement) under defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost) and net interest on the net defined benefit liabilities (assets) are recognized as employee benefits expense in the period in which they occur. Rereasurement, 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. Rereasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liabilities (assets) represent the actual deficit (surplus) in the Group's defined benefit plans. 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.

3) Other long-term employee benefits

Other long-term employee benefits are accounted for in the same way as the accounting required for defined benefit plans except that rereasurement is recognized in profit or loss.

t. Employee share options

1) Employee share options

The fair value determined 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 estimate of the number of options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. The expense is recognized in full at the grant date when the share options granted vest immediately.

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

2) Equity-settled share-based payment arrangements granted to the employees of a subsidiary

The grant by the Company of its equity instruments to the employees of a subsidiary under equity-settled share-based payment arrangements is treated as a capital contribution. The fair value of employee services received under the arrangement is measured by reference to the grant-date fair value and is recognized over the vesting period as an addition to the investment in the subsidiary, with a corresponding credit 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

Income tax payable (recoverable) is based on taxable profit (loss) for the year determined according to the applicable tax laws of each tax jurisdiction.

According to the Income Tax Law in the ROC, an additional tax on unappropriated earnings is provided for 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 recognized 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 and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are recognized only 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 such temporary differences 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 asset 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 tax and deferred tax for the year

Current tax and deferred tax 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 tax and deferred tax are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

## 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 Group considers the economic implications of the COVID-19 when making its critical accounting 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.

## 6. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	2020	2019
Cash on hand	\$ 342	\$ 506
Checking accounts and demand deposits	711,211	704,750
Time deposits	<u>1,980</u>	<u>2,062</u>
	<u>\$ 713,533</u>	<u>\$ 707,318</u>

The market rate intervals of cash in the bank at the end of the reporting period were as follows:

	<u>December 31</u>	
	2020	2019
Bank balance	0.001%-0.815%	0.001%-1%

## 7. NOTES RECEIVABLE AND TRADE RECEIVABLES

	<u>December 31</u>	
	2020	2019
<u>Notes receivable</u>		
At amortized cost		
Gross carrying amount	\$ 67,978	\$ 66,680
Less: Allowance for impairment loss	<u>(2,441)</u>	<u>(441)</u>
	<u>\$ 65,537</u>	<u>\$ 66,239</u>

(Continued)

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
<u>Trade receivables (including related parties)</u>		
At amortized cost		
Gross carrying amount	\$ 895,292	\$ 780,415
Less: Allowance for impairment loss	<u>(7,524)</u>	<u>(6,781)</u>
	<u>\$ 887,768</u>	<u>\$ 773,634</u> (Concluded)

a. Trade receivables

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 measures the loss allowance for trade receivables at an amount equal to lifetime ECLs. The expected credit losses on trade receivables are estimated using a provision matrix prepared by reference to the past default experience of the customer, the customer's current financial position, economic condition of the industry in which the customer operates, as well as the GDP forecasts and industry outlook. Overdue trade receivables as of December 31, 2020 and 2019 were provided with allowance of 0.01% to 100% and 0.06% to 100%, respectively.

The Group writes off a trade receivable when there is evidence indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation; however, the Company 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 aging schedule of trade receivables (including related parties) was as follows:

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Not due	\$ 836,722	\$ 749,969
1-60 days	41,738	21,985
61-90 days	9,851	2,074
91-180 days	4,950	3,354
More than 181 days	<u>2,031</u>	<u>3,033</u>
	<u>\$ 895,292</u>	<u>\$ 780,415</u>

The above aging schedule was based on the number of overdue days from the posting date.

The movements of the loss allowance of trade receivables were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Balance at January 1	\$ 6,781	\$ 17,059
Add: Net remeasurement of loss allowance	2,133	-
Less: Amounts written off	(1,390)	(16)
Less: Net remeasurement of loss allowance	<u>-</u>	<u>(10,262)</u>
Balance at December 31	<u>\$ 7,524</u>	<u>\$ 6,781</u>

b. Notes receivable

The aging schedule of notes receivable was as follows:

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Not due	\$ 67,978	\$ 66,680
Due	<u>-</u>	<u>-</u>
	<u>\$ 67,978</u>	<u>\$ 66,680</u>

The above aging schedule was based on the number of overdue days from the posting date.

The movements of the loss allowance of notes receivable were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Balance at January 1	\$ 441	\$ 441
Less: Net remeasurement of loss allowance	<u>2,000</u>	<u>-</u>
Balance at December 31	<u>\$ 2,441</u>	<u>\$ 441</u>

## 8. INVENTORIES

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Finished goods and merchandise	\$ 601,454	\$ 459,977
Work in progress	213,585	191,740
Raw materials	536,705	669,518
Supplies	<u>61,299</u>	<u>47,403</u>
	<u>\$ 1,413,043</u>	<u>\$ 1,368,638</u>

The nature of the cost of goods sold is as follows:

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Cost of inventories sold	\$ 3,576,949	\$ 3,396,682
Loss on inventory write-downs	23,602	28,939
Loss on inventory retirement	<u>9,407</u>	<u>15,939</u>
	<u><b>\$ 3,609,958</b></u>	<u><b>\$ 3,441,560</b></u>

## 9. SUBSIDIARIES

a. Subsidiaries included in the consolidated financial statements

<b>Investor</b>	<b>Investee</b>	<b>Nature of Activities</b>	<b>Proportion of Ownership (%)</b>		<b>Remark</b>
			<b>2020</b>	<b>2019</b>	
The Company	Hongia Co., Ltd.	Metal products manufacturing	100.0	100.0	1)
The Company	Kinik-Thai Co., Ltd.	Metal products manufacturing	47.2	47.2	1), 2)

1) Subsidiaries that are not material.

2) The Group holds 47.2% of the issued share capital of Kinik-Thai Co., Ltd and holds more than half of the total number of seats in the board of directors and has the practical effectiveness to lead the relevant activities of Kinik-Thai Co., Ltd. Hence, the Group accounts for it as a subsidiary company.

b. Subsidiaries excluded from consolidated financial statements: None.

## 10. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

a. The list of associates that are not individually material was as follows:

	<b>December 31</b>			
	<b>2020</b>		<b>2019</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Yamamura Kinik Optical Co., Ltd.	\$ 12,410	30.0	\$ 26,968	30.0
Nano-Tem International Taiwan Co.	2,219	45.0	2,246	45.0
Winsheng Material Technology Co., Ltd.	<u>54,828</u>	19.8	<u>-</u>	-
	<u><b>\$ 69,457</b></u>		<u><b>\$ 29,214</b></u>	

Yamamura Kinik Optical Co., Ltd.

The Group participated in Yamamura Kinik Optical Co., Ltd.'s cash capital increase with \$81,000 thousand and the proportion of ownership was 30%.

Winsheng Material Technology Co., Ltd.

The Group participated in Winsheng Material Technology Co., Ltd.'s cash capital increase with \$55,000 thousand and the shareholding proportion was 19.8%. The Group is able to exercise significant influence over Winsheng Material Technology Co., Ltd. since it has joined the board of directors of Winsheng Material Technology Co., Ltd., though the Group only hold 19.8% of shares.

b. Aggregate information of associates that are not individually material

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
The Group's share of:		
Profit/(loss) from continuing operations	\$ (20,097)	\$ (27,282)
Other comprehensive income	<u>-</u>	<u>-</u>
Total comprehensive loss for the year	<u>\$ (20,097)</u>	<u>\$ (27,282)</u>

**11. PROPERTY, PLANT AND EQUIPMENT**

	Freehold Land	Buildings	Machinery Equipment	Trans- portation Equipment	Other Equipment	Property under Construction	Total
<u>Cost</u>							
Balance at January 1, 2020	\$ 929,090	\$ 1,477,174	\$ 2,322,990	\$ 76,567	\$ 532,034	\$ 863,174	\$ 6,201,029
Additions	329,042	151,676	1,190,282	8,582	497,297	56,320	2,233,199
Disposals	-	-	(7,633)	(1,047)	(4,660)	-	(13,340)
Reclassification	-	757,158	910	-	161,346	(919,414)	-
Effect of foreign currency exchange differences	<u>(2,371)</u>	<u>(7,132)</u>	<u>(13,793)</u>	<u>(548)</u>	<u>(388)</u>	<u>(80)</u>	<u>(24,312)</u>
Balance at December 31, 2020	<u>\$ 1,255,761</u>	<u>\$ 2,378,876</u>	<u>\$ 3,492,756</u>	<u>\$ 83,554</u>	<u>\$ 1,185,629</u>	<u>\$ -</u>	<u>\$ 8,396,576</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2020	\$ -	\$ 627,762	\$ 1,697,610	\$ 53,912	\$ 308,247	\$ -	\$ 2,687,531
Depreciation expense	-	86,888	301,630	9,225	90,854	-	488,597
Disposals	-	-	(6,456)	(1,047)	(4,657)	-	(12,160)
Reclassification	-	-	-	-	-	-	-
Effect of foreign currency exchange differences	<u>-</u>	<u>(4,081)</u>	<u>(11,466)</u>	<u>(414)</u>	<u>(279)</u>	<u>-</u>	<u>(16,240)</u>
Balance at December 31, 2020	<u>\$ -</u>	<u>\$ 710,569</u>	<u>\$ 1,981,318</u>	<u>\$ 61,676</u>	<u>\$ 394,165</u>	<u>\$ -</u>	<u>\$ 3,147,728</u>
Carrying amount at December 31, 2020	<u>\$ 1,255,761</u>	<u>\$ 1,668,307</u>	<u>\$ 1,511,438</u>	<u>\$ 21,878</u>	<u>\$ 791,464</u>	<u>\$ -</u>	<u>\$ 5,248,848</u>
<u>Cost</u>							
Balance at January 1, 2019	\$ 953,887	\$ 1,507,552	\$ 2,233,420	\$ 78,213	\$ 454,061	\$ 94,004	\$ 5,321,137
Additions	-	-	161,878	4,778	83,155	774,461	1,024,272
Disposals	-	(136)	(87,010)	(7,074)	(725)	-	(94,945)
Reclassification	(27,271)	(37,693)	308	-	(4,834)	(5,319)	(74,809)
Effect of foreign currency exchange differences	<u>2,474</u>	<u>7,451</u>	<u>14,394</u>	<u>650</u>	<u>377</u>	<u>28</u>	<u>25,374</u>
Balance at December 31, 2019	<u>\$ 929,090</u>	<u>\$ 1,477,174</u>	<u>\$ 2,322,990</u>	<u>\$ 76,567</u>	<u>\$ 532,034</u>	<u>\$ 863,174</u>	<u>\$ 6,201,029</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2019	\$ -	\$ 577,393	\$ 1,467,298	\$ 50,512	\$ 254,481	\$ -	\$ 2,349,684
Depreciation expense	-	59,413	280,556	9,999	60,338	-	410,306
Disposals	-	(84)	(58,162)	(7,069)	(717)	-	(66,032)
Reclassification	-	(13,076)	(3,720)	-	(6,125)	-	(22,921)
Effect of foreign currency exchange differences	<u>-</u>	<u>4,116</u>	<u>11,638</u>	<u>470</u>	<u>270</u>	<u>-</u>	<u>16,494</u>
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ 627,762</u>	<u>\$ 1,697,610</u>	<u>\$ 53,912</u>	<u>\$ 308,247</u>	<u>\$ -</u>	<u>\$ 2,687,531</u>

(Continued)

	Freehold Land	Buildings	Machinery Equipment	Transportation Equipment	Other Equipment	Property under Construction	Total
<u>Accumulated impairment</u>							
Balance at January 1, 2019	\$ -	\$ -	\$ 27,691	\$ -	\$ -	\$ -	\$ 27,691
Disposals	-	-	(27,691)	-	-	-	(27,691)
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Carrying amount at December 31, 2019	<u>\$ 929,090</u>	<u>\$ 849,412</u>	<u>\$ 625,380</u>	<u>\$ 22,655</u>	<u>\$ 223,787</u>	<u>\$ 863,174</u>	<u>\$ 3,513,498</u>

(Concluded)

The above items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful life as follows:

#### Buildings

Main buildings	7 to 50 years
Power equipment	5 to 10 years
Others	3 to 15 years

#### Machinery equipment

Production equipment	3 to 12 years
Instruments	5 to 8 years

#### Transportation equipment

3 to 5 years

#### Other equipment

Computer equipment	3 to 5 years
Others	3 to 10 years

## 12. LEASE ARRANGEMENTS

### a. Right-of-use assets

	Land	Buildings	Total
<u>Cost</u>			
Balance at January 1, 2020	\$ 43,304	\$ 40,754	\$ 84,058
Additions	<u>1,553</u>	<u>-</u>	<u>1,553</u>
Balance at December 31, 2020	<u>\$ 44,857</u>	<u>\$ 40,754</u>	<u>\$ 85,611</u>

#### Accumulated depreciation and impairment

Balance at January 1, 2020	\$ 2,462	\$ 10,514	\$ 12,976
Depreciation expense	<u>2,417</u>	<u>10,559</u>	<u>12,976</u>
Balance at December 31, 2020	<u>\$ 4,879</u>	<u>\$ 21,073</u>	<u>\$ 25,952</u>

#### Cost

Balance at January 1, 2019	\$ 43,304	\$ 40,754	\$ 84,058
Additions	<u>-</u>	<u>-</u>	<u>-</u>
Balance at December 31, 2019	<u>\$ 43,304</u>	<u>\$ 40,754</u>	<u>\$ 84,058</u>

(Continued)

	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
<u>Accumulated depreciation and impairment</u>			
Balance at January 1, 2019	\$ -	\$ -	\$ -
Depreciation expense	<u>2,462</u>	<u>10,514</u>	<u>12,976</u>
Balance at December 31, 2019	<u>\$ 2,462</u>	<u>\$ 10,514</u>	<u>\$ 12,976</u> (Concluded)

b. Lease liabilities

	<u>December 31</u>	
	<b>2020</b>	<b>2019</b>
<u>Carrying amount</u>		
Current	<u>\$ 12,733</u>	<u>\$ 12,757</u>
Non-current	<u>\$ 47,429</u>	<u>\$ 58,572</u>

Range of discount rates for lease liabilities was as follows:

	<u>December 31</u>	
	<b>2020</b>	<b>2019</b>
Land	0.84%-1.20%	0.84%-1.11%
Buildings	0.84%	0.84%

c. Other lease information

- Operating leases relate to leases of investment properties; please refer to Note 13.
- The Group's leases of certain assets qualify as short-term leases and leases of certain assets qualify 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.

	<u>For the Year Ended December 31</u>	
	<b>2020</b>	<b>2019</b>
Expenses relating to short-term leases	<u>\$ 5,802</u>	<u>\$ 6,801</u>
Expenses relating to low-value asset leases	<u>\$ 219</u>	<u>\$ 464</u>
Total cash outflow for leases	<u>\$ (19,421)</u>	<u>\$ (20,591)</u>

**13. INVESTMENT PROPERTIES**

	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
<u>Cost</u>			
Balance at January 1, 2020	\$ 76,676	\$ 45,518	\$ 122,194
Additions	<u>248,665</u>	<u>31,951</u>	<u>280,616</u>
Balance at December 31, 2020	<u>\$ 325,341</u>	<u>\$ 77,469</u>	<u>\$ 402,810</u> (Continued)

	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
<u>Accumulated depreciation and impairment</u>			
Balance at January 1, 2020	\$ -	\$ 21,501	\$ 21,501
Depreciation expense	<u>-</u>	<u>1,333</u>	<u>1,333</u>
Balance at December 31, 2020	<u>\$ -</u>	<u>\$ 22,834</u>	<u>\$ 22,834</u>
<u>Cost</u>			
Balance at January 1, 2019	\$ 49,405	\$ 7,825	\$ 57,230
Reclassifications	<u>27,271</u>	<u>37,693</u>	<u>64,964</u>
Balance at December 31, 2019	<u>\$ 76,676</u>	<u>\$ 45,518</u>	<u>\$ 122,194</u>
<u>Accumulated depreciation and impairment</u>			
Balance at January 1, 2019	\$ -	\$ 7,825	\$ 7,825
Depreciation expense	-	600	600
Reclassifications	<u>-</u>	<u>13,076</u>	<u>13,076</u>
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ 21,501</u>	<u>\$ 21,501</u>

(Concluded)

The maturity analysis of lease payments receivable under operating leases of investment properties was as follows:

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Year 1	\$ 24,999	\$ 21,600
Year 2	25,063	21,600
Year 3	23,770	21,600
Year 4	24,343	20,100
Year 5	24,343	18,000
Over 5 years	<u>17,413</u>	<u>36,000</u>
	<u>\$ 139,661</u>	<u>\$ 138,900</u>

The land and plants at Xihu in Yingge are evaluated for their fair value by independent qualified professional valuers of the ROC. The valuation was arrived at by reference to market evidence of transaction prices for similar real estate properties. The fair value as appraised was as follows:

	<b>December 31, 2020</b>
Fair value	<u>\$ 300,395</u>

The management of the Group used the valuation model that market participants would use in determining the fair value. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. The fair value as appraised was as follows:

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Fair value	<u>\$ 230,273</u>	<u>\$ 209,699</u>

#### 14. BORROWINGS

a. Short-term borrowings

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Line of credit and unsecured borrowings	<u>\$ 350,000</u>	<u>\$ 670,000</u>

The range of weighted average effective interest rates on short-term borrowings was 0.82%-0.83% and 0.90%-1.45% per annum at December 31, 2020 and 2019, respectively.

b. Short-term bills payable

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Commercial paper	\$ 50,000	\$ 150,000
Less: Unamortized discounts on bills payable	<u>-</u>	<u>-</u>
	<u>\$ 50,000</u>	<u>\$ 150,000</u>

Outstanding short-term bills payable were as follows:

December 31, 2020

<u>Creditor Institution</u>	<u>Nominal Amount</u>	<u>Discount Amount</u>	<u>Carrying Amount</u>	<u>Interest Rate</u>	<u>Collateral</u>	<u>Carrying Amount of Collateral</u>
<u>Commercial paper</u>						
China Bills Finance Corporation	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ 50,000</u>	0.858%	None	<u>\$ -</u>

December 31, 2019

<u>Creditor Institution</u>	<u>Nominal Amount</u>	<u>Discount Amount</u>	<u>Carrying Amount</u>	<u>Interest Rate</u>	<u>Collateral</u>	<u>Carrying Amount of Collateral</u>
<u>Commercial paper</u>						
Taiwan Finance Corporation	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ 50,000</u>	0.988%	None	<u>\$ -</u>
Ta Ching Bills Finance Corporation	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ 50,000</u>	0.998%	None	<u>\$ -</u>
Mega Bills Finance Co., Ltd.	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ 50,000</u>	0.988%	None	<u>\$ -</u>

c. Long-term borrowings

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
<u>Unsecured borrowings</u>		
Credit borrowings	\$ 2,300,000	\$ 1,080,000
Less: Current portion	<u>-</u>	<u>-</u>
Long-term borrowings	<u>\$ 230,000</u>	<u>\$ 1,080,000</u>

The range of weighted average effective interest rates on long-term borrowings was 1.00%-1.43% and 1.34%-1.37% per annum at December 31, 2020 and 2019, respectively.

The borrowings obtained in 2020 are due from July 22, 2022 to July 9, 2024. The borrowings obtained in 2019 are due from July 22, 2023 to September 30, 2023.

d. Long-term bills payable

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Commercial paper	\$ 800,000	\$ 200,000
Less: Unamortized discounts on bills payable	<u>-</u>	<u>-</u>
	<u>\$ 800,000</u>	<u>\$ 200,000</u>

The Group signed floating rate commercial paper underwriting contract with Bank of Taiwan. The contract is from December 26, 2019 to January 22, 2024. During the period, the Group only has to pay commission expense and interest. Hence, this liability is under long-term bills payable. Effective interest rate on December 31, 2020 and 2019 was 1.10% and 1.21%, respectively.

## 15. OTHER PAYABLES

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Payables for payroll	\$ 289,063	\$ 290,895
Payables for royalty	92,889	92,889
Payables for repairs and maintenance	32,602	25,647
Payables for employee benefit	52,791	50,519
Others	<u>123,309</u>	<u>119,539</u>
	<u>\$ 590,654</u>	<u>\$ 579,489</u>

For information about payables for royalty on December 31, 2020, refer to Note 27.

## 16. RETIREMENT BENEFIT PLANS

### a. Defined contribution plans

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

### b. Defined benefit plans

The defined benefit plans adopted by the Company and its subsidiary in accordance with the Labor Standards Act 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 Company and its subsidiary contribute amounts equal to 2%-6% 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.

The employees of the Group's subsidiary in Thailand are members of a state-managed retirement benefit plan operated by the government of Thailand. The subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The pension benefits are calculated on the basis of the length of service and average monthly salaries before retirement.

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

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Present value of defined benefit obligation	\$ 647,875	\$ 681,728
Fair value of plan assets	<u>(525,002)</u>	<u>(503,448)</u>
Net defined benefit liabilities	<u>\$ 122,873</u>	<u>\$ 178,280</u>

Movements in net defined benefit liability (asset) were as follows:

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liability (Asset)</b>
Balance at January 1, 2019	\$ 661,973	\$ (449,951)	\$ 212,022
Service cost			
Current service cost	12,884	-	12,884
Past service cost	2,024	-	2,024
Net interest expense (income)	6,946	(4,705)	2,241
Settlement	<u>20</u>	<u>-</u>	<u>20</u>
Recognized in profit or loss	<u>21,874</u>	<u>(4,705)</u>	<u>17,169</u>

(Continued)

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liability (Asset)</b>
<b>Remeasurement</b>			
Return on plan assets (excluding amounts included in net interest)	\$ -	\$ (15,521)	\$ (15,521)
Changes in demographic assumptions	23,857	-	23,857
Changes in financial assumptions	15,341	-	15,341
Experience adjustments	<u>4,998</u>	<u>-</u>	<u>4,998</u>
Recognized in other comprehensive income	<u>44,196</u>	<u>(15,521)</u>	<u>28,675</u>
Contributions from the employer	-	(80,479)	(80,479)
Benefits paid - from plan assets	(46,762)	46,762	-
Benefits paid - from company	(337)	-	(337)
Settlement	(446)	446	-
Exchange differences on foreign plans	<u>1,230</u>	<u>-</u>	<u>1,230</u>
Balance at December 31, 2019	681,728	(503,448)	178,280
<b>Service cost</b>			
Current service cost	6,580	-	6,580
Past service cost and loss (gain) on settlements	(1,000)	-	(1,000)
Net interest expense (income)	<u>5,192</u>	<u>(3,996)</u>	<u>1,196</u>
Recognized in profit or loss	<u>10,772</u>	<u>(3,996)</u>	<u>6,776</u>
<b>Remeasurement</b>			
Return on plan assets (excluding amounts included in net interest)	-	(16,014)	(16,014)
Changes in demographic assumptions	3,547	-	3,547
Changes in financial assumption	14,655	-	14,655
Experience adjustments	<u>(12,712)</u>	<u>-</u>	<u>(12,712)</u>
Recognized in other comprehensive income	<u>5,490</u>	<u>(16,014)</u>	<u>(10,524)</u>
Contributions from the employer	-	(48,278)	(48,278)
Benefits paid - from plan assets	(46,734)	46,734	-
Benefits paid - from company	(1,985)	-	(1,985)
Exchange differences on foreign plans	<u>(1,396)</u>	<u>-</u>	<u>(1,396)</u>
Balance at December 31, 2020	<u>\$ 647,875</u>	<u>\$ (525,002)</u>	<u>\$ 122,873</u>

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 or corporate 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 plan's 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:

	<u>December 31</u>	
	2020	2019
Discount rate(s)	0.50%-2.98%	0.75%-2.51%
Expected rate(s) of salary increase	2.00%-5.00%	2.00%-5.00%

If possible reasonable change 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:

	<u>December 31</u>	
	2020	2019
Discount rate(s)		
0.25% increase	<u>\$ (15,172)</u>	<u>\$ (16,645)</u>
0.25% decrease	<u>\$ 15,729</u>	<u>\$ 17,268</u>
Expected rate(s) of salary increase		
0.25% increase	<u>\$ 15,222</u>	<u>\$ 16,756</u>
0.25% decrease	<u>\$ (14,764)</u>	<u>\$ (16,239)</u>

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.

	<u>December 31</u>	
	2020	2019
Expected contributions to the plans for the next year	<u>\$ 49,083</u>	<u>\$ 83,325</u>
Average duration of the defined benefit obligation	9.1-10.2 years	9.6-11.5 years

## 17. OTHER NON-CURRENT LIABILITIES

	<u>December 31</u>	
	2020	2019
Long-term provisions for employee benefits	<u>\$ 31,381</u>	<u>\$ 27,219</u>

## 18. EQUITY

### a. Ordinary shares

	<u>December 31</u>	
	2020	2019
Number of shares authorized (in thousands)	<u>200,000</u>	<u>200,000</u>
Shares authorized	<u>\$ 2,000,000</u>	<u>\$ 2,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>141,078</u>	<u>141,000</u>
Shares issued	<u>\$ 1,410,775</u>	<u>\$ 1,410,000</u>

b. Capital surplus

The capital surplus arising from shares issued in excess of par (including share premium from issuance of ordinary shares and treasury share transactions) may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and once a year). The capital surplus arising from employee share options may not be used for any purpose.

c. Retained earnings and dividends policy

Under the dividends policy as set forth in the amended Articles, where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as a legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. The Company's Articles also stipulate a dividends policy whereby the issuance of share dividends takes precedence over the payment of cash dividends. In principle, cash dividends are limited to 20% of the total dividends distributed.

Appropriations of earnings to legal reserve shall be made until the legal reserve equals the Company's paid-in capital. The legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Items referred to under Rule No. 1010012865, Rule No. 1010047490 and Rule No. 1030006415 issued by the FSC and in the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Company.

The appropriations of earnings for 2019 and 2018 have been approved in the shareholders' meetings on June 15, 2020 and June 13, 2019, respectively; the amounts were as follows:

	<b>Appropriation of Earnings</b>		<b>Dividends Per Share (NT\$)</b>	
	<b>For the Year Ended</b>		<b>For the Year Ended</b>	
	<b>December 31</b>		<b>December 31</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Legal reserve	\$ 53,668	\$ 69,389		
Cash dividends	183,300	493,500	\$1.3	\$3.5

The shareholders' meeting also resolved the payment of cash dividends from capital surplus of \$211,500 thousand on June 15, 2020.

The appropriations of earnings for 2020 will be resolved by the Company's shareholders on June 24, 2021.

d. Non-controlling interests

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Balance at January 1	\$ 316,934	\$ 311,656
Share in profit for the year	27,318	2,523
Cash dividends from subsidiaries	(14,529)	(15,339)
Exchange differences on translation of the financial statements of foreign entities	<u>(17,679)</u>	<u>18,094</u>
Balance at December 31	<u>\$ 311,864</u>	<u>\$ 316,934</u>

**19. NET PROFIT FROM CONTINUING OPERATIONS**

a. Other income

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Rent income	\$ 18,303	\$ 20,987
Others (Note 25)	<u>11,499</u>	<u>26,520</u>
	<u>\$ 29,802</u>	<u>\$ 47,237</u>

b. Other gains and losses

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Gain (loss) on disposal of property, plant and equipment	\$ (1,100)	\$ 1,656
Gain on disposal of intangible assets	-	12,959
Foreign exchange gains	36,180	38,473
Foreign exchange losses	(50,645)	(52,996)
Others	<u>(1,298)</u>	<u>(1,875)</u>
	<u>\$ (16,863)</u>	<u>\$ (1,783)</u>

c. Finance costs

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Interest on bank loans	\$ 33,431	\$ 14,304
Interest on lease liabilities	<u>680</u>	<u>597</u>
	34,111	14,901
Less: Amount included in the cost of qualifying assets	<u>(16,786)</u>	<u>(7,851)</u>
	<u>\$ 17,325</u>	<u>\$ 7,050</u>

Information about capitalized interest is as follows:

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Capitalized interest amount	\$ 16,786	\$ 7,851
Capitalization rate	1.1000-1.2486%	0.9265-1.3163%

d. Depreciation and amortization

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
An analysis of depreciation by function		
Operating costs	\$ 461,489	\$ 380,638
Operating expenses	<u>41,417</u>	<u>43,244</u>
	<u>\$ 502,906</u>	<u>\$ 423,822</u>
An analysis of amortization by function		
Operating costs	\$ 4,542	\$ 1,368
Operating expenses	<u>4,180</u>	<u>7,522</u>
	<u>\$ 8,722</u>	<u>\$ 8,890</u>

e. Employee benefits expense

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Post-employment benefits		
Defined contribution plan	\$ 49,014	\$ 45,059
Defined benefit plans (see Note 16)	<u>6776</u>	<u>17,169</u>
Share-based payments		
Cost of employee stock option	20,599	15,008
Other employee benefits	<u>1,454,300</u>	<u>1,366,218</u>
Total employee benefits expense	<u>\$ 1,530,689</u>	<u>\$ 1,443,454</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 1,182,254	\$ 1,109,262
Operating expenses	<u>348,435</u>	<u>334,192</u>
	<u>\$ 1,530,689</u>	<u>\$ 1,443,454</u>

e. Compensation of employees and remuneration of directors and supervisors

The Company accrued compensation of employees and remuneration of directors and supervisors at the rates no less than 1% and no higher than 2%, respectively, of net profit before income tax, compensation of employees and remuneration of directors and supervisors. The compensation of employees and remuneration of directors and supervisors for the years ended December 31, 2020 and 2019 which have been approved by the Company's board of directors on February 24, 2021 and February 25, 2020, respectively, were as follows:

Amount

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
	<b>Cash</b>	<b>Cash</b>
Compensation of employees	\$ 72,000	\$ 75,000
Remuneration of directors and supervisors	8,790	9,900

If there is a change in the amount after the annual financial statements were authorized for issue, any difference is recorded as a change in accounting estimate.

There was no difference between the actual amounts paid for compensation of employees and remuneration of directors and supervisors and the amounts recognized in the financial statements for the years ended December 31, 2019 and 2018.

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

## 20. INCOME TAXES RELATING TO CONTINUING OPERATIONS

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

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Current tax		
In respect of the current year	\$ 135,701	\$ 140,816
Income tax on unappropriated earnings	-	-
Adjustments to prior year	(3,862)	88
Deferred tax		
In respect of the current year	<u>12,233</u>	<u>6,119</u>
Income tax expense recognized in profit or loss	<u>\$ 144,072</u>	<u>\$ 147,023</u>

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

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Profit before tax from continuing operations	<u>\$ 683,548</u>	<u>\$ 686,223</u>
Income tax expense calculated at the statutory rate	\$ 136,710	\$ 137,245
Income tax on unappropriated earnings	-	-
Nondeductible expenses in determining taxable income	6,631	8,994
Investment gain on foreign operations	4,593	696
Adjustments to prior years' tax	<u>(3,862)</u>	<u>88</u>
Income tax expense recognized in profit or loss	<u>\$ 144,072</u>	<u>\$ 147,023</u>

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. When calculating the tax on unappropriated earnings, the Group only deducts the amount of the unappropriated earnings that has been reinvested in capital expenditure.

b. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2020

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Differences	Closing Balance
<u>Deferred tax assets</u>					
Temporary differences					
Unrealized loss on inventories	\$ 13,141	\$ 410	\$ -	\$ -	\$ 13,551
Defined benefit plans	29,664	(8,556)	(2,105)	-	19,003
Payables for employee benefit	10,104	454	-	-	10,558
Others	<u>12,898</u>	<u>(1,188)</u>	<u>-</u>	<u>-</u>	<u>11,710</u>
	<u>\$ 65,807</u>	<u>\$ (8,880)</u>	<u>\$ (2,105)</u>	<u>\$ -</u>	<u>\$ 54,822</u>
<u>Deferred tax liabilities</u>					
Temporary differences					
Unrealized revaluation increment	\$ 36,754	\$ -	\$ -	\$ -	\$ 36,754
Others	<u>9,633</u>	<u>3,353</u>	<u>-</u>	<u>(334)</u>	<u>12,652</u>
	<u>\$ 46,387</u>	<u>\$ 3,353</u>	<u>\$ -</u>	<u>\$ (334)</u>	<u>\$ 49,406</u>

For the year ended December 31, 2019

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Differences	Closing Balance
<u>Deferred tax assets</u>					
Temporary differences					
Unrealized loss on inventories	\$ 10,499	\$ 2,642	\$ -	\$ -	\$ 13,141
Defined benefit obligation	38,235	(14,306)	5,735	-	29,664
Payables for employee benefit	8,955	1,149	-	-	10,104
Others	<u>9,579</u>	<u>3,319</u>	<u>-</u>	<u>-</u>	<u>12,898</u>
	<u>\$ 67,268</u>	<u>\$ (7,196)</u>	<u>\$ 5,735</u>	<u>\$ -</u>	<u>\$ 65,807</u>
<u>Deferred tax liabilities</u>					
Temporary differences					
Unrealized revaluation increment	\$ 36,754	\$ -	\$ -	\$ -	\$ 36,754
Others	<u>10,296</u>	<u>(1,077)</u>	<u>-</u>	<u>414</u>	<u>9,633</u>
	<u>\$ 47,050</u>	<u>\$ (1,077)</u>	<u>\$ -</u>	<u>\$ 414</u>	<u>\$ 46,387</u>

c. Income tax assessments

The income tax returns through 2018 have been assessed by the tax authorities. The Company and its domestic subsidiaries agreed with the tax authorities' assessment.

**21. EARNINGS PER SHARE**

The earnings and weighted average number of ordinary shares outstanding in the computation of earnings per share were as follows:

**Net Profit for the Year**

	<u>For the Year Ended December 31</u>	
	<u>2020</u>	<u>2019</u>
Profit for the year attributable to owners of the Company	\$ 512,338	\$ 536,677
Effect of potentially dilutive ordinary shares		
Employee share options	-	-
Compensation of employees or bonus issue to employees	<u>-</u>	<u>-</u>
Earnings used in the computation of diluted earnings per share	<u>\$ 512,338</u>	<u>\$ 536,677</u>

The weighted average number of ordinary shares outstanding (in thousand shares):

	<u>For the Year Ended December 31</u>	
	<u>2020</u>	<u>2019</u>
Weighted average number of ordinary shares used in computation of basic earnings per share	141,032	141,000
Effect of potentially dilutive ordinary shares		
Employee share options	-	-
Compensation of employees or bonus issue to employees	<u>1,263</u>	<u>1,321</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>142,295</u>	<u>142,321</u>

If the Group offers to settle compensation or bonus of employees in cash or shares, the Group will assume the entire amount of the compensation or bonus would be settled in shares and the resulting potential shares are included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, if 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.

If the exercise price of the options or warrants issued by the Group exceed the average market price of the shares. They are anti-dilutive and excluded from the computation of diluted earnings per share.

## 22. SHARE-BASED PAYMENT ARRANGEMENTS

### Employee share option plan of the Company

- a. Qualified employees of the Company and its subsidiaries were granted 2,500 options in July 2018. Each option entitles the holder to subscribe for one thousand ordinary shares of the Company. The options granted are valid for 6 years exercisable at certain percentages after the second anniversary from the grant date. The options were granted at an exercise price equal to the closing price of the Company's ordinary shares listed on the Taiwan Stock Exchange (TWSE) on the grant date. For any subsequent changes in the Company's capital surplus, the exercise price is adjusted accordingly.

	2020		2019	
	Number of Options (In Thousands)	Weighted-average Exercise Price (\$)	Number of Options (In Thousands)	Weighted-average Exercise Price (\$)
Balance at January 1	2,500	\$ 64.7	2,500	\$ 68.8
Options granted	-	-	-	-
Options exercised	(78)	61.7	-	-
Options forfeited	<u>(50)</u>	-	<u>-</u>	-
Balance at December 31	<u>2,372</u>	61.7	<u>2,500</u>	64.7
Options exercisable, end of the year	<u>1,125</u>		<u>-</u>	

Information on outstanding options as of December 31, 2020 and 2019 was as follows:

	December 31	
	2020	2019
Range of exercise price (\$)	\$61.7	\$64.7
Weighted-average remaining contractual life (in years)	3.5 years	4.5 years

- b. Qualified employees of the Company and its subsidiaries were granted 2,500 options in July 2020. Each option entitles the holder to subscribe for one thousand ordinary shares of the Company. The options granted are valid for 6 years exercisable at certain percentages after the second anniversary from the grant date. The options were granted at an exercise price equal to the highest closing price of the Company's ordinary shares listed on the Taiwan Stock Exchange (TWSE) on the day before the grant date, on the grant date and on the day after it, or the average closing price of the three days. For any subsequent changes in the Company's capital surplus, the exercise price is adjusted accordingly.

	<b>For the Year Ended December 31, 2020</b>	
	<b>Number of Options (In Thousands of Units)</b>	<b>Weighted- average Exercise Price (\$)</b>
Balance at January 1	-	\$
Options granted	2,500	64.4
Options exercised	-	-
Options forfeited	<u>-</u>	-
Balance at December 31	<u>2,500</u>	64.4
Options exercisable, end of the year	<u>-</u>	-

Information on outstanding options as of December 31, 2020 was as follows:

	<b>December 31, 2020</b>
Range of exercise price (\$)	\$64.4
Weighted-average remaining contractual life (in years)	5.5 years

Options granted in July 2018 and July 2020 were priced using the Black-Scholes pricing model and the inputs to the model were as follows:

	<b>July 2020</b>	<b>July 2018</b>
Grant-date share price	\$64.4	\$68.8
Exercise price	\$64.4	\$68.8
Expected volatility	25.33%-25.8%	27.04%-28.04%
Expected life (in years)	6 years	6 years
Expected dividend yield	0%	0%
Risk-free interest rate	0.31%-0.32%	0.67%-0.69%

Expected volatility was based on the expected life.

- c. Compensation cost recognized was \$20,599 thousand and \$15,008 thousand for the years ended December 31, 2020 and 2019, respectively.

## **23. CAPITAL MANAGEMENT**

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy has no significant variations.

The Group is not subject to any externally imposed capital requirements.

Key management personnel of the Group review the capital structure on a quarterly basis. 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, the amount of new debt issued or existing debt redeemed.

## 24. FINANCIAL INSTRUMENTS

### a. Fair value of financial instruments not measured at fair value

The Group's management consider the book value of not measured at fair value financial assets and financial liabilities as approximate fair value or there is no basis for fair value measurement.

### b. Categories of financial instruments

	<u>December 31</u>	
	2020	2019
<u>Financial assets</u>		
Financial assets at amortized cost (1)	\$ 1,937,921	\$ 1,835,754
<u>Financial liabilities</u>		
Financial liabilities at amortized cost (2)	3,962,166	2,533,424

- 1) The balances include financial assets at amortized cost, which comprise cash and cash equivalents, note receivable, trade receivable (includes related parties), other receivables and deposits.
- 2) The balances include financial liabilities at amortized cost, which comprise short-term and long-term loans, short-term and long-term bills payable, and trade and other payables.

### c. Financial risk management objectives and policies

The Group's major financial instruments include equity investments, trade receivable, trade payables, borrowings, bills payable and lease liabilities. The Group's corporate treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

#### 1) Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (refer to (a) below) and interest rates (refer to (b) below).

The Group did not change the method of managing and measuring market risk exposure of financial instruments.

#### a) Foreign currency risk

The Group had foreign currency sales and purchases, which exposed the Group to foreign currency risk. Exchange rate exposures were managed within natural hedges. Hence, change of market exchange rate would change the fair value of related financial instrument.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are set out in Note 30.

### Sensitivity analysis

The Group was mainly exposed to the USD.

The following table details the Group's sensitivity to a 5% increase and decrease in New Taiwan dollars (the functional currency) against the USD. The sensitivity rate of 5% is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates an increase in pre-tax profit associated with New Taiwan dollars weakening by 5% against the relevant currency. For a 5% strengthening of New Taiwan dollars against the relevant currency, there would be an equal and opposite impact on pre-tax profit and the balances below would be negative.

	<b>USD Impact</b>	
	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Profit or loss*	\$ 29,793	\$ 29,287

\* This was mainly attributable to the exposure on outstanding USD trade receivables, trade payables, which were not hedged at the end of the year.

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign currency risk because the exposure at the end of the year did not reflect the exposure during the year.

#### b) Interest rate risk

The Group was exposed to interest rate risk because entities in the Group borrowed funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix of fixed and floating rate borrowings.

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:

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Fair value interest rate risk		
Financial assets	\$ 252,930	\$ 262,642
Financial liabilities	1,260,162	221,239
Cash flow interest rate risk		
Financial assets	686,451	663,197
Financial liabilities	2,300,000	1,950,000

### Sensitivity analysis

The sensitivity analyses below were determined based on the Group's exposure to interest rates for non-derivative instruments at the end of the reporting period. 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 10 basis point 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 10 basis points higher and all other variables were held constant, the

Group's pre-tax profit for the years ended December 31, 2020 and 2019 would have decreased by \$1,614 thousand and \$1,287 thousand, respectively.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure of counterparties to discharge an obligation could arise from the carrying amount of the respective recognized financial assets as stated in the consolidated balance sheets.

Counterparties of trade receivables consisted of a large number of different customers, spread across conventional grinding wheel, CMP diamond disk and recycled wafer. Ongoing credit evaluation is performed on the customers' financial condition. The Group's concentration of credit risk by geographical location was mainly in Taiwan, the United States, China and Southeast Asia.

3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As of December 31, 2020 and 2019, the Group had available unutilized short-term bank loan facilities set out in (b) below.

a) Liquidity and interest rate risk tables for non-derivative financial liabilities

The following table details the Group's remaining contractual maturities for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. Specifically, bank loans with a repayment on demand clause were included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities were based on the agreed repayment dates.

December 31, 2020

	<b>On Demand or Less than 1 Month</b>	<b>1-6 Months</b>	<b>6 Months to 1 Year</b>	<b>More than 1 Year</b>
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	\$ 427,320	\$ 152,583	\$ 233,189	\$ -
Lease liabilities	1,044	5,129	7,119	50,926
Debt instrument	<u>153,603</u>	<u>265,513</u>	<u>19,015</u>	<u>3,161,817</u>
	<u>\$ 581,967</u>	<u>\$ 423,225</u>	<u>\$ 259,323</u>	<u>\$ 3,212,743</u>

Additional information about the maturity analysis of lease liabilities

	<b>Less than 1 Year</b>	<b>1-5 Years</b>	<b>5+ Years</b>
Lease liabilities	\$ <u>13,292</u>	\$ <u>20,451</u>	\$ <u>30,475</u>

December 31, 2019

	<b>On Demand or Less than 1 Month</b>	<b>1-6 Months</b>	<b>6 Months to 1 Year</b>	<b>More than 1 Year</b>
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	\$ 368,428	\$ 266,197	\$ 149,156	\$ -
Lease liabilities	1,043	5,351	6,978	62,888
Debt instrument	<u>671,727</u>	<u>157,244</u>	<u>8,642</u>	<u>1,314,901</u>
	<u>\$ 1,041,198</u>	<u>\$ 428,792</u>	<u>\$ 164,776</u>	<u>\$ 1,377,789</u>

Additional information about the maturity analysis of lease liabilities

	<b>Less than 1 Year</b>	<b>1-5 Years</b>	<b>5+ Years</b>
Lease liabilities	\$ <u>13,372</u>	\$ <u>30,076</u>	\$ <u>32,812</u>

b) Credit line

	<u>December 31</u>	
	<b>2020</b>	<b>2019</b>
Bank credit line		
Used credit	\$ 3,500,000	\$ 2,100,000
Unused credit	<u>3,497,208</u>	<u>3,694,853</u>
	<u>\$ 6,997,208</u>	<u>\$ 5,794,853</u>

## 25. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Besides information disclosed elsewhere in the other notes, details of transactions between the Group and other related parties are disclosed as follows.

a. Related parties and relationships

<u>Related Party</u>	<u>Relationship with the Group</u>
Ymamura Knik Optical Co., Ltd.	Associate
Nano-Tem International Taiwan Co.	Associate
Siam Kinik Co., Ltd.	Related party in substance
Lin, Xin-Zheng.	Related party in substance
Lin, Bo-Quan	Related party in substance (transferred to chairman of the board since June 15, 2020)

b. Sales of goods

<b>Account</b>	<b>Related Party</b>	<b>For the Year Ended December 31</b>	
		<b>2020</b>	<b>2019</b>
Sales revenue	Associates	\$ 31	\$ -
	Related party in substance	<u>211,113</u>	<u>265,307</u>
		<u>\$ 211,144</u>	<u>\$ 265,307</u>

Sales to related parties are based on cost-plus pricing. There were no significant differences in transaction terms between related parties and third parties.

<b>Account</b>	<b>Related Party</b>	<b>For the Year Ended December 31</b>	
		<b>2020</b>	<b>2019</b>
Other income	Related party in substance	\$ 216	\$ -
	Associates	26	-
Operating lease income and other income	Ymamura Knik Optical Co., Ltd.	<u>18,008</u>	<u>19,920</u>
		<u>\$ 18,250</u>	<u>\$ 19,920</u>

c. Purchase of goods and expense

<b>Account</b>	<b>Related Party</b>	<b>For the Year Ended December 31</b>	
		<b>2020</b>	<b>2019</b>
Purchase	Related party in substance	<u>\$ 168</u>	<u>\$ 147</u>
Expense	Related party in substance	<u>\$ -</u>	<u>\$ 992</u>

There were no significant differences in purchase price and transaction terms between related parties and third parties.

d. Receivables from related parties (not including loans to related parties)

<b>Account</b>	<b>Related Party</b>	<b>For the Year Ended December 31</b>	
		<b>2020</b>	<b>2019</b>
Trade receivables	Associates	\$ -	\$ 29
	Siam Kinik Co., Ltd.	<u>81,313</u>	<u>95,726</u>
		<u>\$ 81,313</u>	<u>\$ 95,755</u>
Other receivables	Ymamura Knik Optical Co., Ltd.	<u>\$ 5,426</u>	<u>\$ 1,239</u>

The outstanding trade receivables from related parties are unsecured. For the years ended December 31, 2020 and 2019, no impairment loss was recognized for trade receivables from related parties.

e. Payables to related parties (not including loans from related parties)

<b>Account</b>	<b>Related Party</b>	<b>For the Year Ended December 31</b>	
		<b>2020</b>	<b>2019</b>
Trade payables	Related party in substance Associates	\$ 89	\$ 109
		<u>-</u>	<u>1,032</u>
		<u>\$ 89</u>	<u>\$ 1,141</u>

The outstanding trade payables to related parties are unsecured.

f. Lease arrangement

<b>Account</b>	<b>Related Party</b>	<b>For the Year Ended December 31</b>	
		<b>2020</b>	<b>2019</b>
Lease liabilities	Related party in substance	<u>\$ 2,836</u>	<u>\$ 3,527</u>
Interest expense	Related party in substance	<u>\$ 30</u>	<u>\$ 33</u>

g. Disposals of intangible asset

<b>Related Party</b>	<b>Proceeds</b>		<b>Gains</b>	
	<b>For the Year Ended December 31</b>		<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Ymamura Knik Optical Co., Ltd.	<u>\$ -</u>	<u>\$ 18,513</u>	<u>\$ -</u>	<u>\$ 12,959</u>

h. Deposits received

<b>Related Party</b>	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Associates	<u>\$ 750</u>	<u>\$ 750</u>

i. Remuneration of key management personnel

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Short-term employee benefits	\$ 34,288	\$ 40,512
Post-employment benefits	932	892
Share-based payments	<u>7,470</u>	<u>5,789</u>
	<u>\$ 42,690</u>	<u>\$ 47,193</u>

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

## 26. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowings:

	December 31	
	2020	2019
Pledged deposits (classified as other current assets)	\$ <u>4,090</u>	\$ <u>4,322</u>

## 27. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Group as of December 31, 2020 and 2019 were as follows:

### a. Significant commitments

As of December 31, 2020 and 2019, commitments for purchases of machinery and equipment were as follows (amounts are in thousands of New Taiwan dollars):

	December 31	
	2020	2019
Total contract price		
USD	\$ 1,786	\$ 9,533
JPY	76,500	1,680,450
NTD	243,785	1,687,608
EUR	340	322
Unpaid amounts of the purchase		
USD	577	6,971
JPY	21,060	231,775
NTD	53,056	269,408
EUR	34	32

b. The Group's unused letters of credit were \$17,126 thousand and \$11,176 thousand as of December 31, 2020 and 2019, respectively.

### c. Contingent Matters

1) In relation to the technical cooperation project between the Company and Mr. Sung, Chien-Min (hereinafter the "Project"), an attorney has been hired since 2013 to file a lawsuit with the court as follows:

a) The Company learned in 2012 that Sung, Chien-Min had been involved in conduct in breach of his job duties and the contract. It hired legal advisors from Baker McKenzie to undertake corresponding legal measures and necessary legal proceedings to pursue Sung, Chien-Min's legal liabilities, and protect the Company's interest and all shareholders. The lawsuits filed include the following:

i. Criminal complaint with the Shilin District Prosecutors Office, in relation to which the Shilin District Prosecutors Office decided not to prosecute. The Company petitioned for re-examination, which was rejected by the Taiwan High Prosecutors Office. The Company petitioned for forwarding to trial, which was rejected by the Shilin District Court Criminal Tribunal (Shilin District Court 2018 Sheng-Pang-Zi No. 38).

- ii. A petition with the Intellectual Property Court for evidence protection was approved and enforced (2013 Min-Sheng-Zi No. 11).
- iii. Petitions for 2 provisional dispositions were filed with the Intellectual Property Court, banning Sung, Chien-Min from disposal or change of 14 patents of the Project and 5 patents outside the Project. Both petitions were approved and enforced (Shilin District Court 2013 Si-Zhi-Zhi-Quan-Zi No. 3, same court 2013 Si-Zhi-Zhi-Quan-Zi No. 2).
- iv. A civil lawsuit filed with Intellectual Property Court:

2019 Ming-Zhuang-Shang-Geng-(I)-Zi No. 8 (previously 2013 Ming-Zhuang-Su-Zi No. 104, 2016 Min-Zhuan-Shang-Zi No. 38): The Intellectual Property Court issued a second-instance judgment on 15 March 2018. Based on the results of the judgments of the case in the first and second instances, it was confirmed that the Company is entitled to the right of implementation and ownership over the 14 patents of the Project. Sung, Chien-Min shall return the registrations of these 14 patents of the Project back to the Company. The Company's claim against Sung, Chien-Min for compensation of NT\$112,085,722 and the petition for provisional execution were rejected by the court. Both parties appealed to the Supreme Court. On 8 August 2019, the Supreme Court ruled by 2018 Tai-Shang-Zi No. 1456 that the Intellectual Property Court shall retry the Company's claim for compensation of NT\$101,401,756, Sung, Chien-Min's US patents no. 6,286,498 and 6,679,243 and ROC patent 87104257. The Company's claim of NT\$10,683,966 was rejected and final.

2020 Ming-Zhuang-Shang-Gent-(I)-Zi No. 5 (previously 2013 Ming-Zhuang-Su-Zi No. 112, 2017 Min-Zhuan-Shang-Zi No. 9): On 15 March 2018, the Intellectual Property Court issued a second-instance judgment. On 27 April 2018, a supplemental judgment was issued. Based on the results of the judgments on the case in the first and second instances, Sung, Chien-Min shall return the registration of 4 patents not under the Project back to the Company and shall not dispose of or change such patents. The Company's claim against Sung, Chien-Min for compensation of NT\$10,683,966 and the petition for provisional enforcement were rejected by the court. On 24 June 2020, the Supreme Court issued judgments 2020 Tai-Shang-Zi No. 8 and 9, returning the part about patents back to the Intellectual Property Court for retrial. The Company's claim for NT\$10,683,966 was rejected and final.

2017 Min-Zhuan-Shang-Zi No. 46 (previously 2014 Ming-Zhuang-Su-Zi No. 95): The Company filed a civil lawsuit with the Intellectual Property Court in relation to the other 54 patents arising out of the Project, seeking confirmation that the Company has the patent implementation right and that Sung, Chien-Min should return the relevant patent registrations to the Company. On 14 November 2017, the Intellectual Property Court issued a first-instance judgment confirming that the Company has the right of implementation for 44 patents. Sung, Chien-Min shall return 33 patent registrations to the Company. The Company was also granted provisional enforcement for such 33 patents. The Company filed an appeal for the parts to its disfavor in accordance with the law. One of the patents under application has ceased to be valid due to Sung, Chien-Min's failure to make payment, and thus the right cannot be reinstated. Therefore, the Company no longer claims such patent. On 13 June 2019, the Intellectual Property Court issued a second-instance judgment confirming that the Company has the right of implementation for all 9 patents. However, about the patent registration transfer, the Company's appeal was rejected. The Company has filed an appeal with the Supreme Court for the rejected portion of the appeal.

- b) Considering that the Company's claim amount against Sung, Chien-Min is higher than the royalty and salary payable, the Company has stopped payment and claims setoff. Sung, Chien-Min filed 3 lawsuits with the Taipei District Court and the Intellectual Property Court to pay a royalty (respectively, 2013 Chong-Su-Zi No. 926, 2014 Ming-Zhuang-Su-Zi No. 11 and 2019 Ming-Zhuang-Su-Zi No. 40). The total amount after the additional claim is NT\$98,355,936.
- i. Among the above, for case 2013 Chong-Su-Zi No. 926, the Taipei District Court issued a first-instance judgment on 25 November 2016, ordering the Company to pay a royalty of NT\$29,222,146 to Sung, Chien-Min. The Company filed an appeal in relation to the NT\$29,222,146. The case was forwarded by the Taiwan High Court and is currently under second-instance review by the Intellectual Property Court (2019 Min-Zhuan-Shang-Zi No. 6).
  - ii. For case 2014 Ming-Zhuang-Su-Zi No. 11, the Intellectual Property Court issued a first-instance judgment on 29 November 2018, ordering the Company to pay a royalty of NT\$57,061,342 to Sung, Chien-Min. The Company filed an appeal in relation to the NT\$57,061,342. The case is currently under review by the Intellectual Property Court (2019 Min-Zhuan-Shang-Zi No. 8).
  - iii. The case 2019 Ming-Zhuang-Su-Zi No. 40 was a lawsuit filed by Sung, Chien-Min with the Intellectual Property Court, seeking the provision of DG, SDG and ODD diamond disk product royalty calculation details and sales information in 2014 by the Company in order to calculate the royalty. On 6 December 2019, the Intellectual Property Court issued a first-instance judgment finding that the Company is not obliged to provide the above information about DG and SDG products. However, information about ODD products should be provided. On 29 October 2020, the Intellectual Property Court issued a second-instance judgment 2020 Min-Zhuan-Shang-Zi No. 2, maintaining the first-instance judgment results. Both parties appealed to the Supreme Court.
- c) At the beginning of July 2015, the Company received letters from Mr. Sung, Chien-Min, claiming infringement of US patents no. 8,777,699 (hereinafter "US Patent 699"), US patent no. 6,679,243 (hereinafter "US Patent 243") and no. 6,286,498 (hereinafter "US Patent 498") and correction to complaint (United States District Court District of Delaware case no. 1:14-cv-01027):
- i. US Patent 699 is an invalid patent with no novelty. Even if such patent is valid, according to the contract for the Project, the Company has the patent ownership and the right to implement patent in relation to US Patent 699, US Patent 243 and US Patent 498. There is no infringement of such patents.
  - ii. The Company has engaged legal advisor Baker McKenzie to file an IPR proceeding with the US Patent and Trademark Office, seeking a declaration of the invalidity of US Patent 699. A petition was also filed with the Intellectual Property Court of the Republic of China for provisional enforcement and injunction maintaining a temporary status quo. A civil lawsuit was filed at the same time, seeking that Sung, Chien-Min should allow the Company to implement the US Patent 699 and its relevant patents, confirmation that the Company has the right to implement patents and that Sung, Chien-Min should return the patent registration to the Company (2014 Ming-Zhuang-Su-Zi No. 96) in order to protect the interest of the Company and all shareholders.

The above provisional disposition and temporary stay have been granted (2014 Min-Quan-Zi No. 8, 2014 Min-Zhan-Zi No. 11) and enforced (Shilin District Court 2015 Si-Zhi-Zhi-Quan-Zi No. 1, Shilin District Court 2015 Si-Zhi-Zhi-Quan-Zi No. 2). The Supreme Court has also issued a ruling to maintain such judgments. On 4 November 2015, the Patent Trial and Appeal Board (PTAB) of the United States made a final written decision about US Patent 699, finding that claims 1 to 12 and 17 to 19 of US Patent 699 are invalid due to lack of novelty or progressiveness.

In the civil lawsuit, the Company received a second-instance judgment by the Intellectual Property Court on 9 March 2017 (2016 Min-Zhuan-Shang-Zi No. 17), maintaining the first-instance judgment confirming that the Company has the right to implement the patents. However, the Company's request to return the patent registration was rejected. The Company has filed an appeal about this part with the Supreme Court. Sung, Chien-Min did not file an appeal for the part of the judgment to the Company's favor. Thus, the Company's right to implement US Patent 699 and corresponding patents in Taiwan has been confirmed by court judgments in the Republic of China.

- iii. As for US Patent 243 and US Patent 498, these are the 2 of the patents under the above-cited case 2016 Min-Zhuan-Shang-Zi No. 38. Provisional disposition was granted and enforced (Shilin District Court 2013 Si-Zhi-Zhi-Quan-Zi No. 3) and maintained by the Supreme Court ruling. The Intellectual Property Court has also issued a second-instance judgment confirming that the Company has the right of implementation and 2/3 of ownership until 31 December 2013. Sung, Chien-Min should return the patent registration to the Company.
  - iv. Based on the above facts and progress of lawsuits in Taiwan, The Company has engaged in defense in US courts and has undertaken all legal actions to protect the Company's interest. A petition for the stay of the above US proceedings has been filed with the US courts until the courts in Taiwan issue judgments about the attribution of relevant patents. The petition was approved on 19 January 2016 US time.
- d) On 11 March 2020, the Company received from Mr. Sung, Chien-Min a complaint of patent infringement lawsuit about US Patent no. 9,724,802 (hereinafter "US Patent 802") (Delaware Federal District Court case no. 1:20-cv-00247):
- i. Mr. Sung, Chien-Min filed the lawsuit with the US Delaware Federal District Court claiming infringement of US Patent 802 by the Company's diamond disk products. However, the technology of US Patent 802 was generated from the Project. According to the contract for the Project and applicable laws, the Company is entitled to the right to implement US Patent 802, ownership thereto and the right to seek transfer of registration. Therefore, Sung, Chien-Min's accusation about patent infringement by the Company is a false accusation.
  - ii. The Company has engaged legal advisor Baker McKenzie to file a civil lawsuit 2020 Ming-Zhuang-Su-Zi No. 80 with the Intellectual Property Court of the Republic of China, seeking confirmation that the Company has the right to implement the patent and that Sung, Chien-Min should return the patent registration to the Company in order to protect the interest of the Company and all shareholders.
- 2) The Company has fully provided for the royalty due and relevant service fee (accounted for as accounts payable) and provided a pledged term deposit certificate of NT\$236,000,000 (accounted for as security deposit) to petition the court for provisional disposition and stay of proceeding. However, the Company does not expect to incur additional significant losses due to this lawsuit.

## 28. SIGNIFICANT EVENT AFTER THE REPORTING PERIOD

In January 2021, the Company participated in the rights offering of Yamamura Kinik Optical Co., Ltd. for 30,000 shares, total amount of \$300,000 thousand according to the percentage of the Company's holdings.

## 29. OTHER ITEMS

Due to the impact of the COVID-19 pandemic since January 2020, the production and sale of conventional grinding wheel has been affected. Although the domestic epidemic situation has slowed and the government's policies have been loosened, many countries are still under lockdown measures, the global economic situation continues to tighten, consumption patterns have changed. The Group adopted response actions, including keeping in close touch with clients and suppliers. In addition, the Group would focus on managing employees' healthcare to reduce the impact to the Group's operation. However, the extent of the possible effect depends on the subsequent development of COVID-19 pandemic.

## 30. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the Group 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, 2020

	<b>Foreign Currency</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 23,277	28.48	\$ 662,917
JPY	262,407	0.2763	72,503
CNY	9,077	4.377	39,732
<u>Financial liabilities</u>			
Monetary items			
USD	2,355	28.48	67,057
JPY	22,277	0.2763	6,155

December 31, 2019

	<b>Foreign Currency</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 21,445	29.98	\$ 642,927
JPY	244,851	0.276	67,579
CNY	6,652	4.305	28,635
<u>Financial liabilities</u>			
Monetary items			
USD	1,907	29.98	57,184
JPY	10,468	0.276	2,889

The following information is presented by the functional currency of the Group which holds foreign currencies. The exchange rate is between the functional currency and presentation currency. The significant realized and unrealized foreign exchange gains (losses) were as follows:

Functional Currency	For the Year Ended December 31			
	2020		2019	
	Exchange Rate	Net Foreign Exchange Gains (Losses)	Exchange Rate	Net Foreign Exchange Gains (Losses)
NTD	1 (NTD:NTD)	<u>\$ (20,724)</u>	1 (NTD:NTD)	<u>\$ (8,287)</u>
THB	0.9698 (THB:NTD)	<u>\$ 6,259</u>	1.0008 (THB:NTD)	<u>\$ (6,236)</u>

### 31. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

- 1) Financing provided to others (None)
- 2) Endorsements/guarantees provided (None)
- 3) Marketable securities held (excluding investments in subsidiaries, associates and joint ventures) (None)
- 4) Marketable securities acquired or disposed of at costs or prices of 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 5)
- 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 3)
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital (None)
- 9) Trading in derivative instruments (None)
- 10) Intercompany relationships and significant intercompany transactions (Table 2)

b. Information on reinvestments: Table 1

c. Information on investments in mainland China: None

d. Information on controlling shareholder: List all shareholders with ownership of 5% or greater showing the name of the shareholder, the number of shares owned, and percentage of ownership of each shareholder: Table 4

### 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. Specifically, the Group's reportable segments under IFRS 8 "Operating Segments" were as follows:

Traditional products department  
Electronics department

#### a. Segment revenues and results

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

	Segment Revenue		Segment Profit	
	For the Year Ended December 31		For the Year Ended December 31	
	2020	2019	2020	2019
Traditional products department	\$ 2,897,130	\$ 2,765,325	\$ 469,921	\$ 265,778
Electronics department	2,259,420	2,102,678	237,052	407,409
Profit before tax (continuing operations)	\$ 5,156,550	\$ 4,868,003	706,973	673,187
Interest income			1,058	1,914
Other income			29,802	47,237
Other gains and losses			(16,863)	(1,783)
Finance costs			(17,325)	(7,050)
Share of profit or loss of associates and joint ventures			(20,097)	(27,282)
Profit before tax (continuing operations)			\$ 683,548	\$ 686,223

The above revenue was derived from the transactions with external customers. There was no transaction between segments in current year and prior year.

Segment profit represented the profit before tax earned by each segment without allocation of share of profit or loss of associates and joint ventures, other income, other gains and losses, and finance costs. This was the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

#### b. Revenue from major products

The following is an analysis of the Group's revenue from continuing operations from its major products.

	For the Year Ended December 31	
	2020	2019
Foundry	\$ 2,259,420	\$ 2,101,377
Grinding wheel	1,427,146	1,527,671
CMP disk	1,339,344	1,089,056
Others	130,640	149,899
	\$ 5,156,550	\$ 4,868,003

#### c. Geographical information

The Group operates in two principal geographical areas - Taiwan and Thailand.

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

	<b>Revenue from</b>		<b>Non-current Assets</b>	
	<b>External Customers</b>		<b>December 31</b>	
	<b>For the Year Ended December 31</b>			
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Taiwan	\$ 2,960,649	\$ 2,736,228	\$ 5,782,868	\$ 4,394,135
China	529,175	447,495	-	-
Singapore	391,468	446,618	-	-
USA	318,765	413,662	-	-
Others	<u>956,943</u>	<u>824,000</u>	<u>114,828</u>	<u>142,027</u>
	<u>\$ 5,156,550</u>	<u>\$ 4,868,003</u>	<u>\$ 5,897,696</u>	<u>\$ 4,536,162</u>

Non-current assets exclude non-current assets classified as financial instruments, deferred tax assets and postemployment benefits.

d. Information about major customers

Revenue of \$1,178,770 thousand and \$891,687 thousand in 2020 and 2019, respectively, represents direct sales of electronic equipment to customers who contributed 10% or more to the Group's revenue.

**KINIK COMPANY AND SUBSIDIARIES**

**INFORMATION ON INVESTEEES  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(In Thousands of New Taiwan Dollars)**

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2020			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				December 31, 2020	December 31, 2019	Shares (In Thousands)	%	Carrying Amount			
Kinik Company	Hongia Industry Co., Ltd.	Taiwan	Fabricated metal products manufacturing	\$ 96,525	\$ 96,525	2,925	100.0	\$ 81,183	\$ 7,596	\$ 6,948	Subsidiary
	Kinik-Thai Co., Ltd.	Thailand	Fabricated metal products manufacturing	262,488	262,488	482	47.2	277,070	54,163	22,964	Subsidiary
	Yamamura Kinik Optical Co., Ltd.	Taiwan	Glass and glass products	90,000	9,000	9,000	30.0	12,410	(66,326)	(19,898)	Associate
	Winsheng Material Technology	Taiwan	Electronic parts and components manufacturing	55,000	-	2,750	19.8	54,828	(869)	(172)	Associate
	Nano-Tem International Taiwan Co.	Taiwan	Ceramics	27,00	2,700	270	45.0	2,219	(59)	(27)	Associate

## KINIK COMPANY AND SUBSIDIARIES

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(In Thousands of New Taiwan Dollars)**

No. (Note 1)	Company Name	Counterparty	Relationship (Note 2)	Transaction Details			% to Total Sales or Assets
				Financial Statement Account	Amount	Payment Terms	
0	Kinik Company	Hongia Co., Ltd.	a	Sales revenue	\$ 13,506	No significant difference	-
		Hongia Co., Ltd.	a	Trade receivables and other receivables	3,719	No significant difference	-
		Hongia Co., Ltd.	a	Cost of goods sold	18,591	No significant difference	-
		Hongia Co., Ltd.	a	Trade payables and other payables	4,789	No significant difference	-
		Hongia Co., Ltd.	a	Other income	1,317	-	-
		Kinik-Thai Co., Ltd.	a	Sales revenue	3,303	No significant difference	-
		Kinik-Thai Co., Ltd.	a	Cost of goods sold	62,468	No significant difference	1
		Kinik-Thai Co., Ltd.	a	Trade payables	287	No significant difference	-

Note 1: The parent company and its subsidiaries are coded as follows:

- The parent company is coded "0".
- The subsidiaries are coded consecutively beginning from "1" in the order presented in the table above.

Note 2: Nature of relationship is as follows:

- From the parent company to its subsidiary.
- From a subsidiary to its parent company.
- Between subsidiaries.

Note 3: The aforementioned intercompany transactions have been eliminated upon consolidation.

**KINIK COMPANY AND SUBSIDIARIES**

**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2020**  
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Buyer	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note
			Purchase/Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
Kinik-Thai Co., Ltd.	Siam Kinik Co., Ltd.	Related party in substance	Sale	\$ 207,132	43	Net 120 days from the end of the month of when invoice is issued	Cost-plus pricing	No significant difference	\$ 80,689	60	

**KINIK COMPANY AND SUBSIDIARIES****INFORMATION OF MAJOR SHAREHOLDERS  
DECEMBER 31, 2020**

Name of Major Shareholder	Shares	
	Number of Shares	Percentage of Ownership (%)
Jin Min Investment Co., Ltd.	9,892,423	7

Note: The information of major shareholders presented in this table is provided by the Taiwan Depository & Clearing Corporation based on the number of ordinary shares and preferred shares held by shareholders with ownership of 5% or greater, that have been issued without physical registration (including treasury shares) by the Company as of the last business day for the current quarter. The share capital in the consolidated financial statements may differ from the actual number of shares that have been issued without physical registration because of different preparation basis.

**KINIK COMPANY AND SUBSIDIARIES**

**ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

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			
Klinik Company	Factory in Hsinchu Science Park	2020.06.30	\$ 757,154	Pay off	Engtown Construction Corporation	Non-related-parties	-	-	-	\$ -	Determined by negotiation between both parties	Operational production requirements	-
	Land and factory in Xihu St., Yingge Dist.	2020.10.15	584,978	Pay off	Chung Tai Pottery & Porcelain Co., Ltd. And Rue T'ai Pottery & Porcelain Co., Ltd.	Non-related-parties	-	-	-	-	Professional appraisal agency and market factors	Respond to the Company's future long-term operation and development demand	-

V. Most Recent Standalone Financial Statements Audited by CPAs

**Kinik Company**

**Parent Company Only Financial Statements for the  
Years Ended December 31, 2020 and 2019 and  
Independent Auditors' Report**

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders  
Kinik Company

### Opinion

We have audited the accompanying financial statements of Kinik Company (the "Company"), which comprise the balance sheets as of December 31, 2020 and 2019, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

### Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and 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 Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, 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 financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter of the Company's financial statements for the year ended December 31, 2020 is stated as follows:

#### Income Occurrence

Refer to Note 4 (1) to the accompanying financial statements for disclosures regarding the accounting policies and detailed information on income.

The Company's revenue mainly comes from the production and sale of grinding wheels, semiconductor diamond discs and recycled wafer products. The Company has customers in both the domestic and foreign markets. Sales revenue is one of the criteria for the evaluation of the operating performance of the Company, and the main significant risk of the Company is the occurrence of sales revenue. Therefore, we identified occurrence of revenue as a key audit matter.

In response to this key audit matter, we performed the following audit procedures:

1. We understood and evaluated the appropriateness of the accounting policies on revenue recognition.
2. We understood and evaluated the effectiveness of the internal control on revenue recognition and the occurrence of sales.
3. We sample-tested sales transactions of the current year and checked the relevant internal and external vouchers to support the facts of the shipment; we checked shipping and delivery receipts and payments received for any major abnormalities; we checked the general ledger of sales revenue for any significant debit amount; and we checked the sales returns and allowances ledger for any significant sales return and discounts to confirm that sales revenue transactions did occur.

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

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

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

Those charged with governance, including supervisors, are responsible for overseeing the Company's financial reporting process.

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the 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 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 financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 Company to express an opinion on the financial statements. We are responsible for the direction, supervision, and performance of the 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 financial statements for the year ended December 31, 2020 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 audits resulting in this independent auditors' report are Cheng-Tsai Tsai and Yung-Hsiang Chao.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

February 24, 2021

Notice to Readers

*The accompanying financial statements are intended only to present the 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 financial statements are those generally applied in the Republic of China.*

*For the convenience of readers, the independent auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. 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 financial statements shall prevail.*

# KINIK COMPANY

## BALANCE SHEETS

DECEMBER 31, 2020 AND 2019

(In Thousands of New Taiwan Dollars)

ASSETS	2020		2019	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash (Note 6)	\$ 408,794	4	\$ 441,956	6
Notes receivable (Note 7)	56,827	1	57,579	1
Trade receivables (Notes 7 and 24)	731,540	8	627,718	8
Other receivables (Note 24)	17,854	-	20,688	-
Inventories (Note 8)	1,242,405	14	1,188,074	16
Prepayments	66,695	1	74,129	1
Other current assets	6,917	-	6,026	-
Total current assets	<u>2,531,032</u>	<u>28</u>	<u>2,416,170</u>	<u>32</u>
<b>NON-CURRENT ASSETS</b>				
Investments accounted for using the equity method (Note 9)	427,710	5	385,942	5
Property, plant and equipment (Notes 10 and 24)	5,117,144	57	3,356,170	45
Right-of-use assets (Note 11)	48,302	-	55,488	1
Investment property (Note 12)	379,976	4	100,693	1
Deferred tax assets (Note 19)	49,790	1	59,244	1
Prepayment for equipment	150,915	2	803,247	11
Guarantee deposit received (Note 25)	247,730	3	257,795	4
Other non-current assets	25,889	-	16,481	-
Total non-current assets	<u>6,447,456</u>	<u>72</u>	<u>5,035,060</u>	<u>68</u>
<b>TOTAL</b>	<u>\$ 8,978,488</u>	<u>100</u>	<u>\$ 7,451,230</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Note 13)	\$ 350,000	4	\$ 670,000	9
Short-term bills payable (Note 13)	50,000	1	150,000	2
Trade payables (Note 24)	171,578	2	159,850	2
Other payables (Notes 14 and 24)	551,966	6	544,651	7
Current tax liabilities	87,130	1	62,208	1
Lease liabilities - current (Notes 11 and 24)	8,491	-	8,553	-
Other current liabilities	21,078	-	17,665	-
Total current liabilities	<u>1,240,243</u>	<u>14</u>	<u>1,612,927</u>	<u>21</u>
<b>NON-CURRENT LIABILITIES</b>				
Long-term borrowings (Note 13)	2,300,000	26	1,080,000	14
Long-term bills payable (Note 13)	800,000	9	200,000	3
Deferred tax liabilities (Note 19)	42,086	1	37,791	1
Net defined benefit liabilities - non-current (Note 15)	80,572	1	130,318	2
Guarantee deposit paid	20,477	-	27,900	-
Lease liabilities - non-current (Notes 11 and 24)	40,219	-	47,127	1
Other non-current liabilities (Note 16)	30,764	-	26,551	-
Total non-current liabilities	<u>3,314,118</u>	<u>37</u>	<u>1,549,687</u>	<u>21</u>
Total liabilities	<u>4,554,361</u>	<u>51</u>	<u>3,162,614</u>	<u>42</u>
<b>EQUITY (Note 17)</b>				
Share capital				
Ordinary shares	1,410,775	16	1,410,000	19
Capital surplus				
Issuance of ordinary shares	27,570	-	233,870	3
Acquisition or disposal of subsidiary's shares	663	-	663	-
Business combinations	1,007,999	11	1,007,999	14
Employee share options (Note 21)	41,918	1	22,512	-
Retained earnings				
Legal reserve	821,475	9	767,807	10
Unappropriated earnings	1,100,343	12	816,554	11
Other equity interests				
Exchange differences on translation of the financial statements of foreign operations	13,384	-	29,211	1
Total equity	<u>4,424,127</u>	<u>49</u>	<u>4,288,616</u>	<u>58</u>
<b>TOTAL</b>	<u>\$ 8,978,488</u>	<u>100</u>	<u>\$ 7,451,230</u>	<u>100</u>

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

# KINIK COMPANY

## STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2020		2019	
	Amount	%	Amount	%
OPERATING REVENUE (Note 24)	\$ 4,634,702	100	\$ 4,279,593	100
OPERATING COSTS (Notes 8, 18 and 24)	<u>(3,233,498)</u>	<u>(70)</u>	<u>(2,958,805)</u>	<u>(69)</u>
GROSS PROFIT	1,401,204	30	1,320,788	31
REALIZED GAIN ON THE TRANSACTIONS	851	-	605	-
UNREALIZED GAIN ON THE TRANSACTIONS	<u>(1,207)</u>	<u>-</u>	<u>(851)</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>1,400,848</u>	<u>30</u>	<u>1,320,542</u>	<u>31</u>
OPERATING EXPENSES (Notes 18 and 24)				
Selling and marketing expenses	(414,553)	(9)	(345,963)	(8)
General and administrative expenses	(216,533)	(4)	(214,802)	(5)
Research and development expenses	(125,888)	(3)	(116,180)	(3)
Expected credit loss (gain)	<u>(4,346)</u>	<u>-</u>	<u>10,278</u>	<u>-</u>
Total operating expenses	<u>(761,320)</u>	<u>(16)</u>	<u>(666,667)</u>	<u>(16)</u>
PROFIT FROM OPERATIONS	<u>639,528</u>	<u>14</u>	<u>653,875</u>	<u>15</u>
NON-OPERATING INCOME AND EXPENSES (Notes 18 and 24)				
Interest income	338	-	438	-
Other income	29,908	1	45,347	1
Other gains and losses	(20,717)	(1)	4,159	-
Finance costs	(17,191)	-	(6,826)	-
Share of profit (loss) of subsidiaries and associates	<u>9,815</u>	<u>-</u>	<u>(19,604)</u>	<u>-</u>
Total non-operating income and expenses	<u>2,153</u>	<u>-</u>	<u>23,514</u>	<u>1</u>
PROFIT BEFORE INCOME TAX	641,681	14	677,389	16
INCOME TAX EXPENSE (Note 19)	<u>(129,343)</u>	<u>(3)</u>	<u>(140,712)</u>	<u>(4)</u>
NET PROFIT FOR THE YEAR	<u>512,338</u>	<u>11</u>	<u>536,677</u>	<u>12</u>

(Continued)

# KINIK COMPANY

## STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2020		2019	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 15)	\$ 7,583	-	\$ (24,854)	-
Share of the other comprehensive income loss of associates accounted for using the equity method	2,353	-	(3,057)	-
Income tax relating to items that will not be reclassified subsequently to loss or profit (Note 19)	(1,517)	-	4,971	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of the financial statements of foreign operations	<u>(15,827)</u>	<u>-</u>	<u>16,091</u>	<u>-</u>
Other comprehensive income (loss) for the year, net of income tax	<u>(7,408)</u>	<u>-</u>	<u>(6,849)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 504,930</u>	<u>11</u>	<u>\$ 529,828</u>	<u>12</u>
EARNINGS PER SHARE (Note 20)				
From continuing operations				
Basic	<u>\$ 3.63</u>		<u>\$ 3.81</u>	
Diluted	<u>\$ 3.60</u>		<u>\$ 3.77</u>	

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

(Concluded)

# KINIK COMPANY

## STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

	Capital Surplus					Retained Earnings		Other Equity Interests Exchange Differences on Translation of the Financial Statements of Foreign Operations	Total Equity
	Share Capital Ordinary Shares	Issuance of Ordinary Shares	Business Combinations	Employee Share Options	Acquisition or Disposal of Subsidiary's Shares	Legal Reserve	Unappropriated Earnings		
BALANCE AT JANUARY 1, 2019	\$ 1,410,000	\$ 233,870	\$ 1,007,999	\$ 7,504	\$ 663	\$ 698,418	\$ 865,706	\$ 13,120	\$ 4,237,280
Appropriation of the 2018 earnings									
Legal reserve	-	-	-	-	-	69,389	(69,389)	-	-
Cash dividends distributed by the Company	-	-	-	-	-	-	(493,500)	-	(493,500)
Share-based payment	-	-	-	15,008	-	-	-	-	15,008
Net profit for the year ended December 31, 2019	-	-	-	-	-	-	536,677	-	536,677
Other comprehensive income (loss) for the year ended December 31, 2019, net of income tax	-	-	-	-	-	-	(22,940)	16,091	(6,849)
BALANCE AT DECEMBER 31, 2019	1,410,000	233,870	1,007,999	22,512	663	767,807	816,554	29,211	4,288,616
Appropriation of the 2019 earnings									
Legal reserve	-	-	-	-	-	53,668	(53,668)	-	-
Cash dividends distributed by the Company	-	-	-	-	-	-	(183,300)	-	(183,300)
Issuance of share dividends from capital surplus	-	(211,500)	-	-	-	-	-	-	(211,500)
Share-based payment	775	5,200	-	19,406	-	-	-	-	25,381
Net profit for the year ended December 31, 2020	-	-	-	-	-	-	512,338	-	512,338
Other comprehensive income (loss) for the year ended December 31, 2020, net of income tax	-	-	-	-	-	-	8,419	(15,827)	(7,408)
BALANCE AT DECEMBER 31, 2020	\$ 1,410,775	\$ 27,570	\$ 1,007,999	\$ 41,918	\$ 663	\$ 821,475	\$ 1,100,343	\$ 13,384	\$ 4,424,127

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

# KINIK COMPANY

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 641,681	\$ 677,389
Adjustments for:		
Depreciation expense	478,435	395,884
Amortization expense	3,604	-
Expected credit loss (gain)	4,346	(10,278)
Finance costs	17,191	6,826
Interest income	(338)	(438)
Compensation costs of employee share options	20,248	14,768
Share of profit of subsidiaries and associate	(9,815)	19,604
Gain on disposal of property, plant and equipment	(100)	(690)
Loss on inventory write-down	29,105	31,998
Gain on disposal of intangible assets	-	(12,959)
Unrealized loss (gain) on the transactions	1,207	851
Realized gain (loss) on the transactions	(851)	(605)
Net (gain) loss on foreign currency exchange	(2,841)	3,924
Other income	(5,340)	-
Changes in operating assets and liabilities		
Notes receivable	(1,248)	26,651
Trade receivables	(102,748)	119,860
Other receivables	2,834	92,009
Inventories	(83,436)	(135,276)
Prepayments	7,434	11,218
Other current assets	(891)	3,847
Trade payables	11,504	(5,690)
Other payables	13,519	(101,139)
Other current liabilities	3,413	236
Net defined benefit liabilities	(42,163)	(70,825)
Other non-current liabilities	4,213	8,374
Cash generated from operations	988,963	1,075,539
Interest received	338	438
Dividend received	14,908	32,744
Interest paid	(16,867)	(5,034)
Income tax paid	(92,189)	(167,038)
Net cash generated from operating activities	<u>895,153</u>	<u>936,649</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of investments accounted for using the equity method	(55,000)	(81,000)
Payments for property, plant and equipment	(1,583,888)	(1,543,989)
Proceeds from disposal of property, plant and equipment	100	18,778
Increase in guarantee deposit paid	-	(6,857)
Decrease in guarantee deposit paid	10,065	-
		(Continued)

# KINIK COMPANY

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

	2020	2019
Proceeds from disposal of intangible assets	\$ -	\$ 18,513
Payments for investment properties	(280,616)	-
Increase in other non-current assets	<u>(13,012)</u>	<u>(16,481)</u>
Net cash used in investing activities	<u>(1,922,351)</u>	<u>(1,611,036)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in short-term borrowings	-	150,000
Decrease in short-term borrowings	(320,000)	-
Increase in short-term bills payables	-	80,000
Decrease in short-term bills payables	(100,000)	-
Proceeds from long-term borrowings	1,220,000	980,000
Increase in long-term bills payables	600,000	200,000
Decrease in guarantee deposit received	(7,423)	(3,000)
Repayment of the principal portion of lease liabilities	(8,523)	(8,546)
Cash dividends paid	(394,800)	(493,500)
Proceeds from share options exercised	<u>4,782</u>	<u>-</u>
Net cash generated from financing activities	<u>994,036</u>	<u>904,954</u>
NET (DECREASE) INCREASE IN CASH	(33,162)	230,567
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>441,956</u>	<u>211,389</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 408,794</u>	<u>\$ 441,956</u>

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

(Concluded)

# KINIK COMPANY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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### 1. GENERAL INFORMATION

Kinik Company (the “Company”), founded by Mr. Bai Yong Chuan in 1953, started as Jin Ming Kiln Factory with Emery Product Department for production of vitrified bonded wheel and grinding stone and became the first grinding wheel plant in Taiwan. The Company restructured and increased capital in 1957 and 1964 and further increased capital in 1999, 2002 and 2005 and acquired Jin Ming Grinding Corp., House Technology Corp, and KINIK Precision Grinding Corp. The Company mainly manufactures conventional grinding wheel, diamond grinding wheel, CMP diamond disk and dicing blade; it also engages in buy and sell of wafers and import and export transactions.

The Company’s shares have been listed on the Taiwan Stock Exchange (TWSE) since January 1, 2005.

The financial statements are presented in the Company’s functional currency, the New Taiwan dollar.

### 2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Company’s board of directors on February 24, 2021.

### 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)

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 Company’s accounting policies.

- b. The IFRSs endorsed by the FSC for application starting from 2021

New IFRSs	Effective Date Announced by IASB
Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”	Effective immediately upon promulgation by the IASB
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform - Phase 2”	January 1, 2021
Amendment to IFRS 16 “Covid-19 - Related Rent Concessions”	June 1, 2020

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

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

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note 1)</b>
“Annual Improvements to IFRS Standards 2018-2020”	January 1, 2022 (Note 2)
Amendments to IFRS 3 “Reference to the Conceptual Framework”	January 1, 2022 (Note 3)
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, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2023
Amendments to IAS 1 “Disclosure of Accounting Policies”	January 1, 2023 (Note 6)
Amendments to IAS 8 “Definition of Accounting Estimates”	January 1, 2023 (Note 7)
Amendments to IAS 16 “Property, Plant and Equipment - Proceeds before Intended Use”	January 1, 2022 (Note 4)
Amendments to IAS 37 “Onerous Contracts - Cost of Fulfilling a Contract”	January 1, 2022 (Note 5)

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual reporting periods beginning on or after their respective effective dates.

Note 2: The amendments to IFRS 9 will be applied prospectively to modifications and exchanges of financial liabilities that occur on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IAS 41 “Agriculture” will be applied prospectively to the fair value measurements on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IFRS 1 “First-time Adoptions of IFRSs” will be applied retrospectively for annual reporting periods beginning on or after January 1, 2022.

Note 3: The amendments are applicable to business combinations for which the acquisition date is on or after the beginning of the annual reporting period beginning on or after January 1, 2022.

Note 4: The amendments are applicable to property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after January 1, 2021.

Note 5: The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.

Note 6: The amendments will be applied prospectively for annual reporting periods beginning on or after January 1, 2023.

Note 7: The amendments are applicable to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the annual reporting period beginning on or after January 1, 2023.

As of the date the financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of other standards and interpretations will have on the Company’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 financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

##### b. Basis of preparation

The 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 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 the 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 the asset or liability.

When preparing the parent company only financial statements, the Company used the equity method to account for investments in subsidiaries, associates and joint ventures. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same with the amounts attributable to the owners of the Company in its consolidated financial statements, adjustments arising from the differences in accounting treatment between parent company only basis and consolidated basis were made to investments accounted for by the equity method and share of profit or loss of subsidiaries, associates and joint ventures, as appropriate, in the parent company only financial statements.

##### 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 12 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 Company 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. Foreign currencies

In preparing the Company's financial statements, transactions in currencies other than the Company'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 measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary item denominated in a foreign currency and measured at historical cost is stated at the reporting currency as originally translated from the foreign currency.

For the purpose of presenting the parent company only financial statements, the financial statements of the Company's foreign operations (including subsidiaries) that are stated in foreign currency are translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

Goodwill and fair value adjustments recognized on identifiable assets and liabilities of acquired foreign operation are treated as assets and liabilities of the foreign operation and translated at the rates of exchange prevailing at the end of each reporting period. Exchange differences are recognized in other comprehensive income.

e. Inventories

Inventories consist of raw materials, supplies, finished goods, work-in-process, goods to subcontractor 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. 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.

f. Investments in subsidiaries

The Company uses the equity method to account for its investments in subsidiaries.

A subsidiary is an entity that is controlled by the Company.

Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary. The Company also recognizes the changes in the Company's share of equity of subsidiaries.

Changes in the Company's ownership interest in a subsidiary that do not result in the Company losing control of the subsidiary are accounted for as equity transactions. The Company recognizes directly in equity any difference between the carrying amount of the investment and the fair value of the consideration paid or received.

When the Company's share of losses of a subsidiary equals or exceeds its interest in that subsidiary (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 Company's net investment in the subsidiary), the Company continues recognizing its share of further loss, if any.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of a subsidiary that constitutes a business 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 Company's share of the net fair value of the identifiable assets and liabilities of a subsidiary that constitutes a business over the cost of acquisition is recognized immediately in profit or loss.

The Company assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the investee's financial statements as a whole. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Company recognizes reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization or depreciation) had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

When the Company loses control of a subsidiary, it recognizes the investment retained in the former subsidiary at its fair value at the date when control is lost. The difference between the fair value of the retained investment plus any consideration received and the carrying amount of previous investment at the date when control is lost is recognized as a gain or loss in profit or loss. Besides, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required had the subsidiary directly disposed of the related assets or liabilities.

Profit or loss resulting from downstream transactions is eliminated in full only in the parent company only financial statements. Profit and loss resulting from upstream transactions and transactions between subsidiaries is recognized only in the parent company only financial statements and only to the extent of interests in the subsidiaries of entities that are not related to the Company.

g. Investments in associates

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

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

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

Any excess of the cost of acquisition over the Company'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 Company'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 Company subscribes for additional new shares of the associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Company's proportionate interest in the associate. The Company records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in the Company's share of equity of associates. If the Company's ownership interest is reduced due to the 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 if the investee had 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 by the equity method is insufficient, the shortage is debited to retained earnings.

When the Company'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 by the equity method and long-term interests that, in substance, form part of the Company's net investment in the associate), the Company discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Company has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

The entire carrying amount of the 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 deducted from the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

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

#### h. Property, plant and equipment

Property, plant and equipment are initially measured at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment loss.

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 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. 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.

#### i. Investment properties

Investment properties are properties held to earn rental and/or for capital appreciation. Investment properties also include land held for a currently undetermined future use.

Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognized using the straight-line method.

For a transfer of classification from property, plant and equipment to investment properties, the deemed cost of an item of property for subsequent accounting is its carrying amount at the end of owner-occupation.

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

j. 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 and accumulated impairment loss. 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 the estimates accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

2) 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.

k. Impairment of property, plant and equipment, right-of-use asset and intangible assets other than goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its property, plant and equipment, right-of-use asset and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an 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 Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the smallest group of 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 that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

l. Financial instruments

Financial assets and financial liabilities are recognized when the Company 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 trade date basis.

##### a) Measurement categories

Financial assets are classified into the following categories: Financial assets at amortized cost.

##### i. 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 and trade receivables 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.

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.

##### b) Impairment of financial assets and contract assets

The Company recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables), as well as contract assets.

The Company always recognizes lifetime expected credit losses (ECLs) for trade receivables and contract assets. For all other financial instruments, the Company recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an

amount equal to 12-month ECLs.

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

The impairment loss of all financial assets is recognized in profit or loss by a reduction in their carrying amounts through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and the carrying amounts of such financial assets are not reduced.

c) Derecognition of financial assets

The Company 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.

2) Equity instruments

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

3) Financial liabilities

a) Subsequent measurement

All financial liabilities are measured at amortized cost using the effective interest method:

b) Derecognition of financial liabilities

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

m. Provisions

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.

n. Revenue recognition

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

For contracts where the period between the date on which the Company 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 Company does not adjust the promised amount of consideration for the effects of a significant financing component.

1) Revenue from the sale of goods

Revenue from the sale of goods is recognized when the goods are delivered to the customer's specific location, because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility for sales to future customers and bears the risks of obsolescence. However, revenue is recognized when the goods are shipped if the term of the sale transfers the risk of ownership to the customer at the point of shipment. Revenue and trade receivables are recognized concurrently.

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

o. Leases

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

1) The Company 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.

When a lease includes both land and building elements, the Company assesses the classification of each element separately as a finance or an operating lease based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the lessee. The lease payments are allocated to the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the contract. If the allocation of the lease payments can be made reliably, each element is accounted for separately in accordance with its lease classification. When the lease payments cannot be allocated reliably to the land and building elements, the entire lease is generally classified as a finance lease unless it is clear that both elements are operating leases; in which case, the entire lease is classified as an operating lease.

2) The Company as lessee

The Company 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 loss and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the 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, in-substance fixed payments, variable lease payments which depend on an index or a rate, residual value guarantees, the exercise price of a purchase option if the Company is reasonably certain to exercise that option, and payments of penalties for terminating a lease if the lease term reflects such termination, less any lease incentives receivable. 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 Company 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, a change in the amounts expected to be payable under a residual value guarantee, a change in the assessment of an option to purchase an underlying asset, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments, the Company 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 balance sheets.

p. Borrowing costs

Borrowing costs directly attributable to an 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.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other than those stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

q. 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 services entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost) and net interest on the net defined benefit liabilities (assets) 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 (assets) represent the actual deficit (surplus) in the Company's defined benefit plans. 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.

3) Other long-term employee benefits

Other long-term employee benefits are accounted for in the same way as the accounting required for defined benefit plans except that remeasurement is recognized in profit or loss.

r. Employee share options

1) Employee share options

The fair value determined at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Company's best estimate of the number of options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. The expense is recognized in full at the grant date when the share options granted vest immediately.

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

2) Equity-settled share-based payment arrangements granted to the employees of a subsidiary

The grant by the Company of its equity instruments to the employees of a subsidiary under equity-settled share-based payment arrangements is treated as a capital contribution. The fair value of employee services received under the arrangement is measured by reference to the grant-date fair value and is recognized over the vesting period as an addition to the investment in the subsidiary, with a corresponding credit to capital surplus - employee share options.

s. Taxation

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

1) Current tax

Income tax payable (recoverable) is based on taxable profit (loss) for the year determined according to the applicable tax laws of each tax jurisdiction.

According to the Income Tax Law in the ROC, an additional tax on unappropriated earnings is provided for 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 recognized 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, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests 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 asset 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 liability is settled or the asset 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 Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current tax and deferred tax for the year

Current tax and deferred tax 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 tax and deferred tax 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 Company’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 Company considers the economic implications of the COVID-19 when making its critical accounting 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.

**6. CASH**

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Cash on hand	\$ 292	\$ 456
Checking accounts and demand deposits	<u>408,502</u>	<u>441,500</u>
	<u>\$ 408,794</u>	<u>\$ 441,956</u>

The market rate intervals of cash in the bank at the end of the year were as follows:

	<u>December 31</u>	
	2020	2019
Bank balance	0.001%-0.1%	0.001%-0.23%

## 7. NOTES RECEIVABLE AND TRADE RECEIVABLES

	<u>December 31</u>	
	2020	2019
<u>Notes receivable</u>		
At amortized cost		
Gross carrying amount	\$ 59,268	\$ 58,020
Less: Allowance for impairment loss	<u>(2,441)</u>	<u>(441)</u>
	<u>\$ 56,827</u>	<u>\$ 57,579</u>
<u>Trade receivables (including related parties)</u>		
At amortized cost		
Gross carrying amount	\$ 738,897	\$ 634,119
Less: Allowance for impairment loss	<u>(7,357)</u>	<u>(6,401)</u>
	<u>\$ 731,540</u>	<u>\$ 627,718</u>

### a. Trade receivable

In order to minimize credit risk, the management of the Company 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 Company 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 Company's credit risk was significantly reduced.

The Company measures the loss allowance for trade receivables at an amount equal to lifetime ECLs. The expected credit losses on trade receivables are estimated using a provision matrix prepared by reference to the past default experience of the customer, the customer's current financial position, economic condition of the industry in which the customer operates, as well as the GDP forecasts and industry outlook. Overdue trade receivables as of December 31, 2020 and 2019 were provided with allowance of 0.01% to 100% and 0.06% to 100%, respectively.

The Company 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, e.g., when the debtor has been placed under liquidation; however, the Company 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 aging of trade receivables (including related parties) was as follows:

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Not due	\$ 688,475	\$ 612,300
1-60 days	33,776	14,465
61-90 days	9,847	1,845
91-180 days	4,895	2,637
More than 181 days	<u>1,904</u>	<u>2,872</u>
	<u>\$ 738,897</u>	<u>\$ 634,119</u>

The above aging schedule was based on the number of overdue days from the posting date.

The movements of the loss allowance of trade receivables were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Balance at January 1	\$ 6,401	\$ 16,695
Add: Net remeasurement of loss allowance	2,346	-
Less: Amounts written off	(1,390)	(16)
Less: Net remeasurement of loss allowance	<u>-</u>	<u>(10,278)</u>
Balance at December 31	<u>\$ 7,357</u>	<u>\$ 6,401</u>

b. Notes receivable

The aging of notes receivable was as follows:

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Not due	\$ 59,268	\$ 58,020
Due	<u>-</u>	<u>-</u>
	<u>\$ 59,268</u>	<u>\$ 58,020</u>

The above aging schedule was based on the billing date.

The movements of the loss allowance of notes receivable were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Balance at January 1	\$ 441	\$ 441
Add: Net remeasurement of loss allowance	<u>2,000</u>	<u>-</u>
Balance at December 31	<u>\$ 2,441</u>	<u>\$ 441</u>

## 8. INVENTORIES

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Merchandise and finished goods	\$ 540,988	\$ 416,551
Work in progress	183,070	146,769
Raw materials	464,491	589,029
Supplies	<u>53,856</u>	<u>35,725</u>
	<u>\$ 1,242,405</u>	<u>\$ 1,188,074</u>

The nature of the cost of goods sold is as follows:

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Cost of inventories sold	\$ 3,204,393	\$ 2,926,807
Inventory write-downs	19,768	16,059
Loss on inventory retirement	<u>9,337</u>	<u>15,939</u>
	<u>\$ 3,233,498</u>	<u>\$ 2,958,805</u>

## 9. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Investments in subsidiaries	\$ 358,253	\$ 356,728
Investments in associates	<u>69,457</u>	<u>29,214</u>
	<u>\$ 427,710</u>	<u>\$ 385,942</u>

### a. Investments in subsidiaries

	<b>Proportion of Ownership and Voting Rights</b>	
	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Hongia Industry Co., Ltd.	100.0%	100.0%
Kinik-Thai Co., Ltd	47.2%	47.2%

The Company holds 47.2% of the issued share capital of Kinik-Thai Co., Ltd which is the biggest shareholder and holds more than half of the total number of seats in the board of directors. Hence, the Company lists it as a subsidiary company.

b. Investments in associates

1) The list of associates that are not individually material was as follows:

	2020		2019	
	Amount	%	Amount	%
Yamamura Kinik Optical Co., Ltd.	\$ 12,410	30.0	\$ 26,968	30.0
Nano-TEM International Taiwan, Co.	2,219	45.0	2,246	45.0
Winsheng Material Technology Co., Ltd.	<u>54,828</u>	19.8	<u>-</u>	-
	<u>\$ 69,457</u>		<u>\$ 29,214</u>	

Yamamura Kinik Optical Co., Ltd.

The Company participated in Yamamura Kinik Optical Co., Ltd.'s cash capital increase with \$81,000 thousand and the proportion of ownership was 30%.

Winsheng Material Technology Co., Ltd.

The Company participated in Winsheng Material Technology Co., Ltd.'s cash capital increase with \$55,000 thousand and the shareholding proportion was 19.8%. The Company is able to exercise significant influence over Winsheng Material Technology Co., Ltd. since it has joined the board of directors of Winsheng Material Technology Co., Ltd., though the Company only hold 19.8% of shares.

2) Aggregate information of associates that are not individually material

	For the Year Ended December 31	
	2020	2019
The Company's share of:		
Loss from continuing operations	\$ (20,097)	\$ (27,282)
Other comprehensive income	<u>-</u>	<u>-</u>
Total comprehensive loss for the year	<u>\$ (20,097)</u>	<u>\$ (27,282)</u>

## 10. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Machinery Equipment	Transportation Equipment	Other Equipment	Property under Construction	Total
<u>Cost</u>							
Balance at January 1, 2020	\$ 884,915	\$ 1,344,280	\$ 2,064,525	\$ 62,608	\$ 513,806	\$ 862,191	\$ 5,732,325
Additions	329,042	151,676	1,188,854	6,466	496,986	56,313	2,229,337
Disposals	-	-	(800)	(1,017)	(4,426)	-	(6,243)
Reclassification	<u>-</u>	<u>757,158</u>	<u>-</u>	<u>-</u>	<u>161,346</u>	<u>(918,504)</u>	<u>-</u>
Balance at December 31, 2020	<u>\$ 1,213,957</u>	<u>\$ 2,253,114</u>	<u>\$ 3,252,579</u>	<u>\$ 68,057</u>	<u>\$ 1,167,712</u>	<u>\$ -</u>	<u>\$ 7,955,419</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2020	\$ -	\$ 551,546	\$ 1,482,915	\$ 44,638	\$ 297,056	\$ -	\$ 2,376,155
Depreciation expense	-	-	(800)	(1,017)	(4,426)	-	(6,243)
Disposals	<u>-</u>	<u>81,770</u>	<u>290,025</u>	<u>7,638</u>	<u>88,930</u>	<u>-</u>	<u>468,363</u>
Balance at December 31, 2020	<u>\$ -</u>	<u>\$ 633,316</u>	<u>\$ 1,772,140</u>	<u>\$ 51,259</u>	<u>\$ 381,560</u>	<u>\$ -</u>	<u>\$ 2,838,275</u>
Carrying amount at December 31, 2020	<u>\$ 1,213,957</u>	<u>\$ 1,619,798</u>	<u>\$ 1,480,439</u>	<u>\$ 16,798</u>	<u>\$ 786,152</u>	<u>\$ -</u>	<u>\$ 5,117,144</u>

(Continued)

	Freehold Land	Buildings	Machinery Equipment	Transportation Equipment	Other Equipment	Property under Construction	Total
<u>Cost</u>							
Balance at January 1, 2019	\$ 912,186	\$ 1,381,973	\$ 1,985,903	\$ 63,556	\$ 433,160	\$ 93,952	\$ 4,870,730
Additions	-	-	160,755	3,945	80,001	771,763	1,016,464
Disposals	-	-	(84,654)	(4,893)	(358)	-	(89,905)
Reclassification	-	-	2,521	-	1,003	(3,524)	-
Transfer to investment properties	(27,271)	(37,693)	-	-	-	-	(64,964)
Balance at December 31, 2019	<u>\$ 884,915</u>	<u>\$ 1,344,280</u>	<u>\$ 2,064,525</u>	<u>\$ 62,608</u>	<u>\$ 513,806</u>	<u>\$ 862,191</u>	<u>\$ 5,732,325</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2019	\$ -	\$ 510,577	\$ 1,272,610	\$ 41,191	\$ 239,422	\$ -	\$ 2,063,800
Disposals	-	-	(55,864)	(4,893)	(358)	-	(61,115)
Transfer to investment properties	-	(13,076)	-	-	-	-	(13,076)
Depreciation expense	-	54,045	266,169	8,340	57,992	-	386,546
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ 551,546</u>	<u>\$ 1,482,915</u>	<u>\$ 44,638</u>	<u>\$ 297,056</u>	<u>\$ -</u>	<u>\$ 2,376,155</u>
<u>Accumulated impairment</u>							
Balance at January 1, 2019	\$ -	\$ -	\$ 27,691	\$ -	\$ -	\$ -	\$ 27,691
Disposals	-	-	(27,691)	-	-	-	(27,691)
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Carrying amount at December 31, 2019	<u>\$ 884,915</u>	<u>\$ 792,734</u>	<u>\$ 581,610</u>	<u>\$ 17,970</u>	<u>\$ 216,750</u>	<u>\$ 862,191</u>	<u>\$ 3,356,170</u>

(Concluded)

The above items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful life as follows:

<b>Building</b>	
Main buildings	7-50 years
Power equipment	8-10 years
Others	3-15 years
<b>Machinery equipment</b>	
Production equipment	3-12 years
Instrument	5-8 years
<b>Transportation equipment</b>	3-5 years
<b>Other equipment</b>	
Computer equipment	3-5 years
Others	3-10 years

## 11. LEASE ARRANGEMENTS

### a. Right-of-use assets

	Land	Plant	Total
<u>Cost</u>			
Balance at January 1, 2020	\$ 43,304	\$ 20,922	\$ 64,226
Additions	<u>1,553</u>	<u>-</u>	<u>1,553</u>
Balance at December 31, 2020	<u>\$ 44,857</u>	<u>\$ 20,922</u>	<u>\$ 65,779</u>

(Continued)

	<b>Land</b>	<b>Plant</b>	<b>Total</b>
<u>Accumulated depreciation and impairment</u>			
Balance at January 1, 2020	\$ 2,462	\$ 6,276	\$ 8,738
Depreciation expense	<u>2,417</u>	<u>6,322</u>	<u>8,739</u>
Balance at December 31, 2020	<u>\$ 4,879</u>	<u>\$ 12,598</u>	<u>\$ 17,477</u>
<u>Cost</u>			
Balance at January 1, 2019	\$ 43,304	\$ 20,922	\$ 64,226
Additions	<u>-</u>	<u>-</u>	<u>-</u>
Balance at December 31, 2019	<u>\$ 43,304</u>	<u>\$ 20,922</u>	<u>\$ 64,226</u>
<u>Accumulated depreciation and impairment</u>			
Balance at January 1, 2019	\$ -	\$ -	\$ -
Depreciation expense	<u>2,462</u>	<u>6,276</u>	<u>8,738</u>
Balance at December 31, 2019	<u>\$ 2,462</u>	<u>\$ 6,276</u>	<u>\$ 8,738</u>

b. Lease liabilities

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
<u>Carrying amount</u>		
Current	<u>\$ 8,491</u>	<u>\$ 8,553</u>
Non-current	<u>\$ 40,219</u>	<u>\$ 47,127</u>

Range of discount rates for lease liabilities was as follows:

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Land	0.84%-1.2%	0.84%-1.11%
Buildings	0.84%	0.84%

c. Other lease information

- 1) Operating leases relate to investment properties please refer to Note 12.
- 2) The Company's leases of certain assets qualify as short-term leases and leases of certain assets qualify as low-value asset leases. The Company has elected to apply the recognition exemption and thus, did not recognize right-of-use assets and lease liabilities for these leases.

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Expenses relating to short-term leases	<u>\$ 5,594</u>	<u>\$ 6,749</u>
Expenses relating to low-value asset leases	<u>\$ 17</u>	<u>\$ 310</u>
Total cash outflow for leases	<u>\$ (14,690)</u>	<u>\$ (16,065)</u>

## 12. INVESTMENT PROPERTIES

	Land	Plant	Total
<u>Cost</u>			
Balance at January 1, 2020	\$ 76,676	\$ 45,518	\$ 122,194
Additions	<u>248,665</u>	<u>31,951</u>	<u>280,616</u>
Balance at December 31, 2020	<u>\$ 325,341</u>	<u>\$ 77,469</u>	<u>\$ 402,810</u>
<u>Accumulated depreciation and impairment</u>			
Balance at January 1, 2020	\$ -	\$ 21,501	\$ 21,501
Depreciation expense	<u>-</u>	<u>1,333</u>	<u>1,333</u>
Balance at December 31, 2020	<u>\$ -</u>	<u>\$ 22,834</u>	<u>\$ 22,834</u>
<u>Cost</u>			
Balance at January 1, 2019	\$ 49,405	\$ 7,825	\$ 57,230
Reclassifications	<u>27,271</u>	<u>37,693</u>	<u>64,964</u>
Balance at December 31, 2019	<u>\$ 76,676</u>	<u>\$ 45,518</u>	<u>\$ 122,194</u>
<u>Accumulated depreciation and impairment</u>			
Balance at January 1, 2019	\$ -	\$ 7,825	\$ 7,825
Depreciation expense	-	600	600
Reclassifications	<u>-</u>	<u>13,076</u>	<u>13,076</u>
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ 21,501</u>	<u>\$ 21,501</u>

The maturity analysis of lease payments receivable under operating leases of investment properties was as follows:

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Year 1	\$ 24,999	\$ 21,600
Year 2	25,063	21,600
Year 3	23,770	21,600
Year 4	24,343	20,100
Year 5	24,343	18,000
Over 5 years	<u>17,143</u>	<u>36,000</u>
	<u>\$ 139,661</u>	<u>\$ 138,900</u>

The land and plants at Xihu in Yingge are evaluated for their fair value by independent qualified professional valuers of the ROC. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. The fair value as appraised was as follows

	<b>December 31, 2020</b>
Fair value	<u>\$ 300,395</u>

The management of the Company used the valuation model that market participants would use in determining the fair value. The valuation was arrived at by reference to market evidence of transaction prices for similar real estate properties. The fair value as appraised was as follows:

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Fair value	<u>\$ 230,273</u>	<u>\$ 209,699</u>

### 13. BORROWINGS

#### a. Short-term borrowings

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Line of credit and unsecured borrowings	<u>\$ 350,000</u>	<u>\$ 670,000</u>

The range of weighted average effective interest rates on short-term borrowings was 0.82%-0.83% and 0.90%-1.45% per annum at December 31, 2020 and 2019, respectively.

#### b. Short-term bills payable

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Commercial paper	\$ 50,000	\$ 150,000
Less: Unamortized discounts on bills payable	<u>-</u>	<u>-</u>
	<u>\$ 50,000</u>	<u>\$ 150,000</u>

Outstanding short-term bills payable were as follows:

#### December 31, 2020

Creditor Institution	Nominal Amount	Discount Amount	Carrying Amount	Interest Rate	Collateral	Carrying Amount of Collateral
<u>Commercial paper</u>						
China Bills Finance Corporation	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ 50,000</u>	0.858%	-	<u>\$ -</u>

December 31, 2019

<b>Creditor Institution</b>	<b>Nominal Amount</b>	<b>Discount Amount</b>	<b>Carrying Amount</b>	<b>Interest Rate</b>	<b>Collateral</b>	<b>Carrying Amount of Collateral</b>
<u>Commercial paper</u>						
Taiwan Bills Finance Corporation	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ 50,000</u>	0.988%	-	<u>\$ -</u>
Ta Ching Bills Finance Corporation	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ 50,000</u>	0.998%	-	<u>\$ -</u>
Mega Bills Finance Co., Ltd.	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ 50,000</u>	0.988%	-	<u>\$ -</u>

c. Long-term borrowings

	<u>December 31</u>	
	<b>2020</b>	<b>2019</b>
<u>Unsecured borrowings</u>		
Credit borrowings	\$ 2,300,000	\$ 1,080,000
Less: Current portion	<u>-</u>	<u>-</u>
Long-term borrowings	<u>\$ 2,300,000</u>	<u>\$ 1,080,000</u>

The range of weighted average effective interest rates on long-term borrowings was 1.00%-1.43% and 1.34%-1.37% per annum at December 31, 2020 and 2019, respectively.

The borrowings obtained in 2020 are due from July 22, 2022 to July 9, 2024. The borrowings obtained in 2019 are due from July 22, 2022 to September 30, 2023.

d. Long-term bills payable

	<u>December 31</u>	
	<b>2020</b>	<b>2019</b>
Commercial paper	\$ 800,000	\$ 200,000
Less: Unamortized discounts on bills payable	<u>-</u>	<u>-</u>
	<u>\$ 800,000</u>	<u>\$ 200,000</u>

The Company signed Floating rate commercial paper underwriting contract with Bank of Taiwan. The contract started from December 26, 2019 to January 22, 2024. During the period, the Company only has to pay commission expense and interest. Hence, this liability is under long-term bills payable. Effective Interest rate at December 31, 2020 and 2019 was 1.10% and 1.21%, respectively

#### 14. OTHER PAYABLES

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Payables for payroll	\$ 259,842	\$ 264,501
Payables for royalty	92,889	92,889
Payables for repairs and maintenance	32,479	25,342
Payables for employee benefit	49,952	47,926
Others	<u>116,804</u>	<u>113,993</u>
	<u>\$ 551,966</u>	<u>\$ 544,651</u>

For information about payables for royalty on December 31, 2020, refer to Note 25.

#### 15. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company 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.

b. Defined benefit plans

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contributes amounts equal to 6% 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 Company 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 Company 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 Company has no right to influence the investment policy and strategy.

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

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Present value of defined benefit obligation	\$ 589,874	\$ 616,443
Fair value of plan assets	<u>(509,302)</u>	<u>(486,125)</u>
Net defined benefit liabilities	<u>\$ 80,572</u>	<u>\$ 130,318</u>

Movements in net defined benefit liability (asset) were as follows:

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liabilities (Assets)</b>
Balance at January 1, 2019	<u>\$ 610,563</u>	<u>\$ (434,274)</u>	<u>\$ 176,289</u>
Service cost			
Current service cost	5,147	-	5,147
Past service cost	2,024	-	2,024
Net interest expense (income)	6,056	(4,543)	1,513
Settlement	<u>20</u>	<u>-</u>	<u>20</u>
Recognized in profit or loss	<u>13,247</u>	<u>(4,543)</u>	<u>8,704</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(14,987)	(14,987)
Actuarial gain - changes in demographic assumptions	23,068	-	23,068
Actuarial gain - financial assumptions	14,410	-	14,410
Actuarial loss - experience adjustments	<u>2,363</u>	<u>-</u>	<u>2,363</u>
Recognized in other comprehensive income	<u>39,841</u>	<u>(14,987)</u>	<u>24,854</u>
Contributions from the employer	-	(79,529)	(79,529)
Benefits paid - from plan assets	(46,762)	46,762	-
Liabilities extinguished on settlement	<u>(446)</u>	<u>446</u>	<u>-</u>
Balance at December 31, 2019	<u>616,443</u>	<u>(486,125)</u>	<u>130,318</u>
Service cost			
Current service cost	4,496	-	4,496
Net interest expense (income)	<u>4,548</u>	<u>(3,871)</u>	<u>677</u>
Recognized in profit or loss	<u>9,044</u>	<u>(3,871)</u>	<u>5,173</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(15,456)	(15,456)
Actuarial gain - changes in demographic assumptions	3,285	-	3,285
Actuarial loss - changes in financial assumption	13,877	-	13,877
Actuarial gain - experience adjustments	<u>(9,289)</u>	<u>-</u>	<u>(9,289)</u>
Recognized in other comprehensive income	<u>7,873</u>	<u>(15,456)</u>	<u>(7,583)</u>
Contributions from the employer	-	(47,336)	(47,336)
Benefits paid - from plan assets	<u>(43,486)</u>	<u>43,486</u>	<u>-</u>
Balance at December 31, 2020	<u>\$ 589,874</u>	<u>\$ (509,302)</u>	<u>\$ 80,572</u>

Through the defined benefit plans under the Labor Standards Law, the Company 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 or corporate 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 plan's 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:

	<u>December 31</u>	
	<b>2020</b>	<b>2019</b>
Discount rate(s)	0.50%	0.75%
Expected rate(s) of salary increase	2.00%	2.00%

If possible reasonable change 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:

	<u>December 31</u>	
	<b>2020</b>	<b>2019</b>
Discount rate(s)		
0.25% increase	<u>\$(13,904)</u>	<u>\$(15,178)</u>
0.25% decrease	<u>\$ 14,414</u>	<u>\$ 15,745</u>
Expected rate(s) of salary increase		
0.25% increase	<u>\$ 13,953</u>	<u>\$ 15,280</u>
0.25% decrease	<u>\$(13,533)</u>	<u>\$(14,809)</u>

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.

	<u>December 31</u>	
	<b>2020</b>	<b>2019</b>
Expected contributions to the plan for the next year	<u>\$ 47,200</u>	<u>\$ 80,000</u>
Average duration of the defined benefit obligation	9.5 years	10 years

## 16. OTHER NON-CURRENT LIABILITIES

	<u>December 31</u>	
	<b>2020</b>	<b>2019</b>
Long-term provisions for employee benefits	<u>\$ 30,764</u>	<u>\$ 26,551</u>

## 17. EQUITY

### a. Ordinary shares

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Number of shares authorized (in thousands)	<u>200,000</u>	<u>200,000</u>
Shares authorized	<u>\$ 2,000,000</u>	<u>\$ 2,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>141,078</u>	<u>141,000</u>
Shares issued	<u>\$ 1,410,775</u>	<u>\$ 1,410,000</u>

### b. Capital surplus

The capital surplus arising from shares issued in excess of par (including share premium from issuance of ordinary shares and treasury share transactions) may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and once a year). The capital surplus arising from employee share options may not be used for any purpose.

### c. Retained earnings and dividends policy

Under the dividends policy as set forth in the amended Articles, where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as a legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. The Company's Articles also stipulate a dividends policy whereby the issuance of share dividends takes precedence over the payment of cash dividends. In principle, cash dividends are limited to 20% of the total dividends distributed.

Appropriations of earnings to legal reserve shall be made until the legal reserve equals the Company's paid-in capital. The legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Items referred to under Rule No. 1010012865 and Rule No. 1010047490 issued by the FSC and in the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Company.

The appropriations of earnings for 2019 and 2018 have been approved in the shareholders' meetings on June 15, 2020 and June 13, 2019, respectively; the amounts were as follows:

	<b>Appropriation of Earnings</b>		<b>Dividends Per Share (NT\$)</b>	
	<b>For the Year Ended December 31</b>		<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Legal reserve	\$ 53,668	\$ 69,389		
Cash dividends	183,300	493,500	\$1.3	\$3.5

The shareholders' meeting also resolved the payment of cash dividends from capital surplus of \$211,500 thousand on June 15, 2020.

The appropriations of earnings for 2020 will be resolved by the Company's shareholders on June 24, 2021.

## 18. NET PROFIT FROM CONTINUING OPERATIONS

### a. Other income

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Rent income (Note 24)	\$ 18,303	\$ 20,987
Others	<u>11,605</u>	<u>24,360</u>
	<u><b>\$ 29,908</b></u>	<u><b>\$ 45,347</b></u>

### b. Other gains and losses

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Gain on disposal of property, plant and equipment	\$ 100	\$ 690
Gain on disposal of intangible assets (Note 24)	-	12,959
Foreign exchange gains	20,365	38,044
Foreign exchange losses	(40,097)	(45,667)
Others	<u>(1,085)</u>	<u>(1,867)</u>
	<u><b>\$(20,717)</b></u>	<u><b>\$ 4,159</b></u>

### c. Finance costs

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Interest on bank loans	\$ 33,421	\$ 14,217
Interest on lease liabilities	<u>556</u>	<u>460</u>
	33,977	14,677
Less: Amount included in the cost of qualifying assets	<u>(16,786)</u>	<u>(7,851)</u>
	<u><b>\$ 17,191</b></u>	<u><b>\$ 6,826</b></u>

Information about capitalized interest is as follows:

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Capitalized interest amount	\$ 16,786	\$ 7,851
Capitalization rate	1.1000%-	0.9265%-
	1.2486%	1.3163%

d. Depreciation and amortization

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
An analysis of depreciation by function		
Operating costs	\$ 439,953	\$ 356,228
Operating expenses	<u>38,482</u>	<u>39,656</u>
	<u>\$ 478,435</u>	<u>\$ 395,884</u>
An analysis of amortization by function		
Operating costs	\$ 2,771	\$ -
Operating expenses	<u>833</u>	<u>-</u>
	<u>\$ 3,604</u>	<u>\$ -</u>

e. Employee benefits expense

	<b>For the Year Ended December 31</b>					
	<b>2020</b>			<b>2019</b>		
	<b>Operating Costs</b>	<b>Operating Expenses</b>	<b>Total</b>	<b>Operating Costs</b>	<b>Operating Expenses</b>	<b>Total</b>
Employee benefits expense						
Salary expense	\$ 890,038	\$ 235,523	\$ 1,125,561	\$ 834,785	\$ 220,593	\$ 1,055,378
Labor and health insurance costs	91,862	22,761	114,623	72,048	21,961	94,009
Defined contribution plans	36,907	9,835	46,742	33,882	9,006	42,888
Defined benefit plans	5,102	71	5,173	4,733	3,971	8,704
Remuneration of directors and supervisors	-	9,438	9,438	-	9,334	9,334
Share-based payments	15,866	4,382	20,248	11,256	3,512	14,768
Other employee benefits	<u>40,248</u>	<u>19,657</u>	<u>59,905</u>	<u>39,444</u>	<u>15,252</u>	<u>54,696</u>
Total employee benefits expense	<u>\$ 1,080,023</u>	<u>\$ 301,667</u>	<u>\$ 1,381,690</u>	<u>\$ 996,148</u>	<u>\$ 283,629</u>	<u>\$ 1,279,777</u>

- As of December 31, 2020 and 2019, the Company had 1,693 and 1,665 employees, respectively, and the number of directors who were not employees was 3 and 4, respectively.
  - 1) The average employee benefits expense were \$812 thousand and \$765 thousand in 2020 and 2019, respectively. The calculation formula is ((Total employee benefits expense in the year - Total remuneration of directors and supervisors in the year) ÷ (Total number of employees in the year - Total number of directors who were not employees in the year)).
  - 2) The average employee salary expense were \$666 thousand and \$635 thousand in 2020 and 2019, respectively. The calculation formula is (Total employee salary expense in the year ÷ (Total number of employees in the year - Total number of directors who were not employees in the year)).
  - 3) The adjustment of average employee salary expense was 5%. The calculation formula is ((Average employee salary expense in 2020 - Average employee salary expense in 2019) ÷ Average employee salary expense in 2019).
  - 4) Remuneration of supervisors were \$1,707 thousand and \$3,512 thousand in 2020 and 2019, respectively.

5) The Company evaluates result of performance goal of directors, supervisors and managers regularly and sets nature and amount of compensation individually. As for employees, the Company evaluates employees' performance every year as the basis for promotion, transfer, salary adjustment and bonus. On the June 15, 2020 meeting, the shareholders approved to set up audit committee instead supervisors..

f. Compensation of employees and remuneration of directors and supervisors

The Company accrued compensation of employees and remuneration of directors and supervisors at the rates no less than 1% and no higher than 2%, respectively, of net profit before income tax, compensation of employees and remuneration of directors and supervisors. The compensation of employees and remuneration of directors and supervisors for the years ended December 31, 2020 and 2019 which have been approved by the Company's board of directors on February 24, 2021 and February 25, 2020, respectively, were as follows:

Amount

	<b>For the Year Ended December</b>	
	<b>31</b>	
	<b>2020</b>	<b>2019</b>
	<b>Cash</b>	<b>Cash</b>
Compensation of employees	\$ 72,000	\$ 75,000
Remuneration of directors and supervisors	8,790	9,900

If there is a change in the amount after the annual financial statements were authorized for issue, any difference is recorded as a change in accounting estimate.

There was no difference between the actual amounts paid for compensation of employees and remuneration of directors and supervisors and the amounts recognized in the financial statements for the years ended December 31, 2019 and 2018.

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

## 19. INCOME TAXES RELATING TO CONTINUING OPERATIONS

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

	<b>For the Year Ended December</b>	
	<b>31</b>	
	<b>2020</b>	<b>2019</b>
Current tax		
In respect of the current year	\$ 121,025	\$ 132,369
Income tax expense of unappropriated earnings	-	-
Adjustments to prior year	<u>(3,914)</u>	<u>50</u>
	<u>117,111</u>	<u>132,419</u>
Deferred tax		
In respect of the current year	<u>12,232</u>	<u>8,293</u>
Income tax expense recognized in profit or loss	<u>\$ 129,343</u>	<u>\$ 140,712</u>

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

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Profit before tax from continuing operations	<u>\$ 641,681</u>	<u>\$ 677,389</u>
Income tax expense calculated at the statutory rate	\$ 128,336	\$ 135,478
Income tax expense of unappropriated earnings	-	-
Nondeductible expenses (deductible gains) in determining taxable income	4,921	5,184
Adjustments to prior years' tax	<u>(3,914)</u>	<u>50</u>
Income tax expense recognized in profit or loss	<u>\$ 129,343</u>	<u>\$ 140,712</u>

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. When calculating the tax on unappropriated earnings, the Company only deducts the amount of the unappropriated earnings that has been reinvested in capital expenditure.

b. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2020

	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Comprehensive Income</b>	<b>Closing Balance</b>
<u>Deferred tax assets</u>				
Temporary differences				
Unrealized loss in inventories	\$ 11,623	\$ 1,221	\$ -	\$ 12,844
Remeasurement of defined benefit plans	25,286	(8,459)	(1,517)	15,310
Payables for employee benefit	9,585	405	-	9,990
Others	<u>12,750</u>	<u>(1,104)</u>	<u>-</u>	<u>11,646</u>
	<u>\$ 59,244</u>	<u>\$ (7,937)</u>	<u>\$ (1,517)</u>	<u>\$ 49,790</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Unrealized revaluation increment	\$ 36,754	\$ -	\$ -	\$ 36,754
Others	<u>1,037</u>	<u>4,295</u>	<u>-</u>	<u>5,332</u>
	<u>\$ 37,791</u>	<u>\$ 4,295</u>	<u>\$ -</u>	<u>\$ 42,086</u>

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 loss in inventories	\$ 9,375	\$ 2,248	\$ -	\$ 11,623
Remeasurement of defined benefit plans	34,517	(14,202)	4,971	25,286
Payables for employee benefit	8,495	1,090	-	9,585
Others	<u>9,576</u>	<u>3,174</u>	<u>-</u>	<u>12,750</u>
	<u>\$ 61,963</u>	<u>\$ (7,690)</u>	<u>\$ 4,971</u>	<u>\$ 59,244</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Unrealized revaluation increment	\$ 36,754	\$ -	\$ -	\$ 36,754
Others	<u>434</u>	<u>603</u>	<u>-</u>	<u>1,037</u>
	<u>\$ 37,188</u>	<u>\$ 603</u>	<u>\$ -</u>	<u>\$ 37,791</u>

c. Income tax assessments

The tax returns through 2018 have been assessed by the tax authorities, and the Company agrees with the assessment.

**20. EARNINGS PER SHARE**

The earnings and weighted average number of ordinary shares outstanding in the computation of earnings per share were as follows:

**Net Profit for the Year**

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Profit for the year attributable to owners of the Company	\$ 512,338	\$ 536,677
Effect of potentially dilutive ordinary shares:		
Employee stock option	-	-
Compensation of employees or bonus issue to employees	<u>-</u>	<u>-</u>
Earnings used in the computation of diluted earnings per share	<u>\$ 512,338</u>	<u>\$ 536,677</u>

Weighted average number of ordinary shares outstanding (in thousand shares):

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Weighted average number of ordinary shares used in computation of basic earnings per share	141,032	141,000
Effect of potentially dilutive ordinary shares		
Employee share options	-	-
Compensation of employees or bonus issue to employees	<u>1,263</u>	<u>1,321</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>142,295</u>	<u>142,321</u>

If the Company offers to settle compensation or bonus of employees in cash or shares, the Company will assume the entire amount of the compensation or bonus would be settled in shares and the resulting potential shares are included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, if 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.

If the exercise price of the options or warrants issued by the Company exceeded the average market price of the shares. They are anti-dilutive and excluded from the computation of diluted earnings per share.

## 21. SHARE-BASED PAYMENT ARRANGEMENTS

### Employee Share Option Plan of the Company

- a. Qualified employees of the Company and its subsidiaries were granted 2,500 options in July 2018. Each option entitles the holder to subscribe for one thousand ordinary shares of the Company. The options granted are valid for 6 years exercisable at certain percentages after the second anniversary from the grant date. The options were granted at an exercise price equal to the closing price of the Company's ordinary shares listed on the Taiwan Stock Exchange (TWSE) on the grant date. For any subsequent changes in the Company's capital surplus, the exercise price is adjusted accordingly.

	<b>2020</b>		<b>2019</b>	
	<b>Number of Options (In Thousands)</b>	<b>Weighted- average Exercise Price (\$)</b>	<b>Number of Options (In Thousands)</b>	<b>Weighted- average Exercise Price (\$)</b>
Balance at January 1	2,500	\$ 64.7	2,500	\$ 68.8
Options granted	-		-	
Options exercised	(78)	61.7	-	-
Options forfeited	<u>(50)</u>	-	<u>-</u>	-
Balance at December 31	<u>2,372</u>	61.7	<u>2,500</u>	64.7
Options exercisable, end of period	<u>1,125</u>		<u>-</u>	

Information on outstanding options as of December 31, 2020 and 2019 was as follows:

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Range of exercise price (\$)	\$61.7	\$64.7
Weighted-average remaining contractual life (in years)	3.5	4.5

- b. Qualified employees of the Company and its subsidiaries were granted 2,500 options in July 2020. Each option entitles the holder to subscribe for one thousand ordinary shares of the Company. The options granted are valid for 6 years exercisable at certain percentages after the second anniversary from the grant date. The options were granted at an exercise price equal to the highest closing price of the Company's ordinary shares listed on the Taiwan Stock Exchange (TWSE) on the day before the grant date, on the grant date and on the day after it, or the average closing price of the three days. For any subsequent changes in the Company's capital surplus, the exercise price is adjusted accordingly.

	<b>2020</b>	
	<b>Number of Options (In Thousands)</b>	<b>Weighted- average Exercise Price (\$)</b>
Balance at January 1	-	\$
Options granted	2,500	64.4
Options exercised	-	-
Options forfeited	-	-
Balance at December 31	<u>2,500</u>	64.4
Options exercisable, end of period	<u>-</u>	-

Information on outstanding options as of December 31, 2020 was as follows:

	<b>December 31, 2020</b>
Range of exercise price (\$)	\$64.4
Weighted-average remaining contractual life (in years)	5.5

Options granted in July 2018 and July 2020 were priced using the Black-Scholes pricing model and the inputs to the model were as follows:

	<b>July 2020</b>	<b>July 2018</b>
Grant-date share price	\$64.4	\$68.8
Exercise price	\$64.4	\$68.8
Expected volatility	25.33%-25.8%	27.04%-28.04%
Expected life (in years)	6 years	6 years
Expected dividend yield	0%	0%
Risk-free interest rate	0.31%0.32%	0.67%-0.69%

Expected volatility was based on the expected life.

- c. Compensation cost recognized was \$20,248 thousand and \$14,768 thousand for years ended December 31, 2020 and 2019, respectively.

## 22. CAPITAL MANAGEMENT

The Company manages its capital to ensure that entities in the Company will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Company's overall strategy has no significant variations.

The Company is not subject to any externally imposed capital requirements.

Key management personnel of the Company review the capital structure on a quarterly basis. 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 Company may adjust the amount of dividends paid to shareholders, the amount of new debt issued or existing debt redeemed.

## 23. FINANCIAL INSTRUMENTS

### a. Fair value of financial instruments not measured at fair value

The Company's management consider the book value of not measured at fair value financial assets and financial liabilities as approximate fair value or there is no basis for fair value measurement.

### b. Categories of financial instruments

	<u>December 31</u>	
	2020	2019
<u>Financial assets</u>		
Financial assets at amortized cost (1)	\$ 1,462,745	\$ 1,405,736
<u>Financial liabilities</u>		
Financial liabilities at amortized cost (2)	3,905,722	2,484,547

1) The balances include financial assets at amortized cost, which comprise cash, note receivable, trade receivable (include related parties), other receivables and deposits.

2) The balances include financial liabilities at amortized cost, which comprise short-term and long-term loans, short-term and long-term bills payable, and trade and other payables.

### c. Financial risk management objectives and policies

The Company's major financial instruments include equity investments, trade receivable, trade payables, borrowings, bills payable and lease liabilities. The Company's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

#### 1) Market risk

The Company's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (refer to (a) below) and interest rates (refer to (b) below).

The Company did not change the method of managing and measuring market risk exposure of financial instruments.

a) Foreign currency risk

Several subsidiaries of the Company had foreign currency sales and purchases, which exposed the Company to foreign currency risk. Exchange rate exposures were managed within natural hedges. Hence, change of market exchange rate would change the fair value of related financial instrument.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are set out in Note 28.

Sensitivity analysis

The Company was mainly exposed to the USD.

The following table details the Company's sensitivity to a 5% increase and decrease in New Taiwan dollars (the functional currency) against the USD. The sensitivity rate of 5% is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates an increase in pre-tax profit associated with New Taiwan dollars weakening by 5% against the relevant currency. For a 5% strengthening of New Taiwan dollars against the relevant currency, there would be an equal and opposite impact on pre-tax profit and the balances below would be negative.

	<b>USD Impact</b>	
	<b>For the Year Ended December</b>	
	<b>31</b>	
	<b>2020</b>	<b>2019</b>
Profit or loss*	\$ 21,838	\$ 19,930

\* This was mainly attributable to the exposure on outstanding USD trade receivables, trade payables, which were not hedged at the end of the year.

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign currency risk because the exposure at the end of the year did not reflect the exposure during the year.

b) Interest rate risk

The Company was exposed to interest rate risk because entities in the Company borrowed funds at both fixed and floating interest rates. The risk is managed by the Company by maintaining an appropriate mix of fixed and floating rate borrowings.

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

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Fair value interest rate risk		
Financial assets	\$ 247,730	\$ 257,795
Financial liabilities	1,248,709	205,680
Cash flow interest rate risk		
Financial assets	377,684	393,662
Financial liabilities	2,300,000	1,950,000

#### Sensitivity analysis

The sensitivity analysis below was determined based on the Company's exposure to interest rates for non-derivative instruments at the end of the reporting period. 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 10 basis point 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 10 basis points higher and all other variables were held constant, the Company's pre-tax profit for the years ended December 31, 2020 and 2019 would have decreased by \$1,922 thousand and \$1,556 thousand, respectively.

#### 2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. As at the end of the reporting period, the Company's maximum exposure to credit risk which will cause a financial loss to the Company due to failure of counterparties to discharge an obligation could arise from the carrying amount of the respective recognized financial assets as stated in the balance sheets.

Counterparties of trade receivables consisted of a large number of different customers, spread across conventional grinding wheel, CMP diamond disk and recycled wafer. Ongoing credit evaluation is performed on the customers' financial condition. The Company's concentration of credit risk by geographical location was mainly in Taiwan, the United States, China and Southeast Asia.

#### 3) Liquidity risk

The Company manages liquidity risk by monitoring and maintaining a level of cash deemed adequate to finance the Company'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 Company relies on bank borrowings as a significant source of liquidity. As of December 31, 2020 and, 2019, the Company had available unutilized short-term bank loan facilities set out in (b) below.

a) Liquidity and interest rate risk tables for non-derivative financial liabilities

The following table details the Company's remaining contractual maturities for its non-derivative financial liabilities with agreed upon repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows. Specifically, bank loans with a repayment on demand clause were included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities were based on the agreed upon repayment dates.

December 31, 2020

	<b>On Demand or Less than 1 Month</b>	<b>1-6 Months</b>	<b>6 Months to 1 Year</b>	<b>More than 1 Year</b>
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	\$ 403,558	\$ 93,378	\$ 226,608	\$ -
Lease liabilities	684	3,329	4,960	43,666
Debt instrument	<u>153,603</u>	<u>265,513</u>	<u>19,015</u>	<u>3,161,817</u>
	<u>\$ 557,845</u>	<u>\$ 362,220</u>	<u>\$ 250,583</u>	<u>\$ 3,205,483</u>

Additional information about the maturity analysis of lease liabilities

	<b>Less than 1 Year</b>	<b>1-5 Years</b>	<b>5-10 Years</b>
Lease liabilities	<u>\$ 8,973</u>	<u>\$ 13,191</u>	<u>\$ 30,475</u>

December 31, 2019

	<b>On Demand or Less than 1 Month</b>	<b>1-6 Months</b>	<b>6 Months to 1 Year</b>	<b>More than 1 Year</b>
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	\$ 326,887	\$ 231,051	\$ 146,563	\$ -
Lease liabilities	683	3,551	4,818	51,308
Bonds payable	<u>671,727</u>	<u>157,244</u>	<u>8,642</u>	<u>1,314,901</u>
	<u>\$ 999,297</u>	<u>\$ 391,846</u>	<u>\$ 160,023</u>	<u>\$ 1,366,209</u>

Additional information about the maturity analysis for lease liabilities

	<b>Less than 1 Year</b>	<b>1-5 Years</b>	<b>5-10 Years</b>
Lease liabilities	<u>\$ 9,052</u>	<u>\$ 18,496</u>	<u>\$ 32,812</u>

b) Credit line

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Amount used	\$ 3,500,000	\$ 2,100,000
Amount unused	<u>3,482,874</u>	<u>3,588,824</u>
	<u>\$ 6,982,874</u>	<u>\$ 5,688,824</u>

**24. TRANSACTIONS WITH RELATED PARTIES**

The significant transactions between the Company and its related parties are disclosed as follows:

a. Related parties and relationships

<u>Related Party</u>	<u>Nature of Relationship</u>
Hongia Industry Co., Ltd.	Subsidiary
Kinik-Thai Co., Ltd	Subsidiary
Yamamura Kinik Optical Co., Ltd.	Associate
Nano-Tem International Taiwan Co.	Associate
Winsheng Material Technology	Associate (since December 2020)
Siam Kinik Co., Ltd.	Related party in substance
Lin, Xin-Zheng	Related party in substance
Lin, Bo-Quan	Related party in substance (transferred to chairman of the board since June 15, 2020)

b. Sales of goods

<b>Account</b>	<b>Related Party</b>	<b>For the Year Ended December 31</b>	
		<b>2020</b>	<b>2019</b>
Sales revenue	Subsidiaries	\$ 16,809	\$ 12,473
	Associates	18	-
	Related party in substance	<u>3,981</u>	<u>6,663</u>
		<u>\$ 20,808</u>	<u>\$ 19,136</u>

Sales to related parties are based on cost-plus pricing. There were no significant differences in transaction terms between related parties and third parties.

<b>Account</b>	<b>Related Party</b>	<b>For the Year Ended December 31</b>	
		<b>2020</b>	<b>2019</b>
Other income	Subsidiaries	\$ 1,317	\$ 4
	Related party in substance	216	-
	Associates	26	-
Operating lease income and other income	Yamamura Kinik Optical Co., Ltd.	<u>18,008</u>	<u>19,920</u>
		<u>\$ 19,567</u>	<u>\$ 19,924</u>

c. Purchases of goods and expense

<b>Account</b>	<b>Related Party</b>	<b>For the Year Ended December 31</b>	
		<b>2020</b>	<b>2019</b>
Purchase	Subsidiaries	<u>\$ 81,059</u>	<u>\$ 53,893</u>
Expense	Subsidiaries	\$ 107	\$ 5,855
	Associates	<u>-</u>	<u>992</u>
		<u>\$ 107</u>	<u>\$ 6,847</u>

There were no significant differences in transaction terms between related parties and third parties.

d. Receivables from related parties (not including loans to related parties)

<b>Account</b>	<b>Related Party</b>	<b>For the Year Ended December 31</b>	
		<b>2020</b>	<b>2019</b>
Trade receivables	Subsidiaries	\$ 3,719	\$ 2,822
	Related party in substance	624	1,758
	Associates	<u>-</u>	<u>29</u>
		<u>\$ 4,343</u>	<u>\$ 4,609</u>
Other receivables	Yamamura Kinik Optical Co., Ltd.	\$ 5,426	\$ 1,239
	Subsidiaries	<u>-</u>	<u>2</u>
		<u>\$ 5,426</u>	<u>\$ 1,241</u>

The outstanding trade receivables from related parties are unsecured. For the years ended December 31, 2020 and 2019, no impairment loss was recognized for trade receivables from related parties.

e. Payables to related parties (not including loans from related parties)

Account	Related Party	For the Year Ended December 31	
		2020	2019
Trade payables	Subsidiaries	\$ 5,047	\$ 7,022
	Associates	<u>-</u>	<u>1,032</u>
		<u>\$ 5,047</u>	<u>\$ 8,054</u>
Other payables	Subsidiaries	\$ 29	\$ 195
	Related party in substance	<u>720</u>	<u>-</u>
		<u>\$ 749</u>	<u>\$ 195</u>

The outstanding trade payables to related parties are unsecured.

f. Disposal of property, plant and equipment

Related Party	Proceeds		Gains	
	For the Year Ended December 31		For the Year Ended December 31	
	2020	2019	2020	2019
Subsidiaries	<u>\$ 67</u>	<u>-</u>	<u>\$ 67</u>	<u>-</u>

g. Disposal of intangible asset

Related Party	Proceeds		Gains	
	For the Year Ended December 31		For the Year Ended December 31	
	2020	2019	2020	2019
Yamamura Kinik Optical Co., Ltd.	<u>-</u>	<u>\$ 18,513</u>	<u>-</u>	<u>\$ 12,959</u>

h. Lease arrangement

Account	Related Party	For the Year Ended December 31	
		2020	2019
Lease liabilities	Related party in substance	<u>\$ 2,836</u>	<u>\$ 3,527</u>

Account	Related Party	For the Year Ended December 31	
		2020	2019
Interest expense	Related party in substance	<u>\$ 30</u>	<u>\$ 33</u>

i. Deposits received

	For the Year Ended December 31	
	2020	2019
Associates	<u>\$ 750</u>	<u>\$ 750</u>

j. Compensation of key management personnel

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Short-term employee benefits	\$ 34,288	\$ 40,512
Post-employment benefits	932	892
Share-based payments	<u>7,470</u>	<u>5,789</u>
	<u>\$ 42,690</u>	<u>\$ 47,193</u>

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

## 25. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Company as of December 31, 2020 and 2019 were as follows (amounts are in thousands of New Taiwan dollars):

- a. As of December 31, 2020 and 2019, commitments for purchases of machinery and equipment were as follows:

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Total contract price		
USD	\$ 1,786	\$ 9,533
JPY	76,500	1,680,450
NTD	242,285	1,687,608
EUR	340	322
Unpaid amounts of the purchase		
USD	577	6,971
JPY	21,060	231,775
NTD	51,556	269,408
EUR	34	32

- b. The Company's unused letters of credit were \$17,126 thousand and \$11,176 thousand as of December 31, 2020 and 2019, respectively.

c. Contingent Matters

1) In relation to the technical cooperation project between the Company and Mr. Sung, Chien-Min (hereinafter the “Project”), an attorney has been hired since 2013 to file a lawsuit with the court as follows:

a) The Company learned in 2012 that Sung, Chien-Min had been involved in conduct in breach of his job duties and the contract. It hired legal advisors from Baker McKenzie to undertake corresponding legal measures and necessary legal proceedings to pursue Sung, Chien-Min’s legal liabilities, and protect the Company’s interest and all shareholders. The lawsuits filed include the following:

i. Criminal complaint with the Shilin District Prosecutors Office, in relation to which the Shilin District Prosecutors Office decided not to prosecute. The Company petitioned for re-examination, which was rejected by the Taiwan High Prosecutors Office. The Company petitioned for forwarding to trial, which was rejected by the Shilin District Court Criminal Tribunal (Shilin District Court 2018 Sheng-Pang-Zi No. 38).

ii. A petition with the Intellectual Property Court for evidence protection was approved and enforced (2013 Min-Sheng-Zi No. 11).

iii. Petitions for 2 provisional dispositions were filed with the Intellectual Property Court, banning Sung, Chien-Min from disposal or change of 14 patents of the Project and 5 patents outside the Project. Both petitions were approved and enforced (Shilin District Court 2013 Si-Zhi-Zhi-Quan-Zi No. 3, same court 2013 Si-Zhi-Zhi-Quan-Zi No. 2).

iv. A civil lawsuit filed with Intellectual Property Court:

2019 Ming-Zhuang-Shang-Geng-(I)-Zi No. 8 (previously 2013 Ming-Zhuang-Su-Zi No. 104, 2016 Min-Zhuan-Shang-Zi No. 38): The Intellectual Property Court issued a second- instance judgment on 15 March 2018. Based on the results of the judgments of the case in the first and second instances, it was confirmed that the Company is entitled to the right of implementation and ownership over the 14 patents of the Project. Sung, Chien-Min shall return the registrations of these 14 patents of the Project back to the Company. The Company’s claim against Sung, Chien-Min for compensation of NT\$112,085,722 and the petition for provisional execution were rejected by the court. Both parties appealed to the Supreme Court. On 8 August 2019, the Supreme Court ruled by 2018 Tai-Shang-Zi No. 1456 that the Intellectual Property Court shall retry the Company’s claim for compensation of NT\$101,401,756, Sung, Chien-Min’s US patents no. 6,286,498 and 6,679,243 and ROC patent 87104257. The Company’s claim of NT\$10,683,966 was rejected and final.

2020 Ming-Zhuang-Shang-Gent-(I)-Zi No. 5 (previously 2013 Ming-Zhuang-Su-Zi No. 112, 2017 Min-Zhuan-Shang-Zi No. 9): On 15 March 2018, the Intellectual Property Court issued a second-instance judgment. On 27 April 2018, a supplemental judgment was issued. Based on the results of the judgments on the case in the first and second instances, Sung, Chien-Min shall return the registration of 4 patents not under the Project back to the Company and shall not dispose of or change such patents. The Company’s claim against Sung, Chien-Min for compensation of NT\$10,683,966 and the petition for provisional enforcement were rejected by the court. On 24 June 2020, the Supreme Court issued judgments 2020 Tai-Shang-Zi No. 8 and 9, returning the part about patents back to the Intellectual Property Court for retrial. The Company’s claim for NT\$10,683,966 was rejected and final.

2017 Min-Zhuan-Shang-Zi No. 46 (previously 2014 Ming-Zhuang-Su-Zi No. 95): The Company filed a civil lawsuit with the Intellectual Property Court in relation to the other 54 patents arising out of the Project, seeking confirmation that the Company has the patent implementation right and that Sung, Chien-Min should return the relevant patent registrations to the Company. On 14 November 2017, the Intellectual Property Court issued a first-instance judgment confirming that the Company has the right of implementation for 44 patents. Sung, Chien-Min shall return 33 patent registrations to the Company. The Company was also granted provisional enforcement for such 33 patents. The Company filed an appeal for the parts to its disfavor in accordance with the law. One of the patents under application has ceased to be valid due to Sung, Chien-Min's failure to make payment, and thus the right cannot be reinstated. Therefore, the Company no longer claims such patent. On 13 June 2019, the Intellectual Property Court issued a second-instance judgment confirming that the Company has the right of implementation for all 9 patents. However, about the patent registration transfer, the Company's appeal was rejected. The Company has filed an appeal with the Supreme Court for the rejected portion of the appeal.

- b) Considering that the Company's claim amount against Sung, Chien-Min is higher than the royalty and salary payable, the Company has stopped payment and claims setoff. Sung, Chien-Min filed 3 lawsuits with the Taipei District Court and the Intellectual Property Court to pay a royalty (respectively, 2013 Chong-Su-Zi No. 926, 2014 Ming-Zhuang-Su-Zi No. 11 and 2019 Ming-Zhuang-Su-Zi No. 40). The total amount after the additional claim is NT\$98,355,936.
  - i. Among the above, for case 2013 Chong-Su-Zi No. 926, the Taipei District Court issued a first-instance judgment on 25 November 2016, ordering the Company to pay a royalty of NT\$29,222,146 to Sung, Chien-Min. The Company filed an appeal in relation to the NT\$29,222,146. The case was forwarded by the Taiwan High Court and is currently under second-instance review by the Intellectual Property Court (2019 Min-Zhuan-Shang-Zi No. 6).
  - ii. For case 2014 Ming-Zhuang-Su-Zi No. 11, the Intellectual Property Court issued a first-instance judgment on 29 November 2018, ordering the Company to pay a royalty of NT\$57,061,342 to Sung, Chien-Min. The Company filed an appeal in relation to the NT\$57,061,342. The case is currently under review by the Intellectual Property Court (2019 Min-Zhuan-Shang-Zi No. 8).
  - iii. The case 2019 Ming-Zhuang-Su-Zi No. 40 was a lawsuit filed by Sung, Chien-Min with the Intellectual Property Court, seeking the provision of DG, SDG and ODD diamond disk product royalty calculation details and sales information in 2014 by the Company in order to calculate the royalty. On 6 December 2019, the Intellectual Property Court issued a first-instance judgment finding that the Company is not obliged to provide the above information about DG and SDG products. However, information about ODD products should be provided. On 29 October 2020, the Intellectual Property Court issued a second-instance judgment 2020 Min-Zhuan-Shang-Zi No. 2, maintaining the first-instance judgment results. Both parties appealed to the Supreme Court.
- c) At the beginning of July 2015, the Company received letters from Mr. Sung, Chien-Min, claiming infringement of US patents no. 8,777,699 (hereinafter "US Patent 699"), US patent no. 6, 679,243 (hereinafter "US Patent 243") and no. 6,286,498 (hereinafter "US Patent 498") and correction to complaint (United States District Court District of Delaware case no. 1:14-cv-01027):
  - i. US Patent 699 is an invalid patent with no novelty. Even if such patent is valid, according to the contract for the Project, the Company has the patent ownership and the right to implement patent in relation to US Patent 699, US Patent 243 and US Patent 498. There is no infringement of such patents.
  - ii. The Company has engaged legal advisor Baker McKenzie to file an IPR proceeding with the US Patent and Trademark Office, seeking a declaration of the invalidity of US Patent 699. A

petition was also filed with the Intellectual Property Court of the Republic of China for provisional enforcement and injunction maintaining a temporary status quo. A civil lawsuit was filed at the same time, seeking that Sung, Chien-Min should allow the Company to implement the US Patent 699 and its relevant patents, confirmation that the Company has the right to implement patents and that Sung, Chien-Min should return the patent registration to the Company (2014 Ming-Zhuang-Su-Zi No. 96) in order to protect the interest of the Company and all shareholders.

The above provisional disposition and temporary stay have been granted (2014 Min-Quan-Zi No. 8, 2014 Min-Zhan-Zi No. 11) and enforced (Shilin District Court 2015 Si-Zhi-Zhi-Quan-Zi No. 1, Shilin District Court 2015 Si-Zhi-Zhi-Quan-Zi No. 2). The Supreme Court has also issued a ruling to maintain such judgments. On 4 November 2015, the Patent Trial and Appeal Board (PTAB) of the United States made a final written decision about US Patent 699, finding that claims 1 to 12 and 17 to 19 of US Patent 699 are invalid due to lack of novelty or progressiveness.

In the civil lawsuit, the Company received a second-instance judgment by the Intellectual Property Court on 9 March 2017 (2016 Min-Zhuan-Shang-Zi No. 17), maintaining the first-instance judgment confirming that the Company has the right to implement the patents. However, the Company's request to return the patent registration was rejected. The Company has filed an appeal about this part with the Supreme Court. Sung, Chien-Min did not file an appeal for the part of the judgment to the Company's favor. Thus, the Company's right to implement US Patent 699 and corresponding patents in Taiwan has been confirmed by court judgments in the Republic of China.

- iii. As for US Patent 243 and US Patent 498, these are the 2 of the patents under the above-cited case 2016 Min-Zhuan-Shang-Zi No. 38. Provisional disposition was granted and enforced (Shilin District Court 2013 Si-Zhi-Zhi-Quan-Zi No. 3) and maintained by the Supreme Court ruling. The Intellectual Property Court has also issued a second-instance judgment confirming that the Company has the right of implementation and 2/3 of ownership until 31 December 2013. Sung, Chien-Min should return the patent registration to the Company.
  - iv. Based on the above facts and progress of lawsuits in Taiwan, The Company has engaged in defense in US courts and has undertaken all legal actions to protect the Company's interest. A petition for the stay of the above US proceedings has been filed with the US courts until the courts in Taiwan issue judgments about the attribution of relevant patents. The petition was approved on 19 January 2016 US time.
- d) On 11 March 2020, the Company received from Mr. Sung, Chien-Min a complaint of patent infringement lawsuit about US Patent no. 9,724,802 (hereinafter "US Patent 802") (Delaware Federal District Court case no. 1:20-cv-00247):
- i. Mr. Sung, Chien-Min filed the lawsuit with the US Delaware Federal District Court claiming infringement of US Patent 802 by the Company's diamond disk products. However, the technology of US Patent 802 was generated from the Project. According to the contract for the Project and applicable laws, the Company is entitled to the right to implement US Patent 802, ownership thereto and the right to seek transfer of registration. Therefore, Sung, Chien-Min's accusation about patent infringement by the Company is a false accusation.

- ii. The Company has engaged legal advisor Baker McKenzie to file a civil lawsuit 2020 Ming-Zhuang-Su-Zi No. 80 with the Intellectual Property Court of the Republic of China, seeking confirmation that the Company has the right to implement the patent and that Sung, Chien-Min should return the patent registration to the Company in order to protect the interest of the Company and all shareholders.

- 2) The Company has fully provided for the royalty due and relevant service fee (accounted for as accounts payable) and provided a pledged term deposit certificate of NT\$236,000,000 (accounted for as security deposit) to petition the court for provisional disposition and stay of proceeding. However, the Company does not expect to incur additional significant losses due to this lawsuit.

## 26. SIGNIFICANT EVENTS AFTER REPORTING PERIOD

In January 2021, the Company participated in the rights offering of Yamamura Kinik Optical Co., Ltd. for 30,000 shares, total amount of \$300,000 thousand according to the percentage of the Company's holdings.

## 27. OTHER ITEMS

Due to the impact of the COVID-19 pandemic since January 2020, the production and sale of conventional grinding wheel has been affected. Although the domestic epidemic situation has slowed and the government's policies have been loosened, many countries are still under lockdown measures, the global economic situation continues to tighten, consumption patterns have changed. The Company adopted response actions, including keeping in close touch with clients and suppliers. In addition, the Company would focus on managing employees' healthcare to reduce the impact to the Company's operation. However, the extent of the possible effect depends on the subsequent development of COVID-19 pandemic.

## 28. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the Company and its subsidiaries 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, 2020

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 17,322	28.48	\$ 493,343
JPY	262,407	0.2763	72,503
CNY	9,053	4.377	39,623
<u>Financial liabilities</u>			
Monetary items			
USD	1,987	28.48	56,588
JPY	22,277	0.2763	6,155

December 31, 2019

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 14,871	29.98	\$ 445,818
JPY	244,851	0.276	67,579
CNY	6,645	4.305	28,606

Financial liabilities

Monetary items			
USD	1,575	29.98	47,226
JPY	10,452	0.276	2,885

The following information is presented by the functional currency of the Company which holds foreign currencies. The exchange rate is between the functional currency and presentation currency. The significant realized and unrealized foreign exchange gains (losses) were as follows:

	For the Year Ended December 31			
	2020		2019	
	Exchange Rate (Foreign Currency: Functional Currency)	Net Foreign Exchange Gains (Losses)	Exchange Rate (Foreign Currency: Functional Currency)	Net Foreign Exchange Gains (Losses)
NTD	1 (NTD:NTD)	<u>\$ (19,732)</u>	1 (NTD:NTD)	<u>\$ (7,623)</u>

## 29. SEPARATELY DISCLOSED ITEMS

- a. Information about significant transactions and investees:
  - 1) Financing provided to others (None)
  - 2) Endorsements/guarantees provided (None)
  - 3) Marketable securities held (excluding investments in subsidiaries, associates and joint ventures) (None)
  - 4) Marketable securities acquired or disposed of at costs or prices of 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 3)
  - 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 (None)
  - 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital (None)
  - 9) Trading in derivative instruments (None)
- b. Information about reinvestment business (Table 1)
- c. Information on investments in mainland China: (None)
- d. Information on investees (Table 2)

**KINIK COMPANY**

**INFORMATION ON INVESTEEES  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(In Thousands of New Taiwan Dollars)**

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2020			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				December 31, 2020	December 31, 2019	Shares (In Thousands)	%	Carrying Amount			
Kinik Company	Hongia Industry Co., Ltd.	New Taipei City	Metal manufacture	\$ 96,525	\$ 96,525	2,925	100.0	\$ 81,183	\$ 7,596	\$ 6,948	Subsidiary
	Kinik-Thai Co., Ltd.	Thailand	Metal manufacture	262,488	262,488	482	47.2	277,070	54,163	22,964	Subsidiary
	Yamamura Kinik Optical Co., Ltd.	Hsinchu	Glasses and glass products	90,000	90,000	9,000	30.0	12,410	(66,326)	(19,898)	Associates
	Winsheng Material Technology	New Taipei City	Electronic component manufacture	55,000	-	2,750	19.8	54,828	(869)	(172)	Associates
	Nano-Tem International Taiwan Co.	New Taipei City	Ceramic and ceramic products	2,700	2,700	270	45.0	2,219	(59)	(27)	Associates

**KINIK COMPANY****INFORMATION OF MAJOR SHAREHOLDERS  
DECEMBER 31, 2020**

Name of Major Shareholder	Shares	
	Number of Shares	Percentage of Ownership (%)
Jin Min Investment Co., Ltd.	9,892,423	7

Note: The information of major shareholders presented in this table is provided by the Taiwan Depository & Clearing Corporation based on the number of ordinary shares and preferred shares held by shareholders with ownership of 5% or greater, that have been issued without physical registration (including treasury shares) by the Company as of the last business day for the current quarter. The share capital in the consolidated financial statements may differ from the actual number of shares that have been issued without physical registration because of different preparation basis.

**TABLE 3**
**KINIK COMPANY**

**ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

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			
Klinik Company	Factory in Hsinchu Science Park	2020.06.30	\$ 757,154	Paid off	Engtown Construction Corporation	Non-related-parties	-	-	-	\$ -	Determined by negotiation between both parties	Operational production requirements	-
	Land and factory in Xihu St., Yingge Dist.	2020.10.15	584,978	Paid off	Chung Tai Pottery & Porcelain Co., Ltd. and Rue T'ai Pottery & Porcelain Co., Ltd.	Non-related-parties	-	-	-	-	Professional appraisal agency and market factors	Response to the Company's future long-term operation and development demand	-



- VI. For the Most Recent Year until the Publication Date of the Annual Report, Financial Position Impacted by Insolvency Incidents Encountered by the Company and Affiliates Should be Detailed:

No such situation.

# Seven | Review of Financial Position, Business Performance, and Risk Issues

## I. Financial Position

Unit: Thousand NT\$

Item \ Year	2020	2019	Difference	
			Amount	%
Current assets	3,178,483	3,024,195	154,288	5%
Fixed assets	5,248,848	3,513,498	1,735,350	49%
Other assets	1,025,517	1,387,715	(362,198)	-26%
Total assets	9,452,848	7,925,408	1,527,440	19%
Current liabilities	1,345,291	1,701,500	(356,209)	-21%
long-term liabilities	3,371,566	1,618,358	1,753,208	108%
Total liabilities	4,716,857	3,319,858	1,396,999	42%
Share capital	1,410,775	1,410,000	775	0%
Capital surplus	1,078,150	1,265,044	(186,894)	-15%
Retained earnings	1,921,818	1,584,361	337,457	21%
Total equity	4,735,991	4,605,550	130,441	3%

Explanation:

1. The increase in fixed assets is primarily a result of the expansion project in Hsinchu Science Park.
2. The increase in other assets is primarily a result of the decrease in prepayments for business facilities.
3. The increase in current liabilities and increase in long-term liabilities are primarily a result of the repayment of short-term loan and increase in long-term loan.
4. The increase in total liabilities is primarily a result of the increase in long-term loan.

## II. Financial Performance

Unit: Thousand NT\$

Item \ Year	2020		2019		Increase (Decrease)	Change in (%)	Analysis on change
	Subtotal	Total	Subtotal	Total			
Total net operating revenue	\$5,163,092		\$4,887,932				
Less: Sales returns and allowances	(6,542)		(19,929)				
Net operating revenue		5,156,550		4,868,003	288,547	5.9%	
Operating cost		(3,609,958)		(3,441,560)	(168,398)	4.9%	
Operating margin		1,546,592		1,426,443	120,149	8.4%	
Operating expenses		(839,619)		(753,256)	(86,363)	11.5%	
Net operating profit		706,973		673,187	33,786	5.0%	
Non-operating income (expenses)		(23,425)		13,036	(36,461)	-279.7%	
Net profit before tax		683,548		686,223	(2,675)	-0.4%	
Income taxes (expenses)		(144,072)		(147,023)	2,951	-2.0%	
Net income of the current period		539,476		539,200	276	0.1%	
Other comprehensive income		(25,087)		11,245	(36,332)	-323.1%	
Total comprehensive income of the current period		514,389		550,445	(36,056)	-6.6%	

Explanation: 1. Decrease in non-operating revenue (expenses): Primarily a result of the increase in foreign exchange loss.  
 2. Decrease in other comprehensive income: Primarily a result of the decrease in exchange differences on translation of foreign financial statements.

### III. Cash Flow Analysis

#### (I) Summary of net cash flow change analysis in the most recent year

Year Item	2020	2019	Increase (Decrease) (%)
Cash flow ratio	72.16	58.62	23%
Cash flow adequacy	60.11	68.44	-12%
Cash flow reinvestment ratio	5.12	5.65	-9%
Analysis on increase/decrease:			
1. Cash flow ratio: Primarily a result of the decrease in current liabilities.			

#### (II) Cash flow analysis for the coming year

Unit: Thousand NT\$

Cash balance at the beginning of the period	Yearly net cash inflow from operating activities	Yearly cash outflow	Cash Surplus (Shortage)	Remedies for cash shortage	
				Investment plan	Financing plan
713,533	1,164,880	(1,179,361)	699,052	None	Yes
1. Analysis on changes of cash flow for the coming year: <ol style="list-style-type: none"> <li>(1) Operating activities: the net cash inflow, NT\$1,164,880 thousand, is projected to be generated from the Company's earnings 2021.</li> <li>(2) Investing activities: the net cash out flow, NT\$403,554 thousand, is projected to be generated from the purchase of equipment and replacement of old equipment with new one in 2021.</li> <li>(3) Financing activities: the net cash outflow, NT\$775,807 thousand, is projected to be generated from repayment of the loan and distribution of cash dividends and employee bonus in 2021.</li> </ol> 2. Corrective measures against projected insufficient cash position and analysis on liquidity: No such situation.					

#### IV. Impacts of Major Capital Expenditures in the Most Recent Year to Financial Performance

##### (I) Major capital expenditure utilization status, source of capital and nature of capital expenditures to be invested in the next five years

NT\$ Thousand

Project	Actual or expected source of capital	Actual or expected date of completion	Total required capital	Actual or scheduled capital utilization				
				2020	2021	2022	2023	2024
New reclaimed wafer fab construction project in Jhunan.	Cash inflow from operating activities and financing activities	2020.03.17	2,806,661	908,682	-	-	-	-
Acquisition of Dahu Factory	Cash inflow from operating activities and financing activities	2020.12.17	582,436	588,696	-	-	-	-

##### (II) Expected benefits derived therefrom

Purchase additional automated equipment to cut the unit cost, and improve production capacity and product quality; expand and purchase factory premises to increase the production capacity, decrease external warehousing cost, and boost the Company's operating revenue and earnings.

#### V. Causes of Profit or Loss Incurred on Investments in the Most Recent Year, and Any Improvements or Investments

The Company invested in Winsheng Material Technology (Wmt) in 2020, and held 19.8% of the equity thereof.

##### (I) Investment Policy in the Most Recent Year

The Company has invested in the business integrating upstream and downstream dealers in the most recent year, hoping to increase the R&D strength and add the product value as its main policy.

##### (II) Reason for Investment Loss and Corrective Actions

The investment in Winsheng Material Technology (Wmt) resulted in the loss in the most recent year. As the company is still research and developing products, no products are launched by it to the market. Therefore, its R&D and personnel expenses are the key to the loss. Notwithstanding, it will continue to invest the R&D and complete the capital increase in Q1 2021.

## (III) Investment plan for the coming year

The Company will continue to review various investment projects from the long-term strategic point of view, in order to deal with the future market and demand for expansion of production capacity to keep improving the Company's competitiveness in the world.

## VI. Analysis on Risk Issues for the Most Recent Year until the Publication Date of the Annual Report

## (I) Effects that interest, exchange rate fluctuation and inflation have on the profits and losses of the Company as well as the future response measures

## 1. Effects that foreign exchange income and interests, revenue and expenditure have on the Company's income

Unit: Thousand NT\$

Item	2020	Q1 2021
Net foreign exchange gains (losses) (1)	(14,465)	(1,933)
Net operating revenue (expenses) (2)	(16,267)	(9,808)
Net operating revenue (3)	5,156,550	1,464,737
Net foreign exchange gains (losses) to net operating revenue (1)/ (3)%	(0.28)	(0.13)
Net interest revenue (expenses) to net operating revenue (2)/ (3)%	(0.32)	(0.67)

The percentage of the Company's exchange gains and interest revenue to the net operating revenue is considerably low. The Company's income remained unaffected by the fluctuation in foreign exchange rate and interest rate. Therefore, the Company's short-term interest rate and foreign exchange rate policy still upholds stability and avoid fluctuations.

## 2. Effects that inflation has on the Company's income

The Company's income remained unaffected by the inflation in the most recent year.

## 3. The Company's countermeasures against fluctuations in foreign exchange rate and interest rate.

Collect the information about fluctuations in foreign exchange rate and interest rate and analyze potential fluctuations in foreign exchange rate to take adequate countermeasures timely.

## (II) Policies on transactions involving high risks, highly leveraged investments, funds lending to others, endorsement or guarantee and derivatives, the main reasons for the profit or loss of these transactions and future countermeasures

The Company doesn't engage in any transactions involving high risks, highly leveraged investments, funds lending to others, endorsement or guarantee and derivatives. With respect to loaning funds to others, making endorsements/guarantees and derivatives trading, the Company establishes the "Operating Procedure for Loaning of Funds to Others," "Regulations Governing Making of Endorsements/Guarantees" and "Procedure for Acquisition or Disposal of Assets" as the rules to be followed.

### (III) Future R&D Plans and Estimated R&D Expenses

The company has continued to develop towards diversification in recent years. The company is not only a leader in grinding tool manufacturing and grinding foundry services (hard and brittle materials) with the direction of its core future product development towards grinding tools, grinding technology and diamond materials, but will expand the application of the core technologies in the fields of energy-saving and electronics, combine industry trends at any time, provide customers with the best solutions, and become one of the most competitive companies in the world. The following are the company's key R&D products in the future:

- A. Advanced CMP diamond disks for the 3nm/2nm semiconductor manufacturing process.
- B. Reclaimed wafers from non-silicon-based hard and brittle materials.
- C. High-number semiconductor grinding wheels.
- D. Diamond Rollers

The above are the key R&D projects expected in the next few years. The estimated R&D expenditure in 2021 is about NT\$100 million.

### (IV) Effects of and response to changes in local and foreign policies and regulations relating to corporate finance and sales

The Company's management team will keep observing the important domestic and foreign policies related to the Company's business and finance, and changes in the laws and regulations. Meanwhile, the Company also made adjustment in response to the competent authority's amendments to the corporate governance and Company Act. For the time being, such amendments do not pose any major impact to the Company's business and finance.

(V) Effects of and response to changes in technology and the industry relating to corporate finance and sales

1. Analysis and evaluation on changes in technology and the industry

The Company will adjust its business strategies in response to changes in the industry from time to time, and recruit excellent talents timely, in order to continue improving the Company's R&D abilities, upgrade the Company's competitiveness and mitigating the impact posed by the changes in technology and the industry to the Company's business and finance. Meanwhile, the Company will keep observing changes in the industry and respond to the market trend effectively and rapidly.

2. Information Security Risk Assessment and Analysis

The Company has built a full-range network and computer security defense system which may monitor and block illegal computer and equipment in the network environment, and strictly control the access to the intranet. The Company also applies authorized and certified equipment to maintain the Company's operations of important functions, such as business, production and manufacturing, and accounting and finance.

Notwithstanding, in consideration of the ever-changing hacking skills, the Company cannot guarantee that the computer system may avoid external attacks completely. Under such circumstance, when the Company's intranet is hacked so that the Company's operating equipment and data are ruined, the Company's system might lose its important data, and the operating system might cause the production to be affected due to the hacking, thereby affecting the shipment to customers and impairing the Company's goodwill.

In order to deal with the multiple threats, the Company's MIS Dept. considers that the best way should be to verify the priority of network risks to be evaded. The information security needs more visible and stronger multi-layer interconnecting safety defense system, so that the new threats may be relieved.

Given said threats, the Company constructs such safety defense system which adopts the technological analysis, such as real-time scanning, webpage and classification of files, behavior analysis, high file harmlessness and prevention of kidnapping, ransomware and malicious program files, and is also able to protect the terminal device and mails as its goal. Meanwhile, the Company will check the vulnerability scanning system and terminal device behavior defense system on the network periodically to prevent the threatening potential risk existing in the Company's computer equipment from causing losses to the Company's operations and ransomware to reduce attacks to the Company largely and block the attack from malicious programs.

So far, the Company has not yet suffered any major cyber attacks or any event that would harm the Company's business and operations significantly. For the time being, the Company keeps various business systems functioning steadily under the defense system.

(VI) Impact of change in the corporate image on crisis management, and countermeasures

The Company is used to upholding the management philosophy adhering to profession and ethics and values the corporate identity and risk controls. For the time being, there is no crisis foreseeable. In the future, the Company will fulfill the corporate social responsibility while maximizing the shareholders' equity.

(VII) Expected benefits from, risks relating to, and response to merger and acquisition plans

So far, the Company has had no new merger and acquisition projects.

(VIII) Expected benefits from, risks relating to, and response to factory expansion plans

The Nanchang Factory expansion has been completed in 2020. Then, the Company's overall operating revenue and profit are expected to increase accordingly.

The Dahu Factory in Yingge has completed the procurement project in Q4 2020. The warehousing cost and risk are expected to be reduced accordingly. Meanwhile, it may earn rental income to keep the resilience for expansion in the future.

(IX) Risks relating to and responses to excessive concentration of purchasing sources and excessive customer concentration

The income earned from the Company's largest customer accounted for 22.86% of the Company's net sales, increasing from last year, primarily a result of the increase in the customer's demand this year. In the future, the Company will continue to develop new customers domestically and overseas and decrease the proportion of income from a single customer to the net sales to mitigate the risk over concentrated sales. Last year, the supplies from the Company's largest supplier accounted 11.12% of the net purchases, primarily for strategic purchases of raw materials. Notwithstanding, the Company will continue to assess the supplier based on the product quality, purchase cost and supplier's degree of cooperation. In addition to the fair long-term cooperative suppliers, the Company will also use its best effort to develop fine-quality suppliers to evade the risk over concentrated purchases.

- (X) Effects of, risks relating to, and response to large share transfers or changes in shareholdings by Directors, Supervisor or Shareholders with shareholdings of over 10%

The Company's Directors, Supervisor or Shareholders with shareholdings of over 10% all hold the Company's stocks for a long term stably. So far, no large share transfer or change has been found.

- (XI) Effects of, risks relating to, and response to the changes in management

The Company's management structure has remained stable permanently and no risk related to changes has been arising so far.

- (XII) For litigation or non-litigation cases involving the Company, Directors, Supervisors, General Manager, actual persons in-charge or major Shareholders with a stake of 10% or more that have been concluded or are still pending, and have a material impact on the Shareholders' interest or security prices, the disclosure should be made regarding the content of the disputes, the sum of penalty or claim, the commencement date of the suits, the parties involved and the status as of the publication date of the annual report

1. For the technology cooperation project between the Company and Mr. Chien-Min Song (hereinafter referred to as the "Cooperation Project," the Company has retained the attorney-at-law to initiate and prosecute the legal actions with the court from 2013 until now:
  - (1) The Company was aware in 2012 that Chien-Min Song was suspected of acting against his job duty and the contract. Therefore, the Company retained its legal counsel, Backer McKenzie, to take relevant legal actions and procedures to pursue Chien-Min Song's legal liability, in order to protect the Company's and all shareholders' equity. The legal actions as initiated include the following:
    - a. The Company filed a criminal action with Shilin District Prosecutors Office. Then, the Prosecutors Office rendered the ruling not to prosecute. The Company applied for a re-consideration, which was later revoked by Taiwan High Prosecutors Office. As a result, the Company applied for trial again, but the Criminal Division of Shilin District revoked the Company's application (the judgment under 107-Sheng-Peng-Zi No. 38 rendered by Shilin District Court.
    - b. The application with the Intellectual Property Court for perpetuating evidence was approved and executed (the judgment under Min-Sheng-Zi No. 11 in 2013).
    - c. The Company filed two petitions for preliminary injunction with the Intellectual Property Court to ban Chien-Min Song from disposing of or changing 14 patents derived from the Cooperation Project and 5 patents not derived from the Cooperation Project. Both petitions were approved and already executed (the judgment under Ssu-Zhi-Zhi-Chuan-Zi No. 3 and Ssu-Zhi-Zhi-Chuan-Zi No. 3 in 2013 rendered by the Shilin District Court).

- d. The Company filed the following civil actions with the Intellectual Property Court:
- The judgment under Min-Chuan-Sheng-Geng (1)-Zi No. 8 in 2019 (formerly known as Min-Chuan-Su-Zi No. 104 in 2013 and Min-Chuan-Shang-Zi No. 38 in 2016): the Intellectual Property Court rendered its judgment in the second instance on March 15, 2018, holding that according to the judgment rendered in the first instance and second instance, the Company shall own the right to work and ownership of the 14 patents derived from the Cooperation Project and Chien-Min Song should transfer and register the 14 patents to and for the Company. The Company's claim of the damages NT\$112,085,722 and petition for provisional execution against Chien-Min Song were revoked by the court. Both parties filed the appeal with the Supreme Court. The Supreme Court rendered the judgment under Tai-Shang-Zi No. 1456 in 2018 dated August 8, 2019 holding that the part related to the Company's claim of the damages, NT\$101,401,756 and US Patent Nos. 6,285,498 and 6,679,243 and TW Patent No. 87104257 against Chien-Min Song should be remanded to the Intellectual Property Court for another ruling and the part related to the Company's claim of damages NT\$10,683,966 should be revoked and became final and irrevocable accordingly.
  - The judgment under Min-Chuan-Sheng-Geng (1)-Zi No. 5 in 2020 (formerly known as Min-Chuan-Su-Zi No. 112 in 2013 and Min-Chuan-Shang-Zi No. 9 in 2017): the Intellectual Property Court rendered the judgment in the second instance on March 15, 2018 and the supplementary judgment on April 27, 2018, holding that according to the judgment rendered in the first and second instances, Chien-Min Song should transfer and register the 4 patents not derived from the Cooperation Project to the Company and should be banned from disposing of or changing the patents and the Company's claim of the damages, NT\$10,683,966 and the provisional execution against Chien-Min Song should be revoked. The judgment rendered by the Supreme Court under Tai-Shang-Zi Nos. 8 and 9 dated June 24, 2020 ruled that the part involving patents should be remanded to the Intellectual Property Court for another ruling and the Company's claim of the damages, NT\$10,683,966, should be revoked and became final and irrevocable accordingly.
  - The judgment under Ming-Chuan-Shang-Zi No. 46 in 2017 (formerly known as Min-Chuan-Su-Zi No. 95 in 2014): the Company filed a civil action with the Intellectual Property Court against the other 54 patents derived from the Cooperation Project and petitioned for the declaration that the Company owns the right to work the patents and Chien-Min Song should transfer and register these patents to the Company. The Intellectual Property Court rendered the judgment in the first instance on November 14, 2017, declaring that the Company should own the right to work 44 patents out of them and Chien-Min Song should transfer and register 33 patents out of them to the Company and the Company should be allowed to petition for provisional execution against the 33 patents. With respect to the part in disfavor of the Company, the Company has filed an appeal

pursuant to laws. Subsequently, one patent pending became invalid finally and irrevocably as Chien-Min Song didn't pay relevant fees and, therefore, the Company made no further claim against such patent. The Intellectual Property Court rendered the judgment in the second instance on June 13, 2019, declaring that the Company should own the right to work the whole 9 patents claimed in the appeal, but the Company's appeal against the transfer and registration of patents should be revoked. Therefore, in this regard, the Company has filed an appeal with the Supreme Court.

- (2) Considering that the Company's claim of damages against Chien-Min Song are higher than the payable royalty and salary, the Company stopped the payment and claimed offset. Chien-Min Song filed three legal actions with Taipei District Court and Intellectual Property Court, respectively, for the payment of royalty (under Zhong-Su-Zi No. 926 in 2013, Min-Chuan-Su-Zi No. 11 in 2014 and Min-Chuan-Su-Zi No. 40 in 2019). For the time being, the claimed damages total NT\$83,361,273:
  - a. Among the other things, Taipei District Court rendered the judgment against the action under Zhong-Su-Zi No. 926 in 2013 in the first instance on November 25, 2016, ordering the Company to pay Chien-Min Song the royalty amounting to NT\$29,222,146. In this regard, the Company has filed an appeal pursuant to law. As the Taiwan High Court transferred its jurisdiction, the appeal is now pending trial by the Intellectual Property Court in the second instance (Min-Chuan-Shang-Zi No. 6 in 2019). Chien-Min Song cut the claimed damages to NT\$26,299,931 in the second instance.
  - b. Intellectual Property Court rendered the judgment against the action under Min-Chuan-Su-Zi No. 11 in 2014 in the first instance on November 29, 2018, ordering the Company to pay Chien-Min Song the royalty amounting to NT\$57,061,342. Therefore, in this regard, the Company has filed an appeal with the Intellectual Property Court (Min-Chuan-Shang-Zi No. 8 in 2019).
  - c. Chien-Min Song filed the complaint under Min-Chuan-Su-Zi No. 40 in 2019 with the Intellectual Property Court, claiming that the Company should present the royalty calculation details and sales information about the CMP diamond disk DG, SDG and ODD as the basis for his calculation of the royalty. The Intellectual Property Court renders the judgment in the first instance on December 6, 2019, holding that it should not be necessary for the Company to present said DG and SDG information, except the ODD product information. The Intellectual Property Court rendered the judgment under Min-Chuan-Shang-Zi No. 2 in 2020 in the second instance on October 29, 2020, which sustained the first-instance judgment. Both parties have filed an appeal with the Supreme Court accordingly.
- (3) At the beginning of July 2015, the Company has successively received letters of complaint and amended letters of complaint (the U.S. District Court for the District of Delaware, Case No. 1:14-cv-01027) against the infringement upon US Patent No. 8,777,699 (hereinafter referred to as the "US Patent '699"), US Patent No. 6,679,234 (hereinafter referred to as the "US Patent '243") and US Patent No. 6,286,498 (hereinafter referred to as the "US Patent '498"):

- a. The “US Patent ‘699” should be an invalid patent for lack of novelty. Even it should be considered valid, according to the Cooperation Project contract, the Company should hold the “ownership” of and “right to work” the “US Patent ‘699,” “US Patent ‘243” and “US Patent ‘498” and, therefore, should be free from any infringement upon these patents.
- b. The Company has retained its legal counsel, Baker McKenzie, to file the IPR procedure with the United States Patent and Trademark Office to petition for the declaration that the “US Patent ‘699” should be invalid and also petition with Taiwan’s Intellectual Property Court for preliminary injunction and provisional injunction maintaining a temporary status quo and initiate a civil action with the Court claiming that Chien-Min Song should allow the Company to work the “US Patent ‘699” and patents related thereto, the Company should be declared to own the right to work the patent and Chien-Min Song should transfer and register the patent to the Company (Chuan-Su-Zi No. 96 in 2014), in order to maintain the Company’s and all shareholders’ equity.
  - The petitions for said preliminary injunction and provisional injunction maintaining a temporary status quo (Min-Chuan-Zi No. 8 and Min-Chan-Zi No. 11 in 2013) have been approved and executed satisfactorily (the judgment under Ssu-Zhi-Zhi-Chuan-Zi No. 1 and Ssu-Zhi-Zhi-Chuan-Zi No. 2 in 2015 rendered by Shilin District Court) and sustained by the Supreme Court’s judgment finally.
  - The Patent Trial and Appeal Board (hereinafter referred to as “PTAB”) has rendered its written decision on November 4, 2015 against the “US Patent ‘699,” which was final and irrevocable, holding that “US Patent ‘699 should be considered invalid, as Claims 1~12 and 17~19 thereof lacked novelty or non-obviousness.”
  - The Company received the Intellectual Property Court’s judgment rendered against our civil action in the second instance (Min-Chuan-Shang-Zi No. 17 in 2016) on March 9, 2017, which held that the first-instance judgment should be sustained, holding that the Company should hold the right to work the patent, but the Company’s petition for transfer and registration of the patent right should be revoked. With respect to the part in disfavor of the Company, the Company has filed an appeal with the Supreme Court. Notwithstanding, Chien-Min Song didn’t file an appeal against the other part in favor of the Company. Therefore, the judgment rendered by Taiwan’s court against the Company’s right to work the “US Patent ‘699” and its corresponding patents in Taiwan should become final and irrevocable. The Supreme Court rendered the judgment under Tai-Shang-Zi No. 399 dated June 24, 2020, holding that the application for transfer and registration of the patents should be remanded to the Intellectual Property Court for another ruling.
- c. The petitions for preliminary injunction against the “US Patent ‘243” and “US Patent ‘498” claimed in the case under Min-Chuan-Shang-Zi No. 38 in 2016 have been approved and executed satisfactorily (the judgment under Ssu-Zhi-Zhi-Chuan-Zi No. 3 in 2013 rendered by Shilin District Court) and sustained by the Supreme Court’s judgment finally. Meanwhile, the Intellectual Property

Court rendered the judgment in the second instance declaring that the Company should hold the right to work the patents and own two-thirds of the ownership thereof until December 31, 2013, and Chien-Min Song should transfer and register the patents to the Company.

- d. The Company has started the defense before the US court, subject to the existence and progress of said legal actions initiated in Taiwan and taken any necessary legal actions to protect the Company's interest and right. Among the other things, the Company petitioned with the US court to suspend the legal proceedings against said US patents until Taiwan's court rendered its judgment against the ownership of related patents. The US court approved the Company's petition on January 19, 2016.
- (4) On March 11, 2020, the Company received the letter of complaint (the U.S. District Court for the District of Delaware, Case No. 1:20-cv-00247) against the infringement upon US Patent No. 9,724,802 (hereinafter referred to as the "US Patent '802"):
    - a. Mr. Chien-Min Song filed a complaint with the U.S. District Court for the District of Delaware, claiming that the Company's CMP diamond disk products infringed upon the "US Patent '802", et al. Notwithstanding, the "US Patent '802" was actually derived from the Cooperation Project; therefore, the Company should hold the right to work the "US Patent '802" and the ownership and right to claim transfer and registration of such Patent pursuant to the Cooperation Project contract and applicable laws. Therefore, Chien-Min Song's allegation that the Company infringed upon the patent should be a false accusation.
    - b. The Company has retained its legal counsel, Baker McKenzie, to file a legal action with Taiwan's Intellectual Property Court (Min-Chuan-Su-Zi No. 80 in 2020), claiming that the Company should be declared to own the right to work the patent and Chien-Min Song should transfer and register the patent to the Company, in order to maintain the Company's and all shareholders' equity.
2. The Company has estimated sufficient royalty liabilities and related labor service liabilities (stated as other payables), as well as the pledged time deposit, NT\$236,000 thousand (stated as refundable deposits), for the petition with the court for the preliminary injunction and provisional injunction maintaining a temporary status quo. Notwithstanding, the Company evaluated that the legal actions should not cause extra major loss to the Company.

(XIII) Other important risks, and mitigation measures

No such situation.

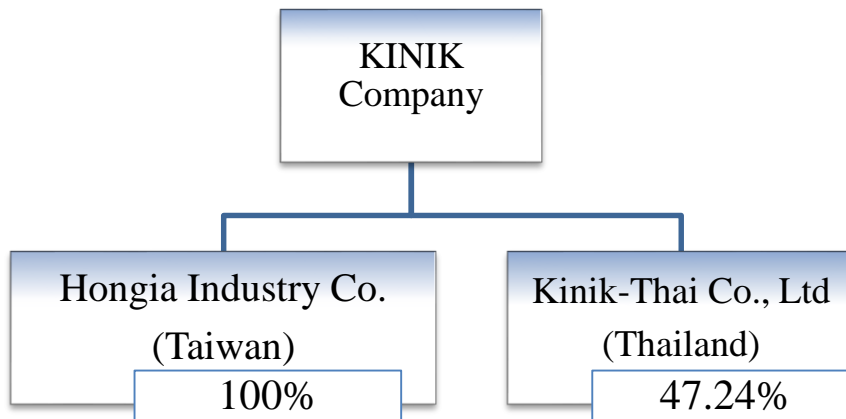
VII. Other Material Issues

None.

## Eight | Special Items to Be Records

### I. Information of Affiliated Enterprises

#### (I) Organization Chart of Affiliated Enterprises



#### (II) Basic information of affiliated enterprises

Unit: Thousand NT\$

Company name	Date of establishment	Registration place	Capital	Main business items
Hongia Industry Co.	October 4, 1978	New Taipei City	NT \$29,250	Manufacturing of other metal products, medical equipment manufacturing and surface treatment.
Kinik-Thai Co.,Ltd	February 9, 1995	Prachinburi, Thailand	THB \$102,000	Manufacturing, sales, import and export of grinding machines, and production of various cutting, polishing and grinding products.

## (III) Information of directors, supervisors and presidents of affiliated enterprises

Company name	Title	Name	Shareholding	
			Number of shares	Proportion
Hongia Industry Co.	Director	Representative of Kinik Company: PO-CHUAN, LIN	2,925,000	100%
	Director	Representative of Kinik Company: JUNG-CHE, HSIEH	2,925,000	100%
	Director	Representative of Kinik Company: BING-HSIUNG, SU	2,925,000	100%
	Supervisor	Chiu-Hsiung Kuan	0	0
Kinik-Thai Co.,Ltd	Director	Representative of Kinik Company: PO-CHUAN, LIN	481,800	47.24%
	Director	Representative of Kinik Company: JUNG-CHE, HSIEH	481,800	47.24%
	Director	PAIROJ ASAWACHAISOPON	163,200	16%

(IV) Operational Highlights of Affiliated Companies

Unit: Thousand NT\$

Company name	Total assets	Total liabilities	Net value	Operating revenue	Operating income	Current profit (loss)	Earnings per share (NT\$)
Hongia Industry Co.	129,059	63,394	65,665	136,426	10,499	7,596	2.60
Kinik-Thai Co., Ltd	673,436	101,870	571,566	483,473	61,193	54,163	58.48

II. Status of private equity securities issuing in the most recent year and as of the printing date of the annual report

No such situation.

III. Status of subsidiaries holding or disposing of the company's stock in the most recent year and as of the printing date of the annual report

No such situation.

IV. Other necessary supplementary explanations

None

**Nine | For the Most Recent Year until the Publication Date of the  
Annual Report, Matters Affecting Shareholders' Equity Stock Price  
as Prescribed in the Securities and Exchange Act, article 36  
paragraph 3 subparagraph 2:**

Please refer to (12) Explanation on P.272~276 hereof.

**Kinik Company**  
**Statement of Internal Control System**

February 24, 2021

Based on the findings of a self-assessment, Kinik Company (KINIK) states the following with regard to its internal control system during the year 2020:

1. KINIK's Board of Directors and management are responsible for establishing, implementing, and maintaining an adequate internal control system. Our internal control is a process designed to provide reasonable assurance over the effectiveness and efficiency of our operations (including profitability, performance and safeguarding of assets), reliability, timeliness, transparency of our reporting, and compliance with applicable rulings, laws and regulations.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing its stated objectives. Moreover, the effectiveness of an internal control system may be subject to changes due to extenuating circumstances beyond our control. Nevertheless, our internal control system contains self-monitoring mechanisms, and KINIK takes immediate remedial actions in response to any identified deficiencies.
3. KINIK evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control Systems by Public Companies (herein below, the "Regulations"). The criteria adopted by the Regulations identify five key components of managerial internal control: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring activities.
4. KINIK has evaluated the design and operating effectiveness of its internal control system according to the aforesaid Regulations.
5. Based on the findings of such evaluation, KINIK believes that, on December 31, 2020, it has maintained, in all material respects, an effective internal control system (that includes the supervision and management of our subsidiaries), to provide reasonable assurance over our operational effectiveness and efficiency, reliability, timeliness, transparency of reporting, and compliance with applicable rulings, laws and regulations.
6. This Statement is an integral part of KINIK's annual report and prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Law.
7. This Statement was passed by the Board of Directors in their meeting held on February 24, 2021, with none of the seven attending directors expressing dissenting opinions, and the remainder all affirming the content of this Statement.

Kinik Company

Bob Lin  
Chairman



Thomas Hsieh  
Chief Executive Officer





KINIK Company

Chairman: PO-CHUAN, LIN