TWSE3563

MACHVISION Inc. Co., LTD

Annual report 2019

Inquiry website of this annual report

(1) Public Information Observatory：http://mops.tse.com.tw/

(2) Company Website：http://www.machvision.com.tw

April 30, 2020

1. Name, title, contact number and email address of the spokesperson and agent of the company:

Speaker Name: CHEN/FU-SHEN
Title: General Manager
Telephone: (03) 563-8599
Email address: spokesman@machvision.com.tw
Acting Speaker Name: Tsai Zhengyu
Title: Director of Public Relations Office
Telephone: (03) 563-8599
Email address: spokesman@machvision.com.tw

2. Address and telephone number of Company headquarter, branch office and factory:

Company headquarter: No. 2~3, Industrial East 2nd Road, Hsinchu Science Park
Manufacturing Center: No. 2~3, Industrial East 2nd Road, Hsinchu Science Park
Telephone: (03) 563-8599

3. Name, address, website and telephone number of stock transfer institution:

Name: China Trust Commercial Bank Agency
Address: 5th Floor, No. 83, Section 1, Chongching South Road, Zhongzheng District, Taipei City
Website: http://www.ctbcbank.com
Telephone: (02)6636-5566

4. Name of visa accountant, the firm, address, and website and telephone number of the most recent annual financial report:

Visa accountant: Huang Baishu, Yu Anzhen, CPA
Accountant Firm Name: KPMG Taiwan
Address: 68th Floor, No. 7, Section 5, Xinyi Road, Taipei City
Website: http://www.kpmg.com.tw
Telephone: (02)8101-6666

5. The name of overseas securities trading location and the way to check information of this overseas: not applicable.

6. Company website: http://www.machvision.com.tw

Table of Contents

1. Report to all the shareholders

Thank you for attending our 2020 shareholders' meeting. Over the past year ,the Group's revenue in 2019 was NT$ 2.543 billion, YoY decline of 18%. In 2019, the net profit after tax was NT$866,869 thousand, decline of 34%.The operating net profit margin was 42%, the net profit after tax was 34%, the return on assets was 27%, and the return on equity was 40%.

I. Business performance in 2019

(1) Business performance

Unit: NTD thousands

Item	2019		2018		Increase(decrease)	
	Amount	%	Amount	%	Amount	%
Operating revenue	2,543,441	100	3,111,876	100	(568,435)	(18)
Gross profit from operations	1,638,922	64	2,166,682	70	(527,760)	(24)
Net operating income	1,070,497	42	1,584,152	51	(513,655)	(32)
Net income before tax	1,052,613	41	1,622,224	52	(569,611)	(35)
Net income	866,869	34	1,307,717	42	(440,848)	(34)
Basic earnings per share (NT$)	20.01		30.43		(10.42)	

(2) Budget execution situation

The company did not disclose financial forecasts in 2019. Therefore, it’s not applicable.

(3) Financial income and expenditure and profitability analysis

<table>
<tr><th colspan="3">Item</th><th>2019</th><th>2018</th><th>2017</th></tr>
<tr><td rowspan="6">Profitability</td><td colspan="2">Return on assets (%)</td><td>27</td><td>48</td><td>28</td></tr>
<tr><td colspan="2">Return on equity(%)</td><td>40</td><td>71</td><td>37</td></tr>
<tr><td rowspan="2">Rate to paid-up capital (%)</td><td>Operating income</td><td>251</td><td>372</td><td>133</td></tr>
<tr><td>Pre-tax net profit</td><td>247</td><td>381</td><td>128</td></tr>
<tr><td colspan="2">Net profit ratio(%)</td><td>34</td><td>42</td><td>32</td></tr>
<tr><td colspan="2">Basic earnings per share (NT$)</td><td>20.01</td><td>30.43</td><td>10.86</td></tr>
</table>

(4) Research and development status

The main research and development of the company in 2019 are as follows:

1.Color CSP AFI

2. Flip Chip and Bump inspection two-in-one system

II. Summary of the business plan for the year of 2020

Important production and sales policy and company development strategies：

The global economy in 2019 was adversely affected by the US-China trade war. The rate of expansion was depressed. Revenues of equipment vendors all fell by an approximately 20% to 50%. MACHVISION continue to explore the market of small and medium-sized PRC private enterprises in China and new business development for COF and Smart Camera.The consolidated revenue decreased by 18.27% but it is a smaller decrease than similar industry. This year Industrial 4.0 will take more prominence in market growth, Equipment manufacturers of automated optical inspection is gradually transform into diversified software value-added services with AI.MACHVISION has established a unicorn start-up and deepened the development of 5G related applications.

Due to the impact of the COVID-19 the global market demand has contracted severely. The company had done well to prepare since 2019.We should expect results from these efforts in 2020. COVID-19 is a challenge for all enterprises. While most foreigners had left China during COVID-19 pandemic. If foreign competitors have not established a localized customer service division in China, it will be hit hard by COVID-19. If companies still rely on Taiwanese employees to do business, they will be adversely affected by the China supply chain. For Machvision, the business and service management of each business group of the company has been 100% localized. While Taiwanese employees can not support China customers during COVID-19. In this situation will enhance resilience and competitiveness. The company will seize the opportunity and strengthen research and development.

The strong capability of R&D is always the core competitiveness of the company. In order to strengthen and maintain this competitive advantage, the company will continue to develop three core technologies for the automatic optical inspection: one for the 2D/3Dmeasurement, the second for the circuit inspection and the other for the appearance defect inspection, and will actively invest more R&D resources, implement new technology for research and development to develop new products, to create a larger market and more performance and profits. In addition to the development of new products, the company is also actively improving the functionality and efficiency of existing products, upgrading existing equipments of customers, increasing production capacity and increasing customer satisfaction.

Finally, I would like to thank all the shareholders for your continued support. Machvision will continue to work hard and create greater value for all shareholders. We seek our Shareholders continued support and encouragement as we had received in the past.

Chairman: Wang, Guang-Shiah

General Manager: Chen, Fu-Shen

Accounting Supervisor: Tsai, Chia-Fen

2. Company profile

2.1 Date of establishment: June 9th, 1998.

2.2 Company history

Date	Important events
Jun. 1998	Established the research and development center of Machvision Technology Co., Ltd., with a paid-up capital of NTD$39,900 thousands. Started development of general-purpose 2.5D measuring machine
Mar. 1999	Started to develop linear scanning technology.
Sep. 1999	Started development of ultra-high-speed hole position measuring machine.
Dec. 1999	Approved to enter Science Park.
Jan. 2000	Started research and development of micro blind hole measuring machines.
Mar. 2000	Started development of BGA testing machines and related testing technologies.
Mar. 2001	Started research and development of thin and wide lines width measuring machines.
May. 2001	The business department was established.
May. 2002	Started research and development of gold finger detectors and related technologies. 。
Aug. 2002	Promote Alpha2000 and Hole-AOI to overseas markets
May. 2003	Invested in the development of circuit AOI.
Jun. 2003	Capital increase by retain earnings of NTD$17,800 thousands, and the amount of paid-up capital after capital increase was NTD$57,700 thousands.
Mar. 2004	Established a manufacturing center in R&D 2nd Road.
May. 2004	Capital increase by retained earnings of NTD$13,300 thousands, and the amount of paid-up capital after capital increase was NTD$71,000 thousands.
Dec. 2004	Established Samoa MACHVISION INC.
Jun. 2005	Established Machvision (Dongguan) Testing Equipment Co., Ltd. The high-speed scanning 3D main body technology was successfully developed.
Jun. 2005	Capital increase of NTD$29,000 thousands, and the amount of paid-up capital after capital increase was NTD$100,000 thousands.

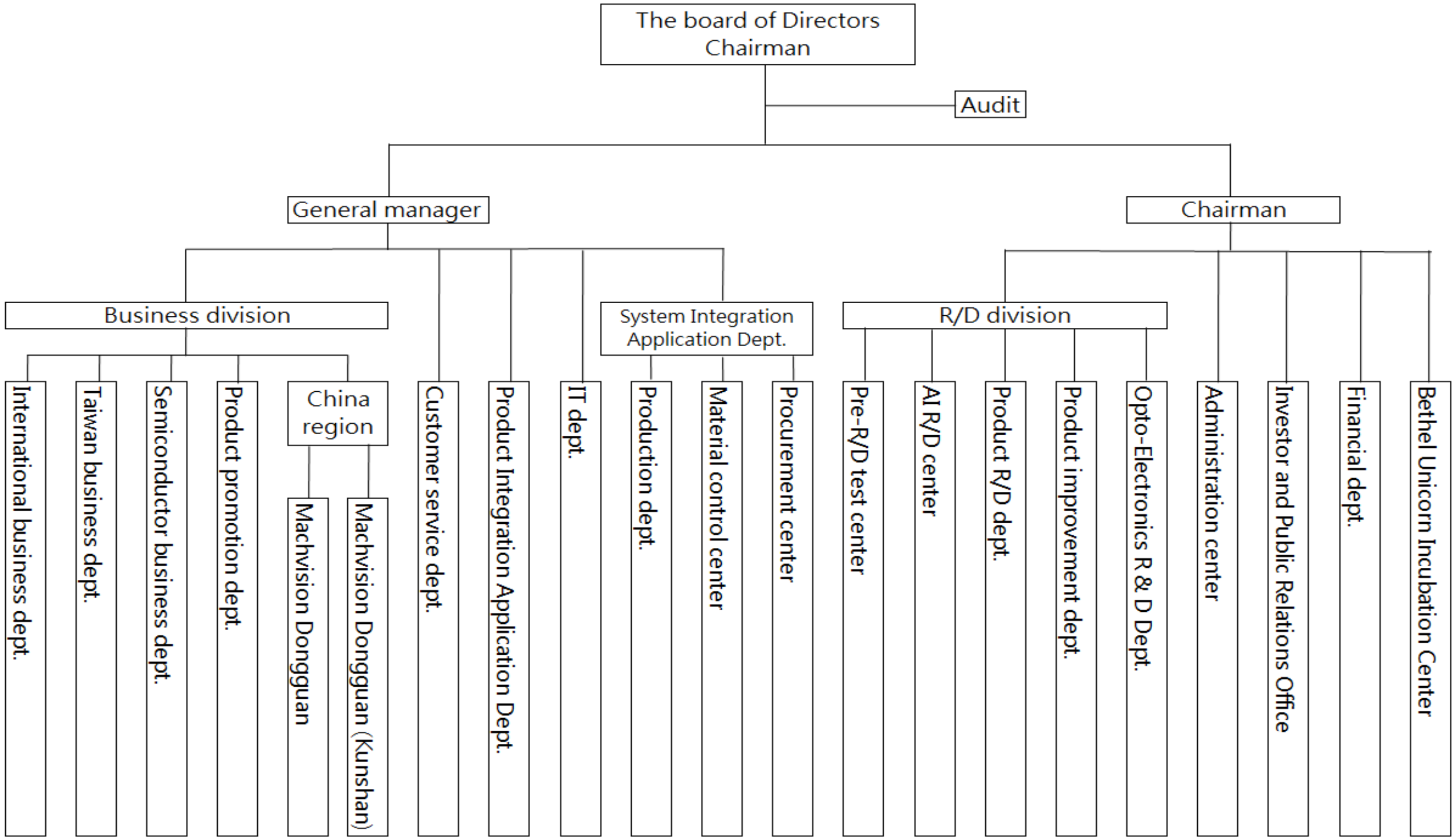
Date	Important events
Jan. 2006	Established the Kaohsiung office and is committed to software development.
Jun. 2006	Expand the operations center.
Jun. 2006	Capital increase by retained earnings of NTD$40,000 thousands, and the amount of paid-up capital after capital increase was NTD$140,000 thousands.
Feb. 2007	The manufacturing center is expanding and moved.
Feb. 2007	Capital increase for NTD$21,000 thousands, and the paid-up capital after the capital increase was NTD$161,000 thousands.
May. 2007	Handle stock public offerings.
Jun. 2007	Company's stock is registered in the trading market.
Aug. 2007	Capital increase by retained earnings of NTD$33,919 thousands, and the amount of paid-up capital after capital increase was NTD$194,919 thousands.
Sep. 2008	Capital increase for NTD$30,578 thousands, and the paid-up capital after the capital increase was NTD$225,496 thousands.
Dec. 2008	Launched a 3D stereo measuring machine.
Feb. 2009	Launched CSP Bump detector and next-generation circuit AOI inspection machine.
Mar. 2009	Invested in the development of ultra-high-speed inner inspection machine and 3D AOI printing circuit stereo inspection machine.
May. 2009	Launched the second generation AFI automatic appearance final inspection machine.
Aug. 2009	Introduced ultra-high speed inner inspection machine.
Nov. 2009	Launched 3D AOI printed circuit stereo inspection machine.
Dec. 2009	Invested in the development of LED Lead Frame inspection machine.
Sep. 2010	Launched LED Lead Frame high precision measuring machines.
Jan. 2011	Capital increase for NTD$30,070 thousands, and the paid-up capital after the capital increase was NTD$255,566 thousands.
Jan. 2011	Company stock IPO.
Mar. 2011	Launched FGF flexible PCB gold finger inspection machines.
Aug. 2011	Launched a roll-to-roll AOI inspection machine.
Aug. 2011	Capital increase for NTD$51,113 thousands, and the paid-up capital after the capital increase was NTD$306,679 thousands.
Dec. 2011	Launched FVRS Gold Finger re-inspection machines.
Aug. 2012	Capital increase by retained earnings for NTD$30,668 thousands, and the paid-up capital after the capital increase was NTD$337,347

Date	Important events
	thousands.
Sep. 2012	Launched FCCSP appearance inspection machine (elastic type).
Oct. 2012	Launched large countertop appearance inspection machine
Dec. 2012	Launched flexible appearance inspection machine.
Jul. 2013	Capital increase by retained earnings of NTD$33,735 thousands, and the amount of paid-up capital after capital increase was NTD$371,082 thousands.
Aug. 2013	Introduced new automatic appearance inspection machine AFI2 3000x400.
Oct. 2013	Capital increase for NTD$55,000 thousands, and the paid-up capital after the capital increase was NTD$426,735 thousands.
Jan. 2014	Moved to newly acquired building, No. 2~3, Industrial East 2nd Road, Hsinchu Science Park.
Mar. 2015	Launched PCB appearance inspection machine AOFI.
May. 2016	Introduced wafer appearance inspection machine Wafer AVI.
Apr. 2017	Introduced smart AOI 4.0.
Dec. 2017	Launched flexible PCB continuous circuit inspection machine
Aug. 2018	Launched thin film flip chip package appearance inspection machine and thin film flip chip packaging circuit inspection machine.
Sep. 2018	AI R&D Center established.
Mar. 2019	Established the Bethel Unicorn Incubation Center
Apr. 2019	Got listed on the Taiwan Stock Exchange Corporation (TSEC)
Oct. 2019	Introduced Color CSP AFI

3. Corporate Governance Report

3.1 Organization system

(1) Company organizational structure



(2) Operations of major departments

Department	Tasks and responsibility
Audit Department	1. Check whether company's internal control system continues to operate effectively, whether operational activities are carried out according to established plan, whether laws and regulations are actually followed and propose improvements. 2. Coordinate and promote self-inspection operations of relevant internal control implementations of various departments.
Business Department	1. Responsible for sales, promotion and execution of various products. 2. Responsible for business gathering and market development, analysis and forecasting. Product Promotion Department: Market/product marketing planning activities are promoted.
Customer Service Department	1. Installation, testing, upgrade, customer education training and question and answer after sales of domestic and foreign machines. 2. Various engineering support work within the company.
Production Department	1. Responsible for the assembly of all project machines. 2.Support all projects to carry out a large number of on-site upgrades and installations. 3. Technical data management. 4. Responsible for the installation and testing of all project machines. 5. Responsible for all project machines to be handed over to the quality assurance inspection assembly.
Product Integration Application Department	1.Product review in the initial R&D process and the improvement process. 2. Assembling and installing of all R&D machines. To improve and manage the technical and testing documents. 3. Support R&D Demo and PK.
Information Security Management Department	1. Responsible for the planning, promotion and management of company information operations. 2. Information computerization promotion center. 3. Various computerized information collection, provision and control. 4. Various software and hardware equipment planning and control.

Department	Tasks and responsibility
	5. Various computer knowledge education and training implementation promotion center.
System Integration Application Department	1. Integrate system resources of various departments. 2. Process improvement works in various departments.
Material Control Center	1. Production scheduling. 2. Production/logistics/warehousing management.
Procurement Center	1. Plan various direct/indirect material procurement strategies and formulate procurement performance targets. 2. Collect market information on supply and demand and prices of materials in the industry, and maintain good relations with various manufacturers. 3. Integrate production schedule and material balance, and is responsible for production and sales coordination. 4. Inventory management.
R/D Department	Artificial Intelligence R&D Center: 1. Develop and improve AI technologies. 2. AI technologies import to AOI and AVI products.
	Pre-development testing center: 1. Core algorithm development. 2. New technology integration design. 3. Feasibility assessment of new product development.
	Product research and development: 1. Develop and develop new products. 2. Control and conduct development projects. 3. Support the core technologies required for each project development. 4. Collection/induction of project documentations.
	Product Improvement Department: 1. Development and improvement of PCB appearance final inspection machines. 2. Development and improvement of inner and outer circuit inspection machines.
	Opto-Electronics R & D Department: 1. Support the core technologies required for each project development. 2. Optical machine designs and optical machine experiments. 3. Project image data maintenance. 4. Collection and summary of project documents. 5. R&D to production data and technology transfer.

Department	Tasks and responsibility
	6. Engineering change data transfer (drawing, material list, checklist).
Administration center	Administrative Personnel Center: 1. Coordinating administrative, general affairs, and human resources matters. 2. Planning, coordination and promotion of project plans. 3. Company image and marketing affairs planning and execution. Information Management Center: 1. Responsible for the management of the issuance, recycling, destruction and archiving of related documents. 2. Production, modification, filing and storage of technical documents. 3. Technical drawings, engineering specifications, BOM changes/releases/management. Labor Safety Center: 1. Responsible for work environment safety measures. 2. Emergency response plan. 3. Health implementation of labor safety operations.
Investor and Public Relations Office	1. Responsible for shaping of the corporate image and developing PR strategies and campaigns. ◦ 2.Responsible for managing communication between a company's corporate management and its investors.
Financial Department	1. Responsible for accounting operations, business analysis and tax planning. 2. Responsible for financing planning, fund management and scheduling, and customer credit management. 3. Long-term and short-term investment evaluation and management.
Bethel Unicorn Incubation Center	Constructing an entrepreneurial ecosystem by introducing promising startups.

3.2 Board Members

3.2.1 Information Regarding Board Members

MARCH 31, 2020

Title/Name	Nationality or place of registration	Gender	On board date	Term of office	First on board date	Shares Held When Elected		Shares Currently Held		Shares Currently Held by Spouse & Minors		Holding shares with others		Major education/experience qualification	Currently titles serving as this company and other companies	Other managers, directors or supervisors with relationships within the relationship of spouse or second-degree relative		
						Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Chairman WANG/GUANG-SHIAH	R.O.C.	Male	12/14/18	3 yrs.	05/26/98	1,366,353	3.21%	1,366,353	3.21%	69,654	0.16%	-	-	Ph.D., Institute of Industrial Engineering, Pennsylvania State University Professor, Department of Industrial Engineering Management, Chung Hua University	Company's chief technical officer Director of Machvision (Dongguan) Testing Equipment Co., Ltd. Chairman of Autovision Technology Co., Ltd. (legal representative) Chairman of Sigold Optics Inc. (legal representative) Chairman of SISSCA Co.,Ltd. (legal representative)	-	-	-
Director CHUANG/YUNG-SHUN	R.O.C.	Male	12/14/18	3 yrs.	12/07/05	401,721	0.94%	401,721	0.94%	-	-	-	-	Master of International Business Studies, National Taiwan University Master of Business Administration, Tulane University, USA Bachelor of Electronic Engineering, National Taiwan University of Science and Technology Chairman of AAEON Technology Co., Ltd.	Chairman of AAEON Technology Co., Ltd. (legal representative) Chairman of Yenyu Investment Co., Ltd. (legal representative) Chairman of Medical Yang Technology Co., Ltd. (legal representative) Chairman of AAEON Technology (Suzhou) Co., Ltd. (legal representative) Please see note 1 for other concurrent positions.	-	-	-

Title/Name	Nationality or place of registration	Gender	On board date	Term of office	First on board date	Shares Held When Elected		Shares Currently Held		Shares Currently Held by Spouse & Minors		Holding shares with others		Major education/experience qualification	Currently titles serving as this company and other companies	Other managers, directors or supervisors with relationships within the relationship of spouse or second-degree relative		
						Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Director YU/MING-CHANG	R.O.C.	Male	12/14/18	3 yrs.	08/07/08	1,032,829	2.42%	1,032,829	2.42%	16,000	0.04%	-	-	Master of Electrical Engineering, Tsinghua University Deputy General Manager of Stark Technology Co., Ltd.	Director of board of Stark Technology Inc. Director of Aspeed Technology Co., Ltd. (legal representative) Supervisor of board of Ateck OEM Technology Inc. Director of Autovision Technology Co., Ltd. (legal representative) Director of board of ChipAI Co., LTD.(legal representative) Independent director of board of CipherLab Co., Ltd.	-	-	-
Director CHANG/YUNG-YANG	R.O.C.	Male	12/14/18	3 yrs.	05/25/07	1,282,842	3.01%	1,282,842	3.01%	-	-	-	-	Doctor of Science and Technology, Institute of Science and Technology Management, Chung Hua University Associate Professor, Kainan University Vice-principal of Taoyuan community college Consultant of Changqiao Accounting firm	Chairman of Changhong Enterprise Management Consulting Co., Ltd. Director of board of Jiuwei International company Supervisor of board of RedPay Co., Ltd.	-	-	-

Title/Name	Nationality or place of registration	Gender	On board date	Term of office	First on board date	Shares Held When Elected		Shares Currently Held		Shares Currently Held by Spouse & Minors		Holding shares with others		Major education/experience qualification	Currently titles serving as this company and other companies	Other managers, directors or supervisors with relationships within the relationship of spouse or second-degree relative		
						Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Director YAN/WEI-CHYUN	R.O.C.	Male	12/14/18	3 yrs.	06/10/13	265,433	0.62%	265,433	0.62%	-	-	-	-	Master of Business Administration, City University of New York, USA Chairman and General Manager of Atech OEM Co., Ltd.	Chairman and General Manager of Atech OEM Co., Ltd. Director of board of CipherLab Co., Ltd. Director of board of AAEON Technology (Suzhou) Co., Ltd. (legal representative) Please note 2 for other concurrent positions	-	-	-
Director CHEN/FU-SHEN	R.O.C.	Male	05/29/19	3 yrs.	05/29/19	26,000	0.06%	26,000	0.06%	-	-	-	-	Master of Industrial Engineering, Tsinghua University Wafer works Group Chairman Special Assistance and Deputy General Manager of Subsidiary Operations	The company's general manager General manager of Sigold Optics Inc. Chairman of RedPay Co., Ltd.(legal representative) Chairman of MiM Tech. Inc.(legal representative) Chairman of ChipAI Co., LTD.(legal representative) Director of board of SISSCACo.,Ltd.(legal representative)	-	-	-

Title/Name	Nationality or place of registration	Gender	On board date	Term of office	First on board date	Shares Held When Elected		Shares Currently Held		Shares Currently Held by Spouse & Minors		Holding shares with others		Major education/experience qualification	Currently titles serving as this company and other companies	Other managers, directors or supervisors with relationships within the relationship of spouse or second-degree relative		
						Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Independent director LEE/TSU-DER	R.O.C.	Male	12/14/18	3 yrs.	05/27/16	-	-	-	-	1,000	0.00%	-	-	Bachelor of Dental Medicine, Taipei Medical University Chairman of Taipei Medical University	Director of Taipei Medical University Please see note 3 for other concurrent positions	-	-	-
Independent director YEN/TZONG-MING	R.O.C.	Male	12/14/18	3 yrs.	05/26/17	-	-	-	-	-	-	-	-	Master of Economics, Soochow University Director of Science and Technology Parks Professor, Department of Business Administration, Chung Hua University Professor, Department of Business Administration, Hsuan Chuang University	Supervisor of board of Alberex Electronic Co., Ltd. Director of board of Private Hsinchu Guangfu Senior High School Visiting professor of Institute of Enterprise Management, Huan Chuang University Senior Consultant of Wholetech System Hitech Limited	-	-	-
Independent director DU/MING-HAN	R.O.C.	Male	12/14/18	3 yrs.	12/14/18	-	-	-	-	-	-	-	-	Master of Management Science, Tamkang University Senior Deputy General Manager of Taiwan Microsoft Corporation President of Taiwan World Vision	International World Vision Asia Convener	-	-	-

Note 1: Director of board of AAEON Electronics Inc., director of board of AAEON TECHNOLOGY (Europe) BV, director of board of AAEON TECHNOLOGY GMBH, director of board of AAEON TECHNOLOGY SINGAPORE PTE. LTD., director of board of Mcfees Group Inc. director of board of Beike Star Venture Capital Company (legal representative), director of board of Lihong Biochemical Technology Co., Ltd., director of board of Guangyang Solar Ltd. Co. (legal representative), director of board of Tongheng Technology Ltd. Co. (legal representative), Director

of board of Yayuan Technology (share) company(legal representative), director of board of Qiqi Electronics (Dongguan) Co., Ltd., director of board of DanyangQiqi Technology Co., Ltd., director of board of Chengsheng Biomedical Investment Holding Co., Ltd.(legal representative), director of board of Machvision (Dongguan) Testing Equipment Co., Ltd. (legal representative), chairman of Yanxin Investment Co., Ltd., director of board of Taiyong Electronics (Suzhou) Co., Ltd. (legal representative), Independent director of Taihao Electronics, director of board of Allied Oriental International Ltd. (legal representative), chairman of the AAEON Culture and Education Foundation, chairman of Fu Li Investment Co., Ltd. Director of board of Litemax Electronics Inc., Director of board of Litemax Technology, Inc., Director of board of Sic Bo Electronics Industry Co., Ltd., Director of board of Qunzhi Technology Co., Ltd. (legal representative), Chairman of Onyx Healthcare (Shanghai)Inc.(legal representative), Chairman of Onyx changyang technology Inc.(legal representative), Director of board of ONYX Healthcare Europe B.V., Director of board of ONYX Healthcare USA, INC., Director of board of yibao-jhihren Inc.(legal representative), Director of board of Winmate Inc.(legal representative), Director of board of IBASE TECHNOLOGY INC.(legal representative), Director of board of Taiwan university of science and technology innovation Inc.

Note 2: Director of board of AAEON TECHNOLOGY (Europe) BV, Director of board of AAEON Technology Inc.(legal representative), Chairman of Qiqi Electronics (Dongguan) Co., Ltd. (legal representative), Chairman of DanyangQiqi Technology Co., Ltd. (legal representative, Independent Director of Mudong Optoelectronics Co., Ltd., Chairman of Yayuan (Yichang) Electronics Co., Ltd. (legal representative), Director of board of ATECH Technology (SAMOA) Ltd. (legal representative)), Director of Growth Profits Group Limited (legal representative), Director of Outstanding Electronics Manufacturer Group Co., Ltd. (legal representative), Supervisor of board of Autovision Technology (share) company, independent director of Yinghua Precision Technology Co., Ltd., Director of board of Sigold Optics Inc.(legal representative) , Director of board of MiM Tech. Inc.(legal representative), Director of board of RedPay Co., Ltd.(legal representative)..

Note 3: Director of board of handing Ltd.(legal representative), Chairman of handing biotechnology management consultant Ltd.(legal representative), Independent director of China general plastics corporation, Director of board of Diamond capital management Ltd. (legal representative), Director of board of Diamond biotechnology investment Ltd. (legal representative), Director of board of Xinyao biotechnology investment Ltd.(legal representative), Director of board of Dermei Int. Co., Ltd, Director of board of Digivideo International. Co., Ltd, Director of board of Onyx Healthcare Ltd., Director of board of Dermei Int. Co., Ltd, Director of board of Digivideo International. Co., Ltd.

3.2.2 Major shareholders of juristic person shareholders: None.

3.2.3 The major shareholder of juristic person shareholder is juristic person shareholder representative: None.

3.2.4 Directors and Independent Directors information

March 31, 2020

Condition / Name	Have more than five years of work experience and following professional qualifications			In line with independence (Note)												Also serves as the number of independent directors of other public offering companies
	Business, legal, finance, accounting or corporate business must be lecturer or above of public and private colleges and universities of relevant departments	Judges, prosecutors, lawyers, accountants or others with national examinations approved, required for company business, and specialized professional and technical personnel with certificates	Business, legal, finance, accounting or work experience related to corporate business	1	2	3	4	5	6	7	8	9	10	11	12	
WANG/GUANG-SHIAH	✓		✓					✓	✓	✓	✓	✓	✓	✓	✓	0
YU/MING-CHANG			✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	1
CHANG/YONGSHUN	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	0
CHUANG/YONGZHEN			✓	✓	✓		✓		✓	✓	✓	✓	✓	✓	✓	1
YAN/WEI-CHYUN			✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	2
CHEN/FU-SHEN			✓		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	0

Condition / Name	Have more than five years of work experience and following professional qualifications			In line with independence (Note)												Also serves as the number of independent directors of other public offering companies
	Business, legal, finance, accounting or corporate business must be lecturer or above of public and private colleges and universities of relevant departments	Judges, prosecutors, lawyers, accountants or others with national examinations approved, required for company business, and specialized professional and technical personnel with certificates	Business, legal, finance, accounting or work experience related to corporate business	1	2	3	4	5	6	7	8	9	10	11	12	
LEE/TSU-DER			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
YEN/TZONG-MING	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
DU MINGHAN			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0

Note: Directors, during the two years before being elected and during the term of office, meet any of the following situations, please tick the appropriate corresponding boxes:
(1) Not an employee of the company or any of its affiliates;
(2) Not a director or supervisor of the company or any of its affiliates.;
(3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the company or ranks as one of its top ten shareholders;
(4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the officer in the preceding 1 subparagraph, or of any of the above persons in the preceding subparagraphs 2 and 3;
(5) Not a director, supervisor, or employee of a corporate/institutional shareholder that directly holds five percent or more of the total number of issued shares of the company, ranks as of its top five shareholders, or has representative director(s) serving on the company's board based on Article 27 of the Company Law.
(6) Not a director, supervisor, or employee of a company of which the majority of board seats or voting shares is controlled by a company that also controls the same of the company;

(7) Not a director, supervisor, or employee of a company of which the chairman or CEO (or equivalent) themselves or their spouse also serve as the company's chairman or CEO (or equivalent);
(8) Not a director, supervisor, officer, or shareholder holding five percent or more of the shares of a specified company or institution that has a financial or business relationship with the company;
(9) Other than serving as a compensation committee member of the company, not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the company or to any affiliate of the company, or a spouse thereof, and the service provided is an "audit service" or a "non-audit service which total compensation within the recent two years exceeds NTD500,000";
(10) Not having a marital relationship, or a relative within the second degree of kinship to any other director of the company;
(11) Not been a person of any conditions defined in Article 30 of the Company Law; and
(12) Not a governmental, juridical person or its representative as defined in Aticle 27 of the Company Law.

3.3 Management Team

3.3.1 Information Regarding Management Team

March 31, 2020

Title	Nationality	Name	Gender	Elected (on boar) date	Holding shares		Spouse, minor children holding shares		Holding shares with others name		Major Education/Experience	Currently holding positions of other companies	Spouse or second degree of kinship relationship as manager		
					shares	%	shares	%	shares	%			Title	Name	Relation
Chairman and Chief Technology Officer of R/D dept.	Republic of China	WANG/ GUANG-SHIAH	Male	07/01/06	1,366,353	3.21%	69,654	0.16%	-	-	Ph.D., Institute of Industrial Engineering, Pennsylvania State University Professor, Department of Industrial Engineering Management, Chung Hua University	Company's chief technical officer Director of Machvision (Dongguan) Testing Equipment Co., Ltd. Chairman of Autovision Technology Co., Ltd. (legal representative) Chairman of Sigold Optics Inc. (legal representative) Chairman of SISSCA Co.,Ltd. (legal representative)	-	-	-
General Manager	Republic of China	CHEN/FU-SHEN	Male	04/10/14	26,000	0.06%	-	-	-	-	Master of Industrial Engineering, Tsinghua University Wafer works Group Chairman Special Assistance and Deputy General Manager of Subsidiary Operations Associate deputy General Manager of Alpha Crystal Technology	General manager of Sigold Optics Inc. Chairman of RedPay Co., Ltd.(legal representative) Chairman of MiM Tech. Inc.(legal representative) Chairman of ChipAI Co., LTD.(legal representative) Director of board of SISSCA Co.,Ltd.(legal representative)	-	-	-

Title	Nationality	Name	Gender	Elected (on boar) date	Holding shares		Spouse, minor children holding shares		Holding shares with others name		Major Education/Experience	Currently holding positions of other companies	Spouse or second degree of kinship relationship as manager		
					shares	%	shares	%	shares	%			Title	Name	Relation
											Corporation Chip Business Group Senior Technology manager and subsidiary assistant director of United Renewable Energy Co., Ltd Manager of Etching Engineering Department, Winbond Electronics, Wafer 4				
Business Deputy General Manager	Republic of China	TSENG/ WEI-LUN	Male	07/01/19	-	-	-	-	-	-	Studying EMBA in School of management of Chiao Tung University Section manage of Chip Power Technology Corp.	NA	-	-	-
Research and Development Deputy General Manager	Republic of China	WANG/ YUAN-NAN	Male	07/01/19	-	-	-	-	-	-	Master of Taiwan University Department of Mechanical Engineering General manager of Sigold Optics Inc. General manager of Anderson Industrial	NA	-	-	-

Title	Nationality	Name	Gender	Elected (on boar) date	Holding shares		Spouse, minor children holding shares		Holding shares with others name		Major Education/Experience	Currently holding positions of other companies	Spouse or second degree of kinship relationship as manager		
					shares	%	shares	%	shares	%			Title	Name	Relation
											Corp. General manager of Sigold Optics Inc.				
Financial and accounting director	Republic of China	TSAI/CHIA-FEN	Female	11/11/14	-	-	-	-	-	-	Master of Business Administration, Shih Chien University Master of Science and Technology Management, Tsinghua University Manager of PwC Taiwan Finance Department Manager of Huajing Technology Co., Ltd. Assistant manager of Wholetech System Hitech Limited	NA	-	-	-

3.3.2 Remuneration of directors, supervisors of board, general managers and deputy general managers in the most recent year

(1) Remuneration of directors (including independent directors)

December 31, 2019 Unit: thousand shares; NTD$1,000

Title	Name	Director's remuneration								The ratio of A, B, C and D four items totals to net profit after tax		Part-time employees receive relevant remuneration								The total amount of seven items A, B, C, D, E, F and G as a percentage of net profit after tax		Whether to receive the remuneration from other than subsidiary companies
		Remuneration (A)		Retirement pension (B)		Director's remuneration (C) (Note 1)		Business execution cost (D)				Salary, bonus and special expenses, etc. (E)		Retirement pens (F)		Employee compensation (G) (Note 1)						
																This company		All companies in financial report				
		This company	All companies in financial report	This company	All companies in financial report	This company	All companies in financial report	This company	All companies in financial report	This company	All companies in financial report	This company	All companies in financial report	This company	All companies in financial report	Cash amount	Cash amount	Cash amount	Cash amount	This company	All companies in financial report	
Chairman	WANG/GUANG-SHIAH	—	—	—	—	12,193	12,193	115	115	1.44%	1.44%	8,168	8,168	54	54	26,484	—	26,484	—	5.51%	5.51%	—
Director	CHUANG/YUNG-SHUN																					
Director	YU/MING-CHANG																					
Director	CHANG/YUNG-YANG																					
Director	YAN/WEI-CHYUN																					
Director	CHEN/FU-SHEN																					
Independent Director	LEE/TSU-DER	—	—	—	—	5,738	5,738	185	185	0.69%	0.69%	—	—	—	—	—	—	—	—	0.69%	0.69%	—
Independent Director	YAN/ZONGMING																					
Independent Director	DU/MING HAN																					

Note 1: The remuneration of directors and the remuneration of employees have not yet been decided, which is based on the percentage of the allocation in previous year.

Reward level table

Remuneration level paid to each director of this company	Name of director			
	The total compensation of first four items (A+B+C+D)		The total compensation of the first seven items (A+B+C+D+E+F+G)	
	This company	All companies in financial report	This company	All companies in financial report
Lower than NTD$1,000,000	—	—	—	—
NTD$1,000,000 (inclusive)~NTD$2,000,000 (excluded)	LEE/TSU-DER、YAN/ZONGMING、DU/MINGHAN	LEE/TSU-DER、YAN/ZONGMING、DU/MINGHAN	LEE/TSU-DER、YAN/ZONGMING、DU/MINGHAN	LEE/TSU-DER、YAN/ZONGMING、DU/MINGHAN
NTD$2,000,000 (inclusive)~NTD$3,500,000 (excluded)	WANG/GUANG-SHIAH、CHUANG/YUNG-SHUN、YU/MING-CHANG、CHANG/YUNG-YANG、YAN/WEI-CHYUN、CHEN/FU-SHEN	WANG/GUANG-SHIAH、CHUANG/YUNG-SHUN、YU/MING-CHANG、CHANG/YUNG-YANG、YAN/WEI-CHYUN、CHEN/FU-SHEN	CHUANG/YUNG-SHUN、YU/MING-CHANG、CHANG/YUNG-YANG、YAN/WEI-CHYUN	CHUANG/YUNG-SHUN、YU/MING-CHANG、CHANG/YUNG-YANG、YAN/WEI-CHYUN
NTD$3,500,000 (inclusive)~NTD$5,000,000 (excluded)	—	—	—	—
NTD$5,000,000 (inclusive)~NTD$10,000,000 (excluded)	—	—	—	—
NTD$10,000,000 (inclusive)~NTD$15,000,000 (excluded)	—	—	—	—
NTD$15,000,000 (inclusive) ~ NTD$30,000,000 (excluded)	—	—	WANG/GUANG-SHIAH、CHEN/FU-SHEN	WANG/GUANG-SHIAH、CHEN/FU-SHEN
NTD$30,000,000 (inclusive) ~ NTD$50,000,000 (exclude)	—	—	—	—
NTD$50,000,000 (inclusive)~NTD$100,000,000 (excluded)	—	—	—	—
More than NTD$100,000,000	—	—	—	—
Total	9 persons	9 persons	9 persons	9 persons

Note 1: This Company re-elected the directors at the shareholders' meeting on December 14, 2018. Representatives of Fuli Investment Co., Ltd.: CHUANG/YUNG-SHUN and Garnett (share) company representatives: Chuang Juwei quitted director; CHUANG/YUNG-SHUN as new director, YAN/WEI-CHYUN as new director, Du Minghan as new independent director.

(2) Remuneration of supervisor of board: Not applicable.

(3) Remuneration of general manager and deputy general managers

<table>
<tr><th rowspan="3">Title</th><th rowspan="3">Name</th><th colspan="2">Salary (A)</th><th colspan="2">Retirement pension (B)</th><th colspan="2">Bonuses and special expenses (C)</th><th colspan="4">Surplus distribution of employee bonus amount (D)</th><th colspan="2">The ratio of four items A, B, C and D total amount to the net profit after tax (%)</th><th rowspan="3">Whether to receive remuneration other than subsidiary company</th></tr>
<tr><th rowspan="2">This company</th><th rowspan="2">All companies in financial report</th><th rowspan="2">This company</th><th rowspan="2">All companies in financial report</th><th rowspan="2">This company</th><th rowspan="2">All companies in financial report</th><th colspan="2">This company</th><th colspan="2">All companies in financial report (Note 5)</th><th rowspan="2">This company</th><th rowspan="2">All companies in financial report</th></tr>
<tr><th>Cash bonus amount</th><th>Stock dividend amount</th><th>Cash bonus amount</th><th>Stock dividend amount</th></tr>
<tr><td>Chief Technical Office</td><td>WANG/GUANG-SHIAH</td><td rowspan="5">10,132</td><td rowspan="5">10,132</td><td rowspan="5">222</td><td rowspan="5">222</td><td rowspan="5">7,507</td><td rowspan="5">7,507</td><td rowspan="5">32,618</td><td rowspan="5">—</td><td rowspan="5">32,,618</td><td rowspan="5">—</td><td rowspan="5">5.92%</td><td rowspan="5">5.92%</td><td rowspan="5">-</td></tr>
<tr><td>General Manager</td><td>CHEN/FU-SHEN</td></tr>
<tr><td>Executive Vice President</td><td>HUANG/CHIA-HSING</td></tr>
<tr><td>Business Deputy General Manager</td><td>TSENG/WEI-LUN</td></tr>
<tr><td>Research and Development Deputy General Manager</td><td>WANG/YUAN-NAN</td></tr>
</table>

Note: Executive Vice President HUANG/CHIA-HSING retired on July 22, 2019.

Reward level table

Remuneration level paid to General manager and Vice President of this company	Name of General manager and Vice President	
	This company	All companies in financial report
Lower than NTD$1,000,000	—	—
NTD$1,000,000 (inclusive)~NTD$2,000,000 (excluded)	HUANG/CHIA-HSING	HUANG/CHIA-HSING
NTD$2,000,000 (inclusive)~NTD$3,500,000 (excluded)	—	—
NTD$3,500,000 (inclusive)~NTD$5,000,000 (excluded)	TSENG/WEI-LUN、WANG/YUAN-NAN	TSENG/WEI-LUN、WANG/YUAN-NAN
NTD$5,000,000 (inclusive)~NTD$10,000,000 (excluded)	—	—
NTD$10,000,000 (inclusive)~NTD$15,000,000 (excluded)	—	—
NTD$15,000,000 (inclusive) ~ NTD$30,000,000 (excluded)	WANG/GUANG-SHIAH、CHEN/FU-SHEN	WANG/GUANG-SHIAH、CHEN/FU-SHEN
NTD$30,000,000 (inclusive) ~ NTD$50,000,000 (exclude)	—	—
NTD$50,000,000 (inclusive)~NTD$100,000,000 (excluded)	—	—
More than NTD$100,000,000	—	—
Total	5 persons	5 persons

3.4 Corporate governance operation situation

3.4.1 Operation condition of the board of directors

In 2019, the eighth board of directors had 7 meetings. The directors attended were listed as follows:

Title	Name	Actual attendance	Entrusted attendance	%	Remarks
Chairman	WANG/GUANG-SHIAH	7	0	100.00	-
Director	CHUANG/YUNG-SHUN	6	1	85.71	-
Director	YU/MING-CHANG	7	0	100.00	-
Director	CHANG/YUNG-YANG	7	0	100.00	-
Director	YAN/WEI-CHYUN	7	0	100.00	-
Director	CHEN/FU-SHEN	4	0	100.00	New appointment, director re-election, appointment date May 29, 2019
Independent Director	LI/TSU-TE	7	0	100.00	-
Independent Director	YEN/TSUNG-MING	7	0	100.00	-
Independent Director	DU/MING-HAN	6	1	85.71	-

Major Resolutions of Board Meetings:

- RegularBoard Meeting of Feb. 13,2019:

  Amendment to the Procedures for the Acquisition and Disposal of Assets.
- RegularBoard Meeting of Apr. 17,2019:
  1. Amendment to the Procedures for the Acquisition and Disposal of Assets.
  2. Amendment to the the Operation Procedures of Lending Funds to Others.
  3. Amendment to the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies.
- Regular Board Meeting of Jul. 24,2019:
  1. Expecting to invest ChipAI Co., Ltd, MIM Tech Inc. and Redpay Co., Ltd.
  2. Amendment to the Procedures for the Acquisition and Disposal of Assets.
  3. Approving distribution of directors and independent directors'compensation for 2018.
  4. Approving distribution of managers and employees'profit sharing for 2018.
  5. Approving regular salary adjustment of managers for 2019.
- Regular Board Meeting of Dec. 25,2019:
  1. Approving distribution of managers' cash bonus for 2019
  2. Approvingnew managers' composition of salaries.
  3. Approving to hire of an attesting CPA for 2020.

3.4.2 Audit Committee operation conditions

The board of directors in year 2019 held 5 meetings, as follows:

Title	Name	Actual attendance	Entrusted attendance	%	Remarks
Independent Director	LI/TSU-TE	5	0	100.00	-
Independent Director	YEN/TSUNG-MING	5	0	100.00	-
Independent Director	DU/MING-HAN	4	1	80.00	-

3.4.3 Taiwan Corporate Governance Implementation as Required by Taiwan Financial Supervisory Commission

Assessment item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Explanation	
1. Does Company follow "Taiwan Corporate Governance Implementation" toestablish and disclose its corporate governance practices?	V		The company has followed "Taiwan Corporate Governance Implementation" toestablish and disclose its corporate governance practices	None.
2. Shareholding Structure & Shareholders' Rights (1) Does Company have InternalOperation Procedures for handlingshareholders' suggestions, concerns, disputes and litigationmatters. If yes, has these procedures been implementedaccordingly? (2) Does Company possess a list of major shareholders andbeneficial owners of these major shareholders? (3) Has the Company built and executed a risk management systemand "firewall" between the Company and its affiliates? (4) Has the Company established internal rules prohibiting insidertrading on undisclosed information?	V V V V		(1) The company has a dedicated staff of spokespersons and acting spokespersons, and has an investor's e-mail address to deal with shareholders' suggestions, doubts or opinions; if disputes and litigation matters, they are assisted by lawyers. (2) The Company entrusted the share-based agency to handle matters related to the share-trading and the changes in the list of the ultimate controllers of the major shareholders and major shareholders of actual control company. (3) The Company has established an internal control system and has a sound financial, business and accounting management system. The transactions with related companies are handled in accordance with the "Business Procedures for Group Companies, Specific Companies and Related Persons" of the Company. (4) The Company has set out the relevant matters concerning the specification of "Internal major information processing and prevention	None.

Assessment item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Explanation	
			of internal transaction management procedures”	
3. Composition and Responsibilities of the Board of Directors (1) Has the Company established a diversification policy forthe composition of its Board of Directors and has it beenimplemented accordingly?	V		(1) According to the “Code of Practice for Corporate Governance” of the Company, the composition of the board of directors has implemented diversification policy, and the members of the board of directors have different genders, professional backgrounds and work areas (Note 1). When setting up a board of directors, the company considers board diversity in a number of ways, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, and knowledge and service tenure. All appointments to the Board are based on the principle of meritocracy and take into account the diversity of board members in objective terms when considering candidates. The company has eight directors and three independent directors. The background of the board of directors covers the fields of management, science and engineering, finance and medicine, and is a technology industry operator, a professor of colleges and universities, an accountant, etc., with a background of industry, academics and knowledge, and can give professional advice from different angles. It is of great help to	None.

Assessment item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Explanation	
			improve the company's business performance and management efficiency.	
(2) Other than the Compensation Committee and the AuditCommittee which are required by law, does the Company planto set up other Board committees?	V		(2) The Company has set up the Remuneration Committee and the Audit Committee according to the law; other functional committees will be established according to the necessity of company's operational status	
(3) Has the Company established methodology for evaluatingthe performance of its Board of Directors, on an annual basis,reported the results of performance to the Board of Directors,and use the results as reference for directors' remuneration andrenewal?	V		(3) The evaluation of performance of the board of directors of the Company shall be handled in accordance with the "Measures for Performance Evaluation of the Board of Directors" of the Company. Performance is assessed against the attendance and contribution of directors and supervisors. 1. Attendance rate: (60% of total remuneration) Calculate the distribution ratio based on the attendance rate and term of the board of directors. The calculation formula is based on the ratio of the base of each person to the total number of directors, and the formula for calculating the base of each person is "personal attendance/(total number of meetings-1)" 2. Contribution: (40% of total remuneration) Based on the degree of contribution of directors and supervisors to the	

Assessment item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Explanation	
			company, chairman evaluates and formulates the distribution ratio according to the following items. (1) Those who contribute to the promotion of the company's business. (2) Assisting the company in contributing to the development of the normal business. The directors' remuneration is paid annually based on the above assessment results. The directors' remuneration of the company shall, in accordance with the provisions of Article 26 of the Articles of Association, deduct the amount of accumulated losses from the pre-tax profit of the current year after deducting the employee's remuneration and the remuneration of the directors, if there is still a balance of not more than 3% for directors' remuneration.	
(4) Does the Company regularly evaluate its external auditors'independence?	V		(4) According to the "Accounting Assessment and Performance Evaluation Measures" of the Company, Finance Department conducts the assessment of the independence of CPA's at the end of each year; the assessment process and results of year 2019 were reported to the Board of Directors on December 25, 2019. The year 2019 independence and eligibility assessment is outlined below: (1) Evaluate the independence and eligibility of accountants in accordance with the Code of Practice for Accountants' Professional	

Assessment item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Explanation	
			Ethics, No. 10 “Integrity, Fairness, Objectiveness and Independence” and the Code 29 of Practice for Governance of Public Companies. (2) Each quarter, the accounting firm provides a “transcendental independence statement” signed by members of the audit service team to assess its independence; and assess the eligibility of accountant's experience. The "Transitional Declaration of Independence" signed by the members of the Audit Services Team confirms that the members have not violated the relevant laws and regulations of independence and are not dissatisfied. (3) Review the independence of CPA’s and check whether it is a director, supervisor, shareholder or a salary of the company, and confirm its non-interested person. In addition, CPA’s must avoid the direct or interested parties and the rotation of accountant, and must comply with relevant regulations. (Note 2)	

3.4.4 Continuing Education/Training of Directors in 2019

(1) Directors and Independent Directors training situation

Name	Date	Organizer	Course / Lecture Name	Duration
WANG/GUANG-SHIAH	05/15/19	Taiwan Stock Exchange	ESG Investment Forum	3 Hrs.
	11/21/19	Taiwan Stock Exchange	2019 Board Functions Enhancement Seminars	3 Hrs.
CHUANG/YON-SHUN	01/15/19	Republic of China Accounting Research and Development Foundation	The Spirit of Corporate Governance-Discussing about Management	2 Hrs.
	01/17/19	Corporate Governance Association	Evaluation of Board Effectiveness(Including Performance)	3 Hrs.
	03/29/19	Corporate Governance Association	2019 Corporate Governance Seminars	6 Hrs.
	06/14/19	Republic of China Accounting Research and Development Foundation	The future of Knowledge-based Economy from Culture and Technology	2 Hrs.
YU/MING-CHANG	10/21/19	Republic of China Accounting Research and Development Foundation	Independent Director and Audit Committee	6 Hrs.
CHANG/YUNG-YANG	12/19/19	Republic of China Accounting Research and Development Foundation	Internal Control Weakness of Taiwanese Subsidiary and Cass Analysis	6 Hrs.
YAN/WEI-CHYUN	04/16/19	Taiwan Financial Research Institute	Corporate Governance and Enterprise Sustainable Management Seminar	3 Hrs.
	07/11/19	Taiwan Institute of Directors	The international tax co-operation economic substance law and Taxation of Repatriated Offshore Funds	3 Hrs.
	06/28/19	The Institute of Internal Auditors, R.O.C.	Subsidiary Audit Practice	6 Hrs.

Name	Date	Organizer	Course / Lecture Name	Duration
CHEN/FU-SHEN	11/25/19	The Institute of Internal Auditors, R.O.C.	The Introduction of Regulations Governing the Acquisition and Disposal of Assets by Public Companies and Relating Internal Control	6 Hrs.
LEE/TSU-DER	07/15/19	Securities and Futures Market Development Foundation	The Impact of U.S.-China Trade War	3 Hrs.
	11/19/19	Taiwan Stock Exchange	2019 Board Functions Enhancement Seminars	3 Hrs.
YEN/TZONG-MING	07/18/19	Securities and Futures Market Development Foundation	From the latest company law revision trend to see the impact of corporate governance internal control and directors' responsibility	3 Hrs.
	07/23/19	Securities and Futures Market Development Foundation	Discussing the Legal Risks and Correspondence of Directors and Supervisors from the Case of Major Corporate Malpractice	3 Hrs.
DU/MING-HAN	12/09/19	The Institute of Internal Auditors, R.O.C.	Technology and Tools-Audit Supervisor 2	6 Hrs.

(2) Manager training situation

Name	Date	Organizer	Course / Lecture Name	Duration
WANG/GUANG-SHIAH	05/15/19	Taiwan Stock Exchange	ESG Investment Forum	3 Hrs.
	11/21/19	Taiwan Stock Exchange	2019 Board Functions Enhancement Seminars	3 Hrs.
TSAI/CHIA-FEN	11/14/19 ~ 11/15/19	Republic of China Accounting Research and Development Foundation	Issuer Securities dealer Stock Exchange Accounting Supervisor Continuing Education Seminar	12 Hrs.

3.4.5 Compensation and Remuneration Committee operation conditions

The Compensation and Remuneration Committee in year 2019 held 4 meetings, as follows:

Title	Name	Actual attendance	Entrusted attendance	%	Remarks
Chair	YEN/TSUNG-MING	4	0	100.00	-
Member	LI/TSU-TE	4	0	100.00	-
Member	HO/LI-HSING	4	0	100.00	-

3.4.6 Implementation status of internal control system

1. Suggestions for internal control improvement proposed by CPA’s in the last three years:

Year	CPA’s suggestion	Improvement situation
2017	No major mistake	Not applicable
2018	No major mistake	Not applicable
2019	No major mistake	Not applicable

2. Internal audit found significant lack of improvement: no major mistake.

3. Internal Control Statement: Please refer next page.

4. The internal controller who entrusts CPA’s to review internal control shall state reasons, CPA’s review opinions, the company's improvement measures and mistake items: the situation is not applicable.

牧德科技股份有限公司
內部控制制度聲明書

日期：109 年 2 月 5 日

本公司民國108年度之內部控制制度，依據自行評估的結果，謹聲明如下：

一、本公司確知建立、實施和維護內部控制制度係本公司董事會及經理人之責任，本公司業已建立此一制度。其目的係在對營運之效果及效率(含獲利、績效及保障資產安全等）、報導具可靠性、及時性、透明性及符合相關規範暨相關法令規章之遵循等目標的達成，提供合理的確保。

二、內部控制制度有其先天限制，不論設計如何完善，有效之內部控制制度亦僅能對上述三項目標之達成提供合理的確保；而且，由於環境、情況之改變，內部控制制度之有效性可能隨之改變。惟本公司之內部控制制度設有自我監督之機制，缺失一經辨認，本公司即採取更正之行動。

三、本公司係依據「公開發行公司建立內部控制制度處理準則」（以下簡稱「處理準則」）規定之內部控制制度有效性之判斷項目，判斷內部控制制度之設計及執行是否有效。該「處理準則」所採用之內部控制制度判斷項目，係為依管理控制之過程，將內部控制制度劃分為五個組成要素：1.控制環境，2.風險評估，3.控制作業，4.資訊與溝通，及5.監督作業。每個組成要素又包括若干項目。前述項目請參見「處理準則」之規定。

四、本公司業已採用上述內部控制制度判斷項目，評估內部控制制度之設計及執行的有效性。

五、本公司基於前項評估結果，認為本公司於民國108年12月31日（會計年度終了日）的內部控制制度（含對子公司之監督與管理），包括瞭解營運之效果及效率目標達成之程度、報導係屬可靠、及時、透明及符合相關規範暨相關法令規章之遵循有關的內部控制制度等之設計及執行係屬有效，其能合理確保上述目標之達成。

六、本聲明書將成為本公司年報及公開說明書之主要內容，並對外公開。上述公開之內容如有虛偽、隱匿等不法情事，將涉及證券交易法第二十條、第三十二條、第一百七十一條及第一百七十四條等之法律責任。

七、本聲明書業經本公司民國109年2月5日董事會通過，出席董事九人均同意本聲明書之內容，併此聲明。

牧德科技股份有限公司

董事長 簽章

總經理 簽章

MACHVISION Inc. Co., LTD

Internal control system statement

Date: February 5,2020

The company's internal control system in year 2019 is based on the results of self-assessment and is stated as follows:

1. The Company is aware that the establishment, implementation and maintenance of the internal control system is the responsibility of the board of directors and managers of the Company. The Company has established this system. The purpose is to provide reasonable results in terms of operational effectiveness and efficiency (including profitability, performance and asset security, etc.), reporting reliability, timeliness, transparency and compliance with relevant regulations and relevant laws and regulations, provide reasonable assurance.
2. The internal control system has its inherent limitations. Regardless of how well the design is perfected, an effective internal control system can only provide reasonable assurance of the achievement of the above three objectives. Moreover, due to changes in the environment and circumstances, the effectiveness of the internal control system may change. However, the company's internal control system has a self-monitoring mechanism, once the identification is missing, the company will take corrective actions.
3. The company judges whether the design and implementation of the internal control system is effective based on the judgment of the effectiveness of the internal control system as stipulated in the “Guidelines for the Establishment of Internal Control System by Public Issuance Companies” (hereinafter referred to as “Processing Guidelines”). The internal control system judgement project adopted by the " Processing Guidelines", in accordance with the process of management control, the internal control system is divided into five components: 1. Control environment, 2. Risk assessment, 3. Control operations, 4. Information and communication, and 5. Supervision operations, each component also includes several items. For the above items, please refer to the “Processing Guidelines”.
4. The company has adopted above internal control system to judge the project. Assess the effectiveness of the design and implementation of the internal control system.
5. Based on the results of the previous assessment, the Company believes that the Company's internal control system (including the supervision and management of subsidiaries) on December 31, 2019 (the end of the fiscal year), including understanding the effectiveness and efficiency objectives of the operation, degree, the reporting is reliable, timely, transparent and conforms to the relevant

specifications and relevant laws and regulations, the design and implementation of the relevant internal control system are effective and can reasonably ensure the achievement of above objectives.

6. This statement will become the main content of the company's annual report and public statement, and will be made public. If the contents of above disclosure is false, concealed or other unlawful circumstances, it will involve the law of the Securities Exchange Act of Article 20, Article 32, Article 171 and Article 174. .
7. This statement was approved by the board of directors of the company on February 5, 2020, all night attendees agreed to the contents of this statement and stated this statement.

MACHVISION Inc. Co., LTD
Chairman

General manager

3.4.7 In the most recent year and up to annual report, this company and its internal personnel were punished according to law, and the company violated the internal control system for penalties, major lacks and improvements: not applicable.

3.4.8 In the most recent year and the date of publication of the annual report, if directors or supervisors of the board of directors have different opinions on the board of directors that passed important resolutions and have records or written statements, the main contents are: None.

3.4.9 Summary of the resignation of the company's chairman, general manager, accounting supervisors, financial supervisors, internal audit supervisors and R&D supervisors in the most recent year and the year-end publication of the annual report

April 30, 2020

Title	Name	Onboard Date	Discharge Date	Reason for Resignation or Discharge
Financial and Accounting Director	TSAI/CHIA-FEN	11/11/2014	04/15/2020	Job adjustment

Note: The so-called company related persons refer to the chairman, general manager, accounting supervisors, financial supervisors, internal audit supervisors and research and development supervisors.

3.5 CPA public fee information

CPA’s fees level table

Accountingfirm	CPAname		Auditperiod	Remarks
KPMG	HUANG/BO-SHU	YU/AN-TIEN	Jan. 1,2019~Dec.31,2019	

Amount Level \ Fee item		Audit fee	None audit fee	Total
1	Less than NTD$2,000 thousands			
2	NTD$2,000thousands (inclusive) to NTD$4,000 thousand	✓		✓
3	NTD$4,000 thousands (inclusive) to NTD$6,000 thousands			
4	NTD$6,000 thousands (inclusive) to NTD$8,000 thousands			
5	NTD$8,000 thousands (inclusive) to NTD$10,000 thousands			

6	NTD$10,000 thousands or more			

Unit: NT$ Thousand

Accounting firm	CPA name	Audit fee	None audit fee					CPA audit period
			System Design	Business Registration	Human Resources	Others	Subtotal	
KPMG Taiwan	Huang Boshu	2,410	-	-	-	-	-	Year 2019
	Yu Antien							Year 2019
Remarks								

Note 1: If this company changes its CPA's or accounting firm this year, it should list the audit period separately, explain the reason for the change in the remark column, and disclose the audited and non-audited fees and other information.

Note 2: Non-audit fees are listed separately according to the service items. If the "others" of the non-audit fees reach 25% of the total non-audit public funds, the service contents should be listed in remarks column.

(1) If the non-audit public expenses of CPA's, affiliated accounting firm and its related enterprises account for more than one quarter of audit fee, the audited and non-audited expense amount and non-audit service contents shall be disclosed: English report NTD$100 (thousand), internal control project review fee NTD$700 (thousand), capital increase by cash case NTD$60 (thousand).
(2) If the auditing fee paid for the replace accounting firm is less than the auditing fee of previous year, the reduced amount, proportion and reason for the auditing fee shall be disclosed: not applicable.
(3) If the audit fee is reduced by more than 15% compared with previous year, the amount reduced, proportion and reasons for audit fee reduction shall be disclosed: None.

3.6 CPA replacement information: None.

3.7 In the past one year, the relation information of chairman, general manager, manager of financial or accounting affairs of this company, and CPA's or their related companies: None.

3.8 In the most recent year to the end of this annual report printing, directors, supervisors, managers and shareholders holding more than 10% of the equity, their transfer and equity pledge conditions:

(1) Changes in the shareholding of directors, supervisors of the board of

director, managers and major shareholders

Unit: share

Title	Name	Year 2019		The year ended March 31	
		Increase (decrease) in the number of shares held	Increase (decrease) in the number of shares held	Increase (decrease) in the number of shares held	Increase (decrease) in the number of shares held
Chairman	WANG/GUANG-SHIAH	-	-	-	-
Director	YU/MING-CHANG	-	-	-	-
Director	CHANG/YUNG-YANG	-	-	-	-
Director	CHUANG/YUNG-SHUN	-	-	-	-
Director	YAN/WEI-CHYUN	-	-	-	-
Independent Director	LEE/TSU-DER	-	-	-	-
Independent Director	YEN/TZONG-MING	-	-	-	-
Independent Director	DU/MING-HAN	-	-	-	-
General Manager	CHEN/FU-SHEN	-	-	-	-
Sales Vice President	TSENG/WEI-LUN	-	-	-	-
RD Vice President	WANG/YUAN-NAN	-	-	-	-
Head of Finance and Accounting Department	TSAI/CHIA-FEN	-	-	-	-

(1) Equity transfer information: the situation in which the relative person without equity transfer is a related person

(2) Equity pledge information: the situation in which the relative person without the equity pledge is a related person.

3.9 The related information of the no. six related persons of accounting Standards Bulletin and the relationship between spouse and second-degree relatives of shareholders who hold the top ten shareholdings relationship between the spouse and the second parents

Name	Personal holding shares		Spouse, minor children holding shares		Shares under others' names		The top ten shareholders have mutual relation information of the sixth related person or second degree relative of Financial Accounting Standards Bulletin, their names and relation.		Remarks
	shares	%	shares	%	shares	%	Name	Relation	
Nan Shan Life Insurance Company, Ltd.	3,211,000	7.54%	-	-	-	-	-	-	-
Representative:TU/YING-TSUNG	-	-	-	-	-	-	-	-	-
Labor Pension Fund	1,599,000	3.75%	-	-	-	-	-	-	-
Representative: NA	-	-	-	-	-	-	-	-	-
WANG/GUANG-SHIAH	1,366,353	3.21%	69,654	0.16%	-	-	EN-LIN Investment	Shareholder	-
CHANG/YUNG-YANG	1,282,842	3.01%	-	-	-	-	-	-	-
AAEON Technology Inc.	1,135,020	2.66%	-	-	-	-			-
Representative: CHUANG/YUNG-SHUN	401,721	0.94%	-	-	-	-	FU-LI Investment	Shareholder	-
YU/MING-CHANG	1,032,829	2.42%	-	-	-	-	-	-	-
FU-LI Investment and Trading Limited	961,921	2.66%	-	-	-	-	-	-	-
Representative: CHUANG/YUNG-SHUN	401,721	0.94%	-	-	-	-	AAEON Technology Inc.	Shareholder	-
Eimbeti Investment and Trading Limited	745,455	1.75%	-	-	-	-	-	-	-
Representative:WU/HSIU-MEI	69,654	0.16%	-	-	-	-	WANG/GUANG-SHIAH	-	-
CAPITALSECURITIESCORP.	591,000	1.39%	-	-	-	-	-	-	-
Representative: NA	-	-	-	-	-	-	-	-	-
Jih Sun Target Income Fund of Funds	576,000	1.35%	-	-	-	-	-	-	-
Representative: NA	-	-	-	-	-	-	-	-	-

3.10 The number of shares held by the company, the company's directors, supervisors, managers and the company directly or indirectly controlled by the company in the same investment business, and combined to calculate the comprehensive shareholding ratio

As of 12/31/2019 Unit: shares: %

Re-investment	Company invests		Directors, supervisors, managers and investments directly or indirectly controlling the business		Comprehensive investment	
	shares	%	shares	%	shares	%
SamoaMachvision Inc.	2,003,440	100.00%	-	-	2,003,440	100.00%
Machvision Holding (Samoa)	1,600,000	100.00%	-	-	1,600,000	100.00%
Autovision Inc.	900,000	45.00%	60,000	3.00%	960,000	48.00%
Sigold Optics Inc.	5,540,640	49.47%	375,200	3.35%	5,915,840	52.82%
Machvision Korea Co., Ltd.	10,000	100.00%	-	-	10,000	100.00%
ChipAICo., Ltd	1,800,000	90.00%	-	-	1,800,000	90.00%
MIM Tech Inc.	836,000	40.98%	-	-	836,000	40.98%
Redpay Co., Ltd	500,000	50.00%	25,000	2.50%	525,000	52.50%

4. Fundraising conditions

4.1 Capital and shares

4.1.1 Source of equity

(a) The information of equity

Unit: NTD$/share

Date	Issue price	Approved capital		Paid-up capital		Remarks		
		No. of share	Amount	No. of share	Amount	Equity source (NTD$)	Deducting shares from property other than cash	Other
06/98	10	3,990,000	39,900,000	3,990,000	39,900,000	Set up capital 39,900,000	-	Note 1
06/03	10	10,000,000	100,000,000	5,770,000	57,700,000	Capital increase by retained earnings 15,960,000 Employee bonus1,840,000	-	Note 2
05/04	10	10,000,000	100,000,000	7,100,000	71,000,000	Capital increase by retained earnings 11,540,000 Employee bonus 1,760,000	-	Note 3
06/05	10	10,000,000	100,000,000	10,000,000	100,000,000	Capital increase by retained earnings 25,560,000 Employee bonus 3,440,000	-	Note 4
06/06	10	25,000,000	250,000,000	14,000,000	140,000,000	Capital increase by retained earnings 35,500,000 Employee bonus4,500,000	-	Note 5
02/07	20	25,000,000	250,000,000	16,100,000	161,000,000	Capital increase 21,000,000	-	Note 6
08/07	10	25,000,000	250,000,000	19,491,939	194,919,390	Capital increase by retained earnings 28,175,000 Employee bonus5,744,390	-	Note 7
09/08	10	25,000,000	250,000,000	22,549,635	225,496,350	Capital increase by retained earnings 25,339,520 Employee bonus5,237,440	-	Note 8
01/11	26	50,000,000	500,000,000	25,556,635	255,566,350	Capital increase by cash 30,070,000	-	Note 9
08/11	10	50,000,000	500,000,000	30,667,962	306,679,620	Capital increase by retained earnings 51,113,270	-	Note 10
08/12	10	50,000,000	500,000,000	33,734,758	337,347,580	Capital increase by retained earnings 30,667,960	-	Note 11
07/13	10	50,000,000	500,000,000	37,108,234	371,082,340	Capital increase by retained earnings 33,734,760		Note 12
10/13	56	50,000,000	500,000,000	42,608,234	426,082,340	Capital increase by cash 55,000,000		Note 13

Note 1: The capital increase was approved by the Construction Department of Taiwan Provincial Government on June 9, 1998. The approved no. was: 87 Jiansanfa No. 178035.
Note 2: The capital increase was approved by the Hsinchu Science and Technology Park Administration on August 27, 2003. The approved no. was: No. 0920024715.
Note 3: The capital increase was approved by the Hsinchu Science and Technology Park Administration on August 12, 2004. The approved no. was: No. 0930021607.
Note 4: The capital increase was approved by the Hsinchu Science and Technology Park Administration on October 3, 2005. The approved no. was: No. 0940026593.
Note 5: The capital increase was approved by the Hsinchu Science and Technology Park Administration on September 19, 2006. The approved no. is: No. 0950024184.
Note 6: The capital increase was approved by the Hsinchu Science and Technology Park Administration on February 27, 2007. The approved no. is: No. 0960005155.
Note 7: The capital increase was approved by the Hsinchu Science and Technology Park Administration on August 24, 2007. The approved no. is: No. 0960022602.
Note 8: The capital increase was approved by the Hsinchu Science and Technology Park Administration on September 24, 2008. The approved no. is: No. 0970026326.
Note 9: The capital increase was approved by the Hsinchu Science and Technology Park Administration on February 10, 2011, and approval number was: No. 1000004086.
Note 10: The capital increase was approved by the Hsinchu Science and Technology Park Administration on August 23, 2011. The approved number was: No. 100025501.
Note 11: The capital increase was approved by the Hsinchu Science and Technology Park Administration on August 10, 2010. The approved number was: No. 1010024643.
Note 12: The capital increase was approved by the Hsinchu Science and Technology Park Administration on July 31, 2013. The approved number was: No. 1020022636.
Note 13: The capital increase was approved by the Hsinchu Science and Technology Park Administration on November 14, 2013. The approved number was: 1020032941.

(b) Types of shares

Date: March 31, 2020; Unit: Shares

Types of shares	Approved capital			Remarks
	Circulating shares	Unissued shares	Total	
Common stock	42,608,234	7,391,766	50,000,000	-

(c) Information on the general declaration system: not applicable.

4.1.2 Shareholder structure

March 31, 2020

Shareholder structure / Qty.	Government agency	Financial institution	Other juridical persons	Individual	Foreign institutions and juridical persons	Total
Number of people	-	4	108	9,704	98	9,914
Number of shares held	-	3,330,239	7,713,337	26,483,862	5,080,796	42,608,234
Shareholding ratio	-	7.82%	18.10%	62.16%	11.92%	100%

4.1.3 Equity dispersion condition

(a) Common stock:

Face value: NTD$10/share; March 31, 2020

Shareholding grading	Number of shareholders	Number of shares held	Shareholding ratio
1-999	3,830	224,010	0.53%
1,000-5,000	5,214	9,085,725	21.32%
5,001-10,000	470	3,662,273	8.60%
10,001-15,000	131	1,696,048	3.98%
15,001-20,000	65	1,181,873	2.77%
20,001-30,000	63	1,594,172	3.74%
30,001-40,000	37	1,322,957	3.10%
40,001-50,000	17	767,000	1.80%
50,001-100,000	43	3,129,690	7.53%
100,001-200,000	22	3,258,913	7.65%
200,001-400,000	8	2,370,433	5.56%
400,001-600,000	6	2,980,720	7.00%
600,001-800,000	1	745,455	1.75%
800,001-1,000,000	1	961,921	2.26%
Over 1,000,001 shares	6	9,627,044	22.59%
Total	9,914	42,608,234	100.00%

(b) special stock: no.

4.1.4 List of major shareholders: the shareholder's shareholding ratio is more than 5% of the shareholders or the shareholding ratio of the top ten shareholders, the shareholding amount and proportion

March 31, 2020

Share / Major shareholder name	Number of shares held	Shareholding ratio
Nanshan Life Insurance Co., Ltd.	3,211,000	7.54%
New Labor Pension Fund	1,599,000	3.75%
WANG/GUANG-SHIAH	1,366,353	3.21%
CHANG/YUNG-YANG	1,282,842	3.01%
AAEON Technology Co., Ltd.	1,135,020	2.66%
YU/MING-CHANG	1,032,829	2.42%
Fu Li Investment Co., Ltd.	961,921	2.26%
En Lin Investment Co., Ltd.	745,455	1.75%
Capital Securities Corp.	591,000	1.39%
JihSun Securities Corp.	576,000	1.35%

4.1.5 Price per share, net worth, surplus, dividends and related materials in the last two year Surplus allotment

Unit: NTD$; thousand shares

Item			2018	2019	as of March 31, 2020
Price per share	Highest		530	493.5	439.5
	Lowest		210.5	276	201.5
	Average		379.96	377.65	344.96
Net value per share	Before distribution		51.87	44.82	31.02
	After distribution		24.87	34.33 (Note 2)	Not distribute yet
Earnings per share	Weighted average number of shares		42,608	42,608	42,608
	Surplus per share	Before adjust	30.43	20.01	5.01
		After adjust	30.43	20.01	Not yet assigned
Dividend per share	Cash dividend		27.00	10.49755641	Not yet assigned
	Free share allotment	Free share allotment surplus allotment	-	-	Not yet assigned
		Stock of capital increase out by earnings	-	-	Not yet assigned
	Accumulated unpaid dividends		-	-	-
Investment compensation analysis	P/E ratio (Note 3)		12.49	18.33	-
	Price to dividend ratio (Note 4)		14.07	34.95	-
	Cash dividend yield (Note 5)		0.07	0.03	-

Note 1: It is based on the allocation of the resolution of next year’s shareholders meeting.

Note 2: It is based on the allocation of the resolution of the board of directors on March 27, 2020.

Note 3: P/E ratio: average closing price per share/earnings per share for the year.

Note 4: Price to dividend ratio: average annual closing price per share/cash dividend per share.

Note 5: Cash dividend yield: cash dividend per share/average closing price per share for the year.

4.1.6 Company's dividend policy and implementation status

(a) Dividend policy

(1) The company shall, after deducting employee's compensation, benefits and the remuneration of the directors in the pre-tax profit of current year, retain amount of accumulated losses. If there is still a balance, the salary shall be no less than 5% for the employee's compensation and no higher than 3% is paid to directors of the board of directors. Employees' compensation, the decision of the director's compensation distribution ratio and the employee's compensation in the form of stocks or cash shall be reported by the board of

directors at a resolution of more than two-thirds of the directors' attendance and a majority of the directors' consent. Employee compensation is paid by stocks or cash, including employees of subsidiary companies that meet certain conditions.

(2) The company's surplus distribution or loss is replenished every six months. If there is a surplus in the final accounting of each half of the accounting year, it should first retain the taxable amount, make up for the loss according to law and provide 10% as the statutory surplus reserve; but the statutory surplus accumulation of the company has reached the total capital of the company, it is not limited to this, and a special surplus reserve is required according to law or the competent authority. If there is still surplus, the balance plus the accumulated undistributed surplus in previous quarter shall be proposed by the board of directors. In the case of cash, it shall be resolved by the resolution of the board of directors, and the method of issuing new shares shall be submitted to the shareholders' meeting for resolution.

(3) If the company's total annual final accounts have surpluses, it should first retain the taxable amount, make up for the losses according to law, and provide 10% of statutory surplus reserve, and make or transfer special surplus reserves according to law or the competent authority. If there is still surplus, and its balance plus the accumulated undistributed surplus in previous quarter is proposed by the board of directors to be distributed and submitted to the shareholders meeting for resolution.

(b) Execution situation

The proposed dividend distribution of the shareholders meeting:

The board of directors of company on March 27, 2020, proposed a cash dividend of NTD$447,282,340 for (2019) annual surplus, and a disbursement of NTD$10.49755641 per share.

(c) The situation in which the dividend policy is expected to change significantly: None.

4.1.7 The impact of free allotment of stocks after stockholders' meeting to company's performance and EPS：None.

4.1.8 Employee compensation and remuneration of directors and supervisors of the board of directors:

(1) The employee's compensation and the number or scope of remuneration of directors and supervisors as set out in the company's articles of association: see (6) for explanation.

(2) Estimation of the employee's compensation and the estimated basis of the remuneration of the directors and supervisors of the board of directors, the calculation basis of the shares of the allotment of the dividends, and the accounting of actual allotment amount when there is a difference between the estimated number of shares: the change processing is listed as the profit and loss of next year.

(3) Information on the proposed distribution of employee compensation approved by the board of directors

(a) the Company's year 2019 employees' compensation were NTD$97,367,795, and the remuneration of the directors and supervisors of the board of directors were NTD$17,930,629. The amount approved by the board of directors is the same as the annual estimated amount of recognized expenses.

(b) Proposed allotment of employee stock remuneration shares and its share of surplus to capital increase through the board of directors: it is proposed not to distribute employee stock dividends.

(c) After the company's year 2019 annual employee compensation and the remuneration of directors and supervisors of the board of directors, the basic earnings per share after tax is NTD$20.01.

(4) The actual allotment of the employee's compensation and the remuneration of directors and the supervisors of the board of directors (including the allotment of shares, amount and share price), which is different from the recognition of employees, compensation and the remuneration of directors and supervisors. The person should also state the rates, causes and treatments:

Unit: NT$ Thousand

Distribution item / Distribution situation	Employees' bonus	Directors and supervisors' remuneration
Proposed allocation by the board of directors	161,623	32,037
Actual no. of issuance	161,623	32,037

4.1.9 The company bought back shares: none.

4.2 Company debt handling situation: None.

4.3 Special shares handling situation: None.

4.4 The handling of overseas depositary receipts: None.

4.5 Employee stock option certificate processing: None.

4.6 Restrictions on employee rights, new shares handling situation: None.

4.7 Conditions of M&A or transfer of shares of the company to issue new shares: None.

4.8 Implementation of the fund utilization plan: None.

5. Operational overview

5.1 Business content

5.1.1 Business scope:

Main contents of business

CB01010 Mechanical equipment manufacturing

CE01010 General Instrument manufacturing

CE01030 Optical instrument manufacturing

I301010 Information software service

F401010 International trade

Research, develop, manufacture and market following products:

(a) Non-contact mechanical vision inspection system equipment (detection accuracy below 10μm)

a. BGA, CSP substrate inspection system equipment

b. LCD PANEL detection system equipment.

c. PCB high-speed hole measurement equipment

(b) Smart vision module

(c) Wire width detector

(d) Drill needle detector

(e) Arrow target analysis software

(f) Concurrently engage in import and export trade related to the above products

5.1.2 Business share of major products

Product value / Service item	Year 2019	
	Turnover (NTD$ thousand)	Operating proportion (%)
Flexible board inspection series	597,720	23.50%
Online circuit inspection series	497,497	19.56%
Semiconductor testing series	706,522	27.78%
Other testing series	626,267	24.62%
Service income	115,435	4.54%
Total	2,543,441	100.00%

5.1.3 Company's current commodity (service) projects

The company's specialization technology is divided into three parts, the first is appearance inspection (generalized AVI) technology, the second is two-dimensional and three-dimensional measurement (2D/3D measurement) technology, and the third is circuit inspection (general circuit AOI) technology, these three technologies can be applied in different industries, such as AVI can be applied to PCB and COF appearance final inspection, IC carrier appearance inspection, semiconductor Wafer Die visual inspection, active and passive components visual inspection and LCD defect inspection; The three-dimensional measurement technology is more widely used, such as PCB copper filling inspection, BGA Bump inspection, Wafer Bump inspection, SMT solder paste thickness inspection, etc.; in addition, circuit inspection technology can be used in PCB and COF circuit inspection, LCD Array end glass substrate and Touch panel circuit inspection. Since company's main testing core technology has been modularized, it is possible to quickly complete new testing system needed to develop in different industries. At the same time, AI deep learning technology is introduced and integrated into various testing devices, which can reduce false positive rate and reduce the manpower of rechecking. The following is a summary of existing developed test products in PCB/semiconductor/COF industry as follows:

(A) PCB drilling and forming process measurement and testing series
- (a) High-speed hole position measuring machine Hole-AOI
- (b) High speed hole inspection machine
- (c) Universal size measuring machine EZ3D.

(B) PCB/COF circuit inspection series
- (a) Film circuit inspection machine
- (b) Wire width measure gauge
- (c) Inner and outer circuit inspection machine

(C) HDI and IC carrier board inspection series
- (a) Laser blind hole inspection machine Laservia-AOIM
- (b) Blind hole filling copper depression detector 3D Profiler
- (c) Tin ball bump detecting device
- (d) 3D scanning inspection machine
- (e) Auto stereoscopic image measuring machine
- (f) Hard board appearance inspection machine
- (g)Appearance inspection machine after flexible PCB/flexible PCB assembly

(H) IC carrier board inspection machine

(D) Semiconductor packaging and inspection series
- (a) Wafer appearance visual inspection machine
- (b) COF Package appearance visual inspection machine

5.1.4 New Product Line under development:

5G application will create more demand for both PCB and SLP related AOI and AVI products. 5G technology demands higher circuit density, therefore demands on AOI and AVI solutions for higher definition and accuracy will increase. This will create more demands for both PCB, SLP, multi layer PCB, Flexible PCB

AOI and AVI solution.

Mini LED is made up of many LED nodes on PCB. Demand for quality will increase the demand for higher definition and accuracy. This will increase demands for AOI and AVI solution. Machvision delivers the first AOI + AVI combo solution for the Mini LED market.

Machvision is also pleased to announce 2 of its' smart camera solution. 1st model is an alignment camera. This solution is ideal for semiconductor, LCD and automated production line. The 2nd model is a general purpose smart camera.

In the past, wafer packaging only employs spot checking due to speed limitation. In 107~108, Machvision started providing AVI solution to Taiwan wafer packaging manufacturers. Subsequently, Machvision is now providing 100% inspection for the semiconductor wafer packaging industry.

5.2 Industry Overview

5.2.1 Current status and development of industry

This company is specialized in machine vision inspection and measurement system equipment, with integrated optical imaging system, image processing, precision machinery and motion control technology. Our products are non-contact precision measurement and Automated Optical Inspection (AOI), provides a complete solution for mechanical vision applications. In addition to their ability to identify good and defective products, they also have high-precision 2D/3D measurement and quality control statistics functions. Company's current main products are used in printed PCB industry, including: PCB drilling and forming process measurement and testing, PCB circuit inspection, HDI and IC carrier board inspection equipment, etc. In recent years, we have also developed semiconductor packaging and testing industry detection of products, as Machvision anticipate for future company growth, on March 14, 2019, Machvision became the first none government operated incubation center in Hsinch Science Park, approved by the Ministry of Science and Technology. The incubation center is named Bethel Unicorn Incubation Center or BUIC in short. It is focused on accelerating startup specialized in artificial intelligence, big data, iot and blockchain. As of February 2020, 3 of these new start ups have started revenue contribution. current status and development of related industries are as follows:

(A) Analysis of industrial development

Printed PCB (PCB) is a circuit design formed by printed PCBs by various electronic components, it serves as an important medium and carrier for communication between components, so that the functions of various components can be realized. It can be said that it is the foundation of electronic products, and is widely used in all electronic, communication, information appliances, automotive and aerospace products. Its categories are traditional single/double panels, multi-layer boards, HDI high-density inter-connection boards, IC carrier boards and flexible PCB. As the demand for electronic information and communication products expands, and tends to be light, thin, and multi-functional, the demand for PCB products (such as HDI, IC carrier boards and flexible boards) is going to be higher-order and finer, so for precision measurement or testing equipment, the demand will be more and more eager. Semiconductors are even more necessary for the development of high-precision detection of high-precision detection.

(a) Overview of the global PCB and semiconductor industry

According to IEK and TPCA statistics, global PCB market output value exceeded $59 billion in 2011. The 2018 global PCB market has grown in all regions except for Japan, with a total output value of US$69.1 billion and a growth of approximately 6.1%. The first in the ranking is that the output value of Taiwan-funded PCBs is 21.6 billion US dollars, with more than 31%. Ranked second, the value of Chinese PCBs was 13.3 billion US dollars, accounting for 19.2%. Ranked third, the value of Japanese-made PCBs was close to 13.2 billion US dollars, accounting for 19.1%. South Korea is ranked fourth, with an output value of 9.4 billion US dollars, contributing 13.6%. IEK also estimates that 2019 still has a small growth of 1.16%, with an output value of approximately $69.9 billion.

In terms of regions in the world, the output value of Asia in 2018 (including China/Hong Kong, Taiwan, Japan, and South Korea) reached US$57.5 billion, exceeding the world's output value by 83%. Due to proximity to demand market, we have great advantages in sales and service.

Source: TPCA; ITRI IEK (2019/04)

Global and national PCB production scale trends

In response to the development trend of modern electronic products towards light, short, fast, multi-functional integration and the growth of demand for high-end handheld electronic mobile devices and memory, the overall semiconductor output value has grown substantially, In 2018 global semiconductor industry sales reached $468.7 billion. According to the World Semiconductor Trade Statistics (WSTS) forecast, after the two consecutive years of growth in 2017 and 2018, 2019 will have a small reduction of 3%, reaching $454.5 billion. However, due to the decline in demand, the price reduction of high-end products, the disruption of emerging applications and the impact of the US-China trade war, the actual output value in 2019 decreased to US $ 408.9 billion, a 12.8% decline from 2018. However, since 2020, despite the Black Swan effect caused by corvid-19 and the aftermath of the U.S.-China trade war, WSTS still predicts that the semiconductor output value will reach 433 billion US dollars in 2020 under the environment of 5G which is about to take off. Compared to 2019, it will reach a growth rate of 5.89%, none the less, corvid-19 is now a pandemic and it may slow down the 5G growth forecast. Within the IC category, growth is expected. And in Japan and the Asia-Pacific region, it accounts for 72% of global output value (up 4% from 2019).This will help the company to develop the semiconductor business.

Source of data: WSTS (2019/11)

Fall 2019	Amounts in US$M			Year on Year Growth in %		
	2018	2019	2020	2018	2019	2020
Americas	102,997	75,469	80,775	16.4	-26.7	7.0
Europe	42,957	40,008	40,913	12.1	-6.9	2.3
Japan	39,961	35,536	36,654	9.2	-11.1	3.1
Asia Pacific	282,863	257,974	274,686	13.7	-8.8	6.5
Total World - $M	468,778	408,988	433,027	13.7	-12.8	5.9
Discrete Semiconducto	24,102	23,960	24,874	11.3	-0.6	3.8
Optoelectronics	38,032	41,056	46,168	9.2	7.9	12.5
Sensors	13,356	13,623	14,355	6.2	2.0	5.4
Integrated Circuits	393,288	330,350	347,630	14.6	-16.0	5.2
Analog	58,785	54,151	57,002	10.8	-7.9	5.3
Micro	67,233	65,674	68,879	5.2	-2.3	4.9
Logic	109,303	104,617	111,463	6.9	-4.3	6.5
Memory	157,967	105,907	110,286	27.4	-33.0	4.1
Total Products -$M	468,778	408,988	433,027	13.7	-12.8	5.9

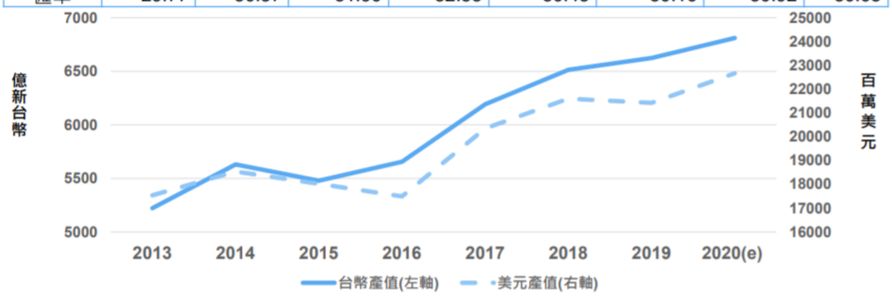
Global Semiconductor Market Forecast

(b) Taiwan PCB Industry Overview

According to IEK and TPCA statistics from the Industrial Research Institute, the total cross-straits business in 2019 was NT $ 662.4 billion. In spite of a negative outlook at the beginning of the year, it climbed quarter by quarter, reaching a new high, growing yoy in 2018. The growth rate reached 1.7% (a slight decline of 0.8% if denominated in US dollars), this is a growth of three consecutive years. As a whole, the high-end products such as high-frequency flexible board antennas, high-order carrier boards, and carrier boards, etc., which were initially researched and developed for 5G, have become growth momentum for Machvision. Small and medium-sized manufacturers choose to specialize in their own niche, including wireless headsets and camera lenses, high-speed boards for high-level servers, IC test boards, etc. is key to reaching new highs. As a whole, bigger PCB players are becoming bigger. Large PCBplayers must prevent the collapse in business of a single product, and small factories must be careful to respond to marginalization caused by insufficient capacity.

Looking forward to 2020, under the situation of the covid-19 pandemic and the 5G growth momentum, the IEK and TPCA statistics of the Industrial Research Institute also made a growth forecast of 681.1 billion yuan for the Taiwan printed PCB industry in 2020, a year-on-year growth rate of 2019. 2.8%.

	2013	2014	2015	2016	2017	2018	2019	2020(e)
億新台幣	5,222	5,631	5,749	5,656	6,192	6,514	6,624	6,811
Y/Y (NT)	1.32%	7.83%	2.10%	-1.62%	9.5%	5.2%	1.7%	2.8%
百萬美金	17,541	18,541	18,025	17,495	20,348	21,601	21,426	22,667
Y/Y (US)	0.78%	5.71%	-2.78%	-2.93%	16.3%	6.2%	-0.8%	5.8%
匯率	29.77	30.37	31.90	32.33	30.43	30.16	30.92	30.05



註：數據統計範疇為台灣地區之台商與外商在台，和台商在中國大陸生產PCB之總體產值

Source of data: TPCA, Industrial Economics and Knowledge Center (IEK) at ITRI (2020/02)

The output value of Taiwanese-funded PCB

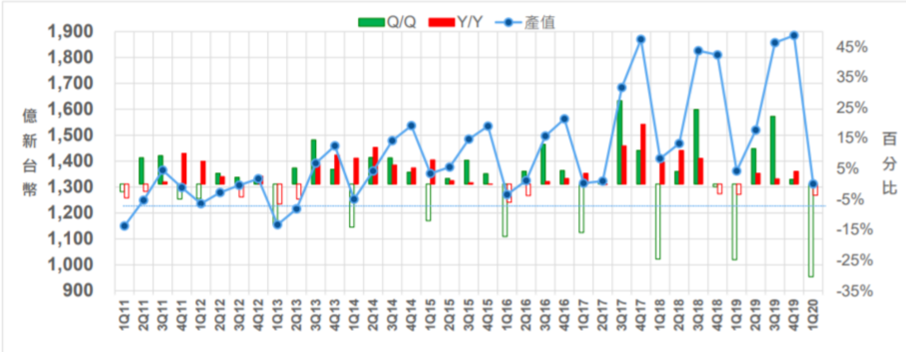
The operating status of 2019 quarter over quarter, one can see a gradual improvement of business environment, compared with mainland's local businesses, Taiwan factories has become the only other country with a positive growth. In fourth quarter as an example, the quarterly growth rate was 1.5% year-on-year, and the yoy growth rate was 4.1%. If it is converted into US dollars, benefiting from the depreciation of the Taiwan dollar exchange rate, which will increase to 3.8% quarter over quarter growth, and an increase by 5.3% yoy growth.

Source of data: TPCA, Industrial Economics and Knowledge Center (IEK) at ITRI

台商兩岸PCB產業各季產值趨勢

2019Q4=1,885億元，Q/Q = 1.5%；Y/Y = 4.1% [新台幣計]

	2017 Q4	2017	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2018	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2019	2020 Q1	2020(e)
產值 (億新台幣)	1,870	6,192	1,410	1,468	1,826	1,810	6,514	1,362	1,520	1,857	1,885	6,624	1,312	6,811
Q/Q	11.0%		-24.6%	4.1%	24.4%	-0.9%		-24.8%	11.6%	22.2%	1.5%		-30.4%	
Y/Y	19.6%	9.5%	7.2%	11.0%	8.4%	-3.2%	5.2%	-3.4%	3.5%	1.7%	4.1%	1.7%	-3.7%	2.8%



註：數據統計範疇為台灣地區之台商與外商在台，和台商在中國大陸生產PCB之總體產值

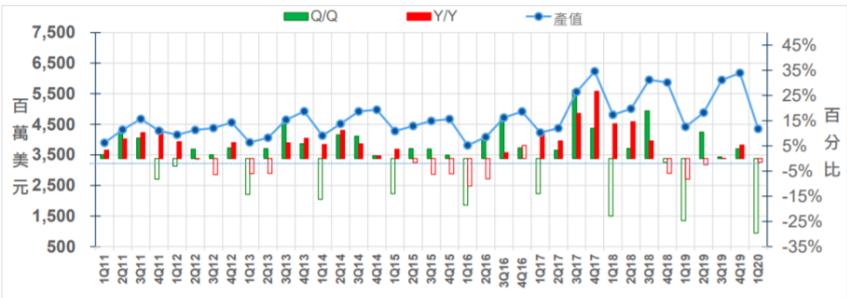
(2020/03)

PCB Cross strait quarterly production value – NTD based

台商兩岸PCB產業各季產值趨勢

2019Q4＝61.78億美元，Q/Q =3.8%；Y/Y = 5.3% [美元計]

	2017 Q4	2017	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2018	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2019	2020 Q1	2020(e)
產值 (百萬美金)	6,231	20,348	4,812	5,007	5,952	5,865	21,601	4,418	4,881	5,949	6,178	21,426	4,350	22,667
Q/Q	12.0%		-22.8%	4.0%	18.9%	-1.5%		-24.7%	10.5%	21.9%	3.8%		-29.6%	
Y/Y	26.7%	16.3%	13.8%	14.6%	7.0%	-5.9%	6.2%	-8.2%	-2.5%	0.0%	5.3%	-0.8%	-1.5%	5.8%
匯率	30.01	30.43	29.30	29.32	30.68	30.86	30.16	30.83	31.14	31.21	30.51	30.92	30.15	30.05



註：數據統計範疇為台灣地區之台商與外商在台，和台商在中國大陸生產PCB之總體產值

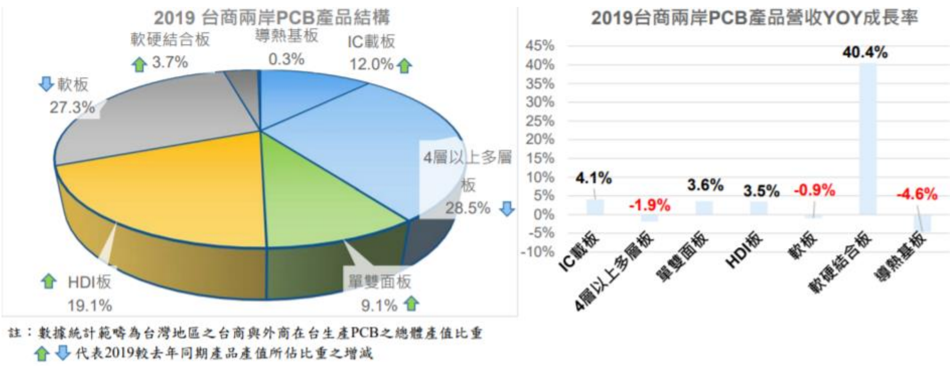
Source of data: TPCA, Industrial Economics and Knowledge Center (IEK) at ITRI

(2020/03)

PCB cross strait output trend – in USD

Observed from the trend of the PCB product structure in the figure below, the biggest bright spot is that the gradual recovery of semiconductors since the second quarter of 2019 has driven the IC substrate production value to significantly rebound, and the Q4 YoY growth rate is 7.8%. This is because the rise of high-end computing applications has enabled demand for ABF substrate niche, coupled with smartphone demand has stopped falling in the second half of the year, and the BT substrate demand stopped deteriorating, the output value of IC substrarte has increased by 4.1% over the previous year. HDI boards remained flat or declined slightly in the first three quarters, but due to the strong sales of Apple products in Q4, single-quarter shipments also increased significantly by 7.9% compared with the same period last year. In addition, mainland Chinese brands of high-end mobile phones collaborated with each other, and grew overall sales by yoy. This fostered the an impressive momentum growth in Q4 HDI YoY's growth rate of 12.1%, and YoY in 2019 will be 3.5%. The strong growth in the combination of rigid and flexible boards is due to the strong demands in multi-lens phones and Bluetooth headsets in 2019. YoY's performance in the four quarters of 2019 was brighter than other products. The YoY growth rate in 2019 was a record 40.4%, but in overall proportion of output value is still small, only 3.7%. flexible PCB, due to Apple's better-than-expected sales in the fourth quarter, led to significant growth in the second half of the year, but due to poor performance in the first half of the year, it still showed a slight decline of 0.9% throughout the year.

Source of data: TPCA, Industrial Economics and Knowledge Center (IEK) at ITRI (2020/02)



2019 Taiwanese-funded PCB Products Structure

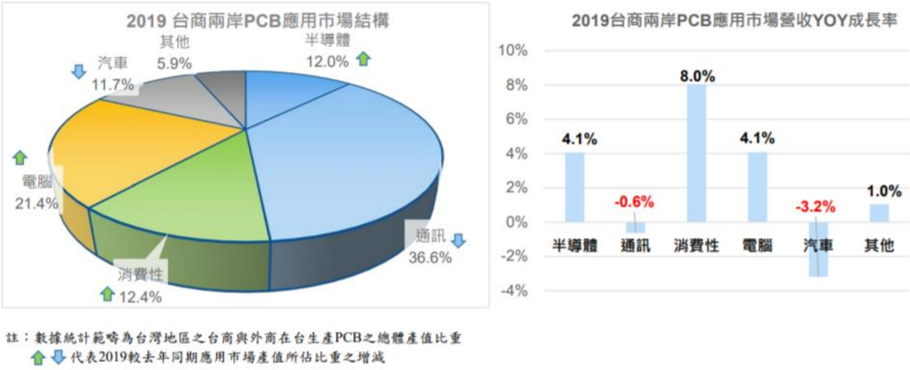
In terms of Taiwan ’s PCB industry outlook, the Taiwan PCB Association (TPCA) pointed out that 7 out of the top ten major PCB manufacturers that announced capital expenditure in Taiwan were used as observation indicators, the total capital expenditure in 2018 was about NT $ 37.5 billion.The estimated capital expenditure in 2019 was NT $ 36.3 billion, a decrease of only 3.2% and a scale of approximately 1.2 billion NTD. Therefore, although the industry remains conservative outlook on the economy in 2019, the investment has not been significantly affected. The following table shows the estimated capital expenditures of major Taiwanese companies in 2020. The total expenditures will be between 55.2 billion NTD and 65.2 billion NTD. Comparing with 2019, the total amount will almost double. Most of these capital expenditures for plant expansion are focused on expanding capacity of high-end products or optimizing and improving manufacture process. Those products are including carrier boards, high-order carrier boards, soft-hard board, HDI, etc., which continuing to reflect. the trend of more and more terminal products are imported into high-end PCBs since the beginning of 2017. This trend is also verified by the change in the structure of Taiwan's PCBs. From 2018 to 2019, the scale of HDI increased from 18.7% to 19.1%, and the Rigid-Flex board increased from 2.7% to 3.7%. The Substrate also rose from 11.7% to 12%.

From the perspective of investment regions, it is concentrated in Taiwan and mainland China. In the past, manufacturers’ capital expenditures accounted for about 10% of their revenue. This will bring excellent market opportunities for related AOI equipment manufacturers, and our company is ready this wave of investment expansion in 2020.

The data in the figure below demonstrates the demands in the PCB application market. The sluggish sales of smartphones in 2019 caused the decline in the output value of mobile phone boards. Although Apple ’s iPhone series were hot in the second half of the year, it could not reverse the recession of the whole year,and it reflects on the slow growth of the FPC as well. Despite the full deployment of 5Gb cell sites in mainland China, the output value has may have shown a double-digit growth, the overall PCB application in communication still slightly declined by 0.6%. The stable demand for the Internet of Things, smart home appliances, and related products, coupled with the jump in sales of Bluetooth headsets, has led to an annual consumer growth rate of 8.0%, which has the highest growth rate for all types of applications. The demand of computer application is relatively stable with an annual growth rate of 4.1. The shipped quantity of auto boards in 2019 declined by 3.2% under the pressure of pricing and poor sales worldwide.

Source of data: TPCA, Industrial Economics and Knowledge Center (IEK) at ITRI (2020/02)

Taiwan-funded PCB application market structure



(c) Overview of PCB industry in mainland China and other countries

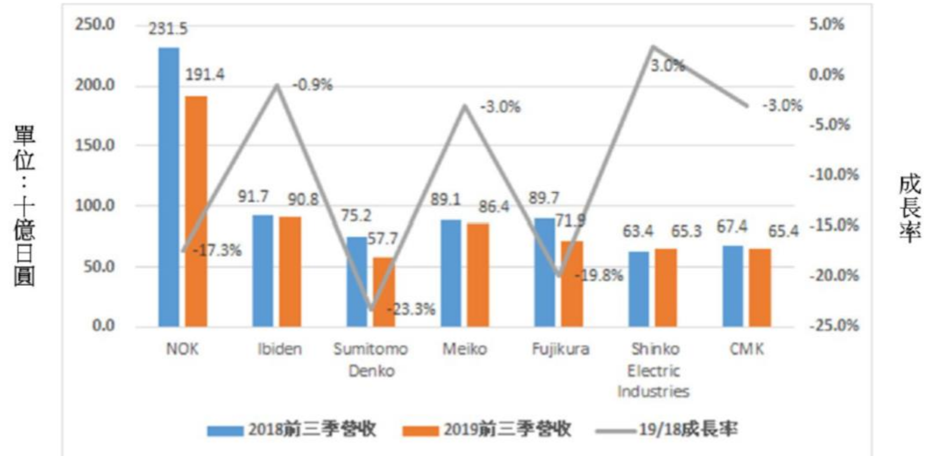
Among all the manufacturers owned by mainland Chinese, the 22 public-traded companies account for about 60% of the total output value. The following figure shows the sales of PCB products of various manufacturers in the first three quarters of 2019. The cumulative revenue reached 49.44 billion yuan. Compared with the first three quarters of 2018, it maintained a double-digit growth.

Source of data: TPCA, Industrial Economics and Knowledge Center (IEK) at ITRI (2020/02)

Revenue of China PCB company in 2019

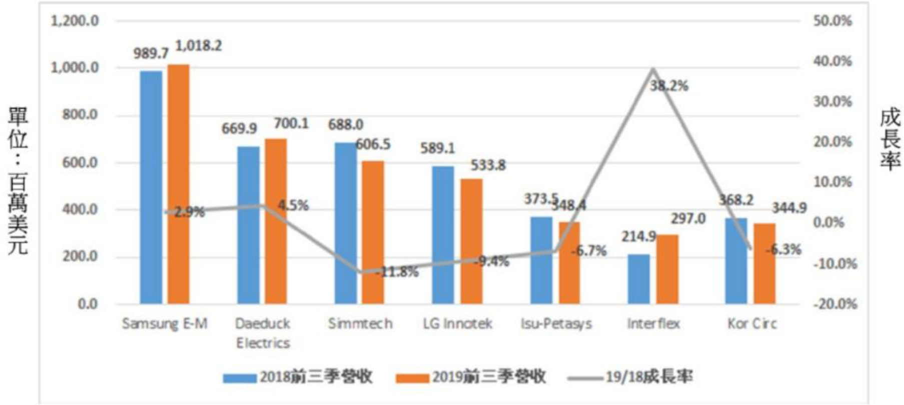
Another trend of mainland PCB manufacturers in 2019 is that the frequency of mergers and acquisitions is still high. Through mergers and acquisitions, the product, technology and customers will have a multiplier effect. Mainland PCB manufacturers relies on mergers and acquisitions to fuel its rapid growth. With the support of the capital market and local governments, the industrial scale has grown in recent years. In 2019, the industry had a stellar year with double-digit growth. Under the circumstances, the expansion of mainland PCB manufacturers are particularly soft. Before that, mainland PCB manufacturers struggled to play catch up with the high-end PCB products. In the upcoming 5G competition, it will become a negligible opponent for Taiwanese PCB manufacturers.

Looking at the world's major PCB manufacturers, Taiwanese manufacturers have maintained a slight growth (Taiwan dollar-denominated). South Korean manufacturers have shown a slight decline, and mainland China-based and Japanese manufacturers are at both ends of the scale. The former maintains a high growth rate with double digits, and Japanese manufacturers have declined significantly by about 10% in 2019 following the 2018 recession. Therefore, compared with the global output value of a slight decline of 1.2% in 2018, the global PCB output value in 2019 is actually redistributed under the original scale. The next two graphs are the business data of the Japanese and Korean PCB industries in the first three quarters of 2019.



Source of data: TPCA, Industrial Economics and Knowledge Center (IEK) at ITRI (2020/02)

Revenue of Japan PCB company in 2019



Source of data: TPCA, Industrial Economics and Knowledge Center (IEK) at ITRI (2020/02)

Revenue of Korea PCB company in 2019

(d) Development of application markets

In 2019, the global market of electronic end products shrank slightly, mainly because motivation to replace is deferred due to lack of innovation, weak demand, prices drop due to competition, and the delay of the 5G tide caused by the US-China trade war. The following table is the result of Gartner's statistics. Except for stable PC demand remains a flat performance, the other major categories of products have shrunk between 3% to 5%. The overall trend is explained as below.

Item	Shipments (million/pcs)	Growth rate
Cell phone	1701	-4.6%
Pad	151.4	-4.7%
Server	12.5	-3.0
Automotive	90.0	-4.7
PC	261.2	0.6%

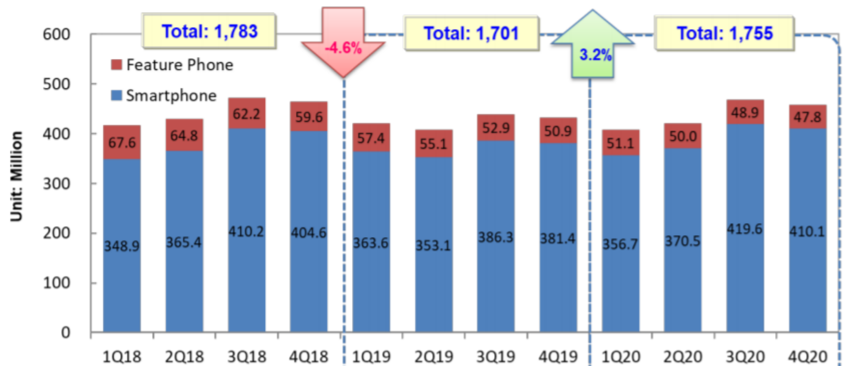
Source of data:Gartner

Structure of electronic end products market in 2019

A. Mobile phone market development

The following figure is the development statistics of the global mobile phone market in 2019. Except the third quarter, Apple introduced the iPhone 11 which brought some momentum to lead a positive growth, the rest were negative growth. In the fourth quarter of the peak season, brand owners did not launch innovative products. As a result, the output of the global mobile phone market in 4Q19 was only 432 million units, a year-on-year decrease of 6.9%, of which the number of smartphones released was 381 million units, a year-on-year decrease of 5.7%. In the past few years Smart phones were driving the global mobile phone growth, and the growth of expansion had remained stable, but in terms of global mobile phone segment in 2019, with a total of 1.7 billion units, shows an annual decrease of 4.6%. The output of smartphone had also decreased by 2.9%. It shows that the growth of global smartphone shipments has slowed down quarter by quarter. However, the launch of 5G technology in 2019, Korean and mainland Chinese brands are actively deploying 5G mobile phones. Although the 5G mobile phones only occupies 1% of the volume of smart phones in 2019, the global industry predicts that 2020 will be the year of 5G mobile phones explosion. It will become the new demand of the smart phone market, and is expected to drive up the output amount of smart phone.

Source of data: TPCA, Industrial Economics and Knowledge Center (IEK) at ITRI



	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
Smartphone(QoQ)	-13.5%	4.7%	12.3%	-1.4%	-10.1%	-2.9%	9.4%	-1.3%	-6.5%	3.9%	13.3%	-2.3%
Feature Phone(QoQ)	-1.0%	-4.1%	-4.1%	-4.1%	-3.7%	-4.0%	-4.0%	-4.0%	0.5%	-2.2%	-2.2%	-2.2%

(2020/02)

Cell phone Revenue in global market of 2019

Smart phones have always been the application of high-end PCBs. In recent years, they have driven demand for high-end PCB products. For the top five brands, the total market share of shipments in 4Q19 increased from 67.2% in 4Q18 to 69.2%, reflecting a continued increase in the influence of large manufacturers. Apple’s cost-effective iPhone 11 series was launched in the second half of the year with unexpectedly robust demand from Asia and the United States, resulting in a growth in shipments and a jump to number 1 in 4Q19 an improvement from 3rd in 3Q19. Samsung, the number 2 in 4Q19, is firmly on the top spot in global smartphone market with a 21.6% market share. Huawei's mobile phone business is difficult in overseas markets. With 4Q19 shipments declining, Huawei ranks third in the market. Its market share is the only one declined among the top five brands. The fourth mainland China-based manufacturer, Xiaomi, has become the largest distributor in India, had the best growth performance among the five major brands in 4Q19. The Mainland-Chinese brands occupied 3 of the top five brands of smartphones, and their market share increased from 30.8% in 4Q18 to 32.4%. The overall output was 120 million, an annual growth of 4.0%, which is better than the global average. Its PCB supply chain mainly also in mainland China and Taiwan. When 5G mobile phones explodes, business opportunities are worth looking forward to.

Source of data:IDC

Top five smart phone Supplier of 2019

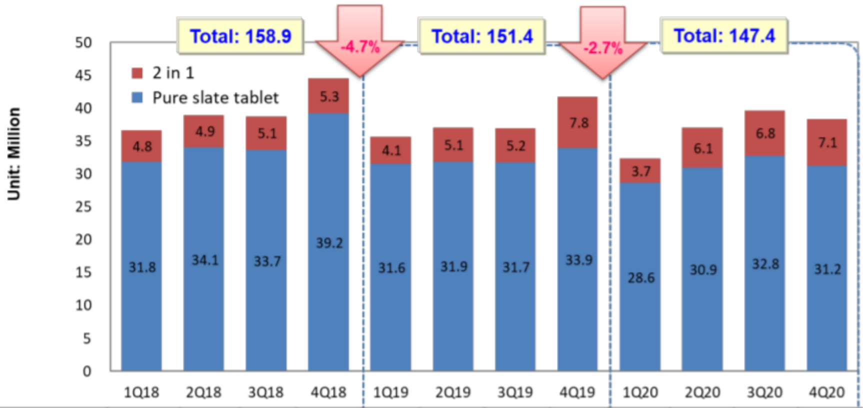
全球智慧型手機市占率排名

Unit : Million

No	Vendor	4Q19 Shipments	4Q19 Share	4Q18 Shipments	4Q18 Share	YoY Chang
1	Apple	73.8	20.0%	68.4	17.5%	7.9%
2	Samsung	69.4	18.8%	70.3	18.4%	-1.3%
3	Huawei (China)	56.2	15.2%	60.5	16.1%	-7.1%
4	Xiaomi (China)	32.6	8.8%	25.0	6.9%	30.4%
5	OPPO (China)	30.6	8.3%	29.3	8.3%	4.4%

B. Tablet PC market development

The following figure is the statistics of the global tablet market development in 2019. The global tablet market demand had slowed down and the decline continues. The output volume of 4Q19 was 41.69 million units, a 6.3% decline from 4Q18. The total output of global tablet output in 2019, reached 151 million units, which is also 4.7% less than 2018. The overall trend of tablet PCs continues to move towards 2 in 1 tablet products. As long as the performance and software of the detachable 2 in 1 products meet user expectations, there is a good prospect. However, the lack of innovation in tablet and the increase in consumer dependence on smartphones have made it difficult for the tablet market to grow again.



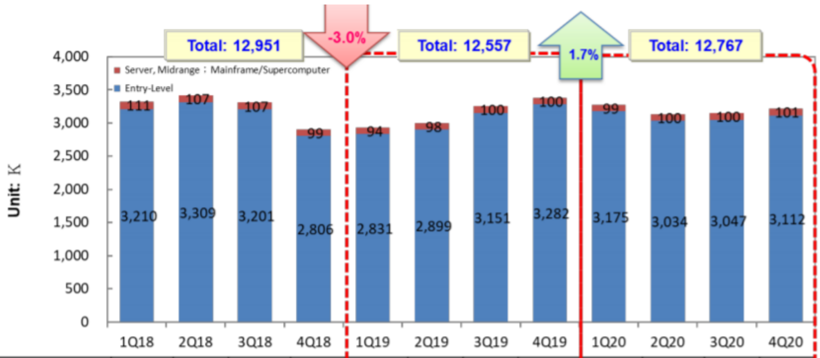
Pure slate tablet (QoQ)	-22.1%	7.0%	-1.2%	16.4%	-19.5%	1.0%	-0.5%	6.9%	-15.5%	7.9%	6.1%	-4.7%
2 in 1 (QoQ)	-8.5%	0.8%	4.7%	4.0%	-22.3%	24.4%	1.8%	49.1%	-52.7%	66.1%	12.0%	4.4%

Source of data: TPCA, Industrial Economics and Knowledge Center (IEK) at ITRI (2020/02)

Pad Revenue in global market of 2019

C. Server market development

The following figure is the statistics of the global server market development in 2019. The footnote of 2019 can be summarized by the strong demand for the Hyperscale servers in North America and the bounce back of global server shipped quantity. The global server market shipped 3.382 million units in 4Q19, a sharp increase of 16.4% compared to the same period in 2018, ending a three-quarter decline. The growth momentum comes from strong demand from Hyperscale server and service providers, especially in North America, which accounts for the largest percentage worldwide. The shipped to Hyperscale data centers in North America increased significantly to 18.4%; as in mainland China, it increased by 9.1%, and as in other regions the increase was 4.5% in Asia Pacific, 13.8% in Japan, 2.8% in EMEA (Europe, Middle East, and Africa) and 0.7% in Latin America. The annual shipped quantity in 2019 reached 12.55 million units, a slight decline of 3% year-on-year in 2018. However, with the continued expansion of cloud applications and super data centers, it is estimated that the growth rate will reach 1.7% in 2020. The scale of goods came to 12.76 million sets.



	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
Entry-Level	10.6%	3.1%	-3.2%	-12.4%	0.9%	2.4%	8.7%	4.1%	-3.3%	-4.4%	0.4%	2.6%
Server, Midrange ; Mainframe/Supercomputer	-4.2%	-3.6%	0.3%	-7.6%	-4.7%	4.1%	2.0%	0.0%	-1.0%	0.4%	0.4%	0.4%

Source of data: TPCA, Industrial Economics and Knowledge Center (IEK) at ITRI (2020/02)

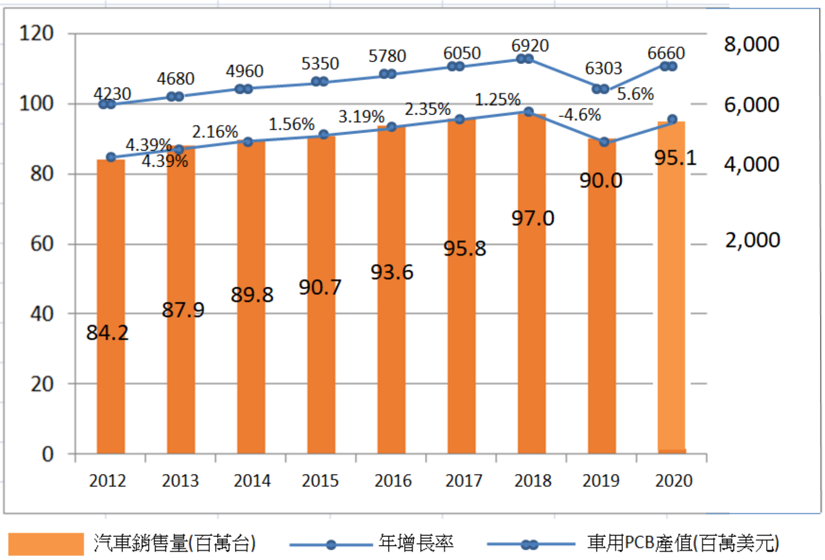
Server Revenue in global market of 2019

D. Automotive electronics market development

The following figure is the statistics of the global automotive electronics market development in 2019. In 2019, markets in mainland China and India each experienced a 10% decline, ended the continuous growth since 2012. Although markets in other countries had grown slightly, overall global car sales had declined 4.7%, thus less demand for automotive boards. In 2019, 90 million vehicles were sold worldwide, and the output value of related automotive PCBs reached 6.3 billion US dollars.

Looking forward to 2020, 5G is undoubtedly an important hope for automotive electronics. After Tesla officially entered the milestone of 5 million vehicles, the popularity and accelerated development of electric vehicles has become an irreversible trend. 5G's high data transmission rate and low latency characteristics create an ideal platform for connected cars and autonomous driving. Therefore, as the development of 5G gradually matures, the degree of automotive electronics will be greatly enhanced in the future, so that the use of sensors such as ADAS, automotive lenses, millimeter-wave radar, and LED components will increase accordingly. At present, the value of the electronic components of high-end (28%), hybrid (47%), and pure electric vehicles (65%) and other models is relatively high in the total cost of the car. The degree of electronicization and value of traditional models and low-end models are relatively low, but it reflects tremendous room for growth in the

future.
Prismark projects that the CAGR of automotive PCB output value will reach 5.6% from 2018 to 2023. In general, the automotive PCB market size will benefit from the upgrade of the automotive industry under the rapid development of the Internet of Vehicles in the next five years. Automotive electronics will become the fastest-growing downstream sector for PCB products. The demand for automotive PCBs is mainly concentrated on PCB multi-layer boards and FPC. Take Tesla Model 3 as example, the value of the FPC alone is more than $ 100, and the market estimates that the FPC usage per auto will exceed 100 pieces in the future.
According to the data provided by China Industry Information Network, the CAGR of FPC's output value in the automotive electronics industry will reach 4.9% from 2016 to 2019. By 2021, the output value of FPC can rise to $ 852 million USD.
Despite the decline in overall global automotive sales, the entire automotive industry is still a trillion-dollar market. The increase in implementation of automotive electronics can be interesting for the PCB industry. As the global automotive industry gradually moves from electronics to a new era of automation, the output value of automotive PCBs will increase accordingly, and many PCB manufacturers have begun to take the lead.

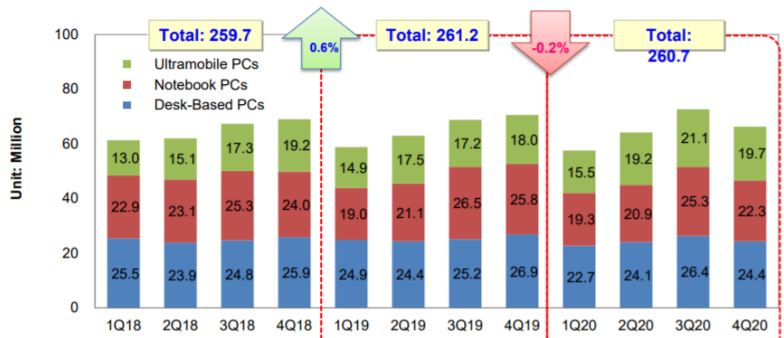


Source of data: TPCA, Industrial Economics and Knowledge Center (IEK) at ITRI (2020/02)

Automotive Revenue in global market of 2019

E. PC market development

The following figure is the statistics of the global PC market development in 2019. In 4Q19, the shipped quantity of PC in the global market increased by 2.3% over the same period in 2018, reaching 70.61 million units, and the total of 261 million units in the entire year of 2019 as forecasted by IEK in 2018. The increase in shipped quantity was mainly led by the high demand to upgrade to Windows 10. Among the increase, Japan, the United States, Europe, the Middle East and Africa were the main growth driving forces, which subsided the decline in the Asia-Pacific region. The Asia-Pacific region is affected by the Chinese mainland market (accounting for 60% of the overall Asia-Pacific PC market). Due to current US and Chinese political and trade relation, Chinese has adopted "de-Americanized" related policies, which has affected the willingness of PC purchase and weakened the performance of the shipped quantity. All other regions demonstrated a steady growth except Japan whose exceptional annual growth (40.3%) had dominated the entire market. In summary, IEK predicts that the size of the global PC market in 2020 will keep the same, maintaining a market size of 260 million units.



	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
Total PCs (QoQ)	-14.4%	1.1%	8.6%	2.5%	-14.7%	7.0%	9.2%	2.7%	-18.5%	11.4%	13.3%	-8.8%
Notebook (QoQ)	-15.0%	0.7%	9.6%	-5.1%	-20.9%	11.0%	25.4%	-2.5%	-25.1%	8.2%	21.0%	-11.9%

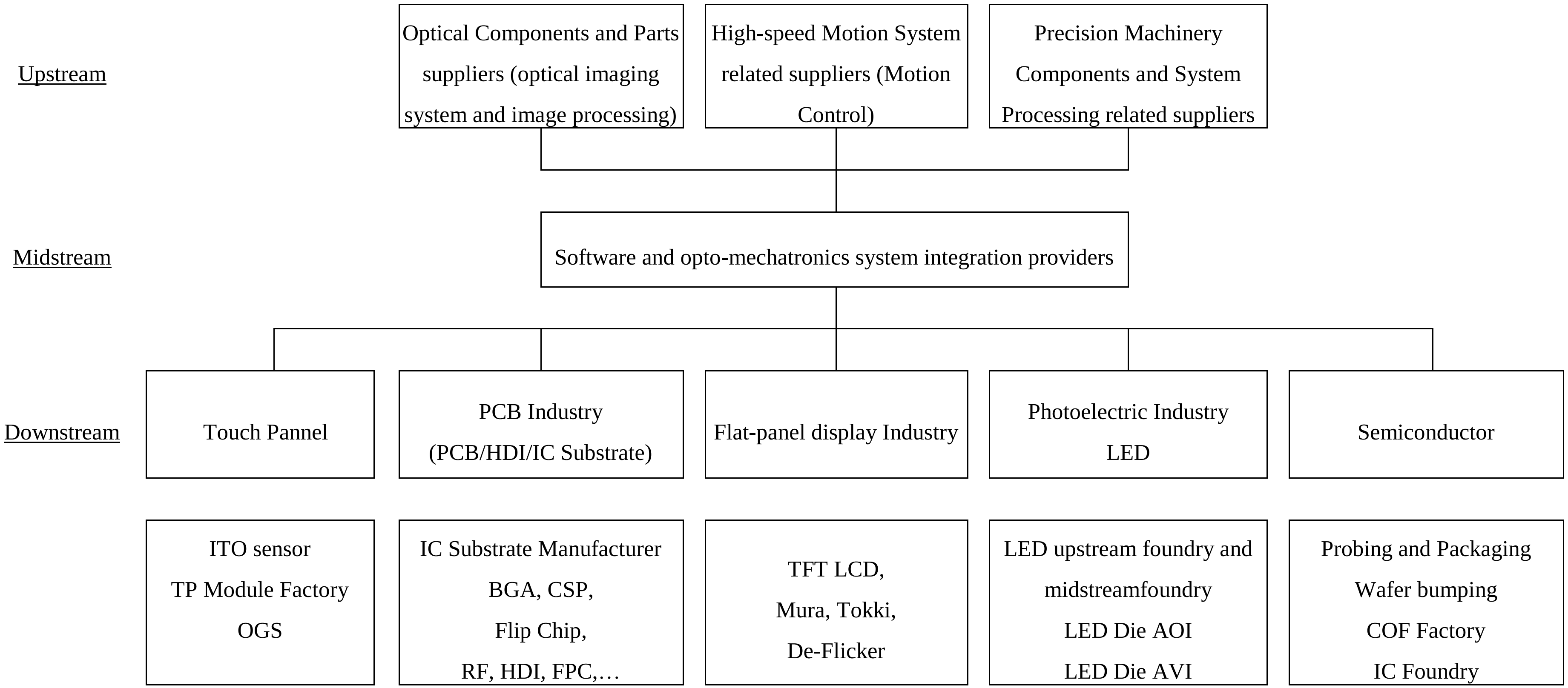
註：Ultramobile係指1.6kg以下，包含Microsoft's Windows 8 Intel x86 products和Apple's MacBook Air的產品

Source of data: TPCA, Industrial Economics and Knowledge Center (IEK) at ITRI (2020/02)

PC Revenue in global market of 2019

5.3 The relevance between upstream, midstream, and downstream sectors in an industry

5.3.1 Machine vision related inspection (including AOI):



5.3.2 The various developing trends and competition of the products

(A) AOI system being developed for a higher precision and speed

In advanced countries including Taiwan, the tendency for electronic products to be compact and required of quality will facilitate the upgrade of traditional AOI system, for example: measurement technology will be enhanced from 2D plane inspection and measurement to 3D (three-dimensional) inspection and measurement. Therefore, it is foreseen that the demand in AOI system with a higher precision and speed will be rising.

(B) The development trend of AOI in mainland China's market

AOI has originally been the necessary investment for ensuring production quality in the industry of advanced countries. Traditional labor-based industries generally had low throughput without the necessity of using AOI for quality inspection while the primary goal was set towards automated production and enhancing production capacity. Nonetheless, due to the mature development of automated production, the number of quality inspection personnel will be greatly increased in order to cope with the surging production capacity, which is feasible when the salary level of the workforce is low. However, while the product spec is getting more and more precise, the salary in China is getting higher, and the young generation is not willing to take the job in a manufacturing plant, the turnover rate is getting higher. Therefore, AOI has become the necessary investment in the next stage for electronic and semiconductor industry in China, and surely the demand in it shall grow.

(C) Increasing adaption of AOI system in traditional industry

For traditional Manual Visual Inspection (MVI) is no longer able to effectively control the quality, the traditional industry sector in Taiwan also has to develop towards high quality in order not to be phased out. Therefore, AOI system will be adopted to replace traditional MVI and the demand in it shall continue to increase.

(D) Equipment Localization

In recent years, the emerging high-tech industry has been growing and hence the surging need for precision measurement systems. Among them, AOI is particularly the trend that cannot be halted. The technical field of AOI is extremely wide and the adoption includes the industries of semiconductor, flat-panel display, LED, PCB, Optial Lens, and etc. Most markets having a demand in AOI system are located in Asia. Currently, a large majority of the AOI system used by the main industries in Taiwan are imported ones that may have the disadvantages such as high price, difficult maintenance and high cost of selling. However, since the government have started to support equipment localization, in 2004 the Center for Measurement Standards／Industrial Technology Research Institute (CMS／ITRI) led to form AOI Equipment Association (AOIEA) that connects the related organizations of industry, government, university, and institute to promote the overall development strategy for domestic AOI industry. In recent years, the domestic equipment providers have greatly enhanced their capabilities, and the selling price is lower than that of the equipment made by foreign manufacturers; in addition, the requirements of customization can be effectively communicated. Therefore, in order to reduce procurement cost and improve service maintenance quality, domestic and foreign companies have gradually increased the proportion of buying domestic AOI equipment.

(E) Market Competition

The focus of our R&D is mostly on developing the latest types of product with Blue Ocean Strategy; therefore, there is no existing powerful competitor in the market while we may primarily compete with our R&D and improvement pace to be in line with the progressing industry. Some of the equipment that has been facing competitors in the market may have a relatively large market. For example, the existing competitors of wiring AOI inspection system include the foreign companies of Orbotech, CIMS (original Camtek PCB division), and Screen, all of them are the primary competitors of the Company. However, in 2017, we have launched the solution with higher productivity that can facilitate manpower saving, there were many large-scale manufacturers have replaced the old system to enhance their competitiveness and instead become the leaders of the market. In addition, for AVI system, Japanese company, Shirai, is the main foreign competitor while in Taiwan UTECHZONE Co. is also having the same development. The competitiveness of both products is the excellent inspection rate and throughput which shall help on reducing manning for re-inspection, together with the newly developed AI deep learning. In this way, we are not only able to catch up with the original leading company, but also able to leave other competitors behind and enhance customers' satisfaction through quality service system.

For the existing products other than these two, most of the competitors are followers. Take Hole-AOI as an example, the products by competitors from the States and Japan are with high quality and they normally focus on the various functions provided while there are other competitors who do not reinforce the quality of their products but instead have the focus on competing by low price. To cope with these, the Company's strategy is to expand our

R&D, keep improving, and segment the market. We offer diversified models to meet the needs of different layers of customers while ensure profit and competitive advantage. In addition, we rely on our patents to expand the gap between the functions of our products and that of competitors'. Apart from that, the Company is committed to enhance the service quality, to maintain existing customers, and furthermore to gain the new customers.

1. Technology / R&D update:

(1) Current state: Current technology development will focused on "all in one" solution, offering combo solutions such as FC substate AVI + Bump measurement, Mini LED measurement inspection + appearance inspection. We will also focus on solution integration to in-line solution, eg. Flexible PCB AOI inline inspection, Flexible laser via in-line inspection.

(2) Mid term: Industrial 4.0 PCB Smart Inspection System: Inspection machinery will connect with Client servers, automating system settings, automated scheduling, automated system status update, AI inspection statistic update.

(3) Long term: Cross industry AOI and AVI application that is none PCB related, eg. Touch sensor + AVI combo solution and Lens inspection solution.

(4)R&D list for last 5 years

Year	Product/Proprietary technology	Main purposes
2015	AOFI	Introduced AOI into AFI to make it be able to inspect double sides simultaneously with high efficiency which can replace 4 times of the missed detection rate by people.
2016	FPCB AVI	FPCB AVI to detect defects such as solder mask, solder, Au discoloration, etc. This program shall greatly improve production rate and reduce false alarm rate.
2017	Smart AOI 4.0	The design complies with industry 4.0 and can help customers resolve the problem of manpower shortage as well as save a great amount of cost.
2018	Wafer AVI	Applied to the inspection after wafer cutting in wafer probe and packaging industry.
2019	RTR AOI	Solution for Flexible PCB inspection, inspection speed is 10x~14x faster, can reduce labor demand and increase production efficiency

2. Long-term and Short-term Business Development Plan

(1) Short-term Business Development Plan

A. Marketing Strategy

Provide the sales program of one-stop shop inspection for the whole factory to meet customers' needs in one-stop shopping and single window service.

Strengthen and enhance the sales system in China, Korea, Japan, Southeast Asia, and the US.

Continue to improve the quality and customer service, and maintain the user groups.

B. R&D Strategy

Enhance the cooperation with component suppliers and customers to actively develop high-end mechanical vision products.

Let R&D personnel engaged with the market more in order to develop the system that meets the market's needs.

Inline inspection equipment for the complete manufacture process, Modularize software and hardware design to accelerate the development of new systems for other industries.

C. Production Strategy

Improve manufacturing efficiency and production technology to reduce production hours while enhance production quality.

Closely connect production schedule, business requirements, and the purchase time of key components to reduce inventory and manage the delivery date of order.

D. Finance Strategy

Implement performance management and strengthen finance management to enhance the capability in risk management.

Fully push the company's entry into a capital market in hopes of establishing a comprehensive funding channel to make a healthy financial structure and setup the idea of sustainable management, and then make profit to share with the society.

The short-term financial plan is made based on the mid-term and long-term capital demand plan and the principle of safety and stability.

E. The Management

Enhance ERP as well as computerize and automate the operations flow from design, receiving order, production, shipment, inventory, to finance to improve management and operation efficiency.

Provide training and assessment to the personnel in R&D, production, sales, and management to cultivate the talents and human resource in the

Company and keep on driving innovation and enhancing the overall competitiveness.

Keep expanding our knowledge management system by establishing the database of successful experiences in the Company for newcomers to efficiently connect with the system operation and motivate new successful experiences.

(2) Long-term Business Development Plan

A. Marketing Strategy

Increase the integration of products and services, expand the scale of operations, and provide customers with various solutions of mechanical vision system for their equipment. This year's new operational goal is to promote and develop the needs of wafer probe and packaging in semiconductor industry, as well as the Smart Camera for edge computing.

Enhance the production and marketing system domestically and internationally to provide customers with real-time and appropriate service and technical support.

Seek strategic alliance to speed up gaining the market share and expanding the gap between us and our competitors.

B. R&D Strategy

Expand the communication and cooperation with domestic and international research or academic institutes to enhance the vision of R&D personnel as well as introduce new ideas and technologies.

Work closely with key component suppliers to develop new systems with the latest technology.

Make good use of "Coopetition" (Competition and Cooperation) to enhance the level of research and development.

C. Production Strategy

Assist outsourcing system in the setup of quality management system to improve on-time delivery and effective production.

D. Finance Strategy

Build a close relationship with financial institution to control financial market dynamics and enhance financial performance.

Expand the Company's operating scale and raising funds for medium and long-term to develop our strength in long term.

E. The Management

Cultivate outstanding talents and build a corporate culture of professionalism, service and partnership.

Adhere to the concept of sustainable management, strengthen corporate governance and value social responsibility.

3. Overview of Market and Sales

A. Market Analysis

(1) Sales area of main products (services): Sales percentage of inspection products for PCB industry by market is as listed in the table below:

Region/Year		Year 2018		Year 2019	
		Amount	%	Amount	%
Export	China	1,370,904	44%	1,752,463	69%
	Others	207,103	7%	127,024	5%
	Sub-total	1,578,007	51%	1,879,487	74%
Domestic Sales		1,533,869	49%	663,954	26%
TOTAL		3,111,876	100%	2,543,441	100%

(2) Market share

The company's key business is to manufacture, research and develop, and sell machine vision inspection and measuring system. Our products include the measuring and inspection series for the manufacturing process of PCB drilling and routing, PCB wiring inspection series, IC Substrate, HDI & FPCB Inspection Series and AFI series, with the focus on the inspection and measuring series for bare board. Part of the products such as Express 2mil (will advance to 0.8mil this year) AOI (output 1000 units/hr) and LasercVia AOIM, and AFI for rigid-flex PCB have the leading market share in Taiwan and mainland China. In addition, the other products such as ArtWork AOI and 2D AOI also have the market at certain level. However, since the statistics for PCB inspection and measuring system is not available, the market share cannot be compared. In addition, entering the code reading application market with Smart Camera is also one of the company's new business scope.

(3) Future market supply/demand and growth

Printed PCB (PCB), the basic and key component for all products in electronic industry, is the base plate used to connect electrical components that allows the various electrical components to function by the tracks formed on the PCB. While PCB products are moving towards being high-end and compact that cannot be inspected by naked eyes, and some contact electronics test cannot be done due to thin wires, therefore, the demand in precision measuring or inspection system will be rising. In addition, since there is the problem of manpower shortage due to the getting higher labor cost, it is expected that machine will soon replace labor for PCB products inspection. In Taiwan, it is another situation. Since the PCB market is gradually recovering quarter by quarter, Taiwanese PCB manufacturers have kept expanding the scale and developing the supply chain for the primary system manufacturers which should drive the demand in PCB inspection system.

The Company has expanded the application of 2D/3D inspection technology that has been accumulate for more than 20 years in PCB industry to other microelectronic industry such as wafer probing and packaging and COF industry, to expand the range of industries that the product can be applied to. On the other hand, we have also introduced AI deep learning system to our entire product lines to reduce workforce while expand the market scale.

(4) Strength for competition

A. The Strong R&D Team

MACHVISION Inc. is a company specializing in Machine Vision inspection and measuring system and having the technology of integrating optical imaging system, image processing, precision machinery, and motion control. With the accumulated integrated technologies in optics, mechanic, electricity and software, our R&D team had planned for various professional training courses as well as the setup of knowledge management system to enhance the professionalism of our R&D staffs for providing new products with more precise and fast visual inspection system in the market to cope with the changing environment. This has combined theory with practical application which allowed our technology development so far to be ahead of other domestic competitors. It’s been proven that some products have met the international advanced standard, and customers have established trust and inter-dependence on our company's products and services.

B.Providing a Comprehensive Range of Products

The comprehensive range of products developed by the Company for PCB/IC Packaging/COF industry does not only meet customers' needs, also the quality of our products are better than the exported ones. Our diversified measuring and inspection equipment, which have a good reputation in the marketplace, can provide a total solution in measuring and inspection for the whole customer's factory and can have bundling to enhance competitiveness. In addition, we offer optional mid and high level models for many product series that can cover the individual needs of different customers and furthermore enhance the Company's market share.

C.Timely local after-sales service and professional maintenance capability

The developing process of machine vision system has to be worked on closely with the customer and be tested for a long time. In addition, the customers often want to work with suppliers locally. The output value of PCB in Asia is almost over 80% of the global output value; in addition, not only 90% of HDI products are manufactured in Asia, the primary manufacturing base of semiconductor is also in Asia. The Company has branch offices in Taiwan and China which allow us the regional advantage of providing convenient and comprehensive maintenance service and technical support. Therefore, customers can have their problems be resolved immediately or have our cooperation on properly modifying software or hardware to fast respond to the market needs and enhance the functions and competitiveness of products for gaining trust from their customers.

In addition, the Company has dedicated customer service training system that can facilitate customers' user training which is helpful for customers to be familiar with the safe operating of our precision equipment and furthermore gaining the trust of customers in the Company.

D. Having the leading clients in terms of channel

The Company provides various measuring and inspection systems for different PCB processes. The number of our clients is more than a hundred and their expertise areas range from PCB whole manufacturing process and single manufacturing process, equipment manufacturers, to raw materials suppliers. Presently, all of the top 10 global PCB manufacturers are included in the Company's clients list. On the list, it also includes the top PCB manufacturers such as UNIMICRON, Nanya, Chin Poon, Tripod Technology, ASE Group, and Gold Circuit Electronics from Taiwan, Foxconn Group, Pulin Group, Shantou Chaosheng, Founder Group, Shennan and Kinwong from China, Kingboard Holdings Limited from Hong Kong, Samsung and LG from Korea, as well as the top two manufacturers from Japan, Samina from the US. Among the top 100 PCB manufacturers, around 80% are using our products, which is helpful for the Company's new launches for getting the point of market entry. For a long time, the Company has been building the word of mouth and expanding our business to the global market that made us much more competitive in the industry.

(5) Positive and negative factors for developing vision and the preventive measures

A. Positive Factors

(A) The rising demand in inspection

Accompany the wave of 5G and AI, the global electronic information and communication industry are flourishing. As the increasing demands in upstream production equipment driven by both the global trend of developing compact devices in electronic information and communication industry and the sound information industry frame in Taiwan, as well as the expanding of global laptop and consumer electronic products, there are a lot of opportunities of application in electronic industry. The Company has been devoting in the development of PCB/semiconductor visual inspection and measuring system and has delivered the inspection systems with excellent functions and quality which made us able to control the market trend by proactive marketing.

(B) An industry with high entry barriers

Since MV inspection and measuring system can only been completed by integrating the technologies of optical imaging, image processing, precision machinery, and motion control, the experts in these fields are required. In addition, because the cooperation from all users is also critical, with such a demanding barriers, there are not many manufacturers who can succeed in the field.

(C) Self-owned developing team

The Company has successfully developed around tens of innovative products with patents domestically or abroad, and has successfully gotten certified by many world-class manufacturers. In addition, there are still clients exploring proactively for the opportunity of cooperating in the development of related visual inspection system. At the same time, we continue to invest in developing new technologies to keep our technologies ahead of others.

(D) Increasing demand in automatic machines due to the rising wage in mainland China

As the labor cost of wage, fringe benefit, and social insurance is increasing in China's electronics manufacturing services, the demand in adapting automatic machine for production lines is also rising. It is the same situation in PCB industry for being willing to adapt AOI system, especially when the labor cost takes up 18% of what is already low margin. Since the Company has developed total solution with automation to help on more cost saving, the trend is favorable for the Company's future development.

(E) The Company is having good operation and financial healthSince being funded in 1998, the Company has successively developed various visual measurement and inspection systems. Our products are widely recognized by major domestic and foreign manufacturers and that allowed us to maintain good revenue and profit. The Company is profitable ever year since its establishment and has never used aggressive financial operation. Therefore, with our good operation and financial health, we do believe tht we are able to fully devote on R&D and get the insight of market trend for launching new products.

B. Negative Factors

(A) The critical parts such as Camera, CCD, video capture car and Lens still rely on the exportation

Preventive measures:

Maintain a good relationship with suppliers and do not count on single supplier for procurement. In addition, leave some room for flexibility during the designing of the products to allow the parts with different brands suitable for use in our developed systems.

(B) Most of the products for quality checks are random checks and the sales volume is not high

Preventive measures:

Develop full inspection system with high demand such as wiring inspection for inner and outer layers and AFI; in addition, promote the bundle sales with niche products to facilitate the trade-off between sales revenue and profitability.

(C) Limited application of existing product lines

Preventive measures:

With existing successful MV technology, modularized design and management, we can get into new application or industry quickly to increase the adaption in different industries such as probing and packaging industry, and furthermore expand the market of product selling.

(6) Critical functions and manufacturing process of the major products

1. Functions of the major products

A. The measuring and inspection series for the manufacturing process of PCB drilling and routing:

a. Express Hole-AOI: as the trend of PCB fine line, the drilled hole will be getting smaller (pore size under 100um) and there shall be more holes drilled (500 thousand holes/piece), hence the precision of the drilled hole is getting more important. By using Express Hole-AOI, the precision can be up to +/- 5 um, and the measuring for a piece of board with 300 thousand holes can be completed in 20 seconds that can not only enhance the yield of drilling process, but also can monitor the output quality of a drilling machine on the production line as well as reduce the obsolescent and maintenance cost.

b. All-purpose Dimensional Measuring System: measuring the device under test mainly by non-contact way to automatically measure the angle, coordinates, distance, dimension of a two dimensional object such as point, line, circle, and arc. That can be applied widely to the size measuring of profiled board, the dilatation of inner layer and film, and the various quality inspection report. In addition to save manpower, it can also help on obtaining more precise measuring results and feedback to the production line for continual improvement and enhancing the capability of manufacturing process.

B. PCB Wiring Inspection Series:

a. Film AOI system: films are the critical basis for producing PCB wiring while any of the continuity & insulation, indenting, bump, splotch on the film shall cause a bad inner and outer layer PCB or make it discarded. A film AOI system can read the original design data of the wiring on a film as the basis for comparison to inspect any defects and reduce the false alarm rate.

b. Line gauge: measuring line width can get the quality level on how does etching result control the conducting lines. The traditional way of measuring by naked eyes with microscopic magnifier does not only have the problem of bad reproducibility, but due to the trend of fine lines, measuring by naked eyes can no longer meet the requirement. LineGage has the imaging mechanism with patent that can show the image of fine lines clearly; when working together with the image processing technology of sub-pixel and linear regression, the precision accuracy of measuring can reach 1 um.

c. Wiring inspection for inner and outer layers:

Multi layered board of PCB has 6, 8, or 10 layers, and even up to more than 30 layers for achieving the requirement of electronic products in being small and compact. However, the lines on each layer have to be scanned and inspected to avoid spur, indenting, and continuity & insulation, as well as to enhance the yield of drilling process and reduce the loss of obsolescent. Right now, it can also help on enhancing the production rate and even reach unmanned high-speed production with the add-on of automation.

C. HDI and IC Substrate Inspection Series:

a.LaserVia-AOIM: due to the requirement of mobile phone PCB and IC substrate in being small and compact, laser drilling has become an important production process. LaserVia-AOIM can inspect if the laser power is weak or over and if there is residual or shift, to enhance the processing capability of engineering unit and prevent from the bad output of production unit.

b. 3D Profiler: in order to ensure the reliability of products, it is required to have copper-filling plating after laser drilling. However, it would be time consuming and inaccurate to inspect hundreds of thousands of holes on the board and get the hole with the denting up to 5 ums. The inspection for copper-filling plating utilizes the most advanced 3D measuring technology that can measure the denting level of each hole for 1 million holes in 3 minutes, a revolutionary breakthrough for the filling in copper electroplating.

c. Solid Measuring Viewer system: high-end PCB has to be measured on its 3D data such as line thickness, solder height, or hole depth. The traditional measuring way may cause destruction and time consuming if it adopts slicing; therefore, it can protect device under test while save time by adopting optical measurement 3D solution.

D. AFI Series:

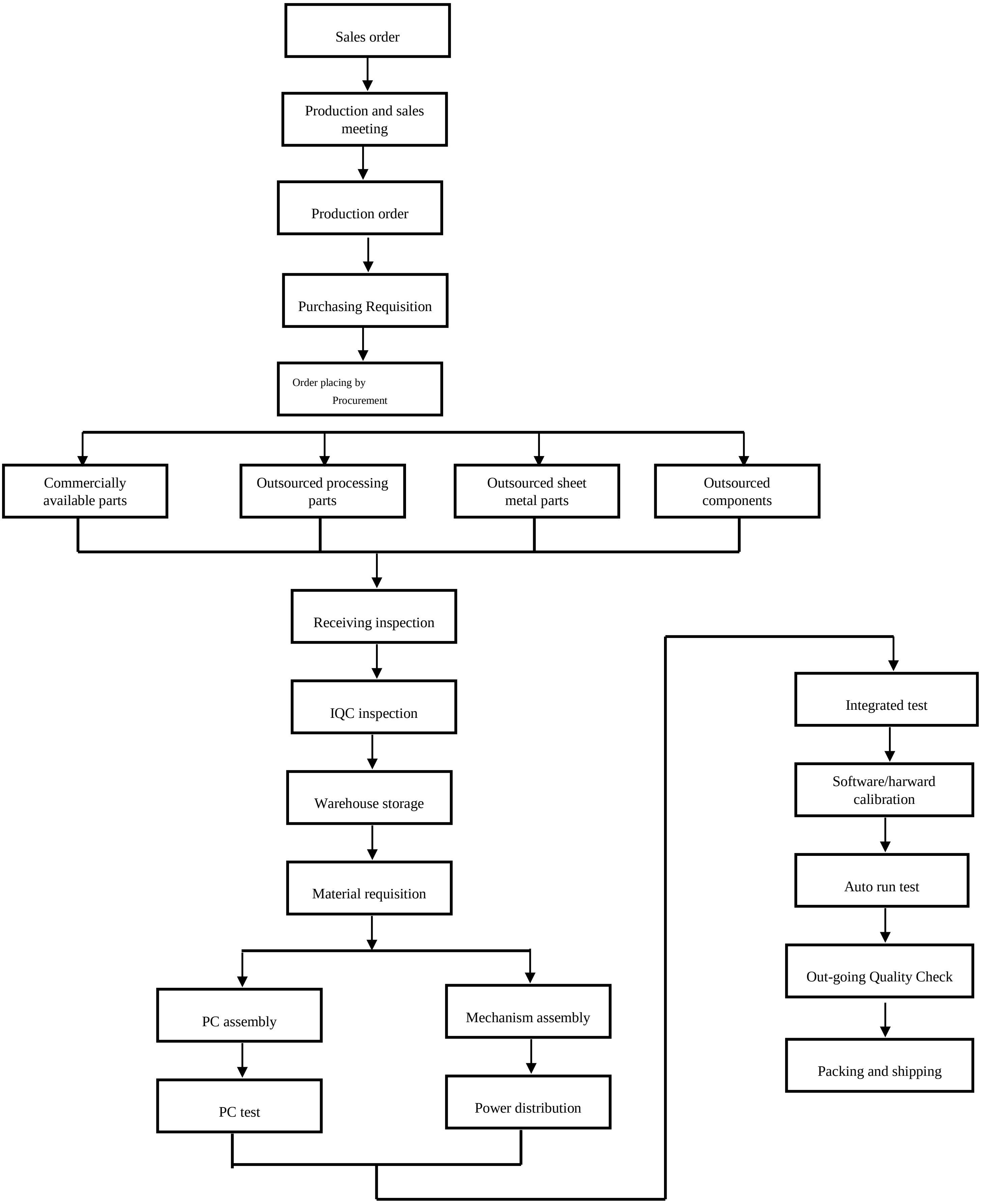
AFI series can be applied to various automatic final inspecting systems including multi layered board, HDI board, IC substrate, FPCB, assembled FPCB, wafer and COF. The series can also add AI capability to the system.

(2) The manufacturing process

A. The Company's products are mainly modular assembly that can be categorized to the modules of mechanism, electric control, optics, and software system.

B. Each module is assembled and quality controlled based on assembly operation standards and test specification.

C. The assembled product will be going through a 72-hour function and system software test by the quality control team to ensure the quality of the shipment.



(3) Overview of the Primary Raw Materials Supply:

Item	Main materials	Supply condition
1	Optics and photoelectric component	More than three suppliers with good supplying condition
2	Transmission component	More than two suppliers with stable supplying condition
3	Electrical machine component	Adequate supply with stable delivery date

(4) The name of the customer who has accounted for more than 10% of the total procurement (sales) of goods in any one of the latest two years and its procurement (sales) amount and percentage with variation explained:

(a) The customer who has accounted for more than 10% of the total procurement of goods in any one of the latest two years

Unit: NT$ Thousand

	2018				2019				2020 as of March 31			
Item	Name	Total Amount	Net purchase ratio to the whole year(%)	Relationship with the issuer	Name	Total Amount	Net purchase ratio to the whole year(%)	Relationship with the issuer	Name	Total Amount	Net purchase ratio to the year as of the previous quarter(%)	Relationship with the issuer
1	Manufacturer A	84,401	10.51	-	Manufacturer B	110,434	12.47	-	Manufacturer A	26,738	14.74	-
2	Manufacturer B	82,511	10.27	-	Manufacturer C	93,023	10.50	-	Manufacturer B	20,158	11.11	-
3				-				-	Manufacturer C	19,927	10.98	-
	Other	636,387	79.22		Other	682,244	77.03		Other	114,615	63.17	
	Net purchase	803,299	100.00		Net purchase	885,701	100.00		Net purchase	181,438	100.00	

Explanation for the variation: there are a number of high-end machines launched in 2020, hence lots of procurement for the high-end computers by Manufacturer B and the increased procurement amount.

(b) The customer who has accounted for more than 10% of the total sales of goods in any one of the latest two years

Unit: NT$ Thousand

	2018				2019				2020 as of March 31			
Item	Name	Total Amount	Net Sales ratio to the whole year (%)	Relationship with the issuer	Name	Total Amount	Net Sales ratio to the whole year (%)	Relationship with the issuer	Name	Total Amount	Net Sales ratio to the year as of the previous quarter (%)	Relationship with the issuer
1	Company B	794,426	25.53	-	Company C	326,410	12.83	-	Company E	137,944	20.10	-
2					Company D	280,547	11.03		Company F	101.019	14.72	-
3												
4												
5												
	Other	2,317,450	74.47		Other	1,936,484	76.14		Other	447,268	65.18	
	Net Sales	3,111,876	100.00		Net Sales	2,543,441	100.00		Net Sales	686,231	100.00	

Explanation for the variation: the Company's products are sold domestically or abroad while Company C and Company D are the customers who have long-term relationship with us; since they have the needs of procuring equipment in the first quarter of 2019, hence the procurement to the Company increasing and the rising sales amount over 10%.

(c) Volume and value of production over the past two years:

Unit: NT$ Thousand/unit

Year / Volume and value of production / Major commodity	2018			2019		
	Value	Quantity	Output value	Value	Quantity	Output value
Inspection series for FPCB	454	450	1,594,896	124	122	607,682
In-line wiring inspection series	107	106	463,957	155	145	581,750
Semiconductor series	43	42	444,481	87	83	837,734
Other inspection series	186	184	626,070	152	148	638,146
TOTAL	790	782	3,129,404	518	498	2,665,312

Note: Production capacity/quantity is calculated based on man-hour

(d) Sales volume and value over the past two years:

Unit: NT$ Thousand/unit

Year / Sales quantity and value / Major commodity	2018				2019			
	Domestic sales		Export sales		Domestic sales		Export sales	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Inspection series for FPCB	165	879,358	278	666,998	20	87,883	100	509,837
In-line wiring inspection series	3	24,650	102	423,842	7	40,725	117	456,772
Semiconductor series	37	377,986	4	46,291	39	339,840	31	366,682
93 Other inspection series	53	207,701	127	398,173	18	131,486	127	494,781
Service Income	-	44,174	-	42,703	-	64,020	-	51,415
TOTAL	258	1,533,869	551	1,578,007	84	663,954	375	1,879,487

5.4 Number of employees, average years of service, average age and academic distribution ratio of employees in the last two years and up to the annual report printing

Item \ Year		2018	2019	as of Mar. 31, 2020
No. of Employee	Direct Labor	50	42	38
	Indirect Labor	237	214	228
	R&D staff	79	121	128
	Total	366	377	394
Average age		33.65	33.65	34.79
Average seniority (years)		4.21	4.21	3.76
Distribution of Academic Qualifications	PhD	1.31%	1.33%	1.78%
	Graduate	25.81%	29.97%	29.70%
	Undergraduate	61.44%	58.62%	59.39%
	Senior high school	11.44%	10.08%	9.14%
	Below senior high school	-	-	-

5.5 Environmental expenditure information

5.4.1 Pursuant to the laws and regulations, the setup license that shall be applied for pollution control facility or the pollutant emission permit or Pollution Control Fee that shall be paid or the department or personnel that shall be setup for environment protection and their status update:

1. The production model of the Company belongs to assembly and system integration that will not generate contaminated waste liquid and waste water from the manufacturing process, so the regulation is not applicable.

2. The packing materials such as wooden case and wasted pallets for the Company's products are processed and recycled by qualified waste treatment plant.

5.4.2 The investment in the main equipment for environmental pollution control and their use and possible benefits: None.

5.4.3 The process of improving environmental pollution by the Company, and if there is any pollution incident as well as its handling details over the past two years and as of the printing date of the annual report: None.

5.4.4 The amount of the loss and punishment caused by polluting the environment in the latest two years and as of the printing date of the annual report; also disclose the future preventive measures and possible expenditure:

None.

5.4.5 The impact of current pollution status and its improvement on the Company's earnings, competitive position, and capital expenditure, as well as the estimated major environmental protection capital expenditure in the latest two years: None.

5.6 Labor relations

5.5.1 The Company's various employee benefits, advanced study, training, retirement system and their implementation, as well as the status of collective bargaining and the protection of workers' rights:

1. The Company values the family well-being and health of our employees and we do not encourage working overtime. In case of the overtime work, we would encourage the employee to get in earlier while if staying later is necessary, we also reminder them not to exceed the overtime limit and impact the next day's work, in hopes of helping them keep a regular daily routine to stay healthy and furthermore get the balance between work and family.

2. Employee benefits program

(1) All of the Company's employees enjoy labor insurance, national health insurance, group insurance, and major casualty insurance by the employer.

(2) Employees will receive year-end bonus at the end of the Company's business year.

(3) Pursuant to the law, the Company has reserved welfare funds to establish Employee Welfare Committee for conducting various employee welfare activities such as holiday bonus, birthday celebration, birthday gift, wedding and funeral subsidy, and social activities.

(4) Provide subsidy for annually domestic or foreign travel, allowance for regular health check-ups and flu vaccine.

(5) Provide the education subsidy program for employee's children aged 0 through 18 years, which includes the free nursery school for kids aged 3 through 6 years.

(6) Family and child parent education course.

(7) Set up free cafe to reduce work stress.

3. Advanced study, training and development

(1) Employees are considered as the most important assets in the Company. Therefore, we provide necessary and appropriate training and development courses for employees to make them contribute by their strength and competent, continue to complete the designated tasks and achieve the goals while keep on creating the core competence of the Company.

(2) Training and people development system

We provide the training courses based on competency to equip employees with the basic knowledge, skills and attitudes necessary for achieving business goals, which include:

a. New hire training: the training for new employees and the training for new managers.

b. Professional training: sales, production, R&D, finance, procurement, administration, etc.

c. General education training: the Company's mission, corporate culture, the company's value, customer satisfaction and quality.

d. Direct labor training: the skill training of assembly station.

e. Project-oriented training: workshop for R&D project.

f. Self-development training: speech, seminar, reading circle, in-service training.

g. Pass the baton training: "Pass the baton" upward and downward training includes job responsibilities, key performance indicators, work attitude and mindset management.

4. The Company follows and stays compliant with the relevant laws and regulations to contribute 6% of employee's monthly salary for pension per month to the labor account for new employees and the original employees who choose to adopt the new pension regulations. On the other hand, for the original employees regardless of choosing to adopt the old or new pension regulations, the Company continues to reserve their seniority before transiting to the new regulations and contribute the appropriate amount of Retirement Preparation Funds calculated based on the pension payment standard in the original regulations of employee retirement. For the employees who are assigned by the organization to transfer to the affiliated enterprises, the seniority will be continually counted to provide employees with more job security and achieve the goal of talent circulation. While the pension in the subsidiary company abroad is Defined Contribution Plan, the various social security fund such as pension, medical, etc. shall be paid monthly per the regulations of local government.

5. Protection Measures for Working Environment and Employee Personal Safety

Item	Content
Access security	1. A strict monitoring system is setup for 24 hours. 2. There is the access control card reader setup at each entrance and exit of the Company. 3. Have the contracted security to maintain the

	safety of the plant during nighttime and holidays.
Maintenance and inspection of various equipment	1. There is the schedule setup for routine maintenance of various electromechanical or fire-fighting equipment per month, quarter, and year to ensure that the equipment keeps in the best condition all the time. 2. Pursuant to the regulations of Fire Act, the Company conduct the fire-fighting security inspection every year by a qualified outsourced fire inspection company. 3. The Company checks and maintains various equipment such as power system, air conditioners, fire-fighting facilities and hazard mechanical equipment on a periodic basis. 4. Pursuant to the regulations of Labor Safety and Health Law, the Company outsources to a qualified testing company to conduct a biannual environment monitoring for us, which includes noise, lighting, CO_2 concentration, chemical substances concentration, etc.
Prevention measures and contingency plan for disasters	1. For disaster prevention, incident handling and notification of accident, the Company has developed the prevention measures and contingency plan, specifically defining the roles and tasks of the personnel at each level during the emergencies of incident, major incident, and general accident. 2. Establish a self-defense fire brigade that includes firefighting crew, notification crew, evacuation guidance crew, safety protection crew and rescue crew. 3. In order to maintain employee safety and health while implement safety and health management, the Company has carried out the operation of environmental protection and occupational safety and health.

6. Employee Code of Conduct

The Company's Employee Manual has clearly conveyed the benefits and systems that have being continually stipulated in these years and based on the Company's culture of respect and caring to every employee. In the manual, it clearly states the code of conduct and the Company's expectation for all employees while the employees shall follow the law and based on ethical principles to maintain the Company's assets, interests and image. The manual is available on the Company's intranet for prapoganda and employee's reading.

7. The Labor Management Agreement and the measures of protecting employee rights and interests

Since its establishment, the Company has adopted self-management with human interest, giving its colleagues full respect and care, and continually planning various employee benefits to pursue a perfect working environment. We have been calling the Labor-Management Consultation Meeting every year according to the regulations, allowing both labors and management teams fully communicate and discuss, hence a harmonious relationship between labor and management. There is no loss caused by labor dispute.

5.5.2 Explain if there is any loss caused by any labor disputes over the last two years and as of the printing date of the annual report, and disclose the potential estimated amount and the measures taking at present and in the future. If reasonable estimation is not available, please state the fact of not being able to reasonably estimate:

The Company adopts humanistic management based on our vision of becoming a "Happy Business", and we expect our colleagues can integrate into the corporate culture of "Service, Home, Elaboration, Innovation". Our labor-management relationship has been harmonious and all of the working rules follow the Labor Standards Act, hence no loss caused by any labor disputes.

5.7 Important contracts

Nature of the contract	The party	Start/End date of the contract	Main content	Restrictive covenants
Agency agreement	Company A	2016/06/20~till now	Dealership in Taiwan and China	Nil
Agency agreement	Company B	2016/07/01~ till now	Dealership in Taiwan, China, and Japan	Nil
Agency agreement	Company D	2018/08/31~ till now	Dealership in Korea	Nil
Agency agreement	Company E	2016/03/01~ till now	Dealership in Taiwan	Nil
Agency agreement	Company F	2016/5/10~ till now	Dealership in Taiwan and China	Nil

6 Financial overview

6.1 The condensed balance sheet and profit and loss statement for the last five years

6.1.1 Condensed Balance Sheets

(1) Consolidated Sheets

Unit: NT$ Thousand

		2015	2016	2017	2018	2019	as of Mar. 31, 20
Current assets		996,325	1,161,091	1,658,583	3,109,382	2,355,216	2,788,741
Property, plant and equipment		223,660	215,700	213,862	238,607	267,915	264,403
Intangible assets		1,535	1,051	566	303	8,898	8,870
Other assets		35,195	32,531	47,391	123,755	411,962	362,601
Total assets		1,256,715	1,410,373	1,920,402	3,472,047	3,043,991	3,424,615
Current liabilities	Before Dist.	205,140	313,966	520,804	1,190,439	895,309	879,418
	After Dist.	358,529	492,921	946,886	2,340,861	1,342,591	1,326,700
Non-current Liabilities		7,919	8,753	8,757	10,277	105,864	299,796
Total liabilities	Before Dist.	213,059	322,719	529,561	1,200,716	1,001,173	1,179,214
	After Dist.	366,448	501,674	955,643	2,351,138	1,448,455	1,626,496
Equity attributable to owners of the parent		1,017,330	1,057,681	1,340,977	2,210,152	1,909,900	1,687,650
Capital		426,082	426,082	426,082	426,082	426,082	426,082
Capital reserve		195,831	59,570	59,489	59,492	59,512	59,512
Retained earnings	Before Dist.	394,802	574,070	857,913	1,727,535	1,428,849	1,207,342
	After Dist.	241,413	395,115	431,831	577,113	981,567	760,060
Other equity interest		615	(2,041)	(2,507)	(2,957)	(4,543)	(5,286)
Treasury Stock		-	-	-	-	-	-
Non-controlling interest		26,326	29,973	49,864	61,179	132,918	110,469
Total Equity	Before Dist.	1,043,656	1,087,654	1,390,841	2,271,331	2,042,818	1,798,119
	After Dist.	890,267	908,699	964,759	1,120,909	1,595,536	-

Note 1: The Company's financial statements have been audited by independent auditors over the past five years from 2015 to 2019.

Note 2: The financial statement of the 1st quarter in 2020 has been reviewed by independent auditor.

(2) Unconsolidated Statements

Unit: NT$ Thousand

		2015	2016	2017	2018	2019
Current assents		917,683	1,104,330	1,556,652	2,926,107	1,940,701
Property, plant and equipment		202,852	197,273	191,327	215,585	244,241
Intangible assets		1,535	1,051	566	303	193
Other assets		115,751	117,267	136,051	266,696	713,956
Total assets		1,237,821	1,419,921	1,884,596	3,408,691	2,899,091
Current liabilities	Before Dist.	212,572	353,487	534,862	1,188,262	872,500
	After Dist.	365,961	532,442	960,944	2,338,684	1,319,782
Non-current Liabilities		7,919	8,753	8,757	10,277	116,691
Total liabilities	Before Dist.	220,491	362,240	543,619	1,198,539	989,191
	After Dist.	373,880	541,195	969,701	2,348,961	1,436,473
Equity attributable to owners of the parent		1,017,330	1,057,681	1,340,977	2,210,152	1,909,900
Capital		426,082	426,082	426,082	426,082	426,082
Capital reserve		195,831	59,570	59,489	59,492	59,512
Retained earnings	Before Dist.	394,802	574,070	857,913	1,727,535	1,428,849
	After Dist.	241,413	395,115	431,831	577,113	981,567
Other equity interest		615	(2,041)	(2,507)	(2,957)	(4,543)
Treasury Stock		-	-	-	-	-
Non-controlling interest		-	-	-	-	-
Total Equity	Before Dist.	1,017,330	1,057,681	1,340,977	2,210,152	1,909,900
	After Dist.	863,941	878,726	914,895	1,059,730	1,462,618

Note 1: The Company’s financial statements have been audited by independent auditors over the past five years from 2015 to 2019.

6.1.2 Condensed Consolidated Income Statements

(1) Consolidated Sheets

Unit: NT$ Thousand

	2015	2016	2017	2018	2019	as of Mar. 31, 2020
Operating revenue	610,127	809,631	1,420,888	3,111,876	2,543,441	686,231
Gross profit	372,812	499,269	909,603	2,166,682	1,638,922	444,725
Operating income(loss)	182,013	246,184	566,258	1,584,152	1,070,497	277,858
Non-operating income and expenses	12,509	1,002	(19,468)	38,072	(17,884)	5,484
Profit before income tax	194,522	247,186	546,790	1,622,224	1,052,613	283,342
Profit for the year from Continuing Operation	154,568	200,747	461,424	1,307,717	866,869	227,670
Loss on discontinued operations	0	0	0	0	0	0
Net profit (loss) for the period	154,568	200,747	461,424	1,307,717	866,869	227,670
Other Consolidated Income (Net Income)	(1,527)	(5,130)	(412)	(1,148)	(3,802)	(739)
Total Consolidated Net Income	153,041	195,617	461,012	1,306,569	863,067	226,931
Net Income Attributed to Stockholders of the Company	158,622	198,785	462,744	1,296,402	850,150	225,775
Net Income Attributed to Non-controlling Interest	(4,054)	1,962	(1,320)	11,315	14,270	1,895
Consolidated Net Income Attributed to Stockholders of the Company	157,095	193,655	462,332	1,295,254	850,150	225,032
Consolidated Net Income Attributed to Non-controlling Interest	(4,054)	1,962	(1,320)	11,315	12,917	1,899
Earnings per share	3.72	4.67	10.86	30.43	20.01	5.30

Note 1: The Company's financial statements have been audited by independent auditors over the past five years from 2015 to 2019.

Note 2: The financial statement of the 1st quarter in 2020 has been reviewed by independent auditor.

(2) Unconsolidated Statements

Unit: NT$ Thousand

	2015	2016	2017	2018	2019
Operating revenue	566,119	758,491	1,369,792	2,995,779	2,358,299
Gross profit	346,770	448,450	857,965	2,074,285	1,536,434
Operating income(loss)	179,418	236,054	569,939	1,567,935	1,086,364
Non-operating income and expenses	18,815	8,375	(22,632)	38,180	(54,062)
Profit before income tax	198,233	244,429	547,307	1,606,115	1,032,302
Profit for the year from Continuing Operation	158,622	198,785	462,744	1,296,402	852,599
Loss on discontinued operations	0	0	0	0	0
Net Income (Loss)	158,622	198,785	462,744	1,296,402	852,599
Other Consolidated Income (Net Income)	(1,527)	(5,130)	(412)	(1,148)	(2,449)
Total Consolidated Net Income	157,095	193,655	462,332	1,295,254	850,150
Net Income Attributed to Stockholders of the Company	158,622	198,785	462,744	1,296,402	852,599
Net Income Attributed to Non-controlling Interest	0	0	0	0	0
Consolidated Net Income Attributed to Stockholders of the Company	157,095	193,655	462,332	1,295,254	850,150
Consolidated Net Income Attributed to Non-controlling Interest	0	0	0	0	0
Earnings per share	3.72	4.67	10.86	30.43	20.01

Note 1: The Company’s financial statements have been audited by independent auditors over the past five years from 2015 to 2019.

6.1.3 Auditors' Opinions from 2015 to 2019:

Year	Accounting firm	CPA	Audit Opinion
2015	KPMG	黃柏淑林秀玉	An Unqualified Opinion
2016	KPMG	俞安恬林秀玉	An Unqualified Opinion
2017	KPMG	黃柏淑俞安恬	An Unqualified Opinion
2018	KPMG	黃柏淑俞安恬	An Unqualified Opinion
2019	KPMG	黃柏淑俞安恬	An Unqualified Opinion

6.2 Financial analysis for recent five years

6.2.1 Financial Analysis-Consolidated Financial Statements

		2015	2016	2017	2018	2019	As of March 31,2020
Capital structure (%)	Debts ratio	16.95	22.88	27.58	34.58	32.89	47.49
	Long-term fund to property, plant and equipment	470.17	508.30	654.44	956.22	802.00	793.45
Liquidity analysis%	Current ratio	485.68	369.81	318.47	261.20	263.06	210.20
	Quick ratio	424.44	315.79	280.98	240.20	216.40	180.16
	Times Interest Earned(times)	-	-	-	-	525.73	815.20
Operating performance analysis	Average collection turnover(times)	2.23	2.52	2.61	3.27	1.96	1.88
	Average collection days	164	145	140	112	186	194
	Average inventory turnover (times)	1.94	2.25	2.99	4.50	2.94	2.59
	Average payables turnover(times)	3.55	3.22	3.20	3.73	2.58	2.82
	Average inventory turnover days	188	162	122	98	142	141
	Property, plant and equipment turnover (time)	2.71	3.69	6.62	13.76	10.04	10.31
	Total assets turnover (time)	0.49	0.61	0.85	1.15	0.78	0.85
Return on investment analysis	Return on total assets(%)	12.46	15.05	27.71	48.50	26.65	28.17
	Return on total stockholders' equity(%)	15.02	18.84	37.23	71.42	40.19	47.42
	Pre-tax income to capital (%)(Note 7)	45.65	58.01	128.33	380.73	247.04	266.00
	Net income to sales(%)	25.33	24.79	32.47	42.02	34.08	33.18
	Earnings per share (NT$)	3.72	4.67	10.86	30.43	20.01	5.30
Cash flow	Cash flow ratio(%)	85.23	66.25	53.80	123.81	17.10	40.88
	Cash flow adequacy ratio(%)	92.44	93.02	96.15	181.22	94.78	83.13
	Cash flow reinvestment ratio(%)	1.90	4.86	7.05	46.75	(53.91)	(16.85)
Leverage	Operating leverage	2.84	2.78	2.25	1.81	2.15	2.22
	Financial leverage	1.00	1.00	1.00	1.00	1.00	1.00

Please indicate the reasons for the changes of various financial ratios over the past two years. (should the change be less than 20%, the analysis is not required)

1. Times Interest Earnedincrease due to increase of interest expense recognized the lease liabilities of IFRS 16 under interest method.
2. Average collection turnover decrease and Average collection days' increase, there were caused by a decrease in net sales and increase in average account receivable and note receivable in 2019.
3. Average inventory turnoverdecrease and Average inventory turnover days' increase, there were caused by a decrease in cost of goods sold and increase in average inventory in 2019.
4. Property, plant and equipment turnover and Total assets turnover decrease due to the decrease in net sales.
5. Return on total assets, return on total stockholders' equity and Pre-tax income to capital decrease due to decrease in net income before tax and net income.
6. Cash flow ratio decrease due to the decrease in net cash provided by operating activities.
7. Cash flow adequacy ratio and Cash flow reinvestment ratio decrease due to cash dividends payable.

6.2.2 Financial Analysis - Unconsolidated Financial Statements

		2015	2016	2017	2018	2019
Capital structure(%)	Debts ratio	17.81	25.51	28.85	35.16	34.12
	Long term funds to property, plant and equipment	505.42	540.59	705.46	1030	830
Liquidity analysis%	Current ratio	431.70	312.41	291.04	246.25	222.43
	Quick ratio	379.18	267.00	257.25	226.53	178.11
	Times Interest Earned (times)	-	-	-	-	558.1
Operating performance analysis	Average collection turnover(times)	2.17	2.76	2.76	3.51	2.07
	Average collection days	168	132	132	104	177
	Average inventory turnover (times)	1.94	2.40	3.16	4.60	2.80
	Average payables turnover(times)	3.38	3.29	3.22	3.79	2.54
	Average inventory turnover days	188	152	116	79	130
	Property, plant and equipment turnover (time)	2.78	3.79	7.05	14.72	10.26
	Total assets turnover (time)	0.46	0.53	0.83	1.13	0.75
Retrun on investment analysis	Return on total assets(%)	12.82	14.96	28.01	48.98	27.08
	Return on total stockholders' equity(%)	15.61	19.16	38.58	73.01	41.39
	Pre-tax income to capital (%)(Note 7)	46.52	57.37	128.45	376.95	242.28
	Net income to sales(%)	28.02	26.21	33.78	43.27	36.15
	Earnings per share (NT$)	3.72	4.67	10.86	30.43	20.01
Cash flow	Cash flow ratio(%)	93.83	68.18	47.27	122.73	18.40
	Cash flow adequacy ratio(%)	96.50	98.04	97.39	187	98
	Cash flow reinvestment ratio(%)	4.33	8.07	5.37	48.94	(59.04)
Leverage	Operating leverage	2.79	2.81	2.20	1.78	2.01
	Financial leverage	1.00	1.00	1.00	1.00	1.00

Please indicate the reasons for the changes of various financial ratios over the past two years. (should the change be less than 20%, the analysis is not required)

1. Times Interest Earnedincrease due to increase of interest expense recognized the lease liabilities of IFRS 16 under interest method.
2. Average collection turnover decrease and Average collection days' increase, there were caused by a decrease in net sales and increase in average account receivable and note receivable in 2019.
3. Average inventory turnoverdecrease and Average inventory turnover days' increase, there were caused by a decrease in cost of goods sold and increase in average inventory in 2019.
4. Property, plant and equipment turnover and Total assets turnover decrease due to the decrease in net sales.
5. Return on total assets, return on total stockholders' equity and Pre-tax income to capital decrease due to decrease in net income before tax and net income.
6. Cash flow ratio decrease due to the decrease in net cash provided by operating activities.
7. Cash flow adequacy ratio and Cash flow reinvestment ratio decrease due to cash dividends payable.

Note 1: It shall be remarked if the year has not been audited by a CPA.

Note 2: Companies that are listed or whose shares have been traded over the counter markets shall include the financial statements for the year as of the quarter before the printing date of the annual report.

Note 3: Glossary and calculation shall be listed at the end of the annual report:

1. Capital Structure Analysis

(1) Debt Ratio = Total Liabilities / Total Assets

(2)Long-term Fund to Property, Plant and Equipment Ratio = (Shareholders' Equity + Noncurrent Liabilities) / Net Property, Plant and Equipment

2. Liquidity Analysis

(1)Current Ratio = Current Assets / Current Liabilities

(2)Quick Ratio = (Current Assets - Inventories - Prepaid Expenses) / Current Liabilities

(3)Times Interest Earned = Earnings before Interest and Taxes / Interest Expenses

3. Operating Performance Analysis

(1) Account receivable turnover (including accounts receivable and notes receivable resulted from business
operation)=net sales/average balance of account receivable (including accounts receivable and notes

(2)Average Collection Days = 365 / Average Collection Turnover。

(3)Average Inventory Turnover = Cost of Sales / Average Inventory

(4) Account payable turnover (including accounts payable and notes payable resulted from business operation) =operating costs/average balance of account payable (including accounts payable and notes payable resulted from business operation)

(5) Average days in sales=365/inventory turnover

(6) Property, Plant and Equipment Turnover = Net Sales / Average Net Property, Plant and Equipment

(7) Total Assets Turnover = Net Sales / Average Total Assets

4. Profitability Analysis

(1) Return on Total Assets = (Net Income + Interest Expenses * (1 - Effective Tax Rate)) / Average Total Assets

(2) Return on Equity = Net Income / Average Equity

(3) Profit ratio=net income/net sales。

(4) Earnings Per Share = (Net Income Attributable to Shareholders of the Parent - Preferred Stock Dividend) / Weighted Average Number of Shares Outstanding (Note 4)

5. Cash Flow

(1) Cash Flow Ratio = Net Cash Provided by Operating Activities / Current Liabilities

(2) Cash Flow Adequacy Ratio = Five-year Sum of Cash from Operations / Five-year Sum of Capital Expenditures, Inventory Additions, and Cash Dividend

(3) Cash Flow Reinvestment Ratio = (Cash Provided by Operating Activities - Cash Dividends) / (Gross Property, Plant and Equipment + Long-term Investments + Other Noncurrent Assets + Working Capital) (Note 5)

6. Leverage:
(1) Operating Leverage = (Net Sales - Variable Cost) / Income from Operations (Note 6)
(2) Financial Leverage = Income from Operations / (Income from Operations - Interest Expenses)
Note 4: It shall be noted when calculating the above earning per share:
1. It shall be based on the weighted average number of ordinary shares instead of the number of issued-and-outstanding stocks at the end of the year.
2. If there is Capital Increased by Cash or treasury stock trading, the calculation of the weighted average number of shares shall be considered during the outstanding period.
3. If there is retained earnings or capital surplus transferred to capital, when calculating the earnings per share of the previous years and the semiannual, the increased capital shall be retrospectively adjusted according to the proportion while it is not necessary to consider the issue period of the capital increase.
4. If the preferred stock is unconvertable cumulative preferred stock, the dividend for the year (whether or not it is distributed) shall be deducted from net income or add into net loss; if it is not cumulative and there is net income, dividend of the preferred stock shall be deducted from net income while it does not need to be adjusted if there is net loss.
Note 5: It shall be noted when analyze the cash flow:
1. Net Cash Provided by Operating Activities refers to the amount of net cash from operating activities in the Statements of Cash Flows.
2. Capital Expenditure refers to the cash amount of capital investment every year.
3. Inventory increase is only counted when the ending balance is greater than the opening balance. If the inventory is decreased at the end of the year, it is counted as zero.
4. Cash dividends include cash dividends for ordinary shares and preferred shares.
5. Gross Property, Plant and Equipment refers to the total amount of Property, Plant and Equipment before deducting the accumulated depreciation.
Note 6: The issuer should classify various operating costs and expenses into fixed and variable. If there is an estimation or subjective judgment involved, attention should be paid to its rationality and consistency.
Note 7: If the company's stock is not denominated or the denomination is not NT$10, the calculation of Return on total stockholders' equity shall be changed to the calculation based on the equity attributable to shareholders of the parent on the balance sheets.

6.3 Audit committee check report of the latest annual financial report

Audit Committee's Review Report

The Board of Directors has prepared the Company's 2019 Business Report, Financial Statements, and proposal for allocation of earnings. The CPA firm of KPMG was retained to audit Machvision's Financial Statements and has issued an audit report relating to the Financial Statements. The Business Report, Financial Statements, and earnings allocation proposal have been reviewed and determined to be correct and accurate by the Audit Committee members of Machvision Inc. Co., Limited. According to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Law, we hereby submit this report.

Machvision Inc. Co., Ltd., 2020 Regular Meeting of Shareholders

Audit Committee

Coordinator:

March27, 2020

6.4 The consolidated financial statements of the parent company of the most recent annual account audited by CPA's

Representation Letter

The entities that are required to be included in the combined financial statements of Machvision Inc. Co., Ltd. as of and for the year ended December 31, 2019 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Machvision Inc. Co., Ltd. and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: Machvision Inc. Co., Ltd.

Chairman: Guang-Shiah Wang

Date: February 5, 2020

Independent Auditors' Report

To the Board of Directors of Machvision Inc. Co., Ltd.:

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2019 and 2018 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretation as well as related guidance endorsed 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 Certification of Financial Statements by Certified Public Accountants" and the 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 Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of 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 current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Revenue recognition

   Please refer to notes 4(n) and 6(p) for disclosures related to revenue recognition.

Description of key audit matter:

Revenue is the key indicator used by investors and management while evaluating the Group's finance or operating performance. The accuracy of the timing and amount of revenue recognition have significant impact on the financial statements. Therefore, we consider it as one of our key audit matters.

How the matter was addressed in our audit:

Understanding and testing the effectiveness of the design of, and implementing the internal control of sales and collecting cycles; reviewing the revenue recognition of significant sales contracts to determine whether the key judgment, estimation, and accounting treatment are reasonable; understanding the type of products and the sales of machinery equipment of the top 10 customers; calculating the turnover days of sales and accounts receivable to ensure whether clients' credit terms are in accordance with the ratios, and analyzing the changes in the top 10 customers from the most recent period and prior year to determine if there were any abnormalities; selecting sales transaction from a certain period of time before and after the last shipping date, and verifying them with the vouchers to determine the accuracy of the timing whether there are any abnormalities; as well as understanding whether there is a significant subsequent sales returns.

2. Impairment of trade receivables

   Please refer to notes 4(g) and 6(b) for disclosures related to impairment of trade receivables.

   Description of key audit matter:

   The notes, accounts and long-term accounts receivable constituted 47% of total consolidated assets of the Group as of December 31, 2019, and the impairment of notes, accounts and long-term accounts receivable depends on the evaluation of the management based on the evidence of internal and external factors, both subjective and objective. Therefore, we consider them as one of our key audit matters.

   How the matter was addressed in our audit:

   Testing the effectiveness of control points relating to cash collection; obtaining the list of accounts receivable balance to send confirmations for selected samples; acquiring the Group's computation of impairment loss rate to review its appropriateness; deriving the aging analysis of accounts receivables to verify the accuracy of aging periods by examining relevant documents of selected receivables; reviewing whether the recognition of provision for the impairment loss is based on the impairment loss rate; and evaluating whether the recognition of impairment on accounts receivable made by the management is reasonable.

3. Inventory measurement

   Please refer to notes 4(h), 5 and 6(c) for disclosures related to inventory measurement.

   Description of key audit matter:

   The inventories of the Group are mainly optical inspection machinery equipment and their related parts. The products may be outdated or no longer meet the market demand due to the rapid changes in technology, the demand of related products and their prices may fiercely fluctuate, and the impairment of inventory depends on the evaluation of the management based on the evidence of internal and external factors, both subjective and objective. Therefore, we consider them as one of our key audit matters.

How the matter was addressed in our audit:

Assessing the accounting policy on inventory measurement to determine its reasonableness; reviewing the inventory aging documents and analyzing the changes to ensure that the process of inventory valuation is in conformity with the accounting policies; understanding and evaluating whether if the basis used for net realizable value is reasonable; selecting samples and verifying them to ensure they are consistent with the vouchers; and reviewing whether the disclosure of inventory measurement made by the management is appropriate.

Other Matter

The Company has prepared its parent company only financial statements as of and for the years ended December 31, 2019 and 2018, on which we have issued an unqualified 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 Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs, IASs, interpretation as well as related guidance endorsed 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 audit committee) are responsible for overseeing the Group' s financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with 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 the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Po-Shu Huang and Ann Tien Yu.

KPMG

Taipei, Taiwan (Republic of China)
February 5, 2020

<u>Notes to Readers</u>

The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and its cash flows in accordance with the 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 accepted and applied in the Republic of China.
The independent auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2019		December 31, 2018	
	Assets	**Amount**	**%**	**Amount**	**%**
	Current assets:				
1100	Cash and cash equivalents (note 6(a))	$ 741,899	24	1,764,842	51
1151	Notes receivable (notes 6(b) and (p))	13,709	-	18,379	1
1170	Accounts receivable, net (notes 6(b) and (p))	1,181,836	39	1,076,197	31
130x	Inventories (note 6(c))	381,669	13	234,001	7
1410	Prepayments	23,064	1	8,785	-
1479	Other current assets	13,039	-	7,178	-
	Total current assets	2,355,216	77	3,109,382	90
	Non-current assets:				
1510	Financial assets at fair value through profit or loss—non-current (note 6(e))	9,644	-	9,644	-
1600	Property, plant and equipment (note 6(f))	267,915	9	238,607	7
1755	Right-of-use assets (note 6(g))	108,945	4	-	-
1780	Intangible assets (note 6(h))	8,898	-	303	-
1840	Deferred income tax assets (note 6(m))	37,460	1	25,686	1
1920	Refundable deposits	17,807	1	5,285	-
1932	Long-term receivables (notes 6(b) and (p))	230,705	8	80,951	2
1995	Other non-current assets (notes 6(k) and 8)	7,401	-	2,189	-
	Total non-current assets	688,775	23	362,665	10
	Total assets	**$ 3,043,991**	**100**	**3,472,047**	**100**

		December 31, 2019		December 31, 2018	
	Liabilities and Equity	**Amount**	**%**	**Amount**	**%**
	Current liabilities:				
2130	Current contract liabilities (note 6(p))	$ 13,594	-	82,716	2
2150	Notes payable	993	-	1,358	-
2170	Accounts payable	381,467	13	318,692	9
2209	Other payables (note 6(q))	420,100	14	457,106	14
2230	Current tax liabilities	33,141	1	271,716	8
2250	Provisions — current (note 6(j))	12,125	-	45,353	1
2280	Current lease liabilities (note 6(i))	14,875	-	-	-
2399	Other current liabilities	19,014	1	13,498	1
	Total current liabilities	895,309	29	1,190,439	35
	Non-Current liabilities:				
2570	Deferred income tax liabilities (note 6(m))	-	-	780	-
2640	Net defined benefit liabilities (note 6(l))	10,429	-	9,497	-
2580	Non-current lease liabilities (note 6(i))	95,435	3	-	-
	Total non-current liabilities	105,864	3	10,277	-
	Total liabilities	1,001,173	32	1,200,716	35
	Equity attributable to shareholders of the company (note 6(n)):				
3100	Ordinary shares	426,082	14	426,082	12
	Capital surplus:				
3211	Additional paid-in capital	59,485	2	59,485	2
3235	Changes in equities of subsidiaries	4	-	4	-
3280	Other capital surplus	23	-	3	-
		59,512	2	59,492	2
	Retained earnings:				
3310	Legal reserve	309,915	10	180,274	5
3320	Special reserve	2,957	-	2,507	-
3350	Unappropriated retained earnings	1,115,977	38	1,544,754	44
		1,428,849	48	1,727,535	49
	Other equity interest:				
3410	Foreign currency translation differences for foreign operations	(4,543)	-	(2,957)	-
	Total equity attributable to shareholders of the company	1,909,900	64	2,210,152	63
36xx	Non-controlling interests	132,918	4	61,179	2
	Total equity	2,042,818	68	2,271,331	65
	Total liabilities and equity	**$ 3,043,991**	**100**	**3,472,047**	**100**

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Common Share)

		2019		2018	
		Amount	%	Amount	%
4000	**Operating revenue (note 6(p))**	$ 2,543,441	100	3,111,876	100
5000	**Operating costs (notes 6(c), (f), (g), (h) ,(i),(j),(k),(l),(q)and 7)**	904,519	36	945,194	30
5900	**Gross profit from operations**	1,638,922	64	2,166,682	70
6000	**Operating expenses (notes 6(b), (f), (g), (h) ,(i), (k),(l),(q)and 7):**				
6100	Selling expenses	240,374	9	242,446	8
6200	Administrative expenses	112,616	4	161,796	5
6300	Research and development expenses	217,292	9	169,439	6
6450	Impairment loss (reversal of impairment loss) determined in accordance with IFRS 9	(1,857)	-	8,849	-
	Total operating expenses	568,425	22	582,530	19
	Net operating income	1,070,497	42	1,584,152	51
7000	**Non-operating income and expenses (notes 6(i)and(r)):**				
7010	Other income	14,340	-	8,788	-
7020	Other gains and losses	(30,218)	(1)	29,284	1
7050	Financial costs	(2,006)	-	-	-
	Total non-operating income and expenses	(17,884)	(1)	38,072	1
	Net income before tax	1,052,613	41	1,622,224	52
7950	**Less: Income tax expenses (note 6(m))**	185,744	7	314,507	10
	Net income	866,869	34	1,307,717	42
8300	**Other comprehensive income (loss):**				
8310	**Items that will not be reclassified subsequently to profit or loss:**				
8311	Losses on remeasurements of defined benefit plans	(863)	-	(698)	-
8349	Less: income tax related to items that will not be reclassified to profit or loss	-	-	-	-
	Total items that will not be reclassified subsequently to profit or loss	(863)	-	(698)	-
8360	**Items that will be reclassified subsequently to profit or loss:**				
8361	Financial statements translation differences for foreign operations	(3,002)	-	(676)	-
8399	Less: income tax related to items that will be reclassified to profit or loss	(63)	-	(226)	-
	Total items that will be reclassified subsequently to profit or loss	(2,939)	-	(450)	-
8300	**Other comprehensive income (loss), net of tax**	(3,802)	-	(1,148)	-
	Total comprehensive income	**$ 863,067**	**34**	**1,306,569**	**42**
	Net income attributable to:				
	Shareholders of the parent	$ 852,599	33	1,296,402	42
8620	Non-controlling interests	14,270	1	11,315	-
		$ 866,869	**34**	**1,307,717**	**42**
	Total comprehensive income attributable to:				
	Shareholders of the parent	$ 850,150	33	1,295,254	42
	Non-controlling interests	12,917	1	11,315	-
		$ 863,067	**34**	**1,306,569**	**42**
	Earnings per share (note 6(o)):				
9710	Basic earnings per share (in New Taiwan dollars)	**$ 20.01**		**30.43**	
9810	Diluted earnings per share (in New Taiwan dollars)	**$ 19.86**		**30.11**	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent									
			Retained earnings				Total other equity interest			
	Ordinary shares	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Total	Exchange differences on translation of foreign financial statements	Total equity attributable to owners of parent	Non-controlling interests	Total equity
Balance at January 1, 2018	$ 426,082	59,489	134,000	2,041	721,872	857,913	(2,507)	1,340,977	49,864	1,390,841
Appropriation and distribution of retained earnings:										
Legal reserve appropriated	-	-	46,274	-	(46,274)	-	-	-	-	-
Special reserve appropriated	-	-	-	466	(466)	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(426,082)	(426,082)	-	(426,082)	-	(426,082)
Other changes in capital surplus	-	3	-	-	-	-	-	3	-	3
Net income	-	-	-	-	1,296,402	1,296,402	-	1,296,402	11,315	1,307,717
Other comprehensive income	-	-	-	-	(698)	(698)	(450)	(1,148)	-	(1,148)
Total comprehensive income	-	-	-	-	1,295,704	1,295,704	(450)	1,295,254	11,315	1,306,569
Balance at December 31, 2018	426,082	59,492	180,274	2,507	1,544,754	1,727,535	(2,957)	2,210,152	61,179	2,271,331
Appropriation and distribution of retained earnings:										
Legal reserve appropriated	-	-	129,641	-	(129,641)	-	-	-	-	-
Special reserve appropriated	-	-	-	450	(450)	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(1,150,422)	(1,150,422)	-	(1,150,422)	-	(1,150,422)
Other changes in capital surplus	-	20	-	-	-	-	-	20	-	20
Net income	-	-	-	-	852,599	852,599	-	852,599	14,270	866,869
Other comprehensive income	-	-	-	-	(863)	(863)	(1,586)	(2,449)	(1,353)	(3,802)
Total comprehensive income	-	-	-	-	851,736	851,736	(1,586)	850,150	12,917	863,067
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	22,379	22,379
Changes in non-controlling interests	-	-	-	-	-	-	-	-	36,443	36,443
Balance at December 31, 2019	**$ 426,082**	**59,512**	**309,915**	**2,957**	**1,115,977**	**1,428,849**	**(4,543)**	**1,909,900**	**132,918**	**2,042,818**

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	2019	2018
Cash flows from operating activities:		
Net income before tax	$ 1,052,613	1,622,224
Adjustments:		
Adjustments to reconcile profit and loss:		
Depreciation	23,785	8,783
Amortization	110	263
Impairment loss (reversal of impairment loss) determined in accordance with IFRS 9	(1,857)	8,849
Interest expense	2,006	-
Interest income	(7,143)	(6,751)
Dividend income	(1,326)	-
Loss (gain) on disposal of property, plant and equipment	(107)	727
Total adjustments to reconcile profit	15,468	11,871
Changes in assets / liabilities relating to operating activities:		
Net changes in operating assets:		
Notes receivable	4,670	(15,426)
Accounts receivable	(103,467)	(376,098)
Inventories	(146,087)	(47,450)
Prepayments	(13,279)	(5,529)
Other current assets	(5,804)	(1,772)
Long-term accounts receivable	(149,416)	(65,538)
Total changes in operating assets, net	(413,383)	(511,813)
Net changes in operating liabilities:		
Contract liabilities	(69,122)	64,502
Notes payable	(365)	834
Accounts payable	62,775	132,797
Other payables	(37,218)	238,568
Provisions	(33,228)	25,165
Other current liabilities	5,516	1,864
Net defined benefit liability	69	42
Total changes in operating liabilities, net	(71,573)	463,772
Total changes in operating assets / liabilities, net	(484,956)	(48,041)
Total adjustments	(469,488)	(36,170)
Cash provided by operating activities	583,125	1,586,054
Interest income received	6,827	7,402
Income tax paid	(436,810)	(119,552)
Net cash provided by operating activities	153,142	1,473,904
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(44,686)	(34,916)
Proceeds from disposal of property, plant and equipment	143	220
Decrease (increase) in refundable deposits	(12,369)	482
Net cash inflows from business combination	10,758	-
Increase in other non-current assets	(3,779)	(3)
Dividends received	1,326	-
Net cash used in investing activities	(48,607)	(34,217)
Cash flows from financing activities:		
Payment of lease liabilities	(11,363)	-
Cash dividends paid	(1,150,422)	(426,082)
Changes in non-controlling interests	36,443	-
Surplus not paid due to overdue	20	3
Net cash used in financing activities	(1,125,322)	(426,079)
Effect of exchange rate changes on cash and cash equivalents	(2,156)	(235)
Net increase (decrease) in cash and cash equivalents	(1,022,943)	1,013,373
Cash and cash equivalents at beginning of period	1,764,842	751,469
Cash and cash equivalents at end of period	**$ 741,899**	**1,764,842**

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(1) History and organization

MACHVISION INC. CO., LTD. (the Company) was incorporated in June 9, 1998 as a company limited by shares under the laws of the Republic of China (ROC). The address of the Company's registered office is No. 2-3, Gongye East 2nd Road, Hsinchu Science Park, Hsinchu 30075, Taiwan, R.O.C.. The consolidated entities in the consolidated financial statements include the Company and its subsidiaries (the Group). The Group are mainly engaged in the manufacturing and trading of optical inspection machinery equipment.

(2) Approval date and procedures of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and published on February 5, 2020.

(3) New standards, amendments and interpretations adopted

(a) The impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning, or after, January 1, 2019. The differences between the current version and the previous version are as follows:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 16 "Leases"	January 1, 2019
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019
Amendments to IAS 28 "Long-term interests in associates and joint ventures"	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

Except for the following items, the Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 16 "Leases"

IFRS 16 replaces the existing leases guidance, including IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases – Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease".

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES
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The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings on January 1, 2019. The details of the changes in accounting policies are disclosed below,

1) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement is, or contains, a lease under IFRIC 4. Under IFRS 16, the Group assesses whether a contract is, or contains, a lease based on the definition of a lease, as explained in note 4(j) of the Group accounting policies.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on, or after, January 1, 2019.

2) As a lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership on the underlying asset to the Group. Under IFRS 16, the Group recognizes the right-of-use assets and lease liabilities for most its leases, which are recorded in the balance sheet.

The Group decided to apply the recognition exemptions to the short-term leases or low-value leases of its office equipment.

At transition, lease liabilities recognized for leases previously classified as an operating lease under IAS 17, were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application. Right-of-use assets were measured at an amount equal to the lease liability.

In addition, the Group used the following practical expedients when applying IFRS 16 to leases.

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the exemption not to recognize the right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES
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- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

3) Impacts on financial statements

On transition to IFRS 16, the Group recognized its right-of-use assets and lease liabilities amounting to $71,348 thousand at the date of initial application. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 1.5%.

An explanation of the differences between the operating lease commitments disclosed at the end of the annual reporting period immediately preceding the date of initial application, and the lease liabilities recognized in the statement of financial position at the date of initial application disclosed is as follows:

	January 1, 2019
Operating lease commitment at December 31, 2018 as disclosed in the Group's consolidated financial statements	$ 700
Extension and termination options reasonably certain to be exercised	93,003
	$ 93,703
Discounted using the incremental borrowing rate at January 1, 2019	$ 71,348
Finance lease liabilities recognized as at December 31, 2018	-
Lease liabilities recognized at January 1, 2019	**$ 71,348**

(b) The impact of IFRS endorsed by FSC that will soon take effect

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning, or after, January 1, 2020 in accordance with Ruling No. 1080323028 issued by the FSC on July 29, 2019:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
Amendments to IFRS 9, IAS39 and IFRS7 "Interest Rate Benchmark Reform"	January 1, 2020
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

The Group assesses that the adoption of the abovementioned standards would not have any material impact on its consolidated financial statements.

(Continued)

(c) The impact of IFRS issued by IASB but not yet endorsed by the FSC

As of the date, the following IFRSs that have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021

The Group is evaluating the impact of its initial adoption of the abovementioned standards or interpretations on its consolidated financial position and consolidated financial performance. The results thereof will be disclosed when the Group completes its evaluation.

(4) Summary of significant accounting policies

The significant accounting policies presented in the consolidated financial statements are summarized below. The following accounting policies were applied consistently throughout the periods presented in the consolidated financial statements.

(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 (hereinafter referred to the Regulations) and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed by the FSC (hereinafter referred to as the IFRSs endorsed by the FSC).

(b) Basis of preparation

(i) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, unless otherwise stated (Refer to the summary on significant accounting policies).

(ii) Functional and reporting currency

The functional currency of each Group entity is determined based on the primary economic environment in which the entity operates. The consolidated financial statements are presented in New Taiwan dollars, which is the Company's functional currency. All financial information presented in New Taiwan dollars has been rounded to the nearest thousand.

(c) Basis of consolidation

(i) Principles of preparation of consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES
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Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

(ii) List of subsidiaries included in the consolidated financial statements

Investor	Subsidiary	Nature of business	Percentage of ownership December 31, 2019	Percentage of ownership December 31, 2018	Notes
The Company	Machvision Inc.	Investment	100.00 %	100.00 %	
The Company	Autovision Technology Inc.	Manufacturing of computer peripheral products	45.00 %	45.00 %	Note 1
The Company	Sigold Optics Inc.	Manufacturing of machinery equipment	49.47 %	49.47 %	Note 2
The Company	ChipAI Co., LTD.	Manufacturing of computer peripheral products	90.00 %	- %	
The Company	RedPay Co., Ltd.	Manufacturing of computer peripheral products	50.00 %	- %	
The Company	MiM Tech. Inc.	Manufacturing of computer peripheral products	40.98 %	- %	Note 3
The Company	Machvision Korea Co., Ltd.	Maintaining and trading of machinery equipment	100.00 %	- %	
The Company	Machvision Holding (Samoa) Limited	Investment	100.00 %	- %	
Machvision Inc.	Machvision (Dongguan) Inc.	Maintaining and trading of machinery equipment	100.00 %	100.00 %	
Machvision Holding (Samoa) Limited	Guandong Greatsense Intelligent Equipment Co., Ltd.	Maintaining and trading of machinery equipment	51.00 %	- %	

Note 1: The Company holds 45% of the ownership of Autovision Technology Inc. However, it remains to be a subsidiary since the Company retains control of its financial and operational policy decision.

Note 2: The Company holds 49.47% of the ownership of Autovision Technology Inc. However, it remains to be a subsidiary since the Company retains control of its financial and operational policy decision.

(Continued)

Note 3: The Company holds 40.98% of the ownership of Autovision Technology Inc. However, it remains to be a subsidiary since the Company retains control of its financial and operational policy decision.

(d) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the year adjusted for the effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of translation.

Foreign currency differences arising on retranslation are recognized in profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the reporting currency at the exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated at the average exchange rate. Translation differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve in equity.

When the settlement of monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising from such items are considered to form part of a net investment in the foreign operation and are recognized in other comprehensive income, and presented in the translation reserve in equity.

(e) Classification of current and non-current assets and liabilities

Cash or cash equivalents, assets held for trading purposes or short-term and expected to be converted to cash within twelve months after the reporting period or for intention of sales or consumption within its normal operating cycle are classified as current assets; all other assets are classified as non-current assets.

Liabilities that must be fully liquidated within twelve months after the reporting period are classified as current liabilities; all other liabilities are classified as non-current liabilities.

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES
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(f) Cash and cash equivalents

Cash and cash equivalents comprised cash, cash in banks and short term investments with high liquidity that are subject to an insignificant risk of changes in their fair value.

The time deposits with maturity of the Group are listed in cash and cash equivalents because they satisfy the aforementioned definition and are held for the purpose of meeting short term cash commitments rather than for investment or other purposes.

(g) Financial instruments

(i) Financial assets

Financial assets are classified into the following categories: measured at amortized cost and fair value through profit or loss (FVTPL).

The Group shall reclassify all affected financial assets only when it changes its business model for managing its financial assets.

1) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

· it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

· its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment loss, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

2) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, on initial recognition, the Group may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent changes that are measured at fair value, which take into account any dividend and interest income, are recognized in profit or loss.

(Continued)

3) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, notes and accounts receivable, long-term receivable, guarantee deposit paid and other non-current assets).

The Group measures loss allowances at an amount equal to lifetime expected credit loss (ECL), except for the following which are measured as 12-month ECL:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for trade receivables are always measured at an amount equal to lifetime ECL.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 month after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group’s historical experience and informed credit assessment as well as forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when the financial asset is more than 90 days past due or the borrower is unlikely to pay its credit obligations to the Group in full.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

(Continued)

At each reporting date, the Group assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. The Group recognizes the amount of expected credit losses (or reversal) in profit or loss, as an impairment gain or loss.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

4) Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the assets expire, or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

(ii) Financial liabilities and equity instruments

1) Other financial liabilities

Financial liabilities not classified as held-for-trading or designated as at fair value through profit or loss, which notes payable, accounts payable and other payables, are measured at fair value plus any directly attributable transaction cost at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method. Interest expense not capitalized as capital cost is recognized in profit or loss, and is included in non-operating income and expense.

2) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligation expires or has been discharged or cancelled. The difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss, and is included in non-operating income and expense.

3) Offsetting of financial assets and liabilities

The Group presents financial assets and liabilities on a net basis when the Group has the legally enforceable rights to offset and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

(h) Inventories

The cost of inventories consists of all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories includes an appropriate share of fixed production overhead based on normal capacity and allocated variable production overhead based on actual output. However, unallocated fixed production overhead arising from lower or idle capacity is recognized in cost of goods sold during the period. If actual capacity is higher than normal capacity, fixed production overhead should be allocated based on actual capacity. The method of valuing inventories is the weighted-average method.

Inventories are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less, the estimated costs of completion and selling expenses at the end of the period. When the cost of inventories is higher than the net realizable value, inventories are written down to net realizable value, and the write-down amount is charged to current year's cost of goods sold. If net realizable value increases in the future, the cost of inventories is reversed within the original write-down amount, and such reversal is treated as a reduction of cost of goods sold.

(i) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are measured at cost, less, accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately, unless the useful life and the depreciation method of a significant part of an item of property, plant and equipment are the same as the useful life and depreciation method of another significant part of that same item.

The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized as non-operating income and expense.

(ii) Subsequent cost

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

The depreciable amount of an asset is determined after deducting its residual amount, and it shall be allocated on a straight-line basis over its useful life. Items of property, plant and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately. The depreciation charge for each period shall be recognized in profit or loss.

Land has an unlimited useful life, and therefore is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

Buildings	4~50 years
Machinery equipment	3~15 years
Other equipment	2~10 years

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from the previous estimates, the changes are accounted for as a change in an accounting estimate.

(j) Leases

Applicable from January 1, 2019

(i) Identifying a lease

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

1) the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and

2) the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

(Continued)

3) the Group has the right to direct use of the asset when it has the decision-making rights that are most relevant to changing how, and for what purpose, the asset is used. In rare cases where the decision about how, and for what purpose, the asset is used is predetermined, the Group has the right to direct the use of an asset if either:

   - the Group has the right to operate the asset; or

   - the Group designed the asset in a way that predetermines how, and for what purpose, it will be used.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

(ii) As a leasee

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at, or before, the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by using the impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments;

- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

- amounts expected to be payable under a residual value guarantee; and

- payments for purchase or termination options that are reasonably certain to be exercised.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when:

- there is a change in future lease payments arising from the change in an index or rate; or
- there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee; or
- there is a change of its assessment of the underlying asset purchase option; or
- there is a change of its assessment on whether it will exercise a purchase, extension or termination option; or
- there is any lease modifications

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Group accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

The Group presents its right-of-use assets that do not meet the definition of investment and its lease liabilities as a separate line item respectively in the statement of financial position.

The Group has elected not to recognize the right-of-use assets and lease liabilities for its short-term leases that have a lease term of 12 months or less and leases of low-value assets, including its office equipment. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

<u>Applicable before January 1, 2019</u>

Lessee

Leases are operating leases and are not recognized in the Group's statement of financial position. Payments made under an operating lease are recognized in profit or loss on a straight-line basis over the term of the lease.

(k) Intangible assets

Intangible assets comprise the computer software expense and the technology capital contributed by the shareholders of the Group and approved by the Ministry of Economic Affairs R.O.C. The cost of computer software is amortized over 3 to 10 years and the capital is amortized over 20 years, both are calculated using the straight-line method and are recorded under operating expenses.

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from the previous estimates, the changes are accounted for as changes in accounting estimates.

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(l) Impairment of non-financial assets

With regard to non-financial assets (other than inventories, deferred tax assets and employee benefits), the Group assesses at the end of each reporting period whether there is any indication that an impairment loss has occurred, and estimates the recoverable amount of assets with an indication of impairment.

The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset. Impairment loss is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount, increasing the individual asset's or cash generating unit's carrying amount to its estimated recoverable amount. The reversal of an impairment loss of an individual asset or cash generating unit cannot exceed the carrying amount of the individual asset or cash generating unit, less any depreciation or amortization, had it not recognized an impairment loss.

(m) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(n) Revenue

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer. The Group recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The accounting policies for the Group’s main types of revenue are explained below.

(i) Sale of goods

The Group recognizes revenue when control of the products has been transferred. When the products are delivered to the customer, the ownership of the significant risks and rewards of the products have been transferred to the customer, and the Group is no longer engaged with the management of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer.

At the time of sale, the Group renders the standard warranty stated in the agreement, which is recognized as a provision for warranty.

A receivable is recognized when the goods are delivered, as this is the point in time that the Group has a right to an amount of consideration that is unconditional.

(Continued)

(ii) Services

The Group provides maintenance services and improvement of old machines, and revenue is recognized when it satisfies a performance obligation by transferring control of a service to a customer.

(o) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognized asset is limited to the total of the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss.

Remeasurements of the net defined benefit liability (asset), which comprise (1) actuarial gains and losses, (2) the return on plan assets (excluding interest) and (3) the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group can reclassify the amounts recognized in other comprehensive income to retained earnings.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(Continued)

(p) Income tax

Income tax expenses include both current taxes and deferred income taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred income taxes shall be recognized in profit or loss.

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years.

Deferred income taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred income taxes shall not be recognized for the below exceptions:

(i) Assets and liabilities that are initially recognized but are not related to the business combination and have no effect on net income or taxable gains (losses) during the transaction.

(ii) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.

(iii) Initial recognition of goodwill.

Deferred income tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and liabilities may be offset against each other if the following criteria are met:

(i) The entity has the legal right to settle tax assets and liabilities on a net basis; and

(ii) The taxing of deferred income tax assets and liabilities fulfill one of the below scenarios:

1) levied by the same taxing authority; or

2) levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

A deferred income tax asset should be recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits, and deductible temporary differences shall also be reevaluated every year on the financial reporting date, adjusted based on the probability that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized.

(Continued)

(q) Business combination

The Company accounts for business combinations using the acquisition method. The goodwill arising from an acquisition is measured as the excess of (i) the consideration transferred (which is generally measured at fair value) and (ii) the amount of non-controlling interest in the acquiree, both over the identifiable net assets acquired at the acquisition date. If the amount calculated above is a deficit balance, the Company recognized that amount as a gain on a bargain purchase in profit or loss immediately after reassessing whether it has correctly identified all of the assets acquired and all of the liabilities assumed.

All acquisition-related transaction costs are expensed as incurred, except for the issuance of debt or equity instruments.

For each business combination, the Group measures any noncontrolling interests in the acquiree either at fair value or at the noncontrolling interest' s proportionate share of the acquiree' s identifiable net assets, if the noncontrolling interests are present ownership interests and entitle their holders to a proportionate share of the Group' s net assets in the event of liquidation. Other components of noncontrolling interests are measured at their acquisition-date fair values, unless another measurement basis is required by the IFRSs endorsed by the FSC.

(r) Earnings per share

The Group discloses the Company's basic and diluted earnings per share attributable to ordinary equity holders of the Company. The calculation of basic earnings per share is based on the profit attributable to the ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding. The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of the Company, divided by the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares. The weighted average number of common shares outstanding is adjusted retroactively for the increase in common shares outstanding from stock issuance arising from the capitalization of retained earnings, or additional paid in capital.

When computing diluted earnings per share with regards to employee bonuses in the form of stock, the closing price at the balance sheet date is used as the basis of computation in the number of shares to be issued. When computing diluted earnings per share prior to the following year's Board of Directors the effect of dilution from these potential stocks is taken into consideration.

(s) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance.

(Continued)

(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty

The preparation of the consolidated financial statements in conformity with the IFRSs endorsed by the FSC requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the next period.

There are no critical judgments in applying the accounting policies that have significant effect on the amounts recognized in the consolidated financial statements.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is valuation of inventories.

As inventories are stated at the lower of cost or net realizable value, the Group estimates the net realizable value of inventories for obsolescence and unmarketable items at the end of the reporting period and then writes down the cost of inventories to net realizable value. The net realizable value is subject to market price fluctuations and market demands after the reporting date.

(6) Explanation of significant accounts

(a) Cash and cash equivalents

	December 31, 2019	December 31, 2018
Cash on hand	$ 2,038	1,387
Saving deposits	239,065	225,585
Checking deposits	-	-
Foreign currency deposits	254,841	119,670
Time deposits	245,955	404,827
Cash and cash equivalents per statements of cash flow	**$ 741,899**	**1,764,842**

The expiry date of three months to a year on deposit satisfy the highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short term cash commitments rather than for investment or other purposes.

Please refer to note 6(s) for the interest rate risk and the fair value sensitivity analysis of the financial assets and liabilities of the Group.

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(b) Notes, accounts and long-term accounts receivable

	December 31, 2019	December 31, 2018
Notes receivable	$ 13,709	18,379
Accounts receivable	1,189,257	1,088,717
Long-term accounts receivable	231,192	81,776
Less: allowance for impairment	7,421	12,520
unrealized interest income	487	825
	$ 1,426,250	**1,175,527**

The Group applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected credit loss provision for all receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward-looking information, including macroeconomic and relevant industry information. The expected credit losses were determined as follows:

	December 31, 2019		
	Gross carrying amount	Weighted-average expected credit loss rate	Loss allowance provision
Current	$ 1,160,510	0.00%	-
1 to 90 days past due	119,276	0.3249%	387
91 to 180 days past due	106,873	1.7512%	1,872
181 to 270 days past due	42,964	5.2266%	2,246
271 to 365 days past due	2,716	58.3392%	1,584
Past due over 365 days	1,332	100.000%	1,332
	$ 1,433,671		**7,421**

	December 31, 2018		
	Gross carrying amount	Weighted-average expected credit loss rate	Loss allowance provision
Current	$ 879,030	0%	-
1 to 90 days past due	232,506	0.069%	161
91 to 180 days past due	47,205	0.966%	456
181 to 270 days past due	7,935	2.974%	236
271 to 365 days past due	16,474	41.096%	6,770
Past due over 365 days	4,897	100.000%	4,897
	$ 1,188,047		**12,520**

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES
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The movement in the allowance for accounts receivable was as follows:

		2019	2018
Balance on January 1, 2019 and 2018	$	12,520	3,674
Impairment losses recognized (reversed)		(1,857)	8,849
Amounts written off		(3,240)	-
Effect of movement in exchange rates		(2)	(3)
Balance on December 31, 2019 and 2018	**$**	**7,421**	**12,520**

The Group does not hold any collateral for the collected amounts.

The carrying amounts of notes and accounts receivable with short maturity are not discounted under the assumption that the carrying amount approximates the fair value.

(c) Inventories

The components of the Group's inventories were as follows:

		December 31, 2019	December 31, 2018
Merchandise and finished goods	$	106,004	33,163
Work in process		82,107	37,093
Raw material		193,558	116,295
	$	**381,669**	**234,001**

The Group inventories were not provided as pledged assets.

Except for operating costs arising from the ordinary sale of inventories, other gains and losses directly recorded under operating cost were as follows:

		2019	2018
Losses on decline in market value and scrapping of inventory	$	7,998	23,282
Losses on physical count		(195)	(86)
	$	**7,803**	**23,196**

(d) Acquisition of subsidiaries

On July 24, 2019, the Board of Directors of the Company had decided to obtain 836,000 shares (40.98%) of MiM Tech. Inc.. Therefore, the Company paid the amount of $24,244 thousand and gain control over its financial and operational policy decision on October 15, 2019.

For the period from the acquisition date to December 31, 2019, MiM Tech. Inc. contributed the revenue of $347 thousand and the loss before tax of $2,220 thousand. If the acquisition had occurred on January 1, 2019, the management estimates that the consolidated revenue would have been $2,545,323 thousand and the consolidated profit before income tax would have been $1,048,941 thousand.

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES
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The major categories of the consideration transferred of fair value on October 5, 2019, were as follows:

Cash and cash equivalents	$ 35,002
Accounts receivable	315
Inventories	1,581
Prepayments	1,000
Other current assets	79
Refundable deposits	153
Other payables and other current liabilities	(212)
	$ 37,918

Goodwill arising from the acquisition has been recognized as follows.

Consideration transferred	$ 24,244
Add: Non-controlling interests in the acquiree (proportionate share of the fair value of the identifiable net assets)	22,379
Less: Fair value of identifiable net assets	37,918
Goodwill	**$ 8,705**

The goodwill is attributable mainly to the technical talent of MiM Tech. Inc., and the synergies expected to be achieved from integrating the company into the Group’s business.

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

	December 31, 2019	December 31, 2018
Mandatorily measured at fair value through profit or loss:		
Unlisted stocks (domestic)－Yayatech Co., Ltd.	**$ 9,644**	**9,644**

(f) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Group were as follows:

	Buildings	Machinery equipment	Other equipment	Construction in progress	Total
Cost:					
Balance as of January 1, 2019	$ 235,761	4,357	11,378	27,874	279,370
Additions	18,846	515	10,848	14,477	44,686
Reclassification	12,923	-	-	(14,356)	(1,433)
Disposals	(191)	(622)	(2,682)	-	(3,495)
Effect of movement in exchange rates	(1,156)	-	(180)	-	(1,336)
Balance as of December 31, 2019	**$ 266,183**	**4,250**	**19,364**	**27,995**	**317,792**
Balance as of January 1, 2018	$ 235,624	3,957	10,609	-	250,190
Additions	1,735	2,700	2,607	27,874	34,916
Disposals	(937)	(2,300)	(1,817)	-	(5,054)
Effect of movement in exchange rates	(661)	-	(21)	-	(682)
Balance as of December 31, 2018	**$ 235,761**	**4,357**	**11,378**	**27,874**	**279,370**

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES
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		Buildings	Machinery equipment	Other equipment	Construction in progress	Total
Depreciation and impairment losses:						
Balance as of January 1, 2019	$	34,022	1,162	5,579	-	40,763
Depreciation		9,249	778	3,033	-	13,060
Disposals		(179)	(622)	(2,658)	-	(3,459)
Effect of movement in exchange rates		(439)	-	(48)	-	(487)
Balance as of December 31, 2019	$	**42,653**	**1,318**	**5,906**	**-**	**49,877**
Balance as of January 1, 2018	$	27,967	3,141	5,220	-	36,328
Depreciation		6,399	321	2,063	-	8,783
Disposals		(114)	(2,300)	(1,693)	-	(4,107)
Effect of movement in exchange rates		(230)	-	(11)	-	(241)
Balance as of December 31, 2018	$	**34,022**	**1,162**	**5,579**	**-**	**40,763**
Carrying amounts:						
December 31, 2019	$	**223,530**	**2,932**	**13,458**	**27,995**	**267,915**
January 1, 2018	$	**207,657**	**816**	**5,389**	**-**	**213,862**
December 31, 2018	$	**201,739**	**3,195**	**5,799**	**27,874**	**238,607**

(g) Right-of-use assets

The Group leases assets including land and buildings, and transportation equipment. Information about leases for which the Group as a lessee is presented below:

		Land and buildings	Other equipment	Total
Cost:				
Balance at January 1, 2019	$	-	-	-
Effects of retrospective application		62,107	9,241	71,348
Balance at January 1, 2019		62,107	9,241	71,348
Additions		48,089	6,030	54,119
Lease modification		(5,532)	-	(5,532)
Effect of changes in foreign exchange rates		(308)	(18)	(326)
Balance at December 31, 2019	$	**104,356**	**15,253**	**119,609**
Accumulated depreciation and impairment losses:				
Balance at January 1, 2019	$	-	-	-
Depreciation		5,326	5,399	10,725
Effect of changes in exchange rates		(57)	(4)	(61)
Balance at December 31, 2019	$	**5,269**	**5,395**	**10,664**
Carrying value:				
December 31, 2019	$	**99,087**	**9,858**	**108,945**

The Group leases the land under an operating lease for the year ended December 31, 2018, please refer to note 6(k).

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MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(h) Intangible assets

The cost, amortization and impairment loss of intangible assets were as follows:

	Industrial capital contribution	Computer software expense	Goodwill	Total
Cost:				
Balance as of January 1, 2019	$ 16,000	1,100	-	17,100
Acquisition through business combination	-	-	8,705	8,705
Balance as of January 1, 2019 (Balance as of December 31, 2019)	**$ 16,000**	**1,100**	**8,705**	**25,805**
Balance as of January 1, 2018 (Balance as of December 31, 2018)	**$ 16,000**	**1,100**	**-**	**17,100**
Amortization and impairment loss:				
Balance as of January 1, 2019	$ 16,000	797	-	16,797
Amortization	-	110	-	110
Balance as of December 31, 2019	**$ 16,000**	**907**	**-**	**16,907**
Balance as of January 1, 2018	$ 15,847	687	-	16,534
Amortization	153	110	-	263
Balance as of December 31, 2018	**$ 16,000**	**797**	**-**	**16,797**
Carrying amounts:				
December 31, 2019	**$ -**	**193**	**8,705**	**8,898**
December 31, 2018	**$ -**	**303**	**-**	**303**
January 1, 2018	**$ 153**	**413**	**-**	**566**

(i) The amortization of intangible assets were follows:

	2019	2018
Operating expenses	**$ 110**	**485**

(ii) Impairment Loss

The Group recognized an impairment loss of $4,000 thousand after assessing the recoverable amount of the intangible asset (the technology capital contributed by the shareholders of the Company) on December 31, 2018. The intangible asset has been amortized for the year ended December 31, 2018.

(i) Lease liabilities

The Group's lease liabilities were as follow:

	December 31, 2019
Current	**$ 14,875**
Non-current	**$ 95,435**

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES
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For the maturity analysis, please refer to note 6(s).

The amounts recognized in profit or loss were as follows:

	2019
Interest on lease liabilities	$ 2,006
Expenses relating to short-term leases	$ 6,588
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	$ 1,299

The amounts recognized in the statement of cash flows for the Group was as follows:

	2019
Total cash outflow for leases	$ 19,250

(j) Provisions

	Warranties
January 1, 2019	$ 45,353
Provisions used during the year	(11,529)
Provisions reversal during the year	(21,699)
December 31, 2019	$ 12,125
January 1, 2018	$ 20,188
Provisions made during the year	32,983
Provisions used during the year	(7,818)
December 31, 2018	$ 45,353

The provision for warranties relates mainly to the machinery equipment sold. The provision is based on estimates made from historical warranty data associated with similar products and services. The Group expects to settle the majority of the liability over the next year.

(k) Operating leases

The Group rented the land located in the Hsinchu Science Park on July 1 2013 from the Hsinchu Science Park Bureau for a period ending on May 31, 2019, and renewed the contract on June 1, 2019. As of December 31, 2019 and 2018, the Group provided deposit of $1,720 thousand and $1,683 thousand as a deposit (recorded under other non-current assets), respectively. Non-cancellable operating lease rentals payable were as follows:

	December 31, 2018
Less than one year	$ 700

For the year ended December 31, 2018, the total lease costs and expenses recognized in profit or loss were $1,680 thousand.

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(l) Employee benefits

(i) Defined benefit plans

The following table shows a reconciliation between the present value of the defined benefit obligation and the fair value of plan assets:

	December 31, 2019	December 31, 2018
The present value of the defined benefit obligations	$ 13,679	11,595
Fair value of plan assets	(3,250)	(2,838)
The net defined benefit liability	**$ 10,429**	**9,497**

The Group established the pension fund account for the defined benefit plan in Bank of Taiwan. The plan, under the Labor Standards Law, provides benefits based on an employee's length of service and average monthly salary for the six-month period prior to retirement.

1) Composition of plan assets

The Group allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds, Ministry of Labors. With regard to the utilization of the funds, minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with interest rates offered by local banks.

The Company's Bank of Taiwan labor pension reserve account balance amounted to $3,250 thousand at the end of the reporting period. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labors.

2) Movements in present value of the defined benefit obligations

The movements in present value of the Group's defined benefit obligation were as follows:

	2019	2018
Defined benefit obligation at 1 January	$ 12,549	11,595
Current interest	173	188
Remeasurements of the net defined benefit liability		
－Due to changes in financial assumption of actuarial (losses) gains	957	766
Defined benefit obligation at December 31	**$ 13,679**	**12,549**

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) Movement of the defined benefit plan assets

The movements in the fair value of the defined benefit plan assets for the Group were as follows:

	2019	2018
Fair value of plan assets at January 1	$ 3,052	2,838
Interest revenue	43	47
Remeasurements of the net defined benefit liability		
－Return on plan assets excluding the interest income	94	68
Contributions made	61	99
Fair value of plan assets, December 31	**$ 3,250**	**3,052**

4) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the Group were as follows:

	2019	2018
Net interest on the defined benefit liability	**$ 130**	**141**

	2019	2018
Operating costs	$ 24	38
Selling expenses	9	15
Research and development expenses	97	88
	$ 130	**141**

5) Remeasurement of the net defined benefit liability recognized in other comprehensive income

The Group's remeasurement of the net defined benefit liability recognized in other comprehensive income were as follows:

	2019	2018
Cumulative amount at January 1	$ 5,653	5,009
Recognized during the period	863	(54)
Cumulative amount at December 31	**$ 6,516**	**5,653**

6) Actuarial assumptions

The following were the Group's principal actuarial assumptions at the reporting dates:

	2019.12.31	2018.12.31
Discount rate	1.125 %	1.375 %
Future salary increases rate	3.000 %	3.000 %

(Continued)

The Group expects to make contributions of $8 thousand to its defined benefit plans in the following year starting from the reporting date of 2019.

The weighted average duration of the defined benefit plans is 15.62 years.

7) Sensitivity analysis

As of December 31, 2019 and 2018, the present value of the defined benefit obligation were as follow:

		The impact of defined benefit obligation	
		Increase 0.25%	**Decrease 0.25%**
December 31, 2019			
Discount rate	$	(414)	432
Future salary increase rate		416	(401)
December 31, 2018			
Discount rate		(395)	412
Future salary increase rate		398	(383)

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions remain constant, would have affected the defined benefit obligation by the amounts shown above. The method used in the sensitivity analysis is consistent with the calculation of pension liabilities in the balance sheets.

There were no change in the method and assumptions used in the preparation of sensitivity analysis for 2019 and 2018.

(ii) Defined contribution plans

The Group makes monthly contributions equal 6% of each employee's monthly wages to the labor pension personal account at the Bureau of the Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Group contributes a fixed amount to the Bureau of the Labor Insurance without additional legal or constructive obligations.

According to the local government's regulations, the subsidiaries of the Company in China make monthly contributions to the local government at certain percentages of the basic salary of their employees. When the employee retires, the local government pays the pension. The amount of pension is recognized as the current expense.

Machvision Inc. does not have employees and therefore does not need to pay a pension.

The Group's pension costs under the defined contribution plan were $14,089 thousand and $10,044 thousand for 2019 and 2018, respectively. Payment was made to the Bureau of the Labor Insurance and the local authorities of the consolidated overseas subsidiaries.

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(m) Income tax

(i) Income tax expenses

The amount of income tax were as follows:

		2019	2018
Current income tax expense			
Current period incurred	$	199,036	321,680
Adjustment for prior periods		(801)	3,777
		198,235	325,457
Deferred tax expense			
Origination and reversal of temporary differences		(12,491)	(8,618)
Adjustment of tax rates		-	(2,332)
		(12,491)	(10,950)
Income tax expenses	**$**	**185,744**	**314,507**

The amount of income tax recognized in other comprehensive income were as follows:

		2019	2018
Items that will not be reclassified subsequently to profit or loss:			
Financial statements translation differences for foreign operations	**$**	**63**	**226**

Reconciliation of income tax expenses and profit before income tax were as follows:

		2019	2018
Profit before income tax	**$**	**1,052,613**	**1,622,224**
Income tax using the Company's domestic tax rate	$	210,523	324,444
Effect of tax rates in foreign jurisdiction		-	(137)
Adjustments according to tax law		(1,572)	(1,961)
Adjustment of tax rates		-	(2,332)
Tax treaty rewards		(23,583)	(10,240)
Adjustments for prior years income tax		(801)	3,777
Previously overestimate (underestimate) deferred tax assets		223	(68)
Undistributed earnings additional tax		45	-
Others		909	1,024
Total	**$**	**185,744**	**314,507**

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES
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(ii) Deferred tax assets and liabilities－Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities were as follows:

Deferred tax assets:

	Provisions	Loss from investment using equity method	Allowance for inventory valuation	Other	Total
Balance at January 1, 2019	$ 9,070	3,108	9,433	4,075	25,686
Recognized in profit or loss	(6,645)	12,636	103	5,617	11,711
Recognized in other comprehensive income	-	-	-	63	63
Balance at December 31, 2019	**$ 2,425**	**15,744**	**9,536**	**9,755**	**37,460**
Balance at January 1, 2018	$ 3,432	886	4,264	5,148	13,730
Recognized in profit or loss	5,638	2,222	5,169	(1,299)	11,730
Recognized in other comprehensive income	-	-	-	226	226
Balance at December 31, 2018	**$ 9,070**	**3,108**	**9,433**	**4,075**	**25,686**

Deferred tax liabilities:

	Unrealized exchange gain
Balance at January 1, 2019	$ 780
Recognized in profit or loss	(780)
Balance at December 31, 2019	
Balance at January 1, 2018	-
Recognized in profit or loss	780
Balance at December 31, 2018	**780**

(iii) Examination and Approval

The ROC income tax authorities have examined the Company's income tax returns through 2017.

(n) Capital and other equity

(i) Ordinary shares

As of December 31, 2019 and 2018, the total value of nominal ordinary shares amounted to $500,000 thousand, with a par value of $10 per share, of which 42,608 thousand shares were issued. All issued shares were paid up upon issuance.

(Continued)

(ii) Capital surplus

In accordance with the ROC Company Act, realized capital reserves can only be reclassified as share capital or distributed as cash dividends after offsetting losses. The aforementioned capital reserves include share premiums and donation gains. In accordance with the Securities Offering and Issuance Guidelines, the amount of capital reserves to be reclassified under share capital shall not exceed 10% of the actual share capital amount.

(iii) Retained earnings

In accordance with the Company's Articles of Incorporation amended on May 29, 2019, if the Company makes a profit in each semi fiscal year, the profit shall be first utilized for paying taxes, estimating employee remuneration, offsetting losses of previous years, and setting aside 10% of the remaining profit as legal reserve, until the legal reserve is equal to the paid in capital. Then any remaining profit, together with any undistributed retained earnings, shall be distributed according to the distribution plan proposed by the Board of Directors. Distribution in cash shall have the approval from the Board of Directors. Whereas if it is in shares, it shall have to be proposed by the Board of Directors during the shareholders' meeting for approval.

If the Company makes a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, and setting aside 10% of the remaining profit as legal reserve, until the legal reserve is equal to the paid in capital. Then any remaining profit, together with any undistributed retained earnings, shall be distributed according to the distribution plan proposed by the Board of Directors. Whereas if it is in shares, it shall have to be proposed by the Board of Directors during the shareholders' meeting for approval.

In accordance with ROC Company Article 240, the Company authorizes the distributable dividends and bonuses in whole or in part may be paid in cash after a resolution has been adopted by a majority vote at a meeting of the Board of Directors attended by two-thirds of the total number of directors, and in addition, there to a report of such distribution shall be submitted to the shareholders' meeting.

1) Legal reserve

According to the Company Act, 10% of net income after tax should be set aside as legal reserve until it is equal to authorized capital. If the Company experienced profit for the year, the distribution of the statutory earnings reserve, either by new shares or by cash, shall be decided at the shareholders meeting, and the distribution amount is limited to the portion of legal reserve which exceeds 25% of the paid-in capital.

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2) Special reserve

In accordance with Ruling No.1010012865 issued by the Financial Supervisory Commission on 6 April 2012, a portion of current period earnings and undistributed prior period earnings shall be reclassified as a special earnings reserve during earnings distribution. The amount to be reclassified should equal to the current period total net reduction of other shareholders' equity. Similarly, a portion of undistributed prior period earnings shall be reclassified as a special earnings reserve (and does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

3) Earnings distribution

The appropriations of 2018 and 2017 earnings as dividends to stockholders that were approved by the Company's shareholders during their meetings on May 29, 2019 and 2018, respectively, were as follows:

	2018		2017	
	Amount per share (NTD)	**Total Amount**	**Amount per share (NTD)**	**Total Amount**
Dividends distributed to ordinary stockholders:				
Cash (earnings)	$ 27.00	1,150,422	10.00	426,082

(o) Earnings per share

The calculation of the Company's basic and diluted earnings per share were as follows:

(i) Basic earnings per share

	2019	2018
Net income attributable to ordinary shareholders of the Company	$ 852,599	1,296,402
Weighted-average number of ordinary shares	42,608	42,608
Basic earnings per share (in NTD)	$ 20.01	30.43

(ii) Diluted earnings per share

	2019	2018
Net income attributable to ordinary shareholders of the Company (diluted)	$ 852,599	1,296,402
Weighted-average number of ordinary shares (basic)	42,608	42,608
Effect of potential ordinary shares		
Employee's stock bonus	318	383
Weighted-average number of ordinary shares (diluted)	42,926	43,059
Diluted earnings per share (in NTD)	$ 19.86	30.11

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(p) Revenue from contracts with customers

(i) Disaggregation of revenue

	2019		
	Taiwan	**China**	**Total**
Primary geographical markets:			
Taiwan	$ 663,954	-	663,954
China	1,436,248	316,215	1,752,463
Others	127,024	-	127,024
	$ 2,227,226	**316,215**	**2,543,441**
Primary merchandises / Services lines:			
Sale of optical inspection machinery equipment	$ 2,164,913	263,093	2,428,006
Revenue from services	62,313	53,122	115,435
	$ 2,227,226	**316,215**	**2,543,441**

	2018		
	Taiwan	**China**	**Total**
Primary geographical markets:			
Taiwan	$ 1,533,869	-	1,533,869
China	1,124,876	246,028	1,370,904
Others	207,103	-	207,103
	$ 2,865,848	**246,028**	**3,111,876**
Primary merchandises / Services lines:			
Sale of optical inspection machinery equipment	$ 2,822,436	202,563	3,024,999
Revenue from services	43,412	43,465	86,877
	$ 2,865,848	**246,028**	**3,111,876**

(ii) Contract balance

	December 31, 2019	**December 31, 2018**	**January 1, 2018**
Notes receivable	$ 13,709	18,379	2,953
Accounts receivable	1,189,257	1,088,717	712,622
Long-term accounts receivable	230,705	80,951	16,064
Less: allowance for impairment	7,421	12,520	3,674
Total	**$ 1,426,250**	**1,175,527**	**727,965**
Contract liabilities－Advance receipts	**$ 13,594**	**82,716**	**18,214**

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

For details on accounts receivable and allowance for impairment, please refer to note 6(b).

The contract liability is mainly due to advance receipts, wherein the Company will recognize revenue when the product is delivered to the customer. The amount of revenue recognized for the years ended December 31, 2019 and 2018 that were included in the contract liability balance at the beginning of the period were $81,798 thousand and $18,166 thousand, respectively.

(q) Remuneration to employees, directors and supervisors

In accordance with the Company's Articles, the profit for the year should be reserved to offset the deficit, then, should contribute no less than 5% of the profit as employee remuneration, and less than 3% as directors' and supervisors' remuneration.

For the years ended December 31, 2019 and 2018, the Company estimated its employee remuneration amounting to $97,368 thousand and $161,623 thousand, and directors' and supervisors' remuneration amounting to $17,931 thousand and $32,037 thousand, respectively. The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the remuneration to employees, directors and supervisors of each period, multiplied by the percentage of remuneration to employees, directors and supervisors as specified in the Company's articles. These remunerations were expensed under operating costs or operating expenses during 2019 and 2018. Related information would be available at the Market Observation Post System website. The amounts, as stated in the consolidated financial statements, are identical to those of the actual distributions for 2019 and 2018.

(r) Non-operating income and expenses

(i) Other income

	2019	2018
Interest income	$ 7,143	6,751
Dividend income	1,326	-
Others	5,871	2,037
Total Other income	**$ 14,340**	**8,788**

(ii) Other gains and losses

	2019	2018
Gains (losses) on disposals of property, plant and equipment	$ 107	(727)
Gains on disposals of investments	-	906
Foreign exchange gains (losses)	(30,029)	29,469
Others	(296)	(364)
Other gains and losses, net	**$ (30,218)**	**29,284**

(iii) Finance costs

	2019	2018
Interest expense	**$ 2,006**	**-**

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(s) Financial instruments

(i) Credit risk

1) Exposure to credit risk

The carrying amount of financial assets represents the maximum amount exposed to credit risk.

2) Concentration of credit risk

The business of the customer of the Group is the manufacturing of the printed circuit board. As of December 31, 2019 and 2018, the accounts receivable that concentration of credit risk on an individual customer amounted to $178,701 thousand and $176,157 thousand, respectively.

(ii) Liquidity risk

The following table shows the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

	Carrying amount	Contractual cash flows	Within a year	1-5 years	Over 5 years
December 31, 2019					
Non-derivative financial liabilities					
Notes payable	$ 993	993	993	-	-
Accounts payable	381,467	381,467	381,467	-	-
Other payables	54,030	54,030	54,030	-	-
Lease liabilities	110,310	133,741	14,875	35,202	83,664
	$ 546,800	**570,231**	**451,365**	**35,202**	**83,664**
December 31, 2018					
Non-derivative financial liabilities					
Notes payable	$ 1,358	1,358	1,358	-	-
Accounts payable	318,692	318,692	318,692	-	-
Other payables	105,122	105,122	105,122	-	-
	$ 425,172	**425,172**	**425,172**	**-**	**-**

The Group is not expecting the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

(Continued)

(iii) Currency risk

1) Exposure to foreign currency risk

The Group's financial assets and liabilities exposed to significant currency risk was as follows:

		Foreign currency	Exchange rate	NTD
December 31, 2019				
Financial assets:				
Monetary items:				
USD	$	37,833	30.0360	1,136,356
CNY	$	71,779	4.3100	309,366
Financial liabilities:				
Monetary items:				
USD	$	2,154	30.0360	64,698
CNY	$	10,696	4.3100	46,100
December 31, 2018				
Financial assets:				
Monetary items:				
USD	$	27,942	30.7100	858,114
JPY	$	87,286	0.2783	24,292
CNY	$	49,529	4.4700	221,393
Financial liabilities:				
Monetary items:				
USD	$	3,507	30.7100	107,694
CNY	$	5,585	4.4700	24,965

2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of foreign currency exchange gains and losses on cash and cash equivalents, receivables, accounts payables that are denominated in foreign currency. A weakening or strengthening 3% appreciation or depreciation of the NTD against the USD and CNY as of December 31, 2019 and 2018, would have increased or decreased the net profit after tax by $32,038 thousand and $23,307 thousand, respectively. The analysis is performed on the same basis for both periods.

3) Foreign exchange gain and loss on monetary item

Since the Group has many kinds of functional currencies, the information on foreign exchange gains (loss) on monetary items is disclosed based on the total amount. For the years ended December 31, 2019 and 2018, foreign exchange gains (losses) (including realized and unrealized portion) amounted to $(30,029) thousand and $29,469 thousand.

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iv) Interest rate analysis

The detail of interest rate exposure was as follows:

	Carrying amount	
	December 31, 2019	**December 31, 2018**
Assets with variable interest rates converted to cash:		
Cash in banks	$ 739,861	1,763,329

The following sensitivity analysis is based on the risk exposure of the interest rate on derivative and non-derivative financial instruments on the reporting date. Regarding liabilities with variable interest rates, the analysis is on the basis of the assumption that the amount of liabilities outstanding at the reporting date was outstanding throughout the year. The rate of change is expressed as the interest rate increases or decreases by 1% when reporting to management internally, which also represents the management of the Group's assessment on the reasonably possible interval of interest rate change.

If the interest rate had increased or decreased by 1%, the Group's net income before tax would have increase or decrease by $7,399 thousand and $17,633 thousand for the years ended December 31, 2019 and 2018, respectively, with all other variable factors remain constant.

(v) Information of fair value

1) Categories and fair value of financial instruments

Except for the followings, carrying amount of the Group's financial assets and liabilities are valuated approximately to their fair value, and are not based on observable market date and the value measurements which are not reliable. No additional fair value disclosure is required in accordance to the regulations.

	December 31, 2019				
	Carrying amount	**Fair value**			
		Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss					
Financial assets mandatorily measured at fair value through profit or loss	$ 9,644	-	-	9,644	9,644
Financial assets measured at amortized cost					
Cash and cash equivalents	741,899	-	-	-	-
Accounts, notes and long-term receivables	1,426,250	-	-	-	-
Refundable deposits	17,807	-	-	-	-
Other non-current assets	7,401	-	-	-	-
Subtotal	2,193,357	-	-	-	-
Total	$ 2,203,001	-	-	9,644	9,644

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES
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	December 31, 2019				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial liabilities measured at amortized cost					
Notes payable	$ 993	-	-	-	-
Accounts payable	381,467	-	-	-	-
Other payables	54,030	-	-	-	-
Lease liabilities	110,310	-	-	-	-
Total	$ **546,800**	**-**	**-**	**-**	**-**

	December 31, 2019				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Financial assets mandatorily measured at fair value through profit or loss	$ 9,644	-	-	9,644	9,644
Financial assets measured at amortized cost					
Cash and cash equivalents	1,764,842	-	-	-	-
Accounts, notes and long-term receivables	1,175,527	-	-	-	-
Refundable deposits	5,285	-	-	-	-
Other non-current assets	2,189	-	-	-	-
Subtotal	2,947,843	-	-	-	-
Total	$ **2,957,487**	**-**	**-**	**9,644**	**9,644**
Financial liabilities measured at amortized cost					
Notes payable	$ 1,358	-	-	-	-
Accounts payable	318,692	-	-	-	-
Other payables	105,122	-	-	-	-
Total	$ **425,172**	**-**	**-**	**-**	**-**

(Continued)

2) Valuation techniques for financial instruments measured at fair value－Non-derivative financial instruments

A financial instrument is regarded as being quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's-length basis. Whether transactions are taking place 'regularly' is a matter of judgment and depends on the facts and circumstances of the market for the instrument.

Quoted market prices may not be indicative of the fair value of an instrument if the activity in the market is infrequent, the market is not well-established, only small volumes are traded, or bid-ask spreads are very wide. Determining whether a market is active involves judgment.

If the financial instruments have no quoted market price in an active market, the Group shall use the market comparison approach to evaluate the fair value. The main assumption used in computing the market price is based on the investee's equity and the quoted price from a competitor. The estimated price has been discounted due to the lack of liquidity in the price of securities .

3) Fair value hierarchy

The Group used the fair value that can be observed in the market to measure the value of assets and liabilities. Fair value levels are based on the degree in which the fair value can be observed and grouped in to Levels 1 to 3 as follows:

a) Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.

b) Level 2: inputs, other than the 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).

c) Level 3: inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

4) Reconciliation of Level 3 fair values

	Unquoted equity instruments
Balance at January 1, 2019 (Balance at December 31, 2019)	**$ 9,644**
Balance at January 1, 2018 (Balance at Balance at December 31, 2018)	**$ 9,644**

(Continued)

5) Quantified information on significant unobservable inputs (Level 3) used in fair value measurement

Item	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Financial assets at fair value through profit or loss－Equity investments without an active market	Comparative listed company	· Price book ratio (As of December 31, 2019 and December 31, 2018 were 2.6 and 3.79, respectively) · P/E ratio (As of December 31, 2019 and December 31, 2018 were 11.77 and 12.47, respectively) · Market illiquidity discount rate (As of December 31, 2019 were 30% and 20%, respectively)	The estimated fair value would increase (decrease) if · the price book ratio and the P/E ratio the were higher (lower) · the market illiquidity discount were lower (higher)

6) Fair value measurements in Level 3－ sensitivity analysis of reasonably possible alternative assumptions

For fair value measurements in Level 3, changing one or more of the assumptions would have the following effects on profit or loss and other comprehensive income:

	Input	Assumptions	Other comprehensive income	
			Favorable	Unfavorable
December 31, 2019				
Financial assets at fair value through profit or loss				
Equity investments without an active market	Market illiquidity discount rate	10%	3,917	(3,917)
December 31, 2018				
Financial assets at fair value through profit or loss				
Equity investments without an active market	Market illiquidity discount rate	10%	1,368	(1,368)

The favorable and unfavorable effects represent the changes in fair value, and the fair value is based on a variety of unobservable inputs calculated using a valuation technique.

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(t) Financial risk management

(i) Overview

The Group has exposures to the following risks from its financial instruments:

1) Credit risk

2) Liquidity risk

3) Market risk

This note has the information on risk exposure and the objectives, policies and process of risk measurement and management. For detailed information, please refer to the related note on each risk.

(ii) Risk management framework

The Board of Directors has the overall responsibility for the establishment and oversight of the risk management framework. The chairman and the general manager are responsible for developing and monitoring the Group's risk management policies and report regularly to the Board of Directors on its activities.

The Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Board of Directors.

(iii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investments securities.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, the management also considers the demographics of the Group's customer base, including the default risk of the industry and the country in which customers operate, as these factors may have an influence on credit risk.

The Group's receivables are mainly due to one customer, which account for 13% and 15% of the total amount of receivables as of December 31, 2019 and 2018, respectively. The Group's receivables are concentrated on the industry type of the printed circuit board manufacturers.

The Group has established a credit policy, under which, each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered.

If the Group retains the rights to the products that have already been sold, the Group shall also have the right to require collateral if payment has not been received. The Group does not require any collateral for receivables.

(Continued)

The Group has established an allowance of doubtful accounts to reflect actual and estimated potential losses resulting from uncollectible account and trade receivables. The allowance of doubtful accounts consists primarily of specific losses regarding individual customers and estimates of potential losses based on statistics from payment histories of similar customer groups.

(iv) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group aims to maintain the level of its cash and cash equivalents at an amount in excess of the expected cash flows on operating expenses and financial liabilities. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. The Group has unused short term bank facilities of $1,000,000 thousand and $365,355 thousand, as of December 31, 2019 and 2018, respectively.

(v) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rate, and equity prices which will affect the Group's income or the value of its holding of financial instrument. The objective of market risk management is to manage and control market risk exposure within acceptable parameters while optimizing the return.

The Group does not enter into any commodity contracts other than to meet the Group's expected usage and sales requirements.

(u) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. Capital consists of ordinary shares, capital surplus and retained earnings of the Group. The Board of Directors monitors the return on capital, as well as the level of dividends to ordinary shareholders.

The Group's debt-to-adjusted-capital ratio at the end of the reporting period was as follows:

		December 31, 2019	December 31, 2018
Total liabilities	$	1,001,173	1,200,716
Less: cash and cash equivalents		741,899	1,764,842
Net debt	**$**	**259,274**	**(564,126)**
Total equity	**$**	**2,042,818**	**2,271,331**
Debt-to-capital ratio		**12.69 %**	**- %**

As of December 31, 2019, there was no changes in the Group's approach of capital management.

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MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(v) Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities arising from financing activities were as follows:

	January 1, 2019	Cash flows	Non-cash changes: Acquisition right-of-use assets	Non-cash changes: Lease modifications	Non-cash changes: Foreign exchange movement	Interest	December 31, 2019
Lease liabilities	$ 71,348	(11,363)	54,119	(5,532)	(268)	2,006	110,310
Total liabilities from financing activities	$ 71,348	(11,363)	54,119	(5,532)	(268)	2,006	110,310

(7) Related-party transactions

The compensation of the key management personnel comprised the following:

	2019	2018
Short-term employee benefits	$ 91,799	56,394
Post-employment benefits	222	228
	$ 92,021	56,622

(8) Pledged assets

The carrying values of pledged assets were as follows:

Pledged assets	Object	December 31, 2019	December 31, 2018
Other non-current assets:			
Time deposits	Guarantee for customs	$ 1,509	506
Time deposits	Guarantee for rent the land from the Hsinchu Science Park Bureau	5,892	1,683
		$ 7,401	2,189

(9) Commitments and contingencies: None.

(10) Losses Due to Major Disasters: None.

(11) Subsequent Events: None.

(Continued)

(12) Other

The following is a summary statement of employee benefits, depreciation and amortization expensed by function:

By function / By item	2019			2018		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits						
Salary	105,236	293,206	398,442	100,011	304,878	404,889
Labor and health insurance	10,596	13,230	23,826	7,800	9,671	17,471
Pension	6,376	7,843	14,219	4,207	5,978	10,185
Directors' remuneration	-	18,183	18,183	-	32,204	32,204
Others	15,150	21,573	36,723	17,153	24,183	41,336
Depreciation	9,777	14,008	23,785	4,834	3,949	8,783
Amortization	-	110	110	-	263	263

MACHVISION INC. CO., LTD. AND SUBSIDIARIES
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(13) Other disclosures

(a) Information on significant transactions:

The following is the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the Group:

(i) Loans to other parties: None.

(ii) Guarantees and endorsements for other parties: None.

(iii) Securities held as of December 31, 2019 (excluding investment in subsidiaries, associates and joint ventures):

Name of holder	Nature and name of security	Relationship with the security issuer	Account name	Ending balance: Number of shares	Ending balance: Book value	Ending balance: Holding percentage	Ending balance: Market value	Maximum investment in 2019	Notes
The Company	Yayatech Co., Ltd.	-	Financial assets at fair value through profit or loss	884,000	9,644	5 %	9,644	9,644	

(iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT$300 million or 20% of the capital stock: None.

(v) Acquisition of individual real estate with amount exceeding the lower of NT$300 million or 20% of the capital stock: None.

(vi) Disposal of individual real estate with amount exceeding the lower of NT$300 million or 20% of the capital stock: None.

(vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT$300 million or 20% of the capital stock:

Name of company	Counter-party	Relationship	Transaction details: Purchase / Sale	Transaction details: Amount	Transaction details: Percentage of total purchases / sales	Transaction details: Credit period	Arm's-length transaction: Unit price	Arm's-length transaction: Credit period	Account / note receivable (payable): Balance	Account / note receivable (payable): Percentage of total accounts / notes receivable (payable)	Remarks
The Company	Machvision (Dongguan) Inc.	Subsidiary	(Sale)	(154,629)	(7.00) %	Depends on the end customer's credit period	Not significantly differences	Depends on the end customer's credit period	299,318	21 %	(Note 1)
Machvision (Dongguan) Inc.	The Company	Subsidiary	Purchase	154,629	64.00 %	Depends on the end customer's credit period	Not significantly differences	Depends on the end customer's credit period	(299,318)	(92) %	(Note 1)

Note 1: The transactions have been eliminated upon consolidation.

(viii) Receivables from related parties with amounts exceeding the lower of NT$100 million or 20% of the capital stock:

Name of related party	Counter-party	Relationship	Balance of receivables from related party (note 3)	Turnover rate	Past-due receivables from related party: Amount	Past-due receivables from related party: Action taken	Subsequently received amount of receivable from related party	Allowance for bad debts
The Company	Machvision (Dongguan) Inc.	Subsidiary	299,318	0.64	151,745	Depends on the end customer's credit period	- (Until February 5, 2020)	-

Note 1: The transactions have been eliminated upon consolidation.

(ix) Trading in derivative instruments: None.

(x) Business relationships and significant intercompany transactions:

No. (Note 1)	Name of company	Name of counter-party	Existing relationship with the counter-party (Note 2)	Transaction details: Account name	Transaction details: Amount	Transaction details: Trading terms	Transaction details: Percentage of the total consolidated revenue or total assets
0	The Company	Machvision (Dongguan) Inc.	1	Operating revenue	154,629	Depends on the Group overall profit allocation	6.08 %
0	The Company	Sigold Optics Inc.	1	Operating revenue	33,600	Depends on the Group overall profit allocation	1.32 %

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES
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No. (Note 1)	Name of company	Name of counter-party	Existing relationship with the counter-party (Note 2)	Transaction details			
				Account name	Amount	Trading terms	Percentage of the total consolidated revenue or total assets
0	The Company	Sigold Optics Inc.	1	Operating cost	27,706	Depends on the Group overall profit allocation	1.09 %
0	The Company	Machvision (Dongguan) Inc.	1	Accounts receivable－related parties (including long-term accounts receivable)	299,318	Depends on the end customer's credit period	9.83 %
0	The Company	Sigold Optics Inc.	1	Accounts receivable－related parties (including long-term accounts receivable)	39,568	Depends on the end customer's credit period	1.30 %
0	The Company	Machvision (Dongguan) Inc.	1	Other payables－related parties	58,358	Dependent on capital budgeting	1.92 %

Note 1: Company numbering is as follows:

(1) Parent company is 0.

(2) Subsidiary starts from 1.

Note 2: The number of the relationship with the transaction counterparty represents the following:

(1) 1 represents downstream transactions.

(2) 2 represents upstream transactions.

Note 3: For balance sheet items, over 1% of total consolidated assets, and for profit or loss items, over 1% of total consolidated revenue were selected for disclosure.

(b) Information on investees:

The following is the information on investees for the years ended December 31, 2019 (excluding information on investees in Mainland China):

Name of investor	Name of investee	Address	Scope of business	Original cost		Ending balance			Maximum investment amount in 2019	Net income of investee	Investment income (losses) (Note 3)	Notes
				December 31, 2019	December 31, 2018	Shares	Percentage of ownership	Book value				
The Company	Machvision Inc.	Samoa	Investment	62,422	50,114	2,003,440	100.00 %	(16,698)	62,422	(56,315)	(56,315)	Note 1, 2
The Company	Machvision Holding (Samoa) Limited	Samoa	Investment	22,992	-	1,600,000	100.00 %	30,726	22,992	9,067	9,067	Note 1, 2
The Company	Autovision Technology Inc.	Taiwan	Manufacturing of computer peripheral products	9,000	2,250	900,000	45.00 %	10,331	9,000	1,756	790	Note 2
The Company	Sigold Optics Inc.	Taiwan	Manufacturing of machinery equipment	49,470	49,470	5,540,640	49.47 %	65,385	49,470	17,845	8,828	Note 2
The Company	Machvision Korea Co., Ltd.	Korea	Maintaining and trading of machinery equipment	21,542	-	10,000	100.00 %	14,075	21,542	(6,581)	(6,581)	Note 2
The Company	ChipAI Co., LTD.	Taiwan	Manufacturing of computer peripheral products	18,000	-	1,800,000	90.00 %	13,297	18,000	(5,225)	(4,703)	Note 2
The Company	MiM Tech. Inc.	Taiwan	Manufacturing of computer peripheral products	24,244	-	836,000	40.98 %	23,334	24,244	(5,892)	(910)	Note 2
The Company	RedPay Co., Ltd.	Taiwan	Manufacturing of computer peripheral products	10,000	-	500,000	50.00 %	7,409	10,000	(5,183)	(2,591)	Note 2

Note 1: The company is a limited company.

Note 2: The transactions within the Group were eliminated in the consolidated financial statements.

Note 3: The investment income was recognized under the equity method and based on the financial statements audited by the auditor of the Company.

(c) Information on investment in mainland China:

(i) The names of investees in Mainland China, the main businesses and products, and other information:

Name of investee investment in Mainland China	Major operations	Issued capital	Method of investment (Note 1)	Beginning remittance balance - cumulative investment (amount) from Taiwan	Current remittance / recoverable investment (amount)		Ending remittance balance-cumulative investment (amount) from Taiwan	Net income of investee	Direct / indirect shareholdings or investments (%) in the Company	Maximum investment amount in 2019	Current investment gains and losses (Note 3)	Book value (Note 2)	Remittance of investment income in current period
					Invested amount	Returned amount							
Machvision (Dongguan) Inc.	Maintaining and trading of machinery equipment	62,350	(2)i	50,042	12,308	-	62,350	(56,315)	100 %	62,350	(56,315)	(13,050)	-
Guandong Greatsense Intelligent Equipment Co., Ltd.	Maintaining and trading of machinery equipment	45,155	(2)ii	-	22,992	-	22,992	17,778	51 %	-	9,067	30,726	-

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Note 1: The method of investment is divided into the following four categories:
(1) Remittance from third region companies to invest in Mainland China.
(2) Through the establishment of third region companies then investing in Mainland China.
i. Through the establishment of Machvision Inc. then investing in Mainland China.
ii. Through the establishment of Machvision Holding (Samoa) Limited then investing in Mainland China.
(3) Through transferring the investment to third region existing companies then investing in Mainland China.
(4) Other methods: EX: delegated investments.

Note 2: The transactions within the Group were eliminated in the consolidated financial statements.

Note 3: The investment income was recognized under the equity method and based on the financial statements audited by the auditor of the Company.

(ii) Limitation on investment in Mainland China:

Company name	**Accumulated investment amount in Mainland China as of December 31, 2019**	**Investment (amount) approved by Investment Commission, Ministry of Economic Affairs**	**Maximum investment amount set by Investment Commission, Ministry of Economic Affairs**
The Company	85,342	110,642	1,145,940 (Note)

Note: It represents 60% of the Company's net equity.

(iii) Significant transactions:

Please refer to "Business relationships and significant intercompany transaction" for the indirect and direct business transactions in China. All transactions were eliminated upon consolidation.

(14) Segment information:

(a) General information

The Group is mainly engaged in the manufacturing, trading and testing of optical inspection machinery equipment, as well as their related products. The operating decision maker focuses on the entirety of the Group for the purpose of resource allocation and assessment performance. The Group is identified as a single reportable segment.

(b) Information on income and loss, assets, liabilities, basis of measurement, and the reconciliation for reportable segments

The Group uses the internal management report that the chief operating decision maker reviews as the basis to determine resource allocation and make a performance evaluation. The internal management report includes operating profit, but not including any extraordinary activity and foreign exchange gain or losses because taxation, extraordinary activity, and foreign exchange gain or losses are managed on a group basis, and hence they are not able to be allocated to each reportable segment. In addition, not all reportable segments include depreciation and amortization of significant non-cash items. The reportable amount is similar to that in the report used by the chief operating decision maker.

The operating segment accounting policies are consistent with those described in note 4 "Significant Accounting Policies".

MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Group treated intersegment sales and transfers as third-party transactions. They are measured at market price.

Information on reportable segments and reconciliation for the Group is as follows:

	2019			
	Taiwan	China	Adjustments or elimination	Total
Revenue:				
Revenue from external customers	$ 2,227,226	316,215	-	2,543,441
Inter-segment revenues	229,968	12,085	(242,053)	-
Total revenue	**$ 2,457,194**	**328,300**	**(242,053)**	**2,543,441**
Reportable segment profit or loss	**$ 1,107,770**	**(37,273)**	**-**	**1,070,497**

	2018			
	Taiwan	China	Adjustments or elimination	Total
Revenue:				
Revenue from external customers	$ 2,865,848	246,028	-	3,111,876
Inter-segment revenues	216,234	-	(216,234)	-
Total revenue	**$ 3,082,082**	**246,028**	**(216,234)**	**3,111,876**
Reportable segment profit or loss	**$ 1,594,360**	**(10,208)**	**-**	**1,584,152**

For the years ended December 31, 2019 and 2018, inter-segment revenues of $242,053 thousand and $216,234 thousand, respectively, should be eliminated from total revenue.

(c) Information on products and services

Revenue from the external customers were as follows:

Products and services	2019	2018
Sale of optical inspection machinery equipment	$ 2,428,006	3,024,999
Revenue from services	115,435	86,877
Total	**$ 2,543,441**	**3,111,876**

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(d) Geographic information

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers, and segment non-current assets are based on the geographical location of the assets.

Geographic information	2019	2018
Revenue from external customers:		
Taiwan	$ 663,954	1,533,869
China	1,752,463	1,370,904
Others	127,024	207,103
Total	**$ 2,543,441**	**3,111,876**

Geographical information	December 31, 2019	December 31, 2018
Non-current assets:		
Taiwan	$ 352,447	216,004
China	28,708	22,906
Others	4,603	-
Total	**$ 385,758**	**238,910**

Non-current assets include property, plant and equipment, right-of-use assets, and intangible assets, not including financial instruments and deferred tax assets.

(e) Information about major customers

	2019	2018
B Group in Taiwan	$ 351,998	347,967
C Group in Taiwan	326,488	322,228
E Group in Taiwan	317,137	203,421
F Group in Taiwan	280,547	-
A Group in Taiwan	2,570	960,380
Total	**$ 1,278,740**	**1,833,996**

6.5 Individual financial statements of the most recent annual account audited by CPA's

Independent Auditors' Report

To the Board of Directors of Machvision Inc. Co., Ltd.:

Opinion

We have audited the financial statements of Machvision Inc. (the "Company"), which comprise the statement of financial position as of December 31, 2019 and 2018, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and its financial performance and its cash flows for the years 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 Certification of Financial Statements by Certified Public Accountants" and the 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 Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of 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 current period. 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.

1. Revenue recognition

   Please refer to notes 4(n) and 6(p) for disclosures related to revenue recognition.
   Description of key audit matter:
   Revenue is the key indicator used by investors and management while evaluating the Company's finance or operating performance. The accuracy of the timing and amount of revenue recognition have significant impact on the financial statements. Therefore, we consider it as one of our key audit matters.

   How the matter was addressed in our audit:

   Understanding and testing the effectiveness of the design of, and implementing the internal control of sales and collecting cycles; reviewing the revenue recognition of significant sales contracts to determine whether the key judgment, estimation, and accounting treatment are reasonable; understanding the type of products and the sales of machinery equipment of the top 10 customers; calculating the turnover days of sales and accounts receivable to ensure whether clients' credit terms are in accordance with the ratios, and analyzing the changes in the top 10 customers from the most recent period and prior year to determine if there were any abnormalities; selecting sales transaction from a certain period of time before and after the last shipping date, and verifying them with the vouchers to determine the accuracy of the timing whether there are any abnormalities; as well as understanding whether there is a significant subsequent sales returns.

2. Impairment of trade receivables

   Please refer to notes 4(f) and 6(b) for disclosures related to impairment of trade receivables.

   Description of key audit matter:

   The notes, accounts and long-term accounts receivable constituted 49% of total assets of the Company as of December 31, 2019, and the impairment of notes, accounts and long-term accounts receivable depends on the evaluation of the management based on the evidence of internal and external factors, both subjective and objective. Therefore, we consider them as one of our key audit matters.

   How the matter was addressed in our audit:

   Testing the effectiveness of control points relating to cash collection; obtaining the list of accounts receivable balance to send confirmations for selected samples; acquiring the Company' s computation of impairment loss rate to review its appropriateness; deriving the aging analysis of accounts receivables to verify the accuracy of aging periods by examining relevant documents of selected receivables; reviewing whether the recognition of provision for the impairment loss is based on the impairment loss rate; and evaluating whether the recognition of impairment on accounts receivable made by the management is reasonable.

3. Inventory measurement

   Please refer to notes 4(g), 5 and 6(c) for disclosures related to inventory measurement.

   Description of key audit matter:

   The inventories of the Company are mainly optical inspection machinery equipment and their related parts. The products may be outdated or no longer meet the market demand due to the rapid changes in technology, the demand of related products and their prices may fiercely fluctuate, and the impairment of inventory depends on the evaluation of the management based on the evidence of internal and external factors, both subjective and objective. Therefore, we consider them as one of our key audit matters.

   How the matter was addressed in our audit:

   Assessing the accounting policy on inventory measurement to determine its reasonableness; reviewing the inventory aging documents and analyzing the changes to ensure that the process of inventory valuation is in conformity with the accounting policies; understanding and evaluating whether if the basis used for net realizable value is reasonable; selecting samples and verifying them to ensure they are consistent with the vouchers; and reviewing whether the disclosure of inventory measurement made by the management is appropriate.

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 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.

The governance unit (including the audit committee) of MACHVISION, INC. is responsible for supervising the 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 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 appropriate audit evidence regarding the financial information of the 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 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 of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Po-Shu Huang and Ann Tien Yu.

KPMG

Taipei, Taiwan (Republic of China)
February 5, 2020

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

MACHVISION INC.

Parent Company Only Balance Sheets

December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

Code	Assets	December 31, 2019 Amount	%	December 31, 2018 Amount	%
	Current assets:				
1100	Cash and cash equivalents (note 6(a))	$ 478,550	17	1,640,945	48
1151	Notes receivable (notes 6(b) and (p))	45	-	1,837	-
1170	Accounts receivable, net (notes 6(b) and (p))	862,763	30	892,763	26
1180	Accounts receivable-related parties (notes 6(b), (p) and 7)	186,977	6	152,397	5
1210	Other receivables-related parties(note 7)	25,667	1	3,809	-
130x	Inventories (note 6(c))	363,119	13	224,723	7
1410	Prepayments	13,433	-	5,271	-
1479	Other current assets	10,147	-	4,362	-
	Total current assets	1,940,701	67	2,926,107	86
	Non-current assets:				
1510	Financial assets at fair value through profit or loss—non-current (note 6(e))	9,644	-	9,644	-
1550	Investment using the equity method (note 6(d))	164,557	6	85,091	3
1600	Property, plant and equipment (note 6(f))	244,241	9	215,585	6
1755	Right-of-use assets (note 6(g))	98,923	4	-	-
1780	Intangible assets (note 6(h))	193	-	303	-
1840	Deferred income tax assets (note 6(m))	37,460	1	25,686	1
1920	Refundable deposits	9,716	-	4,005	-
1932	Long-term receivables (notes 6(b) and (p))	230,705	8	80,951	2
1942	Long-term receivable-related parties (notes 6(b)、(p) and 7)	155,550	5	59,130	2
1995	Other non-current assets (notes 6(k) and 8)	7,401	-	2,189	-
	Total non-current assets	958,390	33	482,584	14
	Total assets	$ 2,899,091	100	3,408,691	100

Code	Liabilities and Equity	December 31, 2019 Amount	%	December 31, 2018 Amount	%
	Current liabilities:				
2130	Current contract liabilities (note 6(p))	$ 1,490	-	81,800	2
2150	Notes payable	993	-	1,358	-
2170	Accounts payable	344,092	12	300,035	9
2180	Accounts payable-related parties (note 7)	31,789	1	25,947	1
2200	Other payables (note 6(q))	377,861	13	427,325	13
2220	Other payables-related parties (note 7)	58,358	2	37,059	1
2230	Current tax liabilities	30,170	1	267,607	8
2250	Provisions — current (note 6(j))	12,125	1	45,353	1
2280	Current lease liabilities (note 6(i))	10,602	-	-	-
2399	Other current liabilities	5,020	-	1,778	-
	Total current liabilities	872,500	30	1,188,262	35
	Non-Current liabilities:				
2570	Deferred income tax liabilities (note 6(m))	-	-	780	-
2580	Non-current lease liabilities (note 6(i))	89,564	3	-	-
2640	Net defined benefit liabilities (note 6(l))	10,429	-	9,497	-
2650	Investment using the equity method with credit balance	16,698	1	-	-
	Total non-current liabilities	116,691	4	10,277	-
	Total liabilities	989,191	34	1,198,539	35
	Equity attributable to shareholders of the company (note 6(n)):				
3100	Ordinary shares	426,082	14	426,082	13
	Capital surplus:				
3211	Additional paid-in capital	59,485	2	59,485	2
3235	Changes in equities of subsidiaries	4	-	4	-
3280	Other capital surplus	23	-	3	-
		59,512	2	59,492	2
	Retained earnings:				
3310	Legal reserve	309,915	10	180,274	5
3320	Special reserve	2,957	-	2,507	-
3350	Unappropriated retained earnings	1,115,977	38	1,544,754	44
		1,428,849	48	1,727,535	49
	Other equity interest:				
3410	Foreign currency translation differences for foreign operations	(4,543)	-	(2,957)	-
	Total equity	1,909,900	65	2,210,152	65
	Total liabilities and equity	$ 2,899,091	100	3,408,691	100

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

MACHVISION INC.

Parent Company Only Statements of Comprehensive Income

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Common Share)

		2019		2018	
		Amount	%	Amount	%
4000	Operating revenue (note 6(p) and (g))	$ 2,358,299	100	2,995,779	100
5000	Operating costs (notes 6(c), (f), (g), (i),(j),(k),(l),(q)and 7)	821,865	35	921,494	31
	Gross profit	1,536,434	65	2,074,285	69
5910	Decrease: unrealized sales benefits	(996)	-	1,185	-
5900	Gross profit from operations	1,537,430	65	2,073,100	69
6000	Operating expenses (notes 6(b), (f), (g), (h) ,(i), (k),(l),(q)and 7):				
6100	Selling expenses	156,751	7	188,365	6
6200	Administrative expenses	105,469	4	159,876	6
6300	Research and development expenses	190,618	8	148,216	5
6450	Impairment loss (reversal of impairment loss) determined in accordance with IFRS 9	(1,772)	-	8,708	-
	Total operating expenses	451,066	19	505,165	17
	Net operating income	1,086,364	46	1,567,935	52
7000	Non-operating income and expenses (note 6(r)and 7)):				
7010	Other income	30,143	1	8,853	-
7020	Other gains and losses	(29,937)	(1)	28,458	1
7050	Financial costs	(1,853)	-	-	-
7775	Share of profit (losses) of subsidiaries for using equity method	(52,415)	(2)	869	-
	Total non-operating income and expenses	(54,062)	(2)	38,180	1
	Net income before tax	1,032,302	44	1,606,115	53
7950	Less: Income tax expenses (note 6(m))	179,703	8	309,713	10
	Net income	852,599	36	1,296,402	43
8300	Other comprehensive income (loss):				
8310	Items that will not be reclassified subsequently to profit or loss:				
8311	Losses on remeasurements of defined benefit plans	(863)	-	(698)	-
8349	Less: income tax related to items that will not be reclassified to profit or loss	-	-	-	-
	Total items that will not be reclassified subsequently to profit or loss	(863)	-	(698)	-
8360	Items that will be reclassified subsequently to profit or loss:				
8361	Financial statements translation differences for foreign operations	(1,649)	-	(676)	-
8399	Less: income tax related to items that will be reclassified to profit or loss	(63)	-	(226)	-
	Total items that will be reclassified subsequently to profit or loss	(1,586)	-	(450)	-
8300	Other comprehensive income (loss), net of tax	(2,449)	-	(1,148)	-
	Total comprehensive income	$ 850,150	36	1,295,254	43
	Earnings per share (note 6(o)):				
9710	Basic earnings per share (in New Taiwan dollars)	$ 20.01		30.43	
9810	Diluted earnings per share (in New Taiwan dollars)	$ 19.86		30.11	

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

MACHVISION INC.

Parent Company Only Statements of Changes in Equity

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

			Retained earnings				Total other equity interest	
	Ordinary shares	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Total	Exchange differences on translation of foreign financial statements	Total equity
Balance at January 1, 2018	$ 426,082	59,489	134,000	2,041	721,872	857,913	(2,507)	1,340,977
Appropriation and distribution of retained earnings:								
Legal reserve appropriated	-	-	46,274	-	(46,274)	-	-	-
Special reserve appropriated	-	-	-	466	(466)	-	-	-
Cash dividends of ordinary share	-	-	-	-	(426,082)	(426,082)	-	(426,082)
Other changes in capital surplus	-	3	-	-	-	-	-	3
Net income	-	-	-	-	1,296,402	1,296,402	-	1,296,402
Other comprehensive income	-	-	-	-	(698)	(698)	(450)	(1,148)
Total comprehensive income	-	-	-	-	1,295,704	1,295,704	(450)	1,295,254
Balance at December 31, 2018	426,082	59,492	180,274	2,507	1,544,754	1,727,535	(2,957)	2,210,152
Appropriation and distribution of retained earnings:								
Legal reserve appropriated	-	-	129,641	-	(129,641)	-	-	-
Special reserve appropriated	-	-	-	450	(450)	-	-	-
Cash dividends of ordinary share	-	-	-	-	(1,150,422)	(1,150,422)	-	(1,150,422)
Other changes in capital surplus	-	20	-	-	-	-	-	20
Net income	-	-	-	-	852,599	852,599	-	852,599
Other comprehensive income	-	-	-	-	(863)	(863)	(1,586)	(2,449)
Total comprehensive income	-	-	-	-	851,736	851,736	(1,586)	850,150
Balance at December 31, 2019	$ 426,082	59,512	309,915	2,957	1,115,977	1,428,849	(4,543)	1,909,900

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

MACHVISION INC.

Parent Company Only Statements of Cash Flows

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	2019	2018
Cash flows from operating activities:		
Net income before tax	$ 1,032,302	1,606,115
Adjustments:		
Adjustments to reconcile profit and loss:		
Depreciation	17,965	6,991
Amortization	110	263
Impairment loss (reversal of impairment loss) determined in accordance with IFRS 9	(1,772)	8,708
Interest expense	1,853	-
Interest income	(6,467)	(6,386)
Dividend income	(1,326)	-
Net gain of financial assets at fair value through profit or loss	52,415	(869)
Loss (gain) on disposal of property, plant and equipment	(120)	727
Unrealized sales benefits	(996)	1,185
Total adjustments to reconcile profit	61,662	10,619
Changes in assets / liabilities relating to operating activities:		
Net changes in operating assets:		
Notes receivable	1,792	(585)
Accounts receivable	31,772	(248,500)
Accounts receivable-related parties	(34,580)	(75,248)
Other receivables-related parties	(21,858)	577
Inventories	(138,396)	(48,513)
Prepayments	(8,162)	(3,272)
Other current assets	(5,807)	(1,850)
Long-term accounts receivable(related party included)	(245,558)	(121,387)
Total changes in operating assets, net	(420,797)	(498,778)
Net changes in operating liabilities:		
Contract liabilities	(80,310)	63,632
Notes payable	(365)	834
Accounts payable	44,057	115,359
Accounts payable-related parties	5,842	10,218
Other payables	(49,464)	226,403
Other payables-related parties	21,299	9,533
Provisions	(33,228)	25,165
Other current liabilities	3,242	461
Net defined benefit liability	69	42
Total changes in operating liabilities, net	(88,858)	451,647
Total changes in operating assets / liabilities, net	(509,655)	(47,131)
Total adjustments	(447,993)	(36,512)
Cash provided by operating activities	584,309	1,569,603
Interest income received	5,873	7,629
Income tax paid	(429,631)	(118,868)
Net cash provided by operating activities	160,551	1,458,364
Cash flows from investing activities:		
Acquisition of investments accounted for using the equity method	(115,836)	-
Acquisition of property, plant and equipment	(40,387)	(32,196)
Proceeds from disposal of property, plant and equipment	143	220
Decrease (increase) in refundable deposits	(5,711)	482
Increase in other non-current assets	(3,779)	(3)
Dividends received	1,326	-
Net cash used in investing activities	(164,244)	(31,497)
Cash flows from financing activities:		
Payment of lease liabilities	(8,300)	-
Cash dividends paid	(1,150,422)	(426,082)
Surplus not paid due to overdue	20	3
Net cash used in financing activities	(1,158,702)	(426,079)
Net increase (decrease) in cash and cash equivalents	(1,162,395)	1,000,788
Cash and cash equivalents at beginning of period	1,640,945	640,157
Cash and cash equivalents at end of period	$ 478,550	1,640,945

(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese)
MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Parent Company Only Financial Statements
For the years ended December 31, 2019 and 2018
(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(1) History and organization

MACHVISION INC. CO., LTD. (the Company) was incorporated in June 9, 1998 as a company limited by shares under the laws of the Republic of China (ROC). The address of the Company's registered office is No. 2-3, Gongye East 2nd Road, Hsinchu Science Park, Hsinchu 30075, Taiwan, R.O.C.. The Company is mainly engaged in the manufacturing and trading of optical inspection machinery equipment.

(2) Approval date and procedures of the financial statements

The financial statements were approved by the Board of Directors and published on February 5, 2020.

(3) New standards, amendments and interpretations adopted

(a) The impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning, or after, January 1, 2019. The differences between the current version and the previous version are as follows:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 16 "Leases"	January 1, 2019
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019
Amendments to IAS 28 "Long-term interests in associates and joint ventures"	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

Except for the following items, the Company believes that the adoption of the above IFRSs would not have any material impact on its financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 16 "Leases"

IFRS 16 replaces the existing leases guidance, including IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases – Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease".

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The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings on January 1, 2019. The details of the changes in accounting policies are disclosed below,

1) Definition of a lease

Previously, the Company determined at contract inception whether an arrangement is, or contains, a lease under IFRIC 4. Under IFRS 16, the Company assesses whether a contract is, or contains, a lease based on the definition of a lease, as explained in note 4(j) of the Company accounting policies.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on, or after, January 1, 2019.

2) As a lessee

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership on the underlying asset to the Company. Under IFRS 16, the Company recognizes the right-of-use assets and lease liabilities for most its leases, which are recorded in the balance sheet.

The Company decided to apply the recognition exemptions to the short-term leases or low-value leases of its office equipment.

At transition, lease liabilities recognized for leases previously classified as an operating lease under IAS 17, were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application. Right-of-use assets were measured at an amount equal to the lease liability.

In addition, the Company used the following practical expedients when applying IFRS 16 to leases.

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the exemption not to recognize the right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

(Continued)

- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

3) Impacts on financial statements

On transition to IFRS 16, the Company recognized its right-of-use assets and lease liabilities amounting to $70,268 thousand at the date of initial application. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 1.5%.

An explanation of the differences between the operating lease commitments disclosed at the end of the annual reporting period immediately preceding the date of initial application, and the lease liabilities recognized in the statement of financial position at the date of initial application disclosed is as follows:

	January 1, 2019	
Operating lease commitment at December 31, 2018 as disclosed in the Company' s financial statements	$	700
Extension and termination options reasonably certain to be exercised		91,918
	$	92,618
Discounted using the incremental borrowing rate at January 1, 2019	$	70,268
Finance lease liabilities recognized as at December 31, 2018		-
Lease liabilities recognized at January 1, 2019	$	70,268

(b) The impact of IFRS endorsed by FSC that will soon take effect

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning, or after, January 1, 2020 in accordance with Ruling No. 1080323028 issued by the FSC on July 29, 2019:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
Amendments to IFRS 9, IAS39 and IFRS7 "Interest Rate Benchmark Reform"	January 1, 2020
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

The Company assesses that the adoption of the abovementioned standards would not have any material impact on its financial statements.

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(c) The impact of IFRS issued by IASB but not yet endorsed by the FSC

As of the date, the following IFRSs that have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021

The Company is evaluating the impact of its initial adoption of the abovementioned standards or interpretations on its financial position and financial performance. The results thereof will be disclosed when the Company completes its evaluation.

(4) Summary of significant accounting policies

The significant accounting policies presented in the financial statements are summarized below. The following accounting policies were applied consistently throughout the periods presented in the financial statements.

(a) Statement of compliance

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

(b) Basis of preparation

(i) Basis of measurement

The financial statements have been prepared on a historical cost basis, unless otherwise stated (Refer to the summary on significant accounting policies).

(ii) Functional and reporting currency

The functional currency of each Company entity is determined based on the primary economic environment in which the entity operates. The financial statements are presented in New Taiwan dollars, which is the Company's functional currency. All financial information presented in New Taiwan dollars has been rounded to the nearest thousand.

(c) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Company entities exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the year adjusted for the effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

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Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of translation.

Foreign currency differences arising on retranslation are recognized in profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the reporting currency at the exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated at the average exchange rate. Translation differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve in equity.

When the settlement of monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising from such items are considered to form part of a net investment in the foreign operation and are recognized in other comprehensive income, and presented in the translation reserve in equity.

(d) Classification of current and non-current assets and liabilities

Cash or cash equivalents, assets held for trading purposes or short-term and expected to be converted to cash within twelve months after the reporting period or for intention of sales or consumption within its normal operating cycle are classified as current assets; all other assets are classified as non-current assets.

Liabilities that must be fully liquidated within twelve months after the reporting period are classified as current liabilities; all other liabilities are classified as non-current liabilities.

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(e) Cash and cash equivalents

Cash and cash equivalents comprised cash, cash in banks and short term investments with high liquidity that are subject to an insignificant risk of changes in their fair value.

The time deposits with maturity of the Company are listed in cash and cash equivalents because they satisfy the aforementioned definition and are held for the purpose of meeting short term cash commitments rather than for investment or other purposes.

(f) Financial instruments

(i) Financial assets

Financial assets are classified into the following categories: measured at amortized cost and fair value through profit or loss (FVTPL).

The Company shall reclassify all affected financial assets only when it changes its business model for managing its financial assets.

1) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment loss, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

2) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, on initial recognition, the Company may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent changes that are measured at fair value, which take into account any dividend and interest income, are recognized in profit or loss.

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3) Impairment of financial assets

The Company recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, notes and accounts receivable, long-term receivable, guarantee deposit paid and other non-current assets).

The Company measures loss allowances at an amount equal to lifetime expected credit loss (ECL), except for the following which are measured as 12-month ECL:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for trade receivables are always measured at an amount equal to lifetime ECL.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 month after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Company's historical experience and informed credit assessment as well as forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when the financial asset is more than 90 days past due or the borrower is unlikely to pay its credit obligations to the Company in full.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

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At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. The Company recognizes the amount of expected credit losses (or reversal) in profit or loss, as an impairment gain or loss.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

4) Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the assets expire, or when the Company transfers substantially all the risks and rewards of ownership of the financial assets.

(ii) Financial liabilities and equity instruments

1) Other financial liabilities

Financial liabilities not classified as held-for-trading or designated as at fair value through profit or loss, which notes payable, accounts payable and other payables, are measured at fair value plus any directly attributable transaction cost at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method. Interest expense not capitalized as capital cost is recognized in profit or loss, and is included in non-operating income and expense.

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2) Derecognition of financial liabilities

The Company derecognizes a financial liability when its contractual obligation expires or has been discharged or cancelled. The difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss, and is included in non-operating income and expense.

3) Offsetting of financial assets and liabilities

The Company presents financial assets and liabilities on a net basis when the Company has the legally enforceable rights to offset and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

(g) Inventories

The cost of inventories consists of all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories includes an appropriate share of fixed production overhead based on normal capacity and allocated variable production overhead based on actual output. However, unallocated fixed production overhead arising from lower or idle capacity is recognized in cost of goods sold during the period. If actual capacity is higher than normal capacity, fixed production overhead should be allocated based on actual capacity. The method of valuing inventories is the weighted-average method.

Inventories are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less, the estimated costs of completion and selling expenses at the end of the period. When the cost of inventories is higher than the net realizable value, inventories are written down to net realizable value, and the write-down amount is charged to current year's cost of goods sold. If net realizable value increases in the future, the cost of inventories is reversed within the original write-down amount, and such reversal is treated as a reduction of cost of goods sold.

(h) Investment in subsidiaries

A joint arrangement is an arrangement of which two or more parties have joint control. The IFRS classifies joint arrangement into two types-joint operations and joint ventures, and have the following characteristics: (a) The parties are bound by a contractual arrangement; (b) The contractual arrangement gives two or more of those parties joint control of the arrangement. IFRS 11 “Joint Arrangements” defines joint control as the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (i.e. activities that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control.

A joint venture is a joint arrangement whereby the Company has joint control of the arrangement (i.e. joint ventures) in which the Company has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities. The company recognizes its interest in a joint venture as an investments and accounts for that investment using the equity method in accordance with IAS 28 “Investments in Associates and Joint Ventures”, unless, the Company qualifies fo exemption from that Standard.

When assessing the classification of a joint arrangement, the Company considers the structure and legal form of the arrangement, the terms in the contractual arrangement and other facts and circumstances. When the facts and circumstances change, the Company reevaluates whether the classification of the joint arrangement has changed.

(i) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are measured at cost, less, accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately, unless the useful life and the depreciation method of a significant part of an item of property, plant and equipment are the same as the useful life and depreciation method of another significant part of that same item.

The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized as non-operating income and expense.

(ii) Subsequent cost

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Company. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

The depreciable amount of an asset is determined after deducting its residual amount, and it shall be allocated on a straight-line basis over its useful life. Items of property, plant and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately. The depreciation charge for each period shall be recognized in profit or loss.

Land has an unlimited useful life, and therefore is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

Buildings	4~50 years
Machinery equipment	3~15 years
Other equipment	2~10 years

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from the previous estimates, the changes are accounted for as a change in an accounting estimate.

(j) Leases

<u>Applicable from January 1, 2019</u>

(i) Identifying a lease

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

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1) the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and

2) the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

3) the Company has the right to direct use of the asset when it has the decision-making rights that are most relevant to changing how, and for what purpose, the asset is used. In rare cases where the decision about how, and for what purpose, the asset is used is predetermined, the Company has the right to direct the use of an asset if either:

   - the Company has the right to operate the asset; or

   - the Company designed the asset in a way that predetermines how, and for what purpose, it will be used.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

(ii) As a leasee

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at, or before, the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by using the impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Company' s incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments;

- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

- amounts expected to be payable under a residual value guarantee; and

- payments for purchase or termination options that are reasonably certain to be exercised.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when:

— there is a change in future lease payments arising from the change in an index or rate; or

— there is a change in the Company' s estimate of the amount expected to be payable under a residual value guarantee; or

— there is a change of its assessment of the underlying asset purchase option; or

— there is a change of its assessment on whether it will exercise a purchase, extension or termination option; or

— there is any lease modifications

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Company accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

The Company presents its right-of-use assets that do not meet the definition of investment and its lease liabilities as a separate line item respectively in the statement of financial position.

The Company has elected not to recognize the right-of-use assets and lease liabilities for its short-term leases that have a lease term of 12 months or less and leases of low-value assets, including its office equipment. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Applicable before January 1, 2019

Lessee

Leases are operating leases and are not recognized in the Company's statement of financial position. Payments made under an operating lease are recognized in profit or loss on a straight-line basis over the term of the lease.

(k) Intangible assets

Intangible assets comprise the computer software expense and the technology capital contributed by the shareholders of the Company and approved by the Ministry of Economic Affairs R.O.C. The cost of computer software is amortized over 3 to 10 years and the capital is amortized over 20 years, both are calculated using the straight-line method and are recorded under operating expenses.

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from the previous estimates, the changes are accounted for as changes in accounting estimates.

MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Notes to the Parent Company Only Financial Statements

(l) Impairment of non-financial assets

With regard to non-financial assets (other than inventories, deferred tax assets and employee benefits), the Company assesses at the end of each reporting period whether there is any indication that an impairment loss has occurred, and estimates the recoverable amount of assets with an indication of impairment.

The Company assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset. Impairment loss is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount, increasing the individual asset's or cash generating unit's carrying amount to its estimated recoverable amount. The reversal of an impairment loss of an individual asset or cash generating unit cannot exceed the carrying amount of the individual asset or cash generating unit, less any depreciation or amortization, had it not recognized an impairment loss.

(m) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(n) Revenue

Revenue is measured based on the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. The Company recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The accounting policies for the Company’ s main types of revenue are explained below.

(i) Sale of goods

The Company recognizes revenue when control of the products has been transferred. When the products are delivered to the customer, the ownership of the significant risks and rewards of the products have been transferred to the customer, and the Company is no longer engaged with the management of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer.

At the time of sale, the Company renders the standard warranty stated in the agreement, which is recognized as a provision for warranty.

A receivable is recognized when the goods are delivered, as this is the point in time that the Company has a right to an amount of consideration that is unconditional.

(ii) Services

The Company provides maintenance services and improvement of old machines, and revenue is recognized when it satisfies a performance obligation by transferring control of a service to a customer.

(o) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognized asset is limited to the total of the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Company. An economic benefit is available to the Company if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss.

Remeasurements of the net defined benefit liability (asset), which comprise (1) actuarial gains and losses, (2) the return on plan assets (excluding interest) and (3) the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Company can reclassify the amounts recognized in other comprehensive income to retained earnings.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(p) Income tax

Income tax expenses include both current taxes and deferred income taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred income taxes shall be recognized in profit or loss.

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years.

Deferred income taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred income taxes shall not be recognized for the below exceptions:

(i) Assets and liabilities that are initially recognized but are not related to the business combination and have no effect on net income or taxable gains (losses) during the transaction.

(ii) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.

(iii) Initial recognition of goodwill.

Deferred income tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and liabilities may be offset against each other if the following criteria are met:

(i) The entity has the legal right to settle tax assets and liabilities on a net basis; and

(ii) The taxing of deferred income tax assets and liabilities fulfill one of the below scenarios:

1) levied by the same taxing authority; or

2) levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

A deferred income tax asset should be recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits, and deductible temporary differences shall also be reevaluated every year on the financial reporting date, adjusted based on the probability that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized.

(Continued)

(q) Earnings per share

The Company discloses the Company's basic and diluted earnings per share attributable to ordinary equity holders of the Company. The calculation of basic earnings per share is based on the profit attributable to the ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding. The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of the Company, divided by the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares. The weighted average number of common shares outstanding is adjusted retroactively for the increase in common shares outstanding from stock issuance arising from the capitalization of retained earnings, or additional paid in capital.

When computing diluted earnings per share with regards to employee bonuses in the form of stock, the closing price at the balance sheet date is used as the basis of computation in the number of shares to be issued. When computing diluted earnings per share prior to the following year's Board of Directors the effect of dilution from these potential stocks is taken into consideration.

(r) Operating segments

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Company). Operating results of the operating segment are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance.

(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty

The preparation of the financial statements in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the next period.

There are no critical judgments in applying the accounting policies that have significant effect on the amounts recognized in the financial statements.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is valuation of inventories.

As inventories are stated at the lower of cost or net realizable value, the Company estimates the net realizable value of inventories for obsolescence and unmarketable items at the end of the reporting period and then writes down the cost of inventories to net realizable value. The net realizable value is subject to market price fluctuations and market demands after the reporting date.

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(6) Explanation of significant accounts

(a) Cash and cash equivalents

	December 31, 2019	December 31, 2018
Cash on hand	$ 810	821
Saving deposits	108,260	266,792
Checking deposits	-	500
Foreign currency deposits	147,525	138,702
Time deposits	221,955	1,234,130
Cash and cash equivalents per statements of cash flow	$ 478,550	1,640,945

The expiry date of three months to a year on deposit satisfy the highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short term cash commitments rather than for investment or other purposes.

Please refer to note 6(s) for the interest rate risk and the fair value sensitivity analysis of the financial assets and liabilities of the Company.

(b) Notes, accounts and long-term accounts receivable

	December 31, 2019	December 31, 2018
Notes receivable	$ 45	1,837
Accounts receivable	870,133	905,145
Receivables from related parties	186,977	152,397
Long-term accounts receivable	231,192	81,776
Long-term accounts receivable from related parties	155,892	59,750
Less: allowance for impairment	7,370	12,382
unrealized interest income	829	1,445
	$ 1,436,040	1,187,078

The Company applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected credit loss provision for all receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward-looking information. After evaluating, there were no credit losses because counter parties to the Company's account and long-term receivables from related parties were all the subsidiaries. The expected credit losses from the Company's non-related parties were determined as follows:

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Notes to the Parent Company Only Financial Statements

	December 31, 2019		
	Gross carrying amount	Weighted-average expected credit loss rate	Loss allowance provision
Current	$ 832,947	0%	-
1 to 90 days past due	116,351	0.331%	385
91 to 180 days past due	106,159	1.755%	1,863
181 to 270 days past due	41,378	5.331%	2,206
271 to 365 days past due	2,716	58.339%	1,584
Past due over 365 days	1,332	100.000%	1,332
	$ 1,100,883		7,370

	December 31, 2018		
	Gross carrying amount	Weighted-average expected credit loss rate	Loss allowance provision
Current	$ 679,844	0%	-
1 to 90 days past due	231,929	0.069%	161
91 to 180 days past due	47,064	0.965%	454
181 to 270 days past due	7,854	2.901%	228
271 to 365 days past due	16,473	41.096%	6,770
Past due over 365 days	4,769	100.000%	4,769
	$ 987,933		12,382

The movement in the allowance for accounts receivable was as follows:

	2019	2018
Balance on January 1, 2019 and 2018	$ 12,382	3,674
Impairment losses recognized (reversed)	(1,772)	8,708
Amounts written off	(3,240)	-
Balance on December 31, 2019 and 2018	$ 7,370	12,382

The Company does not hold any collateral for the collected amounts.

The carrying amounts of notes and accounts receivable with short maturity are not discounted under the assumption that the carrying amount approximates the fair value.

MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Notes to the Parent Company Only Financial Statements

(c) Inventories

The components of the Company's inventories were as follows:

	December 31, 2019	December 31, 2018
Merchandise and finished goods	$ 101,796	42,346
Work in process	81,921	48,853
Raw material	179,402	133,524
	$ 363,119	224,723

The Company's inventories were not provided as pledged assets.

Except for operating costs arising from the ordinary sale of inventories, other gains and losses directly recorded under operating cost were as follows:

	2019	2018
Losses on decline in market value and scrapping of inventory	$ 6,096	22,081
Gains on physical count	(195)	(89)
	$ 5,901	21,992

(d) Investments accounted for using equity method

The investments accounted for using equity method on the balance sheets date were as follows:

	December 31, 2019	December 31, 2018
Subsidiaries	$ 164,557	85,091

Credit balance on the investments accounted for using equity method:

	December 31, 2019	December 31, 2018
Subsidiaries	$ 16,698	-

Please refer to Consolidated Financial Statements in 2019.

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Buildings	Machinery equipment	Other equipment	Construction in progress	Total

(e) Financial assets at fair value through profit or loss — non-current

	December 31, 2019	December 31, 2018
Mandatorily measured at fair value through profit or loss:		
Unlisted stocks (domestic) — Yayatech Co., Ltd.	$ 9,644	9,644

(f) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Company were as follows:

	Buildings	Machinery equipment	Other equipment	Construction in progress	Total
Cost:					
Balance as of January 1, 2019	$ 203,624	4,357	9,144	27,874	244,999
Additions	17,722	515	7,673	14,477	40,387
Reclassification	12,923	-	-	(14,356)	(1,433)
Disposals	-	(622)	(2,666)	-	(3,288)
Balance as of December 31, 2019	$ 234,269	4,250	14,151	27,995	280,665
Balance as of January 1, 2018	$ 204,561	3,957	9,339	-	217,857
Additions	-	2,700	1,622	27,874	32,196
Disposals	(937)	(2,300)	(1,817)	-	(5,054)
Balance as of December 31, 2018	$ 203,624	4,357	9,144	27,874	244,999
Depreciation and impairment losses:					
Balance as of January 1, 2019	$ 23,314	1,162	4,938	-	29,414
Depreciation	7,382	778	2,115	-	10,275
Disposals	-	(622)	(2,643)	-	(3,265)
Balance as of December 31, 2019	$ 30,696	1,318	4,410	-	36,424
Balance as of January 1, 2018	$ 18,530	3,141	4,859	-	26,530
Depreciation	4,898	321	1,772	-	6,991
Disposals	(114)	(2,300)	(1,693)	-	(4,107)
Balance as of December 31, 2018	$ 23,314	1,162	4,938	-	29,414
Carrying amounts:					
December 31, 2019	$ 203,573	2,932	9,741	27,995	244,241
January 1, 2018	$ 186,031	816	4,480	-	191,327
December 31, 2018	$ 180,310	3,195	4,206	27,874	215,585

(Continued)

(g) Right-of-use assets

The Company leases assets including land and buildings, and transportation equipment. Information about leases for which the Group as a lessee is presented below:

	Land and buildings	Other equipment	Total
Cost:			
Balance at January 1, 2019	$ -	-	-
Effects of retrospective application	62,107	8,161	70,268
Balance at January 1, 2019	62,107	8,161	70,268
Additions	37,487	4,390	41,877
Lease modification	(5,532)	-	(5,532)
Balance at December 31, 2019	$ 94,062	12,551	106,613
Accumulated depreciation and impairment losses:			
Balance at January 1, 2019	$ -	-	-
Depreciation	3,396	4,294	7,690
Balance at December 31, 2019	$ 3,396	4,294	7,690
Carrying value:			
December 31, 2019	$ 90,666	8,257	98,923

The Company leases the land under an operating lease for the year ended December 31, 2018, please refer to note 6(k).

(Continued)

(h) Intangible assets

The cost, amortization and impairment loss of intangible assets were as follows:

		Industrial capital contribution	Computer software expense	Total
Cost:				
Balance as of January 1, 2019 (Balance as of December 31, 2019)	$	16,000	1,100	17,100
Balance as of January 1, 2018 (Balance as of December 31, 2018)	$	16,000	1,100	17,100
Amortization and impairment loss:				
Balance as of January 1, 2019	$	16,000	797	16,797
Amortization		-	110	110
Balance as of December 31, 2019	$	16,000	907	16,907
Balance as of January 1, 2018	$	15,847	687	16,534
Amortization		153	110	263
Balance as of December 31, 2018	$	16,000	797	16,797
Carrying amounts:				
December 31, 2019	$	-	193	193
December 31, 2018	$	-	303	303
January 1, 2018	$	153	413	566

(i) The amortization of intangible assets were follows:

		2019	2018
Operating expenses	$	110	263

(ii) Impairment Loss

The Company recognized an impairment loss of $4,000 thousand after assessing the recoverable amount of the intangible asset (the technology capital contributed by the shareholders of the Company) on December 31, 2018. The intangible asset has been amortized for the year ended December 31, 2018.

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(i) Lease liabilities

The Company's lease liabilities were as follow:

	December 31, 2019
Current	$ 10,602
Non-current	$ 89,564

For the maturity analysis, please refer to note 6(s).

The amounts recognized in profit or loss were as follows:

	2019
Interest on lease liabilities	$ 1,853
Expenses relating to short-term leases	$ 5,488
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	$ 785

The amounts recognized in the statement of cash flows for the Company was as follows:

	2019
Total cash outflow for leases	$ 14,573

(j) Provisions

	Warranties
January 1, 2019	$ 45,353
Provisions used during the year	(11,529)
Provisions reversal during the year	(21,699)
December 31, 2019	$ 12,125
January 1, 2018	$ 20,188
Provisions made during the year	32,983
Provisions used during the year	(7,818)
December 31, 2018	$ 45,353

The provision for warranties relates mainly to the machinery equipment sold. The provision is based on estimates made from historical warranty data associated with similar products and services. The Company expects to settle the majority of the liability over the next year.

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(k) Operating leases

The Company rented the land located in the Hsinchu Science Park on July 1 2013 from the Hsinchu Science Park Bureau for a period ending on May 31, 2019, and renewed the contract on June 1, 2019. As of December 31, 2019 and 2018, the Company provided deposit of $1,720 thousand and $1,683 thousand as a deposit (recorded under other non-current assets), respectively. Non-cancellable operating lease rentals payable were as follows:

	December 31, 2018
Less than one year	$ 700

For the year ended December 31, 2018, the total lease costs and expenses recognized in profit or loss were $1,680 thousand.

(l) Employee benefits

(i) Defined benefit plans

The following table shows a reconciliation between the present value of the defined benefit obligation and the fair value of plan assets:

	December 31, 2019	December 31, 2018
The present value of the defined benefit obligations	$ 13,679	12,549
Fair value of plan assets	(3,250)	(3,052)
The net defined benefit liability	$ 10,429	9,497

The Company established the pension fund account for the defined benefit plan in Bank of Taiwan. The plan, under the Labor Standards Law, provides benefits based on an employee's length of service and average monthly salary for the six-month period prior to retirement.

1) Composition of plan assets

The Company allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds, Ministry of Labors. With regard to the utilization of the funds, minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with interest rates offered by local banks.

The Company's Bank of Taiwan labor pension reserve account balance amounted to $3,250 thousand at the end of the reporting period. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labors.

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

2) Movements in present value of the defined benefit obligations

The movements in present value of the Company's defined benefit obligation were as follows:

		2019	2018
Defined benefit obligation at 1 January	$	12,549	11,595
Current interest		173	188
Remeasurements of the net defined benefit liability			
—Due to changes in financial assumption of actuarial (losses) gains		957	766
Defined benefit obligation at December 31	$	13,679	12,549

3) Movement of the defined benefit plan assets

The movements in the fair value of the defined benefit plan assets for the Company were as follows:

		2019	2018
Fair value of plan assets at January 1	$	3,052	2,838
Interest revenue		43	47
Remeasurements of the net defined benefit liability			
—Return on plan assets excluding the interest income		94	68
Contributions made		61	99
Fair value of plan assets, December 31	$	3,250	3,052

4) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the Company were as follows:

		2019	2018
Net interest on the defined benefit liability	$	130	141

		2019	2018
Operating costs	$	24	38
Selling expenses		9	15
Research and development expenses		97	88
	$	130	141

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

5) Remeasurement of the net defined benefit liability recognized in other comprehensive income

The Company's remeasurement of the net defined benefit liability recognized in other comprehensive income were as follows:

		2019	2018
Cumulative amount at January 1	$	5,653	4,955
Recognized during the period		863	698
Cumulative amount at December 31	$	6,516	5,653

6) Actuarial assumptions

The following were the Company's principal actuarial assumptions at the reporting dates:

	2019.12.31	2018.12.31
Discount rate	1.125%	1.375%
Future salary increases rate	3.000%	3.000%

The Company expects to make contributions of $8 thousand to its defined benefit plans in the following year starting from the reporting date of 2019.

The weighted average duration of the defined benefit plans is 15.62 years.

7) Sensitivity analysis

As of December 31, 2019 and 2018, the present value of the defined benefit obligation were as follow:

		The impact of defined benefit obligation	
		Increase 0.25%	Decrease 0.25%
December 31, 2019			
Discount rate	$	(414)	432
Future salary increase rate		416	(401)
December 31, 2018			
Discount rate		(395)	412
Future salary increase rate		398	(383)

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions remain constant, would have affected the defined benefit obligation by the amounts shown above. The method used in the sensitivity analysis is consistent with the calculation of pension liabilities in the balance sheets.

There were no change in the method and assumptions used in the preparation of sensitivity analysis for 2019 and 2018.

(ii) Defined contribution plans

The Company makes monthly contributions equal 6% of each employee's monthly wages to the labor pension personal account at the Bureau of the Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Company contributes a fixed amount to the Bureau of the Labor Insurance without additional legal or constructive obligations.

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Company's pension costs under the defined contribution plan were $9,808 thousand and $7,623 thousand for 2019 and 2018, respectively. Payment was made to the Bureau of the Labor Insurance and the local authorities of the consolidated overseas subsidiaries.

(m) Income tax

(i) Income tax expenses

The amount of income tax were as follows:

		2019	2018
Current income tax expense			
Current period incurred	$	194,020	317,571
Adjustment for prior periods		(1,826)	3,092
		192,194	320,663
Deferred tax expense			
Origination and reversal of temporary differences		(12,491)	(8,618)
Adjustment of tax rates		-	(2,332)
		(12,491)	(10,950)
Income tax expenses	$	179,703	309,713

The amount of income tax recognized in other comprehensive income were as follows:

		2019	2018
Items that will not be reclassified subsequently to profit or loss:			
Financial statements translation differences for foreign operations	$	63	226

Reconciliation of income tax expenses and profit before income tax were as follows:

		2019	2018
Profit before income tax	$	1,032,302	1,606,115
Income tax using the Company's domestic tax rate	$	206,461	321,222
Adjustments according to tax law		(1,572)	(1,961)
Adjustment of tax rates		-	(2,332)
Tax treaty rewards		(23,583)	(10,240)
Adjustments for prior years income tax		(1,826)	3,092
Previously overestimate (underestimate) deferred tax assets		223	(68)
Total	$	179,703	309,713

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(ii) Deferred tax assets and liabilities—Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities were as follows:

Deferred tax assets:

		Provisions	Loss from investment using equity method	Allowance for inventory valuation	Other	Total
Balance at January 1, 2019	$	9,070	3,108	9,433	4,075	25,686
Recognized in profit or loss		(6,645)	12,636	103	5,617	11,711
Recognized in other comprehensive income		-	-	-	63	63
Balance at December 31, 2019	$	2,425	15,744	9,536	9,755	37,460
Balance at January 1, 2018	$	3,432	886	4,264	5,148	13,730
Recognized in profit or loss		5,638	2,222	5,169	(1,299)	11,730
Recognized in other comprehensive income		-	-	-	226	226
Balance at December 31, 2018	$	9,070	3,108	9,433	4,075	25,686

Deferred tax liabilities:

		Unrealized exchange gain
Balance at January 1, 2019	$	780
Recognized in profit or loss		(780)
Balance at December 31, 2019		-
Balance at January 1, 2018		-
Recognized in profit or loss		780
Balance at December 31, 2018		780

(iii) Examination and Approval

The ROC income tax authorities have examined the Company's income tax returns through 2017.

(n) Capital and other equity

(i) Ordinary shares

As of December 31, 2019 and 2018, the total value of nominal ordinary shares amounted to \$500,000 thousand, with a par value of \$10 per share, of which 42,608 thousand shares were issued. All issued shares were paid up upon issuance.

(ii) Capital surplus

In accordance with the ROC Company Act, realized capital reserves can only be reclassified as share capital or distributed as cash dividends after offsetting losses. The aforementioned capital reserves include share premiums and donation gains. In accordance with the Securities Offering and Issuance Guidelines, the amount of capital reserves to be reclassified under share capital shall not exceed 10% of the actual share capital amount.

(iii) Retained earnings

In accordance with the Company's Articles of Incorporation amended on May 29, 2019, if the Company makes a profit in each semi fiscal year, the profit shall be first utilized for paying taxes, estimating employee remuneration, offsetting losses of previous years, and setting aside 10% of the remaining profit as legal reserve, until the legal reserve is equal to the paid in capital. Then any remaining profit, together with any undistributed retained earnings, shall be distributed according to the distribution plan proposed by the Board of Directors. Distribution in cash shall have the approval from the Board of Directors. Whereas if it is in shares, it shall have to be proposed by the Board of Directors during the shareholders' meeting for approval.

If the Company makes a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, and setting aside 10% of the remaining profit as legal reserve, until the legal reserve is equal to the paid in capital. Then any remaining profit, together with any undistributed retained earnings, shall be distributed according to the distribution plan proposed by the Board of Directors. Whereas if it is in shares, it shall have to be proposed by the Board of Directors during the shareholders' meeting for approval.

In accordance with ROC Company Article 240, the Company authorizes the distributable dividends and bonuses in whole or in part may be paid in cash after a resolution has been adopted by a majority vote at a meeting of the Board of Directors attended by two-thirds of the total number of directors, and in addition, there to a report of such distribution shall be submitted to the shareholders' meeting.

1) Legal reserve

According to the Company Act, 10% of net income after tax should be set aside as legal reserve until it is equal to authorized capital. If the Company experienced profit for the year, the distribution of the statutory earnings reserve, either by new shares or by cash, shall be decided at the shareholders meeting, and the distribution amount is limited to the portion of legal reserve which exceeds 25% of the paid-in capital.

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

2) Special reserve

In accordance with Ruling No.1010012865 issued by the Financial Supervisory Commission on 6 April 2012, a portion of current period earnings and undistributed prior period earnings shall be reclassified as a special earnings reserve during earnings distribution. The amount to be reclassified should equal to the current period total net reduction of other shareholders' equity. Similarly, a portion of undistributed prior period earnings shall be reclassified as a special earnings reserve (and does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

3) Earnings distribution

The appropriations of 2018 and 2017 earnings as dividends to stockholders that were approved by the Company's shareholders during their meetings on May 29, 2019 and 2018, respectively, were as follows:

	2018		2017	
	Amount per share (NTD)	**Total Amount**	**Amount per share (NTD)**	**Total Amount**
Dividends distributed to ordinary stockholders:				
Cash (earnings)	$ 27.00	1,150,422	10.00	426,082

(o) Earnings per share

The calculation of the Company's basic and diluted earnings per share were as follows:

(i) Basic earnings per share

	2019	2018
Net income attributable to ordinary shareholders of the Company	$ 852,599	1,296,402
Weighted-average number of ordinary shares	42,608	42,608
Basic earnings per share (in NTD)	$ 20.01	30.43

(ii) Diluted earnings per share

	2019	2018
Net income attributable to ordinary shareholders of the Company (diluted)	$ 852,599	1,296,402
Weighted-average number of ordinary shares (basic)	42,608	42,608
Effect of potential ordinary shares		
Employee's stock bonus	318	451
Weighted-average number of ordinary shares (diluted)	42,926	43,059
Diluted earnings per share (in NTD)	$ 19.86	30.11

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Notes to the Parent Company Only Financial Statements

(p) Revenue from contracts with customers

(i) Disaggregation of revenue

		2019	2018
Primary geographical markets:			
Taiwan	$	638,151	1,515,628
China		1,594,248	1,273,048
Others		125,900	207,103
	$	2,358,299	2,995,779
Primary merchandises / Services lines:			
Sale of optical inspection machinery equipment	$	2,283,028	2,943,144
Revenue from services		75,271	52,635
	$	2,358,299	2,995,779

(ii) Contract balance

		December 31, 2019	December 31, 2018	January 1, 2018
Notes receivable	$	13,709	18,379	2,953
Accounts receivable (including related parties)		1,189,257	1,088,717	712,622
Long-term accounts receivable(including related parties)		230,705	80,951	16,064
Less: allowance for impairment		7,421	12,520	3,674
Total	$	1,426,250	1,175,527	727,965
Contract liabilities	$	13,594	82,716	18,214

For details on accounts receivable and allowance for impairment, please refer to note 6(b).

The amount of revenue recognized for the years ended December 31, 2019 and 2018 that were included in the contract liability balance at the beginning of the period were $81,798 thousand and $18,166 thousand, respectively.

The contract liability is mainly due to advance receipts, wherein the Company will recognize revenue when the product is delivered to the customer.

(q) Remuneration to employees, directors and supervisors

In accordance with the Company's Articles, the profit for the year should be reserved to offset the deficit, then, should contribute no less than 5% of the profit as employee remuneration, and less than 3% as directors' and supervisors' remuneration.

MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Notes to the Parent Company Only Financial Statements

For the years ended December 31, 2019 and 2018, the Company estimated its employee remuneration amounting to $97,368 thousand and $161,623 thousand, and directors' and supervisors' remuneration amounting to $17,931 thousand and $32,037 thousand, respectively. The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the remuneration to employees, directors and supervisors of each period, multiplied by the percentage of remuneration to employees, directors and supervisors as specified in the Company's articles. These remunerations were expensed under operating costs or operating expenses during 2019 and 2018. Related information would be available at the Market Observation Post System website. The amounts, as stated in the financial statements, are identical to those of the actual distributions for 2019 and 2018.

(r) Non-operating income and expenses

(i) Other income

		2019	2018
Interest income	$	6,467	6,386
Dividend income		1,326	-
Others		22,350	2,467
Total Other income	$	30,143	8,853

(ii) Other gains and losses

		2019	2018
Gains (losses) on disposals of property, plant and equipment	$	120	(727)
Gains on disposals of investments		-	906
Foreign exchange gains (losses)		(29,785)	28,643
Others		(272)	(364)
Other gains and losses, net	$	(29,937)	28,458

(iii) Finance costs

		2019	2018
Interest expense	$	1,853	-

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Notes to the Parent Company Only Financial Statements

(s) Financial instruments

(i) Credit risk

1) Exposure to credit risk

The carrying amount of financial assets represents the maximum amount exposed to credit risk.

2) Concentration of credit risk

The business of the customer of the Company is the manufacturing of the printed circuit board. As of December 31, 2019 and 2018, the accounts receivable that concentration of credit risk on an individual customer amounted to $140,556 thousand and $176,157 thousand, respectively.

(ii) Liquidity risk

The following table shows the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

	Carrying amount	Contractual cash flows	Within a year	1-5 years	Over 5 years
December 31, 2019					
Non-derivative financial liabilities					
Notes payable	$ 993	993	993	-	-
Accounts payable	344,092	344,092	344,092	-	-
Accounts payable from related parties	31,789	31,789	31,789	-	-
Other payables	54,030	54,030	54,030	-	-
Other payables from related parties	58,358	58,358	58,358	-	-
Lease liabilities	100,166	123,491	10,602	29,225	83,664
	$ 589,428	612,753	499,864	29,225	83,664
December 31, 2018					
Non-derivative financial liabilities					
Notes payable	$ 1,358	1,358	1,358	-	-
Accounts payable	300,035	300,035	300,035	-	-
Accounts payable from related parties	25,947	25,947	25,947	-	-
Other payables	105,122	105,122	105,122	-	-
Other payables from related parties	37,059	37,059	37,059	-	-
	$ 469,521	469,521	469,521	-	-

The Company is not expecting the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

(iii) Currency risk

1) Exposure to foreign currency risk

The Company's financial assets and liabilities exposed to significant currency risk was as follows:

	Foreign currency	Exchange rate	NTD
December 31, 2019			
Financial assets:			
Monetary items:			
USD	$ 37,833	30.0360	1,136,356
CNY	$ 71,779	4.3100	309,366
Financial liabilities:			
Monetary items:			
USD	$ 2,154	30.0360	64,698
CNY	$ 10,696	4.3100	46,100
December 31, 2018			
Financial assets:			
Monetary items:			
USD	$ 27,942	30.7100	858,114
JPY	$ 87,286	0.2783	24,292
CNY	$ 49,529	4.4700	221,393
Financial liabilities:			
Monetary items:			
USD	$ 3,507	30.7100	107,694
CNY	$ 5,585	4.4700	24,965

2) Sensitivity analysis

The Company's exposure to foreign currency risk arises from the translation of foreign currency exchange gains and losses on cash and cash equivalents, receivables, accounts payables that are denominated in foreign currency. A weakening or strengthening 3% appreciation or depreciation of the NTD against the USD and CNY as of December 31, 2019 and 2018, would have increased or decreased the net profit after tax by $32,038 thousand and $23,307 thousand, respectively. The analysis is performed on the same basis for both periods.

3) Foreign exchange gain and loss on monetary item

Since the Company has many kinds of functional currencies, the information on foreign exchange gains (loss) on monetary items is disclosed based on the total amount. For the years ended December 31, 2019 and 2018, foreign exchange gains (losses) (including realized and unrealized portion) amounted to $(29,785) thousand and $28,643 thousand.

(Continued)

(iv) Interest rate analysis

The detail of interest rate exposure was as follows:

	Carrying amount	
	December 31, 2019	**December 31, 2018**
Assets with variable interest rates converted to cash:		
Cash in banks	$ 477,740	1,639,624

The following sensitivity analysis is based on the risk exposure of the interest rate on derivative and non-derivative financial instruments on the reporting date. Regarding liabilities with variable interest rates, the analysis is on the basis of the assumption that the amount of liabilities outstanding at the reporting date was outstanding throughout the year. The rate of change is expressed as the interest rate increases or decreases by 1% when reporting to management internally, which also represents the management of the Company's assessment on the reasonably possible interval of interest rate change.

If the interest rate had increased or decreased by 1%, the Company's net income before tax would have increase or decrease by $3,822 thousand and $13,117 thousand for the years ended December 31, 2019 and 2018, respectively, with all other variable factors remain constant.

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Notes to the Parent Company Only Financial Statements

(v) Information of fair value

1) Categories and fair value of financial instruments

Except for the followings, carrying amount of the Company's financial assets and liabilities are valuated approximately to their fair value, and are not based on observable market date and the value measurements which are not reliable. No additional fair value disclosure is required in accordance to the regulations.

	December 31, 2019				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Financial assets mandatorily measured at fair value through profit or loss	$ 9,644	-	-	9,644	9,644
Financial assets measured at amortized cost					
Cash and cash equivalents	478,550	-	-	-	-
Accounts, notes and long-term receivables(including related parites)	1,436,040	-	-	-	-
Other payables from related parties	25,667	-	-	-	-
Refundable deposits	9,716	-	-	-	-
Other non-current assets	7,401	-	-	-	-
Subtotal	1,957,374	-	-	-	-
Total	$ 1,967,018	-	-	9,644	9,644
Financial liabilities measured at amortized cost					
Notes payable	$ 993	-	-	-	-
Accounts payable	344,092	-	-	-	-
Accounts payable from related parties	31,789	-	-	-	-
Other payables	54,030	-	-	-	-
Other payables from related parties	58,358	-	-	-	-
Lease liabilities	100,166	-	-	-	-
Total	$ 589,428	-	-	-	-

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Notes to the Parent Company Only Financial Statements

	December 31, 2019				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Financial assets mandatorily measured at fair value through profit or loss	$ 9,644	-	-	9,644	9,644
Financial assets measured at amortized cost					
Cash and cash equivalents	1,640,945	-	-	-	-
Accounts, notes and long-term receivables	1,187,078	-	-	-	-
Other payables from related parties	3,809	-	-	-	-
Refundable deposits	4,005	-	-	-	-
Other non-current assets	2,189	-	-	-	-
Subtotal	2,838,026	-	-	-	-
Total	$ 2,847,670	-	-	9,644	9,644
Financial liabilities measured at amortized cost					
Notes payable	$ 1,358	-	-	-	-
Accounts payable	300,035	-	-	-	-
Accounts payable from related parties	25,947	-	-	-	-
Other payables	105,122	-	-	-	-
Other payables from related parties	37,059	-	-	-	-
Total	$ 469,521	-	-	-	-

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Notes to the Parent Company Only Financial Statements

2) Valuation techniques for financial instruments measured at fair value—Non-derivative financial instruments

A financial instrument is regarded as being quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's-length basis. Whether transactions are taking place 'regularly' is a matter of judgment and depends on the facts and circumstances of the market for the instrument.

Quoted market prices may not be indicative of the fair value of an instrument if the activity in the market is infrequent, the market is not well-established, only small volumes are traded, or bid-ask spreads are very wide. Determining whether a market is active involves judgment.

If the financial instruments have no quoted market price in an active market, the Company shall use the market comparison approach to evaluate the fair value. The main assumption used in computing the market price is based on the investee' s equity and the quoted price from a competitor. The estimated price has been discounted due to the lack of liquidity in the price of securities .

3) Fair value hierarchy

The Company used the fair value that can be observed in the market to measure the value of assets and liabilities. Fair value levels are based on the degree in which the fair value can be observed and grouped in to Levels 1 to 3 as follows:

a) Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.

b) Level 2: inputs, other than the 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).

c) Level 3: inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

4) Reconciliation of Level 3 fair values

	Unquoted equity instruments
Balance at January 1, 2019 (Balance at December 31, 2019)	$ 9,644
Balance at January 1, 2018 (Balance at Balance at December 31, 2018)	$ 9,644

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Notes to the Parent Company Only Financial Statements

5) Quantified information on significant unobservable inputs (Level 3) used in fair value measurement

Item	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Financial assets at fair value through profit or loss— Equity investments without an active market	Comparative listed company	• Price book ratio (As of December 31, 2019 and December 31, 2018 were 2.6 and 3.79, respectively) • P/E ratio (As of December 31, 2019 and December 31, 2018 were 11.77 and 12.47, respectively) • Market illiquidity discount rate (As of December 31, 2019 were 30% and 20%, respectively)	The estimated fair value would increase (decrease) if • the price book ratio and the P/E ratio the were higher (lower) • the market illiquidity discount were lower (higher)

6) Fair value measurements in Level 3 — sensitivity analysis of reasonably possible alternative assumptions

For fair value measurements in Level 3, changing one or more of the assumptions would have the following effects on profit or loss and other comprehensive income:

			Other comprehensive income	
	Input	Assumptions	Favorable	Unfavorable
December 31, 2019				
Financial assets at fair value through profit or loss				
Equity investments without an active market	Market illiquidity discount rate	10%	3,917	(3,917)
December 31, 2018				
Financial assets at fair value through profit or loss				
Equity investments without an active market	Market illiquidity discount rate	10%	1,368	(1,368)

The favorable and unfavorable effects represent the changes in fair value, and the fair value is based on a variety of unobservable inputs calculated using a valuation technique.

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Notes to the Parent Company Only Financial Statements

(t) Financial risk management

(i) Overview

The Company has exposures to the following risks from its financial instruments:

1) Credit risk

2) Liquidity risk

3) Market risk

This note has the information on risk exposure and the objectives, policies and process of risk measurement and management. For detailed information, please refer to the related note on each risk.

(ii) Risk management framework

The Board of Directors has the overall responsibility for the establishment and oversight of the risk management framework. The chairman and the general manager are responsible for developing and monitoring the Company's risk management policies and report regularly to the Board of Directors on its activities.

The Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Board of Directors.

(iii) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investments securities.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, the management also considers the demographics of the Company's customer base, including the default risk of the industry and the country in which customers operate, as these factors may have an influence on credit risk.

The Company's receivables are mainly due to one customer, which account for 10% and 15% of the total amount of receivables as of December 31, 2019 and 2018, respectively. The Company's receivables are concentrated on the industry type of the printed circuit board manufacturers.

The Company has established a credit policy, under which, each new customer is analyzed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered.

If the Company retains the rights to the products that have already been sold, the Company shall also have the right to require collateral if payment has not been received. The Company does not require any collateral for receivables.

(Continued)

The Company has established an allowance of doubtful accounts to reflect actual and estimated potential losses resulting from uncollectible account and trade receivables. The allowance of doubtful accounts consists primarily of specific losses regarding individual customers and estimates of potential losses based on statistics from payment histories of similar customer groups.

(iv) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company aims to maintain the level of its cash and cash equivalents at an amount in excess of the expected cash flows on operating expenses and financial liabilities. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. The Company has unused short term bank facilities of $1,000,000 thousand and $365,355 thousand, as of December 31, 2019 and 2018, respectively.

(v) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rate, and equity prices which will affect the Company's income or the value of its holding of financial instrument. The objective of market risk management is to manage and control market risk exposure within acceptable parameters while optimizing the return.

The Company does not enter into any commodity contracts other than to meet the Company's expected usage and sales requirements.

(u) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. Capital consists of ordinary shares, capital surplus and retained earnings of the Company. The Board of Directors monitors the return on capital, as well as the level of dividends to ordinary shareholders.

The Company's debt-to-adjusted-capital ratio at the end of the reporting period was as follows:

	December 31, 2019	December 31, 2018
Total liabilities	$ 989,191	1,198,539
Less: cash and cash equivalents	478,550	1,640,945
Net debt	$ 510,641	(442,406)
Total equity	$ 1,909,900	2,210,152
Debt-to-capital ratio	26.74%	- %

As of December 31, 2019, there was no change in the Company's approach of capital management.

(Continued)

(v) Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities arising from financing activities was as follows:

	January 1, 2019	Cash flows	Non-cash changes: Acquisition right-of-use assets	Lease modifications	Interest	December 31, 2019
Lease liabilities	$ 70,268	(8,300)	41,877	(5,532)	1,853	100,166
Total liabilities from financing activities	$ 70,268	(8,300)	41,877	(5,532)	1,853	100,166

(7) Related party transactions

(a) Parent Company and the ultimate controller

The Company is the ultimate controller of the Company and its subsidiaries.

(b) Related party name and categories

Related parties with transactions containing the financial statement period to the Company were as follows:

Related Party Name	Related Party Categories
Machvision (Dongguan) Inc.	A subsidiary of the Company
Machvision Inc.	A subsidiary of the Company
Autovision Technology Inc.	A subsidiary of the Company
Sigold Optics Inc.	A subsidiary of the Company
ChipAI Co., LTD.	A subsidiary of the Company
MiM Tech. Inc.	A subsidiary of the Company
RedPay Co., Ltd.	A subsidiary of the Company
Machvision Korea Co., Ltd.	A subsidiary of the Company
Guandong Greatsense Intelligent Equipment Co., Ltd.	A subsidiary of the Company

(c) Significant transaction between related parties

(i) Operating revenue

Significant sales amount to the related parties was as follows:

	2019	2018
Subsidiaries	$ 191,893	179,631

Sales price to the subsidiaries depends on the Group overall profit allocation and its credit period depends on the end customer's credit period. There was no significantly difference. Receivables between related parties were not provided to be as any collateral. After evaluating, there is no allowance for impairment.

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Notes to the Parent Company Only Financial Statements

(ii) Purchases

Significant purchases amount to the related parties was as follows:

	2019	2018
Subsidiaries	$ 11,916	8,249

Purchases from related parties were not comparable to third parties because there were according to the customized specification. The terms of purchases to related parties were not significantly different from those of purchases to third parties.

(iii) Service

The Company authorized related parties to research and develop products, which were recorded under operating costs:

	2019	2018
Subsidiaries		
Sigold Optics Inc.	$ 27,706	28,354

(iv) Administrative service and revenue from research and development

The Company was authorized to provide administrative services, research and development services. Revenue from above services and subleasing offices were recorded under non operating income and expenses-other:

	2019	2018
Subsidiaries		
Sigold Optics Inc.	$ 7,220	$ 458
RedPay Co., Ltd.	4,190	-
ChipAI Co., LTD.	4,833	-
Others	255	-
	$ 16,498	458

(v) Receivables from related parties

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Notes to the Parent Company Only Financial Statements

The Company's receivables from related parties were as follows:

Items	Related Party Categories	December 31, 2019	December 31, 2018
	Subsidiaries		
Receivables from related parties	Machvision (Dongguan) Inc.	$ 148,056	127,311
Receivables from related parties	Others	38,921	25,086
	Subsidiaries		
Long term receivables from related parties	Machvision (Dongguan) Inc.	151,262	59,130
Long term receivables from related parties	Others	4,288	-
	Subsidiaries		
Other receivables from related parties	Machvision (Dongguan) Inc.	6,221	3,715
Other receivables from related parties	RedPay Co., Ltd.	5,183	-
Other receivables from related parties	ChipAI Co., LTD.	4,948	-
Other receivables from related parties	Sigold Optics Inc.	9,133	-
Other receivables from related parties	Others	182	94
		$ 368,194	215,336

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Notes to the Parent Company Only Financial Statements

(vi) Payable to related parties

The Company's payable to related parties were as follows:

Items	Related Party Categories	December 31, 2019	December 31, 2018
Payable to related parties	Subsidiaries	$ 31,789	25,947
Other payable to related parties	Subsidiaries Machvision (Dongguan) Inc.	58,358	37,059
		$ 90,147	63,006

(d) Compensation of key management personnel:

The compensation of the key management personnel comprised follows:

	2019	2018
Short-term employee benefits	$ 91,799	56,394
Post-employment benefits	222	228
	$ 92,021	56,622

(8) Pledged assets

The carrying values of pledged assets were as follows:

Pledged assets	Object	December 31, 2019	December 31, 2018
Other non-current assets:			
Time deposits	Guarantee for customs	$ 1,509	506
Time deposits	Guarantee for rent the land from the Hsinchu Science Park Bureau	5,892	1,683
		$ 7,401	2,189

(9) Commitments and contingencies: None.

(10) Losses Due to Major Disasters: None.

(11) Subsequent Events: None.

MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Notes to the Parent Company Only Financial Statements

(12) Other

The following is a summary statement of employee benefits, depreciation and amortization expensed by function:

By function / By item	2019 Operating costs	2019 Operating expenses	2019 Total	2018 Operating costs	2018 Operating expenses	2018 Total
Employee benefits						
Salary	77,119	217,114	294,233	85,786	257,703	343,489
Labor and health insurance	8,021	10,361	18,382	6,382	7,883	14,265
Pension	4,266	5,672	9,938	2,973	4,791	7,764
Directors' remuneration	-	17,931	17,931	-	32,037	32,037
Others	10,769	19,155	29,924	12,684	19,224	31,908
Depreciation	7,472	10,493	17,965	3,946	3,045	6,991
Amortization	-	110	110	-	263	263

Additional information in 2019 and 2018 is as follows:

	2019	2018
Employee number	254	219
Non-employee directors	7	7
Average employee benefits	$ 1,427	1,875
Average salaries	$ 1,191	1,620
Average adjustment in salaries	(26.48)%	

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Parent Company Only Financial Statements

(13) Other disclosures

(a) Information on significant transactions:

The following is the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the Company:

(i) Loans to other parties: None.

(ii) Guarantees and endorsements for other parties: None.

(iii) Securities held as of December 31, 2019 (excluding investment in subsidiaries, associates and joint ventures):

Name of holder	Nature and name of security	Relationship with the security issuer	Account name	Ending balance				Maximum investment in 2019	Notes
				Number of shares	Book value	Holding percentage	Market value		
The Company	Yayatech Co., Ltd.	-	Financial assets at fair value through profit or loss	884,000	9,644	5 %	9,644	9,644	

(iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT$300 million or 20% of the capital stock: None.

(v) Acquisition of individual real estate with amount exceeding the lower of NT$300 million or 20% of the capital stock: None.

(vi) Disposal of individual real estate with amount exceeding the lower of NT$300 million or 20% of the capital stock: None.

(vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT$300 million or 20% of the capital stock:

Name of company	Counter-party	Relationship	Transaction details				Arm's-length transaction		Account / note receivable (payable)		Remarks
			Purchase / Sale	Amount	Percentage of total purchases / sales	Credit period	Unit price	Credit period	Balance	Percentage of total accounts / notes receivable (payable)	
The Company	Machvision (Dongguan) Inc.	Subsidiary	(Sale)	(154,629)	(7.00) %	Depends on the end customer's credit period	Not significantly differences	Depends on the end customer's credit period	299,318	21%	

(viii) Receivables from related parties with amounts exceeding the lower of NT$100 million or 20% of the capital stock:

Name of related party	Counter-party	Relationship	Balance of receivables from related party (note 3)	Turnover rate	Past-due receivables from related party		Subsequently received amount of receivable from related party	Allowance for bad debts
					Amount	Action taken		
The Company	Machvision (Dongguan) Inc.	Subsidiary	299,318	0.64	151,745	Depends on the end customer's credit period	- (Until February 5, 2020)	-

(ix) Trading in derivative instruments: None.

(b) Information on investees:

The following is the information on investees for the years ended December 31, 2019 (excluding information on investees in Mainland China):

Name of investor	Name of investee	Address	Scope of business	Original cost		Ending balance			Net income of investee	Investment income (losses) (Note 2)	Notes
				December 31, 2019	December 31, 2018	Shares	Percentage of ownership	Book value			
The Company	Machvision Inc.	Samoa	Investment	62,422	50,114	2,003,440	100.00%	(16,698)	(56,315)	(56,315)	Note 1
The Company	Machvision Holding (Samoa) Limited	Samoa	Investment	22,992	-	1,600,000	100.00%	30,726	9,067	9,067	Note 1
The Company	Autovision Technology Inc.	Taiwan	Manufacturing of computer peripheral products	9,000	2,250	900,000	45.00%	10,331	1,756	790	
The Company	Sigold Optics Inc.	Taiwan	Manufacturing of machinery equipment	49,470	49,470	5,540,640	49.47%	65,385	17,845	8,828	
The Company	Machvision Korea Co., Ltd.	Korea	Maintaining and trading of machinery equipment	21,542	-	10,000	100.00%	14,075	(6,581)	(6,581)	
The Company	ChipAI Co., LTD.	Taiwan	Manufacturing of computer peripheral products	18,000	-	1,800,000	90.00%	13,297	(5,225)	(4,703)	
The Company	MiM Tech. Inc.	Taiwan	Manufacturing of computer peripheral products	24,244	-	836,000	40.98%	23,334	(5,892)	(910)	
The Company	RedPay Co., Ltd.	Taiwan	Manufacturing of computer peripheral products	10,000	-	500,000	50.00%	7,409	(5,183)	(2,591)	

Note 1: The company is a limited company.

Note 2: The investment income was recognized under the equity method and based on the financial statements audited by the auditor of the Company.

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES
Notes to the Parent Company Only Financial Statements

(c) Information on investment in mainland China:

(i) The names of investees in Mainland China, the main businesses and products, and other information:

Name of investee investment in Mainland China	Major operations	Issued capital	Method of investment (Note 1)	Beginning remittance balance - cumulative investment (amount) from Taiwan	Current remittance / recoverable investment (amount)		Ending remittance balance-cumulative investment (amount) from Taiwan	Net income of investee	Direct / indirect shareholdings or investments (%) in the Company	Current investment gains and losses (Note 2)	Book value	Remittance of investment income in current period
					Invested amount	Returned amount						
Machvision (Dongguan) Inc.	Maintaining and trading of machinery equipment	62,350	(2)i	50,042	12,308	-	62,350	(56,315)	100%	(56,315)	(13,050)	-
Guandong Greatsense Intelligent Equipment Co., Ltd.	Maintaining and trading of machinery equipment	45,155	(2)ii	-	22,992	-	22,992	17,778	51%	9,067	30,726	-

Note 1: The method of investment is divided into the following four categories:

(1) Remittance from third region companies to invest in Mainland China.

(2) Through the establishment of third region companies then investing in Mainland China.

i. Through the establishment of Machvision Inc. then investing in Mainland China.

ii. Through the establishment of Machvision Holding (Samoa) Limited then investing in Mainland China.

(3) Through transferring the investment to third region existing companies then investing in Mainland China.

(4) Other methods: EX: delegated investments.

Note 2: The investment income was recognized under the equity method and based on the financial statements audited by the auditor of the Company.

(Continued)

MACHVISION INC. CO., LTD. AND SUBSIDIARIES

Notes to the Parent Company Only Financial Statements

(ii) Limitation on investment in Mainland China:

Company name	Accumulated investment amount in Mainland China as of December 31, 2019	Investment (amount) approved by Investment Commission, Ministry of Economic Affairs	Maximum investment amount set by Investment Commission, Ministry of Economic Affairs
The Company	85,342	110,642	1,145,940(Note)

Note: It represents 60% of the Company's net equity.

(iii) Significant transactions:

Please refer to "Business relationships and significant intercompany transaction" for the indirect and direct business transactions in China.

(14) Segment information:

Please refer to the consolidated financial statements in 2019.

MACHVISION INC. CO., LTD.
Statement of cash and cash equivalents
December 31, 2019
(In thousands of New Taiwan Dollar)

Item	Description	Amount
Cash		$ 810
Cash in banks	Demand deposits	108,260
	Foreign currency deposits	
	USD 3,473 thousand	104,325
	CNY 9,771 thousand	42,132
	JPY 3,060 thousand	847
	HKD 57 thousand	221
	Time deposits (From 2020.01.03 to 2020.12.05, interest rates at 0.60%-2.12%)	
	NTD	94,280
	USD	127,675
Total		$ 478,550

MACHVISION INC. CO., LTD.
Statement of notes receivable
December 31, 2019
(In thousands of New Taiwan Dollar)

Client name	Description	Amount	Note
Non-related party			
5M00656	Operating	$ 41	
5M00094	Operating	4	
		$ 45	

MACHVISION INC. CO., LTD.
Statement of Accounts receivable, net
December 31, 2019
(In thousands of New Taiwan Dollar)

Client name	Description	Amount	Note
Related Party			
Machvision (Dongguan) Inc.	Operating	$ 148,056	
Sigold Optics Inc.	"	35,280	
Guandong Greatsense Intelligent Equipment Co., Ltd.	"	3,356	
Machvision Korea Co., Ltd.	"	285	
		186,977	
Non-related party			
Group E	Operating	123,625	
Group B	"	122,057	
Group C	"	92,035	
Group G	"	80,860	
Others (The amount of individual group in others does not exceed 5% of the account balance)	"	451,556	
		870,133	
Less: Allowance for credit impairment loss		7,370	
		862,763	
Total		$ 1,049,740	

MACHVISION INC. CO., LTD.
Statement of inventories
December 31, 2019
(In thousands of New Taiwan Dollar)

Item	Amount		Note
	Cost	Net realizable value	
Finished goods	$ 112,841	$ 322,469	1
Work in process	88,925	81,921	"
Raw materials	209,034	179,402	"
Total	410,800	$ 583,792	
Less: Allowance for losses on decline in market value of inventory	47,681		
	$ 363,119		

Note 1: Market value is measured at net realizable value.

MACHVISION INC. CO., LTD.
Statement of prepayments
December 31, 2019
(In thousands of New Taiwan Dollar)

Item	Description	Amount	Note
Prepayment for purchases		$ 4,429	
Prepaid expenses		9,004	
		$ 13,433	

MACHVISION INC. CO., LTD.
Statement of other current assets
December 31, 2019
(In thousands of New Taiwan Dollar)

Item	Description	Amount	Note
Interests receivable		$ 19	
Overpaid sales tax		10,128	
		$ 10,147	

MACHVISION INC. CO., LTD.
Statement of changes in financial assets measured at fair value through profit or loss - non-current
For the year ended December 31, 2019
(In thousands of New Taiwan Dollar)

Name of financial instrument	Beginning balance		Addition		Decrease		Ending balance		Collateral	Note
	Shares or units	Fair value	Shares or units	Amount	Shares or units	Amount	Shares or units	Fair value		
Yayatech Co., Ltd.	884	$ 9,644	-	-	-	-	884	$ 9,644	NA	

MACHVISION INC. CO., LTD.
Statement of changes in investments accounted for using the equity method
For the year ended December 31, 2019
(In thousands of New Taiwan Dollar)

Name of investee	Beginning balance		Addition		Decrease		Ending balance			Market value or net assets value		Collateral	Note
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Percentage of ownership	Amount	Unit price	Total amount		
Autovision Technology Inc.	225,000	$ 2,791	675,000	7,540	-	-	900,000	45.00	10,331	11.48	10,331	NA	1
Sigold Optics Inc.	4,947,000	56,557	593,640	8,828	-	-	5,540,640	49.47	65,385	13.22	65,385	NA	2
ChipAI Co., LTD.	-	-	1,800,000	13,297	-	-	1,800,000	90.00	13,297	7.39	13,297	NA	3
MiM Tech. Inc.	-	-	836,000	23,334	-	-	836,000	40.98	23,334	27.91	23,334	NA	4
RedBay Co., Ltd.	-	-	500,000	7,409	-	-	500,000	50.00	7,409	14.82	7,409	NA	5
Machvision Korea Co., Ltd.	-	-	10,000	14,075	-	-	10,000	100.00	14,075	1,407.48	14,075	NA	6
Machvision Holding Inc.	-		1,600,000	30,726	-	-	1,600,000	100.00	30,726	19.20	30,726	NA	7
SAMOA Machvision Inc.	1,607,276	25,743	396,164	12,308	-	54,749	2,003,440	100.00	(16,698)	(6.41)	(12,850)	NA	8 & 9
		$ 85,091		117,517		54,749			147,859		151,707		

Note 1: Including investment 6,750 thousand and investment income recognized under equity method 790 thousand.

Note 2: Including investment income recognized under equity method 8,828 thousand.

Note 3: Including investment 18,000 thousand and investment loss recognized under equity method (4,703) thousand.

Note 4: Including investment 24,244 thousand and investment loss recognized under equity method (910) thousand.

Note 5: Including investment 10,000 thousand and investment loss recognized under equity method (2,591) thousand.

Note 6: Including investment 21,542 thousand, investment loss recognized under equity method (6,581) thousand and financial statements translation differences for foreign operations (886) thousand.

Note 7: Including investment 22,992 thousand, investment income recognized under equity method 9,067 thousand and financial statements translation differences for foreign operations (1,333) thousand.

Note 8: Addition includes investment 12,308 thousand.

Note 9: Decrease includes investment loss recognized under equity method (56,315) thousand, financial statements translation differences for foreign operations 570 thousand and unrealized gain from sale 996 thousand.

MACHVISION INC. CO., LTD.
Statement of other non-current assets
December 31, 2019
(In thousands of New Taiwan Dollar)

Item	Description	Amount	Note
Restricted deposit		$ 7,401	

MACHVISION INC. CO., LTD.
Statement of Accounts payable
December 31, 2019
(In thousands of New Taiwan Dollar)

Client name	Description	Amount	Note
Non-related party			
1M0019	Operating	$ 36,792	
1M1284	"	21,634	
1M1529	"	33,220	
Others (The amount of individual group in others does not exceed 5% of the account balance)	"	252,446	
Total		$ 344,092	

MACHVISION INC. CO., LTD.
Statement of other payables
December 31, 2019
(In thousands of New Taiwan Dollar)

Item	Description	Amount	Note
Payable for salaries and bonuses		$ 141,977	
Accrued profit sharing bonus to employees and compensation to directors		115,299	
Payable for commission		42,883	
Payable for unpaid leave		6,278	
Other		71,424	
Total		$ 377,861	

MACHVISION INC. CO., LTD.
Statement of other current liabilities
December 31, 2019
(In thousands of New Taiwan Dollar)

Item	Description	Amount	Note
Receipts under custody		$ 5,006	
Temporary receipts		14	
Total		$ 5,020	

MACHVISION INC. CO., LTD.
Statement of net revenue
For the year ended December 31, 2019
(In thousands of New Taiwan Dollar)

Item	Quantity	Amount	Note
Optical inspection machinery equipment	-	$ 2,283,028	1
Other	-	75,271	
		$ 2,358,299	

Note 1: Including sales returns and discounts 20,766 thousand.

MACHVISION INC. CO., LTD.
Statement of operating costs
For the year ended December 31, 2019
(In thousands of New Taiwan Dollar)

Item	Amount	
	Subtotal	Total
Direct raw materials		
Beginning of year	$ 159,246	
Add: Purchases	795,733	
Gains on physical count	191	
Deduct: End of year	209,034	
Selling	38,942	
Scrapped	1,789	
Other	20,610	
Subtotal	684,795	
Direct labor	39,821	
Manufacturing expenses	55,378	
Manufacturing cost	779,994	
Add: Work-in -process inventory, beginning of year	53,294	
Purchases and outsourced manufacturing of work-in -process inventory	9,636	
Gains on physical count (Work-in-process inventory)	4	
Deduct: Work-in process inventory, end of year	88,925	
Selling work-in process inventory	11,258	
Scrapped work-in -process inventory	85	
Other	4,983	
Cost of finished goods	737,677	
Add: Finished goods, beginning of year	59,345	
Deduct: Finished goods, end of year	112,841	
Scrapped finished goods	3,704	
Total cost of sales		680,477
Selling raw materials		38,942
Selling work-in process inventory		11,258
Gains on physical count		(195)
Losses on decline in market value and scrapping of inventory Purchases		6,096
Warranty provisions		(21,699)
Other		106,986
Total operating costs		$ 821,865

MACHVISION INC. CO., LTD.
Statement of selling expenses
For the year ended December 31, 2019
(In thousands of New Taiwan Dollar)

Item	Description	Amount	Note
Salaries		$ 50,064	
Travelling expenses		6,043	
Commission		58,341	
Export fee		12,501	
Other		29,802	
		$ 156,751	

MACHVISION INC. CO., LTD.
Statement of administrative expenses
For the year ended December 31, 2019
(In thousands of New Taiwan Dollar)

Item	Description	Amount	Note
Salaries		$ 38,948	
Remuneration to directors		17,931	
Employee benefits		6,148	
Professional service fee		9,034	
Other		33,408	
		$ 105,469	

MACHVISION INC. CO., LTD.
Statement of research and development expenses
For the year ended December 31, 2019
(In thousands of New Taiwan Dollar)

Item	Description	Amount	Note
Salaries		$ 133,773	
Employee benefits		6,508	
Insurance		6,070	
Travelling expenses		9,007	
R & D expenses		19,137	
Professional service fee		1,431	
Other		14,692	
		$ 190,618	

Statement of changes in property, plant and equipment please see the financial statements note 6(f).

Statement of changes in accumulated depreciation of property, plant and equipment please see the financial statements note 6(f).

Statements of changes in right-of-use assets please see the financial statements note 6(g).

Statement of changes in accumulated depreciation of right-of-use assets please sees the financial statements note 6(g).

Statements of changes in intangible assets please see the financial statements note 6(h).

6.6 The company and its related companies have recently and until the annual report date, if there is any financial turnover, the impact on the company's financial status should be listed: None.

6.7 Other disclosures: None.

7 Review and analysis of financial conditions, operating results and risk issues

7.1 Financial situation

Unit: NT$ Thousand

Item \ Year	2018	2019	Difference	
			Amount	%
Current assets	3,109,382	2,355,216	(754,166)	(24.25)
Financial assets at fair value through profit or loss-non-current	9,644	9,644	0	0.00
Property, plant and equipment	238,607	267,915	29,308	12.28
Intangible assets	303	8,898	8,595	2836.63
Other non-current assets	114,111	402,318	288,207	252.57
Total assets	3,472,047	3,043,991	(428,056)	(12.33)
Current liabilities	1,190,439	895,309	(295,130)	(24.79)
Non-current liabilities	10,277	105,864	95,587	930.11
Total liabilities	1,200,716	1,001,173	(199,543)	(16.62)
Ordinary shares	426,082	426,082	0	0.00
Capital surplus	59,492	59,512	20	0.03
Retained earnings	1,727,535	1,428,849	(298,686)	(17.29)
Other equity interest	(2,957)	(4,543)	(1,586)	53.64
Total equity	2,271,331	2,042,818	(228,513)	(10.06)

Note 1: Analytical basis: the change rate is more than 20%, and the change amount is more than NTD$10 million.

Analysis descriptions:

1. The decrease in current assets was due to the decrease in cash and cash equivalents.
2. The increase in other non-current assets was due to recognized the right-of-use assetof IFRS 16 which implementing from Jan. 1,2019.
3. The decrease in total assets was due to the decrease in cash and cash equivalents.
4.The decrease in current liabilities was due to the decrease in current tax liability.
5. The increase in non-current liabilities was due to recognizedthe lease liabilities on IFRS 16 which applying from Jan. 1,2019.
6. The decrease in retained earnings was due to the decrease in net income.

7.2 Financial performance

7.2.1 Comparative analysis of business results

Unit: NT$ Thousand

Item \ Year	2018	2019	Increase (decrease) amount	Change ratio (%)
Operating income	3,111,876	2,543,441	(568,435)	(18.27)
Operating cost	945,194	904,519	(40,675)	(4.30)
Operating gross profit	2,166,682	1,638,922	(527,760)	(24.36)
Operating expenses	582,530	568,425	(14,105)	(2.42)
Operating net profit	1,584,152	1,070,497	(513,655)	(32.42)
Non-operating income and expenses	38,072	(17,884)	(55,956)	(146.97)
Continuous operate dept. pre-tax net profit	1,622,224	1,052,613	(569,611)	(35.11)
Less: income tax expense	314,507	185,744	(128,763)	(40.94)
Current net profit	1,307,717	866,869	(440,848)	(33.71)
Other comprehensive profit and loss	(1,148)	(3,802)	(2,654)	231.18
Total consolidated profit and loss in this period	1,306,569	863,067	(443,502)	(33.94)

Note 1: Analytical benchmark: the change ratio before and after is more than 20% and the change amount is more than NTD$10 million.

Analysis descriptions:

1. Operating income, operating costs, and decrease in operating gross profit: due to the decline of year 2019 sales results, operating income, operating costs, and operating margin decreased compared with the previous period.
2. Operating net profit, net profit before tax, and decrease in net profit in this period: due to the decline of year 2019 sales results.
3. Non-operating income and expenses: Foreign exchange loss which makes non-operating income and expenses decrease compared with previous period.
4. Income tax decrease: due to the decline of year 2019 sales results.
5. The decrease in the total comprehensive profit and loss of current period: due to the decline of year 2019 sales results.

7.2.2 The expected sales volume and its basis in next year, the possible impact on the company's future financial business and corresponding plan:

This company's testing equipment for flexible and regular PCB and carrier boards continues to develop new products, it is actively responding to the sales model of the whole plant as "test one-stop shopping", so the sales volume is expected to grow.

7.3 Cash flow

7.3.1 Analysis of recent annual cash flow changes (analytical basis: those before and after increase or decrease ratio is 20% or more)

Unit: NT$ Thousand

Year / Item	2018	2019	Increase (decrease) ratio
Cash flow ratio (%)	123.81	17.10	-86.19%
Cash equivalent flow rate (%)	181.22	94.78	-47.70%
Cash reinvestment ratio (%)	46.75	-53.91	-215.32%
Analysis of the change in the proportion of the increase and decrease in previous period: 1. decrease in cash flow ratio and cash equivalent flow ratio: due to lower net cash flow from operating activities in 2019. 2. decrease in cash reinvestment ratio: due to the decrease in net cash flow from operating activities in this year compared to last year.			

7.3.2 Analysis of the improvement of liquidity deficiency: at present, there is no shortage of liquidity; if cash is insufficient, it will be treated by bank financing and capital increase by cash.

7.3.3 Analysis of cash liquidity in the coming year:

Unit: NT$ Thousand

Initial cash balance	Net cash flow from operating activities throughout the year	Annual cash outflow	Cash remaining amount	Remedial measures for insufficient cash	
				Investment plan	Financial plan
741,899	130,000	(650,000)	261,899	0	Capital increase by cash…etc
Analysis of changes of cash flow in next year (2020): (1) Operating activities: net cash inflow is approximately NTD$130,000 thousands which was mainly due to the growth of company's operations. Investing activities: net cash outflow from investment activities in the whole year was approximately NTD$150,000 thousands which was mainly due to related					

expenses such as long-term equity investment and capital expenditure. Financing activities: net cash outflow from financing activities in the whole year was approximately NTD$500,000 thousands, which was mainly due to the payment of dividends. (2) Remedial measures and liquidity analysis for cash shortfalls: the Company expects to use capital increase by cash to enrich working capital to meet the needs of operational growth, it will help long-term financial stability and strengthen the flexibility of capital utilization; and the company can increase enough long-term funds to support the future development of optical inspection equipment business, and enhance the overall operational competitiveness, and can enhance the financial structure and reduce liquidity risk.

7.4 Impact of recent major capital expenditures on financial operations

(1) The application of major capital expenditures and sources of funds: None.

(2) Expected income may be generated: None.

7.5 The most recent annual investment policy, the main reason for its profit or loss, the improvement plan and the investment plan for next year

Unit: NT$ Thousand

Description / Item	Policy	Amount	Main reason for profit or loss	Improvement plan
Samoa MACHVISION INC.	General investment business	(56,315)	Mainly due to the profitability of the investment in Machvision (Dongguan) Testing Equipment Co., Ltd.	-
MACHVISION HOLDING (SAMOA) LIMITED	General investment business	9,067	Mainly due to the profitability of the investment in GUANGDONG GREATSENSE INTELLIGENT EQUIPMENT CO., LTD	-
Machvision Korea Co., Ltd.	Close to market	(6,581)	Actively expand market and control costs.	-
Autovision Technology Inc.	Investment in various businesses	790	Actively expand market and control costs.	-

Sigold Optics Inc.	Investment in various businesses	8,828	Actively expand market and control costs.	-
ChipAI Co., LTD.	Investment in various businesses	(4,703)	Actively expand market and control costs.	-
MIM TECH. INC.	Investment in various businesses	(910)	Actively expand market and control costs.	-
RedPay Co., LTD.	Investment in various businesses	(2,591)	Actively expand market and control costs.	-
Machvision (Dongguan) Testing Equipment Co., Ltd.	Close to market	(56,315)	Actively expand market and control costs.	-
GUANGDONG GREATSENSE INTELLIGENT EQUIPMENT CO., LTD	Close to market	9,067	Actively expand market and control costs.	-

7.6 Risk matters should be analyzed and evaluated in the most recent year and as of the date of publication of the annual report

7.6.1 Risk management policy

(1) The Company manages all potential risks such as strategic, operational, financial and hazardous risks that may affect operations and profitability in active and cost-effective manner.

(2) In the event of risk management, notify superior supervisors, auditors, general manager, chairman and the company's directors and supervisor of the board of directors.

(3) Conduct a pre-assessment risk assessment of the strategic operations by general manager's office, and conduct performance tracking of the operations after the event, so that the company's strategy can meet the vision and achieve the company's operational objectives.

(4) The company has established relevant measures such as “Internal control system”, “Internal audit implementation rules” and “Self-evaluation procedures for internal control systems of the company”, according to each measure, it is

implemented to control the risks, and the heads of various departments closely monitor the related risks, through the risk assessment by the audit department, continue to control and check above risk items. If a major violation is discovered or the company has suffered significant damage, the report is immediately made and notify supervisors, and the board of directors meeting must be convened immediately.

7.6.2 Organization and management of risk management

(1) Board of Directors: the board of directors is the highest unit of company's risk management. It aims to promote and implement the company's overall risk management by following the laws and regulations, ensuring the effectiveness of risk management, and taking the ultimate responsibility of risk management.

(2) Finance Department: to build a highly efficient and high-quality financial platform to provide transparent and credible financial information, operational analysis and improvement solutions, with strict control, and appropriate tax planning, credit risk control and finance crisis prediction model that reduces corporate risk.

(3) Audit Department: based on risk-oriented annual audit plan, review the existence or potential risks of each operation, and be responsible for the revision and promotion of the internal control system to ensure the effective operation risk management of the company.

(4) Information Security Department: planning and improving the company's information management system, responsible for network information security control and protection measures, providing management with fast and effective operational management information to reduce information security risks.

(5) Each business unit: the heads of each business unit are responsible for the first-line risk management, responsible for analyzing and monitoring the related risks within units, and ensuring that the risk control mechanisms and procedures can be effectively implemented.

7.6.3 Strategic risk:

(1) The impact of important domestic and international policies and legal changes on the company's financial business and the corresponding measures:

The company always pays attention to the changes of important policies and laws at home and abroad and evaluates its impact on the company. The important changes in the laws relating to the operation of the Company are as follows:

The Financial Supervisory Committee of the Executive Yuan requested the listed companies to prepare financial reports follow the International Financial Reporting Standards, International Accounting Standards, Interpretations and Interpretations Announcement (IFRSs) since January 1, 2013, the company has set up a project group and adopted the IFRSs plan and regularly report the implementation to the company's board of directors. The potential impact of adopting IFRSs may include changing the accounting processes of some transactions and the way financial reports are expressed, the company will continue to pay attention to the impact of the amendment of IFRSs and the adjustment of relevant domestic supporting laws and regulations on the company, and in accordance with the provisions of year 2011 annual consolidated financial report and year 2012 mid-year and annual consolidated financial, explained the important contents and implementation of IFRSs program, and significant differences between IFRSs and current accounting policies.

The National Health Insurance Law, promulgated on January 26, 2011, provided the expansion of the premium base and the addition of the "Supplementary Premium" system. In the future, when the company issues bonuses for employees' compensation and non-recurring benefits, it will need to pay extra 2% of supplementary premium, which will increase the company's operating costs. The Company has fully considered the impact of this change on operating results and has made various relevant financial controls.

In the most recent year and up to the date of publication, apart from the above-mentioned laws and regulations, other relevant policies have no material impact on the financial operations of the company.

7.6.4 Operation risks:

(1) Expected benefits, possible risks and corresponding measures for mergers and acquisitions:

Since year 2019 till annual report on beginning of the year, the company did not have any risk of mergers and acquisitions.

(2) Expected benefits, possible risks and response measures for the expansion of factory:

Since year 2019 till annual report on beginning of the year, the company did not have the risk of expanding factory.

(3) Concentration risk of incoming goods and corresponding measures:

The company's procurement of important components, based on the necessity of supply, to maintain at least two suppliers. Although it has established long-term and good cooperative relations with various suppliers, in the supplier management method, the quality, delivery, price and synergy spirit of each supplier is regularly evaluated to ensure the stability of the company's purchase to avoid the risk of insufficient supply due to force majeure.

(4) Concentration risk of sales and related measures:

The company's main source of revenue is the sales and service revenue of mechanical vision inspection and measurement system products, the main products can be applied to a variety of PCB processes, as high-precision measurement or inspection applications, so the sales and use of customer layer distribution is very wide, there is no risk of concentration of sales.

7.6.5 Litigation or non-litigation event

(1) The company's recent two-year and up the publication of annual report, those who have been determined to be or are currently in the process of litigation, non-litigation or administrative litigation, those outcomes may have a significant impact on shareholders' equity or securities prices: none.
(2) Directors, supervisors of the board of directors, general manager, substantive principals, major shareholders and subordinate companies with shareholding ratio more than 10%, for lasttwo years and up to the date of publication of the prospectus, those who have been determined to determine or are currently in the system of litigation, non-litigation or administrative litigation, the results may have a significant impact on the company's shareholders' equity or securities prices: none.
(3) Directors, supervisors of the board of directors, general manager and major shareholders with shareholding ratio more than 10%, for lasttwo years and up to the date of publication of the prospectus, has the circumstances of the 157th article of the Securities Exchange Act and current company handle situation: none.

7.6.6 Risk of recruiting and retaining good employees

The growth and development of the company depends on the continuous service and contribution of senior executives and professional technical personnel. When the company needs to increase manpower demand in response to business growth, it may face the risk of failing to ensure timely filling of manpower requirements due to fierce competition in the human resource market. In view of this, the company provides a diversified and competitive salary system and is not afraid to share its long-term operational success with its colleagues. Therefore, the compensation committee of the board of directors of the Company has decided to adjust the company's compensation system and immediately distribute employee cash bonuses from the company's profits to attract and retain good employees. We believe that by sharing the results of our work with employees, we can not only encourage employees to continue their efforts, but also directly link employees' interests with shareholders' interests and create a win-win situation for the company, shareholders and employees.

7.6.7 Future projected expense inputs

Estimated investment in research and development in 2020: it is estimated that 10% to 15% of net operating income will be spent on research and development.

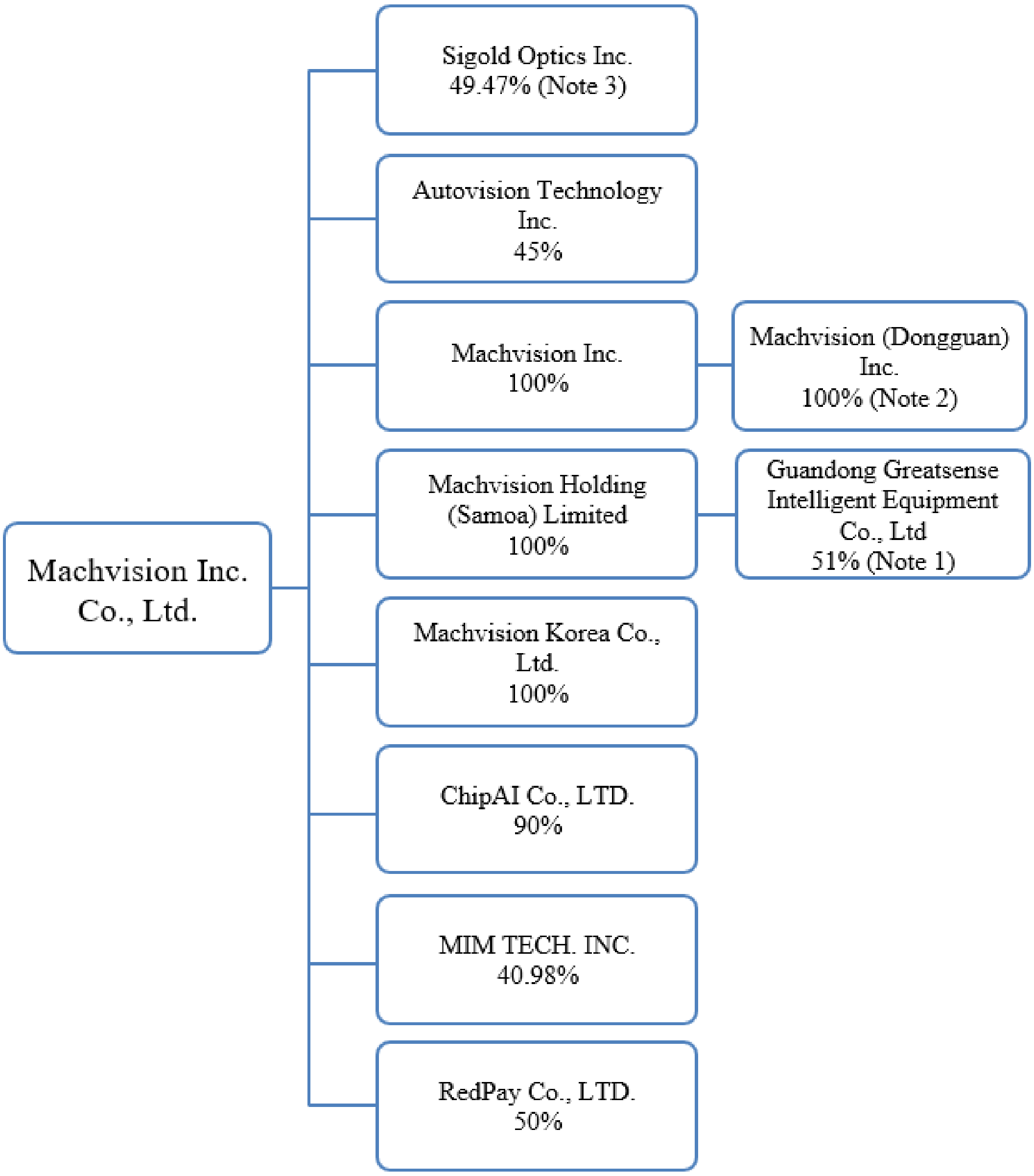
7.7 Other important matters: None.

8 Special items

8.1 Subsidiary companies related information

8.1.1 Subsidiaries Chart

As of 12/31/2019



Note1:Machvision Holding has sold the GuandongGreatsense Intelligent Equipment Co., Ltd in January 2020.

Note2: On March 2020, Dongguan muxin intelligent equipment Co., Ltd was established, a 51% owned subsidiary of Machvision (Dongguan) Inc.

Note3:On March 2020, SISSCA Co.,Ltd. was established, a 70% owned subsidiary of Sigold Optics Inc.

8.1.2 Presumed control and subordinated company according to Article 369 of the Company Law: None.

8.1.3 A subsidiary company that directly or indirectly controlled the personnel, finance or business operations by the Company in accordance with the second paragraph of Article 369 of the Company Law: None.

8.2 Basic information of each subsidiary company

Unit: NT$ Thousand

Company name	Setup date	Address	Paid-up Capital	Major business item
SamoaMachvision Inc.	12.09.04	Samoa	62,422	General investment business
Machvision (Dongguan) Inc.	06.02.05	China	62,350	Inspection machine equipment repair and wholesale
Machvision Holding	08.29.18	Samoa	22,992	General investment business
GuangongGreatsenseIntelligent Co., Ltd	03.15.19	China	45,155	Inspection machine equipment repair and wholesale
Autovision Inc.	04.07.15	Taiwan	20,000	Computer equipment, instrument manufacturing and wholesale
Sigold Optics Inc.	06.25.15	Taiwan	112,000	Mechanical equipment manufacturing
Machvision Korea Co., Ltd.	03.28.19	Korea	21,542	Equipment repair and wholesale
ChipAICo., Ltd	10.13.14	Taiwan	20,000	Computer equipment, instrument manufacturing and wholesale
MIM Tech Inc.	10.13.14	Taiwan	20,400	Computer equipment, instrument manufacturing and wholesale
Redpay Co., Ltd	10.09.19	Taiwan	14,030	Computer equipment, instrument manufacturing and wholesale

9 Presumed control and subordinated company according to Article 369 of the Company Law: None.

10 A subsidiary company that directly or indirectly controlled the personnel, finance or business operations by the Company in accordance with the second paragraph of Article 369 of the Company Law: None.

11 Information on directors, supervisors of the board of directors and general managers of various subsidiary companies:

Unit: Thousand shares; %

Name	Title	Name or representative	Holding shares	
			Number of shares	Shareholding ratio
Samoa MACHVISION INC.	Director	Machvision Inc. Co., Ltd. Representative: HUANG/CHIA-HSING	2,003,440	100%
Machvision (Dongguan) Testing Equipment Co., Ltd	Director	Machvision Inc. Co., Ltd. Representative: HUANG/CHIA-HSING	(Note 1)	100%
		Machvision Inc. Co., Ltd. Representative: WANG/GUANG-SHIAH		
		Machvision Inc. Co., Ltd. Representative: CHUANG/YUNG-SHUN		
	General manager	Machvision Inc. Co., Ltd. Representative: HUANG/CHIA-HSING		
Machvision Holding(Samoa) Limited	Director	Machvision Inc. Co., Ltd. Representative: HUANG/CHIA-HSING	1,600,000	100%
GuandongGreatsense Intelligent Equipment Co., Ltd	Chairman	Machvision Inc. Co., Ltd. Representative: CHEN/FU-SHEN	(Note 1)	51%
	General manager	Guangzhou Greatsense Inc. Representative: CHEN/FU-SHEN	(Note 1)	49%
Autovision Inc.	Director	Machvision Inc. Co., Ltd. Representative: WANG/GUANG-SHIAH	900,000	45%
		Machvision Inc. Co., Ltd. Representative: YU/MING-CHANG	900,000	45%
		LI/YUN-LAI	323,000	16.15%
	Supervisor	Machvision Inc. Co., Ltd. Representative: YAN/WEI-CHYUN	0	0
	General manager	LI/YUN-LAI	323,000	16.15%
Sigold Optics Inc.	Director	Machvision Inc. Co., Ltd. Representative: WANG/GUANG-SHIAH	5,540,640	49.47%
		Machvision Inc. Co., Ltd. Representative:	5,540,640	49.47%

		YAN/WEI-CHYUN		
		Jiuyuan Electronics Co., Ltd. Representative: CHEN/GUI-BIAO	2,688,000	24%
	Supervisor	CHEN/PEI-SHI	0	0
	General manager	Machvision Inc. Co., Ltd. Representative: CHEN/FU-SHEN	0	0
Machvision Korea Co., Ltd	Chairman	Machvision Inc. Co., Ltd. Representative: CHEN/FU-SHEN	10,000	100%
ChipAICo., Ltd	Director	Machvision Inc. Co., Ltd. Representative: CHEN/FU-SHEN	1,800,000	90.00%
		Machvision Inc. Co., Ltd. Representative: YU/MING-CHANG	1,800,000	90.00%
		Machvision Inc. Co., Ltd. Representative: TSAI/SHIANG-WEN	1,800,000	90.00%
	Supervisor	LING/GUO-LONG	0	0
	General manager	Machvision Inc. Co., Ltd. Representative: CHEN/FU-SHEN	1,800,000	90.00%
MIM Tech Inc.	Director	Machvision Inc. Co., Ltd. Representative: CHEN/FU-SHEN	836,000	40.98%
		Machvision Inc. Co., Ltd. Representative: YAN/WEI-CHYUN	836,000	40.98%
		YEH/CHUN-WEI	380,000	18.63%
	Supervisor	CHEN/LI-YEH	50,000	2.45%
	General manager	YEH/CHUN-WEI	380,000	18.63%
Redpay Co., Ltd	Director	Machvision Inc. Co., Ltd. Representative: CHEN/FU-SHEN	500,000	50.00%
		Machvision Inc. Co., Ltd. Representative: YAN/WEI-CHYUN	500,000	50.00%
		CHANG/KUANG-CHEN	300,000	30.00%
	Supervisor	CHANG/YUNG-YANG	0	0
	General manager	Machvision Inc. Co., Ltd. Representative: CHEN/FU-SHEN	500,000	50.00%

Note 1: It’s limited company

12 Overview of subsidiary company's business operations

Unit: NT$ thousands, except EPS (NT$) as of 12/31/2019

Company name	Capital Stock	Assets	Liabilities	Net Worth	Net Revenue	Income (Loss) from Operation	Net Income (Loss)	Basic Earnings(Loss) Per Share
Samoa Machvision Inc.	62,422	0	13,050	(13,050)	0	0	(56,315)	NA
Machvision (Dongguan) Inc.	62,350	352,794	365,644	(12,850)	257,118	(55,099)	(56,315)	NA
Machvision Holding	22,992	30,726	0	30,726	0	0	9,067	NA
GuangongGreatsense Intelligent Co., Ltd	45,155	103,599	43,352	60,247	71,182	17,826	17,778	NA
Autovision Inc.	20,000	27,312	4,354	22,958	10,369	2,239	1,756	0.88
Sigold Optics Inc.	112,000	193,584	61,414	132,170	86,762	21,856	17,845	1.59
Machvision Korea Co., Ltd.	21,542	18,762	4,687	14,075	1,417	(6,538)	(6,581)	NA
ChipAI Co., Ltd	20,000	19,907	5,132	14,775	0	(5,227)	(5,225)	(2.61)
MIM Tech Inc.	20,400	36,755	1,057	35,698	347	(2,239)	(5,892)	(2.89)
Redpay Co., Ltd	14,030	14,030	5,183	8,847	0	(5,183)	(5,183)	(5.18)

13 Subsidiary companies consolidated business report: please refer to pages 107 to 163. The entities that are required to be included in the combined financial statements of Machvision Inc. Co., Ltd. as of and for the year ended December 31, 2019 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the

consolidated financial statements. Consequently, Machvision Inc. Co., Ltd. and Subsidiaries do not prepare a separate set of combined financial statements.

14 Relationship Report: Not applicable

A. In the most recent year and the printing of annual report, the issue of private equity securities conditions: None.

B. The most recent year till the date of printing of the annual report, subsidiary companies hold or disposes of company's stock conditions: None.

C. Other necessary supplementary notes: None.

9　In the most recent year and up to the date of printing of the annual report, if there is a significant impact on shareholders' equity or securities price as stipulated in the second paragraph of Article 36, paragraph 3 of the Securities Exchange Act: None.