

Chaintech Technology Corp.

Parent Company Only Financial Statements and Independent Auditors'

Report

For the Years Ended December 31, 2019 and 2018

(Stock Code: 2425)

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Chaintech Technology Corp.  
Parent Company Only Financial Statements for the Years Ended December 31, 2019  
and 2018 and Independent Auditors' Report  
Table of Contents

<u>Contents</u>	<u>Page/Number/Index</u>
I. Cover	1
II. Table of Contents	2
III. Independent Auditors' Report	3 ~ 6
IV. Parent Company Only Balance Sheets	7 ~ 8
V. Parent Company Only Statements of Comprehensive Income	9
VI. Parent Company Only Statements of Changes in Equity	10
VII. Parent Company Only Statements of Cash Flows	11
VIII. Notes to the Parent Company Only Financial Statements	12 ~ 40
(I) Company History	12
(II) Approval Date and Procedures of the Parent Company Only Financial Statements	12
(III) Application of New and Amended Standards and Interpretations	12 ~ 14
(IV) Summary of Significant Accounting Policies	14 ~ 21
(V) Primary Sources of Uncertainties in Material Accounting Judgments, Estimates, and Assumptions	21
(VI) Descriptions of Material Accounting Items	21 ~ 31
(VII) Related Party Transactions	31 ~ 32
(VIII) Pledged Assets	32
(IX) Significant Contingent Liabilities and Unrecognized Contract Commitments	32
(X) Significant Disaster Loss	32
(XI) Significant Events after the End of the Financial Reporting Period	32
(XII) Others	33 ~ 39
(XIII) Supplementary Disclosures	39 ~ 40
(XIV) Segment Information	40
IX. List of Significant Accounting Subjects	
Cash Statement	Statement 1
Statement of Changes in Non-current Financial Assets at Fair Value through Other Comprehensive Income	Statement 2
Statement of Accounts Receivable	Statement 3
Inventory Breakdown	Statement 4
Statement of Changes in Investment Accounted for Using Equity Method	Statement 5
Statement of Accounts Payable	Statement 6
Statement of Operating Revenue	Statement 7
Statement of Operating Costs	Statement 8
Statement of Operating Expenses	Statement 9
Summary Statement of Current Period Employee Benefits, Depreciation, Depletion and Amortization Expenses by Function	Statement 10

Independent Auditors' Report  
(109)Financial Review Reference No.19004698

To Chaintech Technology Corp.,

**Audit Opinions**

The independent auditors have audited the accompanying parent company only balance sheets of Chaintech Technology Corp. as of December 31, 2019 and 2018, and the related parent company only statements of comprehensive income, parent company only statements of changes in equity, parent company only statements of cash flows, and notes to the parent company only financial statements (including summary of significant accounting policies) for the years ended December 31, 2019 and 2018.

In our opinions, the accompanying parent company only financial statements, in all material respects, give a true and fair view of the parent company only financial position of Chaintech Technology Corp. as of December 31, 2019 and 2018, and of its parent company only financial performance and its parent company only cash flows for the years then ended in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers."

**Basis for Audit Opinion**

For the parent company only financial statements for the year ended December 31, 2019, we conducted our audit in accordance with the "Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants," "Financial Supervisory Commission Letter Jin-Guan-Zheng-Shen-Zi No. 1090360805 dated February 25, 2020," and Generally Accepted Auditing Standards (GAAS) of the Republic of China. For the parent company only financial statements for the year ended December 31, 2018, we conducted our audit in accordance with the "Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants," and GAAS of the Republic of China. Our responsibility under such standards will be further explained in the section titled "Responsibilities of Certified Public Accountants for Auditing Parent Company Only Financial Statements." We are independent of Chaintech Technology Corp. in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to serve as the foundation of our audit opinion.

**Key Audit Matters**

Key audit matters refer to matters that, in our professional judgment, were of most significance in our audit of the Parent Company Only Financial Statements of Chaintech Technology Corp. for the year ended December 31, 2019. These matters were addressed in the context of our audit of the parent company only financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Parent Company Only Financial Statements of Chaintech Technology Corp. for the year ended December 31, 2019 are stated as follows:

## **Sales revenue cut-off**

### Description

Regarding the recognition of accounting policy for sales revenue, please refer to Note IV (XXIV) of the parent company only financial statements. For accounting description for sales revenue, please refer to Note VI (XIV) of the parent company only financial statements.

Chaintech Technology Corp. has engaged in the trading and manufacturing of computer peripherals. Sales turnover of goods is recognized when the goods are delivered out. However, the sales revenue will not be recognized until the customer take the delivery of goods and the transfer control has passed. Chaintech Technology Corp. mainly relies on the statements or other information provided by the depositary of the delivery warehouse, then uses the actual shipment made by the warehouse to the customer as the basis for recognizing the income.

The recognition of the turnover from the warehouse is based on the information and report provided by the depositary as the basis for recognizing the sales revenue. These revenue recognitions generally involve a large number of manual operations. Considering that the volume of the shipments of Chaintech Technology Corp. is large, and the amount of transaction before and after the financial statement date has a significant impact on the financial statements, the independent auditors have thus listed the sales revenue as the most important matter for this year's audit.

### Corresponding audit procedures

The independent auditors have performed the following key audit procedures for the matter mentioned above:

1. Understand revenue recognition and adjustment procedures for revenue cut-off for shipment from the depositary of warehouse of Chaintech Technology Corp. Then, inspect the appropriateness of the revenue's recognition from the warehouse, including understanding of the relevant internal control procedures, obtaining information and the statements provided by the depositary.
2. Carry out an internal control test for the sales revenue from the warehouse in order to make sure that Chaintech Technology Corp. determines the sales recognition when the customer receives the delivery of goods and the right of control is transferred.
3. Perform a closing test for sales revenue from delivery of warehouses for a certain period before and after the balance sheet date, including the verification of shipment certificates and that revenue recognition is recorded in the appropriate period.
4. Perform random checks on physical stock taking and on-site inventory observation in the warehouse and check if the inventory quantity on the record is correct.

## **Assessment of purchase price allocation**

### Description

Chaintech Technology Corp. acquired a 51% equity interest in Sitonholy (Tianjin) Technology Co., Ltd. through Shenzhen Jinghong Digital R&D Service Co., Ltd. at the amount of RMB 86,360 thousand (including contingent consideration of RMB 44,360 thousand).

This merger and acquisition (M&A) case was accounted for using the acquisition method. The purchase price was measured based on the purchase price allocation (PPA) report issued by Chaintech Technology Corp.'s designated external expert, and identifiable assets of Sitonholy (Tianjin) Technology Co., Ltd. acquired and its liabilities assumed were allocated accordingly. As the amount of M&A is large and PPA assumption involves management's estimates, it has a material impact on the financial statements; therefore, we have included the M&A case in the key audit matters for this year.

### Corresponding audit procedures

The independent auditors have performed the following key audit procedures for the matter mentioned above:

1. Audit the internal control procedures for M&A transactions, including reviewing the M&A contract and checking relevant vouchers.
2. Obtain the acquiree's financial information and assess management's identification of the acquiree's net identifiable assets and liabilities assumed on the acquisition date in accordance with relevant accounting standards.

3. Review the rationality of management's valuation model for identifiable intangible assets or contingent consideration and its cash flow forecasting, including the following procedures:
  - (1) Check the settings of the valuation model's parameters and formulas.
  - (2) Compare the revenue growth rate, gross profit margin, and operating profit margin used by the model with historical results and industry data.
  - (3) Compare the discount rate used with other comparable targets in the market.

### **Responsibility of the Management and the Governing Body for the Parent Company Only Financial Statements**

The management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers," and for such internal control as the management determines is necessary to enable the preparation of the parent company only financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company only financial statements, the responsibility of the management includes assessing Chaintech Technology Corp.'s ability to continue as a going concern, disclosing going concern related matters, as well as adopting going concern basis of accounting unless the management intends to liquidate Chaintech Technology Corp. or terminate the business, or has no realistic alternative but to do so.

Those charged with governance, including the supervisors, are responsible for overseeing Chaintech Technology Corp.'s financial reporting process.

### **Responsibilities of Certified Public Accountants for Auditing Parent Company Only Financial Statements**

Our objectives are to obtain reasonable assurance about whether the parent company only 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 Generally Accepted Auditing Standards (GAAS) of Republic of China will always detect a material misstatement when it exists. Misstatements may arise from fraud or error. If it could be reasonably anticipated that the misstated individual amounts or aggregated sum could have influence on the economic decisions made by the users of the parent company only financial statements, it will be deemed as material.

As part of an audit in accordance with GAAS of Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also execute the following tasks:

1. Identify and assess the risks of material misstatement of the parent company only 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 that 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 Chaintech Technology Corp.'s internal control.
3. Evaluate the appropriateness of accounting policies adopted by the management and the reasonableness of the accounting estimates and related disclosures made accordingly.
4. Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, determine whether a material uncertainty exists related to events or conditions that may cast significant doubt on Chaintech Technology Corp.'s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company only financial statements; or, if such disclosures are inadequate, we are required to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or circumstances may cause Chaintech Technology Corp. to no longer continue as a going concern.

5. Evaluate the overall expression, structure, and contents of the parent company only financial statements (including related notes) and whether the parent company only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence with regard to the financial information of the entities within Chaintech Technology Corp. to express an opinion about the parent company only financial statements. We are responsible for the guidance, supervision and performance of the parent company audit, and is responsible for forming the audit opinion to the Parent Company Only Financial Statements.

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 The Norm of Professional Ethics for Certified Public Accountant of the Republic of China 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 parent company only financial statements for the year ended December 31, 2019 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

PwC Taiwan

Sheng-Chung Hsu

Certified Public Accountants

Han-Chi Wu

Financial Supervisory Commission

Approved Certification Number: Financial Control

Certificate No. 1010034097

Former Securities and Futures Bureau Committee

Approved Certification No.: (2011)TCZ(6)Z157088

March 27, 2020

Chaintech Technology Corp.  
Parent Company Only Balance Sheets  
For the Years Ended December 31, 2019 and 2018

Unit: NT\$ thousand

Assets	Notes	December 31, 2019		December 31, 2018		
		A m o u n t	%	A m o u n t	%	
<b>Current assets</b>						
1100	Cash and cash equivalents	VI (I)	\$ 187,565	9	\$ 481,211	24
1110	Current financial assets at fair value through profit or loss	VI (II)	2,172	-	1,755	-
1170	Accounts receivable, net	VI (IV)	227,710	11	232,587	11
1180	Accounts receivable due from related parties, net	VI (IV) and VII	616,786	30	685,977	34
1200	Other receivables		-	-	155	-
1220	Current tax assets		24,267	1	-	-
130X	Current inventories	VI (V)	290,324	14	95,833	5
1470	Other current assets	VI (VI) and VIII	63,837	3	53,806	3
11XX	<b>Total current assets</b>		<u>1,412,661</u>	<u>68</u>	<u>1,551,324</u>	<u>77</u>
<b>Non-current assets</b>						
1517	Non-current financial assets at fair value through other comprehensive income	VI (III)	137,045	6	108,985	6
1550	Investment accounted for using equity method	VI (VII)	472,349	23	346,200	17
1600	Property, plant and equipment	VI (VIII)	55,272	3	-	-
1755	Right-of-use assets	VI (IX)	5,925	-	-	-
1840	Deferred tax assets	VI (XX)	3,435	-	6	-
1900	Other non-current assets		53	-	5	-
15XX	<b>Total non-current assets</b>		<u>674,079</u>	<u>32</u>	<u>455,196</u>	<u>23</u>
1XXX	<b>Total assets</b>		<u>\$ 2,086,740</u>	<u>100</u>	<u>\$ 2,006,520</u>	<u>100</u>

(Continued)

Chaintech Technology Corp.  
Parent Company Only Balance Sheets  
For the Years Ended December 31, 2019 and 2018

Liabilities and equity		Notes	December 31, 2019		December 31, 2018	
			Amount	%	Amount	%
<b>Current liabilities</b>						
2100	Current borrowings	VI (X)	\$ 156,597	8	\$ -	-
2150	Notes payable		24	-	-	-
2170	Accounts payable		319,099	15	156,859	8
2200	Other payables	VII	52,839	3	63,174	3
2230	Current tax liabilities		-	-	52,170	3
2280	Current lease liabilities		6,040	-	-	-
2300	Other current liabilities		94	-	193	-
21XX	<b>Total current liabilities</b>		<u>534,693</u>	<u>26</u>	<u>272,396</u>	<u>14</u>
2XXX	<b>Total liabilities</b>		<u>534,693</u>	<u>26</u>	<u>272,396</u>	<u>14</u>
<b>Equity</b>						
<b>Share capital</b>						
		VI (XII)				
3110	Ordinary share		1,014,988	49	1,014,988	51
<b>Retained earnings</b>						
		VI (XIII)				
3310	Legal reserve		122,290	6	97,859	5
3320	Special reserve		112,514	5	88,481	4
3350	Retained earnings		551,542	26	645,310	32
<b>Other equity interest</b>						
3400	Other equity interest		( 97,541)	( 5)	( 112,514)	( 6)
3500	Treasury shares	VI (XXII)	( 151,746)	( 7)	-	-
3XXX	<b>Total equity</b>		<u>1,552,047</u>	<u>74</u>	<u>1,734,124</u>	<u>86</u>
<b>Significant contingent liabilities and unrecognized contract commitments</b>						
<b>Significant events after the end of the financial reporting period</b>						
3X2X	<b>Total liabilities and equity</b>		<u>\$ 2,086,740</u>	<u>100</u>	<u>\$ 2,006,520</u>	<u>100</u>

The accompanying notes are an integral part of the parent company only financial statements. Please refer to it as well.

Chairman: Shu-Jung Kao

Manager: Shu-Jung Kao

Accounting Officer: Yu-Nu Lai



Chaintech Technology Corp.  
Parent Company Only Statements of Comprehensive Income  
For the Years Ended December 31, 2019 and 2018

Unit: NT\$ thousand

(Except for earnings per share expressed in New Taiwan Dollar)

Items	Notes	2019		2018	
		Amount	%	Amount	%
4000 <b>Operating revenue</b>	VI (XIV) and VII	\$ 3,591,114	100	\$ 3,755,138	100
5000 <b>Operating costs</b>	VI (V) (XVIII) (XIX)	( 3,432,847)	( 96)	( 3,397,183)	( 91)
5950 <b>Gross profit from operations</b>		<u>158,267</u>	<u>4</u>	<u>357,955</u>	<u>9</u>
<b>Operating expenses</b>	VI (XVIII) (XIX) and VII				
6100 Selling expenses		( 50,243)	( 1)	( 52,272)	( 1)
6200 Administrative expenses		( 24,926)	( 1)	( 31,691)	( 1)
6300 Research and development expenses		( 3,404)	-	( 3,164)	-
6000 <b>Total operating expenses</b>		<u>( 78,573)</u>	<u>( 2)</u>	<u>( 87,127)</u>	<u>( 2)</u>
6900 <b>Net operating income</b>		<u>79,694</u>	<u>2</u>	<u>270,828</u>	<u>7</u>
<b>Non-operating income and expenses</b>					
7010 Other income	VI (XV)	5,683	-	6,854	-
7020 Other gains and losses	VI (XVI)	14,881	1	29,978	1
7050 Financial costs	VI (XVII)	( 5,682)	-	( 2,165)	-
7070 Share of profit or loss of subsidiaries, associates, and joint ventures accounted for using equity method	VI (VII)	11,172	-	( 11,061)	-
7000 <b>Total non-operating income and expenses</b>		<u>26,054</u>	<u>1</u>	<u>23,606</u>	<u>1</u>
7900 <b>Profit (loss) from continuing operations before tax</b>		105,748	3	294,434	8
7950 Tax income (expense)	VI (XX)	1,194	-	( 50,130)	( 2)
8200 <b>Profit</b>		<u>\$ 106,942</u>	<u>3</u>	<u>\$ 244,304</u>	<u>6</u>
<b>Other comprehensive income, net</b>					
<b>Components of other comprehensive income that will not be reclassified to profit or loss</b>					
8316 Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	VI (III)	\$ 28,060	1	( \$ 75,999)	( 2)
8310 <b>Components of other comprehensive income that will not be reclassified to profit or loss</b>		<u>28,060</u>	<u>1</u>	<u>( 75,999)</u>	<u>( 2)</u>
<b>Components of other comprehensive income that will be reclassified to profit or loss</b>					
8361 Exchange differences on translation		( 13,087)	( 1)	( 7,212)	-
8360 <b>Components of other comprehensive income that will be reclassified to profit or loss</b>		<u>( 13,087)</u>	<u>( 1)</u>	<u>( 7,212)</u>	<u>-</u>
8300 <b>Other comprehensive income, net</b>		<u>\$ 14,973</u>	<u>-</u>	<u>( \$ 83,211)</u>	<u>( 2)</u>
8500 <b>Total comprehensive income</b>		<u>\$ 121,915</u>	<u>3</u>	<u>\$ 161,093</u>	<u>4</u>
<b>Basic earnings per share</b>	VI (XXI)				
9750 <b>Basic earnings per share</b>		<u>\$ 1.06</u>		<u>\$ 2.39</u>	
<b>Diluted earnings per share</b>	VI (XXI)				
9850 <b>Diluted earnings per share</b>		<u>\$ 1.06</u>		<u>\$ 2.39</u>	

The accompanying notes are an integral part of the parent company only financial statements. Please refer to it as well.  
Chairman: Shu-Jung Kao      Manager: Shu-Jung Kao      Accounting Officer: Yu-Nu Lai

Chaintech Technology Corp.  
Parent Company Only Statements of Changes in Equity  
For the Years Ended December 31, 2019 and 2018

Unit: NT\$ thousand

	Notes	Retained earnings				Other equity			Total equity
		Share capital - Ordinary shares	Legal reserve	Special reserve	Unappropriated retained earnings	Exchange difference arising from translation of foreign operation financial statements	Unrealized gains/losses on financial assets at fair value through other comprehensive income	Treasury shares	
<u>2018</u>									
Balance as of January 1, 2018		\$ 1,092,488	\$ 97,859	\$ 84,131	\$ 478,452	( \$ 29,303 )	\$ -	\$ -	\$ 1,723,627
Effects of retrospective application and retrospective restatement		-	-	-	( 323 )	-	-	-	( 323 )
Equity at beginning of period after adjustments		<u>1,092,488</u>	<u>97,859</u>	<u>84,131</u>	<u>478,129</u>	<u>( 29,303 )</u>	<u>-</u>	<u>-</u>	<u>1,723,304</u>
Profit		-	-	-	244,304	-	-	-	244,304
Other comprehensive income		-	-	-	-	( 7,212 )	( 75,999 )	-	( 83,211 )
Total comprehensive income		-	-	-	244,304	( 7,212 )	( 75,999 )	-	161,093
Earnings appropriation and distribution:	VI (XIII)								
Special reserve appropriated		-	-	4,350	( 4,350 )	-	-	-	-
Purchase of treasury shares		-	-	-	-	-	-	( 150,273 )	( 150,273 )
Retirement of treasury shares		( 77,500 )	-	-	( 72,773 )	-	-	150,273	-
Balance as of December 31, 2018		<u>\$ 1,014,988</u>	<u>\$ 97,859</u>	<u>\$ 88,481</u>	<u>\$ 645,310</u>	<u>( \$ 36,515 )</u>	<u>( \$ 75,999 )</u>	<u>\$ -</u>	<u>\$ 1,734,124</u>
<u>2019</u>									
Balance as of January 1, 2019		\$ 1,014,988	\$ 97,859	\$ 88,481	\$ 645,310	( \$ 36,515 )	( \$ 75,999 )	\$ -	\$ 1,734,124
Profit		-	-	-	106,942	-	-	-	106,942
Other comprehensive income		-	-	-	-	( 13,087 )	28,060	-	14,973
Total comprehensive income		-	-	-	106,942	( 13,087 )	28,060	-	121,915
Earnings appropriation and distribution:	VI (XIII)								
Legal reserve appropriated		-	24,431	-	( 24,431 )	-	-	-	-
Special reserve appropriated		-	-	24,033	( 24,033 )	-	-	-	-
Cash dividends		-	-	-	( 152,246 )	-	-	-	( 152,246 )
Purchase of treasury shares		-	-	-	-	-	-	( 151,746 )	( 151,746 )
Balance as of December 31, 2019		<u>\$ 1,014,988</u>	<u>\$ 122,290</u>	<u>\$ 112,514</u>	<u>\$ 551,542</u>	<u>( \$ 49,602 )</u>	<u>( \$ 47,939 )</u>	<u>( \$ 151,746 )</u>	<u>\$ 1,552,047</u>

Note: For IFRS 9, the Group made adjustments as at January 1, 2018 using the modified retrospective method.

The accompanying notes are an integral part of the parent company only financial statements. Please refer to it as well.

Chairman: Shu-Jung Kao

Manager: Shu-Jung Kao

Accounting Officer: Yu-Nu Lai

Chaintech Technology Corp.  
Parent Company Only Statements of Cash Flows  
For the Years Ended December 31, 2019 and 2018

Unit: NT\$ thousand

	Notes	2019	2018
<b>Cash flows from (used in) operating activities</b>			
Profit before tax		\$ 105,748	\$ 294,434
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation expense	VI (VIII) (IX) (XVIII)	14,822	25
Valuation adjustment for financial assets at fair value through profit or loss	VI (II) and (XVI)	( 447 )	( 185 )
Interest income		( 2,437 )	( 2,335 )
Interest expense	VI (XVII)	5,682	2,165
Dividend income	VI (XV)	( 3,053 )	( 4,340 )
Share of (profit) loss of subsidiaries accounted for using equity method		( 11,172 )	11,061
Gain on disposal of investments accounted for using equity method		( 25,943 )	-
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets at fair value through profit or loss		30	( 1,570 )
Accounts receivable (including related parties)		74,068	134,292
Other receivables		155	( 145 )
Inventories		( 194,491 )	18,957
Other current assets		( 1,657 )	( 1,828 )
Changes in operating liabilities			
Notes payable		24	-
Accounts payable (including related parties)		162,240	( 55,425 )
Other payables		( 10,511 )	27,802
Other current liabilities		( 99 )	( 36 )
Cash inflow generated from operations		112,959	422,872
Interest received		2,437	2,335
Dividends received		3,053	4,340
Interest paid		( 5,302 )	( 2,165 )
Income tax paid		( 78,672 )	( 178 )
Net cash flows from operating activities		<u>34,475</u>	<u>427,204</u>
<b>Cash flows from (used in) investing activities</b>			
Acquisition of financial assets at fair value through other comprehensive income		-	( 184,984 )
Acquisition of investments accounted for using equity method	VI (VII)	( 259,609 )	-
Disposal of investments accounted for using equity method	VI (VII)	157,539	-
Acquisition of property, plant and equipment	VI (XXII)	( 48,597 )	( 20,016 )
Increase (decrease) in other current assets		( 28,390 )	19,193
Increase in other non-current assets		( 48 )	-
Net cash flows used in investing activities		<u>( 179,105 )</u>	<u>( 185,807 )</u>
<b>Cash flows from (used in) financing activities</b>			
Increase in short-term loans		156,597	-
Payments of lease liabilities		( 1,570 )	-
Cash dividends paid	VI (XIII)	( 152,246 )	-
Payments to acquire treasury shares		( 151,746 )	( 150,273 )
Net cash flows used in financing activities		<u>( 148,965 )</u>	<u>( 150,273 )</u>
Effect of exchange rate changes		( 51 )	-
Net increase (decrease) in cash and cash equivalents		( 293,646 )	91,124
Cash and cash equivalents at beginning of period		481,211	390,087
Cash and cash equivalents at end of period		<u>\$ 187,565</u>	<u>\$ 481,211</u>

The accompanying notes are an integral part of the parent company only financial statements. Please refer to it as well.

Chairman: Shu-Jung Kao

Manager: Shu-Jung Kao

Accounting Officer: Yu-Nu Lai

Chaintech Technology Corp.  
Notes to the Parent Company Only Financial Statements  
For the Years Ended December 31, 2019 and 2018

Unit: NT\$ thousand  
(Unless specified otherwise)

I. Company History

- (I) The original East Chaintech Technology Co., Ltd. was established in November 1986 and was renamed as Chaintech Technology Corp. (hereinafter referred to as the "Chaintech") in January 2013. Approved by the Securities and Futures Bureau as an OTC-listed company in December 1997, Chaintech was transferred to be a listed company and was listed at the stock exchange market on August 17, 2000. Chaintech is principally engaged in the business of buying and selling and manufacturing of motherboards, display cards, and computer peripherals.
- (II) Colorful Group Ltd. (hereinafter referred to as "the Colorful Group") acquired 10% equity in Chaintech indirectly through Zhongjie Xingye Co., Ltd., and acquired 100% equity in Yicheng International Development Co., Ltd. (which held 36.2% equity of Chaintech) in June 2014. Therefore, Colorful Group held 46.2% equity in Chaintech indirectly, and obtained more than half of the seats in Chaintech's Board of Directors. In June 2017, Zhongjie Xingye Co., Ltd. sold all the equity of Chaintech it held. In July 2016, Yicheng International Development Co., Ltd. sold the equity of Chaintech to 26.11%. As of December 31, 2019, the Colorful Group indirectly held 28.11% of the equity in Chaintech through Yicheng International Development Co., Ltd.

II. Approval Date and Procedures of the Parent Company Only Financial Statements

The parent company only financial statements were approved by the Board of Directors on March 27, 2020.

III. Application of New and Amended Standards and Interpretations

- (I) The impact of adopting new and amended International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C ("FSC")

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

<u>New standards, interpretations, and amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019
IFRS 16 "Leases"	January 1, 2019
Amendments to IAS 19 "Plan Amendments, Curtailment or Settlement"	January 1, 2019
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019

Except for the following, the aforementioned standards and interpretations have no significant impact to Chaintech's financial condition and financial performance based on the Chaintech's assessment.

IFRS 16 "Leases"

1. IFRS 16 "Leases" supersedes IAS 17 "Leases" and its relevant IFRIC interpretations and SIC interpretations. The standard requires lessees to recognize a right-of-use asset and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or

operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

2. When applying the 2019 version of IFRSs as endorsed by the FSC, Chaintech elects to adopt IFRS 16 without restating the comparative information ("modified retrospective approach" hereinafter) and made adjustments to lessee lease contracts by increasing the right-of-use assets by NT\$7,406 and increasing lease liabilities by NT\$7,406 on January 1, 2019.
3. Upon initial adoption of IFRS 16, Chaintech adopts the following practical expedients:
  - (1) Contracts that have previously been identified as leases under IAS 17 and IFRIC 4 are not reassessed as to whether they are (or contain) leases but are treated by applying related IFRS 16 requirements.
  - (2) Applying a single discount rate to a portfolio of leases with reasonably similar characteristics.
  - (3) Applying the short-term lease method to leases that end before December 31, 2019. The rental expense recognized for these leases in 2019 was NT\$168.
  - (4) Excluding the initial direct costs from the measurement of the right-of-use assets.
  - (5) Using hindsight in determining the lease term when the contracts contain options to extend or terminate the leases.
4. Chaintech applied Chaintech's incremental borrowing rate to calculate the present value of lease liabilities. The interest rate was 3%.
5. Chaintech discloses the amounts of its operating lease commitments pursuant to IAS 17. Below is the reconciliation of the present value after discount using the incremental borrowing rate upon the initial application date and the lease liability recognized on January 1, 2019.

Operating lease commitments applying IFRS 17 "Disclosures" as at December 31, 2018	\$	7,848
Add: Reassessment of lease contracts that were originally identified as a service contract		141
Total value of lease contracts for which the recognition of a lease liability is required pursuant to IFRS 16 as at January 1, 2019		7,989
Chaintech's incremental borrowing rate as at the initial application date	<u>3%</u>	
Lease liability recognized pursuant to IFRS 16 as at January 1, 2019	<u>\$</u>	<u>7,406</u>

- (II) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by Chaintech  
 New standards, interpretations and amendments endorsed by the FSC effective from 2020 are as follows:

<u>New standards, interpretations, and amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendments to IAS 1 and IAS 8 "Disclosure Initiative - Definition of Materiality"	January 1, 2020
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
Amendments to IFRS 9, IAS 39, and IFRS 7 "Interest Rate Benchmark Reform"	January 1, 2020

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

- (III) Impact of IFRSs issued by IASB but not yet endorsed by the FSC  
New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows:

<u>New standards, interpretations, and amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by International Accounting Standards Board
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 "Classification of Liabilities as Current or Non-Current"	January 1, 2022

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

#### IV. Summary of Significant Accounting Policies

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

(I) Compliance statement

These parent company only financial statements are prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

(II) Basis of preparation

1. The parent company only financial statements have been prepared based on historical cost convention.
2. The financial statements prepared in accordance with IFRSs, international accounting standards, interpretations and interpretations (hereinafter referred to as the IFRSs) are required to be used for the preparation of financial statements. The financial statements of Chaintech shall also require the use of certain critical accounting estimates. The management requires the use of judgment in applying Chaintech's accounting policies. For items involving a higher degree of judgment or complexity, or items where assumptions and estimates are significant to the parent company only financial statements, please refer to Note V for details.

(III) Foreign currency translation

The Chaintech's items listed in the parent company only financial statements are measured and presented in the currency of the primary economic environment in which Chaintech operates (i.e., functional currency).

1. Foreign currency transactions and balances

- (1) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.
- (2) Foreign currency monetary assets and liabilities are translated at the exchange rate prevailing at the balance sheet date. Exchange differences arising upon the re-transaction at the balance sheet date are recognized in profit or loss.
- (3) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are retranslated at the exchange rates prevailing at

the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

- (4) All exchange gains and losses are presented in the earnings statement of profit or loss within "Other gains and losses."

2. Translation of foreign operations

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (1) Assets and liabilities for each balance sheet presented are re-translated at the closing rate prevailing at the balance sheet date;
- (2) Income and expenses for each composite income sheet are re-translated at the average exchange rates for the period;
- (3) All resulting exchange differences are recognized in other comprehensive income.
- (4) When a foreign operation is partially disposed of or sold, the cumulative exchange differences that were recognized in other comprehensive income are reclassified to the non-controlling interests in the foreign operation. However, if Chaintech still retains partial interests in the former foreign associate after losing significant influence over the former foreign associate, such transactions should be accounted for as disposal of all interest in these foreign operations.

(IV) Standard of assets and liabilities being classified as current and non-current

1. Assets that meet one of the following criteria are classified as current assets:

- (1) Assets arising from operating activities that are expected to be realized or are intended to be sold or consumed within the normal operating cycle.
- (2) Liabilities held mainly for trading purposes.
- (3) Assets that are expected to be realized within twelve months from the balance sheet date.
- (4) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

Assets that do not meet the aforementioned conditions are classified as non-current.

2. Liabilities that meet one of the following conditions are classified as current liabilities:

- (1) Liabilities that are expected to be paid off within the normal operating cycle.
- (2) Liabilities held mainly for trading purposes.
- (3) Liabilities that are to be paid off within twelve months from the balance sheet date.
- (4) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Liabilities that do not meet the aforementioned conditions are classified as non-current.

(V) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily

convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Fixed deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

- (VI) Financial assets at fair value through profit or loss
1. Financial assets at fair value through profit or loss refer to financial assets not measured at amortized cost nor measured at fair value through other comprehensive income.
  2. Financial assets at fair value through profit or loss that follow regular way purchase or sale are recognized by Chaintech using trade date accounting.
  3. At initial recognition, Chaintech measures the financial assets at fair value and recognizes the transaction costs in profit or loss. Chaintech subsequently measures the financial assets at fair value, and recognizes the gain or loss in profit or loss.
  4. Dividend income is recognized in profit or loss when the right to receive payment is established, and it is probable that the economic benefits associated with the dividend will flow to Chaintech and the amount of dividends can be measured reliably.
- (VII) Financial assets at fair value through other comprehensive income
1. Changes in fair value of investments in equity instruments that are not held for trading purpose at initial recognition presented in other comprehensive income; or, financial assets meeting the criteria listed below are classified as debt instrument:
    - (1) The financial asset is held for the purpose of obtaining the contractual cash flows and the sales of the contract.
    - (2) Cash flow generated from the said contractual terms of the financial asset at specific date are solely payments of principal and interest on the principal amount outstanding.
  2. Chaintech adopts trade date accounting for financial assets measured at fair value through other comprehensive income.
  3. At initial recognition, Chaintech measures the financial assets at fair value plus transaction costs; Chaintech subsequently measures the financial assets at fair value. The changes in fair value of equity investments that were recognized in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following derecognition of the investment. Dividends are recognized as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to Chaintech and the amount of the dividend can be measured reliably.
- (VIII) Accounts receivable
1. Accounts receivable entitle Chaintech a legal right to receive consideration in exchange for transferred goods or rendered services.
  2. Short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.
- (IX) Impairment of financial assets
- Considering all reasonable and provable information (including forward-looking information), Chaintech measured the credit risk that increased insignificantly since original recognition via the 12-month expected credit loss amount through financial debt instrument at fair value through other comprehensive income, financial asset at amortized cost and accounts receivable significant financial components. For those credit risk increased significantly since original recognition, the allowance loss is measured by the expected amount of credit loss during the existence period; for accounts receivable that do not contain significant financial components, the



allowance loss is measured by the amount of expected credit losses during the duration of the period.

- (X) Derecognition of financial assets  
Financial assets are derecognized when Chaintech's contractual rights to receive cash flows from financial assets are lapsed.
- (XI) Operating leases – Lessor  
Lease income from operating leases less any incentives given to lessees is recognized in profit or loss on a straight-line basis over the term of the lease.
- (XII) Inventories  
Inventories are measured at the lower of cost and net realizable value, and cost are is determined using the weighted average method. The cost of finished goods and work in process comprises raw materials, direct labor, other direct costs and related production burden (allocated based on normal operating capacity). It excludes borrowing costs. Goods on hand are stated at the lower of comparative cost and net realizable value. The item by item approach is used in applying the lower of comparative cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.
- (XIII) Investment accounted for using equity method – subsidiary
1. Subsidiaries refer to all entities (including structured entities) controlled by Chaintech. Chaintech controls an entity when Chaintech is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.
  2. Unrealized gains and losses resulting from transactions between Chaintech and its subsidiaries are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by Chaintech.
  3. The share of gain or loss and other comprehensive income generated from the subsidiary is recognized as profit or loss of the period and other comprehensive income, respectively. If Chaintech's share of loss recognized on the subsidiary is equal to or exceeds the equity interest in the subsidiary, Chaintech will not recognize further losses unless Chaintech has statutory obligations or deferred obligations or has paid for the subsidiary.
  4. When Chaintech disposes its investment in an subsidiary and loses significant influence over the subsidiary, the amounts previously recognized in other comprehensive income in relation to the subsidiary are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it retains significant influence over the subsidiary, the amounts previously recognized in other comprehensive income in relation to the subsidiary are reclassified to profit or loss proportionately in accordance with the aforementioned approach.
  5. In accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers", profit or loss and other comprehensive income of the current period and other comprehensive income shall be shared with the consolidated financial statements. The parent equity of the parent company only financial statements shall be the same as the owner's equity in the financial statements prepared on the basis of the consolidated financial statements.
- (XIV) Property, plant and equipment
1. Property, plant and equipment are recorded as the foundation of acquisition cost.
  2. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Chaintech and the cost of the item

can be measured reliably. The carrying amount of the replacement is derecognized. All other repairs and maintenance are recognized as current gain or loss when incurred.

3. Property, plant and equipment apply the cost model. Except for land, other property, plant and equipment are depreciated using the straight-line method to allocate their cost over their estimated useful lives. If each component of property, plant and equipment is material, it is depreciated separately
4. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors," from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Wealth equipment	3 ~ 5 years
Other equipment	3 ~ 10 years

(XV) Lease transaction in the capacity of a lessee - Right-of-use assets/Lease liabilities  
Applicable for the annual periods beginning on or after January 1, 2019

1. A right-of-use asset and a lease liability are recognized for a leased asset on the date when it becomes readily available for Chaintech's use. When a lease contract is a short-term lease or when it is a lease of which the underlying asset is of low value, lease payments are recognized as an expense on a straight-line basis over the lease term.
2. On the commencement date, Chaintech measures lease liabilities by the present value of outstanding lease payments, using Chaintech's incremental borrowing rate. Lease payments include fixed payments less any lease incentives receivable. In subsequent periods, Chaintech measures lease liabilities at amortized cost using the effective interest method and recognizes interest expenses during the lease term. When a change in the lease term or lease payments occurs due to reasons other than lease modifications, lease liabilities are reassessed and the remeasurements are adjusted to the right-of-use assets.
3. Right-of-use assets are recognized at cost on the commencement date. Costs include the originally measured amount of lease liabilities. In subsequent periods, Chaintech measures right-of-use assets at cost and recognizes depreciation expenses at the earlier of the end of useful life of right-of-use assets or the end of the lease term. When a lease liability is reassessed, the right-of-use asset is adjusted for any remeasurements of the lease liability.

(XVI) Impairment of non-financial assets

Chaintech estimates the recoverable amount of assets with signs of impairment on the balance sheet date. When the recoverable amount is lower than its book value, the impairment loss is recognized. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. Where an impairment loss of assets recognized in previous years does not exist or decrease, the impairment loss is reversed. However, the carrying amount of the asset increased by the impairment loss shall not exceed the book value of the asset after abatement the depreciation or amortization if the impairment loss is unrecognized.

(XVII) Borrowings

Borrowings refer to short-term loans from banks. The initial recognition of loans measured at fair value less transaction cost. Any subsequent difference between the price and the redemption value after deducting the transaction cost shall be

recognized as interest expense in gain and loss by applying amortization procedure of effective interest method during the circulation period.

(XVIII) Accounts payable

1. Account payable is the liabilities arising from the purchase of raw materials, commodities or services are taken.
2. Short-term accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(XIX) Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability specified in the contract is discharged or cancelled or expires.

(XX) Employee benefits

1. Short-term employee benefits  
Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognized as expenses in that period when the employees render service.
2. Pensions  
For the defined contribution plan, the contributions are recognized as pension expenses when they are due on an accrual foundation.
3. Employees' compensation and directors' and supervisors' remuneration  
Employees' compensation and directors' and supervisors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates.

(XXI) Income tax

1. Income tax expense comprises current and deferred income tax. Income tax is recognized in gain or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.
2. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the country domicile where Chaintech operates and generates taxable income. The management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate, on the basis of amounts expected to be paid to the tax authorities are recorded in tax liability. Undistributed earnings are subject to income tax credit. After the distribution of earnings is approved by the shareholders' meeting in the following year, Chaintech shall recognize the distribution of earnings and expenses, and recognize the earnings and expenses for the actual earnings.
3. Deferred income tax adopts the balance sheet approach, and is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the parent company only balance sheets. Deferred income tax is not recognized, if the temporary difference arises from initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income (loss). Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by Chaintech, and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been

enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

4. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred income tax assets are reassessed.
5. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.

(XXII) Share capital

1. Ordinary shares are classified as equity. The incremental cost directly attributable to the issue of new shares or options is deducted from the equity in equity after deducting the income tax.
2. When Chaintech buys back the issued stocks, the consideration paid includes any incremental costs that are directly attributable to the incremental costs, net of any directly attributable incremental costs. When the shares are subsequently reissued, the difference between the consideration received net of any directly attributable incremental costs and the carrying amount is recorded in the adjustment of stockholder's equity.

(XXIII) Dividend distribution

Dividends are recognized in Chaintech's financial statements in the period in which they are approved by Chaintech's shareholders. Cash dividends are recorded as liabilities. Stock dividends are recognized as stock dividends to be distributed and transferred to ordinary shares on the base date of issuance of new shares.

(XXIV) Revenue recognition

1. Sales of goods
  - (1) Chaintech manufactures and sells products related to motherboards, display cards, and computer peripherals. The sales revenue is recognized when the control of the products is transferred to customers. That is, when the product is delivered to the customer, the customer has discretion in the access and price of the product, and Chaintech has no outstanding performance obligations that may affect the customer's acceptance of the product. When the product is shipped to a designated location, the risk of obsolete and lost risks has been transferred to the customer, and the customer is required to obtain the products in accordance with the sales contract, or when there is objective evidence that all acceptance criteria have been met, the goods are delivered.
  - (2) Sales revenue is recognized the net amount of contract price minus estimated sales allowance. The amount of revenue recognition is limited to the extent that it is very unlikely to see a significant reversal in the future, and is updated on the balance sheet date. The terms of sales transactions are mainly due to the expiry of 30 to 90 days after the transfer date. It is consistent with the market practice. Therefore, it is judged that the contract does not contain significant financial component.
  - (3) Accounts receivable are recognized when the control right of commodities

is transferred to the customs; that is because Chaintech has unconditional rights to the contract price since that point in time, and Chaintech can collect the consideration from the customer once upon the contractual time is expired.

2. Service revenue  
Chaintech provides services related to processing. Revenue is recognized as revenue in the reporting period in which the services are rendered to customers.
3. Financial composition  
The duration of commitment to transfer commodities or services to customer and the payment period in the contracts between Chaintech and customers are all less than one year. Therefore, Chaintech has not adjusted the transaction price to reflect the time value of money.
4. Costs to acquire contracts from customers  
Chaintech recognizes the incremental costs incurred in the contracts with the customers and that are expected to be recoverable. However, such costs are recognized in expense as incurred since the contracts are less than one year.

V. Primary Sources of Uncertainties in Material Accounting Judgments, Estimates, and Assumptions

The preparation of Chaintech's financial statements requires management to make critical judgments in applying Chaintech's accounting policies and make critical assumptions and estimates concerning future events according to the conditions on balance sheet date. Material accounting assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such estimates and assumptions possess a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Uncertainties in material accounting judgments, estimates, and assumptions are addressed below:

(I) Significant judgments in applying accounting policies

None.

(II) Significant accounting estimates and assumptions

Revenue recognition

Allowance of liability reserve for sales revenue is recognized based on the historical experience and other known reasons to estimate product discount and is recorded as the deduction of sales revenue in the current period of product turnover. In addition, Chaintech regularly reviews the reasonableness of the estimates.

VI. Descriptions of Material Accounting Items

(I) Cash and cash equivalents

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Cash on hand and revolving funds	\$ 105	\$ 93
Checking deposits and demand deposits	187,460	396,652
Time deposits	-	84,466
	<u>\$ 187,565</u>	<u>\$ 481,211</u>

1. Chaintech associates with a variety of financial institutions, all with high credit quality to disperse credit risk, so it is expected that the probability of counterparty default is extremely low.
2. Chaintech does not provide any cash and cash equivalents as pledges to others.

(II) Current financial assets at fair value through profit or loss

<u>Items</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Stocks of listed companies	\$ 2,568	\$ 2,598
Valuation adjustments	( 396)	( 843)
Total	<u>\$ 2,172</u>	<u>\$ 1,755</u>

- The breakdown of profit or loss for current financial assets at fair value through profit or loss is as follows:

<u>Items</u>	<u>2019</u>	<u>2018</u>
Equity instruments	\$ 447	\$ 185

- Chaintech's current financial assets at fair value through profit or loss were not provided as pledged assets or guarantees as of December 31, 2019 and 2018.
- For related credit risk information, please refer to Note XII (II).

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

<u>Items</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Non-current items:		
Equity instruments		
Stocks of listed companies	\$ 169,634	\$ 169,634
Stocks unlisted at stock exchange market, over the counter market or emerging stock market	15,350	15,350
	184,984	184,984
Valuation adjustments	(47,939)	(75,999)
Total	\$ 137,045	\$ 108,985

- Chaintech elects to classify the strategic investment as financial assets at fair value through other comprehensive income, which were at NT\$137,045 and NT\$108,985 as of December 31, 2019 and 2018 respectively.
- The breakdown in profit or loss and other comprehensive income of financial assets at fair value through other comprehensive income is as follows:

	<u>2019</u>	<u>2018</u>
<u>Equity instruments at fair value through other comprehensive income</u>		
Changes in fair value recognized in other comprehensive income	\$ 28,060	(\$ 75,999)
Dividend income recognized in profit or loss at end of current period	\$ 3,005	\$ 4,312

- Without consideration of the collateral held or other credit enhancements, the maximum credit risk that best represent Chaintech's financial assets at fair value through other comprehensive income as of December 31, 2019 and 2018 amounted to NT\$137,045 and NT\$108,985 respectively.
- For more information on credit risk for financial assets at fair value through other comprehensive income, please refer to Note XII (II).

(IV) Accounts receivable

	<u>December 31, 2019</u>		
	<u>Total</u>	<u>Allowance for loss</u>	<u>Net</u>
Accounts receivable	\$ 227,847	(\$ 137)	\$ 227,710
Accounts receivable due from related parties	616,972	(186)	616,786
	\$ 844,819	(\$ 323)	\$ 844,496
	<u>December 31, 2018</u>		
	<u>Total</u>	<u>Allowance for loss</u>	<u>Net</u>
Accounts receivable	\$ 232,704	(\$ 117)	\$ 232,587
Accounts receivable due from related parties	686,183	(206)	685,977
	\$ 918,887	(\$ 323)	\$ 918,564

1. Aging analysis of accounts receivable is stated as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Not overdue	\$ 844,819	\$ 918,887
Overdue for 1 to 90 days	-	-
91 to 180 days past due	-	-
	<u>\$ 844,819</u>	<u>\$ 918,887</u>

The aging analysis above is based on past due date.

2. The balance of receivables on contracts with customers as at December 31, 2019, December 31, 2018, and January 1, 2018 was NT\$844,496, NT\$918,564, and NT\$1,053,180 respectively.
3. Without consideration of the collateral held or other credit enhancements, the maximum credit risk that best represent Chaintech's accounts receivable as of December 31, 2019 and 2018 amounted to NT\$844,819 and NT\$918,887 respectively.
4. For more information on credit risk for accounts receivable, please refer to Note XII (II).

(V) Inventories

	<u>December 31, 2019</u>		
	<u>Cost</u>	<u>Allowance for valuation loss</u>	<u>Carrying amount</u>
Raw materials	\$ 203,353	(\$ 6,435)	\$ 196,918
Work in process	78,771	-	78,771
Finished goods	<u>16,234</u>	<u>( 1,599)</u>	<u>14,635</u>
	<u>\$ 298,358</u>	<u>( \$ 8,034)</u>	<u>\$ 290,324</u>

	<u>December 31, 2018</u>		
	<u>Cost</u>	<u>Allowance for valuation loss</u>	<u>Carrying amount</u>
Raw materials	\$ 64,424	(\$ 29)	\$ 64,395
Work in process	31,438	-	31,438
Finished goods	<u>1,599</u>	<u>( 1,599)</u>	<u>-</u>
	<u>\$ 97,461</u>	<u>( \$ 1,628)</u>	<u>\$ 95,833</u>

Cost of inventories is recognized by Chaintech as expenses in the current period:

	<u>2019</u>	<u>2018</u>
Cost of goods sold	\$ 3,426,441	\$ 3,397,844
Loss (gain) on inventories	<u>6,406</u>	<u>( 661)</u>
	<u>\$ 3,432,847</u>	<u>\$ 3,397,183</u>

Note: Chaintech's reported the gain on inventories in 2018 as a result of destocking.

(VI) Other current assets

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Restricted bank deposits	\$ 33,005	\$ 4,615
Tax overpaid retained	30,080	28,034
Advance on equipment		20,016
Other advance expenses	752	<u>1,141</u>
	<u>\$ 63,837</u>	<u>\$ 53,806</u>

The details of the pledges of other current assets of Chaintech are set out in Note VIII.

## (VII) Investment accounted for using equity method

	<u>December 31, 2019</u>		<u>December 31, 2018</u>	
	<u>Accounting</u>	<u>Shareholding ratio (%)</u>	<u>Accounting</u>	<u>Shareholding ratio (%)</u>
Bahamas Federal Shanghai Co., Ltd. \$	-	-	\$ 124,503	100
Shenzhen Jinghong Digital R&D Service Co., Ltd.	472,349	100	215,843	100
Wise Providence Limited	-	-	5,854	100
	<u>\$ 472,349</u>		<u>\$ 346,200</u>	

1. The share of profit and loss of subsidiaries (losses) recognized by Chaintech using the equity method is derived from the evaluation of the financial report data from the audited financial statement for the same period. The breakdown is as follows:

	<u>2019</u>	<u>2018</u>
Bahamas Federal Shanghai Co., Ltd.	(\$ 8,545)	(\$ 12,340)
Shenzhen Jinghong Digital R&D Service Co., Ltd.	19,717	988
Wise Providence Limited	-	291
	<u>\$ 11,172</u>	<u>(\$ 11,061)</u>

2. For information on Chaintech's subsidiaries, please refer to Note IV (III) of Chaintech's consolidated financial statements for the year ended December 31, 2019.
3. Chaintech invested US\$5 million in the subsidiary, Shenzhen Jinghong Digital R&D Service Co., Ltd., approved by the Investment Commission, Ministry of Economic Affairs on November 26, 2015. US\$3 million (equivalent to NT\$96,760) was remitted in April 2016, and remaining US\$2 million (equivalent to NT\$61,430) was remitted on January 3, 2019.
4. Chaintech increased capital of Shenzhen Jinghong Digital R&D Service Co., Ltd. by US\$6.4 million, which was approved by the Investment Commission, Ministry of Economic Affairs on January 31, 2019. US\$4.9 million (equivalent to NT\$151,116) was remitted on April 1, 2019, and US\$1.5 million (equivalent to NT\$47,063) was remitted on August 26, 2019.
5. On May 9, 2019, Chaintech's Board of Directors resolved to dispose of its 100% equity interest in Bahamas Federal Shanghai Co., Ltd. Chaintech completed the transfer of equity in July 2019. Proceeds from disposal amounted to US\$4,880,000 (equivalent to NT\$151,565), with a gain on disposal of NT\$26,313 recognized.
6. Wise Providence Limited was liquidated on April 25, 2019, and an investment fund of HK\$1,483,184 (equivalent to NT\$5,974) was remitted back, with a loss on disposal of NT\$370 recognized.



## (VIII) Property, plant and equipment

	<u>Derivative instruments</u>	<u>Tooling equipment</u>	<u>Others</u>	<u>Total</u>
January 1, 2019				
Cost	\$ 3,540	\$ -	\$ 1,385	\$ 3,540
Accumulated depreciation	( <u>3,540</u> )	=	( <u>1,385</u> )	( <u>3,540</u> )
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
2019				
January 1	\$ -	\$ -	\$ -	\$ -
Additions	-	68,613	-	68,613
Depreciation expense	=	( <u>13,341</u> )	=	( <u>13,341</u> )
December 31	<u>\$ -</u>	<u>\$ 55,272</u>	<u>\$ -</u>	<u>\$ 55,272</u>
December 31, 2019				
Cost	\$ 3,540	\$ 68,613	\$ 1,385	\$ 72,153
Accumulated depreciation	( <u>3,540</u> )	( <u>13,341</u> )	( <u>1,385</u> )	( <u>16,881</u> )
	<u>\$ -</u>	<u>\$ 55,272</u>	<u>\$ -</u>	<u>\$ 55,272</u>

	<u>Derivative instruments</u>	<u>Others</u>	<u>Total</u>
January 1, 2018			
Cost	\$ 3,540	\$ 1,385	\$ 4,925
Accumulated depreciation	( <u>3,540</u> )	( <u>1,360</u> )	( <u>4,900</u> )
	<u>\$ -</u>	<u>\$ 25</u>	<u>\$ 25</u>
January 1, 2018			
January 1	\$ -	\$ 25	\$ 25
Depreciation expense	-	( <u>25</u> )	( <u>25</u> )
December 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
December 31, 2018			
Cost	\$ 3,540	\$ 1,385	\$ 4,925
Accumulated depreciation	( <u>3,540</u> )	( <u>1,385</u> )	( <u>4,925</u> )
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

## (IX) Lease transaction – Lessee

Applicable for the annual periods beginning on or after January 1, 2019

- Chaintech's leased underlying assets are buildings, of which the lease term is usually 5 years. Lease contracts are individually negotiated and include various terms and conditions. Except for the term where the leased assets cannot be used as collateral for loans, there are no other restrictions.
- Below is the carrying amounts of right-of-use assets and their recognized depreciation expenses:

	<u>December 31, 2019</u>	<u>2019</u>
	<u>Carrying amount</u>	<u>Depreciation expense</u>
Housing	<u>\$ 5,925</u>	<u>\$ 1,481</u>

- In 2019, Chaintech's addition of right-of-use assets was NT\$0.
- Profit or loss items in connection with lease contracts are stated as follows:

	<u>2019</u>
<u>Items that affect profit or loss</u>	
Interest expense on lease liabilities	204
Expense on short-term leases	168

- Chaintech's cash outflow from leases amounted to NT\$1,942 in 2019.

## (X) Current borrowings

<u>Loan type</u>	<u>December 31, 2019</u>	<u>Interest range</u>	<u>Collateral</u>
Bank loans			
Secured loans	\$ 127,317	2.706%~3.298%	Other current assets
Unsecured loans	<u>29,280</u>	3.167%	None
	<u>\$ 156,597</u>		

December 31, 2018: None.

Interest expense recognized in profit or loss as of December 31, 2019 and 2018 was NT\$5,478 and NT\$2,165 respectively.

(XI) Pension

1. Chaintech has established a defined contribution retirement plan ("the New Plan") in accordance with the Labor Pension Act, which is applicable to employees with R.O.C. nationality. Under the New Plan, Chaintech contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.
2. The pension costs recognized by Chaintech in accordance with the aforesaid pension regulations in 2019 and 2018 were NT\$733 and NT\$616 respectively.

(XII) Share capital

1. As of December 31, 2019, Chaintech's authorized capital was NT\$2,500,000 (of which NT\$100,000 was for the issuance of stock options, preferred shares or corporate bonds with warrants), with paid-in capital of NT\$1,014,988 and the face value of NT\$10 per share, and the number of outstanding shares was 96,499 thousand.
2. Changes in the number of treasury shares for the years ended December 31, 2019 and 2018 are stated as follows:

For the year ended December 31, 2019

<u>Reason for reclamation</u>	<u>Name of company holding shares</u>	<u>Number of shares at the beginning of the period (in thousand shares)</u>	<u>Increase in the period</u>	<u>Decrease in the period</u>	<u>Number of shares at the end of the period (in thousand shares)</u>
Maintenance of Chaintech's credit and shareholders' equity	Chaintech	<u>-</u>	<u>5,000</u>	<u>-</u>	<u>5,000</u>

For the year ended December 31, 2018

<u>Reason for reclamation</u>	<u>Name of company holding shares</u>	<u>Number of shares at the beginning of the period (in thousand shares)</u>	<u>Increase in the period</u>	<u>Decrease in the period</u>	<u>Number of shares at the end of the period (in thousand shares)</u>
Maintenance of Chaintech's credit and shareholders' equity	Chaintech	<u>-</u>	<u>7,750</u>	<u>( 7,750)</u>	<u>-</u>

3. On May 3, 2018, Chaintech's Board of Directors approved to cancel 7,750 thousand repurchased treasury shares. The cancellation of repurchased treasury shares and registration of change have been completed on May 23, 2018.

(XIII) Retained earnings

1. Under Chaintech's Articles of Incorporation, if there is a surplus in the annual final accounts, in addition to the income tax payable according to law, Chaintech shall first offset its losses in previous years and set aside a legal capital reserve at 10% of the earnings left over. However, when the accumulated legal capital surplus has equaled the total paid-up capital of Chaintech, the said restriction does not apply. After Chaintech has set aside or reversed the special capital reserve in accordance with relevant laws or the competent authority, along with the earnings not distributed at the beginning of the period, and after retaining part of the surplus depending on the situation, the Board of Directors may propose a surplus distribution proposal and submit it to the shareholders' meeting to distribute bonus to the shareholders.
2. Chaintech is in stable growth and expands in line with sales development in the future. The future capital expenditures and capital requirement are necessary to be considered first when Chaintech distribute the earnings. The Board of Directors proposes the distribution plan and distributes the earnings after being approved at the shareholders' meeting. In the annual distribution of shareholder dividends, cash dividend shall not be less than 5%, but if the cash dividend is less than NT\$0.1 per share, it may not be issued, and the stock dividend will be distributed instead.
3. The legal reserve shall not be used except for offsetting the loss of Chaintech and issuing new shares or cash in proportion to the original number of shares held by the shareholders. However, if it is issued to issue new shares or cash, the said legal reserve shall only exceed 25% at most of the paid-up capital.
4. (1) When Chaintech distributes the surplus, it is required by law to provide a special surplus reserve for the debit balance of other equity items on the balance sheet date of the current year. After that, when the debit balance of other equity projects is reversed, the amount of revolving will be included in the surplus available for distribution.  
(2) When Chaintech adopted IFRSs at first time, for the special reserve listed in the Official Letter of the Financial Management Certificate No. 1010012865 issued on April 6, 2012, Chaintech reversed the original portion of the said special reserve, and when Chaintech subsequently uses, disposes of, or reclassifies related assets, they are reversed according to the ratio of the recognized special reserve.
5. By a resolution in the shareholders' meeting on June 14, 2019, Chaintech adopted the earnings distribution plan for the year ended December 31, 2018 as follows: Chaintech's shareholders' meeting resolved on May 3, 2018 to fully retain the unappropriated earnings for the year ended December 31, 2017.

	<u>2018</u>	
	<u>Amount (NT\$ thousands)</u>	<u>Dividend per share (NT\$)</u>
Legal reserve	\$ 24,431	
Special reserve	24,033	
Cash dividends	152,246	\$ 1.5

6. Please refer to Note VI (XIX) for information on employees' compensation and directors' and supervisors' remuneration.

(XIV) Operating revenue		
	<u>2019</u>	<u>2018</u>
Sales revenue:		
Computer peripherals	\$ 3,778,635	\$ 3,923,553
Others	681	313
Less: Sales returns, discounts and allowances	<u>(188,202)</u>	<u>(168,728)</u>
	<u>\$ 3,591,114</u>	<u>\$ 3,755,138</u>
(XV) Other income		
	<u>2019</u>	<u>2018</u>
Dividend income	\$ 3,053	\$ 4,340
Interest income	2,437	2,335
Other income	193	179
	<u>\$ 5,683</u>	<u>\$ 6,854</u>
(XVI) Other gains and losses		
	<u>2019</u>	<u>2018</u>
Gain on financial assets at fair value through profit or loss, net	\$ 447	\$ 185
Gain on disposal of investments	25,943	-
Gain (loss) on foreign exchange, net	<u>(11,509)</u>	<u>29,793</u>
	<u>\$ 14,881</u>	<u>\$ 29,978</u>
(XVII) Financial costs		
	<u>2019</u>	<u>2018</u>
Interest expense:		
Bank loans	\$ 5,478	\$ 2,165
Lease liabilities	204	-
	<u>\$ 5,682</u>	<u>\$ 2,165</u>
(XVIII) Expenses by nature		
	<u>2019</u>	<u>2018</u>
Employee benefit expenses	\$ 26,090	\$ 32,277
Depreciation expense on property, plant and equipment	13,341	25
Depreciation expense on leased assets	1,481	-
	<u>\$ 40,912</u>	<u>\$ 32,302</u>
(XIX) Employee benefit expenses		
	<u>2019</u>	<u>2018</u>
Wages and salaries	\$ 21,269	\$ 27,962
Labor and health insurance expenses	1,472	1,076
Pension expense	733	616
Other employment cost	2,616	2,623
	<u>\$ 26,090</u>	<u>\$ 32,277</u>

1. According to Chaintech's Articles of Incorporation, after deducting the accumulated losses based on the profitability of the current year, if there are still some earnings left, the employee shall be granted no less than 0.1% as compensation, and the directors and supervisors shall not be paid more than 6% as remuneration.
2. For the years ended December 31, 2019 and 2018, the estimated amount of employee compensation was NT\$2,232 and NT\$3,723 respectively, and the

estimated amount of remuneration to directors and supervisors was NT\$2,232 and NT\$9,539 respectively; the aforesaid amounts were recognized as salary expenses.

Information regarding employee compensation and directors' and supervisors' remuneration approved by the Board of Directors is available on the Market Observation Post System (MOPS).

(XX) Income tax

1. Tax (gain) expense

Components of tax (gain) expense:

	<u>2019</u>	<u>2018</u>
Current income tax:		
Income tax incurred in the period	\$ -	\$ 52,380
Surtax on unappropriated retained earnings	2,180	-
Underestimated (overestimated) income tax in previous years	<u>55</u>	<u>( 4,113)</u>
Total income tax in the period	<u>2,235</u>	<u>48,267</u>
Deferred income tax:		
Origination and reversal of temporary differences	( 3,429)	2,193
Effect of tax rate changes	<u>-</u>	<u>( 330)</u>
Total deferred income tax	<u>( 3,429)</u>	<u>1,863</u>
Tax (gain) expense	<u>(\$ 1,194)</u>	<u>\$ 50,130</u>

2. Tax expense and accounting profit

	<u>2019</u>	<u>2018</u>
Income tax calculated based on profit before tax and at the statutory rate	\$ 21,150	\$ 58,867
Expenses that should be excluded pursuant to the taxation law	546	694
Tax exempted income pursuant to the taxation law	( 701)	( 699)
Tax effects of temporary differences	( 24,424)	2,895
Tax effects of deducting impairment loss	-	( 7,184)
Surtax on unappropriated retained earnings	2,180	-
Underestimated (overestimated) income tax in previous years	55	( 4,113)
Effect of tax rate changes	<u>-</u>	<u>( 330)</u>
Tax (gain) expense	<u>(\$ 1,194)</u>	<u>\$ 50,130</u>

3. The amount of deferred tax assets or liabilities that arise from temporary differences and losses from the taxable financial assets are set out below:

2019

	<u>January 1</u>	<u>Recognized in profit or loss</u>	<u>Recognized in other comprehensive income</u>	<u>December 31</u>
Temporary differences:				
Deferred tax assets				
Allowance for valuation loss and slow-moving loss	\$ 6	\$ 1,281	\$ -	\$ 1,287
Unrealized exchange loss	<u>-</u>	<u>2,148</u>	<u>-</u>	<u>2,148</u>
	<u>\$ 6</u>	<u>\$ 3,429</u>	<u>\$ -</u>	<u>\$ 3,435</u>

	<u>2018</u>			
	<u>January 1</u>	<u>Recognized in profit or loss</u>	<u>Recognized in other comprehensive income</u>	<u>December 31</u>
Temporary differences:				
Deferred tax assets				
Allowance for valuation loss and slow-moving loss	\$ 117	(\$ 111)	\$ -	\$ 6
Unrealized exchange loss	<u>1,752</u>	<u>( 1,752)</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,869</u>	<u>(\$ 1,863)</u>	<u>\$ -</u>	<u>\$ 6</u>

4. The amounts of deductible temporary differences not recognized as deferred tax assets are as follows:
5. The revenue service authority has assessed the profit-seeking enterprise income tax of Chaintech through 2017.
6. The amendment to the Income Tax Act came into force on February 7, 2018. The tax rate for the profit-seeking enterprise income tax was raised from 17% to 20%. The amendment became effective from 2018. Chaintech has assessed the impact of income tax on the change of the said tax rate.

(XXI) Earnings per share

	<u>2019</u>		
	<u>After-tax amount</u>	<u>Weighted average number of outstanding shares (thousand shares)</u>	<u>Earnings per share (NT\$)</u>
<u>Basic earnings per share</u>			
Basic earnings per share from common shareholders of parent	<u>\$ 106,942</u>	100,703	<u>\$ 1.06</u>
<u>Diluted earnings per share</u>			
Effect of dilutive potential ordinary shares			
Employees' compensation	<u>-</u>	<u>73</u>	
Diluted earnings per share from common shareholders plus effect of potential ordinary shares	<u>\$ 106,942</u>	<u>100,776</u>	<u>\$ 1.06</u>
	<u>2018</u>		
	<u>After-tax amount</u>	<u>Weighted average number of outstanding shares (thousand shares)</u>	<u>Earnings per share (NT\$)</u>
<u>Basic earnings per share</u>			
Basic earnings per share from common shareholders of parent	<u>\$ 244,304</u>	102,096	<u>\$ 2.39</u>
<u>Diluted earnings per share</u>			
Effect of dilutive potential ordinary shares			
Employees' compensation	<u>-</u>	<u>98</u>	
Diluted earnings per share from common shareholders plus effect of potential ordinary shares	<u>\$ 244,304</u>	<u>102,194</u>	<u>\$ 2.39</u>

(XXII) Supplemental cash flow information

Investing activities with partial cash payments:

	<u>2019</u>	<u>2018</u>
Purchase of property, plant and equipment	\$ 68,613	\$ -
Add: Advance on equipment, end of year	-	20,016
Less: Advance on equipment, beginning of year	(20,016)	-
Cash paid in the period	<u>\$ 48,597</u>	<u>\$ 20,016</u>

(XXIII) Changes in liabilities from financing activities

Changes in liabilities from financing activities in 2019 and 2018 were all changes in cash flows. Please refer to the parent company only statements of cash flows for details.

VII. Related Party Transactions

(I) Parent company and the ultimate controller

Chaintech is controlled by Yicheng International Development Co., Ltd. (incorporated in the Republic of China), which owns 28.11% of the shares of Chaintech. The rest is held by the public. The ultimate controller of Chaintech is the Colorful Group.

(II) Name and relationship of related parties

<u>Name of related party</u>	<u>Relationship with Chaintech</u>
Colorful Technology Co, Ltd (Colorful)	100% reinvestment business by Colorful Group
Shenzhen Colorful Yugong Technology and Development Co., Ltd. (Yugong)	The same person in charge as the Colorful Group
Shenzhen Jinghong Digital R&D Service Co., Ltd. (Jinghong)	Subsidiary of Chaintech
Sitonholy (Tianjin) Technology Co., Ltd. (Tianjin Sitonholy)	Subsidiary of Chaintech

(III) Material transactions with related parties

1. Operating revenue

	<u>2019</u>	<u>2018</u>
Sales of goods:		
Colorful	\$ 2,026,018	\$ 2,203,467
Yugong	120,700	-
Sales allowance		
Colorful	(148,917)	(133,729)
	<u>\$ 1,997,801</u>	<u>\$ 2,069,738</u>

Chaintech's transaction prices to related parties are not significantly different from those of the unrelated parties. The payment terms are OA 45~125 days depending on the different transaction object.

2. Accounts receivable from related parties

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Colorful	\$ 614,072	\$ 685,977
Yugong	2,714	-
	<u>\$ 616,786</u>	<u>\$ 685,977</u>

Accounts receivable from related parties mainly arise from sales transactions. Payment for sales transactions is made in accordance with the payment terms after the date of sale. The accounts receivable are unsecured and not interest-bearing.

3. Operating expenses

	<u>2019</u>	<u>2018</u>
Subsidiary		
Jinghong	\$ 7,328	\$ 6,690

Chaintech has commissioned a subsidiary to assist Chaintech in providing technical assistance such as market research and after-sales services and testing and business expansion. Expenses incurred in the aforementioned transactions shall be recorded in the operating expenses. As of December 31, 2019 and 2018, the amount not paid was NT\$2,011 and NT\$1,712 respectively, as shown in "Other Payables."

4. Advertising fees

After the launch of the products jointly developed by Chaintech and Colorful, both sides have agreed to pay no more than US\$60,000 per month as advertising expenses for the related parties. The amounts of advertising expense incurred in 2019 and 2018 were NT\$10,740 and NT\$13,366 respectively; the amounts not yet paid were NT\$5,886 and NT\$8,911 respectively and recognized as "Other Payables."

5. Endorsements and guarantees made by related parties

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Subsidiary		
Tianjin Sitonholy	\$ 55,965	\$ -

(IV) Key management compensation information

	<u>2019</u>	<u>2018</u>
Salary and other short-term employees' benefits	\$ 7,437	\$ 14,739

VIII. Pledged Assets

Chaintech's assets pledged as collateral were as follows:

	<u>Book value</u>		
<u>Pledged assets</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>	<u>Guarantee use</u>
Other current assets			
Bank deposits	\$ 33,005	\$ 4,615	Reserve accounts

IX. Significant Contingent Liabilities and Unrecognized Contract Commitments

(I) Contingencies

None.

(II) Commitments

- As of December 31, 2019, Chaintech's guaranteed letter of credit for the purchase was US\$1,500 thousand.
- Chaintech opened a promissory note for the purchase of goods as a guarantee for the purchase of loan claims. Chaintech had written promissory notes totaling NT\$200,000 as of December 31, 2019.

X. Significant Disaster Losses

None.

XI. Significant Events after the End of the Financial Reporting Period

On January 21, 2020, Chaintech's Board of Directors resolved to acquire a 13% equity interest in uSenlight Corporation at the amount of NT\$150,000. The investment was completed on March 16, 2020.



## XII. Others

### (I) Capital management

Chaintech's objectives in capital management are to safeguard its ability to continue as a going concern in order to maintain optimal capital structure in order to minimize the cost of funding and to provide remuneration for its shareholders. In order to maintain or adjust the capital structure, Chaintech may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

### (II) Financial instruments

#### 1. Category of financial instruments

For the information on Chaintech's financial assets (cash and cash equivalents, accounts receivable, and other receivables) and financial liabilities (current borrowings, accounts payable, and other payables), please refer to Note VI and the parent company only balance sheets.

#### 2. Risk management policies

(1) Chaintech's daily operations are affected by a number of financial risks, including market risk (including exchange rate risk, interest rate risk, and price risk), credit risk, and liquidity risk.

(2) The risk management is carried out by Chaintech's finance department according to the policies approved by the Board of Directors. Chaintech's finance department identifies, evaluates and hedges financial risks in close cooperation with Chaintech's internal operating units. The Board has established written principles for overall risk management, and provides written policies for specific areas and matters such as exchange rate risk, interest rate risk, credit risk and remaining liquidity.

#### 3. The nature and degrees of significant financial risks

##### (1) Market risk

##### Exchange rate risk

A. Chaintech is a multinational operation and is exposed to exchange rate risk, which is mainly denominated in USD and CNY. The related exchange rate risk arises from future commercial transactions and recognized assets and liabilities.

B. Business of Chaintech is involved in a number of non-functional currency (the functional currency of Chaintech is NTD) and deeply affected by the exchange rate fluctuation. The information of significant impact affected by exchange rate fluctuation for foreign assets and liabilities is as follow:

December 31, 2019

(Foreign currency: Functional currency)	<u>Foreign currency</u> <u>(in thousands)</u>	<u>Exchange rate</u>	<u>Carrying amount (NT\$)</u>
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 35,387	29.980	\$ 1,060,902
<u>Non-monetary items</u>			
CNY:NTD	\$ 109,721	4.305	\$ 472,349
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	\$ 15,867	29.980	\$ 475,693

December 31, 2018

(Foreign currency: Functional currency)	<u>Foreign currency</u> <u>(in thousands)</u>	<u>Exchange rate</u>	<u>Carrying amount (NT\$)</u>
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 45,877	30.715	\$ 1,409,112
<u>Non-monetary items</u>			
CNY:NTD	\$ 77,415	4.472	\$ 346,200
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	\$ 5,107	30.715	\$ 156,862

C. Chaintech's material monetary items affected by the exchange rate fluctuations for the years ended December 31, 2019 and 2018 were recognized as net exchange (loss) gain (including realized and unrealized) at the aggregated amount of NT(\$11,509) and NT\$29,793 respectively.

D. Chaintech's foreign currency market risk analysis due to significant exchange rate fluctuations is as follows:

(Foreign currency: Functional currency)	<u>Range of change</u>	<u>2019</u>	
		<u>Sensitivity analysis</u>	
		<u>Effects on</u> <u>profit or loss</u>	<u>Effects on other</u> <u>comprehensive income</u>
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 10,609	\$ -
<u>Non-monetary items</u>			
CNY:NTD	1%	\$ 4,723	
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 4,757	\$ -

(Foreign currency: Functional currency)	<u>Range of change</u>	<u>2018</u>	
		<u>Sensitivity analysis</u>	
		<u>Effects on</u> <u>profit or loss</u>	<u>Effects on other</u> <u>comprehensive income</u>
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 14,091	\$ -
<u>Non-monetary items</u>			
CNY:NTD	1%	\$ 3,462	\$ -
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 1,569	\$ -

**Price risk**

A. Chaintech's equity instruments exposed to price risk are financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income. To manage the price risk of investments in equity instruments, Chaintech diversifies its portfolio with its diversification method based on limits set by Chaintech.

B. Chaintech's equity instruments issued by Chaintech are mainly

invested in equity instruments issued by the domestic companies, which are affected by the uncertainty of the future value of the investment underlying the investment target. If the prices of these equity instruments increase or decrease by 1%, with all other factors remaining unchanged, profit after tax for the years ended December 31, 2019 and 2018 will increase or decrease by NT\$22 and NT\$18 respectively due to gain or loss on equity instruments at fair value through profit or loss, and other comprehensive income for the same years will increase or decrease by NT\$1,370 and NT\$1,090 respectively due to gain or loss on equity instruments at fair value through other comprehensive income.

Cash flow and fair value interest rate risk

- A. Chaintech's interest rate risk arises primarily from short-term borrowings issued at variable rates, which expose Chaintech to cash flow interest rate risk. For the years ended December 31, 2019 and 2018, Chaintech's borrowings issued at variable rates were mainly denominated in USD.
  - B. Chaintech's borrowings are measured at amortized cost and are re-priced at the contract annual rate every year. Therefore, Chaintech is exposed to the risk of changes in future market interest rates.
  - C. If the borrowing interest rate increases/decreases by 1%, with all other variables held constant, profit before tax for the years ended December 31, 2019 and 2018 will decrease or increase by NT\$1,253 and NT\$0 respectively. Changes in interest expense mainly result from floating-rate borrowings.
- (2) Credit risk
- A. Chaintech's credit risk is primarily attributable to the risk of financial loss from customers or the counterparty of financial instruments who are unable to fulfill the contract obligation. That credit risk is mainly from the fact that the counterparty is unable to pay off the accounts receivable payable on the terms of the payment.
  - B. Chaintech manages their credit risk taking into consideration Chaintech's concern. For banks and financial institutions that are in the process of setting up, only those with good credit rating can be accepted as the transaction target. For credit policies established internally, the individual operating entities within Chaintech shall undergo management and credit risk analysis before setting the terms and proposing the shipment terms and conditions for each new customer. Internal risk control is evaluated by considering its financial position, historical experience and other factors to assess the credit quality of customers. Limits on individual risks are formulated by the Board of Directors based on internal or external ratings and regularly monitored by the Board of Directors.
  - C. Chaintech adopts IFRS 9 to make the following assumptions as to whether the credit risk on financial instruments since initial recognition has increased by the following:
    - (A) When the contract amount is overdue for more than 30 days in accordance with the agreed payment terms, the credit risk has been significantly increased since the original recognition of the financial assets.
    - (B) There are actual or expected significant changes in external credit ratings of financial instruments.

- D. Chaintech adopts IFRS 9 to make assumptions that if the contract amount is overdue for more than 90 days in accordance with the agreed payment terms, it is regarded that a default has taken place.
- E. Chaintech will group the customer's accounts receivable based on the characteristics of the customer's rating and customer type, and use the simplified method to estimate the expected credit loss based on the preparation matrix.
- F. Chaintech includes the forward-looking consideration to adjust the loss rate established by historical and current information for a specific period so as to estimate the allowance loss for accounts receivable by the said loss rate. The provision matrix as of December 31, 2019 and 2018 is as follows:

	<u>Not overdue</u>	<u>Total</u>
<u>December 31, 2019</u>		
Expected loss rate	<u>0.03%</u>	
Total book value	<u>\$ 844,819</u>	<u>\$ 844,819</u>
Allowance for loss	<u>\$ 323</u>	<u>\$ 323</u>

	<u>Not overdue</u>	<u>Total</u>
<u>December 31, 2018</u>		
Expected loss rate	<u>0.03%</u>	
Total book value	<u>\$ 918,887</u>	<u>\$ 918,887</u>
Allowance for loss	<u>\$ 323</u>	<u>\$ 323</u>

- G. The statement of allowance loss for accounts receivable of Chaintech using simplified approach is as follows:

	<u>2019</u>
	<u>Accounts receivable</u>
January 1	\$ 323
Provision of impairment loss	-
December 31	<u>\$ 323</u>

	<u>2018</u>
	<u>Accounts receivable</u>
January 1_IAS 39	\$ 323
Adjustments under new standards	-
January 1_IFRS 9	\$ 323
Provision of impairment loss	-
December 31	<u>\$ 323</u>

(3) Liquidity risk

- A. Cash flow prediction is performed by individual operating entities within the Group and are aggregated by the Group's finance department. The Group's finance department monitors the Group's liquidity requirements predict to ensure that it has sufficient funds to support its operational needs and maintains sufficient unencumbered borrowing commitments at all times so that the Group does not violate the relevant borrowing limits or terms.
- B. The surplus cash held by each operating entity will be transferred back to the Group finance department when it exceeds the management needs of the working capital. The Group finance department invests the surplus funds in interest-bearing demand deposits and fixed

deposits, and the selected instruments have appropriate maturity dates or sufficient liquidity to meet the above forecasts and provide sufficient water and effluents.

C. Chaintech's non-derivative financial liabilities are due within the next year except for guarantee deposit received (listed in other non-current liabilities).

(III) Fair value information

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

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

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

Level 3: Unobservable inputs for the asset or liability. Chaintech's investment in equity instruments without active market is included.

2. For financial instruments not measured at fair value, including cash and cash equivalents, accounts receivable (including related parties), other receivables, short-term loans, accounts and other payables, their carrying amounts are a reasonable approximation of their fair value.

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

(1) Chaintech classifies its assets and liabilities according to the nature of assets and liabilities as follows:

December 31, 2019	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Assets</b>				
<u>Recurring fair value</u>				
Financial assets at fair value through profit or loss				
Equity securities	\$ 2,172	\$ -	\$ -	\$ 2,172
Financial assets at fair value through other comprehensive income				
Equity securities	<u>121,695</u>	<u>-</u>	<u>15,350</u>	<u>137,045</u>
Total	<u>\$123,867</u>	<u>\$ -</u>	<u>\$ 15,350</u>	<u>\$139,217</u>

December 31, 2018	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Assets</b>				
<u>Recurring fair value</u>				
Financial assets at fair value through profit or loss				
Equity securities	\$ 1,755	\$ -	\$ -	\$ 1,755
Financial assets at fair value through other comprehensive income				
Equity securities	<u>93,635</u>	<u>-</u>	<u>15,350</u>	<u>108,985</u>
Total	<u>\$ 95,390</u>	<u>\$ -</u>	<u>\$ 15,350</u>	<u>\$110,740</u>

(2) Methods and assumptions Chaintech used to measure the fair value are as follow:

A. The instruments that Chaintech uses market-quoted prices as their fair

values (i.e., Level 1) are listed below by characteristics:

	<u>Listed shares</u>
Market quoted price	Closing price

- B. In addition to the aforementioned financial instruments with active markets, the fair value of the remaining financial instruments is obtained by means of evaluation techniques or reference to counterparty quotes. The fair value obtained through evaluation techniques can refer to the current fair value of other substantial financial instruments with similar conditions and characteristics, discounted cash flow method or other evaluation techniques, including calculations based on the market information utilization model available on the date of the consolidated balance sheets (e.g., the reference yield curve offered by Taipei Exchange or the average offer price of Reuters commercial paper interest rate).
- C. The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of Chaintech's financial and non-financial instruments. Therefore, the estimated value of the evaluation model will be adjusted according to additional parameters, such as model risk or liquidity risk. According to Chaintech's fair value evaluation model management policy and related control procedures, the management believes that the adjustment is appropriate and necessary to recognize the fair value of financial instruments and non-financial instruments in the consolidated balance sheets. The price information and parameter used in the valuation process are carefully evaluated and adjusted appropriately based on current market conditions.
- D. Chaintech absorbs the adjustment of credit risk assessment into the fair value measurement of financial and non-financial instruments to reflect the credit risk of counterparties and the credit quality of Chaintech.
4. There was no transfer between Level 1 and Level 2 for the years ended December 31, 2019 and 2018.
5. The following chart indicates the movement of Level 3 for the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
	<u>Equity instruments</u>	<u>Equity instruments</u>
January 1	\$ 15,350	\$ -
Acquired in the period	-	15,350
December 31	<u>\$ 15,350</u>	<u>\$ 15,350</u>

6. There were no transfer into and out of Level 3 for the years ended December 31, 2019 and 2018.
7. The finance department of Chaintech is in charge of valuation procedures for fair value measurements being categorized within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable, and in line with other resources and represented as the exercisable price, and frequently calibrating valuation model, performing back-testing, updating inputs used to the valuation model, and making any other necessary adjustments to the fair value.

8. Quantitative information and sensitivity analysis of significant unobservable inputs to the valuation models used in the valuation models for Level 3 fair value measurement and the sensitivity analysis of changes in significant unobservable inputs are as follows:

	<u>Fair value as of</u> <u>December 31, 2019</u>	<u>Valuation</u> <u>technique</u>	<u>Significant unobservable</u> <u>inputs</u>	<u>Relationship between inputs</u> <u>and fair value</u>
Non-derivative equity instruments:				
Shares of unlisted companies	\$ 15,350	Market price method	Lack of marketability discount, expected equity volatility	The higher the lack of marketability discount and expected equity volatility, the lower the fair value

	<u>Fair value on</u> <u>December 31, 2018</u>	<u>Valuation</u> <u>technique</u>	<u>Significant unobservable</u> <u>inputs</u>	<u>Relationship between inputs</u> <u>and fair value</u>
Non-derivative equity instruments:				
Shares of unlisted companies	\$ 15,350	Discounted cash flow method	Long-term revenue growth rate, weighted average cost of capital, net operating profit before tax, lack of marketability discount, discount price discount	The higher the long-term revenue growth rate and long-term operating net profit before tax, the higher the fair value; the higher the lack of marketability discount; the lower the fair value

9. Chaintech carefully evaluates the valuation models and inputs used in selecting the valuation models and inputs that the valuation models may result in different valuation models. For financial assets classified as Level 3, if the evaluation parameters change, the impact on other comprehensive gains and losses is as follows:

		<u>December 31, 2019</u>		
		<u>Recognized in other comprehensive income</u>		
	<u>Input</u>	<u>Change</u>	<u>Favorable change</u>	<u>Unfavorable change</u>
Financial assets				
Equity instruments	Lack of marketability discount, expected equity volatility	±1%	<u>\$ 154</u>	<u>\$ 154</u>

		<u>December 31, 2018</u>		
		<u>Recognized in other comprehensive income</u>		
	<u>Input</u>	<u>Change</u>	<u>Favorable change</u>	<u>Unfavorable change</u>
Financial assets				
Equity instruments	Long-term revenue growth rate, weighted average growth rate of capital, long-term operating net income before tax, lack of marketability discount	±1%	<u>\$ 154</u>	<u>\$ 154</u>

### XIII. Supplementary Disclosures

- (I) Information on significant transactions
1. Capital loans to others: None.
  2. Endorsements and guarantees: Please refer to Table 1.
  3. Marketable securities held at the end of the period (excluding investment in subsidiaries): Please refer to Table 2.
  4. Accumulated acquisition or disposal of the same securities reaching NT\$300 million or 20% of paid-in capital or more: Please refer to Table 3.

5. Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.
6. Disposal of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.
7. Purchases and sales with related parties reaching NT\$100 million or 20% of paid-in capital or more: Please refer to Table 4.
8. Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more: Please refer to Table 5.
9. Derivative transactions: None.
10. Parent-subsidiary and subsidiary-subsidiary business relations and significant transactions and amounts thereof: Please refer to Table 6.

(II) Information on investees

Information on investee companies (not including investee companies in Mainland China): None.

(III) Investment information in Mainland China

1. Basic information: Please refer to Table 7.
2. Significant transactions between Chaintech and investees in Mainland China directly or indirectly through entities in a third area: Please refer to Table 8.

XIV. Segment Information

Exempt from disclosure.



Chaintech Technology Corp.

Cash Statement

December 31, 2019

Statement 1	Items	Description	Unit: NT\$ thousand
			Amount
	Cash on hand and petty cash		\$ 105
	Checking deposits and demand deposits		
	- NTD deposits		3,747
	- Foreign currency deposits	US\$6,106,204.5, exchange rate at 29.98	183,064
		HK\$85,054.31, exchange rate at 3.84	327
		RMB 74,318.97, exchange rate at 4.30	320
		EUR 59.91, exchange rate at 33.55	2
			<u>\$ 187,565</u>

Chaintech Technology Corp.  
Statement of Changes in Non-current Financial Assets at Fair Value through Other Comprehensive Income  
For the Year Ended December 31, 2019

Statement 2	Name	Beginning of period		Increase in the period		Decrease in the period		End of period		Collateral or pledge	Unit: NT\$ thousand
		Number of shares	Fair value	Number of shares	Amount	Number of shares	Amount	Number of shares	Fair value		
	Shares of APAQ Technology Co., Ltd.	3,050,000	\$ 169,634	-	\$ -	-	\$ -	3,050,000	\$ 169,634	None	
	Shares of CloudMile Co., Ltd. (Cayman Islands)	510,204	15,350	-	-	-	-	510,204	15,350	None	
			184,984		-		-		184,984		
	Valuation adjustments		( 75,999)		28,060		-		( 47,939)		
			<u>\$ 108,985</u>		<u>\$ 28,060</u>		<u>\$ -</u>		<u>\$ 137,045</u>		

Chaintech Technology Corp.  
Statement of Accounts Receivable  
December 31, 2019

Statement 3			Unit: NT\$ thousand
Name	Description	Amount	Remarks
Non-related parties			
16N002		\$ 75,770	
16L002		64,013	
16W003		56,981	
Others		31,083	Each customer's balance did not exceed 5% of the account balance.
Less: Allowance for loss		( 137)	
		227,710	
Related parties			
Colorful Technology Co., Ltd.		614,258	
Shenzhen Colorful Yugong Technology and Development Co., Ltd.		2,714	
Less: Allowance for loss		( 186)	
		616,786	
		<u>\$ 844,496</u>	

Chaintech Technology Corp.

Inventory Breakdown

December 31, 2019

Statement 4

Unit: NT\$ thousand

<u>Items</u>	<u>Amount</u>		<u>Remarks</u>
	<u>Cost</u>	<u>Market price</u>	
Raw materials	\$ 203,353	\$ 196,918	Net realizable value as the market price
Work in process	78,771	78,771	
Finished goods	<u>16,234</u>	<u>14,635</u>	
	298,358	<u>\$ 290,324</u>	
Minus: Allowance for loss in inventory valuation	<u>( 8,034)</u>		
	<u>\$ 290,324</u>		

Chaintech Technology Corp.  
Statement of Changes in Investment Accounted for Using Equity Method  
For the Year Ended December 31, 2019

Statement 5

Unit: NT\$ thousand

Name	Balance, beginning of period		Increase in the period		Decrease in the period		Investment income (loss)		Balance, end of period		Market value or net equity value		Collateral or pledge	
	Number of shares	Book value	Number of shares	Amount	Number of shares	Amount	recognized in the period	Others (Note)	Number of shares	Equity %	Book value	Unit price (NT\$)		Total
Bahamas Federal Shanghai Co., Ltd.	10,428,985	\$ 124,503	-	\$ -	10,428,985	\$ 117,396	(\$ 8,545)	\$ 1,438	-	-	\$ -	\$ -	\$ -	None
Shenzhen Jinghong Digital R&D Service Co., Ltd.	-	215,843	-	259,609	-	-	19,717	( 22,820)	-	100%	472,349	-	472,349	None
Wise Providence Limited	1,500,000	5,854	-	-	1,500,000	5,994	-	140	-	-	-	-	-	None
		<u>\$ 346,200</u>		<u>\$ 259,609</u>		<u>\$ 123,390</u>	<u>\$ 11,172</u>	<u>(\$ 21,242)</u>			<u>\$ 472,349</u>		<u>\$472,349</u>	

Note: Including the share of other comprehensive income and gains (losses) on disposal of the subsidiary accounted for using equity method.

Chaintech Technology Corp.  
Statement of Accounts Payable  
December 31, 2019

Statement 6	Name	Description	Amount	Unit: NT\$ thousand Remarks
	Non-related parties			
	005505		\$ 209,218	
	005507		62,295	
	002884		31,277	
	Others		16,309	Each customer's balance did not
			<u>\$ 319,099</u>	exceed 5% of the account balance.

Chaintech Technology Corp.  
Statement of Operating Revenue  
For the Year Ended December 31, 2019

Statement 7	Items	Quantity	Amount	Unit: NT\$ thousand	Remarks
	Operating revenue:				
	Computer peripherals	1,473 thousand pieces	\$ 3,778,635		
	Others		681		
			3,779,316		
	Less: Sales return and allowances		( 188,202)		
	Net operating revenue		<u>\$ 3,591,114</u>		

Chaintech Technology Corp.  
Statement of Operating Costs  
For the Year Ended December 31, 2019

Statement 8	Items	Unit: NT\$ thousand Amount
	Raw materials and materials and supplies at the beginning of the period (including goods in transit)	\$ 64,424
	Add: Input amount, net	2,733,154
	Less: Disposal of raw materials	( 388,545)
	Raw materials and materials and supplies at the end of the period (including goods in transit)	( 203,353)
	Raw materials consumed during the current period (1)	2,205,680
	Manufacturing costs - processing cost (2)	76,469
	Total manufacturing costs (1)+(2)	2,282,149
	Add: Work-in-progress at the beginning of the period	31,438
	Acquired during the period	70,419
	Less: Transferred form finished goods	( 2,455,524)
	Work-in-process at the end of the period	( 78,771)
	Cost of finished goods	( 150,289)
	Add: Finished products at the beginning of the period	1,599
	Acquired during the period	747,643
	Transferred form finished goods	2,455,524
	Less: Finished products at the end of the period	( 16,234)
	Others	( 347)
	Cost of finished goods	3,037,896
	Loss on inventory market value decline	6,406
	Sale of raw materials	388,545
	Total operating costs	<u>\$ 3,432,847</u>



Chaintech Technology Corp.  
Statement of Operating Expenses  
For the Year Ended December 31, 2019

Statement 9

Unit: NT\$ thousand

Items	Selling expenses	Administrative expenses	Research and development expenses	Total
Payroll expenses	\$ 9,665	\$ 11,540	\$ 797	\$ 22,002
Advertising fees	17,021	-	-	17,021
Labor fees	9,167	5,450	-	14,617
Employee benefits	1,170	514	205	1,889
Freight	4,237	10	-	4,247
Public relations allowances	2,095	3,143	-	5,238
Other expenses (Note)	6,888	4,269	2,402	13,559
	<u>\$ 50,243</u>	<u>\$ 24,926</u>	<u>\$ 3,404</u>	<u>\$ 78,573</u>

Note: The amount of each individual item did not exceed 5% of the total amount of the account.

Chaintech Technology Corp.

Summary Statement of Current Period Employee Benefits, Depreciation, Depletion and  
Amortization Expenses by Function

For the Year Ended December 31, 2019

Statement 10		Unit: NT\$ thousand				
Type	Function	2019			2018	
		Operating costs	Operating expenses	Total	Operating costs	Operating expenses
Employee benefit expenses						
Salary expenses		\$ -	\$ 18,755	\$ 18,755	\$ -	\$ 18,146
Labor and health insurance premiums		-	1,472	1,472	-	1,076
Pension costs		-	733	733	-	616
Directors' remuneration		-	2,514	2,514	-	9,816
Other personnel costs		-	2,616	2,616	-	2,623
Depreciation expense		13,341	1,481	14,822	-	25

Note:

1. The number of employees for the current and previous years was 21 and 23 respectively, of which 4 employees were not directors concurrently.
2. Companies listed on the Taiwan Stock Exchange Corporation or Taipei Exchange are required to disclose the following information:
  - (1) The average employee benefit expense for the current year was NT\$1,387 (Total employee benefit for the current year - Directors' remuneration / "Number of employees for the current year - Number of employees who are not directors concurrently").
  - (2) The average employee benefit expense for the previous year was NT\$1,182 (Total employee benefit for the previous year - Directors' remuneration / "Number of employees for the previous year - Number of employees who are not directors concurrently").
  - (3) The average salary expense for the current year was NT\$1,103 (Total salary expense for the current year / "Number of employees for the current year - Number of employees who are not directors concurrently").
  - (4) The average salary expense for the previous year was NT\$955 (Total salary expense for the previous year / "Number of employees for the previous year - Number of employees who are not directors concurrently").
  - (5) The rate of adjustment in average salary expenses was 15.5% ("Average salary expense for the current year - Average salary expense for the previous year" / Average salary expense for the previous year).

Chaintech Technology Corp.  
Endorsements and Guarantees  
For the Year Ended December 31, 2019

Table 1

Unit: NT\$ thousand  
(Unless specified otherwise)

No.	Endorser/Guarantor	Subject of endorsements and guarantees		Relationship for a single enterprise	Ceiling limit on endorsements and guarantees	Maximum balance of endorsements and guarantees for the current period	Balance of endorsements and guarantees at the end of current period	Endorsements and guarantees used	Endorsements and guarantees secured with collateral	Ratio of aggregated endorsements and guarantees to net value in the most recent financial statements	Ceiling limit on endorsements and guarantees	Parent providing endorsements and guarantees	Subsidiary providing endorsements and guarantees	Endorsements and guarantees involving Mainland China	Remarks
0	Chaintech Technology Corp.	Sitonholly (Tianjin) Technology Co., Ltd.		2	\$ 776,024	\$ 55,965	\$55,965	\$55,965	\$ -	3.61	\$776,024	Y	N	Y	

Note 1: Explanations are as follows:

- (1) The issuer shall fill in 0.
- (2) The investees are numbered in alphabetical order beginning with the Arabic numeral 1.

Note 2: Listed below are the 7 types of companies to which Chaintech may provide endorsement/guarantee:

- (1) A company with which it does business.
- (2) A company in which Chaintech directly and indirectly holds more than 50% of the voting shares.
- (3) A company that directly and indirectly holds more than 50% of the voting shares in Chaintech.
- (4) Among companies Chaintech directly and indirectly holds 90% or more of the voting shares
- (5) A company with contractual mutual-endorsement requirement for construction contracts.
- (6) Companies endorsement guaranteed by all contributing shareholders according to their shareholding ratio for joint investment relation.
- (7) Joint and several guarantee for performance in engaging in preselling house contract among counterparts in accordance with consumer protection law.

Note 3: The ceiling limit on endorsements and guarantees provided by Chaintech, on endorsements and guarantees for a single enterprise, and on endorsements and guarantees provided by Chaintech and its subsidiaries should be 50% of the net value in the most recent financial statements respectively.

Chaintech Technology Corp.  
 Marketable Securities Held at the End of the Period (excluding Subsidiaries, Associates, and Joint Ventures)  
 For the Year Ended December 31, 2019

Table 2

Unit: NT\$ thousand  
 (Unless specified otherwise)

<u>Company holding securities</u>	<u>Type and name of securities</u>	<u>Relationship with the issuer of securities</u>	<u>Accounting item</u>	<u>Number of shares</u>	<u>End of period</u>		<u>Fair value</u>	<u>Remarks</u>
					<u>Carrying amount</u>	<u>Shareholding ratio</u>		
Chaintech Technology Corp.	Shares of INPAQ Technology Co., Ltd.	-	Current financial assets at fair value through profit or loss	57,000	\$ 2,172	0.04%	\$ 2,172	
Chaintech Technology Corp.	Shares of APAQ Technology Co., Ltd.	-	Non-current financial assets at fair value through other comprehensive income	3,050,000	121,695	3.61%	121,695	
Chaintech Technology Corp.	Shares of CloudMile Co., Ltd. (Cayman Islands)	-	Non-current financial assets at fair value through other comprehensive income	510,204	15,350	2.77%	15,350	
Sitonholy (Tianjin) Technology Co., Ltd.	Beneficiary certificates_Tianlibao net-value wealth management product	-	Current financial assets at fair value through profit or loss	-	135,607	-	135,607	
Beijing Sitonholy Technology Co., Ltd.	Beneficiary certificates_Gongying Wenjian Tiantianli wealth management product	-	Current financial assets at fair value through profit or loss	-	46,494	-	46,494	

Chaintech Technology Corp.  
Accumulated Acquisition or Disposal of the Same Securities Reaching NT\$300 Million or 20% of Paid-in Capital or More  
For the Year Ended December 31, 2019

Table 3

Unit: NT\$ thousand  
(Unless specified otherwise)

Investor	Type and name of securities (Note 1)	Accounting item	Counterparty (Note 2)	Relationship (Note 2)	Beginning of period		Acquisition (Note 3) (Note 4)		Number of shares	Selling price	Disposal (Note 3)		Gain or loss on disposal	End of period		
					Number of shares	Amount	Number of shares	Amount			Carrying value	Number of shares		Amount		
Shenzhen Jinghong Digital R&D Service Co., Ltd.	Sitonholly (Tianjin) Technology Co., Ltd.	Long-term equity investments - Tianjin	Non-related party, capital increase by cash	Subsidiary of Chaintech's subsidiary	-	\$ -	-	\$ 384,570	-	\$ -	-	\$ -	\$ -	-	-	\$ 342,073

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities.

Note 2: Fill in two separate columns if the marketable securities are recorded in investments using equity method. Others can be left blank.

Note 3: The accumulated cost of purchase and sales shall be calculated separately based on market value to see if the amount exceed NT\$300 million or 20% of Chaintech's paid-in capital.

Note 4: The amount of disposal includes contingent consideration.

Chaintech Technology Corp.  
Purchases and Sales with Related Parties Reaching NT\$100 Million or 20% of Paid-in Capital or More  
For the Year Ended December 31, 2019

Table 4

Unit: NT\$ thousand  
(Unless specified otherwise)

Company	Counterparty	Relationship	Purchase (sale)	Amount	Transaction		Unusual trade conditions and its reasons		Ratio of notes and accounts receivable (payable)		Remarks
					Percentage of total purchases (sales)	Credit period	Unit price	Credit period	Balance	to total notes and accounts receivable (payable)	
Chaintech Technology Corp.	Colorful Technology Co., Ltd.	100% reinvestment business by Colorful Group	Sales	\$ 1,877,101	52%	OA45 ~ 125 days	Not applicable	Not applicable	\$ 614,072	73%	-
Chaintech Technology Corp.	Shenzhen Colorful Yugong Technology and Development Co., Ltd.	The same person in charge as the Colorful Group	Sales	120,700	3%	OA 30 days	Not applicable	Not applicable	2,714	-	-
Sitonholly (Tianjin) Technology Co., Ltd.	Shenzhen Colorful Yugong Technology and Development Co., Ltd.	The same person in charge as the Colorful Group	Purchases	117,368	3%	OA 30 days	Not applicable	Not applicable	10,741	3%	-

Chaintech Technology Corp.  
 Receivables from Related Parties Reaching NT\$100 Million or 20% of Paid-in Capital or More  
 For the Year Ended December 31, 2019

Table 5

Unit: NT\$ thousand  
 (Unless specified otherwise)

<u>Company name</u>	<u>Counterparty</u>	<u>Relationship</u>	<u>Balance of receivables from related parties</u>		<u>Turnover rate</u>	<u>Overdue receivables from related parties</u>		<u>Receivables from related parties recoverable after period</u>	<u>Allowances for losses</u>		
			\$			\$					
Chaintech Technology Corp.	Colorful Technology Co., Ltd.	100% reinvestment business by Colorful Group	\$	614,072	2.89	\$	-	\$	70,783	(\$	186)

Chaintech Technology Corp.  
 Parent-subsiary and Subsidiary-subsiary Business Relations and Significant Transactions and Amounts Thereof  
 For the Year Ended December 31, 2019

Table 6

Unit: NT\$ thousand  
 (Unless specified otherwise)

No. (Note 1)	Company name	Counterparty	Relationship with counterparty (Note 2)	Account	Amount	Transaction status	Transaction terms	Percentage of consolidated revenue or total assets
0	Chaintech Technology Corp.	Shenzhen Jinghong Digital R&D Service Co., Ltd.	Parent company to a subsidiary	Operating expenses	\$ 7,328		Agreed by both parties	-
0	Chaintech Technology Corp.	Shenzhen Jinghong Digital R&D Service Co., Ltd.	Parent company to a subsidiary	Other payables	2,011		-	-

Note 1: Information of business contacts between the parent company and subsidiaries shall be specified in No. column. Please fill in the No. column following the instruction:

(1) The parent company is coded 0.

(2) The subsidiaries are coded from "1" in the order presented in the table above.

Note 2: Regarding the percentage of transaction amount to consolidated revenue or total assets, it is calculated based on the ending balance to consolidated total assets for balance sheet items; it is calculated based on interim accumulated amount to consolidated net revenue for profit or loss items.



Chaintech Technology Corp.  
Information on investments in Mainland China - Basic Information  
For the Year Ended December 31, 2019

Table 7

<u>Name of investee in Mainland China</u>	<u>Main businesses and products</u>	<u>Actual paid-in capital</u>	<u>Investment method (Note 1)</u>	<u>Accumulated investment amount remitted</u>		<u>Accumulated outflow or recovery</u>		<u>Accumulated investment amount remitted</u>	
				<u>from Taiwan at beginning of period</u>	<u>Outflow</u>	<u>Recovery</u>	<u>from Taiwan at end of period</u>		
Dongguan Changan Fortech Electronics Co., Ltd.	Production of motherboards, graphics cards, and computer peripherals	\$343,327	Investing in a third region to set up a company to reinvest in companies in Mainland China (through the investment of Bahamas Federal Shanghai Co., Ltd.)	\$	343,327	\$	- (\$343,327)	\$	-
Shenzhen Jinghong Digital R&D Service Co., Ltd.	Technology research and development and trading of electronic products, computer hardware, and peripheral devices	499,045	Direct investment		239,456	#####	-		499,065

Note 1: The method of investment in Mainland China includes the three following types:

- (1) Direct investment
- (2) Investment in Mainland China through a company set up in a third area (Bahamas Federal Shanghai)
- (3) Others

Note 2: The valuation is recognized in the financial statements audited by the CPAs of the parent company in Taiwan.

Note 3: In July 2019, the Group disposed of Bahamas Federal Shanghai and its subsidiary, Fortech Electronics. Proceeds from disposal amounted to US\$4,880 thousand.

<u>Company name</u>	<u>Accumulated investment amount remitted from Taiwan to Mainland China at end of period</u>	<u>Investment amount authorized by Investment Commission, MOEA</u>	<u>Ceiling on investment in Mainland China regulated by Investment Commission, MOEA</u>
Chaintech Technology Corp.	\$ 499,065	\$ 1,022,416	\$ 1,032,146

Note: Chaintech invested US\$5 million in Shenzhen Jinghong Digital R&D Service Co., Ltd., which was approved by the Investment Commission, Ministry of Economic Affairs on November 26, 2015. US\$3 million (equivalent to NT\$96,780) was remitted in April 2016, and remaining US\$2 million was remitted on January 3, 2019.

Note: Chaintech increased capital of Shenzhen Jinghong Digital R&D Service Co., Ltd. by US\$6.4 million, which was approved by the Investment Commission, Ministry of Economic Affairs on February 1, 2019. The full investment was remitted in 2019.

Chaintech Technology Corp.

Information on Investments in Mainland China - Significant Transactions between Chaintech and Investees in Mainland China Directly or Indirectly through Entities in a Third Area  
For the Year Ended December 31, 2019

Table 8

Unit: NT\$ thousand  
(Unless specified otherwise)

Name of investee in Mainland China	Sales (purchases)		Property transactions		Accounts receivable (payable)		Endorsements and guarantees or collateral provided		Highest balance within the period	Financing Balance at end of period	Interest range	Interest in the current period	Others
	Amount	%	Amount	%	Balance	%	Balance at end of period	Purpose					
Shenzhen Jinghong Digital R&D Service Co., Ltd.	\$ -	-	\$ -	-	(\$ 2,011)	-	\$ -	-	\$ -	\$ -	-	\$ -	Operating expenses \$7,328