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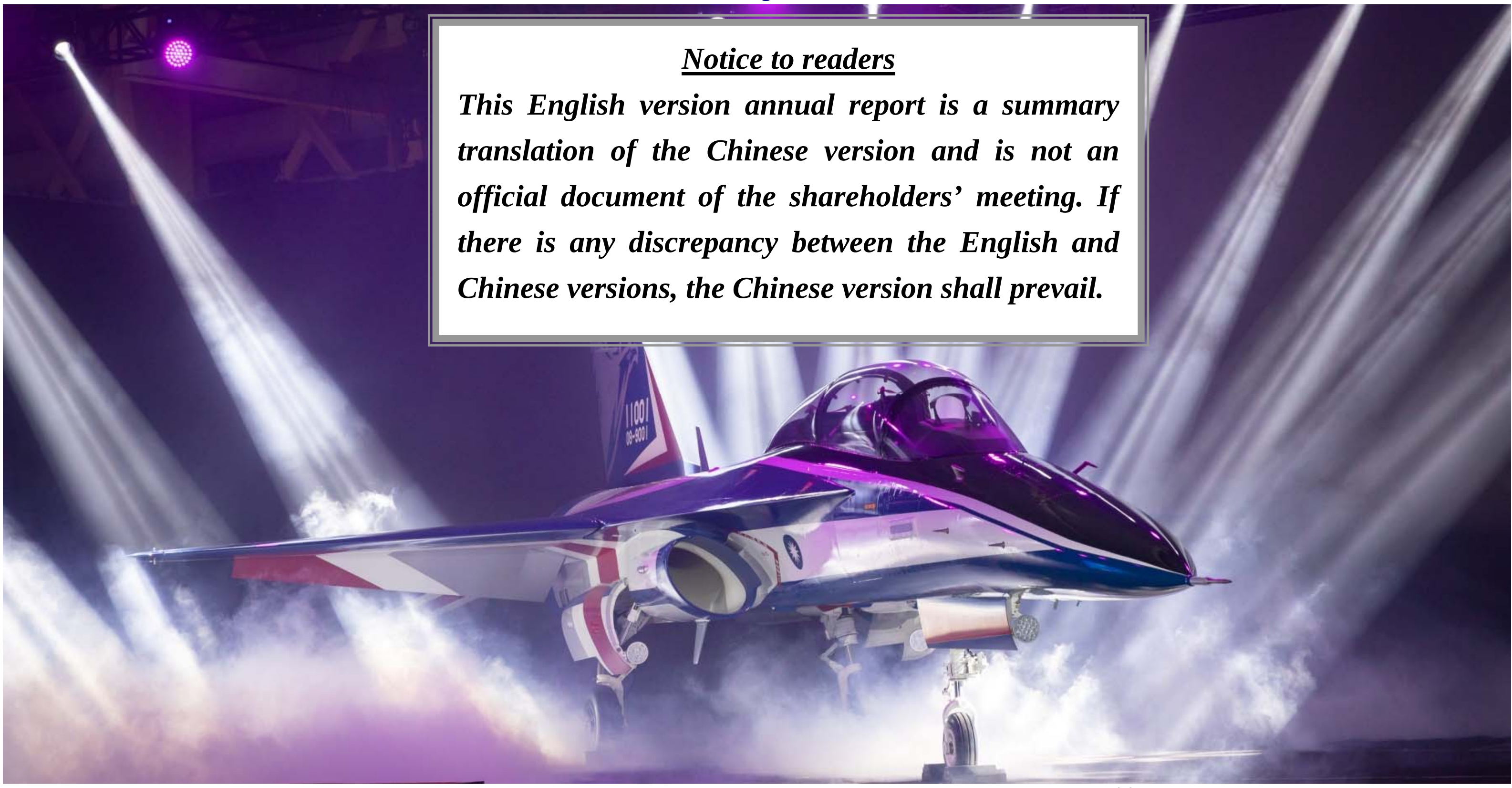
Aerospace Industrial Development Corporation
Annual Report 2019



Notice to readers

This English version annual report is a summary translation of the Chinese version and is not an official document of the shareholders' meeting. If there is any discrepancy between the English and Chinese versions, the Chinese version shall prevail.

AIDC annual report is available at：http://www.aidc.com.tw
Taiwan Stock Exchange Market Observation Post System：http://mops.twse.com.tw
Printed in APR. 2020

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Title: President	E-mail:IR@ms.aidc.com.tw
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Title: Director of Strategy and Opperational Management Dept.	E-mail: IR@ms.aidc.com.tw

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Stock Transfer Agent Information

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Overseas Securities Exchange Information: N/A

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I. Letter to Shareholders

Dear Valued Shareholders,

Amidst fierce global competition, the Aerospace Industrial Development Corporation (hereinafter referred to as AIDC) has achieved several accomplishments and significant construction which have included; the construction of Turbine Center Frame (TCF) to facilitate AIDC's aero engine business; the roll-out ceremony of the Advanced Jet Trainer which was officially named the Yung-ying (Brave Eagle); the completion of AIDC Brand 16G Commercial Airline Seats; and the signing of the F-16 Strategic Alliance MOU with Lockheed Martin Corporation (LMC). With a concerted effort between employees and management, the revenue of 2019 continued to steadily develop.

Based on Airbus and Boeing's forecasts of the commercial aviation market for the next 20 years (2019-2038), demand for new airplanes is estimated at 39,210 to 44,040. The Global Market Forecast released by Boeing, shows a total market value of approximately $6.8 trillion U.S. dollars, MRO market value estimated approximately $9.1 trillion U.S. dollars, single-aisle aircraft remains the mainstream model which accounts for more than 70% of the demand, and the Revenue Passenger Kilometer (RPK) will enjoy a 4.3% to 4.6% annual growth. Overall, the commercial aviation industry is in steady growth.

According to MarketsandMarkets Research institution' forecast, the aircraft cabin interiors market is projected to reach $10 billion U.S. dollars in 2025, with 7.25% annual growth.

As for the aero engine market, Forecast International's forecast indicates that for the next 10 years there will be 164,000 deliveries, with a total value of $930 billion U.S. dollars.

That being said, the Boeing 737MAX accidents had resulted in delay and suspension of new aircraft deliveries in 2019, which would have drastically impacted on our revenue. While the exact time remains pending for the B737MAX return to the skies, AIDC immediately activated risk control measures including pin-pointing among the current businesses for possible additional revenues which could be attained, and made them happen through resource reallocation and integration. The efforts were challenging but paid off in helping AIDC achieve the revenue goal set for fiscal year2019.

AIDC has expanded business and upgraded self-developed capability including, the construction of the Turbine Center Frame in last year; received the Letter of Design Approval (LODA) for self-developed 16G airline seats by the Federal Aviation Administration (FAA) of the United States in last May; and signed the Cooperation Memorandum of Intent for a New Pattern of Aviation with China Airlines in last November, as a prudent response to market opportunities and challenges alike.

For the current stage and in addition to exploring additional commercial aircraft business, AIDC is focused on three primary tasks; “Indigenous Development of an Advanced Jet Trainer”, “Supply Chain Integration” and “Establishment of Fleet Maintenance Center”, and dedicated to achieving the objectives including, AJT maiden flight, F-16A/B upgrade, and establishment of F-16 fleet maintenance center.

Firstly, to achieve the “indigenous development of an advanced jet trainer”, AIDC is making every effort to achieve the AJT's successful maiden flight in this June. In the meantime, we intend to continue to cultivate aerospace talents and complete each tasks through a mentor and apprentice system, to reach the goal of sustainable development of “Aviation industry technology upgrade”.

Secondly, the near term goal of establishing the Fleet Maintenance Center is aimed to successfully perform the F-16A/B upgrade with a skillful and high quality maintenance workforce. To take one step further for Taiwan's future fighter R&D and its subsequent domestic maintenance, in December 2019, AIDC signed a strategic alliance MOU with Lockheed Martin to promote the initiative of F-16 Maintenance

Center. AIDC believes the establishment will help boost the development of Taiwan's aerospace industry; expand the participation of industrial supply chain; increase the industrial output value to the next level; and strengthen the work force of Taiwan's aerospace industry.

Thirdly, integration of Taiwan's supply chain is a continuing effort by the Taiwan Aerospace Industry A-Team 4.0 Alliance, through which AIDC continues to lead the domestic aerospace and related industry members to lean transformation, consolidate industry consensus, integrate the advantages of domestic suppliers, to balance and expand the suppliers in four sectors including; production parts, standard parts & fasteners, system parts, and raw materials thereby gradually promoting the transformation and upgrading of the domestic supply chain system, enhancing the competitive position of the regional aerospace market; and connecting with international business opportunities.

I would like to express our most sincere appreciation and gratitude to all our valued shareholders for your unwavering support of AIDC. The summary of the report on the operation results for FY 2019 and the business plan for FY 2020 are presented hereunder.

FY 2019 Operation Highlights

Revenue and Income

Driven by the growth of the engine business, the AIDC had hit a new record high in consolidated revenue of NT$28,542,021 (in thousands) in FY 2019, which was an increase of 1.3% over the previous year.

The cost of aviation products are closely related to factors of production scale, learning curve efficiency and product portfolio. Thanks to the benefits brought by these factors and cost improvements, the operating profit in FY 2019 was NT$2,445,370 (in thousands) with a 8.6% margin, which was higher than the previous year. However, the fluctuation of exchange rate with the USD caused in a net exchange loss, and the net income was NT$1,874,290 (in thousands) in FY 2019, net profit margin was 6.6%, and EPS was NT$1.99.

Research and Development Outlook

The R&D expenses of AIDC in FY 2019 amounted to NT$548,280 thousand with the development of "Pilot Project for Aerospace Composites and Intelligent Manufacturing Industrial Innovation" together with 26 projects, results of which could help to upgrade the overall technological capability and production capacity while facilitating the pursuit of better business opportunities.

Credentials and Awards

Corporate Governance:

＊Ranked in Top 20% Corporate Governance Evaluation TWSE listed companies in Apr. 2019
＊Received 2019 SQIP Best Improver Award from Airbus in Apr. 2019
＊Selected as "TWSE Corporate Governance 100 Index" stock by Taiwan Stock Exchange Corporation in July 2019
＊Ranked 38th in the "CSR Award in Traditional Manufacturers Category" by the Global Views Magazine in Aug. 2019
＊Granted Enterprise Project Management Benchmarking Award by PMI Taiwan International in Nov. 2019
＊Granted "Social Innovation Award" by Taiwan Social Enterprise Sustainable Development Association in Nov. 2019
＊Awarded Silver Medal in 2019 Taiwan Continuous Improvement Competition-(Special Group and Tzu-Chiang Group) by Corporate Synergy Development Center in Dec. 2019
＊Awarded Golden Medal in TTQS Evaluation by Workforce Development Agency of Ministry of Labor in Dec. 2019

Sustainable Environment:

＊Received “Green Procurement Enterprise and Group” Award by Taichung City Government in June 2019

＊Received “National Corporation Environmental Award” (Manufacture Sector: Silver Medal) by Environmental Protection Administration Executive Yuan in Nov. 2019

＊Awarded ”2019 Taiwan Corporate Sustainability Awards” - Corporate Sustainability Report Awards (Traditional Manufacturing: Silver Medal) and People Development Award in Best Performance of Specific Category in Nov. 2019

＊Received “Material Flow Cost Accounting Outstanding Award” by Industrial Development Bureau of Ministry of Economic Affairs in Nov. 2019

＊Received “National Occupational Safety and Health Workplace Award” – Enterprise Model Award by Ministry of Labor in Dec. 2019

Labor-Management Relation

＊Ranked 2nd in “National Slow Pitch Softball President Cup” - State-Owned Enterprise Group in Sep. 2019

＊Received “2018 Occupational Safety and Health Workplace Five-Star Award” by Ministry of Labor in Sep. 2019

＊Received “Excellent Health Occupational and Health Management Award” and “Outstanding Personnel Award for the Promotion of Healthy Workplace” by Taichung City Government in Sep. 2019

＊Ranked 1st in “Taiwan *i*Sport Enterprise Annual Award” by the Sports Administration of the Ministry of Education in Oct. 2019

＊Received Certification of *i*Sport Enterprise by the Sports Administration of the Ministry of Education in Oct. 2019

＊Received “2018 Occupational Safety and Health Workplace Five-Star Award”- Taichung CSR Model by Taichung City Government in Nov. 2019

＊Received “National Occupational Safety and Health Workplace Award” – CSR Enterprise Model Award by Taichung City Government in Dec. 2019

Business Plan for FY 2020

Business Development Planning

＊In the area of defense business, AIDC is dedicated to expanding business in military aircraft manufacturing, maintenance, upgrade, fleet commercial maintenance, GOCO and military engine parts manufacturing and maintenance.

＊In the area of commercial aviation, AIDC seeks to expand business in structural parts and assemblies of commercial aircraft and engines.

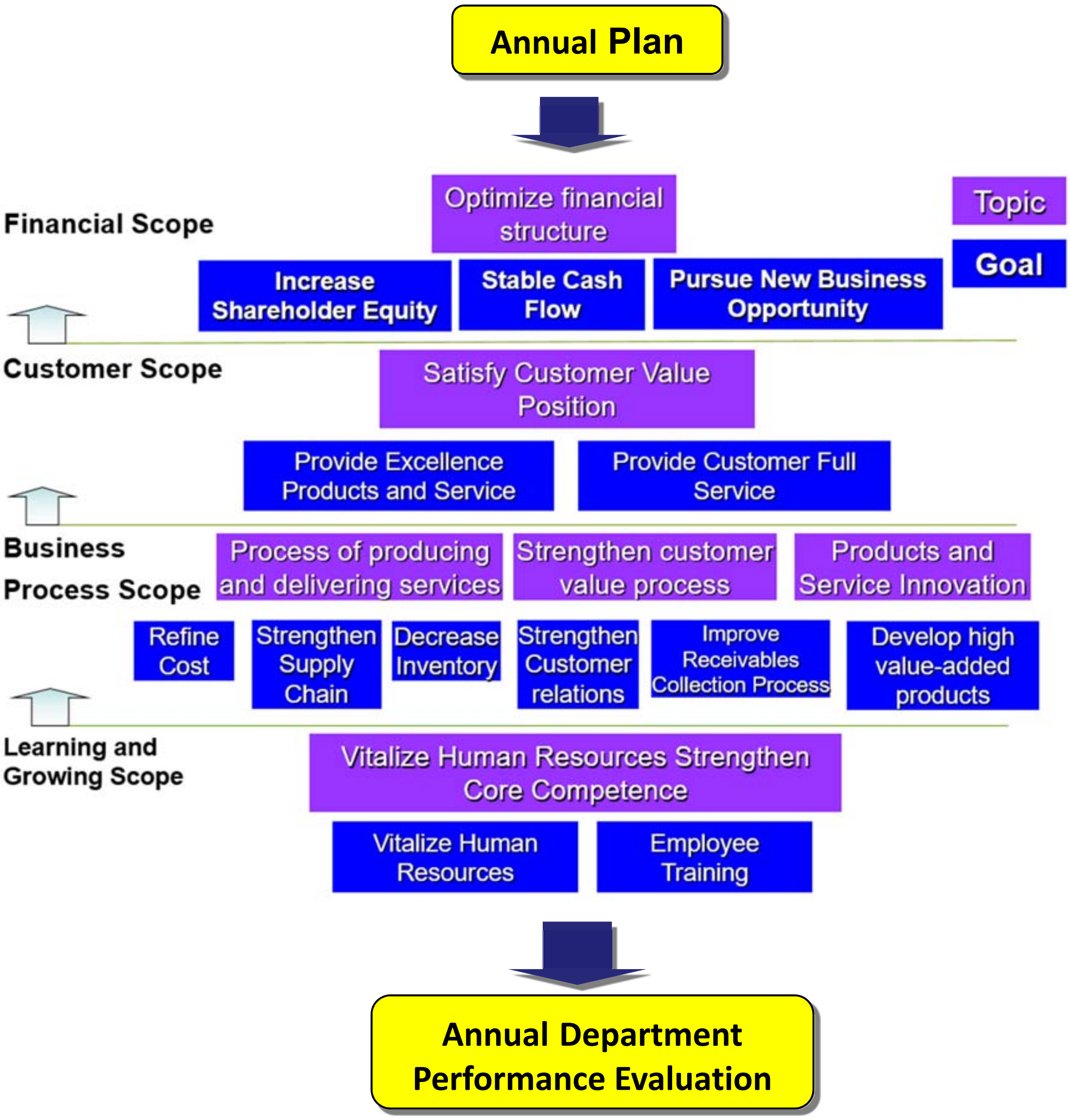
＊In the area of industrial technology service, AIDC will focus on R&D, design, manufacture, testing, system integration and after-sales service of products derived from the application of aerospace technology.

Corporate Management Policy

AIDC will spare no effort to secure and pursue beneficial business opportunities and will continue to adopt a Balanced Scorecard (BSC) as a management tool. This BSC system helps to align and link AIDC’s vision, strategy, and objectives with major tasks and plans of each department, and which AIDC is able to continue to improve its business management while implementing a culture of accountability.

The corporate business management policy of FY 2020 formulated in the following order: (1) strategies (or directions); (2) objective of each strategy; and (3) major Key Performance Indicators (KPI) of each strategy objective. Together with KPIs concerning of “Corporate Value”, this policy will be clearly illustrated and announced through corporate-level meetings for each department to deploy and develop its implementation plan accordingly as well as propose its action plans to reach KPIs from the bottom up.

These tasks will be demonstrated in department performance evaluation system of FY 2020.



Entering FY2020 the question whether the B737 Max will be certified for flight remains unanswered and the worldwide outbreak of COVID-19 pandemic has made an unprecedented impact upon supply chains of the global aviation industry. AIDC is no exception and we are bracing for the consequences of the global economic slowdown. To cope with the challenge, AIDC has formed an "ad-hoc" team tasked to closely monitor and manage operational risks. We have also generated contingency plans for various stages should the pandemic escalate. AIDC has risks under control and is prepared to mitigate any impact.

AIDC as the leader in the Taiwan aerospace industry, who also has a good share of responsibility in national defense, has over the past two decades remain committed in elevating the level of technology and skills through a strong industrial satellite system. With years of experience growing and technologies evolving, now AIDC marches into the international arena with Taiwan’s domestic supply chain offering world-standard products and services to the international market. Back in our homebase AIDC remains focused on three primary tasks; “Indigenous Development of an Advanced Jet Trainer”, “Supply Chain Integration” and “Establishment of (the F-16) Fleet Maintenance Center.” They are three vital avenues that will lead us through continued development and advancement on aerospace technologies in the following priorities:

1. Advancement of military aircraft full scale R&D;
2. Aerospace key components development;
3. Sophisticated measures for mass production;
4. Expansion of commercial aircraft OEM/ODM businesses and related technologies;
5. Enhancement in operational management, corporate image, training, and corporate culture;
6. Active involvement in new business development through extending core capabilities to related industries and exploring complementary businesses, so as to increase operational growth and remain dominant as a high-end aerospace system integrator in the industry.

Becoming a world class aerospace provider is AIDC’s vision. We are heading resolutely towards realization of such vision by dedicating ourselves in sustaining our business operation and enlarging Taiwan’s aerospace output, as well as adding values for our customers, shareholders, employees, and the society.

I wish you all good fortune and good health.

Kai-Hung, Hu
Chairman

II. Company Profile

1. Date of Establishment

Aerospace Industry Development Corp. was established on July 1, 1996.

2. Chronicle

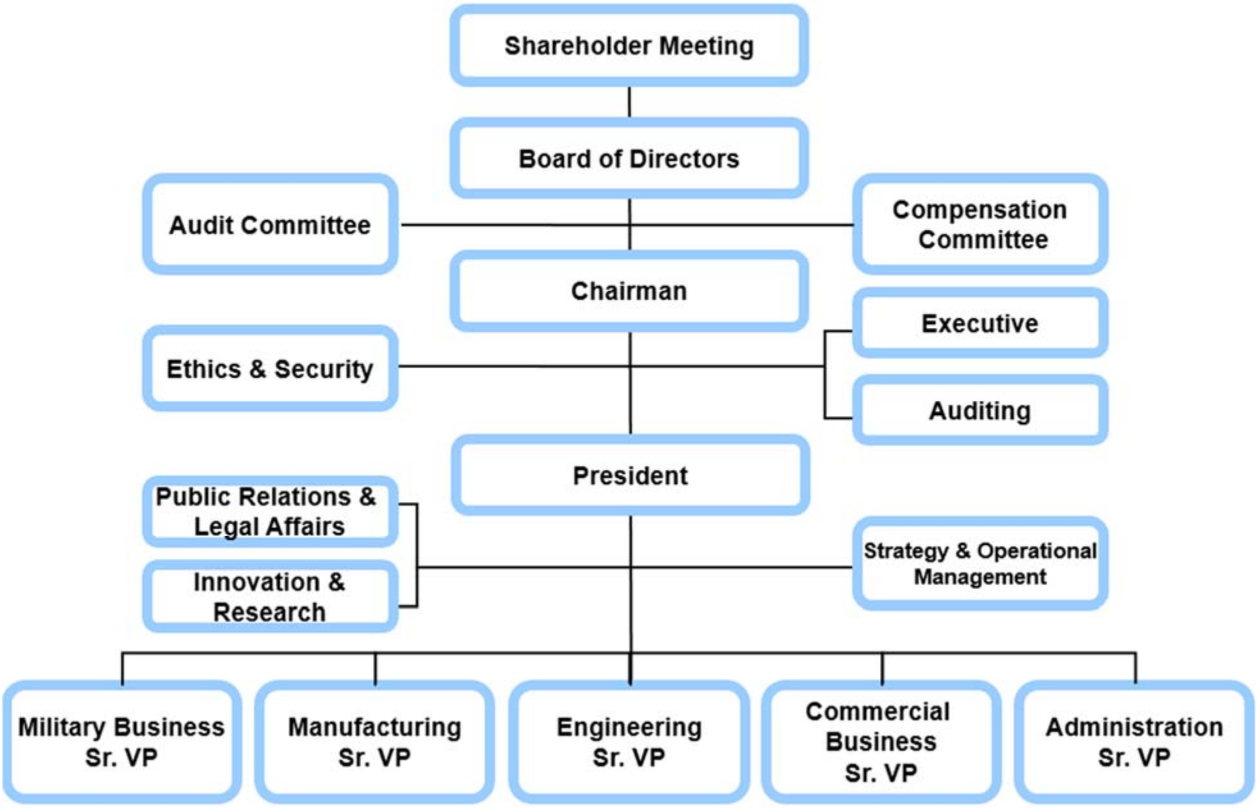
Year	Milestones
1996	1. Reorganized as “Aerospace Industry Development Corporation” and transferred to the Ministry of Economic Affairs. AIDC then moves towards the reengineering as an enterprise, privatization and internationalization. The corporate strategy has also been attuned from military aviation to military and commercial aviation. 2. Entered into a joint venture agreement with Sikorsky Aircraft United Technologies Corp. for the development of the S-92 helicopter. This is the very first time that this entity was engaged in an international big firm in aircraft manufacturing for joint design and development of an aircraft before turning into a state-owned enterprise.
1999	1. Entered into an agreement with Bombardier for the joint development of the tail for the CL300 commercial aircraft. This was a milestone of AIDC for the development of commercial aviation technology. 2. Ended the production of the IDF.
2000	Engine Casing Plant No. 1 was established. This laid down the foundation of production capacity for civil aircraft engine casing.
2006	The upgrade of IDF “Ching Kuo” under the schemed codenamed as “F-KC-1, C/D, Hsiang Sheng”. The IDF has successfully launched its pilot flight in the air show after the upgrade.
2008	Delivery of the 100th S-92 helicopter cockpit.
2009	Entered into a supply agreement with MITAC of Japan for supply system parts of aircrafts, and participated in the design and manufacturing of products for the MRJ.
2010	The official opening of Taiwan Advanced Composite Center (TACC), which was a milestone for the development of the aerospace industry and composite materials industry in the history of Taiwan.
2011	1. Accomplishment of the IDF Ching Kuo upgrade program with the delivery of the first batch of upgraded jet fighters. 2. Accomplishment of the debut flight from Taichung to Kinmen, the launch of commercial chartered flight service provided by AIDC. This started the new era of AIDC in participation in commercial chartered flight business.
2012	Completion of the 400th aircraft of the CL-300 project. This is an important milestone of this project.
2013	1. Received the Boeing “Performance Excellence Award” and GE Growth (Engines) Excellence Award. 2. Approved for privatization by the Executive Yuan through public offering of stocks on September 13.
2014	1. AIDC became a private company on August 21 and was listed on TWSE for trading on August 25. 2. Delivery of the parts and components for the first MRJ, an important milestone of the project. 3. Received the “Supplier of the Year Award” from Sikorsky Aircraft United Technologies Corp., the “Supplier Excellence Award 2014” from American Helicopter Society, and the “Performance Excellence Award” from The Boeing Company. 4. Delivery of the 10,000th Rolls-Royce engine case.
2015	1. Delivery of the 300th S-92 cockpit made in Shalu Complex in April 2. Received “Award of the Year 2015 for Best Partner" from Mitsubishi Aircraft Corporation in December 3. Organized Taiwan Aviation Industry Forum in December which paved the way for Taiwan Aerospace A-Team to become a major supply chain of global aerospace industry.
2016	1. AIDC set up the US subsidiary, AIDC USA LLC, on March 2, 2016. 2. Grand opening of 3 new facilities: ECMC in April, TACC-19 in July and GE LEAP Caseline in

Year	Milestones
	November. 3. Delivery of the 1000th Airbus A321 16A barrel in February; delivery of the 50,000th GE Engine Case in November.
2017	1. Grand opening of the new #23 military maintenance building in February. 2. Signed the Advanced Jet Trainer Commission Agreement with National Chung Shan Institute of Science and Technology in April. 3. AIDC transferred the ITEC LLC equity it held to its subsidiary, AIDC USA LLC in April, and the transfer amount was deemed as capital injection to AIDC USA LLC. 4. AIDC and Cheng Kung University delivered the Upgraded Tracker Thermal Pump System Flight Radiator in November. 5. Completed delivery of F-CK-1 C/D to ROCAF in December.
2018	1. Held the debut of self-branded aircraft seat in March, aiming to integrate the domestic supply chain for entrance into the international civil aviation market. 2. AIDC launched assembly of the Advanced Jet Trainer in June. 3. Completed the upgrade of “F-CK-1 C/D, Hsiang Sheng” single- and twin-seat prototype jets and delivered to ROCAF in October. 4. AIDC was presented “Smart Machinery Golden Award” by the Industrial Development Bureau (IDB), under the Ministry of Economic Affairs in November, and announced 2019 as the Year of SPEED.
2019	1. Awarded the Letter of Design Approval (LODA) for AIDC Brand 16G Commercial Airlines Seats by the Federal Aviation Administration (FAA) of the United States in August. 2. Held the Advanced Jet Trainer Rollout Ceremony in September. 3. Signed Cooperation Memorandum of Intent with China Airlines for a New Pattern of Aviation Maintenance in November. 4. Signed Strategic Alliance MOU with Lockheed Martin Corportation in Decembner.

III. Corporate Governance Report

1. Organization

1.1 Organization Chart



1.2 Major Corporate Functions

The defense industry system is responsible for military aircraft, aircraft maintenance and avionics, flight service and GO-CO program operation.

The production system is responsible for the aircraft and aero engine parts and component fabrication, assembly, testing, service and support; and aero engine business operation.

The engineering system is responsible for engineering design and system integration, quality improvement, quality insurance policy, information technology and services, procurement, supplier integration, and outsourcing.

The civil aviation system is responsible for the commercial aircraft market analysis, business strategy and development, operations and production, program performance management, technology implementation and industrial safety and environment protection.

The administration system is responsible for finance, human resources, general affairs and investment.

2. Directors, Supervisors and Management Team

2.1 Directors (I)

March 31, 2020/ Unit: share; %

Title	Nationality/ Country of Origin	Name	Sex	Date Elected	Term	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience/Education	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship			Remarks
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Chairman	R.O.C	MOEA (Note 1)		June 26, 2018	3Y	July 1, 1996	415,345,402	45.73	331,301,773	35.18	N/A	N/A	N/A	N/A	—	—	—	—	—	
	R.O.C	Representative: Hu, Kai-Hung (Note 2)	M	March 18, 2019	2.3Y	March 18, 2019	0	0.00	30,000	0.00	0	0	0	0	Vice Chief of the General Staff, Ministry of National Defense(MND); Inspector General, MND; Vice Commander-in-Chief, Air Force Command; Commander, Air Force Education, Training and Doctrine Development Command; Deputy Chief of Staff, Air Force Command; Director, Combat Readiness and Training Division, Air Force Command; Wing Commander, the 427th Tactical Fighter Wing; Joint Force Education, National Defense University; General Staff College of National Defense University; Air Force Academy	Chairman, AIDC; Director, Industrial Technology Research Institute; Chairman, Taiwan Aerospace Industry Association	—	—	—	
Executive Director	R.O.C	MOEA		June 26, 2018	3Y	July 1, 1996	415,345,402	45.73	331,301,773	35.18	N/A	N/A	N/A	N/A	—	—	—	—	—	
	R.O.C	Representative: Ma, Wan-June (Note 2)	M	March 18, 2019	2.3Y	March 18, 2019	100,788	0.01	132,147	0.01	0	0	0	0	Vice President, National Chung-Shan Institute of Science and Technology(NCSIST); Vice President and Director of Aeronautical Systems Research Division, NCSIST; Director, Aeronautical Systems Research Division, NCSIST; Associate Director, Systems Development Center, NCSIST; Principal Investigator, Systems Development Center, NCSIST; Ph.D. in Power Mechanical Engineering, National Tsing Hua University; Master in Mechanical Engineering, National Central University;	President, AIDC; Executive Director, Taiwan Aerospace Industry Association	—	—	—	

Title	Nationality/ Country of Origin	Name	Sex	Date Elected	Term	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience/Education	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship			Remarks
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation	
															B.S. in Aeronautics and Astronautics, National Cheng Kung University					
Director	R.O.C	MOEA		June 26, 2018	3Y	July 1, 1996	415,345,402	45.73	331,301,773	35.18	N/A	N/A	N/A	N/A	—	—	—	—	—	
	R.O.C	Representative: Liou, Ming-Jong (Note 2)	M	October 1, 2019	1.7Y	October 1, 2019	0	0	0	0	0	0	0	0	Director, Ministry of Economic Affairs Standards Inspection Bureau; Counselor , Ministry of Economic Affairs; Director, State-owned Enterprise Commission Affairs , MOEA; Director, China Steel Corporation; Director, Tang Eng Iron Works Co.,Ltd; Director, CSBC Corporation; Director, Vanguard International Semiconductor Corporation; Director, RSEA Engineering Corporation; Director, Taiwan Aerospace Corporation; Director, Hui Ju Investment Corporation; Supervisor, Taiwan Water Corporation; Supervisor, CTCI Foundation(formerly known as China Technical Consultants Inc.); Member, Yaohua Glass Corporation Management Board; Ph.D., Industrial Management, Taiwan Technical University Taiwan; M.S., Operation Research, Stanford University U.S.A; B.S., Chemical Engineering, National Taiwan University, Taiwan	Director, State-owned Enterprise Commission Affairs , MOEA	—	—	—	
Director	R.O.C	MOEA		June 26, 2018	3Y	July 1, 1996	415,345,402	45.73	331,301,773	35.18	N/A	N/A	N/A	N/A	—	—	—	—	—	

Title	Nationality/ Country of Origin	Name	Sex	Date Elected	Term	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience/Education	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship			Remarks
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation	
	R.O.C	Representative: Chang, Ming-Pin	M	June 26, 2018	3Y	June 26, 2018	0	0.00	0	0.00	0	0	0	0	Vice Executive Secretary and Spokesperson, Investment Commission, MOEA; Head of Division, Investment Commission, MOEA; Director, Kuo Kuang Power Co., LTD; Commissioner, Review Commitee, National Development Fund , Executive Yuan; Member, Examination Commitee for Establishment Application of Business Entity in the Economic Processing Zone; Master of Laws, Edinburgh University (Scotland); Bachelor of Laws, National Taiwan University; Executive Leadership Program, Harvard University (USA)	Executive Secretary, Investment Commission, MOEA; Director General, DOIS, MOEA; CEO, Invest Taiwan Services Center, MOEA	—	—	—	
Director	R.O.C	MOEA		June 26, 2018	3Y	July 1, 1996	415,345,402	45.73	331,301,773	35.18	N/A	N/A	N/A	N/A	—	—	—	—	—	
	R.O.C	Representative: Shieu, Fuh-Sheng	M	June 26, 2018	3Y	July 22, 2016	0	0.00	0	0.00	0	0	0	0	Dean, College of Engineering, NCHU; Chairman, Department of Materials Science and Engineering, NCHU; Chairman, Institute of Materials Engineering, NCHU; Director, Office of R&D, NCHU; Master and Ph.D. in Materials Science and Engineering, Cornell University	President, National Chung Hsing University (NCHU); Director, Industrial Technology Research Institute (ITRI)	—	—	—	
Director	R.O.C	MOEA		June 26, 2018	3Y	July 1, 1996	415,345,402	45.73	331,301,773	35.18	N/A	N/A	N/A	N/A	—	—	—	—	—	
	R.O.C	Representative: Yu, Cheng-Tao	M	June 26, 2018	3Y	December 18, 2017	107,205	0.01	107,205	0.01	0	0	0	0	Chairman, Aerospace Industrial Development Corporation Labor Union in Taichung; Ph.D. in Industrial Engineering and Management, National Yunlin University of Science and Technology; Master in Industrial Engineering, Feng Chia University	Quality assurance engineer, AIDC	—	—	—	
Director	R.O.C	MOEA		June 26, 2018	3Y	July 1, 1996	415,345,402	45.73	331,301,773	35.18	N/A	N/A	N/A	N/A	—	—	—	—	—	

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							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation	
	R.O.C	Representative: Hsu, Chung-Ming	M	June 26, 2018	3Y	June 26, 2018	75,502	0.01	75,502	0.01	0	0	0	0	Technician, Production Engineer, Material Specialist, AIDC; Representative, Director,Executive Director, Aerospace Industrial Development Corporation Labor Union; Deputy Director, Director and Executive Secretary, Aerospace Industrial Development Corporation Labor Union in Gang Shan; Master in Mechatronic System Engineering, National University of Tainan; Bachelor, Department of Mold and Die Engineering, National Kaohsiung University of Applied Sciences	Material Specialist, AIDC	—	—	—	
Director	R.O.C	National Defense Industrial Development Foundation (Note 1)		June 26, 2018	3Y	April 3, 2014	2,670,078	0.29	11,063,201	1.17	N/A	N/A	N/A	N/A	—	—	—	—	—	
	R.O.C	Representative: Hsu, Yan-Pu (Note 2)	M	Feburary 1, 2019	2.4Y	Feburary 1, 2019	0	0.00	0	0.00	0	0	0	0	Administrative Deputy Minister, Ministry of National Defense (MND); Commander, 21st Artillery Command of R.O.C Army; Commander, Lan Yang Area Command of R.O.C Army; Chief of General Staff, 8th Army Command of R.O.C Army; Commander, 6th Army Command of R.O.C Army; Vice Chief of General Staff, Ministry of National Defense; Administrative Deputy Minister of Ministry of National Defense; Master in Information Management, Yuan Ze University; Military Academy	Vice Chief of the General Staff (Executive), Ministry of National Defense(MND);	—	—	—	
Executive	R.O.C	Chan, Chia-	M	June 26, 2018	3Y	June 26,	0	0.00	0	0.00	0	0	0	0	Chief Secretary, Chair of Department of	Vice President and	—	—	—	

Title	Nationality/ Country of Origin	Name	Sex	Date Elected	Term	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience/Education	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship			Remarks
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation	
and Independent Director		Chang				2018									Finance, Director of Extension Education Center, Dean of College of Management, Tunghai University; Commissioner, Review Panel of Higher Education Evaluation and Accreditation Council of Taiwan; Commissioner, Financial Planning Association of Taiwan; Director, Association of Continuing Education of Colleges and Universities in Taiwan; Member of School Evaluation Committee for community college in Taichung City; Member, Lifetime learning promotion committee; Consultant, Information Service Industry Association of Taichung City Government; Member, Review Panel of Small Business Innovation Research (SBIR) program of Miaoli County Government; Member, Review Panel of Program of the Encouragement of Investment; Ph.D. in Business Administration, National Sun Yat-Sen University	Professor of Finance Department, Tunghai University; Independent Director, Mobiletron Group				
Independent Director	R.O.C	Chen, Yin-Chin	F	June 26, 2018	3Y	June 26, 2018	0	0.00	0	0.00	0	0	0	0	Chair of Department of Financial and Economic Law, Chung Yuan Christian University;Associate Professor, Department of Public Finance and Taxation, Takming University of Science and Technology; Supervisor, Andes Technology Corporation (Representative of National Development Fund , Executive Yuan); Supervisor, Light's American Sportscopter Inc. (Representative of National Development Fund , Executive Yuan); Director, CSBC CORP.,Taiwan (Representative of MOEA); Commissioner, Fair Trade Commission; Commissioner, Complaint Review Board for Government Procurement, Public Construction Commission Executive Yuan; Advisory, Department	Associate Professor, Department of Financial and Economic Law, Chung Yuan Christian University	—	—	—	

Title	Nationality/ Country of Origin	Name	Sex	Date Elected	Term	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience/Education	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship			Remarks
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation	
															of Nuclear Regulation, Atomic Energy Council; Advisory, Advisory Committee on Handling of State Compensation Cases, Atomic Energy Council; Commissioner, Complaint Review Board for Government Procurement, Taoyuan City Government; Commissioner, Medical Review Board, Health Bureau; Commissioner, Laws and Regulations Committee, MOEA; Commissioner, International Trade Commission, MOEA; Commissioner, Complaint Review Board, Ministry of National Defense; Advisory, Advisory Committee on Handling of State Compensation Cases, Ministry of National Defense; Advisory, Advisory Committee on Handling of State Compensation Cases, Army Command Headquarters; Advisory, Advisory Committee on Handling of State Compensation Cases, Taipei City Government; Commissioner, Listing Review Committee of Taiwan Stock Exchange Corporation; Commissioner, Mainboard Listing Review Committee of Taipei Exchange (GreTai Securities Market); Ph. D of Laws, National Chung Hsing University					
Independent Director	R.O.C	Lien, Li-Jen (Note 3)	M	May 31, 2019	2.1Y	May 31, 2019	0	0.00	0	0.00	0	0	0	0	Attorney-at-law Councilor, Kaohsiung City Council; Litigation Agent of Taiwan Land Bank; Legal Adviser, Kaohsiung City Council and Kaohsiung County Government; Chairman, Branch in Kaohsiung and Pingtung County, Consumer's Foundation Chinese Taipei; Legal Adviser, Labor Union of Kaohsiung City;	Lawyer, Gongxin United Law Firm	—	—	—	

Title	Nationality/ Country of Origin	Name	Sex	Date Elected	Term	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience/Education	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship			Remarks
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation	
															Honorary Legal Adviser, Small and Medium Enterprise Administration, Ministry of Economic Affairs; Manager, Jihe Entertainment Co., Ltd; Master in Political Science, National Sun Yat-sen University, Taiwan; Bachelor of Laws, National Chung Hsing University					

Note 1: Major shareholders of the institutional shareholders:

March 31, 2020

Name of Institutional Shareholders	Major Shareholders	NOTE
Ministry of Economic Affairs, MOEA	None	N/A
National Defense Industrial Development Foundation (NDIDF)	None	Executive Yuan (100％)

Major shareholders of the Company's major institutional shareholders:

March 31, 2020

Name of Institutional Shareholders	Major Shareholders
Executive Yuan	N/A

Note:Institutional shareholders that are not corporate, shall disclose the major shareholders and shares, that is to disclose the sponsors name and donation ratio.

Note 2: NDIDF representative changes: Hsu, Yan-Pu replaced Po, Horng-Huei on Feb. 1, 2019; MOEA representative changes: Hu, Kai-Hung replaced Liao, Jung-Hsin and Ma, Wan-June replaced Lin, Nan-Juh on Mar. 18, 2019, and Liou, Ming-Jong replaced Chien, Feng-Yuan on Oct. 1, 2019.

Note 3: Pursuant to Article 14-2 of Securities and Exchange Act, the by-election for one Seat of Independent Director has completed during Annual Shareholder's Meeting on May 31, 2019.

Note 4: Implementation of Board Diversity Policy

Pursuant to Article 2 of AIDC's Procedures for Election of Directors, the members of the board of directors shall have the knowledge, skills, and experience necessary to perform their duties and shall possess the abilities to make operational judgments, perform accounting and financial analysis, conduct management administration, conduct risk management, knowledge of the industry, an international perspective, ability to lead and ability to make policy decisions. The composition of AIDC board of directors, the management goals and the implementation of board diversity policy are posted on AIDC website and the MOPS.

Title	Name	Sex	Business Management	Aerospace Industry	Finance Accounting	Law	Risk Management	Government & Supervision	Manager	Labor Union Rep.
Chairman	Hu, Kai-Hung	M	✓	✓			✓	✓		

Title	Name	Sex	Business Management	Aerospace Industry	Finance Accounting	Law	Risk Management	Government & Supervision	Manager	Labor Union Rep.
Executive Director	Ma, Wan-June	M	✓	✓			✓	✓	✓	
Director	Liou, Ming-Jong	M	✓				✓	✓		
Director	Chang, Ming-Pin	M	✓			✓	✓	✓		
Director	Shieu, Fuh-Sheng	M	✓	✓			✓	✓		
Director	Yu, Cheng-Tao	M		✓			✓	✓		✓
Director	Hsu, Chung-Ming	M		✓			✓	✓		✓
Director	Hsu, Yan-Pu	M	✓				✓	✓		
Executive and Independent Director	Chan, Chia-Chang	M	✓		✓		✓			
Independent Director	Chen, Yin-Chin	F	✓			✓	✓			
Independent Director	Lien, Li-Jen	M	✓			✓	✓			

1.1 Directors (II)

Professional Qualifications and Independence Analysis of Directors and Supervisors:

March 31, 2020

Criteria / Name	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria (Note)												Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	11	12	
Chairman Hu, Kai-Hung			✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓		—
Executive Director Ma, Wan-June	✓		✓		✓	✓	✓		✓	✓	✓	✓	✓	✓		—
Director Liou, Ming-Jong			✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓		—
Director Chang, Ming-Pin		✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓		—

Criteria / Name	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria (Note)												Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	11	12	
Director Shieu, Fuh-Sheng	✓		✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓		—
Director Yu, Cheng-Tao	✓		✓		✓	✓	✓		✓	✓	✓	✓	✓	✓		—
Director Hsu, Chung-Ming			✓		✓	✓	✓		✓	✓	✓	✓	✓	✓		—
Director Hsu, Yan-Pu			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		—
Executive and Independent Director Chan, Chia-Chang	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Independent Director Chen, Yin-Chin	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	—
Independent Director Lien, Li-Jen		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	—

Note: Please tick the corresponding boxes if directors or supervisors have been any of the following during the two years prior to being elected or during the term of office.

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of affiliated companies. Not applicable in cases where the person is an independent director of the parent company, any subsidiary, or subsidiary of the same parent company, as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.
3. Not a nature-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under other's names, in an aggregate amount of one percent or more of the total number of issued shares of the company or ranks as one of its top ten shareholders.
4. Not a manager in the preceding first subparagraphs, or not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, or any of the above persons in the preceding second and third subparagraphs.
5. Not a director, supervisor, or employee of a corporate/institutional shareholder that directly holds five percent or more of the total number of issued shares of the company, or ranks as one of its top five shareholders, or being appointed based on subparagraph 1 or 2 of Article 27 of the Corporate Law. Not applicable in cases where the person is an independent director of the parent company, any subsidiary, or subsidiary of the same parent company, as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.
6. Not a director of the Company or a director, supervisor, office holding half or more of the share that controlled by one person. (Not applicable in cases where the person is an independent director of the parent company, any subsidiary, or subsidiary of the same parent company, as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary).
7. Not the same person or spouse that designated as directors (directors), supervisors (supervisors) or equivalent position of the company, or as other company's chairman, general manager and employees. Not applicable in cases where the person is an independent director of the parent company, any subsidiary, or subsidiary of the same parent company, as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.
8. Not a director, supervisor, officer, or shareholder holding 5% or more of the share, of a specified company or institution that has a financial or business relationship with the Company. Not applicable in cases where the specified company or institution holding more than 20% but less than 50% of the share, and the person is an independent director of the parent company, any subsidiary, or subsidiary of the same parent company, as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.
9. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides auditing, commercial, legal, financial, accounting services or consultation to the Company that received remuneration more than NT$50,000 or to any affiliate of the Company, or a spouse thereof. Not applicable in cases where the person is member of Remunertion Committee or, Public

Tender Offer Committee, or Business Mergers and Acquisitions, that exercise related regulations according to Securities and Exchange Act or M&A Act.
10. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
11. Not been a person of any conditions defined in Article 30 of the Company Law.
12. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

2.2 Management Team

March 31, 2020/ Unit: shares; %

Title	Nationality/ Country of Origin	Name	Sex	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience/Education	Other Position	Managers who are Spouses or Within Two Degrees of Kinship			Remarks
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
President	R.O.C	Ma, Wan-June	M	March 18, 2019	0	—	—	—	—	—	Vice President, National Chung-Shan Institute of Science and Technology(NCSIST); Vice President and Director of Aeronautical Systems Research Division, NCSIST Director, Aeronautical Systems Research Division, NCSIST; Associate Director, Systems Development Center, NCSIST; Principal Investigator, Systems Development Center, NCSIST; Ph.D. in Power Mechanical Engineering, National Tsing Hua University; Master in Mechanical Engineering, National Central University; B.S. in Aeronautics and Astronautics, National Cheng Kung University	Advisory Committee Member, Management College of National Defense University; Director, Metal Industries Research & Development Centre	—	—	—	
Vice President	R.O.C	Chen, Yi-Min	M	July 1, 2012	102,147	—	—	—	—	—	Director, Defense System and Technology Management; Technology Implementation; Aircraft Maintenance and Avionics; Military Aircraft Programs, AIDC; Bachelor and Master in Aerospace Engineering, Chung Cheng Institute of Technology.	—	—	—	—	
Vice President	R.O.C	Ho, Poa-Hua	M	November 11, 2015	129,739	—	54,961	—	—	—	VP, Aero Engine Factory; Director, Quality Assurance; Deputy Director, Manufacturing, AIDC; Senior Specialist, Aircraft Factory, AIDC/CSIST, B.S. in Mechanical Engineering, Feng Chia University	Director, International Turbine Engine Company, LLC	—	—	—	
Vice President	R.O.C.	Du, Shiu-Chun	M	February 1, 2016	143,260	—	—	—	—	—	Director, Strategy and Legal Affairs; Director, Engineering; Director, IT, AIDC; Ph.D. in Mechanical Engineering, National Taiwan University	—	—	—	—	
Vice President	R.O.C.	Lo, Ching-Chi	M	August 8, 2017	100,020	—	—	—	—	—	Director, Procurement; Director, Business; Director, Commerical Business Development, AIDC;	Advisory Committee	—	—	—	

Title	Nationality/ Country of Origin	Name	Sex	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience/Education	Other Position	Managers who are Spouses or Within Two Degrees of Kinship			Remarks
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
											BS in Industrial Design, National Cheng Kung University	Member, National Applied Research Laboratories				
Vice President	R.O.C.	Huang, Shu-Yuan	F	September 28, 2018	134,565	—	123,774	—	—	—	Director, Finance & Accounting; Ph.D. in Business, Feng Chia University	—	—	—	—	

3. Remuneration of Directors, Supervisors, President and Vice Presidents

3.1 Remuneration of Directors and Independent Directors

December 31, 2019 / Units：NT$ thousands；%

Title	Name (Note 1)	Remuneration: Base Compensation(A) – The company	Base Compensation(A) – Companies in the consolidated financial statements	Severance Pay(B) – The company	Severance Pay(B) – Companies in the consolidated financial statements	Directors' Remuneration(C) – The company	Directors' Remuneration(C) – Companies in the consolidated financial statements	Allowances(D) – The company	Allowances(D) – Companies in the consolidated financial statements	Ratio of Total Remuneration (A+B+C+D) to Net Income (%) – The company	Ratio of Total Remuneration (A+B+C+D) to Net Income (%) – Companies in the consolidated financial statements	Relevant Remuneration Received by Directors who are also Employees: Salary, Bonuses, and Allowances(E) – The company	Salary, Bonuses, and Allowances(E) – Companies in the consolidated financial statements	Severance Pay(F) – The company	Severance Pay(F) – Companies in the consolidated financial statements	Employee Remuneration (G) – The company – Cash	Employee Remuneration (G) – The company – Stock	Employee Remuneration (G) – Companies in the consolidated financial statements – Cash	Employee Remuneration (G) – Companies in the consolidated financial statements – Stock	Ratio of Total Compensation (A+B+C+D+E+F+G) to Net Income (%) – The company	Ratio of Total Compensation (A+B+C+D+E+F+G) to Net Income (%) – Companies in the consolidated financial statements	Compensation paid to Directors from Parent Company or an Invested Company other than the Company's Subsidiary
Chairman	Hu, Kai-Hung (MOEA Rep.)	394		0		13,340		0		0.7328%		8,959		2,870		53	0	53	0	1.3626%		None
Chairman	Liao, Jung-Hsin (MOEA Rep.) (Note)																					
Executive Director	Ma, Wan-June (MOEA Rep.)																					
Executive Director	Lin, Nan-Juh (MOEA Rep.) (Note)																					
Director	Liou, Ming-Jong (MOEA Rep.)																					
Director	Chang, Ming-Pin (MOEA Rep.)																					
Director	Shieu, Fuh-Sheng (MOEA Rep.)																					
Director	Yu, Cheng-Tao (MOEA Rep.)																					
Director	Hsu, Chung-Ming (MOEA Rep.)																					
Director	Hsu, Yan-Pu (NDIDF Rep.)																					
Director r	Chien, Feng-Yuan (Note)																					
Director	Po, Horng-Huei (NDIDF Rep.) (Note)																					
Executive and Independent Director	Chan, Chia-Chang	1,961		0		0		0		0.1046%		0		0		0	0	0	0	0.1046%		None
Independent Director	Chen, Yin-Chin																					
Independent Director	Lien, Li-Jen																					

*Please state the policy, system, standards and structure of independent directors' remuneration, and describe the correlation with the amount of remuneration according to the responsibilities, risks, and investment time: The calculation based on the degree of independent directors 'participation and contribution in the company 's operations, and the individual tenure.

*Except those disclosed in the above table, remuneration received by directors for providing service to all companies in the consolidated financial statements (e.g. consultancy service without the title of an employee) in recent years : None

Note 1：Mr. Po Horng-Huei was discharged on Feb. 1, 2019; Mr. Liao, Jung-Hsin and Mr. Lin, Nan-Juh were discharged on Mar. 18, 2019; Mr. Chien Feng-Yuan was discharged on Oct. 1, 2019.

Note 2：The calculation base depends on the individual tenure.

Note 3：The amount is accrued, and hasn't been issued yet.

Note 4：The remuneration in this chart hasn't includes benefits such as gifts and physical examination amounts to NT$78000.

Remuneration Paid to Directors

Bracket	Name of Directors			
	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)	
	The company	Companies in the consolidated financial statements (H)	The company	Companies in the consolidated financial statements (I)
Under NT$ 1,000,000	Hu, Kai-Hung; Liao, Jung-Hsin; Ma, Wan-June; Lin, Nan-Juh; Liou, Ming-Jong; Chien, Feng-Yuan; Chang, Ming-Pin; Shieu, Fuh-Sheng; Yu, Cheng-Tao; Hsu, Chung-Ming; Hsu, Yan-Pu; Po, Horng-Huei; Chan, Chia-Chang; Chen, Yin-Chin; Lien, Li-Jen	Same as left	Liou, Ming-Jong; Chien, Feng-Yuan; Chang, Ming-Pin; Shieu, Fuh-Sheng; Hsu, Yan-Pu; Po, Horng-Huei; Chan, Chia-Chang; Chen, Yin-Chin; Lien, Li-Jen	Same as left
NT$1,000,000 ~ NT$2,000,000	NDIDF	Same as left	Yu, Cheng-Tao; Hsu, Chung-Ming; NDIDF	Same as left
NT$2,000,000 ~ NT$3,500,000	—	—	Hu, Kai-Hung; Liao, Jung-Hsin; Ma, Wan-June; Lin, Nan-Juh	Same as left
NT$3,500,000 ~ NT$5,000,000	—	—	—	—
NT$5,000,000 ~ NT$10,000,000	—	—	—	—
NT$10,000,000 ~ NT$15,000,000	Ministry of Economic Affairs	Same as left	Ministry of Economic Affairs	Same as left
NT$15,000,000 ~ NT$30,000,000	—	—	—	—
NT$30,000,000 ~ NT$50,000,000	—	—	—	—
NT$50,000,000 ~ NT$100,000,000	—	—	—	—
Over NT$100,000,000	—	—	—	—
Total	17 persons	Same as left	17 persons	Same as left

3.2 Compensation of President and Vice Presidents

December 31, 2019 / Units：NT$ thousands；%

<table>
<tr><th rowspan="3">Title</th><th rowspan="3">Name</th><th colspan="2">Salary(A) (Note1)</th><th colspan="2">Severance Pay(B)</th><th colspan="2">Bonuses and Allowances(C)</th><th colspan="4">Employee Remuneration (D)</th><th colspan="2">Ratio of Total Compensation (A+B+C+D) to Net Income (%)</th><th rowspan="3">Compensation paid to Directors from Parent Company or an Invested Company other than the Company’s Subsidiary</th></tr>
<tr><th rowspan="2">The company</th><th rowspan="2">Companies in the consolidated financial statements</th><th rowspan="2">The company</th><th rowspan="2">Companies in the consolidated financial statements</th><th rowspan="2">The company</th><th rowspan="2">Companies in the consolidated financial statements</th><th colspan="2">The company</th><th colspan="2">Companies in the consolidated financial statements</th><th rowspan="2">The company</th><th rowspan="2">Companies in the consolidated financial statements</th></tr>
<tr><th>Cash</th><th>Stock</th><th>Cash</th><th>Stock</th></tr>
<tr><td>President</td><td>Ma, Wan-June (Note 1)</td><td rowspan="7">13,412</td><td rowspan="7">13,412</td><td rowspan="7">2,542</td><td rowspan="7">2,542</td><td rowspan="7">8,500</td><td rowspan="7">8,500</td><td rowspan="7">164</td><td rowspan="7">0</td><td rowspan="7">164</td><td rowspan="7">0</td><td rowspan="7">1.3135%</td><td rowspan="7">1.3135%</td><td rowspan="7">None</td></tr>
<tr><td>President</td><td>Lin, Nan-Juh (Note 1)</td></tr>
<tr><td>Vice President</td><td>Chen, Yi-Min</td></tr>
<tr><td>Vice President</td><td>Ho, Poa-Hua</td></tr>
<tr><td>Vice President</td><td>Du, Shiu-Chun</td></tr>
<tr><td>Vice President</td><td>Lo, Ching-Chi</td></tr>
<tr><td>Vice President</td><td>Huang, Shu-Yuan</td></tr>
</table>

Note 1: The remuneration to managerial officers is calculated on a yearly basis for FY 2019. Mr. Ma, Wan-June was appointed on Mar. 18, 2019 and Mr. Lin, Nan-Juh was discharged on Mar. 18, 2019.

Remuneration Paid to President and Vice Presidents

Bracket	Name of President and Vice Presidents	
	The company	Companies in the consolidated financial statements
Under NT$ 1,000,000	—	—
NT$1,000,000 ~ NT$2,000,000	—	—
NT$2,000,000 ~ NT$3,500,000	Ma, Wan-June; Lin, Nan-Juh	Same as left
NT$3,500,000 ~ NT$5,000,000	Chen, Yi-Min; Ho, Poa-Hua; Du, Shiu-Chun, Lo, Ching-Chi; Huang, Shu-Yuan	Same as left
NT$5,000,000 ~ NT$10,000,000	—	—
NT$10,000,000 ~ NT$15,000,000	—	—
NT$15,000,000 ~ NT$30,000,000	—	—
NT$30,000,000 ~ NT$50,000,000	—	—
NT$50,000,000 ~ NT$100,000,000	—	—
Over NT$100,000,000	—	—
Total	7 persons	Same as left

3.3 Employee Remuneration of Managerial Officers

Dec 31, 2019 / Unit: NT$ thousands

	Title	Name	Shares Total	Cash Total	Total	Ratio of Total Remuneration to Net Income (%)
Managerial Officers	President	Ma, Wan-June	0	164	164	0.0087%
	Vice President	Chen, Yi-Min				
	Vice President	Ho, Poa-Hua				
	Vice President	Du, Shiu-Chun				
	Vice President	Lo, Ching-Chi				
	Vice President	Huang, Shu-Yuan				

Note1: Pursuant to the Articles of Incorporation, managerial officers refers to president and vice president. Above table list the managerial officers (vice president) whose employee remuneration will submmitted to the Board for resolution.

Note2: The amount is accrued, and hasn't been issued yet. Employee remuneration is calculated based on individual tenure.

Note3: President didn't receive employee remuneration.

3.4 Comparison of Remuneration for Directors, Presidents and Vice Presidents in the Most Recent Two Fiscal Years and Remuneration Policy for Directors, Supervisors, Presidents and Vice Presidents

A. The Ratio of Total Remuneration Paid by the Company and by all Companies included in the Consolidated Financial Statements for the Most Recent Two Fiscal Years to Directors, Presidents and Vice Presidents of the Company, to the Net Income

Unit：NT$ thousands

Year / Identity	2018		2019	
	The company	Companies in the consolidated financial statements (Note)	The company	Companies in the consolidated financial statements (Note)
Director fee	17,375	17,375	15,695	15,695
Director fee in proportion to corporate earnings (%)	0.8306%	0.8306%	0.8374%	0.8374%
Supervisor fee	0	0	0	0
Supervisor fee in proportion to corporate earnings (%)	0	0	0	0
Remuneration to the President and Vice Presidents	19,954	19,954	24,618	24,618
Remuneration to the President and Vice Presidents in proportion to corporate earnings (%)	0.9538%	0.9538%	1.3135%	1.3135%

Note：The remuneration listed above does not include employee remuneration.

B. The Policies, Standards, and Portfolios for the Payment of Remuneration, the Procedures for Determining Remuneration, and the Correlation with Business Performance

Pursuant to the Articles of Incorporation, remuneration to directors (including chairman and independent directors) shall be determined by the board of directors as authorized. Further, in the event of earnings, not more than 0.58% EBT shall be set aside as remuneration to directors, while not less than 0.58% and not more than 4.65% as bonus of employees; however if the Company sustains an accumulated loss, amount of which shall be set aside to cover the loss.

Pursuant to Subparagraph 2, Paragraph 2, Article 7 of “AIDC Remuneration Committee Charter”, performance evaluation and remuneration to directors and managers shall take the following as references including, industry average remuneration, the time invested by the individual, the responsibilities of the individual, the achievement of personal goals, the performance of undertaking other positions, the average salary of the same position in recent years in the Company, the performance of reaching short-term and long-term business objectives of the Company, the Company's financial status, etc., to assess the relevance of individual performance to the company's operating performance and future risks.

4. Implementation of Corporate Governance

4.1 Board of Directors

A total of 8 meetings of the board of directors were held in the previous period (A). Attendance of directors and supervisors was as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Required(A)	Attendance Rate (%) [B/A](Note)	Remarks

Chairman	Hu, Kai-Hung (MOEA Rep.)	7	0	7	100.00%	Appointed on March 18, 2019
Chairman	Liao, Jung-Hsin (MOEA Rep.)	1	0	1	100.00%	Discharged on March 18, 2019
Executive Director	Ma, Wan-June (MOEA Rep.)	6	1	7	85.71 %	Appointed on March 18, 2019
Executive Director	Lin, Nan-Juh (MOEA Rep.)	1	0	1	100.00%	Discharged on March 18, 2019
Director	Liou, Ming-Jong (MOEA Rep.)	2	0	2	100.00%	Appointed on October 1, 2019
Director	Chien, Feng-Yuan (MOEA Rep.)	5	1	6	83.33 %	Discharged on October 1, 2019
Director	Chang, Ming-Pin (MOEA Rep.)	7	0	8	87.50 %	
Director	Shieu, Fuh-Sheng (MOEA Rep.)	5	2	8	62.50 %	
Director	Yu, Cheng-Tao (MOEA Rep.)	8	0	8	100.00%	
Director	Hsu, Chung-Ming (MOEA Rep.)	8	0	8	100.00%	
Director	Hsu, Yan-Pu (NDIDF Rep.)	4	3	7	57.14 %	Appointed on Feburary 1, 2019
Director	Po, Horng-Huei (NDIDF Rep.)	0	1	1	0	Discharged on Feburary 1, 2019
Executive and Indepen-dent Director	Chan, Chia-Chang	8	0	8	100.00%	
Independent Director	Chen, Yin-Chin	8	0	8	100.00%	
Independent Director	Lien, Li-Jen	3	0	3	100.00 %	Appointed on May 31, 2019
Total Attendance of The Board		73	8	83	87.95%	

Note: Attendance rate (%) is calculated by the required and actual attendances during the tenure of each director.

Other mentionable items:

I. If any of the following circumstances occur,, the dates of the meetings, sessions, contents of motion, all independent directors' opinions and the company's response should be specified:

(1) Matters referred to in Article 14-3 of the Securities and Exchange Act.

Date	Session	Motions and subsequent actions	Particulars described in Article 14-3 of the Securities and Exchange Act	Adverse or qualified opinions of independent directors
January 21, 2019	The 5th session of the 8th term of the Board	• By-election of one Independent Director • Lift the ban of non-compete on directors elected to the office • Amendment to AIDC Corporation Charter (Articles of Incorporation) • Calling for the regular session of the General Meeting in FY 2019		
		Number of independent directors attending in person: 2		
		Opinions of independent directors: None		
		Company's response to independent directors' opinions: None		
		Resolution: Passed by all attending members		
March 18, 2019	The 2nd special session of the 8th term of the Board	• By-election of two Executive Directors: Director Hu, Kai-Hung and Director Ma, Wan-June were elected to fill in the designated tenure from March 18, 2019 to June 25, 2021 • Election of AIDC Chairman: Executive Director Hu, Kai-Hung was elected		

		among 3 Executive Directors as AIDC Chairman to fill in the designated tenure from March 18, 2019 to June 25, 2021 • Discharge and appointment of AIDC President: (1) Mr. Lin, Nan-Juh was discharged as AIDC President by resolution of all attending members, effective March 18, 2019. (2) Mr. Ma, Wan-June was appointed as AIDC President by resolution of all attending members, effective March 18, 2019	Yes	None
		Number of independent directors attending in person: 2		
		Opinions of independent directors: None		
		Company's response to independent directors' opinions: None		
		Resolution: Passed by all attending members		
March 28, 2019	The 6th session of the 8th term of the Board	• Business Report for FY 2018 • Allocation amount of remuneration to employees and directors for FY 2018	Yes	None
		• Financial Report for FY 2018 • Distribution of earnings for FY 2018 • Declaration of Internal Control for FY 2018	Yes	None
		• Project Finance Plan • Amendment to the "AIDC Procedures for Assets Acquisition and Disposition" • Establishment of the regulation of "AIDC Standard Operating Procedure for Handling the Requirements of the Directors"	Yes	None
		• Bonus of Chairman, President, Vice Presidents and managerial officers concerned for FY 2018	Yes	None
		Number of independent directors attending in person: 2		
		Opinions of independent directors: None		
		Company's response to independent directors' opinions: None		
		Resolution: Passed by all attending members, and the business report for FY 2018 passed after revised accords to members' opinion.		
April 18, 2019	The 3rd special session of the 8th term of the Board	• By-election of one Independent Director • Lift the ban of non-compete on directors elected to the office		
		Number of independent directors attending in person: 2		
		Opinions of independent directors: None		
		Company's response to independent directors' opinions: None		
		Resolution: Passed by all attending (including proxy) members		
May 10, 2019	The 7th session of the 8th term of the Board	• Salary of Chairman and President	Yes	None
		• Principles for bonus of Chairman, President, Vice President and Managerial officers	Yes	None
		Number of independent directors attending in person: 2		
		Opinions of independent directors: None		
		Company's response to independent directors' opinions: None		

		Resolution: Passed by all attending (including proxy) members		
August 12, 2019	The 8th session of the 8th term of the Board	• Appointment of Remuneration Committee members • The Appointment of Corporate Governance Officer • Establishment of the regulation of "Self-Evaluation of the Board of Directors" • Amendment to "AIDC Audit Committee Charter" • Amendment to "AIDC Implementation of Retirement Pension Fund" • Amendment to regulation of "AIDC flight crew management"	Yes	None
		Number of independent directors attending in person: 3		
		Opinions of independent directors: Independent directors' opinion on Motion of "The Appointment of Corporate Governance Officer", please refer to section (2) on next page.		
		Company's response to independent directors' opinions: Compan's response to independent directors' opinion, please refer to sect (2) on next page.		
		Resolution: Passed by all attending (including proxy) members		
November 8, 2019	The 9th session of the 8th term of the Board	• Internal Audit Plan for FY 2020		
		Number of independent directors attending in person: 3		
		Opinions of independent directors: None		
		Company's response to independent directors' opinions: None		
		Resolution: Passed by all attending (including proxy) members		
December 20, 2019	The 10th session of the 8th term of the Board	• Amendment to AIDC Corporate Charter (Articles of Incorporation) • Amendment to AIDC Organizational Charter • Amendment to the regulation of "Implementation of pension for AIDC Chairman and President" • AIDC reinvestment Project • Business Plan for FY 2020 • Appointment and remuneration of Certified Public Accountants for FY 2020 to FY 2022	Yes Yes	None Yes None
		Number of independent directors attending in person:3		
		Opinions of independent directors: Independent directors' opinion on Motions of "AIDC reinvestment Project" and "Business Plan for FY 2020", please refer to section (2) on next page.		
		Company's response to independent directors' opinions: Compan's response to independent directors' opinion, please refer to sect (2) on next page.		
		Resolution: Passed by all attending (including proxy) members		
Feburry 7, 2020	The 11th session of the 8th term of the Board	• Calling for the regular session of the General Meeting in FY 2020 • AIDC Land Lease Plan	Yes	None
		Number of independent directors attending in person: 3		
		Opinions of independent directors: Independent directors' opinion on Motion of "AIDC Land Lease Plan", please refer to section (2) on next page.		
		Company's response to independent directors' opinions: Compan's response to independent directors' opinion, please refer to sect (2) on next page.		

		Resolution: Passed by all attending members		
March 27, 2020	The 12th session of the 8th term of the Board	• Business Report for FY 2019 • Allocation amount of remuneration to employees and directors for FY 2019 • Financial Report for FY 2019 • Distribution of earnings for FY 2019 • Declaration of Internal Control for FY 2019 • Bonus of Chairman, President, Vice Presidents and managerial officers concerned for FY 2019 • Plant Construction and Asset Procurement Project • Sales of Equity of reinvestment business • Amendment to the "AIDC Regulations Governing Procedure for Board of Directors Meetings" and "Regulations Governing Appointment of Independent Directors" • Amendment to the "AIDC Audit Committee Charter" • Amendment to the "AIDC Remuneration Committee Charter"	Yes Yes Yes	None None None
		Number of independent directors attending in person: 3		
		Opinions of independent directors: Independent directors' opinion on Motion of "Bonus of Chairman, President, Vice Presidents and managerial officers concerned for FY 2019" and "Asset Procurement Project", please refer to section (2) on next page.		
		Company's response to independent directors' opinions: Compan's response to independent directors' opinion, please refer to sect (2) on next page.		
		Resolution: Passed by all attending members		

Note: In 2019, AIDC has complied to Articles 14-2 of the Securities and Exchange Act, and held by-election to fill the vacancy of independent director in the Shareholders Meeting.

(2) Other matters involving objections or expressed reservations by independent directors that were recorded or stated in writing that require a resolution by the board of directors:

Date	Session	Motions and subsequent actions	Particulars described in Article 14-3 of the Securities and Exchange Act	Adverse or qualified opinions of independent directors
August 12, 2019	The 8th session of the 8th term of the Board	• Motion: The Appointment of Corporate Governance Officer • Opinions of independent directors: Considering the trend of corporate governance, it is suggested that the Company should plan to set up a full-time corporate governance officer in the future. • Company's Action on Independent directors opinion: The plan of setting up full time corporate governance officer will be considered in the company's future management plan.	NA	None

December 20, 2019	The 10th session of the 8th term of the Board	• Motion: AIDC reinvestment Project • Opinions of independent directors: I holds adverse opinion on this motion, and expressed my opinions on this reinvestment project several times. Please clarify the following questions: (1) Is it possible to include "Repurchase Clause" in the reinvestment agreement? (2) After the reinvestment is completed, will the invested target company ensure to take order concerning the ○○○○○○○○○ order? (3) Will the target company refuse to take AIDC's orders once the reinvestment project ceased? Please evaluate on this matter. • Company's Action on Independent directors opinion: (1) The managerial department has provided explanations and implements to independent director' concerns during the meeting on record. (2) The motion has passed by more than half of the attending members (including proxy), and has recorded on the meeting minutes by regulation of "Regulations Governing Procedure for Board of Directors Meetings of Public Companies". (3) The company has announced the motion on Market Observation Post System (MOPS) on Dec. 20, 2019 by regulation of "Taiwan Stock Exchange Corporation Procedures for Verification and Disclosure of Material Information of Companies with Listed Securities".	NA	YES	
December 20, 2019	The 10th session of the 8th term of the Board	• Motion: Business Plan for FY 2020 • Opinions of independent directors: (1) It is recommend to include information of performance evaluation and action plan to ensure the company strategy is effective. (2) AIDC holds great aerospace capability and promising prospect, it is recommended that the management department keep improving the Company performance. • Company's Action on Independent directors opinion: The company will	NA	None	

		keep promoting lean activities to improving the performance.		
Feburry 7, 2020	The 11th session of the 8th term of the Board	• Motion: AIDC Land Lease Plan • Opinions of independent directors: (1) Please clarify and detailed the content of Land Lease Plan, including plant's floor area ratio limit, expected benefit of rental cost, contribution to the industry, environment assessment and criteria of land use. (2) It is promising if we can bring in supply chain and formed industrial cluster, there will be substantial benefits and promote industrial development. Please plan in advance for making the best of the business opportunity. • Company's Action on Independent directors opinion: The amendment to the AIDC Land Lease Plan is completed and concerns are clarified. The Company will plan the promotion of industrial cluster once the right of land use is procured.	Yes	None
March 27, 2020	The 12th session of the 8th term of the Board	• Motion: Plant Construction and Asset Procurement Project • Opinions of independent directors: In order to improve the investment returns on this project, the company shall provide business development plan that including the investigation of business opportunities in the domestic and foreign markets in advance for future order, and report to the board of directors. • Company's Action on Independent directors opinion: The Company has executed in accordance with the approved investment plan, meanwhile, the market survey and industry development plan research work has been carried out.	Yes	None

II. If there are directors' avoidance of motions in conflict of interest, the directors' names, contents of motion, causes for avoidance and voting should be specified:

Date of Board Session	Content of the Motion	Reasons for the Avoidance of Conflict of Interest	Voting
March 18, 2019 2nd special BOD meeting	Appointment of AIDC President	Personal appointment	Executive Director Ma, Wan-June entered recusal during discussion and voting
May 10, 2019 7th session of the 8th term of the Board	Salary of Chairman and President	Personal salary	Chairman Hu, Kai-Hung and Executive Director Ma, Wan-June entered recusal during discussion and voting
May 10, 2019 7th session of the 8th term of the Board	Principles for bonus of Chairman, President, Vice Presidents and managerial	Personal bonus	Chairman Hu, Kai-Hung and Executive Director Ma, Wan-June entered recusal during

	officers concerned for FY 2019		discussion and voting
August 12, 2019 8th session of the 8th term of the Board	Appointment of Remuneration Committee members	Personal appointment	Independent Director Lien, Li-Jen entered recusal during discussion and voting
December 20, 2019 10th session of the 8th term of the Board	Amendment to the regulation of “Implementation of pension for AIDC Chairman and President”	Personal tenure and leaves calculation	Chairman Hu, Kai-Hung and Executive Director Ma, Wan-June entered recusal during discussion and voting
March 27, 2020 12th session of the 8th term of the Board	Principles for bonus of Chairman, President, Vice Presidents and managerial officers concerned for FY 2019	Personal bonus	Chairman Hu, Kai-Hung and Executive Director Ma, Wan-June entered recusal during discussion and voting

III. Measures taken to strengthen the functionality of the board:

(I) Fortification of the function of the Board:

In 2018, the number of independent directors failed to meet the requirements of three persons with one vacancy during the Board election. In 2019, AIDC has complied to Articles 14-2 of the Securities and Exchange Act, and held by-election to fill the vacancy of independent director in the Shareholders Meeting. AIDC has 3 independent directors, with specialties in finance and law, who shall provide sound and professional recommendations to Board of Directors on matters relating to business, internal audit, finance and investment. Functional committees of the Board of Directors including Audit Committee and Remuneration Committee comprising all the independent directors have been set up. They shall provide Board of Directors professional and impartial review comments to ensure the integrity of company’s financial and non-financial reports, effectiveness of internal audit system, improve remuneration system of directors and management. Furthermore, to consolidate corporate governance, and to establish the communication and interactive mechanism between the Board and the shareholders, AIDC set up Investor Relations section on website which provides the major resolutions of the Board and financial information etc, and also set up the Board mailbox to enhance mutual understanding of the objectives of the Company, push forward the sustainable development of the Company, and ensure the agreement of long term interest between the Company and shareholders.

(II) Enhancement of transparency in disclosure:

The financial statements of AIDC were audited and certified by the certified public accountants of Deloitte & Touché Taiwan. As required by law, AIDC has appointed designated personnel to disclose relevant areas of information, and made announcement on the revenue and financial reports and called for institutional investor conferences at regular intervals. AIDC has established a viable spokesman system to ensure the timely disclosure of vital information for the reference of the shareholders and stakeholders on the financial position and the operation of the Company.

(III) Evaluation of the performance of the Board:

- Pursuant to ”Regulations Governing Procedure for Board of Directors Meetings of Public Companies” AIDC developed “Regulations Governing Procedure for Board of Directors Meetings” as a guideline for the BOD meeting and for consolidation of corporate governance. Attendances of directors were posted on the MOPS and major resolutions of the board meetings were disclosed on AIDC website.
- Pursuant to Article 14-4 of Securities and Exchange Act, AIDC Corporate Charter adopts the establishment of an audit committee that is composed of entire number of independent directors; and pursuant to the “Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter“ adopts establishment of a remuneration committee, which by resolution of the board is composed of entire number of independent directors.
- Per the amendment of “Company Act”, “Taiwan Stock Exchange Corporation Operation Directions for Compliance with the Establishment of Board of Directors by TWSE Listed Companies and the Board's Exercise of Powers”, “Corporate Governance Roadmap (2018-2020)” and “Regulations Governing the Exercise of Powers by Audit Committees of Public Companies”, AIDC reviewed regulations on internal audit and corporate governance, and hence formulated “AIDC Procedures for Handling directors’ request”, “Self-Evaluation of the Board of Directors” and amended “AIDC Audit Committee Charter”, and submitted for Board approval. Furthermore, the “Corporate Chater” and “Regulations Governing the Acquisition and Disposal of Assets by Public Companies” has approved by the board of directors and and passed the resolution in 2019 Shareholder’ meeting.
- To consolidate implementation of internal control, the matters that require authorization of the Board were submitted accordingly for resolution and implementation. Matters specified in Articles of Incorporation and

Articles 14-3 and 14-5 of Securities and Exchange Act, that are subject to the consent of audit committee (quasi-audit committee) or resolution of the Board were so executed and implemented. The annual and semi-annual financial reports were so executed per Article 14-5 of the Securities and Exchange Act and Article 8 of Regulations Governign the Exercise of Powers by Audit Committee of Public Companies.

- AIDC has been dedicated to implementing corporate governance, and has adopted the candidate nomination system for elections of directors. Per the new regulation of “Taiwan Stock Exchange Corporation Operation Directions for Compliance with the Establishment of Board of Directors by TWSE Listed Companies and the Board's Exercise of Powers”, AIDC has appointed Corporate Governance Officer and was approved by board of directors on August 12, 2019.
- Pursuant to the corporate governance evaluation indicators announced by Taiwan Securities Exchange each year, AIDC has been working on self-evaluations and improvements on dimensions including “Protecting Shareholders Rights and Interests and Treating Sharholders Equitably”, “Enhancing Board Composition and Operation”, “Increasing Information Transparency”, “Putting Corporate Social Responsibility into Practice”, and “Continuing Education/Training of Directors”. For the function and performance evaluation of the Board, please refer to this Chapter, Paragraph 4.3 ”Corporate Governance Execution”.

(IV) The protection of the Directors and Supervisors by professional liability insurance:

With respect to liabilities resulting from the directors and company exercising their duties during their terms of occupancy so as to reduce and spread the risk of material harm to the company and shareholders arising from the wrongdoings or negligence of the directors or company, the Company has taken out liability insurance with Chung Kuo Insurance for all directors and managerial team for FY 2019. Pursuant to Article 39 of “Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies”, the Company reported the insured duration, amount, coverage, and other major contents of the liability insurance it has taken out at the 8th term, 8st session board meeting on Aug. 12, 2019 on record. Details of liability insurance for directors and managerial team are posted on the MOPS.

(V) Continuing Education/Training of Directors in 2019:

Title	Name	Date First Elected	Date Elected	Attending Date		Host by	Course Title	Hours	Total
				From	To				
Chairman	Hu, Kai-Hung	March 18, 2019	March 18, 2019	August 7, 2019	August 7, 2019	Securities & Futures Institute	2019 Seminar on Regulations Governing Share Change of Insider of Public Companies and Non-exchange-listed or Non-OTC-listed Companies	3	14
				October 15, 2019	October 15, 2019	Taiwan Listed Company Association	US-China Trade War: The Industry Trend and Development	2	
				November 22, 2019	November 22, 2019	Vision International Management Consulting	CSR: The pass towards globalization	3	
				November 27, 2019	November 27, 2019	Taiwan Corporate Governance Association	The 15th Taipei Corporate Governance Forum	6	
Executive Director	Ma, Wan-June	March 18, 2019	March 18, 2019	July 12, 2019	July 12, 2019	Taiwan Corporate Governance Association	How to read financial statements-a lesson for nonfinancial profession directors	3	12
				August 2, 2019	August 2, 2019	Taiwan Corporate Governance Association	The role and responsibility of Corporate Governance Officer	3	
				October 4, 2019	October 4, 2019	Taiwan Corporate Governance Association	Digital Resilience: New Issues for Directors and Senior Executives	3	
				November 8, 2019	November 8, 2019	Taiwan Corporate Governance Association	US-Chian Trade War: Impact and Solutionj of Taiwan Corporation	3	
Director	Liou, Ming-Jong	October 1, 2019	October 1, 2019	November 8, 2019	November 8, 2019	Taiwan Corporate Governance Association	US-Chian Trade War: Impact and Solutionj of Taiwan Corporation	3	6

				December 16, 2019	December 16, 2019	Securities & Futures Institute	Case Study on Corporate Financial Statement Fraud	3	
Director	Chang, Ming-Pin	June 26, 2018	June 26, 2018	October 18, 2019	October 18, 2019	Taiwan Corporate Governance Association	Sucession Plan of Nomination Committee	3	6
				December 24, 2019	December 24, 2019	Taiwan Corporate Governance Association	Case Study on Corporate legal risk and crisis management	3	
Director	Shieu, Fuh-Sheng	July 22, 2016	June 26, 2018	April 26, 2019	April 26, 2019	Securities & Futures Institute	2019 Seminar on Insider Trading Prevention	3	6
				November 8, 2019	November 8, 2019	Securities & Futures Institute	2019 Seminar on Insider Trading Prevention	3	
Director	Yu, Cheng-Tao	December 18, 2017	June 26, 2018	March 21, 2019	March 21, 2019	Chinese National Association of Industry and Commerce	2019 New Corporate Governace Regulation and Trend	3	18
				September 2, 2019	September 2, 2019	Ministry of Labor	2019 Professional Competences Training for Labor Directors	9	
				October 29, 2019	October 29, 2019	Accounting Research and Development Fundation	New Labor Dispute Act: the impact on Corporation and practice of auditing	6	
Director	Hsu, Chung-Ming	June 26, 2018	June 26, 2018	March 21, 2019	March 21, 2019	Chinese National Association of Industry and Commerce	2019 New Corporate Governace Regulation and Trend	3	6
				August 7, 2019	August 7, 2019	Securities & Futures Institute	2019 Seminar on Regulations Governing Share Change of Insider of Public Companies and Non-exchange-listed or Non-OTC-listed Companies	3	
Director	Chien, Feng-Yuan	October 17, 2014	June 26, 2018	August 16, 2019	August 16, 2019	Taiwan Corporate Governance Association	Case Study on Disputes of False Finanacial Reports	3	6
				September 6, 2019	September 6, 2019	Taiwan Corporate Governance Association	The Trend and Risk Management of Digital Technology and Artificial Intelligence	3	
Executive and Independent Director	Chan, Chia-Chang	June 26, 2018	June 26, 2018	August 16, 2019	August 16, 2019	Vision International Management Consulting	CSR Booster: Topics on CSR, ESG and SDGs	3	6
				December 16, 2019	December 16, 2019	Accounting Research and Development Fundation	Corporate Governance Practice: Case Study on Corporate Value Management	3	
Independent Director	Chen, Yin-Chin	June 26, 2018	June 26, 2018	January 22, 2019	January 22, 2019	Taiwan Corporate Governance Association	Disclosure of Corporate Material Information and Directors' Obligation	3	12
				March 19, 2019	March 19, 2019	Chinese National Association of Industry and Commerce	Personal Information Protection and Corporate Governance	3	
				December 6, 2019	December 6, 2019	Taiwan Corporate Governance Association	Director's exercise of powers in requesting Corporate Information	3	
				December 13, 2019	December 13, 2019	Taiwan Corporate Governance Association	Practice of Audit Committee	3	

	Independent Director	Lien, Li-Jen	May 31, 2019	May 31, 2019	June 14, 2019	June 14, 2019	Taiwan Corporate Governance Association	Director supervision on Corporate's whistleblower system and fraud prevention practice	3	21	
					July 5, 2019	July 5, 2019	Taiwan Securities Association	Corporate Malpractice Trend and Prevention	3		
					July 5, 2019	July 5, 2019	Taiwan Securities Association	How to read financial statements-a lesson for nonfinancial profession directors	3		
					July 5, 2019	July 5, 2019	Taiwan Securities Association	How to read financial statements-a lesson for nonfinancial profession directors	3		
					July 31, 2019	July 31, 2019	Securities & Futures Institute	2019 Seminar on Regulations Governing Share Change of Insider of Public Companies and Non-exchange-listed or Non-OTC-listed Companies	3		
					August 20, 2019	August 20, 2019	Chinese National Association of Industry and Commerce	Discussion on Corporate Innovation Model	3		
					August 27, 2019	August 27, 2019	Chinese National Association of Industry and Commerce	Corporate Governance: How to fulfill the duties to prevent legal liability	3		
					October 29, 2019	October 29, 2019	Taiwan Securities Association	Corporate Supervisors' Criminal Legal Risks and Countermeasures: The Prevention of Corporate Fraud and Money Laundering	3		

4.2 Self-Evaluation of the Board of Directors

Pursuant to Article 39 of "Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies", the Corporation's "Regulation of Self-Evaluation of the Board of Directors" was passed at the 8th meeting of the 8th term of Board of Directors on August 12, 2019. Self-assessments on Board operations (functional committees) and Board members are conducted via surveys on anuual basis. The information of self-evaluation of the Board of Directors is also disclosed on MOPS and AIDC website.

Assessment results on the performance of board of directors on 2019 is as below:

Evaluation Cycle	evaluation periods	Evaluation Scope	Evaluation Method	Evaluation Result
Annually	2020/1/1 - 2020/12/31	1. The Board 2. Individual directors 3. Functional committee	1. Self-assessments on Board operations 2. Self-assessments on Board members 3. Self-assessments on functional committees	• Assessment indicators of the Corporation's Board of Directors includes the following 5 aspects: 1. Participation in corporate operations. 2. Enhancement of board decision-making quality. 3. Board composition and structure. 4. Director elections and

				continuous training. 5. Internal control. • Assessment indicators of the Corporation's directors includes the following 6 aspects: 1. Understanding of corporate goals and tasks. 2. Recognition of director responsibilities. 3. Participation in corporate operations. 4. Internal relations and communication. 5. Director knowledge and continuous training. 6. Internal control. • Self-assessments of functional committee members includes the following 5 aspects: 1. Participation in corporate operations. 2. Recognition of functional committee responsibilities. 3. Enhancement of functional committee decision-making quality. 4. Composition of functional committees and election of committee members. 5. Internal control.

Note: The result and advises of self-evaluation of the board of directors of 2019 has submitted to the 12th term, 8st session board meeting on Mar. 27, 2020, and reported to the Remuneration Committee on record.

4.3 Audit Committee（Attendance of Supervisors for Board Meeting）

A. Audit Committee

AIDC Audit Committee was set up on June 23, 2015, comprising 3 independent directors, and assist the board of directors in supervising the company's financial statements, reviewing the assessment report on the independence and competency of the CPA firm, the effectiveness of internal control, the company's compliance with laws and regulations, and risk management. During the Board election held in June 2018, the number of independent directors failed to meet the requirements of three persons with one vacancy. In order to implement corporate governance, a quasi-Audit Committee was formed in September by the entire membership (2 members) to continue executing the powers of the Audit Committee. The by-election of one independent director was completed in the Stockholder' Meeting in May 2019, the Audit Committee was formed and function. A total of 7 meetings were held by Audit Committee /quasi-Audit Committee from Jan. 1, 2019 to Mar. 31, 2020 and the implementation status includes:

1. Review Financial report, Business Report, and Distribution of earnings
2. Review Effectiveness of Internal Control
3. Review the amendment of Articles of Charter
4. Review important investment project
5. Review the appointment and remuneration of Internal Auditor for FY 2020 to FY2022
6. Review AIDC Business Plan for FY 2020
7. Review the assessment report on the independence and competency of the CPA firm
8. Review Internal Audit Report

A total of 7 meetings were held from Jan. 1, 2019 to Mar. 31, 2020; attendance of the committee members was as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance rate (%) (B/A)	Remarks
Executive and Independent Director	Chan, Chia-Chang	7	0	100.00%	Quasi-Audit Committee: 2 meetings; Audit committee: 5 meetings
Independent Director	Chen, Yin-Chin	7	0	100.00%	
Independent Director	Lien, Li-Jen	5	0	100.00%	

Important notices：

1. Matters specified in Article 14-5 of Securities and Exchange Act:

Date	Session	Motions	Resolution	Action Status
March 28, 2019	The 6th session of the 8th term of the Board	• Business Report for FY 2018 • Financial Report for FY 2018 • Distribution of earnings for FY 2018 • Declaration of Internal Control for FY 2018 • Amendment to the “AIDC Procedures for Assets Acquisition and Disposition”	Submit to the Board for approval	Approved by the Board
August 12, 2019	The 8th session of the 8th term of the Board	• Q2 2019 Consolidated Financial Report	Submit to the Board for approval	Acknowledged by the Board
November 8, 2019	The 9th session of the 8th term of the Board	• AIDC reinvestment Project	Submit to the Board for approval after the project adjusted	Suspended by the Board
December 20, 2019	The 10th session of the 8th term of the Board	• AIDC reinvestment Project • Appointment and remuneration of Internal Auditor for FY 2020 to FY2022	Submit to the Board for approval	Approved by the Board
Feburary 7, 2020	The 11th session of the 8th term of the Board	• Land lease Project for Gang Shan Complex	Submit to the Board for approval after providing supplements	Approved by the Board
March 27, 2020	The 12th session of the 8th term of the Board	• Business eport for FY 2019 • Financial Report for FY 2019	Submit to the Board for approval	Approved by the Board

		• Distribution of earnings for FY2019 • Declaration of internal control for FY 2019		

2. There was not matter that required recusal of independent directors from Jan.1, 2019 to Mar.31, 2020
3. Communications between independent directors, internal auditor and CPA firm from Jan.1, 2019 to Mar.31, 2020

3.1 Communications between independent directors and internal auditor from Jan.1, 2018 to Mar.31, 3.1 3.1 Communication between independent directors and internal auditor from Jan.1, 2019 to Mar.31, 2020. Independent directors and internal auditor as follows:

Date	Method	Motioins	Resolution
March 21, 2019	Meeting	Q4 2018 Internal Audit Report	Consented to the contents of the report and declaration; submitted to the BOD by Audit Office.
May 3, 2019	Meeting	Q1 2019 Internal Audit Report	Consented to the amendment; submitted to the BOD for approval by Audit Office
August 6, 2019	Meeting	Q2 2019 Internal Audit Report	Consented to the contents of the report; reported to the BOD by Audit Office
October 31, 2019	Meeting	• Q3 2019 Internal Audit Report • Internal audit plan for FY 2020	Reported by internal auditor proxy. Consented to the contents of the report; reported to the BOD by Audit Office
December 12, 2019	Meeting	Reports on resolutions and matters concerned on the 2nd Session of Audit Committee of the 8th term of the Board	Internal auditor reported the implementation with good communication with the independent directors.
January 31, 2020	Meeting	Reports on resolutions and matters concerned on the 3rd Session of Audit Committee of the 8th term of the Board	Internal auditor reported the implementation with good communication with the independent directors.
March 19, 2020	Meeting	Report: • Action status of the 4th session of audit committee of the 8th term of the Board • Q4 2018 Internal Audit Report Motion: • Declaration of Internal Control for FY 2018 • Amendment to the “AIDC Audit Committee Charter”	Consented to the contents of the report and motions; reported to the BOD by Audit Office.

3.2 Communications between independent directors and CPA firm from Jan.1, 2019 to Mar.31, 2020. Independent directors and and CPA firm maintain good communication as follows:

Date	Method	Motions	Resolution
March 21, 2019	Meeting	Financial Report for FY 2018	CPA reported 2018 financial statement audit results and key audit matters with good communication with the independent directors, and the motion was approved.

	May 3, 2019	Meeting	Q1 2019 Financial Report	CPA reported Q1 2019 financial report audit results with good communication with the independent directors, and the motion was approved.
	August 6, 2019	Meeting	Q2 2019 Financial Report	CPA provided Q2 2019 financial report audit results with good communication with the independent directors, and the motion was approved.
	October 31, 2019	Meeting	• Q3 2019 Financial Report • Communication Report between CPA and corporate governance unit- annual financial report audit plan and key audit matters for FY 2019	CPA reported Q3 2019 financial report audit results, and 2019 financial report audit plan and key audit matters. With good communication with the independent directors and the Company management, and the motion was approved.
	March 19, 2020	Meeting	Financial Report for FY 2019	CPA reported 2019 financial statement audit results and key audit matters with good communication with the independent directors, and the motion was approved.

4.4 Corporate Governance Implementation Status and Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies"

Item	Implementation Status			Deviations from "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" and Reasons
	Y	N	Abstract	
I. Does the company establish and disclose the Corporate Governance Best-Practice Principles based on "Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies"?	✓		AIDC has established the "Corporate Governance Guideline for Aerospace Industrial Development Corp." and has uploaded the information to MOPS and the official website of the Company. http://www.aidc.com.tw/tw/investor/governance/regulation	No Significant Variation
II. Shareholder structure and equity (I) Does the company establish an internal operating procedure to deal with shareholders' suggestions, doubts, disputes and litigations, and implement based on the procedure?	✓		AIDC has called for the General Meeting of Shareholders as required by law, and responded to the opinions representing the equity holding of the shareholders one by one and kept as minutes on record. The Company has also established the spokesman system, mailbox of the Board and customer service hotline, and the telephone and e-mail for access to the Supervisors, Spokesman and Deputy Spokesman.	No Significant Variation

Item	Implementation Status			Deviations from "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" and Reasons
	Y	N	Abstract	
(II) Does the company possess the list of its major shareholders as well as the ultimate owners of those shares?	✓		AIDC has entrusted a share registration service agent for assistance in handling share registration, transfer and related matters for the shareholders, and can keep the dominant shareholders of the Company in control and the list of the final shareholders of these dominant shareholders on track.	No Significant Variation
(III) Does the company establish and execute the risk management and firewall system within its conglomerate structure?	✓		(III) AIDC has established related operation procedures for risk control.	No Significant Variation
(IV) Does the company establish internal rules against insiders trading with undisclosed information?	✓		(IV) AIDC has established the "Aerospace Industrial Development Corp. Guidelines for Materiality Management and the Prevention of Insider Trade", and has been passed by the Board of Directors. In order to implement integrity management, the Company has established accounting systems, internal control systems, and formulated ethical codes of conduct, integrity management codes, etc., and each responsible department / person implements its rights and responsibilities in accordance with aforementioned regulations. Every year, the audit unit evaluates the risk and submitted the annual audit plan for the board approval. And various internal control operations are audited, and timely improvement suggestions are provided to prevent the occurrence of dishonesty and ensure the continuous and effective implementation of the internal control system.	No Significant Variation

<table>
<tr><th rowspan="2">Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Deviations from "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" and Reasons</th></tr>
<tr><th>Y</th><th>N</th><th>Abstract</th></tr>
<tr><td>III. Composition and Responsibilities of the Board of Directors
(I) Does the Board develop and implement a diversified policy for the composition of its members?</td><td>✓</td><td></td><td>According to the Amendment to the "Corporate Governance Guideline for Aerospace Industrial Development Corp." and the Board Election Procedure, the composition of BOD shall consider diversification and has drawn up diversity policy based on its operation, business model and development, and all members of the Board shall be qualified with a diversity of knowledge, skill and competence in performing their duties. For purpose of corporate governance, the Board with the diverse abilities shall be capable of making judgment on the operation, corporate management, crisis management, and possess industry knowledge, a broad view of the international market, leadership, and decision-making latitude. Not only comply to the diversification policy, the Board composition also includes labor directors in response to the Company' emphasis on labor-management relations and harmony. The status of the diversification of the Board is as below:
1. Total 11 directors, comprising 2 labor directors that recommended from AIDC labor union, we have 3 (27%) directors are also AIDC employees, one (9%) female director (independent), and 10 (91%) male directors; with an average age of 59.18 years, and all the independent directors tenure is less than 3 years.
2. Among all the directors, chairman Hu, Kai-Hung and director Ma Wan-June, Liou Ming-Jong, Chang Ming-Pin, Shieu Fuh-Sheng, Hsu Yan-Pu, Chan Chia-Chang, Chen Yin-Chin, Lien Li-Jen all possess capability in operation judgement, leadership, decision-making, and crisis management capabilities. Directors who have expertise in industrial knowledge, and an international outlook are Chairman Hu, Kai-Hung and director Ma Wan-June, Shieu Fuh-Sheng, Yu Cheng-Tao and Hsu Chung-Ming. Currently, independent director Chan Chia-Chang is the only one that possess expertise in finance and accounting, while director Chang, Ming-Pin and independent director Chen, Yin-Chin and Lien, Li-Jen are expertise in legal-practice.
Our current directors are all industrial or academic experts, with significant management experience in listed companies</td><td>No Significant Variation</td></tr>
</table>

Item	Implementation Status			Deviations from "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" and Reasons
	Y	N	Abstract	
			or in government institutes, chairman Hu Kai-Hung was vice chief of the general staff of Ministry of National Defense; director Ma Wan-June was vice president of National Chung-Shan Institute of Science and Technology; director Liou Ming-Jong was director of Standards Inspection Bureau; As for academic expertis, director Shieu, Fuh-Sheng is the President of National Chung Hsing University; independent director Chan Chia-Chang is vice president of Tunghai University; independent director Chen Yin-Chin is the associate Professor of Chung Yuan Christian University; and independt director Lien, Li-Jen is lawyer of Gongxin United Law Firm. The BOD compostion is diversified and function well. 3. For the diversity and qualification of the BOD members, please refer to AIDC website below. http://www.aidc.com.tw/tw/investor/governance/board.	
(II) Does the company voluntarily establish other functional committees in addition to the Remuneration Committee and the Audit Committee?	✓		Further to the establishment of the Remuneration Committee an Audit Committee was set up on June 23, 2015.	No Significant Variation
(III) Does the company establish a standard to measure the performance of the Board, and implement it annually, and report the results of the performance evaluation to the board of directors and use them as a reference for individual directors' salary, remuneration and nomination?	✓		Pursuant to Article 39 of "Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies", the Corporation's "Regulation of Self-Evaluation of the Board of Directors" was passed at the 8th meeting of the 8th term of Board of Directors on August 12, 2019. Meanwhile, per Announcemnet Tai- Zheng-Zhi-li No.1070025395 issued by Taiwan Stock Exchange Corporation, the Corporation's "Regulation of Self-Evaluation of the Board of Directors" has announced on MOPS on August 14, 2019. The regulation is also disclosed on the company's website (http://www.aidc.com.tw/tw/investor/governance/regulation) The evaluation implementation of 2019 is as below: 1. According to the regulation, the performance evaluation indicators of the company's board of directors are regularly reviewed by the Remuneration Committee and adjusted to improve the operation efficiency of the board of directors. The company shall performs the performance evaluation of the board of	No Significant Variation

Item	Implementation Status			Deviations from "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" and Reasons
	Y	N	Abstract	
			directors every year. Internal board performance evaluations shall be completed before the end of the first quarter of the following year, reviewed and improved in the report of the board of directors, and may be used as the basis for the determination of directors 'remuneration. 2. The evaluation result of the board as a whole, individual directors and functional committees are between score 4 (agreed) and 5 (Totally agreed). The directors motly agreed with the operation of various evaluation indicators. According to the result, the board and committees function well, and in line with the requirements of corporate governance. The result and advises of self-evaluation of the board of directors of 2019 has submitted to the 12th term, 8st session board meeting on Mar. 27, 2020, and reported to the Remuneration Committee on record. 3. The evaluation result of the 2019 board of directors is based on the overall performance. The director's remuneration is refer to the evaluation result, and regulation in Article 28 of the company's Articles of Charter, which set the upper limit of 0.58% of the pre-tax net profit.	
(IV) Does the company regularly evaluate the independence of CPAs?	✓		AIDC conducted routine evaluation on the independence of the external auditors: 1. AIDC set up an Audit Committee in June 2015, and one of its major functions is to assess the independence and competency of the external auditors. 2. The Audit Committee shall assess once a year the independence and competency of the CPA firm per following processes and report the result to the Board: 2.1 The Company shall draw up a questionnaire per the "No. 10 Bulletin of Norm of Professional Ethics for Certified Public Accountant of the Republic of China -Integrity, Objectivity and Independence", and provide it with CPA firm's declaration of independence and its performance report to the directors and major management departments of the Company for assessment, and shall prepare the assessment report for submittal to Audit Committee. 2.2 Confirm the audit is not conducted by the same external auditors for more than 7 consecutive years	No Significant Variation

<table>
<tr><th rowspan="2">Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Deviations from “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies” and Reasons</th></tr>
<tr><th>Y</th><th>N</th><th>Abstract</th></tr>
<tr><td></td><td></td><td></td><td>3. The assessment report on the independence and competency of the CPA firm for FY 2019 has been submitted to Audit Committee on Oct. 31, 2019 and was approved and duly recognized by the Board of Directors on Nov. 8, 2019.</td><td></td></tr>
<tr><td>IV. Does the company have qualified corporate governance persons in an appropriate number and appoint one chief corporate governance officer as the most senior executive for corporate governance matters (including but not limited to; providing information required for performance of duties by the directors and supervisors, assisting in the directors' and supervisors' compliance of law, handling matters relating to board meetings and shareholders meetings according to laws, handling corporate registration and amendment registration, and producing minutes of board meetings and shareholders meetings)?</td><td>✓</td><td></td><td>Pursuant to “Regulations Governing Procedure for Board of Directors Meetings of Public Companies”, the Secretariat Division for Board of Directors has been designated as the unit responsible for corporate governance-related matters, and the qualification and responsibility of the division head are in compliance with the requirements of corporate governance officer, to be in charge of corporate governance affairs including; handling matters and minutes relating to board meetings and shareholders meetings, furnishing information required for business execution by directors and assisting them with legal compliance, handling company registration change, fortifying the function of the board and corporate governance. On August 12, 2019, the 8th session of the 8th term of the Board approved the appointment of Director of Chairman Office Chen Zong-Hong as the Corporation’s corporate governance officer (Corporate Secretary) to protect shareholder rights, strengthen Board functions, and improve the Company’s performance in corporate governance by following Corporate Governance Roadmap by Financial Supervisory Commission.

1. Mr. Chen Zong-Hong has been serving as the Director of Chairman Office for more than 3 years, handling the shareholding and corporate governance affairs, which accords to the qualification of Corporate governance officer specified pursuant to Article 24 of “Taiwan Stock Exchange Corporation Operation Directions for Compliance with the Establishment of Board of Directors by TWSE Listed Companies and the Board's Exercise of Powers”. The training status of Corporation’s corporate governance officer in 2019 is as follows：

<table>
<tr><th>Attending Date</th><th>Host by</th><th>Course Title</th><th>Hours</th></tr>
<tr><td>September 17, 2019</td><td>Taiwan Corporate Governance Association</td><td>How do Directors Lead the Company to React to the Everchanging Technological Environment</td><td>3</td></tr>
<tr><td>November 15, 2019</td><td>Vision International Management Consulting</td><td>Corporate Culture and Corporate Governance</td><td>3</td></tr>
</table></td><td>No Significant Variation</td></tr>
</table>

Item	Implementation Status			Deviations from "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" and Reasons
	Y	N	Abstract	
			(table continued below)	

November 22, 2019	Vision International Management Consulting	CSR: The Pass towards Globalization	3
November 27, 2019	Taiwan Corporate Governance Association	The 15th Taipei Corporate Governance Forum	6
December 18, 2019	Securities & Futures Institute	Financial Report Interpretation Skill: A Lesson for Directors and Supervisors	3
Total training hours in 2019			18

2. Implementation status of corporate governance in 2019 is as follow:
   (1) Calling of BOD meetings and shareholders meeting per laws.
   (2) Producing, distributiing and disclosing the minutes of board meetings and shareholders meeting.
   (3) Furnishing information required for business execution by director to facilitate communication with AIDC management.
   (4) Completing the by-election for one Seat of Independent Director during Annual Shareholder's Meeting on May 31, 2019, pursuant to Article 14-2 of Securities and Exchange Act.
   (5) Formulating the "AIDC Procedures for Handling directors' request", and submitted for Board approval on Mar. 28,2019.
   (6) Completing the Appointment of corporate governance officer according to "Operation Directions for Appointment of Board of Directors by TWSE Listed Companies" on Aug. 12, 2019.
   (7) Formulating "Self-Evaluation of the Board of Directors", and submitted for Board approval on Aug. 12, 2019.
   (8) Assisting directors with legal compliance by providing continuous education and corporate governance related data irregularly.
   (9) Urging management departments to follow regulations and internal audit procedure; reporting or soliciting approval of the BOD on major financial issues to ensure the operation with legal compliance.
   (10) Urging management departments to complete periodical and irregular announcements and reporting within the year and to complete announcement of material information per "Taiwan Stock Exchange Corporation Procedures for

Item	Implementation Status			Deviations from "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" and Reasons
	Y	N	Abstract	
			Verification and Disclosure of Material Information of Companies with Listed Securities" to ensure information transparency and investor trading protection. (11) Completing incorporation change registration, and factory registration per laws, and keeping good management of the validity of registration documents. For AIDC corporate governance and major BOD resolutions, please refer to the MOPS and AIDC website (http://www.aidc.com.tw/tw/investor).	
V. Does the company establish a communication channel and build a designated section on its website for stakeholders (including but not limited to shareholders, employees, customers and suppliers), as well as handle all the issues they care for in terms of corporate social responsibilities?	✓		There is a designated section for stakeholders (including but not limited to shareholders, employees, customers and suppliers) on the web pages of the AIDC website at http://www.aidc.com.tw/tw/cse/stakeholder. All the matters and issues of corporate social responsibility concerned by the stakeholders will be duly responded.	No Significant Variation
VI. Does the company appoint a professional shareholder service agency to deal with shareholder affairs?	✓		AIDC has entrusted Fubon Securities for handling matters related to the General Meeting of Shareholders	No Significant Variation
VII. Information Disclosure (I) Does the company have a corporate website to disclose both financial standings and the status of corporate governance?	✓		There is a special area reserved for corporate governance on the AIDC website at http://www/aidc.com.tw/tw/investor/governance/principle posting information for the viewing of the stakeholders. There is also a link connecting to MOPS for disclosure of the financial information and corporate governance information on AIDC.	No Significant Variation
(II) Does the company have other information disclosure channels (e.g. building an English website, appointing designated people to handle information collection and disclosure, creating a spokesman system, webcasting investor conferences)?	✓		AIDC has designated personnel responsible for the collection and disclosure of information, and has installed a website in the English language at http://www.aidc.com.tw/tw. The spokesman system is in place as required for responding to relevant issues. The minutes of the institutional investor conference have been posted at the website for viewing.	No Significant Variation

<table>
<tr><th rowspan="2">Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Deviations from "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" and Reasons</th></tr>
<tr><th>Y</th><th>N</th><th>Abstract</th></tr>
<tr><td>(III) Does the company announces and register the annual financial report within two months after the end of the fiscal year, and announces and register the first, second and third quarter financial reports and the operating situation of each month in advance of the prescribed period?</td><td></td><td>✓</td><td>AIDC has followed Securities and Exchange Act and related regulations to publicly announce and register the annual financial report within three months after the close of each fiscal year; announce and register the first, second and third quarters financial report within 45 days after the end of each quarter; and announce and register the operation status of preceding month within the first 10 days of each month.</td><td>The annual financial report doesn't announced and registered within two months after the end of the fiscal year.</td></tr>
<tr><td>VIII. Is there any other important information to facilitate a better understanding of the company's corporate governance practices (e.g., including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors)?</td><td>✓</td><td></td><td>(I) Employee rights and privileges and employee care:
1. AIDC has established an industry labor union and labor-management meeting as the platform for two-way communication between the management and the labor.
2. AIDC has also established an employee welfare committee for providing fringe benefits for the employees.
3. Employment of the physically and mentally impaired for work.
(II) Investor relation:
AIDC has disclosed information required for disclosure at MOPS and the system of spokesman and deputy spokesman for responding to relevant issues to maintain positive interactions and relation with the investors.
(III) Supplier relation:
AIDC is on good terms with the suppliers and convened with each other regularly for exchange of opinions. AIDC has requested suppliers' cooperation in compliance with laws and regulations of environmental protection, industrial safety and health, as well as improvement of CSR.
(IV) Rights of the stakeholders: AIDC has established the system of spokesman as the channel for communications with the stakeholders. AIDC has also established special news zone and corporate governance zone at its website for providing information on the operation and financial position.
(V) Continuing education of the Directors: In 2019 the status of continuing education of the Directors has been disclosed at MOPS and listed on page 31 of the Annual Report.
(VI) AIDC has established the "Risk Management Guidelines" and formed a Risk Management Committee in charge of risk assessment. The</td><td>No Significant Variation</td></tr>
</table>

Item	Implementation Status			Deviations from "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" and Reasons
	Y	N	Abstract	
			Business Management Department formulates Annual Risk Management Plan in Q1, which contains risk policy, risk profile, risk management list and risk strategy that accords to operation strategy and goals and risk management policy, and reports to Risk Management Committee for approval. The performance of previous year, the current year risk policy and risk profile are reported to Board of Directors for record. (VII) The pursuit of customer policy: AIDC has designated bodies for taking care of customer issues. (VIII) The protection of the Directors and Supervisors by professional liability insurance: AIDC has taken professional liability insurance coverage for the Directors and managerial officers since 2014. The detailed information could be found at MOPS.	

IX. As per the corporate governance evaluation result for the last year announced by the Corporate Governance Center, improvements and measures taken on yet improved matters are listed as below. AIDC being ranked in top 20% in Corporate Governance Evaluation TWSE listed companies from 2015-2019, which demonstrated our efforts in information disclosure.

1. Improvements made in year 2019:
   (1) The Company convened its 2019 Regular Shareholders' Meeting by end of May.
   (2) Complete pre-evaluation of "CSR Third Party Certification" in 2018, and the evaluation in 2019.
   (3) The Company appointed of Corporate Governance officer and approved by the Board on August 12, 2019.
   (4) The Company has established Board of Directors Performance Evaluation and approved by the Board.
   (5) The results of the shareholders' meeting report to the designated Internet information reporting system on the day of the shareholders' meeting.
2. Priority matters and actions to be taken in 2020:
   (1) Condutced the Board of Directors Performance Evaluation and disclosed the result on official website.
   (2) The Company is planning on the conduct verification of Greenhouse gas.
   (3) Establish an information security risk management framework, formulate information security policies and specific management plans, and disclosed realted information on official website & annual report.
   (4) In compliance with Financial Supervisory Commission's regulation, the Company shall continue to reinforce corporate governance and information disclosure.

4.5 Composition, Responsibilities and Operations of Remuneration Committee

4.5.1 Professional Qualifications and Independence Analysis of Committee Members

Title	Criteria / Name	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria (Note)										Number of Other Public Companies in which the Individual is Concurrently Serving as a Committee Member	Remarks
		An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10		
Executive and Independent Director	Chan, Chia-Chang	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	Third
Independent Director	Chen, Yin-Chin	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	Third
Independent Director	Lien, Li-Jen		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	Third (appointed on Aug. 9, 2019)
Other	Xu, En-De	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	Third (appointed on Nov. 9, 2018)

Note：Please tick the corresponding boxes that apply to a member during the two years prior to being elected or during the term(s) of office:

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of affiliated companies. Not applicable in cases where the person is an independent director of the parent company, any subsidiary, or subsidiary of the same parent company, as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.
3. Not a nature-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under other's names, in an aggregate amount of one percent or more of the total number of issued shares of the company or ranks as one of its top ten shareholders.
4. Not a manager in the precedling first subparagraphs, or not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, or any of the above persons in the preceding second and third subparagraphs.
5. Not a director, supervisor, or employee of a corporate/institutional shareholder that directly holds five percent or more of the total number of issued shares of the company, or ranks as one of its top five shareholders, or being appointed based on subparagraph 1 or 2 of Article 27 of the Corporate Law. Not applicable in cases where the person is an independent director of the parent company, any subsidiary, or subsidiary of the same parent company, as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.
6. Not a director of the Company or a director, supervisor, office holding half or more of the share that controlled by one person. (Not applicable in cases where the person is an independent director of the parent company, any subsidiary, or subsidiary of the same parent company, as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary).
7. Not the same person or spouse that designated as directors (directors), supervisors (supervisors) or equivalent position of the company, or as other company's chairman, general manager and employees. Not applicable in cases where the person is an independent director of the parent company, any subsidiary, or subsidiary of the same parent company, as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.
8. Not a director, supervisor, officer, or shareholder holding 5% or more of the share, of a specified company or institution that has a financial or business relationship with the Company. Not applicable in cases where the specified company or institution holding more than 20% but less than 50% of the share, and the person is an independent director of the parent company, any subsidiary, or subsidiary of the same parent company, as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.
9. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides auditing, commercial, legal, financial, accounting services or consultation to the Company that received remuneration more than NT$50,000 or to any affiliate of the Company, or a spouse thereof. Not applicable in cases where the person is member of Remunertion Committee or, Public Tender Offer Committee, or Business Mergers and Acquisitions, that exercise related regulations according to Securities and Exchange Act or M&A Act.
10. Not been a person of any conditions defined in Article 30 of the Company Law.

4.4.2 Operations of Remuneration Committee

The Remuneration Committee is comprised of four members for each term.

The tenure of the 3rd term committee members starts from August 9, 2018 and ends on June 25, 2021. A total of 3 meetings of Remuneration Committee were held from January 1, 2019 to December 31, 2019. Member attendance was as follows:

Title	Name	Attendance in Person	By Proxy	Attendance Rate (%)	Remarks (term)
Chair	Chan, Chia-Chang	3	0	100%	Third
Member	Chen, Yin-Chin	3	0	100%	Third
Member	Xu, En-De	2	1	67%	Third (appointed on Nov. 9, 2018)
Member	Lien, Li-Jen	1	0	100%	Third (appointed on Aug. 9, 2019)

4.4.3 Important notices

Date	Session	Motions	Resolution	Action Status
March 15, 2019	The 3rd session of the 3rd term of the Board	• Allocation of remuneration to employees and directors for FY 2018 • Distribution of bonus of managerial officers for FY 2018	Submit to the Board for approval	Approved by the Board
May 3, 2019	The 4th session of the 3rd term of the Board	• Salary of newly-elected chairman and president • Principles for bonus of managerial officers for FY 2018	Submit to the Board for approval	Approved by the Board
March 19, 2020	The 5th session of the 3rd term of the Board	• Amendment to AIDC Remuneration Committee Charter • Allocation of remuneration to employees and directors for FY 2019 • Distribution of bonus of managerial officers for FY 2019 • Review of indexes of board performance evaluation for FY 2020	Submit to the Board for approval	Approved by the Board

4.6 Social Responsibility Implementation Status and Deviations from “the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies”

<table>
<tr><th rowspan="2">Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Deviations from “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-listed Companies” and Reasons</th></tr>
<tr><th>Y</th><th>N</th><th>Abstract</th></tr>
<tr><td>I. Does the company conducts risk assessments on environmental, social and corporate governance issues related to the company's operations in accordance with the materiality principle, and formulates relevant risk management policies or strategies?</td><td>✓</td><td></td><td>In order to effectively identify and control the risks that affect the company operation, AIDC adopted the establishment of Risk Management Committee and designated personnel to conducts risk assessments on environmental, social and corporate governance issues related to the company's operations in accordance with the materiality principle. Business Management Unit is in charge of, based on the company's operational strategy, objectives and risk management policy, formulating annual risk management plan including risk policy, risk profile, risk management items and risk countermeasures and submit it to Risk Management Committee for approval by the end of each year. And summit to the board of directors for approval as part ofn Business Plan. The information of risk management and plan is also disclosed on official website at http://www.aidc.com.tw/tw/cse.</td><td>No Significant Variation</td></tr>
<tr><td>II. Does the company establish exclusively (or concurrently) dedicated first-line managers authorized by the board to be in charge of proposing the corporate social responsibility policies and reporting to the board?</td><td>✓</td><td></td><td>AIDC has actively promoted Corporate Governance, sustainable environment and social welfare, and to effectively implement CSR tasks, the business management unit has established “CSR Consultation Committee”. The composition of CSR Consultation Committee including Chairman Hu and directors who are responsible for CSR related matters, while the CSR Promotion Group is set to assist the Committee for the advocacy of corporate social responsibility, and in charge of formulating CSR policy, system, management guidelines and implementation plan, and reporting to the Board on the result at regular intervals. The CSR implementation is also disclosed on the Company’s website (http://www.aidc.com.tw/tw/cse).</td><td>No Significant Variation</td></tr>
<tr><td>III. Environment Issues
(I) Does the company establish proper environmental management systems based on the characteristics of their industries?</td><td>✓</td><td></td><td>AIDC has successfully passed the accreditation of ISO-14001 by SGS since December 1999, and has been accredited the ISO-50001 system by SGS in December 2013 in energy management to ensure all environmental management policies are in conformity to environmental protection policy of the Company, the lastest accreditation are as follows:
1. ISO-14001: Valid from September 2018 to October 2021.
2. ISO-50001: Valid from December 2019 to December 2022.</td><td>No Significant Variation</td></tr>
</table>

Item	Implementation Status			Deviations from “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-listed Companies” and Reasons
	Y	N	Abstract	
(II) Does the company endeavor to utilize all resources more efficiently and use renewable materials which have low impact on the environment?	✓		AIDC continues its effort in supporting the policy of the Environmental Protection Administration in making green purchase, and achieved 100% green purchase within the green purchase category in 2019. AIDC has installed Reverse Osmosis (ROR) wastewater storage tank to improve water recovery in manufacturing process. Also AIDC is dedicated in renewable energy promotion, and has installed solar-power generation facilities both in Taichung and Gang Shan, and obtained a total of 19 renewable energy certificates in 2019. In addition, the Company has dedicated in the development of environmentally friendly processes by using non-toxic materials and reducing toxic waste produced from manufacturing process.	No Significant Variation
(III) Does the company assess the potential risks and opportunities of climate change on its present and future operation, and take measures to respond to climate-related issues?	✓		AIDC takes responsibility of Corporate Citizen, has incorporated the climate change issue into risk management evaluation procedure, and regulary assess the potential opportunities and risks of climate change from regulatory and physical aspect, and adopts measures to deal with related issues.	No Significant Variation
(IV) Does the company conduct assessment on greenhouse gas, water consumption and waste for the last two years, and establish company strategies for energy conservation and carbon reduction, greenhouse gas reduction, water saving and waste management?	✓		AIDC has includes the effect of climate change in the Risk Assessment explicitly stated its energy policy , and set energy saving target at 1% per year. Through the refinement of environmental management system, the Company conducts CSR plan to preserve environment, and achieve the goal of lowing impact on the environment by actions including"conform to laws and regulations, cleaner production, full participation, and continuous improvement”. The measures is elaborated below: 1. Continue to reduce the consumption of energy. 2. Continue the upgrading of energy efficiency. 3. Continue to commit its effort in energy to achieve the energy objective and standard. 4. Duly abide applicable laws and other requirements of energy. 5. Fully consider energy efficiency in the design of facilities and equipment, and related repairs. 6. Efficient purchase and the use of high-energy efficiency products and service. The GHG inventory and carbon emission for the recent two years were disclosed in the corporate social responsibility report at website http://www.aidc.com.tw/tw/cse/report	No Significant Variation

Item	Implementation Status			Deviations from “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-listed Companies” and Reasons
	Y	N	Abstract	
IV. Social Issues (I) Does the company formulate appropriate management policies and procedures according to relevant regulations and the International Bill of Human Rights?	✓		AIDC will continue to enforce Labor Standards Act, Employment Service Act, Act of Gender Equality in Employment, and other applicable legal rules for the protection of the rights and privileges of the employees under law. AIDC continues to enforce Labor Standards Act, Employment Service Act, Act of Gender Equality in Employment and other applicable legal rules for the protection of the rights and privileges of the employees under law. In addition, AIDC has established different channels such as mailbox, hotline and regularly held labor-management meeting and welfare committee to facilitate communication between company and employees. With due consideration of the International Bill of Human Rights, The Global Compact, and Declaration of Fundamental Principles and Rights at Work by ILO, AIDC has formulated the Human Right Policy, the measures is elaborated below: 1. Respect Diversity and equal job opportunities. 2. Provide a safe and healthy working environment. 3. Respect employees' freedom of assembly and association. 4. Assist employees to stay healthy and maintain balance between work and life. 5. Prohibit child labor and forced labor.	No Significant Variation
(II) Does the company formulate and implement reasonable employee benefits measures (including remuneration, vacation and other benefits, etc.), and appropriately reflect operating performance or results in employee compensation?	✓		The company regards employees as important assets and partners for sustainable growth. AIDC emphasizes on employees welfare and career cultivation, aim to create a diverse and healthy Workplace, so that employees can not only focus on their work, but also maintain good health both physical and mental, and achieve work and life balance. The company is particularly aimed at the physical and mental development of the four major aspects of "food, knowledge, action and assistance" and comprehensively promotes the employee health promotion system. More information of benefits measures please refer to chapter V on page 85 to 88, and the official website at http://www.aidc.com.tw/tw/cse/employee Pursuant to Article 28 of the Articles of Incorporation, in the event of earnings, not more than 0.58% EBT shall be set aside as remuneration to directors, while not less than 0.58% and not more than 4.65% as bonus of employees. The Company has formulated “AIDC Operation Performance Bonus” based on regulation of “AIDC Employee Payroll Management Points” and “Payroll Management Operations Rules”, the bonus of employees is calculated accordingly.	No Significant Variation

Item		Implementation Status			Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-listed Companies" and Reasons
		Y	N	Abstract	
(III)	Does the company provide a healthy and safe working environment and organize training on health and safety for its employees on a regular basis?	✓		AIDC has duly observed the laws and regulations governing health and safety promulgated by the government and provided the employees a healthy, safe, and clean work environment. AIDC implements safety and health management system and management plan, and has been certified by occupational safety and health management system OHSAS 18001 and CNS 15506 (formerly TOSHMS). In 2018, AIDC provided a general physical examination to 3,924 employees, low-dose chest CT to managerial team, and special physical examination and follow-up checkup to employees engaged in special duties. In addition, training of CPR and AED, medication safety were provided and advocated. All plant sites have designed their own fire safety plans and conduct exercise drill in fire fighting. Training in all kinds of labor safety has also been provided.	No Significant Variation
(IV)	Does the company provide its employees with career development and training sessions?	✓		AIDC reviews and trains competent people in key technical skills in accordance with the operation plan and development objective, and pools up reserve human resources in management in accordance with the "AIDC Guidelines for the Development and Use of Management Personnel".	No Significant Variation
(V)	Does the company complies with relevant regulations and international standards on the health and safety of customers, customer privacy, marketing and labeling of products and services, and formulates relevant policies and procedures to protect consumer rights and handling complaints?	✓		AIDC is a manufacturer of aircrafts and related parts and components. Domestic marketing of these products must be in conformity to the requirements of the military of the ROC. For export sale marketing, products must be conforming to the accreditation standards of world-class aircrafts including D6-82479 of Boeing, AP2190 and GEAE S-1000 of Airbus, ASQR-01 of UTAC, SPOC, MITAC MRJ-SQC-01 of Honeywell, Alenia IAYC 05C, QPS100/200/300 of Bell, and QD 4.6-40 of Bombardier. Meanwhile, AIDC has explicitly stated the quality policy of "Comprehensive Quality Assurance and Continuous Customer Satisfaction", and provided e-mail, customer satisfaction survey, and customer visit and other channels for filing complaints. In addition, there is a 24-hour customer complaint response system in place to protect the rights of the cunstomers.	No Significant Variation

Item		Implementation Status			Deviations from “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-listed Companies” and Reasons
		Y	N	Abstract	
(VI)	Does the company formulated and implement supplier management policy, requiring suppliers to follow relevant regulations on issues such as environmental protection, occupational safety and health, or labor rights?	✓		The terms of the contract between the Company and the main suppliers includes the regulation that if the supplier found violates major environment issues or related regulaions of Occupational Safety and Health Act, the supplier will be advised to improve, and if the supplier repeatedly persuaded, the cooperation will be terminated.	No Significant Variation
V.	Does the company compile corporate social responsibility reports or reports that disclose the company's non-financial information based on international CSR compiling standard or guidelines? Does the report accredited from accreditation agency or third party verification orgnaization?	✓		AIDC duly follows the principle of transparency in disclosure, and has posted relevant and reliable information on corporate social responsibility at its official website at http://www.aidc.com.tw/tw/cser and MOPS.	No Significant Variation

VI. If the Company has established the best practice principles of corporate social responsibility in accordance with the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-listed Companies”, specify the variation:

AIDC has established the “AIDC Corporate Social Responsibility Best Practice Principles” (http://www.aidc.com.tw/Content/File/2634_SOP_CSR_AR019.pdf), which is not significantly varied with the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-listed Companies”.

VII. Any other important information that helps to understand the conduct of corporate social responsibility:

In the area of “social concern”:

1. AIDC stock was included in the “Taiwan High Compensation 100 Index” since 2015 and “TWSE RA Taiwan Employment Creation 99 Index” by TWSE. The remuneration policy for employees shall maintain a balance among sustainable development of the Company, shareholders’ equity and employee care.
2. For better care of the employees and the stability of Company’s operation, in consideration of the business status and financial concern, AIDC launched the “employee stock ownership trust” program in Sept. 2016. Employees are free to join the program and determine the dollar amount they want to invest; the Company shall in return provide subsidy by a fixed ratio based on the investment of each employee. Participation of employees is growing.
3. The company utilized its flight engineering resources and self-modified aircraft to enable DOTSTAR program which assess typhoon atmospheric information. After several academic researches and execution, the result shows the prediction on typhoon’ intensity and path is significantly improved and accurate. And the program helps government take effective measures to significantly prevent the damages and losses of property and people. The company also participated in international research, for instance, the Institute of Cosmic Environment of Nagoya University entrusts AIDC through the Central Weather Bureau to carry out the observational study of Atmospheric River Project in 2019.
4. To support Government’s New Southbound Policy, AIDC vigorously expanded international medical collaboration with South Asia countries, and completed 18 rescue missions in Cambodia and Malysia respectively in 2019. From June 2013 to the end of 2019, an extension to 44 overseas destinations and 129 cases of successful transport were achieved. AIDC shall continue to expand its international collaboration and

Item	Implementation Status			Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-listed Companies" and Reasons
	Y	N	Abstract	

establish better corporate image.

5. Through AIDC Volunteer Group AIDC continued to provide volunteer service and to support government agencies and the disadvantaged groups at social welfare activities. In 2019, AIDC volunteers organized 10 charity activities with 161 person-times providing volunteer service to 3,735 person-times; co-organized 14 charity activities with 394 person-times providing volunteer service to 313,429 person-times. In addition, romotion of charity activities was made through network and by volunteers to encourage donation of money and goods as well as to render assistance to the operation of the disadvantaged groups.
5. To provide the local students opportunity to be familiarized with AIDC's effort and intention to improve local educational level and to fulfill corporate social responsibility, AIDC held 4 "Fly with your dreams" activities including speeches and visits with 141 people attended in 2019. AIDC continues putting effort in providing students of remote areas/disadvantaged groups with knowledge in aerospace industry.
6. Through the year-end employee donation activity AIDC continued to deliver warmth to the disadvantaged group on a 3-5 years term. The donation was divided and delivered to 4 social welfare organizations, namely Kaohsiung Autism Foundation-Autism Homeland, China Rainbow Village Care Association, Taiwan Lourdes Association (Taichung office), and Hualien Walk with You Social Care Association. A total of 38 volunteers were at service, and the agency 's service benefited 3,200 person-times in total.
7. AIDC continued to promote volunteer service, encouraged employees' participation in social welfare groups; moreover, employees initiated and formed the "Sino-AIDC Hundred Dollars Youngster Assistance Association" to provide tutorial service to the disadvantaged and high risk families, sponsor economically disadvantaged families and organize activities for the healthy growth of children.

4.7 Ethical Corporate Management Implementation Status and Deviations from "the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies"

Item	Implementation Status			Deviations from "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-listed Companies" and Reasons
	Y	N	Abstract	
I. Establishment of ethical corporate management policies and programs (I) Does the company formulate ethical corporate management policy that approved by the board of directors, and declare its policies and procedures in its guidelines and external documents, as well as the commitment from its board and top executives to implement the policies?	✓		For the effective pursuit of the policy of ethical corporate management for the Directors and all corporate management personnel, AIDC has established the "AIDC Ethical Corporate Management Best Practice Principles", the "AIDC Management Personnel Code of Conduct", and the "AIDC Guidelines for Management of Materiality and Prevention of Insider Trade" and approved by the Board. The Chairman and President of AIDC have also explicitly declared and signed the ethical corporate management policy in the Chinese and English versions, and posted the policy in the intranet and official website of AIDC. (http://www.aidc.com.tw/tw/about/ethical)	No Significant Variation
(II) Does the company established an evaluation mechanism to assess the unethical conducts risk, and regularly analyzes and evaluates business activities with high-potential unethical conducts, and formulates a precaution plan which at least covered llisted activities stated in Article 2, Paragraph 7 of the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies?	✓		AIDC has established the "AIDC Ethical Corporate Management Best Practice Principles" to assess the unethical conducts risk, and regularly evaluates business activities with high-potential unethical conducts and formulates precaution plan. For instance, AIDC will dispatch designated personnel to supervise the procurement in excess of 1/10 of the amount required for announcement and conduct audit on the purchase. In addition, AIDC also conducts questionnaire survey and visits for the prevention of corruption. For business entailing high risks of unethical practice, AIDC conducts investigation on possible areas of trouble. For donation, the security function will review if it is in compliance with applicable laws.	No Significant Variation

Item	Implementation Status			Deviations from "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-listed Companies" and Reasons
	Y	N	Abstract	
(III) Does the company establish policies to prevent unethical conduct with clear statements regarding relevant procedures, guidelines of conduct, punishment for violation, rules of appeal, the commitment to implement the policies, and review the policy regularly?	✓		To prevent unethical conduct, the company has formulated relevant procedures, guidelines of conduct, punishment for violation and rules of appeal. The implementation of AIDC ethical corporate management is disclosed on official website at http://www.aidc.com.tw/tw/about/ethical	No Significant Variation
II. Fulfill operations integrity policy (I) Does the company evaluate business partners' ethical records and include ethics-related clauses in business contracts?	✓		AIDC highly treasures business integrity and has explicitly stated in all business contracts that no offering of commission, undue donations and gifts and invitation to offering will be permitted. In addition, AIDC also restricts unethical suppliers to participate in the bidding for procurement with AIDC.	No Significant Variation
(II) Does the company establish an exclusively dedicated unit supervised by the Board to be in charge of corporate integrity, and regularly (at least once a year) report to the Board about the implementation of ethical corporate management policy and the plan against unethical conducts?	✓		AIDC has established the Ethics & Security Division directly supervised by the Chairman. This body is responsible for the advocacy of business integrity and the code of conduct of the employees, and it has reported the status of enforcement to the Board on a quarterly basis (at least 4 times a year) and report of which was published at its official website at: http://www.aidc.com.tw/tw/about/ethical.	No Significant Variation
(III) Does the company establish policies to prevent conflicts of interest and provide appropriate communication channels, and implement it?	✓		The Security Division of AIDC visits HR and Procurement functions of AIDC at regular intervals for the education of the avoidance of the conflict of interest and conduct self-review questionnaire. In Jan. 2019 AIDC employees were requested to sign the codes of ethical conduct to confirm their awareness of and compliance with integrity.	No Significant Variation
(IV) Has the company established effective systems for both accounting and internal control to facilitate ethical corporate management, and audit the implementation of policies of preventing unethical conduct, either by internal auditors or CPAs on a regular basis?	✓		AIDC has established an accounting system and internal control system, also formulated the "Codes of Ethical Conduct" and the "Ethical Corporate Management Best Practice Principles" for the realization of ethical corporate management. Relevant departments have performed their duties in compliance with the aforementioned systems. The annual audit plan is formulate based on the results of risk assessment and approved by the Board. Auditing unit conduct the audit the internal control operations and provides provide sound recommendation to ensure legality and security.	No Significant Variation

Item	Implementation Status			Deviations from "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-listed Companies" and Reasons
	Y	N	Abstract	
(V) Does the company regularly hold internal and external educational trainings on operational integrity?	✓		The Ethic & Security Dept. has conducted the followings in 2019. External: AIDC has invited lawyers, public prosecutors, judges and experts to give lectures and training in business integrity and ethical corporate management at least once a year. In 2019, the company has invited officers from Ministry of Justice Investigation Bureau to lecture related topics for 3 times. Internal: 1. Completed the signing of "AIDC Employee Code of Conduct", and signed by 7595 employees. 2. Provided advocacy material of business integrity to the board of directors and monthly managing meeting; updated the status of enforcement on official website at: http://www.aidc.com.tw/tw/about/ethical on a quarterly basis. 3. To assist new employees to adapt to the working environment and comply with the ethical business conduct, the Division has held 75 lectures on ethics and security with 1175 person-times. 4. Registered 51 cases of bestow gifts abide by "AIDC Employee Code of Conduct". 5. Supported 6 auditing tasks on ethic and security from foreign customer.	No Significant Variation
III. Operation of the integrity channel (I) Does the company establish both a reward/punishment system and an integrity hotline? Can the accused be reached by an ppropriate person for follow-up?	✓		According to the procedure for reward and punishment of AIDC, those who report on anything concerning corruption or jeopardizing the rights of AIDC the extent to which damage is caused, the reporting person will be rewarded. In addition, the person in charge of related operation can release a price as encouragement for the person under relevant guidelines for releasing prizes and bonus. External parties who reported on unethical practice of the employees will also be rewarded. AIDC has appointed designated personnel to answer to reporting on unethical practice. The personnel for accepting reports and the method of contact will be posted at the AIDC website, all plant sites, and offices.	No Significant Variation

Item	Implementation Status			Deviations from "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-listed Companies" and Reasons
	Y	N	Abstract	
(II) Does the company establish standard operating procedures for confidential reporting on investigating accusation cases and measures for follow-up?	✓		The investigation on report of unethical practices in AIDC is akin to the practices in the Criminal Litigation Act whereby the principle of confidentiality and no disclosure is in effect. All participants in the investigations are required to keep strict confidence and protect human rights in the entire investigation. After investigation, Ethics & Security Division will evaluate the needs to incorporate precaution measures into the management to prevent recurrence.	Significant Variation
(III) Does the company provide proper whistleblower protection?	✓		AIDC promises to protect the informants and guarantees no revenge will result due to the report on unethical practices by the informants. Such commitment is posted at the official website, all plant sites, and offices of AIDC.	No Significant Variation
IV. Strengthening information disclosure Does the company disclose its ethical corporate management policies and the results of its implementation on the company's website and MOPS?	✓		AIDC has posted the content of its Ethical Corporate Management Best Practice Principles and Employee Code of Conduct at its official website and MOPS, and provide education on related rules and regulation at any time as needed.	No Significant Variation
V. If the company has established the ethical corporate management policies based on the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies, please describe any discrepancy between the policies and their implementation: There have been no differences.				
VI. Other important information to facilitate a better understanding of the company's ethical corporate management policies (e.g., review and amend its policies): AIDC pronounced its policy of business integrity and anti-corruption policy in the annual suppliers' conference and explicitly declares no acceptance of offering and gifts. In addition, AIDC has also provided the telephone for reporting on unethical practices at 04-2284 2373 and e-mail at peterwei@ms.aidc.com.tw. The suppliers can report on any illegal practices with evidence. AIDC will keep the identity of the informant in strict confidence.				

4.8 If the Company has established corporate governance and related code, disclose the means of inquiry: AIDC has installed the "Corporate Governance Regulations", at the official website at http://www.aidc.com.tw/tw/investor/governance/regulation for disclosure of related rules and regulations of corporate governance, and the implementation status can be found on"Corporate Governance" zone (http://www.aidc.com.tw/tw/investor/governance).

4.9 Other Vital Information that Helps to Understand the Practice of Corporate Governance Better: AIDC has installed the "Investor" zone at the official website at http://www.aidc.com.tw/tw/investor for disclosure of vital information.

4.10 The Pursuit of the Internal Control System:

漢翔航空工業股份有限公司

內部控制制度聲明書

日期：109年3月27日

本公司民國108年度之內部控制制度，依據自行評估的結果，謹聲明如下：

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

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

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

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

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

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

七、本聲明書業經本公司民國109年3月27日董事會通過，出席董事11人中，有0人持反對意見，餘均同意本聲明書之內容，併此聲明。

漢翔航空工業股份有限公司

董事長：胡開宏

總經理：馬萬鈞

Aerospace Industry Development Corporation

Statement of Declaration on Internal Control

Date: March 27, 2020

Aerospace Industry Development Corporation has conducted internal audit in accordance with its Internal Control Regulation covering the period from January 1 to December 31, 2019, and hereby declares as follows:

I. The Company acknowledges and understands that the establishment, enforcement and preservation of internal control system is the responsibility of the Board and the managers, and that the Company has already established such system. The purpose is to reasonably ensure the effect and efficiency of operation (including profitability, performance and security of assets), the reliability of financial reporting and the compliance with relevant legal rules.

II. There is limitation inherent to internal control system, no matter how perfect the design. As such, effective internal control system may only reasonably ensure the achievement of the aforementioned goals. Further, the operation environment and situation may vary, and hence the effectiveness of the internal controls system. The internal control system of the Company features the self-monitoring mechanism. Once identified, any shortcoming will be corrected immediately.

III. The Company judges the effectiveness of the internal control system in design and enforcement in accordance with the “Criteria for the Establishment of Internal Control System of Public Offering Companies” (hereinafter referred to as “the Criteria”). The Criteria is instituted for judging the effectiveness of the design and enforcement of internal control system. There are five components of effective internal control as specified in the Criteria with which the procedure for effective internal control is composed by five elements, namely, 1. Control Environment, 2. Risk Evaluation, 3. Control Operation, 4. Information and Communication, and 5. Monitoring. Each of the elements in turn contains certain audit items, and shall be referred to the Criteria for detail.

IV. The Company has adopted the aforementioned internal control system for internal audit on the effectiveness of the design and enforcement of the internal control system.

V. Basing on the aforementioned audit findings, the Company holds that has reasonably preserved the achievement of the aforementioned goals within the aforementioned period of internal control (including the monitoring over the subsidiaries), including the effectiveness and efficiency in operation, reliability in financial reporting and compliance with relevant legal rules, and that the design and enforcement of internal control are effective.

VI. This statement of declaration shall form an integral part of the annual report and prospectus on the Company and will be announced. If there is any fraud, concealment and unlawful practice discovered in the content of the aforementioned information, the Company shall be liable to legal consequences under Article 20, Article 32, Article 171 and Article 174 of the Securities and Exchange Act.

VII. This statement of declaration has been approved by the Board on March 27, 2020 with the presence of 11 directors in common consent.

Chairman: Hu, Kai-Hung

President: Ma, Wan-June

Aerospace Industry Development Corporation

4.11 The Penalty on AIDC and its Internal Personnel, the Penalty of AIDC Personnel for Violation of the Internal Control System, Major Shortcomings and the Status of Corrective Action:

None.

4.12 Major Resolutions of the General Meetings of Shareholders and the Board in the Previous Period to the Date this Report was Printed

4.12.1 2018 Major Resolutions of Shareholders' Meeting and Implementation Status

1. The 2018 Business report and financial report.
2. The distribution of Earnings for FY 2018
   Implementation Status: Authorized by the BOD, Chairman set July 15, 2019 as the ex-dividend record date, and a cash dividend of NT$1.34 per share, which made up the total of NT$1,262,101,915, was to be distributed by August 2, 2019.
3. The proposal for amending Articles of Charter was approved.
   Implementation Status: As per Approval Letter Jin Shang-Zi No.10801069420 issued by the Ministry of Economics Affairs on June 11, 2019, the amendment of Articles of Charter was registered and disclosed on the Company's website.
4. The proposal for amending Acquisition and Disposal Procedures for Assets was approved.
   Implementation Status: The Compnay completed reporting on June 11, 2019 and disclosed it on its website.
5. The by-elections for one Seat of of 8th term of Independent Directors.
   Implementation Status: The election result was announced on May 31, 2019 and further approved and recorded by the Ministry of Economic Affairs on June 11, 2019. The minutes of shareholders meeting was disclosed on the MOPS and Company's website.
6. The proposal for exemption of directors and their representatives from non-competition restrictions was approved.
   Implementation Status: The Company announced on May 31, 2019 names of the directors with permission to engage in competitive conduct and to serve concurrently in company whose business is within or similar to the scope of the business of the Company. The minutes of shareholders meeting was disclosed on MOPS and Company's website.

4.12.2 2018-2019 Major Resolutions of Board of Directors' Meetings

Date	Session	Motions
January 21, 2019	The 5th session of the 8th term of the Board	• By-election of one Independent Director • Lift the ban of non-compete on directors elected to the office • Amendment to AIDC Corporation Charter (Articles of Incorporation) • Calling for the regular session of the General Meeting in FY 2019
March 18, 2019	The 2nd special session of the 8th term of the Board	• By-election of two Executive Directors: Director Hu, Kai-Hung and Director Ma, Wan-June were elected to fill in the designated tenure from March 18, 2019 to June 25, 2021 • Election of AIDC Chairman: Executive Director Hu, Kai-Hung was elected among 3 Executive Directors as AIDC Chairman to fill in the designated tenure from March 18, 2019 to June 25, 2021 • Discharge and appointment of AIDC President: (1) Mr. Lin, Nan-Juh was discharged as AIDC President by resolution of all attending members, effective March 18, 2019. (2) Mr. Ma, Wan-June was appointed as AIDC President by resolution of all attending members, effective March 18, 2019
March 28, 2019	The 6th session of the 8th term of the Board	• Business Report for FY 2018 • Allocation amount of remuneration to employees and directors for FY 2018 • Financial Report for FY 2018

		• Distribution of earnings for FY 2018 • Declaration of Internal Control for FY 2018 • Project Finance Plan • Amendment to the “AIDC Procedures for Assets Acquisition and Disposition” • Establishment of the regulation of “AIDC Standard Operating Procedure for Handling the Requirements of the Directors” • Bonus of Chairman, President, Vice Presidents and managerial officers concerned for FY 2018
April 18, 2019	The 3rd special session of the 8th term of the Board	• By-election of one Independent Director • Lift the ban of non-compete on directors elected to the office
May 10, 2019	The 7th session of the 8th term of the Board	• Salary of Chairman and President • Principles for bonus of Chairman, President, Vice President and Managerial officers
August 12, 2019	The 8th session of the 8th term of the Board	• Appointment of Remuneration Committee members • The Appointment of Corporate Governance Officer • Establishment of the regulation of “Self-Evaluation of the Board of Directors” • Amendment to “AIDC Audit Committee Charter” • Amendment to “AIDC Implementation of Retirement Pension Fund” • Amendment to regulation of “AIDC flight crew management”
November 8, 2019	The 9th session of the 8th term of the Board	• Internal Audit Plan for FY 2020
December 20, 2019	The 10th session of the 8th term of the Board	• Amendment to AIDC Corporate Charter (Articles of Incorporation) • Amendment to AIDC Organizational Charter • Amendment to the regulation of “Implementation of pension for AIDC Chairman and President” • AIDC reinvestment Project • Business Plan for FY 2020 • Appointment and remuneration of Internal Auditor for FY 2020 to FY2022
Feburry 7, 2020	The 11th session of the 8th term of the Board	• Calling for the regular session of the General Meeting in FY 2020 • AIDC Land Lease Plan
March 27, 2020	The 12th session of the 8th term of the Board	• Business Report for FY 2019 • Allocation amount of remuneration to employees and directors for FY 2019 • Financial Report for FY 2019 • Distribution of earnings for FY 2019 • Declaration of Internal Control for FY 2019 • Bonus of Chairman, President, Vice Presidents and managerial officers concerned for FY 2019 • Plant Construction and Asset Procurement Project • Sales of Equity of reinvestment business • Amendment to the “AIDC Regulations Governing Procedure for Board of Directors Meetings” and “Regulations Governing Appointment of Independent Directors” • Amendment to the “AIDC Audit Committee Charter” • Amendment to the “AIDC Remuneration Committee Charter”

Note: For details, please refer to the BOD motions and Company’s disposition of independent directors’ comments.

4.13 Major Issues of Record or Written Statements Made by Any Director or Supervisor Dissenting to Important Resolutions Passed by the Board of Directors: None.

4.14 Resignation or Discharge of Chairman, President, and Heads of Accounting, Finance, Internal Audit, Corporate Governance Officer and R&D

March 31, 2020

Title	Name	Date of Office	Date of Discharge	Cause of Resignation or Discharge
Chairman	Liao, Jung-Hsin	March 2, 2015	March 18, 2019	Discharged due to the change of MOEA representative
President	Lin, Nan-Juh	July 5, 2017	March 18, 2019	Discharged due to the change of MOEA representative

5. Information Regarding Independent Auditors

5.1 Audit Fees

Brackets of the Service Charge for the Certified Public Accountants

Accounting Firm	Name of CPA		Period	Remarks
Deloitte & Touche	Lie-Dong Wu	Done-Yuin Tseng	2019	

Unit：NT$ thousands

Bracket	Item	Audit Fee	Non-audit Fee	Total
1	Under NT$ 2,000,000			
2	NT$ 2,000,000 ~ 4,000,000	3,330	556	3,886
3	NT$ 4,000,000 ~ 6,000,000			
4	NT$ 6,000,000 ~ 8,000,000			
5	NT$ 8,000,000 ~ 10,000,000			
6	Over NT$ 10,000,000			

Unit：NT$ thousands

Accounting Firm	Name of CPA	Audit Fee	Non-audit Fee					Period	Remarks
			System Design	Company Registration	Human Resource	Others (Note)	Subtotal		
Deloitte & Touche	Lie-Dong Wu, Done-Yuin Tseng	3,330				556	556	2019	1. Certification of Project financial statements amounted to NT$147,000 2. Audit of business tax report amounted to NT$156,000 3. Certification of transfer pricing report amounted to NT$138,000 4. Secondary reviews of issuing corporate bond report amounted to NT$115,000

Note：For service charge beyond auditing service, itemize the detail. If the "miscellaneous" spending of service charges beyond auditing service accounted for 25% of the total service charge beyond auditing service, specify the content of the services in the space provided.

5.2 Change in the CPA Firm and the Service Charge for Auditing Spent in the Year of Change was Less than that in the Same Period of the Previous Year: None.

5.3 In the Event that the Service Charge for Auditing Falls by 10% of more than the Same Period of the Previous Year, Disclose the Amount Change, the Proportion of Change, and the Causes: None.

6. Information on Change in External Auditors: None.

7. AIDC's Chairman, Chief Executive Officer, Chief Financial Officer, and managers in charge of its finance and accounting operations hold any positions within AIDC's independent audit firm or its affiliates during 2019: None.

8. Net Change in Shareholding and Shares Pledged by Directors, Supervisors, Managers and Shareholders with 10% Shareholdings or More:

8.1 Transfer and pledge of shares owned by directors and managers

Unit: shares; %

Title	Name	2019		Year-to-date as at March 31,2019	
		Increased (decreased) in shares held	Increased (decreased) in shares pledged	Increased (decreased) in shares held	Increased (decreased) in shares pledged
Juristic-person Director (major shareholder)	MOEA	0	0	0	0
	Representative: Hu, Kai-Hung (Note 1)	0	0	0	0
	Representative: Ma, Wan-June (Note 1)	0	0	0	0
	Representative: Liou, Ming-Jong (Note 1)	0	0	0	0
	Representative: Chang, Ming-Pin	0	0	0	0
	Representative: Shieu, Fuh-Sheng	0	0	0	0
	Representative: Yu, Cheng-Tao	0	0	0	0
	Representative: Hsu, Chung-Ming	0	0	0	0
Juristic-person Director	National Defense Industrial Development Foundation	0	0	0	0
	Representative: Hsu, Yan-Pu (Note 1)	0	0	0	0
Executive and Independent Director	Chan, Chia-Chang	0	0	0	0
Independent Director	Chen, Yin-Chin	0	0	0	0
Independent Director	Li-Jen Lien (Note 2)	0	0	0	0
President	Ma, Wan-June	0	0	0	0
Vice President	Chen, Yi-Min	(147)	0	0	0

Title	Name	2019		Year-to-date as at March 31,2019	
		Increased (decreased) in shares held	Increased (decreased) in shares pledged	Increased (decreased) in shares held	Increased (decreased) in shares pledged
Vice President	Ho, Poa-Hua	0	0	0	0
Vice President	Du, Shiu-Chun	0	0	0	0
Vice President	Lo, Ching-Chi	0	0	0	0
Vice President	Huang, Shu-Yuan	0	0	0	0
Chief Audit Executive	Lin, Fu-Ji	0	0	0	0
Director, Finance & Accounting	Huang, Hsiu-Yen (Note 3)	0	0	0	0
R&D Officer	Wu, Tian-Sheng	0	0	0	0
Director, Strategy & Legal Affairs	Chuang, Jennifer	0	0	0	0
Corporate Governance Officer	Chen, Zong-Hong (Note 4)	80,422	0	0	0

Note 1： NDIDF representative change: Hsu, Yan-Pu replaced Po, Horng-Huei on Feb. 1, 2019; MOEA representative changes: Hu, Kai-Hung replaced Liao, Jung-Hsin and Ma, Wan-June replaced Lin, Nan-Juh on Mar. 18, 2019, Liou, Ming-Jong replaced Chien, Feng-Yuan on Oct.1, 2019. Hu, Kai-Hung was appointed as AIDC Chairman and representative of Juristic-person Director.

Note 2： Li-Jen Lien was appointed as independent directors at shareholders meeting of May 31, 2019.

Note 3： Ms. Huang, Hsiu-Yen is in charge of both Finance and Accounting.

Note 4： Mr. Chen, Zong-Hong was appointed as corporate governance officer at the 8th session of the 8th term of the Board, effective Aug. 12, 2019.

Note 5： Information on change in shares held by the abovementioned persons is based on their tenure and the total shares owned by the persons, their spouses and children of minor age.

8.2 Disclosure of share transfer or collateralization where the counterparty is a related party:

None.

8.3 Pledge of shares where the counterparty is a related party: None.

9. Related Party Relationship among AIDC's 10 Largest Shareholders:

As of July 11, 2019 (note)/ Unit: shares; %

Name	Current Shareholding		Spouse & Minor Shareholding		AIDC Shareholding by Nominee Arrangement		Name and Relationship between AIDC's Shareholders		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relation-ship	
MOEA	331,301,773	35.18%	N/A	N/A	-	-	-	-	
Representative: Hu, Kai-Hung	-	-	-	-	-	-	-	-	
Representative: Ma, Wan-June	-	-	-	-	-	-	-	-	
Representative: Chang, Ming-Pin	-	-	-	-	-	-	-	-	
Representative: Shieu, Fuh-Sheng	-	-	-	-	-	-	-	-	

Name	Current Shareholding		Spouse & Minor Shareholding		AIDC Shareholding by Nominee Arrangement		Name and Relationship between AIDC's Shareholders		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relation-ship	
Representative: Chien, Feng-Yuan	-	-	-	-	-	-	-	-	
Representative: Yu, Cheng-Tao	107,205	0.01%	-	-	-	-	-	-	
Representative: Hsu, Chung-Ming	75,502	0.01%					-	-	
Fubon Life Insurance Co., Ltd.	50,948,540	5.41%	N/A	N/A	-	-	-	-	
Responsible person: Tsai, Ming-Hsing	-	-	-	-	-	-	-	-	
Cathay Life Insurance Co., Ltd.	46,219,088	4.91%	N/A	N/A	-	-	-	-	
Responsible person : Huang, Tiao-Kuei	-	-	-	-	-	-	-	-	
The New Labor Pension Fund	31,934,173	3.39%	N/A	N/A	-	-	N/A	N/A	
Taipei Fubon Commercial Bank Co., Ltd. Trust Account	17,192,095	1.83%	N/A	N/A	-	-	N/A	N/A	
The Labor Insurance Fund	16,790,136	1.78%	N/A	N/A	-	-	N/A	N/A	
Mercuries Life Insurance Co., Ltd.	12,432,000	1.32%	N/A	N/A	-	-	-	-	
Representative: Chen, Shiang- Jeh	-	-	-	-	-	-	-	-	
National Defense Industrial Development Foundation	11,063,201	1.17%	N/A	N/A	-	-	N/A	N/A	
Representative: Hsu, Yan-Pu	-	-	-	-	-	-	-	-	
National Pension Insurance Fund	11,051,234	1.17%	N/A	N/A	-	-	N/A	N/A	
TransGlobe Life Insurance Inc.	7,005,620	0.74%	N/A	N/A	-	-	-	-	
Representative: Peng, teng-de	-	-	-	-	-	-	-	-	

Note: the record date

10.Proportion of Overall Shareholding:

As of December 31, 2019/Unit: thousand shares; %

Direct Investment	Ownership by AIDC		Ownership by Directors, Managers and Directly/Indirectly Owned Subsidiaries		Total Ownership	
	Thousand Shares	%	Thousand Shares	%	Thousand Shares	%
AIDC USA LLC	(Note 1)	100	—	—	(Note 1)	100
AeroVision Avionics Inc.	4,968	13.09	—	—	4,968	13.09
Metro Consulting Service Ltd.	300	6.00	—	—	300	6.00
UHT Unitech Co., Ltd.	1,100	3.15	—	—	1,100	3.15

Note 1：A limited liability company without issuing shares. No information on quantity of shares is applicable.

IV. Raising of Capital

1. Capital and Shares

1.1 Source of Capital

March 31, 2020 / Unit: shares; NT$

Month/ Year	Issue Price (Per Share)	Authorized Share Capital		Capital Stock		Remarks		
		Shares	Amount	Shares	Amount	Sources of Capital	Capital Increase by Assets Other than Cash	Others
June 1996	10	1,500,000,000	15,000,000,000	905,591,351	9,055,913,507	Valuation in Cash and Assets	6,527,455,995	Note 1
June 1999	10	1,500,000,000	15,000,000,000	908,261,429	9,082,614,287	Offset by Rights to Debt	26,700,780	Note 2
January 2000	10	1,500,000,000	15,000,000,000	908,261,428	9,082,614,280	Writing Less		Note 3
August 2017	10	1,500,000,000	15,000,000,000	941,867,101	9,418,671,010	Capitalization of Retained Earnings		Note 4

Note 1: As per Approval Letter Jin (85) Shang-Zi No. 109686 issued by the Executive Yuan on June 24, 1996, the Ministry of National Defense was approved to assign assets amounted to NT$ 9,055,913,447 as equity for investment for the establishment of Aerospace Industry Development Corp. together with the investment of six other companies, including Taiwan Power Corporation, a subsidiary of the Ministry of Economic Affairs, amounted to NT$ 10, which made up the total of NT$ 9,055,913,507. Of the pool of investment, non-cash assets amounted to NT$ 6,527,455,995 were allocated, including fixed assets amounted to NT$ 6,526,751,995 and long-term investment amounted to NT$ 704,000.

Note 2: As per Approval Letter Jin (88) Shang-Zi No. 088118904, right to debt is permitted to offset the payment on the basis of the written instruction of the Executive Yuan on June 1, 1999, that supports the National Defense Industry Development Fund for the former Aerospace Industry Development Center under the Ministry of National Defense in the purchase of machinery and tools had residual value of NT$ 26,700,780, and shall be allocated as capital stock for AIDC in the budgeting procedure.

Note 3: As per Approval Letter Jin (089) Shang-Zi No. 089102830 dated January 28, 2000, capital stocks amounted to NT$ 9,082,614,287 were approved for registration of writing less as NT$9,082,614,280 in 2000, due to the NT$7 is less than the value of 1 share.

Note 4: As per Approval Letter Jin-Shou-Shang-Zi No. 10601116580 dated August 24, 2017, capitalization of retained earnings was duly approved.

March 31, 2020/Unit: shares

Type of Stock	Authorized Share Capital		
	Issued Shares	Unissued Shares	Total
Common Stock	941,867,101	558,132,899	1,500,000,000

1.2 Composition of Shareholders

Common Share As of July 11, 2019 (Last Record Date) / Units：person; shares; %

Type of Shareholders	Government Agencies	Financial Institutions	Other Juridical Persons	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	1	12	115	35,470	76	35,674
Shareholding	331,301,773	124,943,748	114,480,119	319,586,242	51,555,219	941,867,101
Holding Percentage (%)	35.18%	13.27%	12.15%	33.93%	5.47%	100.00%

1.3 Distribution Profile of Share Ownership

As of July 11, 2019 (Last Record Date）

Shareholder Ownership (Unit: Share)	Number of Shareholders	Ownership (Unit: Share)	Ownership (%)
1 ~ 999	5,944	763,807	0.08%
1,000 ~ 5,000	20,140	40,435,836	4.29%
5,001 ~ 10,000	3,815	27,077,847	2.88%
10,001 ~ 15,000	1,572	18,496,077	1.96%
15,001 ~ 20,000	690	12,270,070	1.30%
20,001 ~ 30,000	827	19,962,623	2.12%
30,001 ~ 50,000	863	33,880,098	3.60%
50,001 ~ 100,000	1,069	77,665,283	8.25%
100,001 ~ 200,000	638	75,094,991	7.97%
200,001 ~ 400,000	53	14,402,955	1.53%
400,001 ~ 600,000	18	9,180,407	0.97%
600,001 ~ 800,000	5	3,349,661	0.36%
800,001 ~ 1,000,000	5	4,728,409	0.50%
Over 1,000,001	35	604,559,037	64.19%
Total	35,674	941,867,101	100.00%

1.4 Major Shareholders

Names, quantity and proportion of shareholding by shareholders holding more than 5% of the shares or the top 10 shareholders by proportion of shareholding:

Common Share

As of July 11, 2019 (Last Record Date)

Shareholders	Total Shares Owned	Ownership (%)
MOEA	331,301,773	35.18%
Fubon Life Insurance Co., Ltd.	50,948,540	5.41%
Cathay Life Insurance Co., Ltd.	46,219,088	4.91%
The New Labor Pension Fund	31,934,173	3.39%
Taipei Fubon Commercial Bank Co., Ltd. Trust Account	17,192,095	1.83%
The Labor Insurance Fund	16,790,136	1.78%
Mercuries Life Insurance Co., Ltd.	12,432,000	1.32%
National Defense Industrial Development Foundation	11,063,201	1.17%

National Pension Insurance Fund	11,051,234	1.17%
TransGlobe Life Insurance Inc.	7,005,620	0.74%

1.5 Net Worth, Earnings, Dividends, and Market Price Per Common Share

Units：NT$ dollar/shares

<table>
<tr><th colspan="3">Item</th><th>2018</th><th>2019</th><th>1/1/2020~3/31/2020</th></tr>
<tr><td rowspan="3">Market Price Per Share (Note 1)</td><td colspan="2">Highest</td><td>37.50</td><td>36.15</td><td>36.70</td></tr>
<tr><td colspan="2">Lowest</td><td>27.80</td><td>30.05</td><td>24.90</td></tr>
<tr><td colspan="2">Average</td><td>32.03</td><td>32.21</td><td>31.43</td></tr>
<tr><td rowspan="2">Net Worth Per Share (Note 2)</td><td colspan="2">Before Distribution</td><td>15.01</td><td>15.62</td><td>(Note 8)</td></tr>
<tr><td colspan="2">After Distribution</td><td>13.67</td><td>14.43 (Note 7)</td><td>(Note 8)</td></tr>
<tr><td rowspan="2">Earnings Per Share</td><td colspan="2">Weighted Average Shares (thousand shares)</td><td>941,867</td><td>941,867</td><td>(Note 8)</td></tr>
<tr><td colspan="2">Earnings Per Share (Note 3)</td><td>2.22</td><td>1.99</td><td>(Note 8)</td></tr>
<tr><td rowspan="4">Dividends Per Share</td><td colspan="2">Cash Dividends</td><td>1.34</td><td>1.19 (Note 7)</td><td>—</td></tr>
<tr><td rowspan="2">Stock dividend</td><td>Retained Earnings</td><td>—</td><td>—</td><td>—</td></tr>
<tr><td>Capital Reserve</td><td>—</td><td>—</td><td>—</td></tr>
<tr><td colspan="2">Accumulated Undistributed Dividend</td><td>—</td><td>—</td><td>—</td></tr>
<tr><td rowspan="3">Return on Investment</td><td colspan="2">Price/Earnings Ratio (Note 4)</td><td>14.43</td><td>16.19</td><td>—</td></tr>
<tr><td colspan="2">Price/Dividend Ratio (Note 5)</td><td>23.90</td><td>27.07 (Note 7)</td><td>—</td></tr>
<tr><td colspan="2">Cash Dividend Yield (Note 6)</td><td>4.18%</td><td>3.69% (Note 7)</td><td>—</td></tr>
</table>

Note 1: The highest and lowest market price per common share in respective years; and the annual average market price is calculated based on the annual trading value.
Note 2: Use the outstanding shares at the end of the year as the basis, fill in resolution of distribution in the Shareholders' Meeting next year.
Note 3: As the earnings per share is subject to retroactive adjustment due to stock dividend distribution, specify the value before and after the adjustment.
Note 4: Price/Earnings Ratio = Average Market Price/Diluted Earnings Per Share
Note 5: Price/Dividend Ratio = Average Market Price/Cash Dividends Per Share
Note 6: Cash Dividend Yield = Cash Dividends Per Share/ Average Market Price
Note 7: Proposal for distribution of retained earnings of FY 2019 is pening resolution of the Shareholders' Meeting.
Note 8: Up to the date of printing of this annual report financial statement of Q1 of 2020 has not been audited by the CPA, therefore it is not disclosed here. Net value per share after distribution = (equity - cash dividend) / outstanding shares.

1.6 Dividend Policy of the Company and the Implementation

1.6.1 Dividend Policy of the Company

(1) On allocating the annual earrings, the Company shall first pay the income tax, offset the losses of previous years, set aside 10% as a legal reserve except that the legal reserve has equaled the total capital of the Company; then set aside a special reserve in accordance with relevant laws or regulations. The residual earnings will be appropriated according to the following principles per resolution in the shareholders' meeting:

A. Profits may be distributed by taking financial, business, operational, or other related factors into consideration.

B. Distribution of profits may be made by way of cash dividend and/or stock dividend. Since the Company is in a capital-intensive industry, distribution of profits may be made preferably by way of cash dividend or stock dividend, provided however, the ratio for stock dividend shall not exceed 50% of total distribution.

C. If there is no earnings for distribution in the current year, or if the amount of the earnings is far less than the actual earnings for distribution of the previous year, or in consideration of financial, business, operational, or other related factors, the Company shall distribute all or part of the reserve according to the laws or regulations of the competent authorities.

(2) No less than 50% of the distribution earnings shall be allocated as cash dividend and subject to the Shareholders' Meeting resolution for disbursement.

1.6.2 The Proposal for Distribution of Dividend as Resolved in Current Session of the General Meeting

Since the Company went public, dividend was disbursed each year per Company's dividend policy. The Company has corporate earnings of NT$1,874,287 thousand in FY 2019. The appropriations of earnings for FY 2019 was proposed to and approved by the Company's board meeting on March 27, 2020. The amount of earnings for distribution is NT$1,120,822 thousand with cash dividend at NT$1.19/share.

Note: The appropriations of earnings of FY 2019 is subject to the resolution of the Shareholders' Meeting to be held on May 29, 2020.

1.6.3 Notes to Anticipated Significant Change in the Dividend Policy: None.

1.7 The Impact of Stock Dividend Planned to Release by Current Session of the Shareholders' Meeting on Business Performance and Earnings per Share：Not Applicable.

1.8 Remuneration to Employees and the Directors：

1.8.1 The Percentage or Scope of Remuneration to Employees and the Directors and Supervisors Provided in the Articles of Incorporation

In the event of earnings, the Company shall set aside not less than 0.58% and not more than 4.65% of EBT as remuneration to employees, while not more than 0.58% of EBT as remuneration to directors. However if the Company sustains an accumulated loss, amount of which shall be set aside to cover the loss.

1.8.2 In the event of a discrepancy between the basis for the estimation of remuneration of employees, directors and supervisors, the calculation of the quantity of shares in the distribution of dividend and the actual amount distributed, the accounting of the discrepancy will be:

For FY 2019, the remuneration to employees was NT$ 106,953 thousand and remuneration to the directors was NT$13,341 thousand. The estimation of distributions is based on related part in the Articles of Incorporation, the remuneration to employees, directors and supervisors represented 4.65% and 0.58% of net income (net of the remuneration). The share dividend was not proposed in earnings distribution category.

If there is any difference between such estimated amounts and the amounts resolved by the General Meeting of Shareholders, the difference shall be adjusted in the year of the General Meeting of Shareholders.

1.8.3 Proposal for Distribution of Earnings Passed by the Board:

(1) For remuneration to employees and directors of FY 2019, following amounts are approved by the board meeting held on March 27, 2020:

(A) employee cash remuneration：NT$ 106,953 thousand

(B) employee share dividend：NT$ 0

(C) remuneration to the directors：NT$13,344 thousand

The Board resolved earnings distribution proposal for FY 2019, and the total amount of remuneration to employees and directors was the same as that recognized in the financial statements.

(2) Number of shares proposed as employee remuneration and relative percentage to capitalized earnings：

No share dividend was proposed as the employee remuneration.

1.8.4 The difference between the employee bonus and remuneration to the directors (including the quantity of shares, amount and stock price) of the previous fiscal period actually disbursed, and the recognized employee bonus and remuneration to the directors, and explain the difference, if applicable, and cause of the difference and the response:

It was resolved by the Board Meeting on March 28, 2019 that for FY 2018 the amount disbursed for employee bonus was NT$121,277 thousand, remuneration to the directors was NT$15,137 thousand, and no employee share dividend was proposed. The said Board resolution was reported to the Shareholders' Meeting on May 31, 2019. There is no difference between the said amount and that recognized in the financial statements.

1.9 Repurchase of Company Shares: None.

2. Corporate Bonds (including overseas corporate bonds):

Units：NT$ dollar

Corporate Bond Type		2019 Unsecured Corporate Bonds, Phase I
Issue date		September 17, 2019
Denomination		1,000,000
Issue price		Issue by denomination
Total price		3,000,000,000
Coupon rate		0.71%
Tenor		5 years Maturity: September 17, 2024
Guarantee agency		None
Consignee		Taipei Fubon Commercial Bank Co., Ltd.
Underwriting institution		Yuanta Financial Holding Co., Ltd
Certified lawyer		Jack Y. Twu from Lee and Li, Attorneys-at-Law
CPA		Lie-Dong Wu from Deloitte & Touche
Repayment method		Repayment in lump sumupon maturity
Outstanding principal		3,000,000,000
Terms of redemption or advance repayment		None
Restrictive clause		None
Name of credit rating agency, rating date, rating of corporate bonds		Rating agency: Taiwan Ratings Corp. Credit Rating of Issuer: twAA-/stable/twA-1+ Rating date: May 29, 2019 Credit rating: Not applicable
Other rights attached	As of the printing date of this annual report,	Not applicable

	converted amount of (exchanged or subscribed) ordinary shares, GDRs or other securities	
	Issuance and conversion (exchange or subscription) method	None
Issuance and conversion, exchange or subscription method, issuing condition dilution, and impact on existing shareholders' equity		None
Transfer agent		Not applicable

3. Preferred Shares: None.

4. Participation in Issuance of Overseas Depository Receipts: None.

5. Employee Stock Options: None.

6. Restricted ESO: None.

7. Merger and Acquisition: None.

8. Issuance of New Shares through Acceptance of Assignment of Shares from other Issuers: None.

9. Capital Utilization Plan and Implementation of the Plan: AIDC has raised unsecured corporate bonds of NT$ 300 million on September 17,2019, and have fully used by the end of the fourth quarter of 2019, to repay short-term debts, enrich long-term funds and strengthen finance structure. The project implemented accords to scheduled plan, and there is no difference between the expected benefits and the actual situation.

V. Operation Outlook

1. Business Content

1.1 Scope of Business

1.1.1 The Content of Principal Business

Manufacturing and Maintenance of Airplanes and its Parts and Components

Manufacturing and Maintenance of Engine and its Parts and Components

Industrial Technology Services (energy, tracks, information and aviation service)

1.1.2 Proportion of Different Business Lines

AIDC runs 3 categories of business, namely, “Maintenance of Airplanes and Vehicles”, “Engines”, and “Industrial Technology Services” in the following proportions:

Unit：NT$ thousands

Product Category	2018		2019	
	Amount	%	Amount	%
Maintenance of Airplanes and Vehicles (Note 1)	15,964,570	56.65	16,072,427	56.31
Engines (Note 2)	11,818,385	41.94	11,917,333	41.76
Industrial Technology Services	399,143	1.41	550,447	1.93
Total	28,182,098	100.00	28,540,207	100.00

Note 1: Airplanes and Vehicles Maintenance: including military and commercial planes and vehicles maintenance.

Note 2: Engines: including military and commercial engines.

1.1.3 Running Products (Services) of the Company

AIDC runs the merchandises (services) for defense, commercial aviation and industrial technology services.

Defense industry includes the manufacturing maintenance, and performance upgrade of domestic military aircrafts, commercial maintenance of air fleets, production of military hardware by private sector, and military aircraft engines.

Commercial aviation business includes the design and OEM production of airframe structure and sub-assembly parts, and the design, processing and OEM production of international commercial aircraft engines and parts and components.

Industrial technology services aim at the aviation service and the application of the R&D, design, manufacturing, testing, system integration, and after-sales service deriving from aerospace technology capacity currently in service.

1.1.4 Development of New Products (Services) under Planning

In the area of defense industry, AIDC plans to develop the next-generation fighter, fight for business opportunities of newly purchased F-16V fighters including adopt domestic engine and maintenace in business, and expand business in military aircraft and fleet maintenance and GOCO.

In the area of commercial aviation, AIDC plans to develop the parts and components of new commercial planes, and the system parts and components of engines under risk sharing plan, and expand business in large engine case and overall maintenace of engines.

In the area of industrial technology, AIDC plans to develop green energy engineering related medium to large technology service projects, and develop in the fields of engineering technologies and system integration.

1.2 Industry Outlook

1.2.1 Industry Outlook and Development

1.2.1.1 Defense Industry

While air force is our primary customer, defense business lies with the defense budget of the government. Due to the difficulty in procuring defense weapon abroad, in order to secure Taiwan's autonomous national defense, the ROC armed forces adopts comparative advantage thinking to build up Taiwan's autonomous national defense, and make firm budget plan in compliance with the force buildup schedule. According to the 2019 *National Defense Report*, the average defense budget was NT$296.3-340.5 billion in the past 10 years, equivalent to 16.17-17.34% of the total budget of the central government, and shows steady growth trend since 2017.

1.2.1.2 Commercial Aviation

According to the market forecast released by Airbus and Boeing, for the next 20 years (2019-2038) new airplane requirement is 39,210-44,040, and the Boeing report estimated the market value of US$6.8 trillion and an passenger traffic average annual growth rate of 4.3%-4.6%, as measured in revenue passenger kilometers (RPK). However, there are uncertain factors that worthy watching, such as US-China trade war and the suspension of Boeing 737Max, which might affects the aviation demand.

The 20-year forecast of demand for new planes by Boeing and Airbus

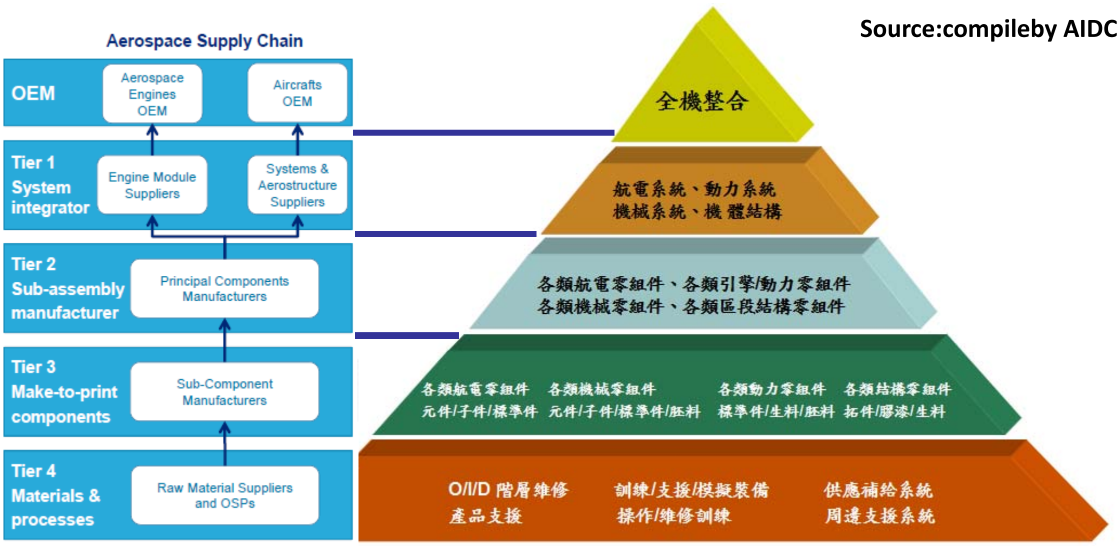
Sources: Airbus GMF (2019-2038); Boeing CMO (2019-2038)

1.2.2 The Association of the Upper-, Middle- and Lower-Stream of Industries

In general, the international aerospace and aircrafts and engines supply chains adopt international vertical division of labor, and can be classified into 4 tiers: components/materials supplier (Tier 4), parts supplier (Tier 3), subsystems supplier (Tier 2), (cabin-mounted equipment, module segment critical components) and main structure supplier (Tier 1); and the top layer is the OEM of aircraft structure integration and aero engines which is shown in the chart below.

International Vertical Division of Labor in the Aerospace Industry Value Chain

Source:compileby AIDC



In the area of aircraft manufacturing, Boeing, Airbus, and Bombardier are the manufacturers of the whole aircraft. GE, Rolls-Royce, Snecma, Pratt & Whitney, and Honeywell and their subsidiaries are the major aero engine manufacturers who are capable of providing engine and aircraft assembly to meet the requirements of Boeing, Airbus and Bombardier

AIDC is a key member of the global aerospace industry supply chain, and is the leader in the aerospace industry of Taiwan providing aircraft structural parts and engine sub-assembly components and parts for the international aircraft market. AIDC has also established a complete network of supply for the speedy upgrading of the entire aerospace industry of Taiwan. After receiving orders from major international firms, in addition to manufacturing and assembly at its Taichung, Shalu and Gang Shan Complexes, AIDC outsources part of the parts and components business to its suppliers. The relation of the upper-, middle-, and lower-stream of the aerospace industries in Taiwan is shown in the chart below.

1.2.3 Different Development Trends of Products

In national defense, most of the jet fighters are at the brink of retirement from service. As such, the Ministry of National Defense has budgeted for long-term maintenance and performance upgrade of the jet fighters and trainers currently in service. Under the MND's policy of downsizing and streamlining the armed forces, the maintenance of military aircraft has been outsourced to the private sector. This trend will be developed further in stable paces.

In commercial aviation, lightweight, fuel efficient and environmental friendly new aircraft has become the mainstream product in the market, in the meantime, single-aisle airplanes will comprise 70 percent of units over the next 20 years to meet the high demand for point-to-point flight route, which will also drive engine related business.

In industrial technology service, AIDC supports the government policy of prevention of disasters prevails the relief after disasters and the objectives of energy saving and carbon reduction, and intensifies its operation in aviation service for atmospheric measurement in disaster prevention and energy technology service.

1.2.4 The Competition

1.2.4.1 Defense Business

The capability and expertise acquired from the development of the IDF fighter and AT-3 jet trainer give AIDC the edge in pursuing the subsequent performance upgrade and maintenance business. Meanwhile, AIDC has established relevant software and hardware resources, such as the certified factory by Lockheed Martin, equipment, facilities, and qualified technician to perform the F-16 A/B upgrade program, and these will conducive to the acquisition of new F -16V fighter related business. As for the GOCO business, AIDC has already participated in and has experience in the operation of GOCO services and that give AIDC additional momentum in the competition.

1.2.4.2 Commercial Aviation Business

Major aircraft and engine manufacturers in Europe and America adopted global division of work practice and established the parts and components supply chain system. Currently, the newly emerged economies penetrated into the processing of particular part of aircraft and engines at very low price under the support of their governments. This poses a threat in the price competition. Furthermore, the constant cost reduction demands from international companies, such as Boeing's "Partnering for Success 2.0" and Airbus' "Saving Levers 2020+" strategies, are adding more challenges to the already stringent situation.

To relieve from the vicious cycle of cutthroat competition, AIDC has already oriented towards the development of system parts and components and seeked to engage in the high value-added aircraft segments and engine components. Meanwhile, AIDC has organized the Taiwan Aerospace Industry A-

Team 4.0 Alliance with the objectives of "cross-sector alliance, work division of same sector, lean production , and competitiveness enhancement", and has integrated diverse sectors including; raw materials, machinery, manufaturing and logistics to form the aerospace industry supply chain. It is hoped that by bringing together suppliers who share similar value and concepts, and via work division by speciality and strength to promote the cooperation between members and eventually upgrade the competitivness of Taiwan aerospace indusry as a whole.

1.2.4.3 Industrial Technology Service Business

AIDC mainly uses its aerospace technology on hand to provide the service. In supporting the government in the development of strategic industries and the demand for large-scale system engineering in the private sector, AIDC develops relevant products and services and has already gained an edge in the competition.

1.3 Overview of Technology and R&D:

1.3.1 The R&D expenses in the last 2 years are shown in the table below. In the future, more funding will be injected into R&D for fine-tuning the core competence:

Unit：NT$ thousands

Item	2018	2019	Q1 of 2020
R&D Expenditures	545,217	548,281	Note 2
Net Revenue	28,182,098	28,540,207	Note 2
% of Revenue	1.94 %	1.92%	Note 2

Note 1: A 2-4% of annual net revenue will be allocated as R&D expenditures in the future.
Note 2: The financial information for Q1 FY 2020 has not been audited by the CPA up to the printing of the annual report, therefore it is not disclosed.

3.3.2 The technologies or products developed in FY 2019 are shown in the table below:

Item	Technology or Product	Result
1	16G Commercial Airline Seats	1. Acquired FAA LODA certification of LOT2A configuration. 2. With the experience and capabilities of the 16G seat project, AIDC obtained seat modification business with China Airline Ltd.
2	Test Platform for AJT flight Control System	1. Completion of the HIP (HUD Interface Program) test cabinet development. 2. Completion of the functional integration test for the AJT DFCS with Avionics equipment.
3	Electric Test System (EETS)	1. Assisted the electrical power test for AJT roll out. 2. Completion of electrical power quality test on self-made AJT parts.
4	Development of the key technology for the Live Virtual Constructive Simulation	The completion of the Antenna Pattern Analysis Tool and Virtual Radar Ground Map development.
5	Development and Production of Nose Radome and Satcom Radome	1. The completion of three batch of MXB7701/7781 material allowable testing data. 2. The Completion of manufacturing of S-92 Nose Radome machined components and composite parts. 3. The completion of A-220 Nose Radome trial

Item	Technology or Product	Result
		production. 4. The completion of preliminary demand analysis and shape design of Satcom Radome.
6	Blade casting of Directional solidification and medium and large turbine	1. Completed DS / SC (Directional / single crystal) solid blade development and obtained inspection certificate. 2. Completed DS / SC (Directional / single crystal) hollow blade development and obtained inspection certificate. 3. Completed the development of 3 IGT (medium and large turbine blades) castings and passed inspection and mass production. 4. Completed the first stage delivery and verification of 3 IGT (medium and large turbine blade) castings.
7	On-line Machining Quality Monitoring and Automatic Virtual Metrology (AVM) System Development- An Application in Engine Case Machining (II)	1. The completion of designing of AVM alarm-triggered machining stop mechanism and its implementation on APEC 1 and 4 machine centers. 2. The completion of modeling of KH32856 OP180 AVM and tooling state estimation, and sysem integration and implemenation on APEC 1 machine center. 3. The completion of modeling of KH58028 OP260 AVM and tooling state estimation, and sysem integration and implemenation on APEC 4 machine center.
8	Inprovement and development of Composites Manufacturing Process	Co-Cure process research and development with GKN Aileron as the target component. Datum Company of Northern Ireland was commissioned to design and manufacture the Co-Cure tool and mold,then AIDC can learn its design concept and manufacturing method, three trial parts were made with the tooling, and the third trial part passed the quality assurance inspection.
9	Pilot Project for Aerospace Composites and Intelligent Manufacturing Industrial Innovation	1. Two patents related to the path compensation system of the robot arm were generated in this research and development case. Apply to the actual production line. 2. Introduce domestic equipment and system development equipment to the aerospace field and apply it to production lines. The introduction of robotic arms to perform ash scraping and soil replenishment shortens the working time by 40%, and the drilling /Routing accuracy can reach ± 0.25mm. 3. Establish optical inspection and inspection of composite parts during the manufacturing process of the robot arm. 4. The introduction of AGV / COBOT application can reduce 35% man-hours for handling and gluing in the production of composite parts. 5. Establish a smart material production line scheduling and logistics network combination. 6. Developed ultrasonic blade knife inspection

Item	Technology or Product	Result
		equipment for production inspection.
10	Development and manufacture of self-made avionics equipment	To enhance the development and manufacture capability of our domestic made avionics equipment, AIDC develop the AJT avionics equipment, including specifications, the preliminary and detailed design, first artical unit and quality testing unit, and performing military standard ESS test, including EMI and thermal test.
11	Advanced IATS 4.0	Advanced IATS 4.0, developed by AIDC, provides a solution to the inspection and testing of avionics equipment. The system has an inspection and test prodecure developing tool, and it's capable of analyzing and forcasting the malfuctioned mode. Also it's eqipped with an AR training and learning fuction that can further be extended.

1.3.3 R&D Direction in the Future

1.3.3.1 Development of Critical Technology for Next Generation military Aircraft: Based on military business demands invest in the development of military aircraft related products and improve production capacity.

1.3.3.2 Development of New Products: Upgrade the capacity in the development of engine parts and test overall assembly. Development of commercial airline seats.

1.3.3.3 Management: Upgrade the fleet managament system, AI project and Lean Acitivity.

1.3.3.4 Maintanence: Establish maintainence capacity and develop the obsolescence parts.

1.3.3.5 Manufacturing: Develop and improve the process for production, assembly and automation, establish intelligent production and manufacturing. And improve the capacity in areas including automatic robotic arm application system integration technology, RTM, 3D printing technology, skin T-material stretch forming, composite material thermoforming and component development.

1.4 Business Development Plans in the Long and Short Run

1.4.1 Defense Business

1.4.1.1 Short Run: Provide quality- and schedule-compliant service to carry out the new advanced jet trainer development program and F-16A/B upgrade program.

1.4.1.2 Long Run: Pursue the business of the primary trainers and next generation fighters, F-16 fighters, develop the business for the commercial maintenance of military aircraft, I-level maintenance and depot-level maintenance work of the Air Force 1st and 3rd Logistics Commands.

1.4.2 Commercial Aviation Business

1.4.2.1 Short Run: Make an all-out effort to pursue existing order increment and manufacturing proportion expansion, alleviate the impact of Boeing's suspension of 737 Max production, implement lean management and intelligent manufacturing to increase project revenue, and pursue business vigorously in manufacturing popular jet model by fortifying strategic partnership with international companies such as Boeing, Airbus and Rolls-Royce.

1.4.2.2 Long Run: Integrate competitive edge of Taiwan suppliers, provide assistance to upgrade the supply chain performance, attain balanced growth in metal and composites businesses, and enhance competitiveness of regional aerospace industry.

1.4.3 Industrial Technology Service Business

1.4.3.1 Short Run: further development of green engineering business and flight service of atmospheric testing and measurement for the prevention of disasters.

1.4.3.2 Long Run: extend the application of aviation technology to support the development of national strategic industries and the demand of the large-scale engineering and industrial upgrading of the private sector, and assist the development of related industries and services.

2. Market and Industry Outlook

2.1 Market Analysis

2.1.1 The Regions and Targets of Sales (Supply) of Premium Products (Services):

Product Category	Area	Customers
Defense	Domestic	Ministry of National Defense, National Chung-Sahn Institute of Science and Technology.
Commercial aviation	Foreign	Manufacturing of aircraft body: Aerospace manufacturing giant firms in Europe, America, and Japan, such as Boeing, Airbus, Bombardier, Leonardo, KHI, Mitsubishi, Collins, Sikorsky, SUBARU, Spirit, and Bell Helicopter. Engines: Engine manufacturing giant firms in Europe and America, such as GE, Rolls-Royce, Safran, Pratt & Whitney, and Honeywell.
Industrial Technology Service	Domestic	Department of Environmental Protection of Taipei City Government, Lu-Yeh Energy Corporation, National Space Organization, Tung's Taichung MetroHarbor Hospital, Tri-Service General Hospital, Taiwan Mobile Coporation, Workforce Development Agency.
	Foreign	Nagoya University in Japan, Kilang Kelapa Sawit Lekir Sdn Bhd in Malaysia, The MTR Corporation Limited in Hong Kong.

2.1.2 Market Share

2.1.2.1 Defense Business

AIDC has the capacity in full-range logistics support service of AT-3 and IDF and the advantage of the maintenance of the aforementioned aircrafts and engines, performance upgrade, and fleet maintenance. In addition, the advocacy of the Ministry of National Defense for outsourcing private contractors for the maintenance of different types of military aircraft and the government-owned and contract-operated military industry plants makes AIDC an indispensable supplier.

2.1.2.2 Commercial Aviation Business

AIDC has emerged as a strategic partner of major aerospace industrial firms of the world and is the leader of aerospace industry of Taiwan. AIDC has already been accredited for different parts and components in the aerospace industry and has good experience in international cooperation and mainly secure the contracts of renowned international giant firms. The international market is so big that the market share is conditioned by the sales of products of the giant firms. As such, there is no information on the market share of the parts and components in the aerospace industry available for reference.

2.1.2.3 Industrial Technology Service

AIDC provides industrial technology service on the foundation of aerospace technology, and expands and applies the technology to tracks, automobile electronics, energy technology, and aviation service. However, the income from this business only occupies a small portion of the revenue. As such, the shares in respective markets have not been estimated.

2.1.3 The Supply and Demand in the Market and Growth in the Future

2.1.3.1 Defense Business

In view of the existing service and future combat requirements for jet fighters of the ROC Air Force, in order to maintain combat power and improve aircraft availability, requirements for replacement and upgrade are growing. As such, AIDC has the opportunity for growth in the supply of weapon systems for the armed forces, the maintenance of different types of military aircraft, and the government-owned, contractor-operated business.

2.1.3.2 Commercial aviation Business

The global aerospace industry has strong business opportunities for the next 20 years, though affected by factors such as, US-China trade war and Boeing's suspension of 737Max production. Due to the fact that most of the new airplanes orders are placed in advance, the backlog of 5000 to 6000 airplanes are expected to sustain the growth in steady level.

2.1.3.3 Industrial Technology Service Business

For environmental protection, the government makes positive effort in the advocacy of green energy technology and circular economy. As such, green engineering has the opportunity for further growth. The economic booming in the Southeast Asia drives more public installations and transportation facilities. There is the opportunity for the growth of the mechatronics business.

2.1.4 Competitive Edge

2.1.4.1 Defense Business

AIDC has the capacity in integrated design, manufacturing and logistics support in maintenance of the whole aircraft, and can help to extend the life span, upgrade the performance, commercial maintenance of military aircrafts, and the GOCO business.

2.1.4.2 Commercial aviation Business

The years of joint venture with international giant firms enabled AIDC to establish world-class engineering design capacity in body structure, advanced composite materials, and avionics for commercial aircraft, and support the needs in the development of various business areas with flexible design of production process.

AIDC has been accredited the ISO 9001 and AS9100 systems and the quality accreditation system of Boeing, Airbus, Bombardier, Sikorsky and Bell, and has developed positive partnership with the aforementioned aerospace giant firms.

In the area of aircraft engine, the manufacturing technology capacity of engine case of AIDC has been recognized by the international aircraft engines giant firms, and AIDC has been accredited the quality accreditation system of the area of aircraft engine as well. Currently, AIDC mainly manufactures engine cases, and is engaged in essential partnership with the top 5 engine manufacturers including GE, Honeywell, Pratt & Whitney, Rolls-Royce of the UK, and Snecma.

2.1.4.3 Industrial Technology Service Business

AIDC has large-scale aviation system development experience, possesses mature technology and capability in engineering integration, testing and manufacturing.

2.1.5 Factors Favorable and Unfavorable for Development and the Response

2.1.5.1 Favorable Factors

A. Taiwan government has designated five innovative industries as the driving force of the next generation. Defense industry being one of the five is expected to lead the investment of the industry.

B. Among the strong demand from the emerging markets, Asia-Pacific region contributes the most, with a 40% of the total global demand. AIDC has been dedicated in the aerospace industry and successfully entered the global aerospace supply chain, along with Taiwan's position as a regional hub of Asia-Pacific, which is conducive to the business growth.

2.1.5.2 Unfavorable Factors and Response

A. The cost reduction demands from international companies have grown into a huge pressure. Whether it is Boeing's or Airbus's supplier strategy, they all tend to bind new business opportunity with cost reduction negotiation.

<u>Response</u>

AIDC will upgrade and refine the core competence of research and development, design and manufacturing process, and adopt lean production to enhance technology added value, reduce cost, and improve competitiveness.

In addition, AIDC will keep abreast of the dynamics and development trend of the industry, integrate the edge of Taiwan Aerospace Industry A-Team 4.0 alliance, provide assistance to upgrade supply chain level, establish a long-term and stable cooperation relationship with collaborative partners, enhance competitiveness of regional aerospace industry, pursue higher position in the global aviation supply chain, and reduce the risk of cutthroat price competition from global suppliers.

B. Technology advanced countries adopted highly automated and intelligent machinery to enhance production efficiency; on the other hand, the newly emerging countries established low-cost aerospace clusters with government support. Both have unfavorable impacts on business development of AIDC.

Response

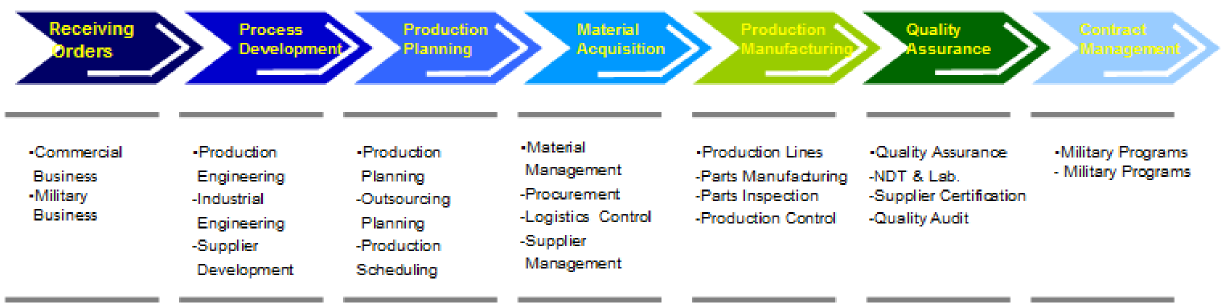
AIDC has implemented Industry 4.0 to develop iAIDC intelligent manufacturing platform, and via robots, internet of things, big data and CPS technologies to consolidate digital manufacturing and intelligent management, upgrade production efficiency and enhanced competitive power.

2.2 The Primary Purpose of Main Products and the Production Process

2.2.1 Primary Purpose

Product Category	Purpose
Maintenance of Airplanes and Vehicles	Defense, combat training, commercial aircraft, commercial helicopters, aircraft aviation control/navigation/monitoring, maintain normal operation/function of aircrafts/engines/avionics within the life span.
Engines	Engine for aircrafts, industrial use engines.
Industrial Technology Services	Large-scale engineering system is applicable to national infrastructure, aerospace technology is applicable to the research and manufacturing of high value-added industry and common household products/technology services to upgrade the industrial level of Taiwan.

2.2.2 Production Process



2.3 The Supply of Key Materials

AIDC is an aerospace manufacturer and relies on qualified suppliers designated by the customers in the supply of direct materials given its specific nature. The materials include the materials for the manufacturing of aircraft body structure, engines and chemical substances (including composite materials). For securing better terms and conditions of supply, AIDC usually entered into long-term contracts with the suppliers in line with the needs of the customers. The supply of key materials is shown in the table below:

Name of key material	Supplier	Status of supply
Metals	AMS BRALCO TMX TW Metals FUTURE	The key suppliers of aluminum, steel, titanium plate, sheet, tube, rod, and molded forms of metals in market.
Non-metals	HEXCEL TORAY SOLVAY PPG EURO	The key suppliers of composite materials, rubber, paints, and cell devices in market.
Standard metal parts	ARCONIC WESCO KLX PEERLESS	The key suppliers of standard metal parts, electronic parts.
Finished items and non-standardized parts	S.F.C. PCC RBC MEGGIT	As per the request of the customers.

2.4 The Names of the Customers Each Accounted for More than 10% of the Purchase (Sales) and the Amount and Proportion of Purchase (Sales) in any of the Last 2 Years, and the Reasons for the Changes. Use Code Names for Customer Name and Counterparty Required by the Agreements to Keep Confidential and these Parties are not Related Parties to AIDC.

2.4.1 The List of Customers Each Accounted for More than 10% of the Net Purchase in the Last 2 Years:

	2018				2019				1/1/2020~3/31/2020			
Item	Customer	Amount	% of 2018 Total Net Revenue	Relation to AIDC	Customer	Amount	% of 2019 Total Net Revenue	Relation to AIDC	Customer	Amount	% of Q1 of 2020 Net Revenue	Relation to AIDC
1	A	1,220,695	11.42	None	A	1,413,232	9.49 (Note 2)	None	A	Note 3	Note 3	None
	Others	10,220,506	88.58	-	Others	13,480,681	90.51	-	Others	Note 3	Note 3	-
	Net Revenue	11,651,201	100.00	-	Net Revenue	14,893,913	100.00	-	Net Revenue	Note 3	Note 3	-

Note 1: AIDC is in good relationship with the aforementioned major supplier and there has been no significant change.

Note 2: Customer A delivered as scheduled in 2019, and the total value of purchase is higher than that of 2018. The decrease in the share of customer A's purchase is due to the increase of total net revenue of 2019.

Note 3:Financial information for Q1 of FY 2020 has not been audited by the CPA up to the date of printing of this annual report, therefore it is not disclosed.

2.4.2 The List of Customers Each Accounted for More than 10% of the Net Sales in the Last 2 Years:

Unit：NT$ thousands; %

	2018				2019				1/1/2020~3/31/2020			
Item	Customer	Amount	% of 2017 Total Net Revenue	Relation to AIDC	Customer	Amount	% of 2018 Total Net Revenue	Relation to AIDC	Customer	Amount	% of Q1 of 2019 Net Revenue	Relation to AIDC
1	A	12,000,069	42.58	None	A	11,524,123	40.38	None	A	Note 3	Note 3	Note3

2	B	5,428,577	19.26	None	B	6,886,221	24.13	None	B	Note 3	Note 3	Note3
	Others	10,753,452	38.16		Others	10,129,863	35.49		Others	Note 3	Note 3	Note3
	Net Revenue	28,182,098	100.00		Net Revenue	28,540,207	100.00		Net Revenue	Note 3	Note 3	Note3

Note 1: AIDC is in good relationship with the aforementioned 2 major customers and there has been no significant change in the last 2 years.

Note 2: The aforementioned financial information for FY 2018 and FY 2019 is based on the audited figures under IFRSs.

Note 3: Financial information for Q1 of FY 2020 has not been audited by the CPA up to the date of printing of this annual report, therefore it is not disclosed.

2.5 Production Volume and Value in the Last 2 Years:

Unit：NT$ thousands

Year / Val. & Vol. / Product	2018			2019		
	Production Capacity	Production Volume	Production Value	Production Capacity	Production Volume	Production Value
Maintenance of Airplanes and Vehicles	—	—	14,116,344	—	—	14,680,274
Engines	—	—	9,739,209	—	—	10,874,322
Industrial Technology Services	—	—	367,675	—	—	407,410
Total	—	—	24,223,228	—	—	25,962,006

Note 1: The items for delivery included self-made parts, spare parts, support equipment, documents, software, and technology service. The nature of the business is made-to-order and there are no standard items therefore the estimation of production capacity and volume is not available.

Note 2: The items of engines for delivery including spare parts, service, and OEM order for commercial engines of foreign countries.

Note 3: The financial information of FY 2018 and 2019 are based on the audited figures under IFRSs.

2.6 The Sales Value and Volume in the Last 2 Years:

Unit：NT$ thousands

Year / Val. & Vol. / Product	2018				2019			
	Domestic		Foreign		Domestic		Foreign	
	Qty	Amount	Qty	Amount	Qty	Amount	Qty	Amount
Maintenance of Airplanes and Vehicles	—	8,726,509	—	7,238,061	—	8,692,709	—	7,379,718
Engines	—	2,885,574	—	8,932,811	—	2,280,119	—	9,637,214
Industrial Technology Services	—	352,148	—	46,995	—	501,373	—	49,074
Total	—	11,964,231	—	16,217,867	—	11,474,201	—	17,066,006

Note 1: The items for delivery included self-made parts, spare parts, support equipment, documents, software, and technology service. The nature of the business is made-to-order and there are no standard items therefore the estimation of production capacity and volume is not available.

Note 2: The items of engines for delivery including spare parts, service, and OEM order for commercial engines of foreign countries.

Note 3: The financial information of FY 2018 and FY2019 are based on the audited figures under IFRSs.

3. Employee Profiles in the Last 2 Years to the Date this Report was Printed

Year		2018	2019	1/1/2020~ 3/31/2020
	Level I Executives and higher	27	27	28
	Others	4988	5268	5416
	Total	5015	5295	5444
Average Age (years)		45.6	45.6	44.6

Year		2018	2019	1/1/2020~ 3/31/2020
Average Years of Service (years)		13.1	13.1	12.6
Education	Ph.D.	0.52%	0.53%	0.51%
	Master's	17.75%	17.54%	17.41%
	Bachelor's	36.67%	37.83%	38.08%
	Other Higher Education	23.83%	21.32%	21.05%
	High School	21.89%	22.48%	22.65%
	Junior High and below	0.34%	0.30%	0.30%

Note: Chairman, President and 7 directors are not included.

4. Information on Expenditures for Environmental Protection

In the last 2 years up to the fourth quarter of 2019, the loss incurred from pollution to the environment and the total amount of penalty, with disclosure of the plan to tackle with the pollution problem and the possible expenditures:

4.1 In March 2019, the Environmental Protection Bureau(EPB) of Taichung City Government issued notice letter to AIDC concerning the violation of construction project of Shalu No.15A factory, which started construction without "The Project of Reducing Constrution Waste Water Runoff" being approved by the Bureau. The Authority imposed a fine of NT$10,000 and ruled that company representative should take 1 hour environment education. The fine was paid by Te Chang Construction Co. before due day.

4.2 In September 2019, the Environmental Protection Bureau(EPB) of Taichung City Government issued letter to AIDC about the investigation result of stationary pollution source audit in May and imposed a fine of NT$ 200,000. The investigation found that the company 's Taichung plant M02 A204 washing tower fail to display the reading figure of the washing liquid flow rate and process status of M07, and the reading figure of A703 catalyst washing tower exceeded the allowable difference by 10%. The company later passed review in July, and has made effort in response to EPB' suggestion and, including revise the relevant SOP documents by adding chapter of notification on equipment malfunction, increace inspection rate, and review related measures and implementation to prevent of such event.

5. Labor-Management Relation

5.1 Specify the Welfare Policy, Continuing Education, Training, and Retirement Systems and the Status of Implementation, Labor-management Coordination and the Measures for the Protection of the Rights and Privileges of the Employees

5.1.1 Welfare Policy of the Company

5.1.1.1 Welfare Policy: Provide all employees with labor insurance, national health insurance and accident insurance with NT$4 million insured. General physical examination for all employees and special physical examination for employees engaged in special duties. Prices and awards are also offered.

5.1.1.2 Employee Welfare Committee: AIDC has established the Employee Welfare Committee in accordance with the Employee Welfare Fund Statue for coordination of all fringe benefits for the employees, supervise and advocate all group activities with subsidy. In addition, an annual budget has been prepared for the planning of welfare to subsidize employees in matrimony, funeral, sickness, maternity and paternity. Gifts were also granted on birthdays and festivities. Recreational activities, parent-children events, and group activities were organized for the employees as well.

5.1.1.3 Psychological health care has also been an essential policy of AIDC:

The Company has established the Employee Assistance System (EAS) operating through Employee Assistance Center. The EAS integrates the resources of labor safety, human resources, psychological counseling, employee welfare and community to form a network of care. It provides timely aid to the employees by funding assistance for hospitalization, concern for the decease of employees and families, medical expenses and major disasters. It also helps to launch the Employee Assistance Programs (EAPs), including: office observers program, individual and family consultation assistance, project for balancing work and living, psychological health assessment, assistance for employees in sickness and injury and group support, care for new employees, care for the employees at retirement, mindfulness-based stress reduction and weight loss project.

The Company has launched office observers program which provide the training and and promote the EAS actively to strengthen employees and family care with the Care Workers Volunteer Team and the Unit Care System. It also actively promotes staff to assist in the systemic care mechanism, with a personalized and group-based staff assistance program to provide staff and is a body and mind health care information and resources, strengthen employee and family care and support services, improve employees' physical and mental health and reduce unsafe behavior, avoid human error, reduce the risk and cost of health hazards, improve mental health and workplace safety.

The Company applies its human resources to fulfilling corporate social responsibility, efforts of which include; holding social care activities through its volunteer group, supporting social welfare and care for remote area education, government and charity groups activities, providing volunteer service opportunity to retired employees to enrich their value of life, promoting good deed and helping the weak; encouraging employees to make donations; and providing direct/indirect assistance to the operation of the disadvantaged group.

5.1.1.4 The Regulation and Operation of the Committee Against Sexual Harassment: AIDC has instituted the guideline for filing complaints and punishment of sexual harassment at workplace, and has established a Sexual Harassment Complaints Committee in 2002 for the prevention of sexual harassment with positive effort.

5.1.1.5 Compliant Response Committee: AIDC has instituted the regulation governing complaints from the employees. This committee seeks to protect the legitimate rights of the employees and respond to the complaints thereof. This function helps to improve labor-management relation.

5.1.1.6 Creation of a Friendly and LOHAS Workplace:

AIDC highly treasures the value and spirit of human right and equality of both sexes, and makes proactive effort in materializing such rights through its internal code for nurturing an environment of sexual equality. In addition, AIDC also employs social misfortunes and pursue safety and health management at workplace, bolster consensus and identification as a team, motivate the employees and enhance work efficiency for the creation of a workplace preferred by all employees.

5.1.1.7 Building up a Parent-Friendly Environment: AIDC encourages marriage and childbearing and is dedicated to providing employees a parent-friendly environment. AIDC offers a variety of parent-focused support -- pregnancy and postpartum care, lactation rooms, parental leave, maternity benefits, and monthly childcare subsidy for a maximum of 2 years. Furthermore, regardless of the gender and work, both male and female employees are eligible to unpaid parental leave. In the last two years (2018~2019), there are 35 have taken parental leave, and the reinstatement rate is 82.85%.

5.1.2 Employee Training and Continuing Education

To observe the spirit of “Talent Quality-Management System, TTQS” introducted by Workforce Development Agency, Ministry of Labor, AIDC developed its training quality system and established Education & Training Committee and Education & Training Promotion Team to administer internal talent cultivation and employee training.

5.1.2.1 Employee Training: AIDC provides training for the employees through orientation of new employees and on-the-job training. The focus of orientation training is the merge with AIDC culture and understanding of concept, quality and cost, teamwork and the job skills required for all duties at entry level. From day one, new employees have to undergo a 3-6 months training program of general duties and professional duties in line with the probation. The training aims at developing the potential of the new employees to adapt to the new work environment and perform the assigned duties with competence. Current employees will receive internal and external training in line with requirments such as corporate strategic objectives, legal rules, organizational development, business contracts, and employee career development; and that includes business management, lecturer training, lean management, material management, cost management, project management, contract negotiation, business marketing, and other critical management skills, together with engineering development, production and manufacturing, production process, machinery processing, process specification, quality inspection, aircraft maintenance, avionics repair and maintenance, information management,flight engineering, occupational safety and health and related professional training. These skills would be essential to ensure all officers and employees of related business are competent for the duties. Facing the retirement trend in the near future, AIDC has launched the mentor-apprentice program to cultivate aerospace young talents and ensure the skill and experiences could be inherited smoothly. Combined with other training program help to upgrade the quality of the work force and competitiveness of the Company. In 2019, AIDC provided 6,197 training courses (excluding online learning courses) with 158,832 person-times participated and that amounted to a total of 507,546 training hours.

5.1.2.2 On-the-job Training: AIDC selects employees of good standing and with high potential to receive domestic and overseas full-time education or part-time education every year, and is engaged in cooperative education program with a number of universities. AIDC also subsidizes and encourages employees to engage in continuing education, participation in the test of foreign language proficiency, and get licensing of relevant technical skills. AIDC spares no effort to encourage employees to engage in lifetime learning, self-development and upgrade of professional standing at all times. In 2019, 86 employees took part in the full-time or part-time education programs and the continuing education subsidized by AIDC; and 33 employees received subsidies for foreign language proficiency and 1 employee for professional certification tests.

5.1.3 Employee Retirement Plan and Implementation

5.1.3.1 Retirement under the Old System

A. According to the “AIDC Employee Retirement, Pension, and Layoff Guideline”, the pension for retirement of AIDC employees could be claimed from the account at the Bank of Taiwan.

B. The “Employee Pension Reserve Monitoring Committee” was established pursuant to Article 56 of the Labor Standards Act. The “Employee Pension Reserve Monitoring Committee” was convened on January 29, April 30, July 31 and October 24, 2019 respectively to review and monitor the contribution to pension fund and the balance of pension reserve for the employees.

C. AIDC appoints an actuarial professional to conduct actuarial calculation on the pension fund, and allocates pension expenses for deposit according to the actuarial calculation report on January 3, 2020, at the special pension account at the Bank of Taiwan in compliance with legal requirements (allocation of 2~15%).

5.1.3.2 Retirement under the New System

All employees under the new system are subject to the rules of the “Labor Pension Act” thereby contributing 6% of their monthly salary to their individual special pension accounts at the Labor Insurance Bureau.

5.1.4 Labor-management Agreement and the Pursuit of Policy for the Protection of Labor Rights

5.1.4.1 Labor-management meetings: AIDC management held 3 meetings with Taichung and Gang Shan Labor Unions to discuss and exchange views on topics such as, non-disclosure agreement and performance evaluation to ensure the rights of employees are duly protected.

5.1.4.2 AIDC firmly embraces the principle of labor-management harmony and the advocacy of labor-management cooperation thereby spares no effort to cultivate channels for communications with the employees for protecting their rights. In addition, AIDC also holds labor-management meetings pursuant to Article 83 of the Labor Standards Act and the "Regulations Governing Labor-Management Meetings". Corporate labor-management meetings were held in January, April, July and October 2019, and March, June, October and December in Gang Shan.

5.1.4.3 To maintain good labor-management relations, the management hosted dinners with directors and supervisors of Taichung Labor Union, and Gang Shan Labor Union in May and September 2019 respectively.

5.2 Loss Caused by Labor-management Disputes in the Last 2 years to the Date this Report was Printed

AIDC always treasures labor-management harmony and there has been no significant loss caused by labor-management disputes deriving in the last 2 years to the date this report was printed. It is expected that no significant loss may incur in foreseeable years from labor-management disputes.

6. Major Agreements

Contracting Party	Principal Content
Airbus	Commercial aircraft components and parts manufacturing program
Bell	Helicopter components and parts manufacturing program
Boeing	Commercial aircraft components and parts manufacturing program
Bombardier	Commercial aircraft components and parts manufacturing program
FHI	Commercial aircraft components and parts manufacturing program
GE	Engine parts manufacturing program
GKN	Commercial aircraft components and parts manufacturing program
Honeywell	Engine parts manufacturing program
KHI	Commercial aircraft components and parts manufacturing program
Latecoere	Commercial aircraft components and parts manufacturing program
Leonardo	Commercial aircraft components and parts manufacturing program
MITAC	Commercial aircraft components and parts manufacturing program
PFW	Commercial aircraft components and parts manufacturing program
Pratt & Whitney	Engine parts manufacturing program
Rohr, Inc	Commercial aircraft components and parts manufacturing program
Rolls-Royce	Engine parts manufacturing program
Sikorsky	Helicopter components and parts manufacturing program
Spirit	Commercial aircraft components and parts manufacturing program
Ministry of National Defense R.O.C.	GOCO program for 11th Maintenance & Supply Group IDF Modification and Maintenance Programs
NCSICT	Advanced Jet Trainer Program

VI. Financial Position

1. Concise Financial Statement Covering the Last 5 Years

1.1 Concise Balance Sheet and Comprehensive Income Statement- IFRSs

1.1.1 Consolidated Concise Balance Sheet:

Unit：NT$ thousands

Title \ Fiscal Year		Financial Information Covering the Last 5 Years					
		2015	2016	2017	2018	2019	2020Q1
Current Assets		–	20,455,490	23,111,931	29,014,820	32,154,259	Note 4
Real Properties, Plants, and Equipment		–	8,244,072	8,718,654	8,352,719	8,568,418	Note 4
Intangible Assets		–	734,805	1,000,404	867,785	1,246,970	Note 4
Other Assets (Note 5)		–	1,590,633	921,892	1,584,230	4,117,789	Note 4
Total Assets		–	31,025,000	33,752,881	39,819,554	46,087,436	Note 4
Current Liabilities	Cum-dividend	–	16,499,889	15,508,917	21,805,607	19,389,351	Note 4
	Ex-dividend	–	17,408,151	16,573,227	23,067,709	Note 3	Note 4
Non-current Liabilities		–	2,164,672	5,140,922	3,880,330	11,974,499	Note 4
Total Liabilities	Cum-dividend	–	18,664,561	20,649,839	25,685,937	31,363,850	Note 4
	Ex-dividend	–	19,572,823	21,714,149	26,948,039	Note 3	Note 4
Shareholders' Equity Attributable to the Parent Company		–	12,360,439	13,103,042	14,133,617	14,723,586	Note 4
Capital Stock		–	9,082,615	9,418,671	9,418,671	9,418,671	Note 4
Capital Surplus		–	—	—	—	—	Note 4
Retained Earnings	Cum-dividend	–	3,257,799	3,716,543	4,706,032	5,334,724	Note 4
	Ex-dividend	–	2,013,481	2,652,233	3,443,930	Note 3	Note 4
Other Equity		–	20,025	(32,172)	8,914	(29,809)	Note 4
Treasury Stock		–	—	—	—	—	Note 4
Uncontrolled Equity		–	—	—	—	—	Note 4
Total Equity	Cum-dividend		12,360,439	13,103,042	14,133,617	14,723,586	Note 4
	Ex-dividend		11,452,177	12,038,732	12,871,515	Note 3	Note 4

Note 1: The basis for FY 2016 to FY 2019 is audited figures under IFRSs.
Note 2: AIDC is not required to prepare consolidated financial statements for FY 2015. FY 2016 is the first-time consolidated financial statements.
Note 3: Up to the date of the printing of this annual report, proposal for distribution of earnings for FY 2019 has not been resolved by the shareholders' meeting.
Note 4: Up to the date of the printing of this annual report, the first quarter of FY 2020 has not been audited by the CPA.
Note 5: Other assets include fair value through other comprehensive income noncurrent financial assets, noncurrent financial assets at cost, investment accounted for under the equity method, right-of-use assets, deferred income tax assets, prepayments for equipment, other noncurrent financial assets and other noncurrent assets.

1.1.2 Concise Individual Company Balance Sheet:

Unit：NT$ thousands

Title \ Fiscal Year	Financial Information Covering the Last 5 Years				
	2015	2016	2017	2018	2019
Current Assets	21,185,744	20,440,224	23,098,583	28,977,692	32,121,745

Title \ Fiscal Year		Financial Information Covering the Last 5 Years				
		2015	2016	2017	2018	2019
Real Properties, Plants, and Equipment		5,713,002	8,242,666	8,717,619	8,351,958	8,567,935
Intangible Assets		412,054	734,805	1,000,404	867,785	1,246,856
Other Assets (Note 5)		1,393,382	1,606,922	900,628	1,602,010	4,130,114
Total Assets		28,704,182	31,024,617	33,717,234	39,799,445	46,066,650
Current Liabilities	Cum-dividend	13,765,578	16,499,622	15,473,314	21,785,498	19,371,001
	Ex-dividend	15,000,814	17,407,884	16,537,624	23,047,600	Note 4
Non-current Liabilities		3,412,009	2,164,556	5,140,878	3,880,330	11,972,063
Total Liabilities	Cum-dividend	17,177,587	18,664,178	20,614,192	25,665,828	31,343,064
	Ex-dividend	18,412,823	19,572,440	21,678,502	26,927,930	Note 4
Shareholders' Equity Attributable to the Parent Company		11,526,595	12,360,439	13,103,042	14,133,617	14,723,586
Capital Stock		9,082,615	9,082,615	9,418,671	9,418,671	9,418,671
Capital Surplus		—	—	—	—	—
Retained Earnings	Cum-dividend	2,413,365	3,257,799	3,716,543	4,706,032	5,334,724
	Ex-dividend	1,178,129	2,013,481	2,652,233	3,443,930	Note 4
Other Equity		30,615	20,025	(32,172)	8,914	(29,809)
Treasury Stock		—	—	—	—	—
Uncontrolled Equity		—	—	—	—	—
Total Equity	Cum-dividend	11,526,595	12,360,439	13,103,042	14,133,617	14,723,586
	Ex-dividend	10,291,359	11,452,177	12,038,732	12,871,515	Note 4

Note 1: The figures for FY 2015 to FY 2019 are audited under IFRSs.

Note 2: Aforementioned figures for FY 2015 is based on AIDC financial statement, figures for FY 2016-2019 are based on AIDC and subsidiary financial statement.

Note 3: Proposal for distribution of earnings for FY 2018 has been resolved by the shareholders' meeting on May 31, 2019.

Note 4: Up to the date of the printing of this annual report, proposal for distribution of earnings for FY 2019 has not been resolved by the shareholders' meeting.

Note 5: Other assets include fair value through other comprehensive income noncurrent financial assets, noncurrent financial assets at cost, investment accounted for under the equity method, right-of-use assets, deferred income tax assets, prepayments for equipment, other noncurrent financial assets and other noncurrent assets.

1.1.3 Consolidated Concise Comprehensive Income Statement:

Unit：NT$ thousands

Title \ Fiscal Year	Financial Information Covering the Last 5 Years					
	2015	2016	2017	2018	2019	2020Q1
Revenue	—	27,325,514	27,537,414	28,182,098	28,540,207	Note 3
Gross Profit	—	4,115,496	3,900,142	3,639,590	3,810,641	Note 3
Operating Income	—	2,725,933	2,769,768	2,346,158	2,445,366	Note 3
Non-operating Income and Expenses	—	(131,710)	(490,979)	305,860	(73,829)	Note 3
Earnings before Taxation	—	2,594,223	2,278,789	2,652,018	2,371,537	Note 3
Earnings for Continued Operations	—	2,082,655	1,747,981	2,092,016	1,874,287	Note 3

Title \ Fiscal Year	Financial Information Covering the Last 5 Years					
	2015	2016	2017	2018	2019	2020Q1
Earnings for Discontinued Operations	—	—	—	—	—	Note 3
Earnings in Current Period	—	2,082,655	1,747,981	2,092,016	1,874,287	Note 3
Other Incomes in Current Period (after taxation)	—	(13,575)	(97,116)	(91,468)	(22,216)	Note 3
Total Incomes in Current Period	—	2,069,080	1,650,865	2,000,548	1,852,071	Note 3
Earnings Attributable to Parent Shareholders	—	2,082,655	1,747,981	2,092,016	1,874,287	Note 3
Earnings Attributable to Uncontrolled Equity	—	—	—	—	—	Note 3
Total Comprehensive Incomes Attributable to Parent Shareholders	—	2,069,080	1,650,865	2,000,548	1,852,071	Note 3
Total Comprehensive Incomes Attributable to Uncontrolled Equity	—	—	—	—	—	Note 3
Earnings per Share (NTD) (Note 4)	—	2.21	1.86	2.22	1.99	Note 3

Note 1: The information for FY 2016 to FY 2019 are the audited figures under IFRSs.

Note 2: AIDC is not required to prepare consolidated financial statements for FY 2015. FY 2016 is the first-time consolidated financial statements.

Note 3: Up to the date of printing of this annual report, information of Q1 of FY 2020 has not been audited by the CPA, therefore it is not disclosed.

Note 4: Per IAS 33, earnings per share is subject to retroactive adjustment based on the proportion of capital increase out of earnings for all periods presented.

1.1.4 Concise Individual Company Comprehensive Income Statement:

Unit：NT$ thousands

Title \ Fiscal Year	Financial Information Covering the Last 5 Years				
	2015	2016	2017	2018	2019
Revenue	26,878,156	27,325,514	27,537,414	28,156,144	28,515,619
Gross Profit	3,251,707	4,115,496	3,887,062	3,596,641	3,752,713
Operating Income	2,153,717	2,725,542	2,769,621	2,340,133	2,440,642
Non-operating Income and Expenses	328,567	(131,475)	(568,342)	267,966	(140,569)
Earnings before Taxation	2,482,284	2,594,067	2,201,279	2,608,099	2,300,073
Earnings for Continued Operations	2,029,169	2,082,655	1,747,981	2,092,016	1,874,287
Earnings for Discontinued Operations	—	—	—	—	—
Earnings in Current Period	2,029,169	2,082,655	1,747,981	2,092,016	1,874,287
Other Incomes in Current Period (after taxation)	39,525	(13,575)	(97,116)	(91,468)	(22,216)
Total Incomes in Current Period	2,068,694	2,069,080	1,650,865	2,000,548	1,852,071
Earnings Attributable to Parent Shareholders	2,029,169	2,082,655	1,747,981	2,092,016	1,874,287
Earnings Attributable to Uncontrolled Equity	—	—	—	—	—
Total Comprehensive Incomes Attributable to Parent Shareholders	2,068,694	2,069,080	1,650,865	2,000,548	1,852,071

Fiscal Year / Title	Financial Information Covering the Last 5 Years				
	2015	2016	2017	2018	2019
Total Comprehensive Incomes Attributable to Uncontrolled Equity	—	—	—	—	—
Earnings per Share (NTD) (Note3)	2.15	2.21	1.86	2.22	1.99

Note 1: The figures for FY 2015-2019 are audited under IFRSs.

Note 2: Aforementioned figures for FY 2015 is based on AIDC financial statement, figures for FY 2016-2019 are based on AIDC and subsidiary financial statement.

Note 3: Per IAS 33, earnings per share is subject to retroactive adjustment based on the proportion of capital increase out of earnings for all periods presented.

1.2 Materiality that may Affect the Consistency of the Aforementioned Condensed Financial Statements in Comparison, such as Change in Accounting Policy, Corporate Merger, or Discontinuation of Specific Operation Segments, and the Effect on the Financial Statement of Relevant Period: None.

2. Names of External Auditors and Their Opinions in the Last 5 Years

2.1 External Auditors and Their Audit Opinions in the Last 5 Years

Year	Accounting Firm	Name of CPA	Audit Opinion
2015	Deloitte & Touche	Done-Yuin Tseng, Ted Cheng	Unqualified Opinions
2016	Deloitte & Touche	Done-Yuin Tseng, Ted Cheng	Unqualified Opinions
2017	Deloitte & Touche	Lie-Dong Wu, Done-Yuin Tseng	Unqualified Opinions
2018	Deloitte & Touche	Lie-Dong Wu, Done-Yuin Tseng	Unqualified Opinions
2019	Deloitte & Touche	Lie-Dong Wu, Done-Yuin Tseng	Unqualified Opinions

2.2 If there is a Replacement of the External Auditors in the Last 5 Years, Explanation of the Replacement by the Company, the Former and the Current External Auditors: The replacement of external auditors in 2017 was the result of the internal rotation of duties of the CPA firm.

2.3 If a domestic company has been going public for 7 consecutive years, or a foreign company has been public for 7 consecutive years but the financial statements were audited by the same certified public accountant, explain why there is no replacement of the certified public accountant, the independence of the certified public accountant currently in service, and substantive measures taken by the Company to bolster the independent position of the certified public accountant: None.

3. Financial Analysis in the Last 5 Years

3.1 Comprehensive Analysis of the Consolidated Financial Data of the Last 5 Years –IFRSs:

Title	Fiscal Year	Financial Analysis Covering the Last 5 Years					2020Q1
		2015	2016	2017	2018	2019	
Financial Structure (%)	Liabilities to Assets Ratio	—	60.15	61.17	64.50	68.05	Note 3
	Long-term Capital to Property, Plant, and Equipment Ratio	—	159.00	195.88	203.18	301.28	Note 3
Ability to Pay Debt (%)	Current Ratio	—	123.97	149.02	133.06	165.83	Note 3
	Quick Ratio	—	61.94	69.48	75.27	76.39	Note 3
	Debt Service Coverage Ratio	—	21.37	20.17	20.89	11.84	Note 3
Utility	A/C Turnover Rate (times)	—	3.85	3.22	2.25	1.93	Note 3
	Average Daily Cash Receipt	—	94.80	113.35	162.22	189.11	Note 3
	Inventory Turnover Rate (times)	—	2.26	2.54	2.74	2.38	Note 3
	A/P Turnover Ratio (times)	—	16.22	15.69	12.63	13.14	Note 3
	Average Days of Sales	—	161.50	143.70	133.21	153.36	Note 3
	Property, Plant and Equipment Turnover Rate (times)	—	3.91	3.24	3.30	3.37	Note 3
	Total Assets Turnover Rate (times)	—	0.91	0.85	0.76	0.66	Note 3
Profitability	Return on Assets (%)	—	7.32	5.70	5.97	4.76	Note 3
	Return on Equity (%)	—	17.43	13.72	15.36	12.99	Note 3
	EBT to Paid-in Capital Ratio (%)	—	28.56	24.19	28.15	25.17	Note 3
	Net Profit Rate (%)	—	7.62	6.34	7.42	6.56	Note 3
	EPS (NTD)(Note 4)	—	2.21	1.86	2.22	1.99	Note 3
Cash Flow	Cash Flow Ratio (%)	—	27.47	6.64	—	0.07	Note 3
	Cash Flow Suitability Ratio (%)	—	119.13	85.39	59.77	50.54	Note 3
	Cash Reinvestment Ratio (%)	—	13.02	0.41	—	—	Note 3
Leverage	Operation Leverage	—	1.52	1.45	1.56	1.55	Note 3
	Financial Leverage	—	1.04	1.04	1.06	1.09	Note 3

Reasons for Changes in the Items of Financial Analysis in the Last 2 Years (if the change falls below 20%, no analysis is necessary):

1. Increase in long-term capital to property, plant, and equipment ratio of FY 2019 is due to increase in long term borrowing and issuing corporate bonds for business and capital purposes.
2. Current Ratio: mainly because of the increase in current assest, such as invenory, other current assets, and

other financial assets-current, and the decrease of current liabilities, like the financial liabilities and payables. 3. Debt Service Coverage Ratio of FY 2019 drops because of decrease in Net profit before interest and tax and the increase of interest expense. 4. Return on Assets of FY 2019 drops because of the net income in current period resulting from exchange loss caused by fluctuations of USD exchange rate, and increase of total assets.

Note 1: The figures for FY 2016-2019 are the audited figures under IFRSs.

Note 2: AIDC is not required to prepare consolidated financial statements for FY 2015. FY 2016 is the first-time consolidated financial statements.

Note 3: Up to the publication of this annual report, Q1 2020 financial statements have not been audited by the CPA, therefore it is not disclosed.

Note 4: Per IAS 33, earnings per share is subject to retroactive adjustment based on the proportion of capital increase out of earnings for all periods presented.

Note 5:The equation for calculation in this sheet:

1. Financial structure
   (1) Liabilities to assets ratio = total liabilities / total assets
   (2) Long-term capital to property, plant and equipment ratio = (total equity + non-current liabilities) /net property, plant, and equipment
2. Ability to pay debt
   (1) Current ratio = current assets/ current liabilities
   (2) Quick ratio = (current assets – inventory – prepaid expenses)/ current liabilities
   (3) Debt service coverage ratio = EBIT/ interest expenses in current period
3. Utility
   (1) Receivables (including accounts receivable and note receivable deriving from business operation) turnover rate = net sales/ average receivables (including accounts receivable and notes receivable deriving from business operation) in relevant periods.
   (2) Average days of cash receipt = 365/account receivable turnover rate
   (3) Inventory turnover rate = cost of sales/ average inventory
   (4) Payables (including accounts payable and notes payable deriving from business operation) turnover rate = cost of sales/ balance of average payables (including accounts payabls and notes payable deriving from business operation) in relevant periods.
   (5) Average days of sales = 365 / inventory turnover rate
   (6) Property, plant and equipment turnover rate = net sales / average net property, plant, and equipment
   (7) Total assets turnover = net sales / average total assets
4. Profitability
   (1) Return on assets = [Earnings (loss) net + interest expense x (1-tax rate)]/average total assets
   (2) Return on equity = Earnings (loss) net / average total equity
   (3) Net profit rate = Earnings (loss) net / net sales
   (4)Earnings per share = (incomes attributable to parent shareholders' equity – preferred share dividend) /weighted average quantity of outstanding shares (Note 6)
5. Cash flow
   (1)Cash flow ratio = net cash flow from operation / current liabilities
   (2)Net cash flow suitability ratio = net cash flow from operation in the last 5 years / (capital expenditure + increase of inventory + cash dividend) in the last 5 years
   (3)Cash reinvestment ratio = (net cash flow from operation – cash dividend) / (gross property, plant and equipment + long-term investment + other non-current assets + working capital) (Note 7)
6. Leverage
   (1)Operation leverage = (net sales – operating variable cost and expense) / operating income (Note 8)
   (2)Financial leverage = operating income / (operating income – interest expenses)

Note 6: On applying the equation for calcuation of the earnings per share, following factors shall be noted:

1. The calculation is based on the weighted average quantity of common shares, not the number of the outstanding issued shares at year end.
2. In the case of capital increased by cash or trade of treasury stock, time of the circulation shall be considered in calculating weighted average shares.
3. In the case of capital increase by earnings recapitalization, on calculating earnings per share for the previous fiscal year and 1/2 fiscal year, the calculation shall be retrospected and adjusted per the ratio of capital increase, not the period of issuance.
4. If the stock is non-convertible cumulative preferred stock, the dividend of the current year (whether distribute or not) shall be deducted from net profit or added to net loss. If the preferred stock is non-cumulative, in the case of net earnings, dividend of the preferred stock shall be deducted from net earnings; no adjustment is required in the case of loss.

Note 7: On cash flow analysis, following factors shall be noted:

1. Net cash flow provided by operating activity refers to the net cash inflow provided by operating activity in the Statement of Cash Flows.
2. Capital expense refers to the cash flow of capital investment each year.
3. Inventory increase shall only be recorded when the amount at the end of the period is greater than that of the beginning of the period; if less, the number 0 shal be recorded.
4. Cash dividend includes cash dividend of common share and preferred share.
5. Gross value of property, plant and equipment refers to the total value of property, plant and equipment before deducting accumulated depreciation.

Note 8: Items of operating cost and operating expense shall be broken into fixed and variable categories. In the event that estimation or subjective judgement is involved, rationality and consistency shall be observed.

3.2 Comprehensive Analysis of the AIDC Individual Company Financial Data of the Last 5 Years －IFRSs:

Title	Fiscal Year	Financial Information Covering the Last 5 Years				
		2015	2016	2017	2018	2019
Financial Structure (%)	Liabilities to Assets Ratio	59.84	60.15	61.13	64.48	68.03
	Long-term Capital to Property, Plant and Equipment Ratio	235.38	159.03	195.90	203.20	301.27
Ability to Pay Debt (%)	Current Ratio	153.90	123.88	149.28	133.01	165.82
	Quick Ratio	62.27	61.85	69.55	75.17	76.29
	Debt Service Coverage Ratio	19.60	21.37	19.52	20.57	11.52
Utility	A/C Turnover Rate (times)	4.28	3.85	3.22	2.25	1.93
	Average Daily Cash Receipt	85.28	94.80	113.35	162.22	189.11
	Inventory Turnover Rate (times)	2.33	2.26	2.54	2.74	2.38
	A/P Turnover Ratio (times)	16.46	16.22	15.70	12.64	13.15
	Average Days of Sales	156.65	161.50	143.70	133.21	153.36
	Property, Plant and Equipment Turnover Rate (times)	5.08	3.91	3.24	3.29	3.37
	Total Assets Turnover Rate (times)	0.99	0.91	0.85	0.76	0.66
Profitability	Return on Assets (%)	7.92	7.32	5.70	5.98	4.77
	Return on Equity (%)	18.59	17.43	13.72	15.36	12.99
	Pre-tax Income to Paid-in Capital Ratio (%)	27.33	28.56	23.37	27.69	24.42
	Net Profit Rate (%)	7.54	7.62	6.34	7.43	6.57
	EPS (NTD)	2.15	2.21	1.86	2.22	1.99
Cash Flow	Cash Flow Ratio (%)	17.47	27.47	6.92	—	0.39
	Cash Flow Suitability Ratio (%)	140.02	118.98	85.61	60.01	51.15
	Cash Reinvestment Ratio (%)	6.38	13.02	0.55	—	—
Leverage	Operation Leverage	1.68	1.52	1.45	1.56	1.56
	Financial Leverage	1.06	1.04	1.04	1.06	1.09

Reasons for Changes in the Items of Financial Analysis in the Last 2 Years (if the change falls below 20%, no analysis is necessary):

1. Increase in long-term capital to property, plant, and equipment ratio of FY 2019 is due to increase in long term borrowing and issuing corporate bonds for business and capital purposes.
2. Current Ratio: mainly because of the increase in current assest, such as invenory, other current assets, and other financial assets-current, and the decrease of current liabilities, like the financial liabilities and payables.
3. Debt Service Coverage Ratio of FY 2019 drops because of decrease in Net profit before interest and tax and the increase of interest expense.
4. Return on Assets of FY 2019 drops because of the net income in current period resulting from exchange loss caused by fluctuations of USD exchange rate, and increase of total assets.

Note 1: The figures from FY 2015-2019 are audited under IFRSs.

Note 2: Aforementioned figures for FY 2015 is based on AIDC financial statement, figures for 2016-2019 are based on AIDC and subsidiary financial statement.

Note 3: Per IAS 33, earnings per share is subject to retroactive adjustment based on the proportion of capital increase out of earnings for all periods presented.

Note 4:The equation for calculation in this sheet:

1. Financial structure
   (1) Liabilities to assets ratio = total liabilities / total assets
   (2) Long-term capital to property, plant and equipment ratio = (Total equity + non-current liabilities)/ net property, plant and equipment
2. Ability to pay debt
   (1) Current ratio = current assets/ current liabilities
   (2) Quick ratio = (current assets – inventory – prepaid expenses)/ current liabilities
   (3) Debt service coverage ratio = EBIT/ interest expenses in current period
3. Utility
   (1) Receivables (including accounts receivable and notes receivable deriving from business operation) turnover rate = net sales / average receivables (including accounts receivable and notes receivable deriving from business operation) in relevant periods.
   (2) Average days of cash receipt = 365/account receivable turnover rate
   (3) Inventory turnover rate = cost of sales / average inventory
   (4) Payables (including accounts payable and notes payable deriving from business operation) turnover = cost of sales / balance of average payables (including accounts payable and notes payable deriving from business operation) in relevant periods.
   (5) Average days of sales = 365 / inventory turnover rate
   (6) Property, plant and equipment turnover rate = revenue/ average net property, plant and equipment
   (7) Total assets turnover = revenue/ average total assets
4. Profitability
   (1) Return on assets = [Earnings (loss) net + interest expense x (1-tax rate)]/average total assets
   (2) Return on equity = Earnings (loss) net / average total equity
   (3) Net profit rate = Earnings (loss) net / net sales
   (4) Earnings per share = (incomes attributable to parent shareholders' equity – preferred share dividend) / weighted average quantity of outstanding shares (note 5)
5. Cash flow
   (1) Cash flow ratio = net cash flow from operation / current liabilities
   (2) Net cash flow suitability ratio = net cash flow from operation in the last 5 years / (capital expenditure + increase of inventory + cash dividend) in the last 5 years
   (3) Cash reinvestment ratio = (net cash flow from operation – cash dividend) / (gross property, plant and equipment + long-term investment + other non-current assets + working capital) (note 6)
6. Leverage
   (1) Operation leverage = (net sales – change in cost of operation and expense) / operating income (note 6)
   (2) Financial leverage = operating income / (operating income – interest expenses)

Note 5: On applying the equation for calcuation of the earnings per share, following factors shall be noted:

1. The calculation is based on the weighted average quantity of common shares, not the number of the outstanding issued shares at year end.
2. In the case of capital increased by cash or trade of treasury stock, time of the circulation shall be considered in calculating weighted average shares.
3. In the case of capital increase by earnings recapitalization, on calculating earnings per share for the previous fiscal year and 1/2 fiscal year, the calculation shall be retrospected and adjusted per the ratio of capital increase, not the period of issuance.
4. If the stock is non-convertible cumulative preferred stock, the dividend of the current year (whether distribute or not) shall be deducted from net profit or added to net loss. If the preferred stock is non-cumulative, in the case of net earnings, dividend of the preferred stock shall be deducted from net earnings; no adjustment is required in the case of loss.

Note 6: On cash flow analysis, following factors shall be noted:

1. Net cash flow provided by operating activity refers to the net cash inflow provided by operating activity in the Statement of Cash Flows.
2. Capital expense refers to the cash flow of capital investment each year.
3. Inventory increase shall only be recorded when the amount at the end of the period is greater than that of the beginning of the period; if less, the number 0 shal be recorded.
4. Cash dividend includes cash dividend of common share and preferred share.
5. Gross value of property, plant and equipment refers to the total value of property, plant and equipment before deducting accumulated depreciation.

Note 7: Items of operating cost and operating expense shall be broken into fixed and variable categories. In the event that estimation or subjective judgement is involved, rationality and consistency shall be observed.

Note 8: In the case of the Company with shares having non par value or a par value other than NT$10, for the paid-in capital ratio in the calculation mentioned above shall be substituted with incomes attributable to parent shareholders' equity ratio of the balance sheet.

4. Audit Committee Review Report on the Financial Statements of Previous Year

Audit Committee Review Report

The AIDC Board of Directors has prepared the company's 2019 Business Report, Financial Statements, and proposal for the allocation of profits. The CPA firm of Deloitte & Touche Tohmatsu was retained to audit AIDC's Financial Statements and has issued an audit report relating to the company's Financial Statements. The Business Report, Financial Statements, and the proposal for allocation of profits have been reviewed and determined to be correct and accurate by the Audit Committee of the Aerospace Industrial Development Corporation. Pursuant with Article 219 of the Company Law and Article 14-4 of the Securities and Exchange Act, I the undersigned hereby submit this report.

To: Aerospace Industrial Development Corporation
2020 Annual Shareholders' Meeting

Chan, Chia-Chang

Chairman, Audit Committee
Chan, Chia-Chang

Date: March 27, 2020

Deloitte.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Aerospace Industrial Development Corporation

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

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

The key audit matters identified in the Group's consolidated financial statements for the year ended December 31, 2019 are stated as follows:

<u>Impairment loss of inventory</u>

The Group assesses impairment of raw materials based on individual identification. The assessment of impairment loss of the raw materials involves the use of the management's critical judgment and, hence, the assessment is considered as a key audit matter. The Group assesses the impairment loss of the raw materials based on current market conditions and future consumption in accordance with IAS 2. Refer to Notes 5 and 9 to the financial statements for the relevant accounting policy, accounting judgments and estimation uncertainties, and other information. Our key audit procedures performed in regard to the impairment assessment include the following:

1. We sample-tested the inventory aging report for completeness and accuracy.

2. We selected samples from raw materials that are over 1 year, which were not recognized as obsolete, and confirmed the reasonableness of not recognizing the raw materials' obsolescence.

3. We tested the net realizable value of raw materials which were not recognized as obsolete and we selected samples to calculate the allowance for impairment loss.

4. We observed the physical count of inventory at year end and we test-checked actual quantity counted on tags. We also noted those which appeared to be obsolete or slow-moving items and traced them to the Company's impairment assessment worksheet.

<u>Warranties</u>

The Group provides warranties for military product maintenance, and the percentage of certain provisions involve management's critical judgment; hence, we consider provision for warranties as a key audit matter. Refer to Notes 5 and 20 for the relevant accounting policy, accounting judgments and estimation uncertainties, and other information. Our key audit procedures performed in regard to the provisions for warranties include the following:

1. We obtained the documents based on the management's decision on the provision rate and we evaluated the reasonableness of the rates compared with rates in the past periods.

2. We selected samples to calculate the accuracy of warranty provision.

3. We selected samples and calculated the actual warranty occurrence rate in the previous year compared with the current warranty calculation to confirm that the amount of warranty provision for the year ended December 31, 2019 is appropriate and sufficient.

Other Matter

We have also audited the parent company only financial statements of Aerospace Industrial Development Corporation as of and for the years ended December 31, 2019 and 2018 on which we have issued an unqualified opinion.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including members of the audit committee, are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2019 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 27, 2020

<u>*Notice to Readers*</u>

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

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

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

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

	December 31			
	2019		2018	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash (Notes 4 and 6)	$ 634,140	2	$ 962,896	2
Notes receivable (Notes 4 and 8)	5,637	-	2,684	-
Trade receivables from unrelated parties (Notes 4 and 8)	13,958,292	30	15,036,728	38
Trade receivables from related parties (Notes 4 and 29)	131,561	-	310,857	1
Other receivables (Notes 4 and 8)	81,918	-	100,306	-
Inventories (Notes 4, 5 and 9)	9,820,034	21	6,798,041	17
Other financial assets - current (Notes 4, 15 and 30)	2,935,559	7	1,932,100	5
Other current assets (Notes 4, 16 and 29)	4,587,118	10	3,871,208	10
Total current assets	32,154,259	70	29,014,820	73
NON-CURRENT ASSETS				
Financial assets at fair value through other comprehensive income - non-current (Notes 4 and 7)	87,334	-	103,467	-
Investments accounted for using equity method (Notes 4 and 11)	838,039	2	602,985	2
Property, plant and equipment (Notes 4, 12 and 30)	8,568,418	18	8,352,719	21
Right-of-use assets (Notes 3, 4 and 13)	2,292,399	5	-	-
Intangible assets (Notes 4 and 14)	1,246,970	3	867,785	2
Deferred tax assets (Notes 4 and 25)	305,862	1	286,129	1
Prepayments for equipment (Note 24)	513,640	1	376,417	1
Other financial assets - non-current (Notes 4, 15 and 30)	14,054	-	10,807	-
Other non-current assets (Notes 4, 8 and 16)	66,461	-	204,425	-
Total non-current assets	13,933,177	30	10,804,734	27
TOTAL	$ 46,087,436	100	$ 39,819,554	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Notes 17 and 30)	$ 4,920,000	11	$ 7,730,000	20
Short-term bills payable (Note 17)	8,357,255	18	2,499,575	6
Contract liabilities (Note 4)	584,119	1	83,898	-
Trade payables to unrelated parties	1,395,943	3	1,993,498	5
Trade payables to related parties (Note 29)	79,880	-	294,289	1
Other payables (Notes 19 and 29)	3,605,047	8	3,518,693	9
Current tax liabilities (Notes 4 and 25)	199,940	1	198,140	1
Lease liabilities - current (Notes 3, 4 and 13)	141,411	-	-	-
Current portion of long-term borrowings (Notes 17 and 30)	-	-	5,289,606	13
Net defined benefit liabilities - current (Notes 4 and 21)	61,813	-	82,447	-
Other current liabilities	43,943	-	115,461	-
Total current liabilities	19,389,351	42	21,805,607	55
NON-CURRENT LIABILITIES				
Bonds payable (Note 18)	2,996,210	7	-	-
Long-term borrowings (Notes 17 and 30)	5,928,299	13	2,838,029	7
Provisions - non-current (Notes 4, 5 and 20)	551,553	1	771,067	2
Deferred tax liabilities (Notes 4 and 25)	116,343	-	65,179	-
Lease liabilities - non-current (Notes 3, 4 and 13)	2,167,424	5	-	-
Long-term deferred revenue (Note 4)	279	-	315	-
Guarantee deposits	214,391	-	205,740	1
Total non-current liabilities	11,974,499	26	3,880,330	10
Total liabilities	31,363,850	68	25,685,937	65
EQUITY				
Ordinary shares	9,418,671	20	9,418,671	23
Retained earnings				
Legal reserve	909,345	2	702,338	2
Special reserve	2,522,475	6	1,933,627	5
Unappropriated earnings	1,902,904	4	2,070,067	5
Other equity	(29,809)	-	8,914	-
Total equity	14,723,586	32	14,133,617	35
TOTAL	$ 46,087,436	100	$ 39,819,554	100

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

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

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

	For the Year Ended December 31			
	2019		2018	
	Amount	%	Amount	%
SALES (Notes 4, 23 and 29)	$ 28,540,207	100	$ 28,182,098	100
COST OF GOODS SOLD (Notes 9, 24 and 29)	24,729,566	87	24,542,508	87
GROSS PROFIT	3,810,641	13	3,639,590	13
OPERATING EXPENSES (Notes 24 and 29)				
Selling and marketing expenses	126,142	1	130,943	1
General and administrative expenses	682,722	2	618,777	2
Research and development expenses	548,281	2	545,217	2
Expected credit loss (gain) (Notes 4 and 8)	8,130	-	(1,505)	-
Total operating expenses	1,365,275	5	1,293,432	5
PROFIT FROM OPERATIONS	2,445,366	8	2,346,158	8
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 4 and 24)	228,573	1	188,679	1
Other gains and losses (Notes 4 and 24)	(407,261)	(1)	15,374	-
Share of profit of associates (Note 4)	322,639	1	235,111	1
Finance costs (Notes 4 and 24)	(217,780)	(1)	(133,304)	(1)
Total non-operating income and expenses	(73,829)	-	305,860	1
PROFIT BEFORE INCOME TAX	2,371,537	8	2,652,018	9
INCOME TAX EXPENSE (Notes 4 and 25)	497,250	2	560,002	2
NET PROFIT FOR THE YEAR	1,874,287	6	2,092,016	7
OTHER COMPREHENSIVE INCOME (LOSS) (Note 4)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	16,507	-	(38,217)	-
Unrealized loss on investments in equity instruments designated as at fair value through other comprehensive income	(16,133)	-	(70,070)	-

(Continued)

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

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

	For the Year Ended December 31			
	2019		2018	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	$ (22,590)	-	$ 16,819	-
Other comprehensive loss for the year, net of income tax	(22,216)	-	(91,468)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 1,852,071	6	$ 2,000,548	7
EARNINGS PER SHARE (Note 26)				
Basic	$ 1.99		$ 2.22	
Diluted	$ 1.98		$ 2.21	

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

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

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

	Equity Attributable to Owners of the Company						
		Retained Earnings (Note 22)			Other Equity (Note 4)		
	Ordinary Shares (Note 22)	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized gain (loss) on Investments in Equity Instruments Designated as at Fair Value Through Other Comprehensive Income	Total Equity
BALANCE AT JANUARY 1, 2018	$ 9,418,671	$ 531,146	$ 1,473,474	$ 1,711,923	$ (32,172)	$ -	$ 13,103,042
Effect of retrospective application and retrospective restatement	-	-	-	-	-	94,337	94,337
BALANCE AT JANUARY 1, 2018 AS RESTATED	9,418,671	531,146	1,473,474	1,711,923	(32,172)	94,337	13,197,379
Appropriation of 2017 earnings							
Legal reserve	-	171,192	-	(171,192)	-	-	-
Special reserve	-	-	460,153	(460,153)	-	-	-
Cash dividends distributed by the Company	-	-	-	(1,064,310)	-	-	(1,064,310)
Profit for the year ended December 31, 2018	-	-	-	2,092,016	-	-	2,092,016
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	(38,217)	16,819	(70,070)	(91,468)
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	2,053,799	16,819	(70,070)	2,000,548
BALANCE AT DECEMBER 31, 2018	9,418,671	702,338	1,933,627	2,070,067	(15,353)	24,267	14,133,617
Appropriation of 2018 earnings							
Legal reserve	-	207,007	-	(207,007)	-	-	-
Special reserve	-	-	588,848	(588,848)	-	-	-
Cash dividends distributed by the Company	-	-	-	(1,262,102)	-	-	(1,262,102)
Profit for the year ended December 31, 2019	-	-	-	1,874,287	-	-	1,874,287
Other comprehensive income (loss) for the year ended December 31, 2019, net of income tax	-	-	-	16,507	(22,590)	(16,133)	(22,216)
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	1,890,794	(22,590)	(16,133)	1,852,071
BALANCE AT DECEMBER 31, 2019	$ 9,418,671	$ 909,345	$ 2,522,475	$ 1,902,904	$ (37,943)	$ 8,134	$ 14,723,586

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

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

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

	For the Year Ended December 31	
	2019	**2018**
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 2,371,537	$ 2,652,018
Adjustments for:		
Depreciation expenses	1,088,615	900,289
Amortization expenses	304,189	444,277
Expected credit loss recognized (reversed)	8,130	(1,505)
Finance costs	217,780	133,304
Interest income	(101,337)	(58,757)
Dividend income	(138)	(90)
Share of profit of associate	(322,639)	(235,111)
Loss (gain) on disposal of property, plant and equipment	669	(812)
Impairment loss recognized (reversed) on non-financial assets	(204,769)	20,044
Unrealized net loss on foreign currency exchange	254,577	1,691
Recognition (reversal) of provisions	(95,802)	4,023
Other income from liabilities	(13,842)	(11,080)
Net changes in operating assets and liabilities		
Notes receivable	(2,953)	20,825
Trade receivables	1,059,240	(5,755,398)
Other receivables	20,421	(12,955)
Inventories	(2,940,936)	(217,343)
Other current assets	(715,910)	(2,267,703)
Contract liabilities	500,221	(65,047)
Trade payables	(808,744)	692,898
Other payables	43,275	(183,561)
Other current liabilities	(61,652)	(243,379)
Deferred income	(36)	(36)
Cash generated from (used in) operations	599,896	(4,183,408)
Interest received	99,284	70,462
Interest paid	(217,354)	(123,673)
Income tax paid	(468,146)	(549,031)
Net cash generated from (used in) operating activities	13,680	(4,785,650)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property, plant and equipment	(821,045)	(567,743)
Proceeds from disposal of property, plant and equipment	44	9,114
Increase in refundable deposits	(24,526)	(21,744)
Decrease in refundable deposits	11,227	15,814
Payments for intangible assets	(258,397)	(270,032)
Decrease (increase) in other financial assets	(1,081,960)	1,876,535
Increase in other non-current assets	(205,900)	(201,573)

(Continued)

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

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

	For the Year Ended December 31	
	2019	2018
Increase in prepayments for equipment	$ (488,622)	$ (197,490)
Dividend received	70,535	77,726
Net cash generated from (used in) investing activities	(2,798,644)	720,607
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	48,520,000	45,960,000
Repayments of short-term borrowings	(51,330,000)	(44,745,000)
Proceeds from short-term bills payable	37,430,463	32,096,560
Repayments of short-term bills payable	(31,572,783)	(32,096,314)
Proceeds from bonds payable	2,995,980	-
Proceeds from long-term borrowings	26,673,760	22,457,000
Repayments of long-term borrowings	(28,868,579)	(18,647,606)
Proceeds of guarantee deposits received	253,185	229,450
Refund of guarantee deposits	(244,534)	(227,819)
Repayment of the principal portion of lease liabilities	(133,799)	-
Cash dividends distributed	(1,262,102)	(1,064,310)
Net cash generated from financing activities	2,461,591	3,961,961
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(5,383)	187
NET DECREASE IN CASH	(328,756)	(102,895)
CASH AT THE BEGINNING OF THE YEAR	962,896	1,065,791
CASH AT THE END OF THE YEAR	$ 634,140	$ 962,896

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

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

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

1. ORGANIZATION AND OPERATIONS

Aerospace Industrial Development Corporation (the "Company") was a state-owned enterprise formed by the Ministry of Economic Affairs on July 1, 1996 from Aero Industry Development Center, Chung-Shan Institute of Science and six other state-owned enterprises. The Company and its subsidiaries (collectively referred to as the "Group") mainly engage in business categories as follows: design, manufacture, assembly, testing and maintenance of aircraft, engines, avionics and related components; consulting services and technology transfers of aerospace technology, logistical support and engineering technology management of large-scale projects; engineering and development of software and sales of aerospace products.

In July 2001, the initial public offering of the Company was approved by the Securities and Futures Commission (now called Securities and Futures Bureau of the Financial Supervisory Commission (FSC) of the Republic of China (ROC)). On September 13, 2013, in accordance with Rule No. 1020055531, the Company started its privatization process. On August 25, 2014, the Company was listed on the Taiwan Stock Exchange.

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

2. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors on March 27, 2020.

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

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

Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC did not have any material impact on the Group's accounting policies:

IFRS 16 "Leases"

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

Definition of a lease

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

The Group as lessee

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

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

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

The Group also applies the following practical expedients:

1) The Group applies a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.

2) The Group accounts for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.

3) The Group excludes initial direct costs from the measurement of right-of-use assets on January 1, 2019.

The lessee's weighted average incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 is 1.6%. The difference between the lease liabilities recognized and operating lease commitments disclosed under IAS 17 on December 31, 2018 is explained as follows:

The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018	$ 164,996
Less: Recognition exemption for short-term leases	(810)
Undiscounted amounts on January 1, 2019	$ 164,186
Discounted amounts using the incremental borrowing rate on January 1, 2019	$ 162,240
Add: Adjustments as a result of a different treatment of extension and termination options	2,241,573
Not significant lease arrangements in prior period	3,602
Lease liabilities recognized on January 1, 2019	$ 2,407,415

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

	As Originally Stated on January 1, 2019	Adjustments Arising from Initial Application	Restated on January 1, 2019
Right-of-use assets	$ -	$ 2,407,415	$ 2,407,415
Total effect on assets	$ -	$ 2,407,415	$ 2,407,415
Lease liabilities - current	$ -	$ 127,869	$ 127,869
Lease liabilities - non-current	-	2,279,546	2,279,546
Total effect on liabilities	$ -	$ 2,407,415	$ 2,407,415

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

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

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

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

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

Amendments to IAS 1 and IAS 8 "Definition of material"

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRSs. The concept of "obscuring" material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from "could influence" to "could reasonably be expected to influence".

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

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

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

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

Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"

The amendments clarify that for a liability to be classified as non-current, the Group shall assess whether it has the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. If such rights are in existence at the end of the reporting period, the liability is classified as non-current regardless of whether the Group will exercise that right. The amendments also clarify that, if the right to defer settlement is subject to compliance with specified conditions, the Group must comply with those conditions at the end of the reporting period even if the lender does not test compliance until a later date.

The amendments stipulate that, for the purpose of liability classification, the aforementioned settlement refers to a transfer of cash, other economic resources or the Group's own equity instruments to the counterparty that results in the extinguishment of the liability. However, if the terms of a liability that could, at the option of the counterparty, result in its settlement by a transfer of the Group's own equity instruments, and if such option is recognized separately as equity in accordance with IAS 32: Financial Instruments: Presentation, the aforementioned terms would not affect the classification of the liability.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

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

b. Basis of preparation

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

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

1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

3) Level 3 inputs are unobservable inputs for the asset or liability.

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

Current assets include:

1) Assets held primarily for the purpose of trading;

2) Assets expected to be realized within twelve months after the reporting period; and

3) Cash unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;

2) Liabilities due to be settled within twelve months after the reporting period, and

3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting period.

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

d. Basis of consolidation

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

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

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

See Note 10 and Table 6 for the detailed information on subsidiaries (including the percentage of ownership and main businesses).

e. Foreign currencies

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

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

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

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purpose of presenting consolidated financial statements, the functional currencies of the Company and the group entities (including subsidiaries, in other countries that use currency different from the currency of the Company) are translated into the presentation currency - New Taiwan dollars. Income and expense items are translated at the average exchange rates for the year. The resulting currency translation differences are recognized in other comprehensive income.

f. Inventories

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

g. Investment in associates

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

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

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

The entire carrying amount of the investment is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is deducted from investment and the carrying amount of the investment is net of impairment loss. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

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

h. Property, plant and equipment

Property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment loss.

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

Depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately.

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

i. Intangible assets

1) Intangible assets acquired separately

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

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

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

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

a) The technical feasibility of completing the intangible asset so that it will be available for use or sale;

b) The intention to complete the intangible asset and use or sell it;

c) The ability to use or sell the intangible asset;

d) How the intangible asset will generate probable future economic benefits;

e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

f) The ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

3) Derecognition of intangible assets

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

j. Impairment of tangible and intangible assets

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

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

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

k. Financial instruments

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

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

1) Financial assets

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

a) Measurement category

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

i. Financial assets at amortized cost

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

i) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

i) Purchased or originated credit-impaired financial asset, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset; and

ii) Financial asset that has subsequently become credit impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset.

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

i) Significant financial difficulty of the issuer or the borrower;

ii) Breach of contract, such as a default;

iii) It is becoming probable that the borrower will enter bankruptcy or undergo a financial reorganization; or

iv) The disappearance of an active market for that financial asset because of financial difficulties.

ii. Investments in equity instruments at FVTOCI

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

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

b) Impairment of financial assets

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

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

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

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

i. Internal or external information show that the debtor is unlikely to pay its creditors.

ii. When a financial asset is more than 90 days past due unless the Group has reasonable and corroborative information to support a more lagged default criterion.

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

c) Derecognition of financial assets

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

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

2) Financial liabilities

a) Subsequent measurement

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

b) Derecognition of financial liabilities

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

l. Provisions

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

Provision for the expected cost of warranty obligations is recognized at the date of sale of the relevant products, at the Group's best estimate of the expenditure required to settle the obligation.

m. Revenue recognition

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

For the considerations that have been received from customers, the obligation to transfer goods or services to customers is recognized as a contract liability.

1) Revenue from the sale of goods

Revenue from the sale of goods comes from sales of aerospace goods.

2) Revenue from rendering of services

Revenue from rendering of services comes from aircraft maintenance, logistics management and industrial technology services.

n. Leasing

2019

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

The Group as lessee

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

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

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

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

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term, a change in the amounts expected to be payable under a residual value guarantee, a change in the assessment of an option to purchase an underlying asset, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments, the Group remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the consolidated balance sheets.

2018

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

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

o. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

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

p. Government grants

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

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

q. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

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

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

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Group’s defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

r. Taxation

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

1) Current tax

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

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

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences and unused loss carryforward to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

3) Current and deferred tax as for the year

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Key Sources of Estimation Uncertainty

a. Write-down of inventory

Net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value is based on current market conditions and the historical experience from selling products of a similar nature. Changes in market conditions may have a material impact on the estimation of net realizable value.

b. Estimate of provision

Provision is measured using estimated cash flows needed to settle the present obligation. If future cash flows will exceed the estimated amount, then the amount of provision may require material adjustment.

6. CASH

	December 31 2019	December 31 2018
Cash on hand and petty cash	$ 147	$ 503
Checking accounts and demand deposits	633,993	962,393
	$ 634,140	$ 962,896
Rates of bank balance (%)	0.08-1.58	0.078-1.1

7. FINANCIAL ASSETS AT FVTOCI

	December 31 2019	December 31 2018
Emerging marked shares		
UHT Unitech Co Ltd. (UHT Ltd.)	$ 53,504	$ 70,400
Unlisted common shares		
Aerovision Avionics Inc. (AAI)	31,684	30,918
Metro Consulting Service Ltd. (Metro Ltd.)	2,146	2,149
	33,830	33,067
	$ 87,334	$ 103,467

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

8. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

	December 31 2019	December 31 2018
Notes receivable	$ 5,637	$ 2,684
Trade receivables from unrelated parties		
At amortized cost		
Gross carrying amount	$ 13,962,722	$ 15,041,936
Less: Allowance for impairment loss	(4,430)	(5,208)
	$ 13,958,292	$ 15,036,728
Other receivables		
Tax return receivables	$ 71,382	$ 84,824
Others	10,536	15,482
	$ 81,918	$ 100,306

The average credit period of sales of goods was 60 to 90 days. The Group adopted a policy of only dealing with entities that are rated the equivalent of investment grade or higher and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Credit rating information is obtained from independent rating agencies where available or, if not available, the Group uses other publicly available financial information or its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

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

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

The following table details the loss allowance of note receivables, trade receivables and overdue receivables (accounted at other non-current assets):

	Not Past Due	Less than 90 Days	91 to 180 Days	181 to 365 Days	Over 365 Days	Total
December 31, 2019						
Expected credit loss rate	0%	2%	5%	50%	100%	
Gross carrying amount	$ 13,770,583	$ 193,639	$ 4,137	$ 16,580	$ 6,193	$ 13,991,132
Loss allowance (Lifetime ECL)	-	(4,217)	(213)	(8,507)	(6,193)	(19,130)
Amortized cost	$ 13,770,583	$ 189,422	$ 3,924	$ 8,073	$ -	$ 13,972,002
December 31, 2018						
Expected credit loss rate	0%	2%	5%	50%	100%	
Gross carrying amount	$ 14,801,378	$ 240,577	$ 2,665	$ 2,281	$ 4,687	$ 15,051,588
Loss allowance (Lifetime ECL)	-	(5,075)	(133)	(1,105)	(4,687)	(11,000)
Amortized cost	$ 14,801,378	$ 235,502	$ 2,532	$ 1,176	$ -	$ 15,040,588

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

	For the Year Ended December 31, 2019	
	Trade receivables	Overdue receivables
Balance at January 1, 2019	$ 5,208	$ 5,792
Impairment loss recognized (reversed)	(778)	8,908
Balance at December 31, 2019	$ 4,430	$ 14,700

	For the Year Ended December 31, 2018	
	Trade receivables	Overdue receivables
Balance at January 1, 2018 per IAS 39	$ 2,854	$ 9,651
Adjustment on initial application of IFRS 9	-	-
Balance at January 1, 2018 per IFRS 9	2,854	9,651
Impairment loss recognized (reversed)	2,354	(3,859)
Balance at December 31, 2018	$ 5,208	$ 5,792

9. INVENTORIES

	December 31 2019	December 31 2018
Raw materials	$ 5,546,698	$ 3,629,155
Work in progress	4,273,336	3,168,886
	$ 9,820,034	$ 6,798,041

The cost of inventories recognized as cost of goods sold was as follows:

	For the Year Ended December 31	
	2019	2018
Recognition (reversal) of inventory write-downs	$ (204,769)	$ 18,044
Indemnity income	(131,655)	(45,219)
Income from sales of scraps	(25,641)	(47,728)
Loss on disposal of inventories	69,384	37,144

Reversal of inventory write-downs were resulting from sold inventories.

10. SUBSIDIARIES

Subsidiary included in consolidated financial statements:

		% of Ownership	
		December 31	
Investor	Investee	2019	2018
The Company	AIDC USA LLC (AIDC USA)	100	100

For the main businesses of AIDC USA, refer to Table 6.

The subsidiary included in consolidated financial statements is an immaterial subsidiary, and the financial statements have been audited.

11. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2019	2018
Investment in associate		
International Turbine Engine Company LLC (ITEC)	$ 838,039	$ 602,985

As of December 31, 2019 and 2018, the ownership and voting right of ITEC held by the Group were both 22.05%.

Refer to "Table 6: Information on Investees" for the nature of activities, principal place of business and country of incorporation of the associates.

The investments accounted for using the equity method and the share of profit or loss of the associate were based on the associates' financial statements which have been audited for the same years.

12. PROPERTY, PLANT AND EQUIPMENT

	For the Year Ended December 31, 2019					
	Balance, Beginning of Year	Additions	Deductions	Reclassification	Effects of Foreign Currency Exchange Differences	Balance, End of Year
Cost						
Land improvements	$ 120,739	$ -	$ -	$ -	$ -	$ 120,739
Buildings	5,916,217	17,283	(14,329)	45,813	-	5,964,984
Machinery and equipment	12,769,490	534,492	(89,224)	309,668	(2)	13,524,424
Transportation equipment	732,912	10,650	(11,156)	-	(30)	732,376
Other equipment	787,624	14,696	(2,647)	6,446	(5)	806,114
Property in construction	30,060	286,432	-	(38,509)	-	277,983
	20,357,042	$ 863,553	$ (117,356)	$ 323,418	$ (37)	21,426,620
Accumulated depreciation						
Land improvements	115,514	$ 1,149	$ -	$ -	$ -	116,663
Buildings	2,827,642	181,332	(13,672)	-	-	2,995,302
Machinery and equipment	7,898,219	712,833	(89,169)	-	(1)	8,521,882
Transportation equipment	693,812	11,531	(11,156)	-	(23)	694,164
Other equipment	347,421	63,705	(2,647)	-	(3)	408,476
	11,882,608	$ 970,550	$ (116,644)	$ -	$ (27)	12,736,487
Impairment						
Buildings	26,258	$ -	$ -	$ -	$ -	26,258
Machinery and equipment	95,457	-	-	-	-	94,547
	121,715	$ -	$ -	$ -	$ -	121,715
	$ 8,352,719					$ 8,568,418

	For the Year Ended December 31, 2018					
	Balance, Beginning of Year	Additions	Deductions	Reclassification	Effects of Foreign Currency Exchange Differences	Balance, End of Year
Cost						
Land improvements	$ 121,314	$ -	$ (575)	$ -	$ -	$ 120,739
Buildings	5,885,214	28,891	-	2,112	-	5,916,217
Machinery and equipment	12,472,099	428,145	(179,008)	48,252	2	12,769,490
Transportation equipment	735,258	897	(3,282)	-	39	732,912
Other equipment	768,605	23,814	(6,147)	1,346	6	787,624
Property in construction	1,245	30,907	-	(2,092)	-	30,060
	19,983,735	$ 512,654	$ (189,012)	$ 49,618	$ 47	20,357,042
Accumulated depreciation						
Land improvements	114,522	$ 1,555	$ (563)	$ -	$ -	115,514
Buildings	2,649,893	177,749	-	-	-	2,827,642
Machinery and equipment	7,403,717	665,236	(170,735)	-	1	7,898,219
Transportation equipment	683,362	13,716	(3,282)	-	16	693,812
Other equipment	291,872	61,677	(6,130)	-	2	347,421
	11,143,366	$ 919,933	$ (180,710)	$ -	$ 19	11,882,608
Impairment						
Buildings	26,258	$ -	$ -	$ -	$ -	26,258
Machinery and equipment	95,457	-	-	-	-	95,457
	121,715	$ -	$ -	$ -	$ -	121,715
	$ 8,718,654					$ 8,352,719

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

Land improvements	2-50 years
Buildings	
Main buildings	20-45 years
Others	3-60 years
Machinery and equipment	2-40 years
Transportation equipment	2-15 years
Other equipment	2-15 years

Property, plant and equipment pledged as collateral for bank borrowings were set out in Note 30.

13. LEASE ARRANGEMENTS

a. Right-of-use assets - 2019

	December 31, 2019
Carrying amounts	
Land	$ 2,260,856
Buildings	12,095
Machinery and equipment	12,575
Transportation equipment	1,033
Other equipment	5,840
	$ 2,292,399

	For the Year Ended December 31, 2019
Additions to right-of-use assets	$ 35,586
Depreciation charge for right-of-use assets	
Land	$ 142,956
Buildings	5,018
Machinery and equipment	1,576
Transportation equipment	453
Other equipment	599
	$ 150,602

b. Lease liabilities - 2019

	December 31, 2019
Carrying amounts	
Current	$ 141,411
Non-current	$ 2,167,424

Range of discount rate for lease liabilities was as follows:

	December 31, 2019
Land	1.6%
Buildings	1.6%-5%
Machinery and equipment	1.6%
Transportation equipment	3.14%-3.39%
Other equipment	1.6%

c. Material lease-in activities and terms

The Group leases land and buildings for the use of plants and office spaces with lease terms of 2 to 42 years.

d. Other lease information

2019

	For the Year Ended December 31, 2019
Expenses relating to short-term leases	$ 29,779
Expenses relating to low-value asset leases	$ 782
Total cash outflow for leases	$ (164,360)

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

2018

The future minimum lease payments of non-cancellable operating lease commitments are as follows:

	December 31, 2018
Not later than 1 year	$ 164,996

14. INTANGIBLE ASSETS

	December 31	
	2019	2018
Other intangible assets		
Computer software	$ 121,479	$ 113,492
Deferred technical cooperation expenses	24,017	30,262
Patent	859	899
Trademark	124	175
	146,479	144,828
Developing intangible assets		
Projects non-recurring costs	1,100,491	722,957
	$ 1,246,970	$ 867,785

	Other Intangible Assets	Developing Intangible Assets
Cost		
Balance at January 1, 2019	$ 1,006,992	$ 6,090,547
Additions from internal developments	-	243,982
Additions	58,571	-
Disposals	(21)	(2,937)
Reclassification	28,360	359,361
Balance at December 31, 2019	$ 1,093,902	$ 6,690,953
Accumulated amortization and impairment		
Balance at January 1, 2019	$ 862,164	$ 5,367,590
Amortization expense	85,261	203,728
Disposals	(2)	(2,937)
Reclassification	-	22,081
Balance at December 31, 2019	$ 947,423	$ 5,590,462
Carrying amounts at December 31, 2019	$ 146,479	$ 1,100,491
Cost		
Balance at January 1, 2018	$ 944,254	$ 5,857,993
Additions from internal developments	-	232,554
Additions	65,354	-
Disposals	(6,913)	-
Reclassification	4,297	-
Balance at December 31, 2018	$ 1,006,992	$ 6,090,547

(Continued)

	Other Intangible Assets	Developing Intangible Assets
Accumulated amortization and impairment		
Balance at January 1, 2018	$ 792,280	$ 5,009,563
Amortization expense	76,797	356,027
Disposals	(6,913)	-
Impairment loss recognized in profit and loss	-	2,000
Balance at December 31, 2018	$ 862,164	$ 5,367,590
Carrying amounts at December 31, 2018	$ 144,828	$ 722,957

(Concluded)

Projects non-recurring costs include the costs related to product design, tooling design and fabrication, production planning, specimen and prototype trial fabrication. Deferred technical cooperation expenses include the participation fees or royalties for participation in international cooperation and development of new business. The amounts were allocated by the proportion of actual sales volume divided by expected sales volume.

The above items of intangible assets are amortized on a straight-line basis over the estimated useful life of the asset:

Trademark	10-15 years
Patent	10-20 years
Computer software	2-3 years

15. OTHER FINANCIAL ASSETS

Other financial assets are the time deposits with original maturities over three months from the date of acquisition; for pledged assets information, refer to Note 30. The market rates of the time deposits in the years of 2019 and 2018 were 0.28%-2.73% and 0.28%-3%, respectively.

16. OTHER ASSETS

	December 31	
	2019	2018
Current		
Prepayment	$ 4,481,866	$ 3,801,375
Others	105,252	69,833
	$ 4,587,118	$ 3,871,208

	December 31	
	2019	2018
Non-current		
Overdue receivables (Note 8)	$ 22,773	$ 6,968
Less: Allowance for impairment loss	(14,700)	(5,792)
	8,073	1,176
Refundable deposits	35,064	21,772
Other	23,324	181,477
	$ 66,461	$ 204,425

17. BORROWINGS

a. Short-term borrowings

	December 31	
	2019	2018
Unsecured borrowings	$ 3,920,000	$ 7,730,000
Secured borrowings (Note 30)	1,000,000	-
	$ 4,920,000	$ 7,730,000
Rates of interest per annum (%)		
Unsecured borrowings	0.85-0.899	0.86-1.5
Secured borrowings	0.78	-

b. Short-term bills payable

	December 31	
	2019	2018
Commercial paper	$ 8,360,000	$ 2,500,000
Less: Unamortized discount on bills payable	(2,745)	(425)
	$ 8,357,255	$ 2,499,575
Rate of interest per annum (%)	0.64-0.77	0.53-0.77

c. Long-term borrowings

	December 31	
	2019	2018
Credit borrowings	$ 4,128,299	$ 6,327,635
Secured borrowings (Note 30)	1,800,000	1,800,000
	5,928,299	8,127,635
Less: Current portion	-	(5,289,606)
Long-term borrowings	$ 5,928,299	$ 2,838,029
Rates of interest per annum (%)		
Credit borrowings	0.85-1.11	0.85-1.13
Secured borrowings	0.78	0.78

18. BONDS PAYABLE

	December 31	
	2019	2018
Unsecured domestic bonds	$ 3,000,000	$ -
Less: Unamortized discount on bonds payable	(3,790)	-
	$ 2,996,210	$ -

In September 2019, the Company issued a 5-year NTD-denominated unsecured bonds of $3,000,000 thousand, 0.71% in Taiwan. An interest per annum will be paid at the simple coupon rate, and the repayment is due 5 years from the date of issuance.

19. OTHER PAYABLES

	December 31	
	2019	2018
Payable for salaries and bonuses	$ 1,397,116	$ 1,453,985
Payable for outsourcing	917,542	748,847
Payable for purchase of equipment	271,891	229,855
Payable for annual leave	165,988	105,964
Payable for employee's compensation and remuneration of directors	120,294	136,404
Payable for service fee	88,290	138,807
Others	643,926	704,831
	$ 3,605,047	$ 3,518,693

20. PROVISIONS - NON-CURRENT

	December 31	
	2019	2018
Warranties	$ 452,186	$ 656,794
Others	99,367	114,273
	$ 551,553	$ 771,067

The provision for warranty claims represents the present value of management's best estimate of the future outflow of economic benefits that will be required under the Group's obligations for warranties under local sale of goods legislation. The estimate had been made on the basis of historical warranty trends and may vary as a result of other events affecting product quality.

Others refer to the obligation of the Group to improve its Taichung Complex groundwater pollution remediation site as ordered by the Environmental Protection Administration. The Group has the obligation to improve this site and recognized the discounted value of the best estimate of the remediation expenses as provisions.

21. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

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

AIDC USA has not established a retirement plan in accordance with local ordinances.

b. Defined benefit plans

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contributes to a pension fund administered by the pension fund monitoring committee; the amounts of contributions were equal to 16.29% and 16.31% of total monthly salaries and wages for the years ended December 31, 2019 and 2018, respectively. Pension contributions are deposited in the Bank of Taiwan in the committee's name and are managed by the Bureau of Labor Funds, Ministry of Labor ("the "Bureau"). Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The Company has no right to influence the investment policy and strategy.

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

	December 31	
	2019	2018
Present value of defined benefit obligation	$ 2,245,092	$ 1,889,063
Fair value of plan assets	(2,183,279)	(1,806,616)
Net defined benefit liabilities	$ 61,813	$ 82,447

Movements in net defined benefit asset were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Balance at January 1, 2018	$ 1,425,694	$ (1,392,272)	$ 33,422
Service cost			
Current service cost	411,360	-	411,360
Net interest expense (income)	12,043	(13,501)	(1,458)
Recognized in profit or loss	423,403	(13,501)	409,902
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(36,999)	(36,999)
Actuarial gain - changes in financial assumptions	(8,854)	-	(8,854)
Actuarial loss - experience adjustments	94,878	-	94,878
Recognized in other comprehensive income (loss)	86,024	(36,999)	49,025
Contributions from the employer	-	(409,902)	(409,902)
Benefits paid	(46,058)	46,058	-
Balance at December 31, 2018	1,889,063	(1,806,616)	82,447
Service cost			
Current service cost	423,927	-	423,927
Net interest expense (income)	16,545	(17,706)	(1,161)
Recognized in profit or loss	440,472	(17,706)	422,766
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(57,238)	(57,238)
Actuarial loss - changes in financial assumptions	38,202	-	38,202
Actuarial gain - experience adjustments	(1,598)	-	(1,598)
Recognized in other comprehensive income (loss)	36,604	(57,238)	(20,634)
Contributions from the employer	-	(422,766)	(422,766)
Benefits paid	(121,047)	121,047	-
Balance at December 31, 2019	$ 2,245,092	$ (2,183,279)	$ 61,813

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

1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau of Pension Fund or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

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

	December 31	
	2019	2018
Discount rate(s)	0.65%	0.90%
Expected rate(s) of salary increase	1.50%	1.50%

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

	December 31	
	2019	2018
Discount rate(s)		
0.25% increase	$ (39,049)	$ (35,718)
0.25% decrease	$ 40,049	$ 36,687
Expected rate(s) of salary increase		
0.25% increase	$ 39,610	$ 36,376
0.25% decrease	$ (38,820)	$ (35,596)

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

	December 31	
	2019	2018
The expected contributions to the plan for the next year	$ 410,076	$ 422,766
The average duration of the defined benefit obligation	6.9 years	7.55 years

22. EQUITY

a. Ordinary shares

	December 31	
	2019	2018
Number of shares authorized (in thousands)	1,500,000	1,500,000
Shares authorized	$ 15,000,000	$ 15,000,000
Number of shares issued and fully paid (in thousands)	941,867	941,867
Shares issued	$ 9,418,671	$ 9,418,671

b. Retained earnings and dividend policy

The Company's Articles of Incorporation provide that the annual net income after paying income tax should be used first to make up for prior years' losses, set aside 10% as a legal reserve and appropriate or reverse special reserve. The residual earnings will be allocated by the resolution in the shareholders' meeting. For information about the accrual basis of the employees' compensation and remuneration of directors and supervisors and the actual appropriations, please refer to Note 24 (d).

Profits of the Company may be distributed by way of cash dividend or share dividend. Distribution of profits shall be made preferably by way of cash dividend. However, the ratio of share dividend shall not exceed 50% of total distribution.

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

Under Rule No. 1010012865 and Rule No. 1010047490 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", the Company should appropriate or reverse special reserve.

The appropriations of earnings for 2018 and 2017 which were approved in the shareholders' meetings on May 31, 2019, and June 26, 2018, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share (NT$)	
	2018	2017	2018	2017
Legal reserve	$ 207,007	$ 171,192		
Special reserve	588,848	460,153		
Cash dividends	1,262,102	1,064,310	$ 1.34	$ 1.13

The appropriations of earnings for 2019 were proposed by the Company's board of directors on March 27, 2020. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT$)
Legal reserve	$ 189,079	
Special reserve	29,809	
Reverse special reserve	(621,020)	
Cash dividends	1,120,822	$ 1.19

The appropriations of earnings for 2019 are subject to the resolution of the shareholders' meeting to be held in May 2020.

23. REVENUE

	For the Year Ended December 31	
	2019	2018
Aircraft/vehicle maintenance	$ 16,072,427	$ 15,964,570
Aero/industrial engine	11,917,333	11,818,385
Industrial technology services	550,447	399,143
	$ 28,540,207	$ 28,182,098

24. NET PROFIT

a. Other income

	For the Year Ended December 31	
	2019	2018
Interest income	$ 101,337	$ 58,757
Remedy income	41,055	37,224
Other income from condoned liabilities	13,842	11,080
Others	72,339	81,618
	$ 228,573	$ 188,679

b. Other gains and losses

	For the Year Ended December 31	
	2019	2018
Net foreign exchange gains (losses)	$ (209,592)	$ 213,750
Gain (loss) on disposal of property, plant and equipment	(669)	812
Impairment loss	-	(2,000)
Others	(197,000)	(197,188)
	$ (407,261)	$ 15,374

c. Employee benefits, depreciation and amortization

	Operating Cost	Operating Expense	Non-operating Expense	Transfer to Developing Intangible Assets	Capital cost	Total
For the Year Ended December 31, 2019						
Employee benefits expense						
Salaries expense	$ 4,807,978	$ 605,750	$ 10,489	$ 62,830	$ 5,370	$ 5,492,417
Retirement benefit						
Defined contribution plans	78,431	10,905	162	1,306	121	90,925
Defined benefit plans	364,675	50,704	751	6,071	565	422,766
Labor and health insurance	310,552	35,924	62,588	4,249	386	413,699
Other employee benefits	48,235	5,533	9,598	62	6	63,434
Depreciation expense	1,002,424	62,767	23,424	30,600	1,967	1,121,182
Amortization expense	289,597	14,562	30	11,527	65	315,781
For the Year Ended December 31, 2018						
Employee benefits expense						
Salaries expense	4,834,015	593,173	12,699	60,698	112	5,500,697
Retirement benefit						
Defined contribution plans	70,009	9,111	150	1,104	2	80,376
Defined benefit plans	357,030	46,465	767	5,629	11	409,902
Labor and health insurance	299,810	32,435	60,596	4,013	8	396,862
Other employee benefits	54,572	6,012	10,909	55	-	71,548
Depreciation expense	828,360	51,767	20,162	19,618	26	919,933
Amortization expense	433,658	10,580	39	8,642	1	452,920

d. Employees' compensation and remuneration of directors

The Company stipulates distribution of employees' compensation and remuneration of directors at the rates no less than 0.58% and no higher than 4.65%, respectively, of net profit before income tax.

The employees' compensation and remuneration of directors for 2019 and 2018 which were resolved by the board of directors on March 27, 2020 and March 28, 2019, were as follows:

	For the Year Ended December 31			
	2019		2018	
	The Proportion of Estimate	Amount of Money	The Proportion of Estimate	Amount of Money
Employees' compensation	4.65%	$ 106,953	4.65%	$ 121,277
Remuneration of directors	0.58%	13,341	0.58%	15,127

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

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

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

e. Gain or loss on foreign currency exchange

	For the Year Ended December 31	
	2019	2018
Foreign exchange gains	$ 199,440	$ 521,564
Foreign exchange losses	(409,032)	(307,814)
Net gains (losses)	$ (209,592)	$ 213,750

f. Finance costs

Information about capitalized interest is as follows:

	For the Year Ended December 31	
	2019	2018
Capitalized interest amount	$ 851	$ -
Capitalization rate (%)	0.83-1.11	-

25. TAXES

a. Tax expense recognized in profit or loss

Major components of tax expense is as follows:

	For the Year Ended December 31 2019	2018
Current tax		
In respect of the current year	$ 463,252	$ 446,980
Income tax on unappropriated earnings	30,843	43,539
Adjustments for prior years	496	(4,022)
Investment credits	(24,645)	-
	469,946	486,497
Deferred tax		
In respect of the current year	27,304	122,565
Adjustments to deferred tax attributable to change in tax rates and laws	-	(49,060)
	27,304	73,505
Income tax expense recognized in profit or loss	$ 497,250	$ 560,002

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

	For the Year Ended December 31 2019	2018
Income tax expense calculated at the statutory rate	$ 531,478	$ 565,539
Nondeductible expenses in determining taxable income	56	123
Tax-exempt income	(27)	(18)
Income tax on unappropriated earnings	30,843	43,539
Temporary differences	(40,951)	3,901
Investment credits	(24,645)	-
Adjustments to deferred tax attributable to change in tax rates and laws	-	(49,060)
Adjustments for prior years' tax	496	(4,022)
Income tax expense recognized in profit or loss	$ 497,250	$ 560,002

The Income Tax Act in the ROC was amended in 2018 and the corporate income tax rate was adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings was reduced from 10% to 5%. The applicable tax rate used by a subsidiary in the united states is 39.5%.

According to the "Regulations Governing Application of Tax Credits for Corporate or Limited Partnership in Smart Machines and 5th Generation Mobile Networks", the Company deducted the value of profitable business for the year ended December 31, 2019 within the 5% limit of the investment in smart machinery and did not exceed 30% of the income from profit-making business for the year ended December 31, 2019.

As the status of the 2020 appropriation of earnings is uncertain, the potential income tax consequences of the 2019 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income (loss)

	For the Year Ended December 31 2019	2018
Deferred tax		
Remeasurement of defined benefit plan	$ 4,127	$ (10,808)

c. Deferred tax assets and liabilities

For the Year Ended December 31, 2019

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income (Loss)	Closing Balance
Deferred tax assets				
Temporary differences				
Provisions	$ 154,215	$ (43,904)	$ -	$ 110,311
Intangible assets	68,935	-	-	68,935
Property plant and equipment	24,343	-	-	24,343
Payable for annual leave	21,192	12,005	-	33,197
Defined benefit plan	16,490	-	(4,127)	12,363
Unrealized loss on foreign currency exchange	171	52,539	-	52,710
Right-of-use assets	-	3,270	-	3,270
Others	783	(50)	-	733
	$ 286,129	$ 23,860	$ (4,127)	$ 305,862
Deferred tax liabilities				
Temporary differences				
Investment accounted for using equity method	$ 65,179	$ 51,164	$ -	$ 116,343

For the Year Ended December 31, 2018

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income (Loss)	Closing Balance
Deferred tax assets				
Temporary differences				
Provisions	$ 159,655	$ (5,440)	$ -	$ 154,215
Intangible assets	58,254	10,681	-	68,935
Unrealized loss on foreign currency exchange	42,851	(42,680)	-	171
Property plant and equipment	20,692	3,651	-	24,343
Payable for annual leave	18,190	3,002	-	21,192
Defined benefit plan	5,682	-	10,808	16,490
Others	-	783	-	783
	$ 305,324	$ (30,003)	$ 10,808	$ 286,129

	For the Year Ended December 31, 2018			
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income (Loss)	Closing Balance
Deferred tax liabilities				
Temporary differences				
Investment accounted for using equity method	$ 21,633	$ 43,546	$ -	$ 65,179
Others	44	(44)	-	-
	$ 21,677	$ 43,502	$ -	$ 65,179

d. Deductible temporary differences for which no deferred tax assets have been recognized in the balance sheets

	December 31	
	2019	2018
Deductible temporary differences		
Inventories	$ 1,955,953	$ 2,160,722

e. Income tax assessments

Income tax returns of the Company through 2017 have been examined and cleared by the tax authorities.

26. EARNINGS PER SHARE

Unit: NT$ Per Share

	For the Year Ended December 31	
	2019	2018
Basic earnings per share	$ 1.99	$ 2.22
Diluted earnings per share	$ 1.98	$ 2.21

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

	For the Year Ended December 31	
	2019	2018
Profit for the year attributable to owners of the Company		
Earnings used in the computation of basic earnings per share (Earnings used in the computation of diluted earnings per share)	$ 1,874,287	$ 2,092,016

	For the Year Ended December 31	
	2019	2018
Weighted average number of ordinary shares outstanding (in thousand shares)		
Weighted average number of ordinary shares in computation of basic earnings per share	941,867	941,867
Effect of potentially dilutive ordinary shares		
Employees' compensation issue to employees	3,919	4,689
Weighted average number of ordinary shares used in the computation of diluted earnings per share	945,786	946,556

If the Company's compensation or bonuses payable to employees can be settled in cash or shares, then the Company should assume the entire amount of the compensation or bonuses will be settled in shares, and the resulting potential shares, if dilutive, should be included in the weighted average number of shares outstanding used in the computation of diluted earnings per share. Such dilutive effect of the potential shares should be included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

27. CAPITAL MANAGEMENT

The Group must maintain adequate capital necessary for profitable operations and business expansion, equipment upgrade and participation in international new aircraft developing. Therefore, the Group manages its capital to ensure that the Group will have enough financial resources to respond accordingly to its working capital requirements at least for the next 12 months, capital expenditures, participation in international new aircraft developing and repayments of liabilities.

The capital structure of the Group consists of net debt (borrowings offset by cash and other financial assets) and equity (comprising ordinary shares, retained earnings and other equity).

28. FINANCIAL INSTRUMENTS

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

The management considers the carrying amounts of financial assets and financial liabilities recognized in the financial statements approximate their fair values or their fair values cannot be reliably measured.

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

1) Fair value hierarchy

	Level 1	Level 2	Level 3	Total
December 31, 2019				
Financial assets at FVTOCI				
Investments in equity instruments				
Emerging market shares	$ 53,504	$ -	$ -	$ 53,504
Unlisted shares	-	-	33,830	33,830
	$ 53,504	$ -	$ 33,830	$ 87,334

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Financial assets at FVTOCI				
Investments in equity instruments				
Emerging market shares	$ 70,400	$ -	$ -	$ 70,400
Unlisted shares	-	-	33,067	33,067
	$ 70,400	$ -	$ 33,067	$ 103,467

There were no transfers between Levels 1 and 2 for the years ended December 31, 2019 and 2018, respectively.

2) Reconciliation of Level 3 fair value measurements of financial instruments

Financial Assets	Financial Assets at FVTOCI Equity Instruments
For the Year Ended December 31, 2019	
Balance at January 1, 2019	$ 33,067
Recognized in other comprehensive gain	763
Balance at December 31, 2019	$ 33,830
For the Year Ended December 31, 2018	
Balance at January 1, 2018	$ 33,848
Recognized in other comprehensive loss	(781)
Balance at December 31, 2018	$ 33,067

3) Valuation techniques and inputs applied for Level 3 fair value measurement

The marketable securities of unlisted shares held by the Group is estimated using the evaluation method when there is no market price reference. The fair value of unlisted shares was evaluated using the asset-based approach.

c. Categories of financial instruments

	December 31 2019	December 31 2018
Financial assets		
Financial assets at amortized cost	$ 17,804,298	$ 18,379,326
Investments in equity instruments at FVTOCI - non-current	87,334	103,467
Financial liabilities		
Financial liabilities at amortized cost	25,839,141	22,745,084

Financial assets at amortized cost comprise cash, notes receivable, trade receivables, other receivables, overdue receivables, other financial assets and refundable deposits.

Financial liabilities at amortized cost comprise short-term borrowings, short-term bills payable, trade payables, other payables (excluded payable for salaries and bonuses, payable for annual leave and payable for employee's compensation and remuneration of directors), bonds payable, other financial liabilities (accounted at other current liabilities), long-term borrowings (included not later than one year) and guarantee deposits.

d. Financial risk management objectives

The Group's major financial risk management objectives are to manage the market risk (including currency risk, and interest rate risk), credit risk and liquidity risk of operating activities. The Group minimizes the unfavorable effects of these risks by identification and assessment of the risks and by applying aversion methods to the uncertainties.

The Group's financial targets including its investment plan for fixed assets are laid out in its "Five-Year Business Plan". The financial plan includes risk management policies and the division of responsibilities.

The Group's major financial instruments include cash, trade receivable, short-term borrowings, trade payables, bonds payable and long-term borrowings. The financial department coordinates access to domestic financial markets.

The Group's compliance with the operating procedure and responsibilities are reviewed by the internal auditors. The evaluation results are also used for future reference by the authorities.

1) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

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

Foreign currency risk

The Group minimizes its currency exposure by natural hedging. Foreign currency operation performance is reported to the key management personnel every quarter and the expected foreign currency and operation direction are set for the next quarter.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are set out in Note 32.

Sensitivity analysis

The Group was mainly exposed to the US dollar. The Group's sensitivity to a 0.5% stronger or weaker New Taiwan dollar against the relevant foreign currencies means profit before income tax would be increased/decreased by $49,871 thousand and $48,356 thousand for the years ended December 31, 2019 and 2018, respectively. The sensitivity rate of 0.5% represents the management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items, with the foreign currency rates at the end of the reporting period adjusted for a 0.5% change.

Interest rate risk

The Group's interest risk is evaluated in terms of short-term borrowings; short-term bills payable, long-term borrowings and lease liabilities. Borrowing and repayment require budget planning in advance to control the interest risk. Interest rates of short-term loans from different financial organizations are compared and lowest one will be selected.

Sensitivity analysis

If interest rates had been 25 basis points higher/lower and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2019 and 2018 would decrease/increase by $20,121 thousand and $33,394 thousand, respectively, which was mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings. A 25 basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The possible financial loss would equal to the carrying amount of the recognized financial assets as stated in the balance sheets. However, the Group is executing forward exchange only with the correspondent financial institutions, and they are creditworthy with no credit risks.

The Group's dealing counterparties are national defence organizations and international aerospace corporations, and they are creditworthy with extreme low risk of bankruptcy. The Group's key management checks the accounts receivable every month, and instructs the project team to collect the past due amounts.

The Group's concentration of credit risk by geographical location was mainly in the U.S.United States, which accounted for 41% and 40% of the total trade receivable as of December 31, 2019 and 2018, respectively.

3) Liquidity risk

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

The Group relies on bank borrowings as a significant source of liquidity. As of December 31, 2019 and 2018, the Group had available unutilized bank loan facilities as set out in (b) below.

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

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

Non-derivative financial liabilities	**Less than 1 Year**	**1 to 5 Year**	**More than 5 Year**
December 31, 2019			
Non-interest bearing liabilities	$ 3,422,986	$ 214,391	$ -
Lease liabilities	178,032	839,678	1,858,343
Variable interest rate liabilities	2,120,000	5,928,299	-
Fixed interest rate liabilities	11,160,000	3,000,000	-
	$ 16,881,018	$ 9,982,368	$ 1,858,343
December 31, 2018			
Non-interest bearing liabilities	$ 4,182,134	$ 205,740	$ -
Variable interest rate liabilities	10,519,606	2,838,029	-
Fixed interest rate liabilities	5,000,000	-	-
	$ 19,701,740	$ 3,043,769	$ -

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities are subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

b) Financing facilities (reviewed annually)

	December 31	
	2019	**2018**
Unsecured bank overdraft facility:		
Amount unused	$ 13,832,767	$ 4,975,573
Secured bank loan facilities:		
Amount unused	$ -	$ 1,000,000

29. TRANSACTIONS WITH RELATED PARTIES

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

a. Related Party Categories / Names

Related Party Name	**Relationship with the Consolidated Company**
ITEC	Associate
Ministry of Economic Affairs	Corporate director

b. Sales of goods

	For the Year Ended December 31	
Related Parties Name	**2019**	**2018**
ITEC	$ 804,801	$ 1,254,290

The Group's sales prices are based on the contracts. The collection terms are as follows:

Item	Collection terms
Engine	90 days after the invoice date
Backup parts	Offset account receivables with account payable

There is no unrelated party with similar product item to compare the engine sales price. The backup parts are only directly sold to the ROC Air Force, and the sales price is according to the purchase contract with related party plus the processing fee agreed by both parties, and collection term is 1-2 months.

c. Purchase of goods

Related Parties Name	For the Year Ended December 31 2019	2018
ITEC	$ 1,258,093	$ 924,826

The Group's buying prices from related party are based on contract. The payment term in principle is 1-2 months or paying after offset of accounts receivable. There are no unrelated parties with similar product items that can serve as basis of comparison of prices and terms.

d. Manufacturing expenses

Related Parties Name	For the Year Ended December 31 2019	2018
ITEC	$ 754,238	$ 487,619

e. Receivable from related parties

Related Parties Name	December 31 2019	2018
ITEC	$ 131,561	$ 310,857

The outstanding trade receivables from related parties are unsecured. No impairment loss and expected credit loss were recognized on trade receivables from related parties.

f. Other current assets

Related Parties Name	December 31 2019	2018
ITEC	$ 848,582	$ 796,598

g. Payable to related parties

Related Parties Name	December 31 2019	2018
ITEC	$ 79,880	$ 294,289

The outstanding trade payables to related parties are unsecured.

h. Other payables

Related Parties Name	December 31 2019	2018
ITEC	$ 14,977	$ 90,391

i. Compensation of key management personnel

	For the Year Ended December 31 2019	2018
Short-term benefits	$ 37,217	$ 36,098
Post-employment benefits	4,612	1,279
	$ 41,829	$ 37,377

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

30. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following other financial assets and property, plant and equipment were provided as collateral for bank borrowings and obligation:

	December 31 2019	2018
Property, plant and equipment	$ 2,049,647	$ 2,121,409
Other financial assets - Current	2,910,045	1,860,093
Other financial assets - Non - current	14,054	10,807
	$ 4,973,746	$ 3,992,309

31. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Group as follows:

a. As of December 31, 2019 and 2018, unused letters of credit for purchases of raw materials and machinery and equipment amounted to approximately $519,571 thousand and $114,076 thousand, respectively.

b. As of December 31, 2019 and 2018, unpaid contract for purchases of raw materials and machinery and equipment amounted to approximately $35,452,777 thousand and $36,761,294 thousand, respectively.

32. EXCHANGE RATE OF FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The group entities' significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies and the related exchange rates between foreign currencies and respective functional currencies were as follows:

	December 31					
	2019			2018		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
Assets						
Monetary items						
USD	$ 339,937	29.98	$10,191,311	$ 323,600	30.715	$ 9,939,374
Non-monetary items						
USD	28,517	29.98	854,928	20,241	30.715	621,696
Liabilities						
Monetary items						
USD	7,241	29.98	217,085	8,732	30.715	268,203

The significant unrealized foreign exchange gains (losses) were as follows:

	For the Year Ended December 31			
	2019		2018	
Foreign Currencies	Exchange Rate	Net Foreign Exchange Loss	Exchange Rate	Net Foreign Exchange Loss
USD	29.98	$(268,468)	30.715	$ (1,035)

33. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

1) Financing provided to others. (None)

2) Endorsements/guarantees provided. (None)

3) Marketable securities held (excluding investment in subsidiaries, associates and joint controlled entities). (Table 1)

4) Marketable securities acquired and disposed at costs or prices at least $300 million or 20% of the paid-in capital. (None)

5) Acquisition of individual real estate at costs of at least $300 million or 20% of the paid-in capital. (Table 2)

6) Disposal of individual real estate at prices of at least $300 million or 20% of the paid-in capital. (None)

7) Total purchases from or sales to related parties amounting to at least $100 million or 20% of the paid-in capital. (Table 3)

8) Receivables from related parties amounting to at least $100 million or 20% of the paid-in capital. (Table 4)

9) Trading in derivative instruments. (None)

10) Intercompany relationships and significant intercompany transactions. (Table 5)

11) Information on investees. (Table 6)

b. Information on investments in mainland China. (None)

34. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the type of services delivered or provided.
The Group has only one operating segment which is the main business, i.e., design, manufacture, assembly, testing and maintenance of aircraft.

a. Geographical information

	For the Year Ended December 31	
	2019	2018
Asia	$ 12,874,626	$ 12,792,812
America	13,199,209	12,488,381
Europe	2,466,372	2,900,905
	$ 28,540,207	$ 28,182,098

b. Information on major customers

Single customers that contributed 10% or more to the Group's revenue were as follows:

	For the Year Ended December 31			
	2019		2018	
	Amount	%	Amount	%
Customer A	$ 6,541,094	23	$ 5,060,199	18
Customer B	4,535,924	16	3,554,997	13
Customer C	4,247,228	15	3,514,216	12

TABLE 1

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2019			
				Number of Shares	Carrying Value	Percentage of Ownership	Fair Value
The Company	Share Capital						
	UHT Ltd.	-	Financial assets at FVTOCI - non-current	1,100	$ 53,504	3.15%	$ 53,504
	AAI	The Company is a corporate director	Financial assets at FVTOCI - non-current	4,968	31,684	13.09%	31,684
	Metro Ltd.	The Company is a corporate director	Financial assets at FVTOCI - non-current	300	2,146	6%	2,146

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COST FOR AT LEAST NT$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Buyer	Property	Event Date	Transaction Amount	Payment Status	Counterparty	Relationship	Information on Previous Title Transfer If Counterparty Is A Related Party				Pricing Reference	Purpose of Acquisition	Other Terms
							Property Owner	Relationship	Transaction Date	Amount			
The Company	Building	2019.4.17	$ 705,714	Payment after each construction inspection	TAI JHOU CONSTRUCTION CO.	-	N/A	N/A	N/A	N/A	Price comparison and negotiation	Production	None

TABLE 3

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

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

Purchaser or Seller	Related Party	Nature of Relationship with the Purchaser or Seller	Transaction Details				Abnormal Transaction		Notes and Accounts Receivable (Payable)		Note
			Purchase (Sale)	Amount	% to Total	Collection Terms	Unit Price	Collection Terms	Ending Balance	% to Total	
The Company	ITEC	Associate	Sale	$ (780,213)	(3)	Note	Note	Note	$ 128,327	1	
			Purchase	1,258,093	8	Note	Note	Note	(79,880)	(5)	

Note: Information is provided in Note 29.

TABLE 4

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Actions Taken		
The Company	ITEC	Associate	$ 128,327	3.59	$ -	-	$ 101,520	$ -

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

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

No.	Investee Company	Counterparty (Note)	Relationship	Transactions Details			
				Financial Statement Accounts	Amount	Payment Terms	% to Total Sales or Assets
0	The Company	AIDC USA	Parent company to subsidiary	Purchase of goods	$ 1,614	T/T 30 - 60 days	-
		AIDC USA	Parent company to subsidiary	Manufacturing expenses	31,086	T/T 30 - 60 days	-
		AIDC USA	Parent company to subsidiary	Operation expenses	21,259	T/T 30 - 60 days	-
		AIDC USA	Parent company to subsidiary	Other payables	5,962	T/T 30 - 60 days	-
1	AIDC USA	ITEC	Subsidiary to associates	Sales	24,588	T/T 30 - 60 days	-
		ITEC	Subsidiary to associates	Trade receivables	3,234	T/T 30 - 60 days	-

Note: Significant intercompany accounts and transactions have been eliminated.

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

INFORMATION ON INVESTEES
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2019			Net Income of the Investee	Share of Profits	Note
				December 31, 2019	December 31, 2018	Shares	%	Carrying Amount			
The Company	AIDC USA	State of Delaware USA	Provide program management and relevant services for purchasing and selling raw materials, parts and components of aircraft, engines and subsystems.	$ 288,661	$ 288,661	-	100	$ 854,928	$ 255,822	$ 255,822	Subsidiary
AIDC USA	ITEC	State of Delaware USA	Development production and remodel of aircraft	728	728	-	22.05	838,039	1,463,216	322,639	Associate

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Aerospace Industrial Development Corporation

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

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

Key Audit Matters

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

The key audit matters identified in the Company's financial statements for the year ended December 31, 2019 are stated as follows:

<u>Impairment loss of inventory</u>

The Company assesses impairment of raw materials based on individual identification. The assessment of impairment loss of the raw materials involves the use of the management's critical judgment, and, hence, the assessment is considered as a key audit matter. The Company assesses the impairment loss of the raw materials based on current market conditions and future consumption in accordance with IAS 2. Refer to Notes 5 and 9 to the financial statements for the relevant accounting policy, accounting judgments and estimation uncertainties, and other information. Our key audit procedures performed in regard to the impairment assessment include the following:

1. We sample-tested the inventory aging report for completeness and accuracy.

2. We selected samples from raw materials that are over 1 year, which were not recognized as obsolete, and confirmed the reasonableness of not recognizing the raw materials' obsolescence.

3. We tested the net realizable value of raw materials which were not recognized as obsolete and we selected samples to calculate the allowance for impairment loss.

4. We observed the physical count of inventory at year end and we test checked actual quantity counted on tags. We also noted those which appeared to be as obsolete or slow-moving items and traced them to the Company's impairment assessment worksheet.

<u>Warranties</u>

The Company provides warranties for military product maintenance, and the percentage of certain provisions involve management's critical judgment: hence, we consider provision for warranties as a key audit matter. Refer to Notes 5 and 19 for the relevant accounting policy, accounting judgments and estimation uncertainties, and other information. Our key audit procedures performed in regard to the provisions for warranties include the following:

1. We obtained the documents based on the management's decision on the provision rate and we evaluated the reasonableness of the rates compared with rates in the past periods.

2. We selected samples to calculate the accuracy of warranty provision.

3. We selected samples and calculated the actual warranty occurrence rate in the previous year compared with the current warranty calculation to confirm that the amount of warranty provision for the year ended December 31, 2019 is appropriate and sufficient.

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including members of the audit committee, are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the company audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the year ended December 31, 2019 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 27, 2020

Notice to Readers

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

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

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

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

	December 31			
	2019		2018	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash (Notes 4 and 6)	$ 605,287	1	$ 935,112	2
Notes receivable (Notes 4 and 8)	5,637	-	2,684	-
Trade receivables from unrelated parties (Notes 4 and 8)	13,958,292	30	15,036,728	38
Trade receivables from related parties (Notes 4 and 28)	128,327	-	306,833	1
Other receivables (Notes 4 and 8)	81,914	-	95,341	-
Inventories (Notes 4, 5 and 9)	9,820,034	22	6,798,041	17
Other financial assets - current (Notes 4, 14 and 29)	2,935,559	7	1,932,100	5
Other current assets (Notes 4, 15 and 28)	4,586,695	10	3,870,853	10
Total current assets	32,121,745	70	28,977,692	73
NON-CURRENT ASSETS				
Financial assets at fair value through other comprehensive income - non-current (Notes 4 and 7)	87,334	-	103,467	-
Investments accounted for using equity method (Notes 4 and 10)	854,928	2	621,696	2
Property, plant and equipment (Notes 4, 11 and 29)	8,567,935	18	8,351,958	21
Right-of-use assets (Notes 3, 4 and 12)	2,288,217	5	-	-
Intangible assets (Notes 4 and 13)	1,246,856	3	867,785	2
Deferred tax assets (Notes 4 and 24)	305,631	1	285,346	1
Prepayments for equipment (Note 23)	513,640	1	376,417	1
Other financial assets - non-current (Notes 4, 14 and 29)	14,054	-	10,807	-
Other non-current assets (Notes 4, 8 and 15)	66,310	-	204,277	-
Total non-current assets	13,944,905	30	10,821,753	27
TOTAL	$ 46,066,650	100	$ 39,799,445	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Notes 16 and 29)	$ 4,920,000	11	$ 7,730,000	19
Short-term bills payable (Note 16)	8,357,255	18	2,499,575	6
Contract liabilities (Note 4)	584,119	1	83,898	-
Trade payables to unrelated parties	1,395,943	3	1,993,498	5
Trade payables to related parties (Note 28)	79,880	-	294,289	1
Other payables (Notes 18 and 28)	3,601,051	8	3,512,496	9
Current tax liabilities (Notes 4 and 24)	187,462	1	184,252	1
Lease liabilities-current (Notes 3, 4 and 12)	139,577	-	-	-
Current portion of long-term borrowings (Notes 16 and 29)	-	-	5,289,606	13
Net defined benefit liabilities - current (Notes 4 and 20)	61,813	-	82,447	-
Other current liabilities	43,901	-	115,437	-
Total current liabilities	19,371,001	42	21,785,498	54
NON-CURRENT LIABILITIES				
Bonds payable (Note 17)	2,996,210	7	-	-
Long-term borrowings (Notes 16 and 29)	5,928,299	13	2,838,029	7
Provisions - non-current (Notes 4, 5 and 19)	551,553	1	771,067	2
Deferred tax liabilities (Notes 4 and 24)	116,343	-	65,179	-
Lease liabilities-non-current (Notes 3, 4 and 12)	2,164,988	5	-	-
Long-term deferred revenue (Note 4)	279	-	315	-
Guarantee deposits	214,391	-	205,740	1
Total non-current liabilities	11,972,063	26	3,880,330	10
Total liabilities	31,343,064	68	25,665,828	64
EQUITY				
Ordinary shares	9,418,671	20	9,418,671	24
Retained earnings				
Legal reserve	909,345	2	702,338	2
Special reserve	2,522,475	6	1,933,627	5
Unappropriated earnings	1,902,904	4	2,070,067	5
Other equity	(29,809)	-	8,914	-
Total equity	14,723,586	32	14,133,617	36
TOTAL	$ 46,066,650	100	$ 39,799,445	100

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

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

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

	For the Year Ended December 31			
	2019		2018	
	Amount	%	Amount	%
SALES (Notes 4, 22 and 28)	$ 28,515,619	100	$ 28,156,144	100
COST OF GOODS SOLD (Notes 9, 23 and 28)	24,762,906	87	24,559,503	87
GROSS PROFIT	3,752,713	13	3,596,641	13
OPERATING EXPENSES (Notes 23 and 28)				
Selling and marketing expenses	131,047	-	134,797	1
General and administrative expenses	624,613	2	577,999	2
Research and development expenses	548,281	2	545,217	2
Expected credit loss (gain) (Notes 4 and 8)	8,130	-	(1,505)	-
Total operating expenses	1,312,071	4	1,256,508	5
PROFIT FROM OPERATIONS	2,440,642	9	2,340,133	8
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 4 and 23)	228,548	1	188,665	1
Other gains and losses (Notes 4 and 23)	(407,253)	(2)	15,436	-
Share of profit of subsidiaries and associates (Note 4)	255,822	1	197,169	1
Finance costs (Notes 4 and 23)	(217,686)	(1)	(133,304)	(1)
Total non-operating income and expenses	(140,569)	(1)	267,966	1
PROFIT BEFORE INCOME TAX	2,300,073	8	2,608,099	9
INCOME TAX EXPENSE (Notes 4 and 24)	425,786	2	516,083	2
NET PROFIT FOR THE YEAR	1,874,287	6	2,092,016	7
OTHER COMPREHENSIVE INCOME (LOSS) (Note 4)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	16,507	-	(38,217)	-
Unrealized loss on investments in equity instruments designated as at fair value through other comprehensive income	(16,133)	-	(70,070)	-

(Continued)

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

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

	For the Year Ended December 31			
	2019		2018	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	$ (22,590)	-	$ 16,819	-
Other comprehensive loss for the year, net of income tax	(22,216)	-	(91,468)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	1,852,071	6	2,000,548	7
EARNINGS PER SHARE (Note 25)				
Basic	$ 1.99		$ 2.22	
Diluted	$ 1.98		$ 2.21	

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

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

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

		Retained Earnings (Note 21)			Other Equity (Note 4)		
	Ordinary Shares (Note 21)	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized gain (loss) on Investments in Equity Instruments Designated as at Fair Value through Other Comprehensive Income	Total Equity
BALANCE AT JANUARY 1, 2018	$ 9,418,671	$ 531,146	$ 1,473,474	$ 1,711,923	$ (32,172)	$ -	$ 13,103,042
Effect of retrospective application and retrospective restatement	-	-	-	-	-	94,337	94,337
BALANCE AT JANUARY 1, 2018 AS RESTATED	9,418,671	531,146	1,473,474	1,711,923	(32,172)	94,337	13,197,379
Appropriation of 2017 earnings							
Legal reserve	-	171,192	-	(171,192)	-	-	-
Special reserve	-	-	460,153	(460,153)	-	-	-
Cash dividends distributed by the Company	-	-	-	(1,064,310)	-	-	(1,064,310)
Profit for the year ended December 31, 2018	-	-	-	2,092,016	-	-	2,092,016
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	(38,217)	16,819	(70,070)	(91,468)
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	2,053,799	16,819	(70,070)	2,000,548
BALANCE AT DECEMBER 31, 2018	9,418,671	702,338	1,933,627	2,070,067	(15,353)	24,267	14,133,617
Appropriation of 2018 earnings							
Legal reserve	-	207,007	-	(207,007)	-	-	-
Special reserve	-	-	588,848	(588,848)	-	-	-
Cash dividends distributed by the Company	-	-	-	(1,262,102)	-	-	(1,262,102)
Profit for the year ended December 31, 2019	-	-	-	1,874,287	-	-	1,874,287
Other comprehensive income (loss) for the year ended December 31, 2019, net of income tax	-	-	-	16,507	(22,590)	(16,133)	(22,216)
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	1,890,794	(22,590)	(16,133)	1,852,071
BALANCE AT DECEMBER 31, 2019	$ 9,418,671	$ 909,345	$ 2,522,475	$ 1,902,904	$ (37,943)	$ 8,134	$ 14,723,586

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

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

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

	For the Year Ended December 31	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 2,300,073	$ 2,608,099
Adjustments for:		
Depreciation expenses	1,087,276	899,987
Amortization expenses	304,182	444,277
Expected credit loss recognized (reversed)	8,130	(1,505)
Finance costs	217,686	133,304
Interest income	(101,312)	(58,743)
Dividend income	(138)	(90)
Share of profit of subsidiary and associate	(255,822)	(197,169)
Loss (gain) on disposal of property, plant and equipment	669	(812)
Impairment loss recognized (reversed) on non-financial assets	(204,769)	20,044
Unrealized net loss on foreign currency exchange	254,574	1,693
Recognition (reversal) of provisions	(95,802)	4,023
Other income from liabilities	(13,842)	(11,080)
Net changes in operating assets and liabilities		
Notes receivable	(2,953)	20,825
Trade receivables	1,058,450	(5,751,374)
Other receivables	15,464	(7,990)
Inventories	(2,940,936)	(217,343)
Other current assets	(715,842)	(2,267,629)
Contract liabilities	500,221	(65,047)
Trade payables	(808,744)	692,898
Other payables	45,476	(188,633)
Other current liabilities	(61,670)	(242,894)
Deferred income	(36)	(36)
Cash generated from (used in) operations	590,335	(4,185,195)
Interest received	99,259	70,448
Interest paid	(217,261)	(123,673)
Income tax paid	(395,823)	(484,204)
Net cash generated from (used in) operating activities	76,510	(4,722,624)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property, plant and equipment	(820,997)	(567,743)
Proceeds from disposal of property, plant and equipment	34	9,114
Increase in refundable deposits	(24,519)	(21,665)
Decrease in refundable deposits	11,230	15,815
Payments for intangible assets	(258,272)	(270,032)
Decrease (increase) in other financial assets	(1,081,960)	1,876,238
Increase in other non-current assets	(205,900)	(201,573)

(Continued)

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

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

	For the Year Ended December 31	
	2019	2018
Increase in prepayments for equipment	$ (488,622)	$ (197,490)
Dividend received	138	90
Net cash generated from (used in) investing activities	(2,868,868)	642,754
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	48,520,000	45,960,000
Repayments of short-term borrowings	(51,330,000)	(44,745,000)
Proceeds from short-term bills payable	37,430,463	32,096,560
Repayments of short-term bills payable	(31,572,783)	(32,096,314)
Proceeds from bonds payable	2,995,980	-
Proceeds from long-term borrowings	26,673,760	22,457,000
Repayments of long-term borrowings	(28,868,579)	(18,647,606)
Proceeds of guarantee deposits received	253,185	229,450
Refund of guarantee deposits	(244,534)	(227,819)
Repayment of the principal portion of lease liabilities	(132,857)	-
Cash dividends distributed	(1,262,102)	(1,064,310)
Net cash generated from financing activities	2,462,533	3,961,961
NET DECREASE IN CASH	(329,825)	(117,909)
CASH AT THE BEGINNING OF THE YEAR	935,112	1,053,021
CASH AT THE END OF THE YEAR	$ 605,287	$ 935,112

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

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

Aerospace Industrial Development Corporation (the "Company") was a state-owned enterprise formed by the Ministry of Economic Affairs on July 1, 1996 from Aero Industry Development Center, Chung-Shan Institute of Science and six other state-owned enterprises. The Company's main business categories are as follows: design, manufacture, assembly, testing and maintenance of aircraft, engines, avionics and related components; consulting services and technology transfers of aerospace technology, logistical support and engineering technology management of large-scale projects; engineering and development of software and sales of aerospace products.

In July 2001, the initial public offering of the Company was approved by the Securities and Futures Commission (now called Securities and Futures Bureau of the Financial Supervisory Commission (FSC) of the Republic of China (ROC)). On September 13, 2013, in accordance with Rule No. 1020055531, the Company started its privatization process. On August 25, 2014, the Company was listed on the Taiwan Stock Exchange.

The financial statements are presented in the Company's functional currency, New Taiwan dollars.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on March 27, 2020.

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

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

Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC did not have any material impact on the Company's accounting policies:

IFRS 16 "Leases"

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

Definition of a lease

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

The Company as lessee

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

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

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

The Company also applies the following practical expedients:

1) The Company applies a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.

2) The Company accounts for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.

3) The Company excludes initial direct costs from the measurement of right-of-use assets on January 1, 2019.

The lessee's weighted average incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 is 1.6%. The difference between the lease liabilities recognized and operating lease commitments disclosed under IAS 17 on December 31, 2018 is explained as follows:

The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018 and undiscounted amounts on January 1, 2019	$ 164,186
Discounted amounts using the incremental borrowing rate on January 1, 2019	$ 162,240
Add: Adjustments as a result of a different treatment of extension and termination options	2,241,573
Not significant lease arrangements in prior period	2,493
Lease liabilities recognized on January 1, 2019	$ 2,406,306

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

	As Originally Stated on January 1, 2019	Adjustments Arising from Initial Application	Restated on January 1, 2019
Right-of-use assets	$ -	$ 2,406,306	$ 2,406,306
Total effect on assets	$ -	$ 2,406,306	$ 2,406,306
Lease liabilities - current	$ -	$ 127,494	$ 127,494
Lease liabilities - non-current	-	2,278,812	2,278,812
Total effect on liabilities	$ -	$ 2,406,306	$ 2,406,306

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

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

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

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

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

Amendments to IAS 1 and IAS 8 “Definition of material”

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRSs. The concept of “obscuring” material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from “could influence” to “could reasonably be expected to influence”.

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

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

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

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

Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”

The amendments clarify that for a liability to be classified as non-current, the Company shall assess whether it has the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. If such rights are in existence at the end of the reporting period, the liability is classified as non-current regardless of whether the Company will exercise that right. The amendments also clarify that, if the right to defer settlement is subject to compliance with specified conditions, the Company must comply with those conditions at the end of the reporting period even if the lender does not test compliance until a later date.

The amendments stipulate that, for the purpose of liability classification, the aforementioned settlement refers to a transfer of cash, other economic resources or the Company’s own equity instruments to the counterparty that results in the extinguishment of the liability. However, if the terms of a liability that could, at the option of the counterparty, result in its settlement by a transfer of the Company’s own equity instruments, and if such option is recognized separately as equity in accordance with IAS 32: Financial Instruments: Presentation, the aforementioned terms would not affect the classification of the liability.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

b. Basis of preparation

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

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

1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

3) Level 3 inputs are unobservable inputs for the asset or liability.

When preparing these financial statements, the Company used the equity method to account for its investments in subsidiaries and associates. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same with the amounts attributable to the owners of the Company in its financial statements, adjustments arising from the differences in accounting treatments between the parent company only basis and the basis were made to investments accounted for using the equity method, the share of profit or loss of subsidiaries and associates, the share of other comprehensive income of subsidiaries and associates and the related equity items, as appropriate, in these parent company only financial statements.

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

Current assets include:

1) Assets held primarily for the purpose of trading;

2) Assets expected to be realized within twelve months after the reporting period; and

3) Cash unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;

2) Liabilities due to be settled within twelve months after the reporting period, and

3) Liabilities for which the Company does not have an unconditional right to defer settlement for at least twelve months after the reporting period.

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

d. Foreign currencies

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

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

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

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

e. Inventories

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

f. Investments in subsidiaries

The Company uses the equity method to account for its investments in subsidiaries. Subsidiary is an entity that is controlled by the Company.

Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company’s share of the profit or loss and other comprehensive income of the subsidiary. The Company also recognizes the changes in the Company’s share of equity of subsidiaries.

The Company assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the entire financial statements of the invested company. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Company recognizes the reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization or depreciation) had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

Profits or losses resulting from downstream transactions are eliminated in full only in the parent company’s financial statements. Profits and losses resulting from upstream transactions and transactions between subsidiaries are recognized only in the parent company’s financial statements only to the extent of interests in the subsidiaries that are not related to the Company.

g. Property, plant and equipment

Property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment loss.

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

Depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately.

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

h. Intangible assets

1) Intangible assets acquired separately

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

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

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

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

a) The technical feasibility of completing the intangible asset so that it will be available for use or sale;

b) The intention to complete the intangible asset and use or sell it;

c) The ability to use or sell the intangible asset;

d) How the intangible asset will generate probable future economic benefits;

e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

f) The ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

3) Derecognition of intangible assets

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

i. Impairment of tangible and intangible assets

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

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

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

j. Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments.

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

1) Financial assets

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

a) Measurement category

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

i. Financial assets at amortized cost

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

i) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

i) Purchased or originated credit-impaired financial asset, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset; and

ii) Financial asset that has subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset.

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

i) Significant financial difficulty of the issuer or the borrower;

ii) Breach of contract, such as a default;

iii) It is becoming probable that the borrower will enter bankruptcy or undergo a financial reorganization; or

iv) The disappearance of an active market for that financial asset because of financial difficulties.

ii. Investments in equity instruments at FVTOCI

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

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

b) Impairment of financial assets

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

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

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

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

i. Internal or external information show that the debtor is unlikely to pay its creditors.

ii. When a financial asset is more than 90 days past due unless the Company has reasonable and corroborative information to support a more lagged default criterion.

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

c) Derecognition of financial assets

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

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

2) Financial liabilities

a) Subsequent measurement

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

b) Derecognition of financial liabilities

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

k. Provisions

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

Provision for the expected cost of warranty obligations is recognized at the date of sale of the relevant products, at the Company's best estimate of the expenditure required to settle the obligation.

l. Revenue recognition

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

For the considerations that have been received from customers, the obligation to transfer goods or services to customers is recognized as a contract liability.

1) Revenue from sale of goods

Revenue from sale of goods comes from sales of aerospace goods.

2) Revenue from rendering of services

Revenue from rendering of services comes from aircraft maintenance, logistics management and industrial technology services.

m. Leasing

2019

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

The Company as lessee

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

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

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

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

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term, a change in the amounts expected to be payable under a residual value guarantee, a change in the assessment of an option to purchase an underlying asset, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments, the Company remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the balance sheets.

2018

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

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

n. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

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

o. Government grants

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

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

p. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

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

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

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Company's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

q. Taxation

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

1) Current tax

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

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

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences and unused loss carryforward to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

3) Current and deferred taxes for the year

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Key Sources of Estimation Uncertainty

a. Write-down of inventory

Net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value is based on current market conditions and the historical experience from selling products of a similar nature. Changes in market conditions may have a material impact on the estimation of net realizable value.

b. Estimated of provision

Provision is measured using estimated cash flows needed to settle present obligation. If future cash flows will exceed the estimated amount, then the amount of provision may require material adjustment.

6. CASH

	December 31	
	2019	2018
Cash on hand and petty cash	$ 147	$ 503
Checking accounts and demand deposits	605,140	934,609
	$ 605,287	$ 935,112
Rates of bank balance (%)	0.08-1.58	0.08-1.1

7. FINANCIAL ASSETS AT FVTOCI

	December 31	
	2019	2018
Emerging marked shares		
UHT Unitech Co Ltd. (UHT Ltd.)	$ 53,504	$ 70,400
Unlisted common shares		
Aerovision Avionics Inc. (AAI)	31,684	30,918
Metro Consulting Service Ltd. (Metro Ltd.)	2,146	2,149
	33,830	33,067
	$ 87,334	$ 103,467

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

8. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

	December 31	
	2019	2018
Notes receivable	$ 5,637	$ 2,684
Trade receivables from unrelated parties		
At amortized cost		
Gross carrying amount	$ 13,962,722	$ 15,041,936
Less: Allowance for impairment loss	(4,430)	(5,208)
	$ 13,958,292	$ 15,036,728

	December 31	
	2019	2018
Other receivables		
Tax return receivables	$ 71,382	$ 84,824
Others	10,532	10,517
	$ 81,914	$ 95,341

The average credit period of sales of goods was 60 to 90 days. The Company adopted a policy of only dealing with entities that are rated the equivalent of investment grade or higher and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Credit rating information is obtained from independent rating agencies where available or, if not available, the Company uses other publicly available financial information or its own trading records to rate its major customers. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

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

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

The following table details the loss allowance of note receivable, trade receivables and overdue receivables (accounted at other non-current assets):

	Not Past Due	Less than 90 Days	91 to 180 Days	181 to 365 Days	Over 365 Days	Total
December 31, 2019						
Expected credit loss rate	0%	2%	5%	50%	100%	
Gross carrying amount	$ 13,770,583	$ 193,639	$ 4,137	$ 16,580	$ 6,193	$ 13,991,132
Loss allowance (Lifetime ECL)	-	(4,217)	(213)	(8,507)	(6,193)	(19,130)
Amortized cost	$ 13,770,583	$ 189,422	$ 3,924	$ 8,073	$ -	$ 13,972,002
December 31, 2018						
Expected credit loss rate	0%	2%	5%	50%	100%	
Gross carrying amount	$ 14,801,378	$ 240,577	$ 2,665	$ 2,281	$ 4,687	$ 15,051,588
Loss allowance (Lifetime ECL)	-	(5,075)	(133)	(1,105)	(4,687)	(11,000)
Amortized cost	$ 14,801,378	$ 235,502	$ 2,532	$ 1,176	$ -	$ 15,040,588

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

	For the Year Ended December 31, 2019	
	Trade receivables	Overdue receivables
Balance at January 1, 2019	$ 5,208	$ 5,792
Impairment loss recognized (reversed)	(778)	8,908
Balance at December 31, 2019	$ 4,430	$ 14,700

	For the Year Ended December 31, 2018	
	Trade receivables	Overdue receivables
Balance at January 1, 2018 per IAS 39	$ 2,854	$ 9,651
Adjustment on initial application of IFRS 9	-	-
Balance at January 1, 2018 per IFRS 9	2,854	9,651
Impairment loss recognized (reversed)	2,354	(3,859)
Balance at December 31, 2018	$ 5,208	$ 5,792

9. INVENTORIES

	December 31	
	2019	2018
Raw materials	$ 5,546,698	$ 3,629,155
Work in progress	4,273,336	3,168,886
	$ 9,820,034	$ 6,798,041

The cost of inventories recognized as cost of goods sold was as follows:

	For the Year Ended December 31	
	2019	2018
Recognition (reversal) of inventory write-downs	$ (204,769)	$ 18,044
Indemnity income	(131,655)	(45,219)
Income from sales of scraps	(25,641)	(47,728)
Loss on disposal of inventories	69,384	37,144

Reversal of inventory write-downs were resulting from sold inventories.

10. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31			
	2019		2018	
	Amount	Ownership (%)	Amount	Ownership (%)
Investment in subsidiary				
AIDC USA LLC (AIDC USA)	$ 854,928	100	$ 621,696	100

Refer to "Table 5: Information on Investees" for the nature of activities, principal place of business and country of incorporation of the associates.

The investment accounted for using equity method and the share of profit or loss of the subsidiary were based on the financial statements audited by auditors for the same years.

11. PROPERTY, PLANT AND EQUIPMENT

	For the Year Ended December 31, 2019				
	Balance, Beginning of Year	Additions	Deductions	Reclassification	Balance, End of Year
Cost					
Land improvements	$ 120,739	$ -	$ -	$ -	$ 120,739
Buildings	5,916,217	17,283	(14,329)	45,813	5,964,984
Machinery and equipment	12,769,436	534,444	(89,206)	309,668	13,524,342
Transportation equipment	731,646	10,650	(11,156)	-	731,140
Other equipment	787,422	14,696	(2,647)	6,446	805,917
Property in construction	30,060	286,432	-	(38,509)	277,983
	20,355,520	$ 863,505	$ (117,338)	$ 323,418	21,425,105
Accumulated depreciation					
Land improvements	115,514	$ 1,149	$ -	$ -	116,663
Buildings	2,827,642	181,332	(13,672)	-	2,995,302
Machinery and equipment	7,898,192	712,822	(89,160)	-	8,521,854
Transportation equipment	693,180	11,276	(11,156)	-	693,300
Other equipment	347,319	63,664	(2,647)	-	408,336
	11,881,847	$ 970,243	$ (116,635)	$ -	12,735,455
Impairment					
Buildings	26,258	$ -	$ -	$ -	26,258
Machinery and equipment	95,457	-	-	-	95,457
	121,715	$ -	$ -	$ -	121,715
	$ 8,351,958				$ 8,567,935

	For the Year Ended December 31, 2018				
	Balance, Beginning of Year	Additions	Deductions	Reclassification	Balance, End of Year
Cost					
Land improvements	$ 121,314	$ -	$ (575)	$ -	$ 120,739
Buildings	5,885,214	28,891	-	2,112	5,916,217
Machinery and equipment	12,472,047	428,145	(179,008)	48,252	12,769,436
Transportation equipment	734,031	897	(3,282)	-	731,646
Other equipment	768,409	23,814	(6,147)	1,346	787,422
Property in construction	1,245	30,907	-	(2,092)	30,060
	19,982,260	$ 512,654	$ (189,012)	$ 49,618	20,355,520
Accumulated depreciation					
Land improvements	114,522	$ 1,555	$ (563)	$ -	115,514
Buildings	2,649,893	177,749	-	-	2,827,642
Machinery and equipment	7,403,704	665,223	(170,735)	-	7,898,192
Transportation equipment	682,994	13,468	(3,282)	-	693,180
Other equipment	291,813	61,636	(6,130)	-	347,319
	11,142,926	$ 919,631	$ (180,710)	$ -	11,881,847
Impairment					
Buildings	26,258	$ -	$ -	$ -	26,258
Machinery and equipment	95,457	-	-	-	95,457
	121,715	$ -	$ -	$ -	121,715
	$ 8,717,619				$ 8,351,958

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

Land improvements	2-50 years
Buildings	
Main buildings	20-45 years
Others	3-60 years
Machinery and equipment	2-40 years
Transportation equipment	2-15 years
Other equipment	2-15 years

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

12. LEASE ARRANGEMENTS

a. Right-of-use assets - 2019

	December 31, 2019
Carrying amounts	
Land	$ 2,260,856
Buildings	8,946
Machinery and equipment	12,575
Other equipment	5,840
	$ 2,288,217

	For the Year Ended December 31, 2019
Additions to right-of-use assets	$ 31,511
Depreciation charge for right-of-use assets	
Land	$ 142,956
Buildings	4,469
Machinery and equipment	1,576
Other equipment	599
	$ 149,600

b. Lease liabilities - 2019

	December 31, 2019
Carrying amounts	
Current	$ 139,577
Non-current	$ 2,164,988

Range of discount rate for lease liabilities was as follows:

	December 31, 2019
Land	1.6%
Buildings	1.6%
Machinery and equipment	1.6%
Other equipment	1.6%

c. Material lease-in activities and terms

The Company leases land and buildings for the use of plants and office with lease terms of 2 to 42 years.

d. Other lease information

2019

	For the Year Ended December 31, 2019
Expenses relating to short-term leases	$ 28,941
Expenses relating to low-value asset leases	$ 781
Total cash outflow for leases	$ (162,579)

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

2018

The future minimum lease payments of non-cancellable operating lease commitments are as follows:

	December 31, 2018
Not later than 1 year	$ 164,186

13. INTANGIBLE ASSETS

	December 31	
	2019	2018
Other intangible assets		
Computer software	$ 121,365	$ 113,492
Deferred technical cooperation expenses	24,017	30,262
Patent	859	899
Trademark	124	175
	146,365	144,828
Developing intangible assets		
Projects non-recurring costs	1,100,491	722,957
	$ 1,246,856	$ 867,785

	Other Intangible Assets	Developing Intangible Assets
Cost		
Balance at January 1, 2019	$ 1,006,992	$ 6,090,547
Additions from internal developments	-	243,982
Additions	58,451	-
Disposals	(21)	(2,937)
Reclassification	28,360	359,361
Balance at December 31, 2019	$ 1,093,782	$ 6,690,953
Accumulated amortization and impairment		
Balance at January 1, 2019	$ 862,164	$ 5,367,590
Amortization expense	85,255	203,728
Disposals	(2)	(2,937)
Reclassification	-	22,081
Balance at December 31, 2019	$ 947,417	$ 5,590,462
Carrying amounts at December 31, 2019	$ 146,365	$ 1,100,491
Cost		
Balance at January 1, 2018	$ 944,254	$ 5,857,993
Additions	-	232,554
Additions from internal developments	65,354	-
Disposals	(6,913)	-
Reclassification	4,297	-
Balance at December 31, 2018	$ 1,006,992	$ 6,090,547
Accumulated amortization and impairment		
Balance at January 1, 2018	$ 792,280	$ 5,009,563
Amortization expense	76,797	356,027
Disposals	(6,913)	-
Impairment loss recognized in profit and loss	-	2,000
Balance at December 31, 2018	$ 862,164	$ 5,367,590
Carrying amounts at December 31, 2018	$ 144,828	$ 722,957

Projects non-recurring costs include the costs related to product design, tooling design and fabrication, production planning, specimen and prototype trial fabrication. Deferred technical cooperation expenses include the participation fees or royalties for participation in international cooperation and development of new business. The amounts were allocated by the proportion of actual sales volume divided by expected sales volume.

The above items of intangible assets are amortized on a straight-line basis over the estimated useful life of the asset:

Trademark	10-15 years
Patent	10-20 years
Computer software	2-3 years

14. OTHER FINANCIAL ASSETS

Other financial assets are the time deposits with original maturities over three months from the date of acquisition; for pledged assets information, refer to Note 29. The market rates of the time deposits in the years of 2019 and 2018 were 0.28%-2.73% and 0.28%-3%, respectively.

15. OTHER ASSETS

	December 31	
	2019	2018
Current		
Prepayment	$ 4,481,443	$ 3,801,020
Others	105,252	69,833
	$ 4,586,695	$ 3,870,853
Non-current		
Overdue receivables (Note 8)	$ 22,773	$ 6,968
Less: Allowance for impairment loss	(14,700)	(5,792)
	8,073	1,176
Refundable deposits	34,913	21,624
Others	23,324	181,477
	$ 66,310	$ 204,277

16. BORROWINGS

a. Short-term borrowings

	December 31	
	2019	2018
Credit borrowings	$ 3,920,000	$ 7,730,000
Secured borrowings (Note 29)	1,000,000	-
	$ 4,920,000	$ 7,730,000
Rates of interest per annum (%)		
Credit borrowings	0.85-0.899	0.86-1.5
Secured borrowings	0.78	-

b. Short-term bills payable

	December 31	
	2019	2018
Commercial paper	$ 8,360,000	$ 2,500,000
Less: Unamortized discount on bills payable	(2,745)	(425)
	$ 8,357,255	$ 2,499,575
Rate of interest per annum (%)	0.64-0.77	0.53-0.77

c. Long-term borrowings

	December 31	
	2019	2018
Credit borrowings	$ 4,128,299	$ 6,327,635
Secured borrowings (Note 29)	1,800,000	1,800,000
	5,928,299	8,127,635
Less: Current portion	-	(5,289,606)
Long-term borrowings	$ 5,928,299	$ 2,838,029
Rates of interest per annum (%)		
Credit borrowings	0.85-1.11	0.85-1.13
Secured borrowings	0.78	0.78

17. BONDS PAYABLE

	December 31	
	2019	2018
Unsecured domestic bonds	$ 3,000,000	$ -
Less: Unamortized discount on bonds payable	(3,790)	-
	$ 2,996,210	$ -

In September 2019, the Company issued a 5-year NTD-denominated unsecured bonds of $3,000,000 thousand at 0.71% in Taiwan. An interest per annum will be paid at the simple coupon rate, and the repayment is due 5 years from the date of issuance.

18. OTHER PAYABLES

	December 31	
	2019	2018
Payable for salaries and bonuses	$ 1,388,271	$ 1,445,655
Payable for outsourcing	923,504	751,905
Payable for purchase of equipment	271,891	229,855
Payable for annual leave	165,988	105,964
Payable for employee's compensation and remuneration of directors	120,294	136,404
Payable for service fee	88,290	138,807
Others	642,813	703,906
	$ 3,601,051	$ 3,512,496

19. PROVISIONS - NON-CURRENT

	December 31	
	2019	2018
Warranties	$ 452,186	$ 656,794
Others	99,367	114,273
	$ 551,553	$ 771,067

The provision for warranty claims represents the present value of management's best estimate of the future outflow of economic benefits that will be required under the Company's obligations for warranties under local sale of goods legislation. The estimate had been made on the basis of historical warranty trends and may vary as a result of other events affecting product quality.

Others refer to the obligation of the Company to improve its Taichung Complex groundwater pollution remediation site as ordered by the Environmental Protection Administration. The Company has the obligation to improve this site and recognized the discounted value of the best estimate of the remediation expenses as provisions.

20. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

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

b. Defined benefit plans

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contributes to a pension fund administered by the pension fund monitoring committee; the amounts of contributions were equal to 16.29% and 16.31% of total monthly salaries and wages for the years ended December 31, 2019 and 2018, respectively. Pension contributions are deposited in the Bank of Taiwan in the committee's name and are managed by the Bureau of Labor Funds, Ministry of Labor. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The Company has no right to influence the investment policy and strategy.

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

	December 31	
	2019	2018
Present value of defined benefit obligation	$ 2,245,092	$ 1,889,063
Fair value of plan assets	(2,183,279)	(1,806,616)
Net defined benefit liabilities	$ 61,813	$ 82,447

Movements in net defined benefit liabilities were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Balance at January 1, 2018	$ 1,425,694	$ (1,392,272)	$ 33,422
Service cost			
Current service cost	411,360	-	411,360
Net interest expense (income)	12,043	(13,501)	(1,458)
Recognized in profit or loss	423,403	(13,501)	409,902
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(36,999)	(36,999)
Actuarial gain - changes in financial assumptions	(8,854)	-	(8,854)
Actuarial loss - experience adjustments	94,878	-	94,878
Recognized in other comprehensive income (loss)	86,024	(36,999)	49,025
Contributions from the employer	-	(409,902)	(409,902)
Benefits paid	(46,058)	46,058	-
Balance at December 31, 2018	1,889,063	(1,806,616)	82,447
Service cost			
Current service cost	423,927	-	423,927
Net interest expense (income)	16,545	(17,706)	(1,161)
Recognized in profit or loss	440,472	(17,706)	422,766
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(57,238)	(57,238)
Actuarial loss - changes in financial assumptions	38,202	-	38,202
Actuarial gain - experience adjustments	(1,598)	-	(1,598)
Recognized in other comprehensive income (loss)	36,604	(57,238)	(20,634)

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Contributions from the employer	$ -	$ (422,766)	$ (422,766)
Benefits paid	(121,047)	121,047	-
Balance at December 31, 2019	$ 2,245,092	$ (2,183,279)	$ 61,813

(Concluded)

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

1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau of Pension Fund or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

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

	December 31	
	2019	2018
Discount rate(s)	0.65%	0.90%
Expected rate(s) of salary increase	1.50%	1.50%

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

	December 31	
	2019	2018
Discount rate(s)		
0.25% increase	$ (39,049)	$ (35,718)
0.25% decrease	$ 40,049	$ 36,687
Expected rate(s) of salary increase		
0.25% increase	$ 39,610	$ 36,376
0.25% decrease	$ (38,820)	$ (35,596)

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

	December 31	
	2019	2018
The expected contributions to the plan for the next year	$ 410,076	$ 422,766
The average duration of the defined benefit obligation	6.9 years	7.55 years

21. EQUITY

a. Ordinary shares

	December 31	
	2019	2018
Number of shares authorized (in thousands)	1,500,000	1,500,000
Shares authorized	$ 15,000,000	$ 15,000,000
Number of shares issued and fully paid (in thousands)	941,867	941,867
Shares issued	$ 9,418,671	$ 9,418,671

b. Retained earnings and dividend policy

The Company's Articles of Incorporation provide that the annual net income after paying income tax should be used first to make up for prior years' losses, set aside 10% as a legal reserve and appropriate or reverse special reserve. The residual earnings will be allocated by the resolution in the shareholders' meeting. For information about the accrual basis of the employees' compensation and remuneration of directors and supervisors and the actual appropriations, please refer to Note 23 (d).

Profits of the Company may be distributed by way of cash dividend or share dividend. Distribution of profits shall be made preferably by way of cash dividend. However, the ratio of share dividend shall not exceed 50% of total distribution.

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

Under Rule No. 1010012865 and Rule No. 1010047490 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", the Company should appropriate or reverse special reserve.

The appropriations of earnings for 2018 and 2017 which were approved in the shareholders' meeting on May 31, 2019 and June 26, 2018, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share (NT$)	
	2018	2017	2018	2017
Legal reserve	$ 207,007	$ 171,192		
Special reserve	588,848	460,153		
Cash dividends	1,262,102	1,064,310	$ 1.34	$ 1.13

The appropriations of earnings for 2019 were proposed by the Company's board of directors on March 27, 2020. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT$)
Legal reserve	$ 189,079	
Special reserve	29,809	
Reverse special reserve	(621,020)	
Cash dividends	1,120,822	$ 1.19

The appropriations of earnings for 2019 are subject to the resolution of the shareholders' meeting to be held in May 2020.

22. REVENUE

	For the Year Ended December 31	
	2019	2018
Aircraft/vehicle maintenance	$ 16,072,427	$ 15,964,570
Aero/industrial engine	11,917,333	11,818,385
Industrial technology services	525,859	373,189
	$ 28,515,619	$ 28,156,144

23. NET PROFIT

a. Other income

	For the Year Ended December 31	
	2019	2018
Interest income	$ 101,312	$ 58,743
Remedy income	41,055	37,224
Other income from condoned liabilities	13,842	11,080
Others	72,339	81,618
	$ 228,548	$ 188,665

b. Other gains and losses

	For the Year Ended December 31	
	2019	2018
Net foreign exchange gains (losses)	$ (209,592)	$ 213,750
Gain (loss) on disposal of property, plant and equipment	(669)	812
Impairment loss	-	(2,000)
Others	(196,992)	(197,126)
	$ (407,253)	$ 15,436

c. Employee benefits, depreciation and amortization

	Operating Cost	Operating Expense	Non-operating Expense	Transfer to Developing Intangible Assets	Capital cost	Total
For the Year Ended December 31, 2019						
Employee benefits expense						
Salaries expense	$ 4,807,978	$ 533,552	$ 10,489	$ 62,830	$ 5,370	$ 5,420,219
Retirement benefit						
Defined contribution plans	78,431	10,905	162	1,306	121	90,925
Defined benefit plans	364,675	50,704	751	6,071	565	422,766
Remuneration of directors	-	15,695	-	-	-	15,695
Labor and health insurance	310,552	32,596	62,588	4,249	386	410,371
Other employee benefits	48,235	5,033	9,598	62	6	62,934
Depreciation expense	1,002,424	61,428	23,424	30,600	1,967	1,119,843
Amortization expense	289,597	14,555	30	11,527	65	315,774
For the Year Ended December 31, 2018						
Employee benefits expense						
Salaries expense	4,834,015	529,282	12,699	60,698	112	5,436,806
Retirement benefit						
Defined contribution plans	70,009	9,111	150	1,104	2	80,376
Defined benefit plans	357,030	46,465	767	5,629	11	409,902
Remuneration of directors	-	17,375	-	-	-	17,375
Labor and health insurance	299,810	29,952	60,596	4,013	8	394,379
Other employee benefits	54,572	5,428	10,909	55	-	70,964
Depreciation expense	828,360	51,465	20,162	19,618	26	919,631
Amortization expense	433,658	10,580	39	8,642	1	452,920

In 2019 and 2018, the Company's average number of employees was 5,175 and 5,140, respectively, and there were 7 and 6 non-employee directors. The head count basis was the same as the basis of employee benefits expense.

In 2019 and 2018, the Company's average employee benefits expense was $1,240 thousand and $1,245 thousand, respectively, and the average employee salary expense was $1,049 thousand and $1,059 thousand, respectively. The average employee salary decreased by 0.9% in 2019.

d. Employees' compensation and remuneration of directors

The Company stipulate distribution of employees' compensation and remuneration of directors at the rates no less than 0.58% and no higher than 4.65%, respectively, of net profit before income tax.

The employees' compensation and remuneration of directors for 2019 and 2018 which were resolved by the board of directors on March 27, 2020 and March 28, 2019 were as follows:

	For the Year Ended December 31			
	2019		2018	
	The Proportion of Estimate	Amount of Money	The Proportion of Estimate	Amount of Money
Employees' compensation	4.65%	$ 106,953	4.65%	$ 121,277
Remuneration of directors	0.58%	13,341	0.58%	15,127

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

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

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

e. Gain or loss on foreign currency exchange

	For the Year Ended December 31	
	2019	2018
Foreign exchange gains	$ 199,440	$ 521,564
Foreign exchange losses	(409,032)	(307,814)
Net gains (losses)	$ (209,592)	$ 213,750

f. Finance costs

Information about capitalized interest is as follows:

	For the Year Ended December 31	
	2019	2018
Capitalized interest amount	$ 851	$ -
Capitalization rate (%)	0.83-1.11	-

24. TAXES

a. Tax expense recognized in profit or loss

Major components of tax expense is as follows:

	For the Year Ended December 31	
	2019	2018
Current tax		
In respect of the current year	$ 392,340	$ 402,234
Income tax on unappropriated earnings	30,843	43,539
Adjustments for prior years	496	(4,022)
Investment credits	(24,645)	-
	399,034	441,751
Deferred tax		
In respect of the current year	26,752	123,392
Adjustments to deferred tax attributable to change in tax rates and laws	-	(49,060)
	26,752	74,332
Income tax expense recognized in profit or loss	$ 425,786	$ 516,083

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

	For the Year Ended December 31	
	2019	2018
Income tax expense calculated at the statutory rate	$ 460,014	$ 521,620
Nondeductible expenses in determining taxable income	56	123
Tax-exempt income	(27)	(18)
Income tax on unappropriated earnings	30,843	43,539
Temporary differences	(40,951)	3,901
Investment credits	(24,645)	-
Adjustments to deferred tax attributable to change in tax rates and laws	-	(49,060)
Adjustments for prior years' tax	496	(4,022)
Income tax expense recognized in profit or loss	$ 425,786	$ 516,083

The Income Tax Act in the ROC was amended in 2018 and the corporate income tax rate was adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings was reduced from 10% to 5%.

According to the "Regulations Governing Application of Tax Credits for Corporate or Limited Partnership in Smart Machines and 5th Generation Mobile Networks", the Company deducted the value of profitable business for the year ended December 31, 2019 within the 5% limit of the investment in smart machinery and did not exceed 30% of the income from profit-making business for the year ended December 31, 2019.

As the status of the 2020 appropriation of earnings is uncertain, the potential income tax consequences of the 2019 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income (loss)

	For the Year Ended December 31	
	2019	2018
Deferred tax		
Remeasurement of defined benefit plan	$ 4,127	$ (10,808)

c. Deferred tax assets and liabilities

	For the Year Ended December 31, 2019			
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income (Loss)	Closing Balance
Deferred tax assets				
Temporary differences				
Provisions	$ 154,215	$ (43,904)	$ -	$ 110,311
Intangible assets	68,935	-	-	68,935
Property plant and equipment	24,343	-	-	24,343
Payable for annual leave	21,192	12,005	-	33,197
Defined benefit plan	16,490	-	(4,127)	12,363
Unrealized loss on foreign currency exchange	171	52,539	-	52,710
Right-of-use assets	-	3,270	-	3,270
Other	-	502	-	502
	$ 285,346	$ 24,412	$ (4,127)	$ 305,631
Deferred tax liabilities				
Temporary differences				
Investment accounted for using equity method	$ 65,179	$ 51,164	$ -	$ 116,343

	For the Year Ended December 31, 2018			
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income (Loss)	Closing Balance
Deferred tax assets				
Temporary differences				
Provisions	$ 159,655	$ (5,440)	$ -	$ 154,215
Intangible assets	58,254	10,681	-	68,935
Unrealized loss on foreign currency exchange	42,851	(42,680)	-	171
Property plant and equipment	20,692	3,651	-	24,343
Payable for annual leave	18,190	3,002	-	21,192
Defined benefit plan	5,682	-	10,808	16,490
	$ 305,324	$ (30,786)	$ 10,808	$ 285,346
Deferred tax liabilities				
Temporary differences				
Investment accounted for using equity method	$ 21,633	$ 43,546	$ -	$ 65,179

d. Deductible temporary differences for which no deferred tax assets have been recognized in the balance sheets

	December 31	
	2019	2018
Deductible temporary differences		
Inventories	$ 1,955,953	$ 2,160,722

e. Income tax assessments

Income tax returns of the Company through 2017 have been examined and cleared by the tax authorities.

25. EARNINGS PER SHARE

Unit: NT$ Per Share

	For the Year Ended December 31	
	2019	2018
Basic earnings per share	$ 1.99	$ 2.22
Diluted earnings per share	$ 1.98	$ 2.21

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

	For the Year Ended December 31	
	2019	2018
Net Profit for the Year		
Earnings used in the computation of basic earnings per share (Earnings used in the computation of diluted earnings per share)	$ 1,874,287	$ 2,092,016
Weighted average number of ordinary shares outstanding (in thousand shares)		
Weighted average number of ordinary shares in computation of basic earnings per share	941,867	941,867
Effect of potentially dilutive ordinary shares		
Employees' compensation issue to employees	3,919	4,689
Weighted average number of ordinary shares used in the computation of diluted earnings per share	945,786	946,556

If the Company's compensation or bonuses payable to employees can be settled in cash or shares, then the Company should assume the entire amount of the compensation or bonuses will be settled in shares, and the resulting potential shares, if dilutive, should be included in the weighted average number of shares outstanding used in the computation of diluted earnings per share. Such dilutive effect of the potential shares should be included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

26. CAPITAL MANAGEMENT

The Company must maintain adequate capital necessary for profitable operations and business expansion, equipment upgrade and participation in international new aircraft developing. Therefore, the Company manages its capital to ensure that the Company will have enough financial resources to respond accordingly to its working capital requirements at least for the next 12 months, capital expenditures, participation in international new aircraft developing and repayments of liabilities.

The capital structure of the Company consists of net debt (borrowings offset by cash and other financial assets) and equity (comprising ordinary shares, retained earnings and other equity).

27. FINANCIAL INSTRUMENTS

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

The management considers the carrying amounts of financial assets and financial liabilities recognized in the financial statements approximate their fair values or their fair values cannot be reliably measured.

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

1) Fair value hierarchy

	Level 1	Level 2	Level 3	Total
December 31, 2019				
Financial assets at FVTOCI				
Investments in equity instruments				
Emerging market shares	$ 53,504	$ -	$ -	$ 53,504
Unlisted shares	-	-	33,830	33,830
	$ 53,504	$ -	$ 33,830	$ 87,334
December 31, 2018				
Financial assets at FVTOCI				
Investments in equity instruments				
Emerging market shares	$ 70,400	$ -	$ -	$ 70,400
Unlisted shares	-	-	33,067	33,067
	$ 70,400	$ -	$ 33,067	$ 103,467

There were no transfers between Levels 1 and 2 for the years ended December 31, 2019 and 2018, respectively.

2) Reconciliation of Level 3 fair value measurements of financial instruments

Financial Assets	Financial Assets at FVTOCI Equity Instruments
For the Year Ended December 31, 2019	
Balance at January 1, 2019	$ 33,067
Recognized in other comprehensive gain	763
Balance at December 31, 2019	$ 33,830
For the Year Ended December 31, 2018	
Balance at January 1, 2018	$ 33,848
Recognized in other comprehensive loss	(781)
Balance at December 31, 2018	$ 33,067

3) Valuation techniques and inputs applied for Level 3 fair value measurement

The marketable securities of unlisted shares held the Company is estimated using the evaluation method, when there is no market price for reference. The fair value of unlisted shares was evaluated using asset-based approach of the investees.

c. Categories of financial instruments

	December 31	
	2019	2018
Financial assets		
Financial assets at amortized cost	$ 17,772,056	$ 18,342,405
Investments in equity instruments at FVTOCI - non-current	87,334	103,467
Financial liabilities		
Financial liabilities at amortized cost	25,843,990	22,747,217

Financial assets at amortized cost comprise cash, notes receivable, trade receivables, other receivables, overdue receivables, other financial assets and refundable deposits.

Financial liabilities at amortized cost comprise short-term borrowings, short-term bills payable, trade payables, other payables (excluded payable for salaries and bonuses, payable for annual leave and payable for employee's compensation and remuneration of directors), bonds payable, other financial liabilities (accounted at other current liabilities), long-term borrowings (included not later than one year) and guarantee deposits.

d. Financial risk management objectives

The Company's major financial risk management objectives are to manage the market risk (including currency risk and interest rate risk), credit risk and liquidity risk of operating activities. The Company minimizes the unfavorable effects of these risks by identification and assessment of the risks and by applying aversion methods to the uncertainties.

The Company's financial targets including its investment plan for fixed assets are laid out in its "Five-Year Business Plan". The financial plan includes risk management policies and the division of responsibilities.

The Company's major financial instruments include cash, trade receivable, short-term borrowings, trade payables, bonds payable and long-term borrowings. The financial department coordinates access to domestic financial markets.

1) Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

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

Foreign currency risk

The Company minimizes its currency exposure by natural hedging. Foreign currency operation performance is reported to the key management personnel every quarter and the expected foreign currency and operation direction are set for the next quarter.

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

Sensitivity analysis

The Company was mainly exposed to the US dollar. The Company's sensitivity to a 0.5% stronger or weaker New Taiwan dollar against the relevant foreign currencies means profit before income tax would be increase/decrease by $49,871 thousand and $48,356 thousand for the years ended December 31, 2019 and 2018, respectively. The sensitivity rate of 0.5% represents the management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items, with the foreign currency rates at the end of the reporting period adjusted for a 0.5% change.

Interest rate risk

The Company's interest risk is evaluated in terms of short-term borrowings; short-term bills payable, long-term borrowings and lease liabilities. Borrowing and repayment require budget planning in advance to control the interest risk. Interest rates of short-term loans from different financial organizations are compared and lowest one will be selected.

Sensitivity analysis

If interest rates had been 25 basis points higher/lower and all other variables were held constant, the Company's pre-tax profit for the years ended December 31, 2019 and 2018 would decrease/increase by $20,121 thousand and $33,394 thousand, respectively, which was mainly attributable to the Company's exposure to interest rates on its variable-rate bank borrowings. 25 basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The possible financial loss would equal to the carrying amount of the recognized financial assets as stated in the balance sheets. However, the Company is executing forward exchange only with the correspondent financial institutions, and they are creditworthy with no credit risks.

The Company's dealing counterparties are national defence organizations and international aerospace corporations, and they are creditworthy with extreme low risk of bankruptcy. The Company's key management checks the accounts receivable every month, and instructs the project team to collect the past due amounts.

The Company's concentration of credit risk by geographical location was mainly in the United States, which accounted for 41% and 40% of the total trade receivable as of December 31, 2019 and 2018, respectively.

3) Liquidity risk

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

The Company relies on bank borrowings as a significant source of liquidity. As of December 31, 2019 and 2018, the Company had available unutilized bank loan facilities as set out in (b) below.

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

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

Non-derivative financial liabilities	Less than 1 Year	1 to 5 Year	More than 5 Year
December 31, 2019			
Non-interest bearing liabilities	$ 3,427,835	$ 214,391	$ -
Lease liabilities	176,050	837,153	1,858,343
Variable interest rate liabilities	2,120,000	5,928,299	-
Fixed interest rate liabilities	11,160,000	3,000,000	-
	$ 16,883,885	$ 9,979,843	$ 1,858,343
December 31, 2018			
Non-interest bearing liabilities	$ 4,184,267	$ 205,740	$ -
Variable interest rate liabilities	10,519,606	2,838,029	-
Fixed interest rate liabilities	5,000,000	-	-
	$ 19,703,873	$ 3,043,769	$ -

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities are subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

b) Financing facilities (reviewed annually)

	December 31 2019	2018
Unsecured bank overdraft facility:		
Amount unused	$ 13,832,767	$ 4,975,573
Secured bank loan facilities:		
Amount unused	$ -	$ 1,000,000

28. TRANSACTIONS WITH RELATED PARTIES

Details of transactions between the Company and related parties are disclosed below.

a. Related Party Categories / Names

Related Party Name	Relationship with the Company
AIDC USA	Subsidiary
ITEC	Associate
Ministry of Economic Affairs	Corporate director

b. Sales of goods

Related Parties Name	For the Year Ended December 31 2019	2018
ITEC	$ 780,213	$ 1,228,336

The Company's sales prices are based on the contracts. The collection terms are as follows:

Item	Collection terms
Engine	90 days after the invoice date
Backup parts	Offset account receivables with account payable

There is no unrelated party with similar product item to compare the engine sales price. The backup parts are only directly sold to the ROC Air Force, and the sales price is according to the purchase contract with related party plus the processing fee agreed by both parties, and collection term is 1-2 months.

c. Purchase of goods

Related Parties Name	For the Year Ended December 31 2019	2018
ITEC	$ 1,258,093	$ 924,826
AIDC USA	1,614	706
	$ 1,259,707	$ 925,532

The Company's buying prices from related party are based on contract. The payment term in principle is 1-2 months or paying after offset of accounts receivable. There are no unrelated parties with similar product items that can serve as basis of comparison of prices and terms.

d. Manufacturing expenses

Related Parties Name	For the Year Ended December 31 2019	2018
ITEC	$ 754,238	$ 487,619
AIDC USA	31,086	16,915
	$ 785,324	$ 504,534

e. Operation expenses

Related Parties Name	For the Year Ended December 31 2019	2018
AIDC USA	$ 21,259	$ 18,651

f. Receivable from related parties

Related Parties Name	December 31 2019	2018
ITEC	$ 128,327	$ 306,833

The outstanding trade receivables from related parties are unsecured. No impairment loss and expected credit loss were recognized on trade receivables from related parties.

g. Other current assets

Related Parties Name	December 31 2019	2018
ITEC	$ 848,582	$ 796,598

h. Payable to related parties

Related Parties Name	December 31 2019	2018
ITEC	$ 79,880	$ 294,289

The outstanding trade payables to related parties are unsecured.

i. Other payables

Related Parties Name	December 31 2019	2018
ITEC	$ 14,977	$ 90,391
AIDC USA	5,962	3,057
	$ 20,939	$ 93,448

j. Compensation of key management personnel

	For the Year Ended December 31 2019	2018
Short-term benefits	$ 30,311	$ 30,219
Post-employment benefits	4,612	1,279
	$ 34,923	$ 31,498

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

29. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following other financial assets and property, plant and equipment were provided as collateral for bank borrowings and obligation:

	December 31 2019	2018
Property, plant and equipment	$ 2,049,647	$ 2,121,409
Other financial assets - Current	2,910,045	1,860,093
Other financial assets - Non-current	14,054	10,807
	$ 4,973,746	$ 3,992,309

30. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Company were as follows:

a. As of December 31, 2019 and 2018, unused letters of credit for purchases of raw materials and machinery and equipment amounted to approximately $519,571 thousand and $114,076 thousand, respectively.

b. As of December 31, 2019 and 2018, unpaid contract for purchases of raw materials and machinery and equipment amounted to approximately $35,452,777 thousand and $36,761,294 thousand, respectively.

31. EXCHANGE RATE OF FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Company's significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies and the related exchange rates between foreign currencies and respective functional currencies were as follows:

	December 31					
	2019			2018		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
Assets						
Monetary items						
USD	$ 339,937	29.98	$ 10,191,311	$ 323,600	30.715	$ 9,939,374
Non-monetary items						
USD	28,517	29.98	854,928	20,241	30.715	621,696
Liabilities						
Monetary items						
USD	7,241	29.98	217,085	8,732	30.715	268,203

The significant unrealized foreign exchange gains (losses) were as follows:

	For the Year Ended December 31			
	2019		2018	
Foreign Currencies	Exchange Rate	Net Foreign Exchange Loss	Exchange Rate	Net Foreign Exchange Loss
USD	29.98	$(268,468)	30.715	$ (1,035)

32. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

1) Financing provided to others. (None)

2) Endorsements/guarantees provided. (None)

3) Marketable securities held (excluding investment in subsidiaries, associates and joint controlled entities). (Table 1)

4) Marketable securities acquired and disposed at costs or prices at least $300 million or 20% of the paid-in capital. (None)

5) Acquisition of individual real estate at costs of at least $300 million or 20% of the paid-in capital. (Table 2)

6) Disposal of individual real estate at prices of at least $300 million or 20% of the paid-in capital. (None)

7) Total purchases from or sales to related parties amounting to at least $100 million or 20% of the paid-in capital. (Table 3)

8) Receivables from related parties amounting to at least $100 million or 20% of the paid-in capital. (Table 4)

9) Trading in derivative instruments. (None)

10) Information on investees. (Table 5)

b. Information on investments in mainland China. (None)

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2019			
				Number of Shares	Carrying Value	Percentage of Ownership	Fair Value
The Company	Share capital						
	UHT Ltd.	-	Financial assets at FVTOCI - non-current	1,100	$ 53,504	3.15%	$ 53,504
	AAI	The Company is a corporate director	Financial assets at FVTOCI - non-current	4,968	31,684	13.09%	31,684
	Metro Ltd.	The Company is a corporate director	Financial assets at FVTOCI - non-current	300	2,146	6%	2,146

TABLE 2

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COST FOR AT LEAST NT$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Buyer	Property	Event Date	Transaction Amount	Payment Status	Counterparty	Relationship	Information on Previous Title Transfer If Counterparty Is A Related Party				Pricing Reference	Purpose of Acquisition	Other Terms
							Property Owner	Relationship	Transaction Date	Amount			
The Company	Building	2019.4.17	$ 705,714	Payment after each construction inspection	TAI JHOU CONSTRUCTION CO.	-	N/A	N/A	N/A	N/A	Price comparison and negotiation	Production	None

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

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

Purchaser or Seller	Related Party	Nature of Relationship with the Purchaser or Seller	Transaction Details				Abnormal Transaction		Notes and Accounts Receivable (Payable)		Note
			Purchase (Sale)	Amount	% to Total	Collection Terms	Unit Price	Collection Terms	Ending Balance	% to Total	
The Company	ITEC	Associate	Sale	$ (780,213)	(3)	Note	Note	Note	$ 128,327	1	
			Purchase	1,258,093	8	Note	Note	Note	(79,880)	(5)	

Note: Information is provided in Note 28.

TABLE 4

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Actions Taken		
The Company	ITEC	Associate	$ 128,327	3.59	$ -	-	$ 101,520	$ -

TABLE 5

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

INFORMATION ON INVESTEES
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2019			Net Income of the Investee	Share of Profits	Note
				December 31, 2019	December 31, 2018	Shares	%	Carrying Amount			
The Company	AIDC USA	State of Delaware USA	Provide program management and relevant services for purchasing and selling raw materials, parts and components of aircraft, engines and subsystems.	$ 288,661	$ 288,661	-	100	$ 854,928	$ 255,822	$ 255,822	Subsidiary
AIDC USA	ITEC	State of Delaware USA	Development production and remodel of aircraft	728	728	-	22.05	838,039	1,463,216	322,639	Associate

7. Insolvency and the Effect on the Financial Position of the Company: There is no insolvency to the Company and its affiliated enterprises in previous year to the date this report was printed, and there is no effect on the financial position of the Company.

VII. Financial Position and Review of Financial Performance and Risk

1. Review and Analysis of Financial Position:

1.1 Review and Analysis of Consolidated Financial Position:

Unit：NT$ thousands

Fiscal Year / Title	2018	2019	Difference	
			Amount	%
Current Assets	29,014,820	32,154,259	3,139,439	10.82
Real Properties, Plant and Equipment	8,352,719	8,568,418	215,699	2.58
Intangible Assets	867,785	1,246,970	379,185	43.70
Other Assets (Note 2)	1,584,230	4,117,789	2,533,559	159.92
Total Assets	39,819,554	46,087,436	6,267,882	15.74
Current Liabilities	21,805,607	19,389,351	(2,416,256)	(11.08)
Noncurrent Liability	3,880,330	11,974,499	8,094,169	208.59
Total Liabilities	25,685,937	31,363,850	5,677,913	22.11
Capital Stock	9,418,671	9,418,671	0	0.00
Retained Earnings	4,706,032	5,334,724	628,692	13.36
Other Equity	8,914	(29,809)	(38,723)	434.41
Total Equity	14,133,617	14,723,586	589,969	4.17

Significant changes in the components of assets, liabilities and shareholders' equity (change in 10% of more and the amount changed approximated NTD 10 million) in the last 2 years, the main causes and the effect, and the plan for responding to the changes are specified below:

1. Increase of intangible assets: mainly because of the increase in NRC capitalization.
2. Increase of other assets: mainly because of the adoption of equity methods for AIDC USA LLC investment to ITEC, and application of right-to-use assets in lease chapter of IFRS16 since 2019.
3. Increase of noncurrent liability and total liabilities: mainly because of increase in long term borrowing and issuing corporate bonds for business and capital purposes, and application of liability in lease chapter of IFRS16 since 2019.
4. Increase of other equity: mainly because of exchange loss caused by fluctuations of USD exchange rate in AIDC USA LLC financial report.

Note 1: The comparison is made by the audited figures in accordance with IFRSs in FY 2018-2019.

Note 2: Other assets include fair value through other comprehensive income noncurrent financial assets, noncurrent financial assets at cost, investment accounted for under the equity method, right-of-use assets, deferred income tax assets, prepayments for equipment, other noncurrent financial assets and other noncurrent assets.

1.2 Review and Analysis of Individual Company Financial Position:

Unit：NT$ thousands

Fiscal Year / Title	2018	2019	Difference	
			Amount	%
Current Assets	28,977,692	32,121,745	3,144,053	10.85
Real Properties, Plant and Equipment	8,351,958	8,567,935	215,977	2.59
Intangible Assets	867,785	1,246,856	379,071	43.68
Other Assets (Note 2)	1,602,010	4,130,114	2,528,104	157.81
Total Assets	39,799,445	46,066,650	6,267,205	15.75
Current Liabilities	21,785,498	19,371,001	(2,414,497)	(11.08)

Title \ Fiscal Year	2018	2019	Difference	
			Amount	%
Noncurrent Liability	3,880,330	11,972,063	8,091,733	208.53
Total Liabilities	25,665,828	31,343,064	5,677,236	22.12
Capital Stock	9,418,671	9,418,671	0	0.00
Retained Earnings	4,706,032	5,334,724	628,692	13.36
Other Equity	8,914	(29,809)	(38,723)	434.41
Total Equity	14,133,617	14,723,586	589,969	4.17

Significant changes in the components of assets, liabilities and shareholders' equity (change in 10% of more and the amount changed approximated NTD 10 million) in the last 2 years, the main causes and the effect, and the plan for responding to the changes are specified below:

1. Increase of intangible assets: mainly because of the increase in NRC capitalization.
2. Increase of other assets: mainly because of the adoption of equity methods for AIDC USA LLC investment to ITEC, and application of right-to-use assets in lease chapter of IFRS16 since 2019.
3. Increase of noncurrent liability and total liabilities: mainly because of increase in long term borrowing and issuing corporate bonds for business and capital purposes, and application of liability in lease chapter of IFRS16 since 2019.
4. Increase of other equity: mainly because of exchange loss caused by fluctuations of USD exchange rate in AIDC USA LLC financial report.

Note1 : The comparison was made by the audited figures in accordance with IFRSs in FY 2018 and FY 2019.

Note 2: Other assets include fair value through other comprehensive income noncurrent financial assets, noncurrent financial assets at cost, investment accounted for under the equity method, right-of-use assets, deferred income tax assets, prepayments for equipment, other noncurrent financial assets and other noncurrent assets.

2. Review and Analysis of Financial Performance

2.1 Comparison of Consolidated Financial Performance Analysis in the Last 2 Years:

Unit：NT$ thousands

Title \ Fiscal Year	2017	2018	Difference Amount	Difference %
Net Operating Income	28,182,098	28,540,207	358,109	1.27
Operating Cost	24,542,508	24,729,566	187,058	0.76
Operating Gross Profit	3,639,590	3,810,641	171,051	4.70
Operating Expense	1,293,432	1,365,275	71,843	5.55
Operating Net Profit	2,346,158	2,445,366	99,208	4.23
Non-operating revenues and expenditures	305,860	(73,829)	(379,689)	124.14
EBT	2,652,018	2,371,537	(280,481)	(10.58)
Income Tax Expense	560,002	497,250	(62,752)	(11.21)
Earnings Net in Current Period	2,092,016	1,874,287	(217,729)	(10.41)
Other Comprehensive Income (after taxation)	(91,468)	(22,216)	69,252	75.71
Total Comprehensive Income in Current Period	2,000,548	1,852,071	(148,477)	(7.42)

The major causes of significant changes in revenue, operating income and EBT (change of more than 10% and the absolute value of change amounted to NT$10 million):

1. Increase of non-operating revenues and expenditure: mainly because of the fluctuations of exchange rate against USD which resulted in decrease of net exchange gain for FY 2019.
2. Increase of other comprehensive income in current period: mainly due to the recognition of the actuarial

Title \ Fiscal Year	2017	2018	Difference Amount	Difference %
benefits of the welfare plan in the Company's 2019 annual actuarial report, and use fair value for unearned valuation for investment.				

Note : The comparison was made by the audited figures in accordance with IFRSs in FY 2018 and FY 2019.

2.2 Comparison of Individual Company Financial Performance Analysis in the Last 2 Years:

Unit：NT$ thousands

Title \ Fiscal Year	2018	2019	Difference Amount	Difference %
Net Operating Income	28,156,144	28,515,619	359,475	1.28
Operating Cost	24,559,503	24,762,906	203,403	0.83
Operating Gross Profit	3,596,641	3,752,713	156,072	4.34
Operating Expense	1,256,508	1,312,071	55,563	4.42
Operating Net Profit	2,340,133	2,440,642	100,509	4.30
Non-operating revenues and expenditures	267,966	(140,569)	(408,535)	152.46
EBT	2,608,099	2,300,073	(308,026)	(11.81)
Income Tax Expense	516,083	425,786	(90,297)	(17.50)
Earnings Net in Current Period	2,092,016	1,874,287	(217,729)	(10.41)
Other Comprehensive Income (after taxation)	(91,468)	(22,216)	69,252	75.71
Total Comprehensive Income in Current Period	2,000,548	1,852,071	(148,477)	(7.42)
The major causes of significant changes in revenue, operating income and EBT in the last two years (change of more than 10% and the absolute value of change amounted to NT$10 million): 1. Increase of non-operating revenues and expenditure: mainly because of the fluctuations of exchange rate against USD which resulted in decrease of net exchange gain for FY 2019. 2. Increase of other comprehensive income in current period: mainly due to the recognition of the actuarial benefits of the welfare plan in the Company's 2019 annual actuarial report, and use fair value for unearned valuation for investment.				

Note : The comparison is made by the audited figures in accordance with IFRSs in FY 2018 and FY 2019.

2.3 The Effect of the Reference for the Projection of Sale Volume on the Operation and Financial Position of the Company, and the Measures in Response:

AIDC projects its sale volume on the basis of market demand and development trend, the operation outlook of its customers, and the customer orders on hand and the production capacity. The products of AIDC were recognized by the customers and customer order quantity is stable. There is also the opportunity of new business. It is expected that the sale volume will grow in the future.

2.4 Possible Effect on the Financial Position and Operation of the Company: No significant influence.

2.5 Plan in Response: Not applicable.

3. Cash Flow and Liquidity Analysis

3.1 Liquidity Analysis of Consolidated Financial Data Over the Last 2 Years:

Title \ Year	2018	2019	Proportion of Change (%)
Cash flow ratio (%)	—	0.07%	0.07%
Cash flow suitability ratio (%)	59.77%	50.54%	(9.23)%
Cash reinvestment ratio (%)	—	—	—

Notes to the Analysis of the Proportion of Change: 1. Cash Flow Ratio and Cash Reinvestment Ratio: mainly because of the increase in the receivables of accounts receivable resulting in net cash inflows from operating activities, however, the net cash inflows from operating activities in the current period are less than cash dividends and capital expenditures. 2. Cash Flow Suitability Ratio decreased: because of increase in capital expenditure, inventory and cash dividend in the last 5 years.

Note : The basis of comparison for FY 2018 and FY 2019 are the audited figures under IFRSs.

3.2 Liquidity Analysis of Individual Company Over the Last 2 Years:

Title \ Year	2018	2019	Proportion of Change (%)
Cash flow ratio (%)	—	0.39%	0.39%
Cash flow suitability ratio (%)	60.01%	51.15%	(8.86)%
Cash reinvestment ratio (%)	—	—	—
Notes to the Analysis of the Proportion of Change: 1. Cash Flow Ratio and Cash Reinvestment Ratio: mainly because of the increase in the receivables of accounts receivable resulting in net cash inflows from operating activities, however, the net cash inflows from operating activities in the current period are less than cash dividends and capital expenditures. 2. Cash Flow Suitability Ratio decreased: because of increase in capital expenditure, inventory and cash dividend in the last 5 years.			

Note : The basis of comparison for FY 2018 and FY 2019 are the audited figures under IFRSs.

3.3 Liquidity Analysis of the Year Ahead: Not applicable.

4. Major Capital Expenditure Items:

4.1 Major Capital Expenditure Items and Source of Capital:

Unit: NT$ thousands

Project	Actual or Planned Source of Capital	Actual or Planned Date of Completion	Total Capital	Actual or Expected Capital Expenditure	
				2019	2020
Plant and equipment	Equity fund and project loan	December, 2020	2,229,060	280,311	1,948,749

4.2 Expected Benefits

(1) The major capital expenditure is mainly used on construction of Turbine Center Frames (TCF) and procurement of equipment. The TCF project is aim to expand capacity, scale and combine with networking function to promote the automation production of engine case, integrate the existing Case Plant 1, Case Plant 2 and Case Plant 3 to transmitted the real-time data for better management, to strengthen the producing process and lean logistic, and meet Industry 4.0 requirements.

(2) AIDC combine the existing production information system, production management and process skill, introduce intelligent equipment and cultivate talents, enrich production lines, to reach competitive price, and upgrade domestic aerospace industry competitiveness, making the Company as the global engine manufacturing center.

5. Direct Investment in Previous Year and the Effect of Operation on the Income Status of the Company

5.1 The Outlook of Direct Investment:

AIDC direct investment policy follows the Company's business plan, seeks complementary resources, strengthen the core competence, to consolidate and extend the existing core business, and expand business opportunities to achieve the Company's vision.

AIDC has invested 4 companies in 2019 with 1 company's operation performance result in income loss, and the outlook is illustrated as the following table. The Company will continue to integrate its business with direct investment to improve the investment performance.

December 31, 2019/Unit：NT$ thousands

Industry Type	Name of Investee	Income/Loss	Main Cause of Profit or Loss	Improvement Plan
Aerospace Manufacturing	AIDC USA LLC	255,822	The main cause of profit is the proactive expansion of service business and non-operating income of investment	—
Avionics	AeroVision Avionics Inc.	2,957	The main causes of profit is the increase of non-operating income.	—
Track Consulting	Metro Consulting Service Ltd.	2,082	The main cause of profit is the proactive expansion of service business and the effective control of operating expenses.	—
Other	UHT Unitech Co., Ltd.	(128,424)	The main causes of loss is the operation hasn't reach economy of scale and the profit fell short of overall operation expense.	To improve the company's competitiveness by reducing operation cost, developing low-cost and high-efficiency microwave production equipment, carbon fiber composite materials and etc.

Note: The figures of Aerospace Manufacturing, Avioincs and Track Consulting are the audited figures by the CPA. The figure of UHT Unitech Company is accrued, and the company hasn't released the audited FY 2019 financial statement up to the publication of this annual report.

6. Risks under Assessment in Previous Year to the Date this Report was Printed

6.1 The Effect of Interest Rate and Exchange Rate Fluctuation and Inflation on the Income Level of the Company and the Responding Measures

6.1.1 The Effect of Interest Rate Fluctuation on the Income Level of the Company and the Response in the Future

Interest income in FY 2019 amounted to NT$101,337 thousand or accounted for 0.36% of the consolidated earnings. Interest expense in the same year amounted to NT$217,780 thousand or accounted for 0.76% of the consolidated earnings. These figures indicated that interest expense has marginal effect on the income level of the Company. The Company also makes timely adjustment of the use of capital in line with the change in interest rate to mitigate the influence of interest rate fluctuation on income level.

6.1.2 The Effect of Exchange Rate Fluctuation on the Income Level of the Company and the Response in the Future

Net exchange decrease in FY 2019 amounted to NT$209,592 thousand or accounted for 0.76% of the consolidated revenue. The Company has its export sales and purchases of the Company mostly denominated in USD and therefore takes the following measures to tackle with exchange rate fluctuation:

6.1.2.1 Gather timely information on the exchange rate and is engaged in frequent consultation with relevant financial institutions on mapping out the hedge strategy in exchange rate in order to keep abreast of the trend of exchange rate.

6.1.2.2 Manage the liabilities and assets denominated in foreign currencies through offsetting account payables and receivables with flexibility to minimize the effect of exchange rate fluctuation.

6.1.2.3 In compliance with the requirement of the competent authority, the Company has instituted the "Procedure for Derivative Trade" so as to use proper financial tool for hedging off the risk deriving from exchange rate fluctuation and minimize the impact of exchange rate fluctuation on the Company.

6.1.3 The Effect of Inflation on the Income Level of the Company and the Response in the Future

(1) According to the Directorate-General of Budget, Accounting and Statistics, the CPI (Consumer Price Index) of 2019 increased 0.56%, while Core CPI(*) increased 0.50%, the effect of inflation was low.

*Core CPI refers to the index eliminating short term or occasional factors (such as typhoon, war), in Taiwan it refers to the CPI indices excluding vegetables and energy (gas, electricity and oil prices)

(2) AIDC shall continue to control cost through inventory management, procurement policy and process development and innovation; and shall continue to monitor inflation for adjustment. As such, the effect of inflation on its operation and profit position is not significant.

6.2 The Policy of the Company in Undertaking High Risk and High Leverage Investment, Lending to a Third Party, Guarantee and Endorsement, and Derivative Trade, the Main Causes of Profit or Loss, and the Response in the Future

6.2.1 The Company is conceived with the corporate philosophy of stable growth in its operation and only takes forwards contract for hedging. As such, the Company does not undertake any high risk or high leverage investment and financial operation.

6.2.2 The Board resolved in a session dated July 30, 2007 that the Company shall not engage in any lending to third party or undertaking of guarantee and endorsement.

6.2.3 In compliance with the requirement of the competent authority, the Company has instituted the "Procedure for Derivative Trade" as the guideline for derivative trade. From FY 2019 to March FY 2020, the Company has not conducted any derivative trade.

6.3 R&D Plan in the Future and Projected R&D Expenses

The Company has made ceaseless effort over the years to upgrade the human resources in research and development and committed a great amount of funding to satisfy the needs of business development and customer orders. In the future, the Company will continue to invest 2%~4% of the revenue per year in research and development for attaining the goal of the operation as planned.

6.4 Changes in the Legal and Policy Environment at Home and Aboard and its Influence on the Operation and Financial Position of the Company, and the Response

The Company runs its operation in compliance with applicable legal rules at home and abroad, and pays close attention to any change in the policy and legal environment. The Company responds to any change in the policy and legal environment by making appropriate adjustment in related business and financial operation. In the previous year to the date this report was printed, the Company has not been affected by any change in the policy and legal environment at home and abroad.

6.5 The Effect of Technological and Industrial Changes on the Operation and Financial Position of the Company and the Response

For environmental protection, demands for light weight, fuel efficiency, and low carbon emission continue to lead the design and development of new aircrafts and engines, and the application of composite materials also plays a key part in this trend. To bolster its position as tier 1 supplier of Airbus, in addition to TACC, AIDC further invested in the construction of TACC #19 dedicated to the production of composite parts and components for the popular single aisle A320 series aircraft. To satisfy the strong demand of GE and Rolls-Royce for green engines, Engine Case Manufacturing Center (ECMC) was thus built and certified for production, and has gradually generating revenue.

AIDC, being the first approved manufacturer in Asia to manufacture the high-precision hot section module for GE LEAP engine, has currently building Turbine Center Frames (TCF) which mainly supply the hot section module for GE LEAP engine. With the robust demand of LEAP engine and its orders exceeding 75% market share of single-passenger passengers, it is expected to see the increasing shipment once the deliveries is made and thus leads the momentum of the engine market.

In recent years, the 3D printing technology is gradually matured with wide application in aerospace field which brings impact on the existing supply chain, thus AIDC has established Innovation and R&D Center to work on the cutting-edge technology and list 3D printing technology as one of the major research project. In short run, AIDC will cooperate with domestic research instiutionsto to lay a good foundation and consult foreign experts and leading firms for the 3D printing know-how, and enter the production phase in the future.

Further to the above, more requirements for partner selection by international aerospace companies are seen. In addition to the basic ones such as quality, cost and delivery, Boeing and Airbus expect suppliers to work towards automated and intelligent production to enhance flexibility and competitiveness. Based on this, AIDC adopted Industry 4.0 concept to develop the iAIDC intelligent manufacturing platform which incorporates intelligent machinery, intelligent manufacturing and intelligent management. This effort not only won recognition from international customers such as GE, but also established AIDC as the leader in the field of intelligent and high value-added aerospace technology development in Taiwan, which greatly facilitates the enhancement of competitive power and contribute to the financial position and operation of the Company.

6.6 The Effect of the Change in Corporate Image on Corporate Crisis Management and the Response

AIDC is strictly attached to its corporate philosophy of “Accountability, Integrity, Innovation, Dedication, and Customer Orientation” and its corporate culture and seeks to upgrade its technology in the production and manufacturing of aircrafts and quality management at all times. It also seeks to enhance its relation with the customers and create value for the customers, and spares no effort in upgrading its quality and efficiency through internal management and external inspection. AIDC has positive corporate image and has no significant change in such image that may result in corporate crisis.

6.7 Expected Return On and Possible Risk from Mergers and Acquisitions, and the Response

In the previous year to the date this report is printed, AIDC has no plan for acquiring any other companies. If there is such a plan in the future, AIDC will take caution in the assessment and will fully consider the synergy after the merger, and comply with applicable legal rules and the internal code of the Company to protect the interest of the Company and shareholders’ equity.

6.8 Expected Return On and Possible Risk from Capacity Expansion, and the Response

AIDC has already secured business from international giant firms in engine case and components and parts in composite materials, and military aircraft maintenance. After its consultation with the international giant firms, AIDC has constructed and ensured new plants for housing the engine case manufacturing center, composite materials manufacturing center, and the depot for the maintenance of military aircraft, also the Board of Directors approved the new plant project for Turbine Center Frames on December 14, 2018. The expected result, possible risk, and response are elaborated below:

6.8.1 Expected Result: capacity expansion can help to accommodate a large volume of engine case and composite materials production and the maintenance of military aircrafts. This helps to satisfy the needs of customer orders and also enhance the economic efficiency.

6.8.2 Possible Risk and Response: the Company has completed its assessment on Turbine Center Frames (TCF) including the schedule of plant construction, business volume, cost of production, and the sources of capital, and has mapped out the goals for managing relevant risks and a backup plan as follows:

(1) Risk of plant construction: The construction schedule is relatively urgent, therefore the division of labor has been assigned to speed up the internal and external review, and a factory construction team has been established to supervise and control the contstruction schedule.

(2) Risk of manufacturing quality: After review the manufacturing process, the quality risk of Assembly welding, heat treatment deformation, tool design and precision is relatively low.

(3) Risk of equipment purchase: To ensure equipments can set up as schedule, a Equipment Preparation and Supervision Team is established and responsible for communicating with domestic and foreign suppliers.

(4) Recruitment: The applicable manpower risk is high and difficult to control. Therefore, the company will transfer senior employees to support the production and recruit externally at the same time, introduce excellent talents to improve the overall ability. In addition, the company also cooperate with academic to train new talents and expand manpower source.

(5) Risk of production cost: Most of the raw material is imported from abroad, thereofer the cost is relatively high and unstable,. To stabilize the cost, the Company has reached long term agreement with GE to help AIDC sign long term contract with suppliers. Meanwhile, the Company has established standard part process technology, schedule, quality and cost to control production cost.

(6) Risk of business orders: Strengthen business capabilities, strive for long-term orders, participate in international conference to expand business opportunities and expand factory capacity to attract new orders. In the future, if business order didn't reach the expected level, the Company will strive for the similar type and new engine business to make the most use of the new plant.

6.8.3 Turbine Center Frames (TCF) capacity expansion project: The expansion project are progressing well, and part of components of the Turbine Center Frame (TCF) have been successfully developed. In order to respond to changes in customer orders, the planned date of completion has rescheduled to May 2021.

6.9 The Risk Deriving from Concentration of Purchase or Sales and the Response

6.9.1 Assessment of the Risk Deriving from Concentration of Purchase and the Response:

The procurement of AIDC is mainly based on the procurement operation procedure of AIDC. Purchase will be made by tender offer by nature of the content of purchase, and could be classified as public tender, selective tender, restricted tender and joint supply contracts. The top 10 suppliers of AIDC in the last 3 years accounted for 37.60%, 42.56% and 41.19% of purchase, respectively. The number one supplier in these years accounted for 8.71%、11.42% and 9.49% of the purchase of respective years. There is no particular supply that purchases amounted to 20% or more. AIDC has developed strong bonding with key suppliers in the long run and the supply from these suppliers in the last 3 years was good. There is no shortage of supply, severing of supply or delay that affected production. There is no over concentration of purchase either.

6.9.2 Assessment of Risk Deriving from Concentration of Sales and the Response

Conceived with the mission of "consolidate national self-reliant defense, lead industrial upgrade, enhance aerospace industry development and promote economic prosperity", AIDC concentrated its sales to the Ministry of Defense in the past. Under the increasing attention of the international aerospace firms in aerospace technologies, AIDC sought to develop new overseas customers in aircrafts and engines. As such, the business line has been changed from military supply to a proper balance between military supply and commercial use. The biggest customer is still the Ministry of National Defense whose share of business accounted for 90% at the initial stage of the operation, and fell gradually due to the increase of commercial avaiation business. As such, there is no risk of concentration of sales.

6.10 The Massive Transfer or Swap of Shares by the Directors, Supervisors, or Dominant Shareholders Holding more than 10% of the Stakes and the Influence, Risk on the Company and the Response

From 2019 to the date this report is printed, there is no massive transfer or swap of shares by directors, supervisors, or dominant shareholders holding more than 10% of the stakes.

6.11 The Influence On and the Risk Deriving from the Change in the Management and the Response

The Ministry of Economic Affairs is still the dominant shareholders by holding specific proportion of the shares after privatization of AIDC. As such, the change in equity structure did not cause any unfavorable influence on the management.

6.12 Lawsuits or Non-contentious Matters

6.12.1 Are there suits, non-contentious matters or administrative action, ruled or still pending, in the last 2 years to the date this report was printed, and the result may cause significant influence on the shareholders' equity or stock price? Disclose the facts, the targeted amount involved, the starting date of the actions, the parties concerned in the actions, and the status of the actions:

AIDC has no pending lawsuits and in most cases AIDC was the claimant for damage. Some of targeted amount involved in the cases are not high, and there will be no significant loss even if the ruling is unfavorable to AIDC. As such, there is no significant influence on the shareholders' equity or stock price of the Company.

6.12.2 Directors, Supervisors, President, the Deputy Agent of the Company, and Shareholders Holding More than 10% of the Stakes and their Subsidiaries, who were Involved in Law Suits, Non-contentious Matters, or Administrative Actions, Ruled or Pending, in the Last 2 Years to the Date this Report was Printed, and the Result may Cause Significant Influence on the Shareholders' Equity or Stock Price: None.

6.13 The Influence On and the Risk Deriving from the Information Security and the Response

AIDC has established the "Risk Management Guidelines" and formed a Risk Management Committee in charge of formulating annual risk management plan and risk assessment. In addition, the Company also formed "Information Security Management Team" that leads by vice-president, responsible for planning and executing of information security, and formulating measures on information security issues, including crisis notification and emergency response.

AIDC has passed the accreditation of "ISO 27001 Information security management systems" since 2008, and has passed annual inspection. The Company conducts information security risk review on a regular basis, and formulates related strategy to lower risk. According to recent review and assessment , the Compan's information security risk is relatively low, and there's no major information security risk from the previous year to the date this report printed. More information about the Company's information security management system and implementation is update at its official website at http://www.aidc.com.tw/tw/about/infosecurity.

7. Other Important Notice: None.

VIII. Special Notes

1. Affiliates Information:

1.1 Organizational Chart of the Affiliates

Aerosapace Industrial Development Corporation

100%

AIDC USA LLC

1.2 Information of the Affiliates

Name	Incorporation Date	Address	Capital	Main Business Items
AIDC USA LLC	March 2, 2016	2999 N. 44 St. STE 514 Phoenix, AZ85018	US$9,470,000	Program management and relevant services for purchasing and selling of raw materials, parts and components of aircraft, engines and subsystems

1.3 Companies presumed to have a relationship of control and subordination that have the shareholders in common: None.

1.4 The industries covered by the business operated by the affiliates overall: AIDC USA LLC is the sole afflliate AIDC currently has, and its main business items are specified in item 1.2 above.

1.5 Details of Directors, Supervisors and Managerial Officer of Affiliates

Dec. 31, 2019; Unit: shares

Name of Affiliate	Title	Name or Representative	Shareholding	
			Number of Share	Shareholding ratio
AIDC USA LLC	Chairman President	Hu, Kai-Hung Ma, Wan-June	Capital contribution by AIDC US$9,470,000 (Note)	100%

Note: A limited liability company without issuing shares; no information on quantity of shares is applicable.

1.6 Operations of the Affiliates

Dec. 31, 2019; Unit: US$ thousands

Name	Capital	Total Assets	Total Liabilities	Book Value	Revenue	Operating Income	Net Income
AIDC USA LLC	9,470	29,409	892	28,517	2,615	153	8,276

1.7 Consolidation of Financial Statements of Affiliates

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

2. Private Placement Securities in 2019 and as of the Date of this Annual Report: None.

3. Status of AIDC Common Shares and ADRs Acquired, Disposed of, and Held by Subsidiaries: None.

4. Other Necessary Supplement: None.

5. Any Events in 2019 and as of the Date of this Annual Report that Had Significant Impacts on Shareholders' Right or Security Prices as Stated in Item 3 Paragraph 2 of Article 36 of Securities and Exchange Law of Taiwan: None.

Aerospace Industrial Development Corporation

Chairman Kai-Hung Hu

Accountability・Innovation・Dedication・Customer Orientation

Aerospace Industrial Development Corporation