



Aerospace Industrial Development Corporation

Annual Report 2020

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.

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Overseas Securities Exchange Information: N/A



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I. Letter to Shareholders

Dear Valued Shareholders,

2020 has been the most challenging year ever for the aerospace industry. The havoc wreaked by the COVID-19 pandemic at the beginning of the year and the Boeing 737MAX groundings had disrupted the initially optimistic outlook and brought forward an impact worse than the 2007-2008 Financial Crisis. Aerospace giants, including Boeing, Airbus, GE, Rolls-Royce and others, had announced rounds of layoffs. The aerospace supply chain was also severely affected by dwindled orders from the leading aerospace manufacturers. AIDC's commercial aircraft programs were no exception.

As the operations faced serious impact in 2020, AIDC's leadership team had taken various measures. The Business Information Office was formed to detect signals of global aerospace manufacturing recovery. Three main corresponding strategies of broadening sources of income, reducing expenditure and gaining strength were the guideline of actions to cope with the crisis. In addition, the Strategy Meetings were called on a daily basis to: monitor operational risks; review implementation of strategies; and to channel efforts into the three primary tasks, including the indigenous development of the Advanced Jet Trainer; the establishment of the fleet maintenance center; and the supply chain integration. The endeavors have paid off in achieving the following goals.

Firstly, the Advanced Jet Trainer rolled out in September 2019 and successfully made a demonstration flight with President Tsai Ing-wen presiding over the event in June 2020. AIDC completed the flight tests in March 2021 before the aircraft was handed over to the Air force for operational test and evaluation, so as to meet the public's expectation of the AJT beginning its mass production ahead of schedule. In the meantime, AIDC continued to cultivate aerospace talents through the development of the AJT program, not just to preserve the existing experiences, but also to upgrade technologies which aims to bring Taiwan's capabilities in the aerospace industry to the next level.

Secondly, on the front of establishment of the fleet maintenance center, the F-16A/B upgrade project was conducted on schedule and on quality. AIDC also established the F-16 Maintenance & Support Center in August 2020 and signed an open MRO contract (EC10062L089PE) with the Ministry of National Defense on January 8, 2021. AIDC will actively participate in providing the MRO services for fighter aircrafts for the next thirty years valued at NT\$79.5 billion. Elected as the main operator of the F-16 Maintenance & Support Center in 2020, AIDC will lead domestic manufacturers to seize aircraft production and maintenance opportunities of relevant projects with the aim of increasing technological capacity and industrial output value for Taiwan's aerospace industry in order to realize objectives of self-sufficiency and localization of maintenance.

Thirdly, as the global aerospace industry continues to face the most difficult circumstances, the integration of Taiwan's supply chain in 2020 was furthered by the Taiwan Aerospace Industry A-Team 4.0 Alliance. By focusing on its three objectives, which were: facilitating lean practices and innovation; implementing smart manufacturing; and integrating supply chain system, AIDC strived to integrate the strengths of the A-Team members and to expand indigenous manufacturing capacity of the Taiwan aerospace industry. In 2020, AIDC also leveraged the communication platform for military contracts to foster manufacturing capacity and technological strength of the domestic aerospace industry to help boost overall industrial competitiveness, which is essential when Taiwan aims to increase its share and opportunities in the global aerospace arena.

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 2020 Operation Highlights

Revenue and Income

While taking the brunt of the Boeing 737 Max production suspension; the COVID-19 pandemic; and depreciation of the U.S. dollar, AIDC has been zealously securing defense contracts to lessen the impact. As a result, the operating profit in FY 2020 was NT\$21 billion. The net income was NT\$395.9 million and EPS was NT\$0.42 in FY 2020, which were lower than the previous year but remained profitable. The net cash inflow was NT\$5,760 million which was better than the previous year, and the financial structure remained steady.

Research and Development Outlook

To achieve AIDC' business plan, the Company conducted 34 R&D projects at NT\$516.7 million in FY 2020. The R&D projects comprised of five categories, including the key technologies of the next generation military aircraft; new product development; management; maintenance; and manufacturing. Results of which are anticipated to expand the core capability and production capacity while facilitating the pursuit of better business opportunities.

Credentials and Awards

Corporate Governance:

- * Ranked in the Top 20% of the TWSE listed companies in the Corporate Governance Evaluation in Apr. 2020
- * Received Diamond Supplier Award from Bombardier in Jul. 2020
- * Selected as "TWSE Corporate Governance 100 Index" stock by the Taiwan Stock Exchange Corporation in Jul. 2020
- * Ranked 42nd in the CSR Award in the Traditional Manufacturers category by Global Views Magazine in Aug. 2020
- * Granted Golden Medal in the Corporate Health Responsibility Award by Commonwealth Magazine in Aug. 2020
- * Awarded Corporate Excellence Award by the Asia Pacific Enterprise Awards in Nov. 2020

Sustainable Environment:

- * Received Enterprise Green Energy Sustainability Award from the Taichung City Government in Jan. 2020
- * Received Green Building Certificate with Diamond Rating by the Ministry of the Interior in Feb. 2020
- * Granted SGS CSR Awards in the Sustainability Elites category in Nov. 2020
- * Awarded ROC Enterprise Environmental Protection Award (Silver Medal in the Manufacturing category) and Role Model of Environmental Protection Dedicated Personnel in Nov. 2020
- * Awarded 2020 Taiwan Corporate Sustainability Awards in the categories of Corporate Sustainability Report and Best Practice in Nov. 2020

Labor-Management Relation

- * Received Technological and Vocational Education Contribution Group Award from the Ministry of Education in Aug. 2020
- * Ranked 3rd in the National Slow Pitch Softball President Cup in the State-Owned Enterprise group in Sep. 2020
- * Awarded Excellent Personnel in Occupational Safety and Health by the Labor Affairs Bureau of Kaohsiung City Government in Oct. 2020
- * Received Enterprise Health Workplace Award from the Taichung City Government in Oct. 2020
- * Received Occupational Safety and Health Workplace Four-Star Award from the Labor Affairs Bureau of Taichung City Government in Nov. 2020

- * Awarded Excellent Volunteer Team by the Taichung City Government in Nov. 2020
- * Awarded Taiwan iSports Certification and ranked 2nd in the Taiwan iSports Enterprise Annual Award by the Sports Administration, Ministry of Education in Nov. 2020
- * Awarded National Talent Development Award in the Large Enterprise category by the Ministry of Labor in Dec. 2020

Business Plan for FY 2021

Business Development Plan

- * In the area of defense business, AIDC will be dedicated to expanding business in military aircraft manufacturing, maintenance, performance 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 continues to focus on R&D, design, manufacturing, testing, system integration and after-sales service of products derived from the application of aerospace technology.

Corporate Management Policy

In response to the uncertainties of the COVID-19 pandemic, AIDC will continue to adopt the Balanced Scorecard (BSC) as a management tool to align and link AIDC's vision, strategy, and objectives with major tasks and plans of each department. Additionally, AIDC will fully implement the measures of broadening sources of income, reducing expenditure and gaining strength, coupled with practices of accountability and lean principles to continue to widen and deepen the implementation of countering measures so as to attain the operational goals of FY 2021.



As we enter 2021, the sweeping effect of the COVID-19 pandemic has prompted various countries to introduce border restrictions and has consequently caused severe impact on aviation travel. According to the International Air Transport Association (IATA), global passenger traffic is not expected to return to the pre-pandemic levels until 2024 at the earliest. As to the Boeing 737 MAX groundings, the aircraft has been

approved to return to service by the Federal Aviation Administration (FAA) on Nov. 18, 2020, followed by the authorities of Brazil, Canada, European Union Aviation Safety Agency (EASA) and the U.K. Civil Aviation Authority. As demand for new aircrafts remains weak and Boeing still had over 400 brand new 737 MAX aircrafts in storage by the end of 2020, AIDC will stay abreast of market trend and respond swiftly.

AIDC's operational goals for FY 2021 are established with practical and cautious attitude and are focused on using strengths of the military business to compensate for the pandemic damages in the commercial aviation sector, which include to begin mass production of the AJT program ahead of schedule, to secure the MRO services for the next generation fighter aircrafts and to win F-16 fleet maintenance contracts as the main operator of the F-16 Maintenance & Support Center. AIDC strives to sustain its operation by prioritizing the following targets at the same time.

1. Advancement of military aircraft full scale R&D;
2. Aerospace key components development;
3. Sophisticated measures for mass production;
4. Stabilization and expansion of commercial aircraft OEM/ODM businesses and intensification of related technologies;
5. Enhancement in operational management, corporate image, employee training, and corporate culture;
6. Development of cooperative relationship with the National Chung-Shan Institute of Science & Technology in R&D and mass production opportunities in missile system, communication system, military and civil radar system, and command and control system by leveraging AIDC's established manufacturing capabilities;
7. Active involvement in new business development, such as energy storage system and marine power, 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.

As a leading aerospace manufacturer in Taiwan, AIDC is heading resolutely towards the future, bearing the responsibility of national security and the vision of becoming a world class aerospace provider. Faced with an unprecedented challenge posed by the pandemic, we are dedicating ourselves in sustaining our business operation and 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

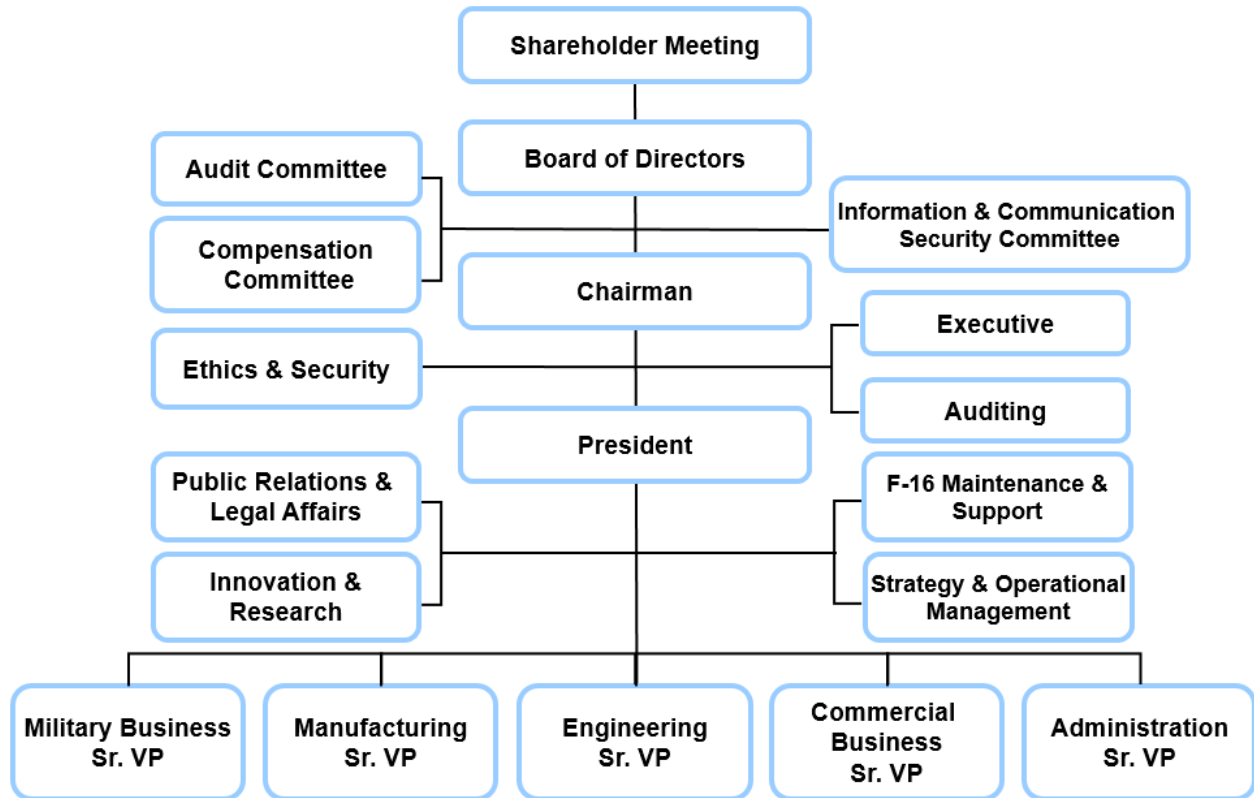
Year	Milestones
1996	<ol style="list-style-type: none"> 1. Reorganized as “Aerospace Industry Development Corporation” and transferred to the Ministry of Economic Affairs. AIDC then moves towards the reengineering as an enterprise, privatization and internationalization. The corporate strategy has also 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	<ol style="list-style-type: none"> 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 scheme 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 100 th 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	<ol style="list-style-type: none"> 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 400 th aircraft of the CL-300 project. This is an important milestone of this project.
2013	<ol style="list-style-type: none"> 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	<ol style="list-style-type: none"> 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	<ol style="list-style-type: none"> 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	<ol style="list-style-type: none"> 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
	<p>November.</p> <p>3. Delivery of the 1000th Airbus A321 16A barrel in February; delivery of the 50,000th GE Engine Case in November.</p>
2017	<p>1. Grand opening of the new #23 military maintenance building in February.</p> <p>2. Signed the Advanced Jet Trainer Commission Agreement with National Chung Shan Institute of Science and Technology in April.</p> <p>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.</p> <p>4. AIDC and Cheng Kung University delivered the Upgraded Tracker Thermal Pump System Flight Radiator in November.</p> <p>5. Completed delivery of F-CK-1 C/D to ROCAF in December.</p>
2018	<p>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.</p> <p>2. AIDC launched assembly of the Advanced Jet Trainer in June.</p> <p>3. Completed the upgrade of “F-CK-1 C/D, Hsiang Sheng” single- and twin-seat prototype jets and delivered to ROCAF in October.</p> <p>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.</p>
2019	<p>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.</p> <p>2. Held the Advanced Jet Trainer Rollout Ceremony in September.</p> <p>3. Signed Cooperation Memorandum of Intent with China Airlines for a New Pattern of Aviation Maintenance in November.</p> <p>4. Signed Strategic Alliance MOU with Lockheed Martin Corporation in December.</p>
2020	<p>1. The Advanced Jet Trainer has successfully launched its inaugural flight in June.</p> <p>2. AIDC set up the F-16 Maintenance & Support Department in August.</p>

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, 2021/ 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 (Note2)	N/A	N/A	N/A	N/A	—	—	—	—		
	R.O.C	Representative: Hu, Kai-Hung	M	March 18, 2019	2.3Y	March 18, 2019	0	0.00	30,000	0	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	M	March 18, 2019	2.3Y	March 18, 2019	0	0	0	0	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,	President, AIDC; Chairman, Metal Industries Research & Development Centre; 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	
															National Central University; B.S. in Aeronautics and Astronautics, National Cheng Kung University					
	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	—	—	—	—	—	
Director	R.O.C	Representative: Liou, Ming-Jong	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, CTCL 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, China Steel Corporation	—	—	—	
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 Committee, National Development Fund , Executive Yuan; Member, Examination Committee 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	—	—	—	—	—	

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: 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	M	February 1, 2019	2.4Y	February 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 Sportscopeter 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	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; Independent Director, Bank of Kaohsiung	—	—	—	

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, 2021

Name of Institutional Shareholders	Major Shareholders
Ministry of Economic Affairs, MOEA	N/A
National Defense Industrial Development Foundation (NDIDF)	Executive Yuan (100%)

Major shareholders of the Company's major institutional shareholders:

March 31, 2021

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: The Ministry of Economic Affairs holds a shareholding ratio of 35.175%, which is 35.18% after rounding.

Note 3: 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	✓	✓			✓	✓		
Executive Director	Ma, Wan-June	M	✓	✓			✓	✓	✓	
Director	Liou, Ming-Jong	M	✓				✓	✓		

Title	Name	Sex	Business Management	Aerospace Industry	Finance Accounting	Law	Risk Management	Government & Supervision	Manager	Labor Union Rep.
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		✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓		1
Director Chang, Ming-Pin		✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓		—
Director Shieu, Fuh-Sheng	✓		✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓		—

Name \ Criteria	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 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		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1

Note: If a Director meets the following criteria in the two years prior to the date of appointment and during term of office, tick ✓ in the box under each criteria.

- (1) Not an employee of the Company or any of its affiliates.
- (2) Not a director or supervisor of the Company or any of its affiliates. Not applicable in cases where the person concurrently serves as the independent director, which is appointed in accordance with the Securities and Exchange Act or with the laws of the country of the parent company or subsidiary, of the Company and its parent company, subsidiaries, or any company that shares the same parent company with it.
- (3) Not a shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of total shares issued by the Company or ranks as one of its top ten natural-person shareholders.
- (4) Not a spouse, relative within the second degree of relationship, or lineal blood relative within the third degree of relationship of managerial officers listed in the criterion (1) or individuals listed in the criterion (2) and (3).
- (5) Not a director, supervisor, or employee of an institutional shareholder that directly holds 5% or more of the total shares issued by the Company, ranks as one of its top five shareholders or designates a representative as the director or supervisor of the Company pursuant to Paragraph 1 or 2, Article 27 of the Company Act. Not applicable in cases where the person concurrently serves as the independent director, which is appointed in accordance with the Securities and Exchange Act or with the laws of the country of the parent company or subsidiary, of the Company and its parent company, subsidiaries, or any company that shares the same parent company with it.
- (6) Not a director, supervisor, or employee of another company whose half of the seats of directors or shares with voting rights is controlled by the same person as the Company. Not applicable in cases where the person concurrently serves as the independent director, which is appointed in accordance with the Securities and Exchange Act or with the laws of the country of the parent company or subsidiary, of the Company and its parent company, subsidiaries, or any company that shares the same parent company with it.
- (7) Not a director (member of the governing board), supervisor (member of the supervisory board) or employee of another company or institution that the Chairman, President or person holds an equivalent position of it are the same person or the spouse of the person holding the aforementioned positions of the Company. Not applicable in cases where the person concurrently serves as the independent director, which is appointed in accordance with the Securities and Exchange Act or with the laws of the country of the parent company or subsidiary, of the Company and its parent company, subsidiaries, or any company that shares the same parent company with it.
- (8) Not a director (member of the governing board), supervisor (member of the supervisory board), managerial officer, or shareholder holding 5% or more of shares of a specified company or institution that has a financial or business relationship with the Company. Not applicable in cases where the company or institution holds more than 20% but no more than 50% of the total shares issued by the Company and where the person concurrently serves as the independent director, which is appointed in accordance with the Securities and Exchange Act or with the laws of the country of the parent company or subsidiary, of the Company and its parent company, subsidiaries, or any company that shares the same parent company with it.
- (9) Not a professional individual who, or an owner, partner, director (member of the governing board), supervisor (member of the supervisory board), or managerial officer of a sole proprietorship, partnership, company, or institution, that provides audit services, or commercial, legal, financial, accounting or related services from which a cumulative amount of remuneration not exceeding NT\$500,000 has been obtained in the most recent two

years, to the Company or to any of its affiliates, or a spouse thereof. Not applicable in cases where the person is a member of the remuneration committee, the public tender offer review committee or the special committee for merger/consolidation and acquisition who exercises powers pursuant to the Securities and Exchange Act and the Business Mergers and Acquisitions Act.

(10) Not having a marital relationship, or a relative within the second degree of relationship to any other director of the Company.

(11) Not been a person of any conditions defined in Article 30 of the Company Act.

(12) Not a governmental, juridical person or its representative as defined in Article 27 of the Company Act.

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, Commercial 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	—	—	—	—	
Vice President	R.O.C.	Chuang, Jennifer	F	October 1, 2020	131,325	—	—	—	—	—	Director, Procurement; Director, Strategy & Operational Management; Master in Business, Tunghai University					

Note: Mr. Chen, Yi-Min was retired on Oct. 1, 2020 and Ms. Chuang, Jennifer was appointed on Oct. 1, 2020.

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

3.1 Remuneration of Directors and Independent Directors

December 31, 2020 / Units : NT\$ thousands ; %

Title	Name (Note 1)	Remuneration								Ratio of Total Remuneration (A+B+C+D) to Net Income (%)		Relevant Remuneration Received by Directors who are also Employees								Ratio of Total Compensation (A+B+C+D+E+F+G) to Net Income (%)		Compensation paid to Directors from Parent Company or an Invested Company other than the Company's Subsidiary
		Base Compensation(A)		Severance Pay(B)		Directors' Remuneration(C)		Allowances(D)				Salary, Bonuses, and Allowances(E)		Severance Pay(F)		Employee Remuneration (G)						
		The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company		Companies in the consolidated financial statements		The company	Companies in the consolidated financial statements			
Chairman	Hu, Kai-Hung (MOEA Rep.)	408		0		2,355		0		0.6981%		11,423		0		50	0	50	0	3.5966%	None	
Executive Director	Ma, Wan-June (MOEA Rep.)																					
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.)																					
Executive and Independent Director	Chan, Chia-Chang	2,295		0		0		0		0.5798%		0		0		0	0	0	0	0.5798%	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 : The calculation base depends on the individual tenure. The amount is accrued, and hasn't been issued yet.

Note 2 : This form is for information disclosure, not for taxation purposes.

Note 3 : Rewards of gifts and medical examination amounts to NT\$ 115 thousand is excluded.

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; Ma, Wan-June; Liou, Ming-Jong; Chang, Ming-Pin; Shieu, Fuh-Sheng; Hsu, Yan-Pu; Yu, Cheng-Tao; Hsu, Chung-Ming; Chan, Chia-Chang; Chen, Yin-Chin; Lien, Li-Jen; NDIDF	Same as left	Liou, Ming-Jong; Chang, Ming-Pin; Shieu, Fuh-Sheng; Hsu, Yan-Pu; Chan, Chia-Chang; Chen, Yin-Chin; Lien, Li-Jen; NDIDF	Same as left
NT\$1,000,000 ~ NT\$2,000,000	—	—	Yu, Cheng-Tao; Hsu, Chung-Ming	Same as left
NT\$2,000,000 ~ NT\$3,500,000	Ministry of Economic Affairs	Same as left	Ministry of Economic Affairs	Same as left
NT\$3,500,000 ~ NT\$5,000,000	—	—	Ma, Wan-June	Same as left
NT\$5,000,000 ~ NT\$10,000,000	—	—	Hu, Kai-Hung	Same as left
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	13 persons	Same as left	13 persons	Same as left

Note: Remuneration to Directors of the Company is fully received by juristic person directors. Compensation paid to representatives of juristic person directors who serve as employees also include salaries and remuneration to employees.

3.2 Compensation of President and Vice Presidents

December 31, 2020 / Units : NT\$ thousands ; %

Title	Name	Salary(A) (Note1)		Severance Pay(B)		Bonuses and Allowances(C)		Employee Remuneration (D)				Ratio of Total Compensation (A+B+C+D) to Net Income (%)		Compensation paid to Directors from Parent Company or an Invested Company other than the Company's Subsidiary
		The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company		Companies in the consolidated financial statements		The company	Companies in the consolidated financial statements	
								Cash	Stock	Cash	Stock			
President	Ma, Wan-June	13,510	13,510	0	0	8,447	8,447	147	0	147	0	5.5838%	5.5838%	None
Vice President	Chen, Yi-Min (Note 1)													
Vice President	Ho, Poa-Hua													
Vice President	Du, Shiu-Chun													
Vice President	Lo, Ching-Chi													
Vice President	Huang, Shu-Yuan													
Vice President	Chuang, Jennifer (Note 1)													

Note 1: The remuneration to managerial officers is calculated on a yearly basis for FY 2020. Mr. Chen, Yi-Min was retired on Oct. 1, 2020 and Ms. Chuang, Jennifer was appointed on Oct. 1, 2020.

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	Chuang, Jennifer	Same as left
NT\$1,000,000 ~ NT\$2,000,000	—	—
NT\$2,000,000 ~ NT\$3,500,000	Lo, Ching-Chi; Chen, Yi-Min; Huang, Shu-Yuan	Same as left
NT\$3,500,000 ~ NT\$5,000,000	Ma, Wan-June; Ho, Poa-Hua; Du, Shiu-Chun	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, 2020 / Unit: NT\$ thousands

	Title	Name	Shares Total	Cash Total	Total	Ratio of Total Remuneration to Net Income (%)
Managerial Officers	President	Ma, Wan-June	0	26	26	0.0066%
	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				
	Vice President	Chuang, Jennifer				

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 be submitted 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

Identity \ Year	2019		2020	
	The company	Companies in the consolidated financial statements (Note)	The company	Companies in the consolidated financial statements (Note)
Director fee	15,695	15,695	5,058	5,058
Director fee in proportion to corporate earnings (%)	0.8374%	0.8374%	1.2777%	1.2777%
Supervisor fee	0	—	0	0
Supervisor fee in proportion to corporate earnings (%)	0	—	0	0
Remuneration to the President and Vice Presidents	24,618	24,618	22,104	22,104
Remuneration to the President and Vice Presidents in proportion to corporate earnings (%)	1.3135%	1.3135%	5.5838%	5.5838%

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 (A) meetings of the board of directors were held in 2020. Attendance of directors and supervisors was as follows:

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

Chairman	Hu, Kai-Hung (MOEA Rep.)	8	0	100.00%	
Executive Director	Ma, Wan-June (MOEA Rep.)	8	0	100.00%	
Director	Liou, Ming-Jong (MOEA Rep.)	8	0	100.00%	
Director	Chang, Ming-Pin (MOEA Rep.)	8	0	100.00%	
Director	Shieu, Fuh-Sheng (MOEA Rep.)	8	0	100.00%	
Director	Yu, Cheng-Tao (MOEA Rep.)	8	0	100.00%	
Director	Hsu, Chung-Ming (MOEA Rep.)	8	0	100.00%	
Director	Hsu, Yan-Pu (NDIDF Rep.)	2	5	25.00 %	
Executive and Independent Director	Chan, Chia-Chang	7	1	87.50%	
Independent Director	Chen, Yin-Chin	8	0	100.00%	
Independent Director	Lien, Li-Jen	8	0	100.00 %	
Total Attendance of The Board		81	6	92.05%	

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
February 7, 2020	The 11 th session of the 8 th term of the Board	<ul style="list-style-type: none"> 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: Company's response to independent directors' opinion, please refer to sect (2) on next page.		
		Resolution: Passed by all attending members		
March 27, 2020	The 12 th session of the 8 th term of the Board	<ul style="list-style-type: none"> 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 	Yes	None
		<ul style="list-style-type: none"> Bonus of Chairman, President, Vice Presidents and managerial officers concerned for FY 2019 	Yes	None
		<ul style="list-style-type: none"> Plant Construction and Asset Procurement Project 	Yes	None
		<ul style="list-style-type: none"> Sales of Equity of reinvestment business 		

		<ul style="list-style-type: none"> 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" 		
		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: Company's response to independent directors' opinion, please refer to sect (2) on next page.		
		Resolution: Passed by all attending members		
April 14, 2020	The 4th special session of the 8 th term of the Board	<ul style="list-style-type: none"> 2019 Unsecured Corporation Bond Report Supplement of the 2020 shareholders' meeting 	Yes	None
		Number of independent directors attending in person: 3		
		Opinions of independent directors: None		
		Company's response to independent directors' opinions: Passed by all attending (including proxy) members		
		Resolution: Passed by all attending members.		
May 8, 2020	The 13 th session of the 8th term of the Board	Matters referred to in Article 14-3 of the Securities and Exchange Act: None		
		Number of independent directors attending in person: 3		
August 7, 2020	The 14 th session of the 8th term of the Board	<ul style="list-style-type: none"> Amendment to "AIDC Rules Governing the Scope of Powers of Independent Directors" Amendment to "AIDC Organizational Charter" Amendment to "AIDC Internal Control System" Amendment to "AIDC Internal Audit Implementation Rules" Amendment to 2020 Sales Target 	Yes	None
		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		
September 16, 2020	The 5th special session of the 8 th term of the Board	<ul style="list-style-type: none"> Discharge and appointment of AIDC vice president The project of early retirement package in 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 members		
October 16, 2020	The 15 th session of the 8 th term of the Board	<ul style="list-style-type: none"> Internal Audit Plan for FY 2021 The disposition of rear fuselage in commercial aviation project 		
		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 18, 2020	The 16 th session of the 8 th term of the Board	<ul style="list-style-type: none"> Appointment of General Manager of AIDC US Subsidiary Amendment to "AIDC Rules of Procedure for Shareholders Meetings" Amendment to "AIDC Procedures for Election of Directors" Amendment to "AIDC Organizational Rules and Responsibilities of the Board of Directors, Chairman and President" Amendment to "AIDC Internal Audit Implementation Rules" Amendment to Accounting System The establishment of the company's information security committee Principle for bonus of Chairman, President, Vice Presidents and managerial officers concerned for FY 2020 Business Plan for 2021 	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		
February 26, 2021	The 17 th session of the 8 th term of the Board	<ul style="list-style-type: none"> The re-election of the 9th term of the Board Lift the ban of non-compete on directors and their representatives elected to the new term of office Calling for the regular session of the General Meeting in FY 2021 		
		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 members		
March 26, 2021	The 18 th session of the 8 th term of the Board	<ul style="list-style-type: none"> Business Report for FY 2020 Allocation amount of remuneration to employees and directors for FY 2020 Financial Report for FY 2020 Distribution of earnings for FY 2020 Declaration of Internal Control for FY 2020 	Yes	None

		<ul style="list-style-type: none"> • Amendment to AIDC Corporate Charter (Articles of Incorporation) • Bonus of Chairman, President, Vice Presidents and managerial officers concerned for FY 2020 • Principles for bonus of Chairman, President, Vice Presidents and managerial officers concerned for FY 2021 • AIDC 2021 Unsecured Corporate Bond Issue • Change of external auditor 	<p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p>	<p>None</p> <p>None</p> <p>None</p> <p>None</p>
		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 members		
(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
February 7, 2020	The 11 th session of the 8 th term of the Board	<ul style="list-style-type: none"> • Motion: AIDC Land Lease Plan • Opinions of independent directors: <ol style="list-style-type: none"> (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 12 th session of the 8 th term of the Board	<ul style="list-style-type: none"> • 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 	Yes	None

		<p>business opportunities in the domestic and foreign markets in advance for future order, and report to the board of directors.</p> <ul style="list-style-type: none"> 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. 		
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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 27, 2020 12 nd session of the 8 th term of the Board	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
December 18, 2020 16 th session of the 8 th term of the Board	The establishment of the company's information security committee	Personal appointment	Executive Director Ma, Wan-June entered recusal during discussion and voting
December 18, 2020 16 th session of the 8 th term of the Board	Principles for bonus of Chairman, President, Vice Presidents and managerial officers concerned for FY 2020	Personal bonus	Chairman Hu, Kai-Hung and Executive Director Ma, Wan-June entered recusal during discussion and voting
March 26, 2021 18 th session of the 8 th term of the Board	Bonus of Chairman, President, Vice Presidents and managerial officers concerned for FY 2020	Personal bonus	Chairman Hu, Kai-Hung and Executive Director Ma, Wan-June entered recusal during discussion and voting
March 26, 2021 18 th session of the 8 th term of the Board	Principles for bonus of Chairman, President, Vice Presidents and managerial officers concerned for FY 2021	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:

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. As cyber risks increase and cyber attacks become more aggressive, AIDC has established the Information & Communication Security Committee and was approved by the Board of Directors on December 18, 2020, to provide professional recommendations to the board and strengthen the function of the board of directors.

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.
- To enhance the Company's information security management, AIDC has established the Information & Communication Security Committee and was approved by the Board of Directors on December 18, 2020. The Committee is responsible to review major matters including, information security policies and practices, management system of information and communications security, and the annual plan of information security plan and its effectiveness. By supervising and implementing information security plan, and regularly reported to the board of directors, to form a comprehensive information security mechanism.
- Per the amendment of "Company Act", "Securities and Exchange Act", and related corporate governance rules, AIDC reviewed regulations on internal audit and corporate governance, and hence amended "Regulations Governing Appointment of Independent Directors and Compliance Matters", "Regulations Governing Procedure for Board of Directors Meetings", "AIDC Audit Committee Charter", "AIDC Remuneration Committee Charter", "Regulations Governing the Scope of Powers of Independent Directors", "AIDC Internal Control Systems", "Rules for Implementation of Internal Audit", "AIDC Accounting System", "AIDC organization and Responsibility", "Rules of Procedure for Shareholders Meetings", "Procedures for Election of Directors" and submitted for Board approval. Furthermore, the "Corporate Charter" has approved by the board of directors and passed the resolution in 2020 Shareholder' meeting.
- Pursuant to Regulations Governing Procedure for Board of Directors Meetings of Public Companies, the Company's board of directors meetings has reviewed reportitems including the minutes of the last meeting and actions arising, reporting on important financial and business matters, reporting on internal audit activities, and other important matters to be reported. The board of directors has assesse and supervise the existing or potential risks of the company's operations, urge the company to comply with laws and regulations and internal control systems, and follow-up the implementation of the board of directors' resolutions.
- 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.
- Pursuant to the 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", Mr. Chen, Zong-Hong who leads Secretariat Division for Board of Directors has been appointed as Corporate Governance Officer, and currently in charge of corporate governace-related matters, and provision of information required for performance of duties by the directors and supervisors.
- 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 that coinsurance with Shin Kong Insurance and other four insurance companies, for all directors and managerial team for FY 2020. 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 at board meeting on Aug. 7, 2020 on record. Details of liability insurance for directors and managerial team are posted on the MOPS.

(V) Continuing Education/Training of Directors in 2020:

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	July 31, 2020	July 31, 2020	Taiwan Corporate Governance Association	Interpreting the Hidden Key Message in Financial Statement	3	6
				December 24, 2020	December 24, 2020	Taiwan Corporate Governance Association	Insider Trading Prevention	3	
Executive Director	Ma, Wan-June	March 18, 2019	March 18, 2019	September 22, 2020	September 22, 2020	Taiwan Corporate Governance Association	Capital Market and Corporate Governance	3	6
				December 15, 2020	December 15, 2020	Taiwan Corporate Governance Association	How to Improve Corporate Value	3	
Director	Liou, Ming-Jong	October 1, 2019	October 1, 2019	September 21, 2020	September 21, 2020	Securities & Futures Institute	Corporate Governance 3.0 Sustainable Development Roadmap Forum	3	6
				December 11, 2020	December 11, 2020	Taipei Foundation Of Finance	Discussion on Corporate Financial Statement Fraud and criminal legal of personnel	3	
Director	Chang, Ming-Pin	June 26, 2018	June 26, 2018	June 9, 2020	June 9, 2020	Taiwan Corporate Governance Association	Corporate Supervisors' Criminal Legal Risks and Countermeasures: The Prevention of Corporate Fraud and Money Laundering	3	6
				June 19, 2020	June 19, 2020	Taiwan Corporate Governance Association	Case Study on on Corporate Financial Statement Fraud	3	
Director	Shieu, Fuh-Sheng	July 22, 2016	June 26, 2018	May 5, 2020	May 5, 2020	Taiwan Investor Relations Institute	2020 New Corporate Governance Regulation and Trend	3	9
				July 3, 2020	July 3, 2020	Taiwan Corporate Governance Association	Global Corporate Sustainable Development-Act from 2020 toward Vision 2050	3	
				August 7, 2020	August 7, 2020	Taiwan Corporate Governance Association	Key Technology and Market Application of 5G and IoT	3	
Director	Yu, Cheng-Tao	December 18, 2017	June 26, 2018	September 3, 2020	September 4, 2020	Ministry of Labor	2020 Professional Competences Training for Labor Directors	8	8
Director	Hsu, Chung-Ming	June 26, 2018	June 26, 2018	September 3, 2020	September 4, 2020	Ministry of Labor	2020 Professional Competences Training for Labor Directors	8	8

Executive and Independent Director	Chan, Chia-Chang	June 26, 2018	June 26, 2018	May 20, 2020	May 20, 2020	Taiwan Investor Relations Institute	Legal Obligations and Responsibilities of the Capital Market	3	6
				June 4, 2020	June 4, 2020	Taiwan Investor Relations Institute	Public Financial Statement Analysis	3	
Independent Director	Chen, Yin-Chin	June 26, 2018	June 26, 2018	May 26, 2020	May 26, 2020	Chinese National Association of Industry and Commerce	Risk Management and Legal Responsibility of Independent Director	3	6
				August 12, 2020	August 12, 2020	Independent Director Association Taiwan	Dispute Case Study- The Role of Independent Director on Corporate governance and Managing issue	3	
Independent Director	Lien, Li-Jen	May 31, 2019	May 31, 2019	March 6, 2020	March 6, 2020	Taiwan Corporate Governance Association	Shareholder Meeting Planning and Case Analysis	2	11
				May 22, 2020	May 22, 2020	Taiwan Corporate Governance Association	Protection of Business Secrets and Prohibition of Competition	3	
				August 21, 2020	August 21, 2020	Taiwan Corporate Governance Association	Corporate's Whistleblower System and Fraud Prevention Practice	3	
				November 20, 2020	November 20, 2020	Taiwan Corporate Governance Association	Cases on Corporate Ethic, Anti-Corruption and Bribery and Whistleblower Protection	3	

4.2 Self-Evaluation of the Board of Directors

Pursuant to Article 37 of "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies", AIDC established the Corporation's "Regulation of Self-Evaluation of the Board of Directors" in 2019. Self-assessments on Board operations (functional committees) and Board members are conducted via surveys on annual 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 2020 is as below:

Evaluation Cycle	evaluation periods	Evaluation Scope	Evaluation Method	Evaluation Result
Annually	2020/1/1 - 2020/12/31	<ol style="list-style-type: none"> The Board Individual directors Functional committee 	<ol style="list-style-type: none"> Self-assessments on Board operations Self-assessments on Board members Self-assessments on functional committees 	<ul style="list-style-type: none"> Assessment indicators of the Corporation's Board of Directors includes the following 5 aspects: <ol style="list-style-type: none"> Participation in corporate operations. Enhancement of board decision-making quality. Board composition and structure. Director elections and continuous training. Internal control. Assessment indicators of the Corporation's directors includes the following 6 aspects: <ol style="list-style-type: none"> Understanding of corporate

				<p>goals and tasks.</p> <ol style="list-style-type: none"> 2. Recognition of director responsibilities. 3. Participation in corporate operations. 4. Internal relations and communication. 5. Director knowledge and continuous training. 6. Internal control. <ul style="list-style-type: none"> • Self-assessments of functional committee members includes the following 5 aspects: <ol style="list-style-type: none"> 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.
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Note: The result and advises of self-evaluation of the board of directors of 2020 has submitted to the 18th term, 8st session board meeting on Mar. 26, 2021, 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. A total of 8 meetings were held by Audit Committee from Jan. 1, 2020 to Mar. 31, 2021 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 and the formulation of major regulations
4. Review AIDC Business Plan for FY 2021
5. Review major assets acquisition project and land lease project
6. Review Internal Audit Plan
7. Review the assessment report on the independence and competency of the CPA firm
8. Review Internal Audit Report
9. Review the investment status

The attendance of the committee members from Jan. 1, 2020 to Mar. 31, 2021 was as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance rate (%) (B/A)	Remarks
Executive and Independent Director	Chan, Chia-Chang	9	0	100.00%	
Independent Director	Chen, Yin-Chin	9	0	100.00%	
Independent Director	Lien, Li-Jen	9	0	100.00%	

Important notices:

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

Date	Session	Motions	Resolution	Action Status
February 7, 2020	The 11 th session of the 8 th term of the Board	<ul style="list-style-type: none"> Land lease Project for Gang Shan Complex 	Submit to the Board for approval after providing supplements	Approved by the Board
March 27, 2020	The 12 th session of the 8 th term of the Board	<ul style="list-style-type: none"> Business report for FY 2019 Financial Report for FY 2019 Distribution of earnings for FY2019 Declaration of internal control for FY 2019 Investment equity transfer project Amendment to "AIDC Rules of Procedure for Board of Directors Meetings" and "AIDC Regulations Governing Appointment of Independent Directors" 	Submit to the Board for approval	Approved by the Board
		<ul style="list-style-type: none"> Asset acquisition of 1200 ton Plate Stretching Machine project 	Submit to the Board for approval after providing supplements	
		<ul style="list-style-type: none"> Amendment to "AIDC Audit Committee Charter" 	Submit to the Board for approval after revising	
August 7, 2020	The 14 th session of the 8 th term of the Board	<ul style="list-style-type: none"> Amendment to "AIDC Rules Governing the Scope of Powers of Independent Directors" 	Submit to the Board for approval after revising	Approved by the Board
		<ul style="list-style-type: none"> Amendment to "AIDC Organizational Charter" Amendment to "AIDC Internal Control System" Amendment to "AIDC Internal Audit Implementation Rules" Amendment to 2020 Sales Target 	Submit to the Board for approval	
October 16, 2020	The 15 th session of the 8 th term of the Board	<ul style="list-style-type: none"> Internal Audit Plan for FY 2021 	Submit to the Board for approval after revising	Approved by the Board

December 18, 2020	The 16 th session of the 8 th term of the Board	<ul style="list-style-type: none"> • Amendment to “AIDC Rules of Procedure for Shareholders Meetings” • Amendment to “AIDC Procedures for Election of Directors” • Amendment to “AIDC Organizational Rules and Responsibilities of the Board of Directors, Chairman and President” • Amendment to “AIDC Internal Audit Implementation Rules” • The establishment of the company's information security committee • Business Plan for 2021 Implementation Rules” 	Submit to the Board for approval	Approved by the Board
		<ul style="list-style-type: none"> • Amendment to Accounting System 	Submit to the Board for approval after revising	Approved by the Board
March 26, 2021	The 18 th session of the 8 th term of the Board	<ul style="list-style-type: none"> • Business Report for FY 2020 • Allocation amount of remuneration to employees and directors for FY 2020 • Financial Report for FY 2020 • Distribution of earnings for FY 2020 • Declaration of Internal Control for FY 2020 • Amendment to AIDC Corporate Charter (Articles of Incorporation) • Change of external auditor 	Submit to the Board for approval	Approved by the Board

Note: There was no other matters which were not approved by the Audit Committee but were approved by two-thirds or more of all directors.

2. There was not matter that required recusal of independent directors from Jan.1, 2020 to Mar.31, 2021

3. Communications between independent directors, internal auditor and CPA firm from Jan.1, 2020 to Mar.31, 2021 are as follows

3.1 Communications between independent directors and internal auditor from Jan.1, 2020 to Mar.31, 2021:

Date	Method	Motioins	Resolution
January 31, 2020	Meeting	Reports on resolutions and matters concerned on the 3 rd 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	<p>Report:</p> <ul style="list-style-type: none"> Action status of the 4th session of audit committee of the 8th term of the Board Q4 2019 Internal Audit Report <p>Motion:</p> <ul style="list-style-type: none"> Declaration of Internal Control for FY 2019 Amendment to the "AIDC Audit Committee Charter" 	<ol style="list-style-type: none"> Consented to the contents of the report and motions; reported to the BOD by Audit Office. Internal auditor reported the implementation with good communication with the independent directors.
	April 30, 2020	Meeting	<ul style="list-style-type: none"> Action status of the 5th session of audit committee of the 8th term of the Board Q1 2020 Internal Audit Report 	Internal auditor reported the implementation with good communication with the independent directors.
	July 30, 2020	Meeting	<p>Report:</p> <ul style="list-style-type: none"> Action status of the 6th session of audit committee of the 8th term of the Board Q2 2020 Internal Audit Report <p>Motion:</p> <ul style="list-style-type: none"> Amendment to "AIDC Internal Audit Implementation Rules" 	<ol style="list-style-type: none"> Consented to the contents of the report and motions; reported to the BOD by Audit Office. Internal auditor reported the implementation with good communication with the independent directors.
	October 15, 2020	Meeting	<p>Report:</p> <ul style="list-style-type: none"> Action status of the 7th session of audit committee of the 8th term of the Board Q3 2020 Internal Audit Report <p>Motion:</p> <ul style="list-style-type: none"> Internal audit plan for FY 2021 	<ol style="list-style-type: none"> Independent directors request management department to keep proceed four action itmes in the report of action status of the 7 th session. Consented to the contents of the report and motions except four action items require; The motion was reported to the BOD by Audit Office. Internal auditor reported the implementation with good communication with the independent directors.
	November 13, 2020	Meeting	Communication before the 9th session of audit committee of the 8th term of the Board	<ol style="list-style-type: none"> Independent directors acknowledged motions. Internal auditor reported the implementation with good communication with the independent directors.
	November 19, 2020	Meeting	<p>Report:</p> <ul style="list-style-type: none"> Action status of the 9th session of audit committee of the 8th term of the Board <p>Motion:</p> <ul style="list-style-type: none"> Amendment to "AIDC Internal Audit Implementation Rules" 	<ol style="list-style-type: none"> Consented to the contents of the report and motions; reported to the BOD by Audit Office. Internal auditor reported the implementation with good communication with the independent directors.
	December 8, 2020	Meeting	Communication before the 10th session of audit committee of the 8th term of the Board	<ol style="list-style-type: none"> Independent directors acknowledged motions. Internal auditor reported the implementation with good communication with the independent directors.

December 10, 2020	Meeting	Action status of the 9th session of audit committee of the 8th term of the Board	1. Independent directors request management department to keep proceed 1 action item in the report of action status. 2. Internal auditor reported the implementation with good communication with the independent directors.
March 17, 2021	Meeting	Communication before the 11th session of audit committee of the 8th term of the Board	1. Independent directors acknowledged motions. 2. Internal auditor reported the implementation with good communication with the independent directors.
March 18, 2021	Meeting	Report: <ul style="list-style-type: none"> Action status of the 10th session of audit committee of the 8th term of the Board Q4 2020 Internal Audit Report Motion: <ul style="list-style-type: none"> Declaration of Internal Control for FY 2020 	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, 2020 to Mar.31, 2021.
Independent directors and CPA firm maintain good communication as follows:

Date	Method	Motions	Resolution
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.
April 30, 2020	Meeting	Q1 2020 Financial Report	CPA reported Q1 2020 financial report audit results with good communication with the independent directors, and the motion was approved.
July 30, 2020	Meeting	Q2 2020 Financial Report	CPA provided Q2 2020 financial report audit results with good communication with the independent directors, and the motion was approved.
October 15, 2020	Meeting	<ul style="list-style-type: none"> Q3 2020 Financial Report 	CPA reported Q3 2020 financial report audit results with good communication with the independent directors and the Company management, and the motion was approved.
November 19, 2020	Meeting	<ul style="list-style-type: none"> Communication Report between CPA and corporate governance unit- annual financial report audit plan and key audit matters for FY 2020 	CPA reported 2020 financial report audit plan and key audit matters with good communication with the independent directors.

March 18, 2021	Meeting	Financial Report for FY 2020	CPA reported 2020 financial statement audit results and key audit matters with good communication with the independent directors, and the motion was approved.
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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
(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 the “Rules Governing Financial and Business Matters Between AIDC and its Affiliated Enterprises” and the “Regulations Governing AIDC’s Management and Supervision of its Subsidiaries” for risk control.	No Significant Variation

Item	Implementation Status			Deviations from “Corporate Governance Best- Practice Principles for TWSE/GTSM Listed Companies” and Reasons
	Y	N	Abstract	
(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
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?	✓		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 60 years, and all the independent directors tenure is less than 3	No Significant Variation

Item	Implementation Status			Deviations from “Corporate Governance Best- Practice Principles for TWSE/GTSM Listed Companies” and Reasons
	Y	N	Abstract	
			<p>years. The Company will follow “Corporate Governance 3.0 Sustainable Development Roadmap”, to gradually increase the number of independent directors.</p> <p>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.</p> <p>Our current directors are all industrial or academic experts, with significant management experience in listed companies 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 currently serve as director of State-owned Enterprise Commission Affairs; director Chang Ming-Pin is the executive secretary of Investment Commission; 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. Meanwhile, independent director Chan, Chia-Chang and Lien, Li-Jen, and director Liou, Ming-Jong concurrently serving as independent director/director in other public companies. All in all, the BOD compostion is diversified and function well.</p> <p>3. For the diversity and qualification of the BOD members, please refer to AIDC website below. http://www.aidc.com.tw/tw/investor/governa</p>	

Item	Implementation Status			Deviations from “Corporate Governance Best- Practice Principles for TWSE/GTSM Listed Companies” and Reasons
	Y	N	Abstract	
			nce/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, the Company has established “Information & Communication Security Committee”, approved by the Board of Directors on December 18, 2020, to strengthen the information security management.	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?	✓		<p>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)</p> <p>The evaluation implementation of 2020 is as below:</p> <ol style="list-style-type: none"> 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 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 	No Significant Variation

Item	Implementation Status			Deviations from “Corporate Governance Best- Practice Principles for TWSE/GTSM Listed Companies” and Reasons
	Y	N	Abstract	
			<p>report of the board of directors, and may be used as the basis for the determination of directors' remuneration.</p> <p>2. The evaluation result of the board as a whole, individual directors and functional committees are 4.93, which is between score 4 (agreed) and 5 (Totally agreed). The directors mostly 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 2020 has submitted to the 18th term, 8st session board meeting on Mar. 26, 2021, and reported to the Remuneration Committee on record. The regulation is also disclosed on the company's website https://www.aidc.com.tw/tw/investor/governance/board</p> <p>3. The evaluation result of the 2020 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.</p>	
(IV) Does the company regularly evaluate the independence of CPAs?	✓		<p>AIDC conducted routine evaluation on the independence of the external auditors:</p> <p>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.</p> <p>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:</p> <p>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.</p> <p>2.2 Confirm the audit is not conducted by the same external auditors for more than 7 consecutive years</p>	No Significant Variation

Item	Implementation Status			Deviations from “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies” and Reasons																								
	Y	N	Abstract																									
			3. The assessment report on the independence and competency of the CPA firm for FY 2020 has been submitted to Audit Committee on Dec. 10, 2020 and was approved and duly recognized by the Board of Directors on Dec. 18, 2020.																									
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)?	✓		<p>Pursuant to “Regulations Governing Procedure for Board of Directors Meetings of Public Companies”, the Executive Office has been designated as the unit responsible for handling board meeting, and Director of Executive Office Chen Zong-Hong has appointed as the Corporation’s corporate governance officer by the board of directors in 2019. The Executive Office has designated persons 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. Meanwhile, the Company will keep following Corporate Governance Roadmap by Financial Supervisory Commission, to protect shareholder rights, strengthen Board functions, and improve the Company’s performance in corporate governance.</p> <p>1. Mr. Chen Zong-Hong has been serving as the Director of Chairman Office for more than 4 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 2020 is as follows :</p> <table><tr><th>Attending Date</th><th>Host by</th><th>Course Title</th><th>Hours</th></tr><tr><td>May 5, 2020</td><td>Taiwan Investor Relations Institute</td><td>2020 New Corporate Governance Regulation and Trend</td><td>3</td></tr><tr><td>May 20, 020</td><td>Taiwan Investor Relations Institute</td><td>Legal Obligations and Responsibilities of the Capital Market</td><td>3</td></tr><tr><td>May 29, 020</td><td>Taiwan Investor Relations Institute</td><td>Corporate Management and Media Public Relations Strategy</td><td>3</td></tr><tr><td>June 4, 2020</td><td>Taiwan Investor Relations Institute</td><td>Public Financial Statement Analysis</td><td>3</td></tr><tr><td colspan="3">Total training hours in 2020</td><td>12</td></tr></table>	Attending Date	Host by	Course Title	Hours	May 5, 2020	Taiwan Investor Relations Institute	2020 New Corporate Governance Regulation and Trend	3	May 20, 020	Taiwan Investor Relations Institute	Legal Obligations and Responsibilities of the Capital Market	3	May 29, 020	Taiwan Investor Relations Institute	Corporate Management and Media Public Relations Strategy	3	June 4, 2020	Taiwan Investor Relations Institute	Public Financial Statement Analysis	3	Total training hours in 2020			12	No Significant Variation
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May 5, 2020	Taiwan Investor Relations Institute	2020 New Corporate Governance Regulation and Trend	3																									
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Total training hours in 2020			12																									

Item	Implementation Status			Deviations from “Corporate Governance Best- Practice Principles for TWSE/GTSM Listed Companies” and Reasons
	Y	N	Abstract	
			<p>2. Implementation status of corporate governance in 2020 is as follow:</p> <p>(1) Calling of BOD meetings and shareholders meeting per laws.</p> <p>(2) Producing, distributing and disclosing the minutes of board meetings and shareholders meeting.</p> <p>(3) Furnishing information required for business execution by director to facilitate communication with AIDC management.</p> <p>(4) Amending “Regulations Governing Appointment of Independent Directors and Compliance Matters”, “Regulations Governing Procedure for Board of Directors Meetings”, “AIDC Audit Committee Charter”, “AIDC Remuneration Committee Charter”, “Regulations Governing the Scope of Powers of Independent Directors”, “AIDC Internal Control Systems”, “Rules for Implementation of Internal Audit”, “AIDC Accounting System”, “AIDC organization and Responsibility”, “Rules of Procedure for Shareholders Meetings”, “Procedures for Election of Directors” and submitted for Board approval.</p> <p>(5) Reporting the Company’s ability in compiling financial statement, and submitted for Board approval on Feb. 7, 2020.</p> <p>(6) Completing Report of 2019 Self-Evaluation of the Board of Directors, and submitted for Board approval on Mar. 27, 2020.</p> <p>(7) Reporting the Company’s operation strategy under COVID-19 threat, and submitted for Board approval on May. 8, 2020.</p> <p>(8) Reporting the Company’s liability insurance for all directors and managerial team for FY 2020, and submitted for Board approval on Aug. 7, 2020.</p> <p>(9) Formulating "Regulations Governing the Organization of the Information Security Committee" and establish the Information & Communication Security Committee accordingly, and approved by the Board on Dec. 18, 2020</p> <p>(10) Assisting directors with legal compliance by providing continuous education and corporate governance related data irregularly.</p>	

Item	Implementation Status			Deviations from “Corporate Governance Best- Practice Principles for TWSE/GTSM Listed Companies” and Reasons
	Y	N	Abstract	
			<p>(11) 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.</p> <p>(12) 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 Verification and Disclosure of Material Information of Companies with Listed Securities” to ensure information transparency and investor trading protection.</p> <p>(13) Completing incorporation change registration, and factory registration per laws, and keeping good management of the validity of registration documents.</p> <p>(14) For AIDC corporate governance and major BOD resolutions, please refer to the MOPS and AIDC website (http://www.aidc.com.tw/tw/investor).</p>	
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. Furthermore, the Company reported the communication status with stakeholders to Board of Director every quarter.	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?	✓		AIDC has disclose both financial standings and the status of corporate governance on website respectively at http://www.aidc.com.tw/tw/investor/governance/principle ; http://www.aidc.com.tw/tw/investor .	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 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 http://www.aidc.com.tw/tw/investor/conference for viewing.	No Significant Variation
(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?		✓	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.	The annual financial report doesn't announced and registered within two months after the end of the fiscal year.
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)?	✓		<p>(I) Employee rights and privileges and employee care:</p> <ol style="list-style-type: none"> 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. <p>(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.</p> <p>(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.</p> <p>(IV) Rights of the stakeholders: AIDC has established the system of spokesman as the</p>	No Significant Variation

Item	Implementation Status			Deviations from “Corporate Governance Best- Practice Principles for TWSE/GTSM Listed Companies” and Reasons
	Y	N	Abstract	
			<p>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.</p> <p>(V) Continuing education of the Directors: In 2020 the status of continuing education of the Directors and Corporate Governance Officer has been disclosed at MOPS and listed on page 30 of the Annual Report.</p> <p>(VI) AIDC has established the “Risk Management Guidelines” and formed a Risk Management Committee in charge of risk assessment. The 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. The implementation of risk management is also disclosed at AIDC website http://www.aidc.com.tw/tw/investor/governance/riskmanagement</p> <p>(VII) The pursuit of customer policy: AIDC has designated bodies for taking care of customer issues.</p> <p>(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. 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 at board meeting on Aug. 7, 2020 on record. The detailed information could be found at MOPS.</p>	

Item	Implementation Status			Deviations from “Corporate Governance Best- Practice Principles for TWSE/GTSM Listed Companies” and Reasons
	Y	N	Abstract	
X. 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 2020:				
(1) The Company voluntarily established functional committees (Information & Communication Security Committee) other than statutorily required committees.				
(2) The Company has established Board of Directors Performance Evaluation in 2019, the implementation status and assessment results has reported Board of Director and disclose at website.				
(3) The company has established an information security risk management framework, adopted information security policies and concrete management programs, and disclosed them on the company's website and in its annual report.				
(4) The company adopted an intellectual property management plan linked to the company's operational objectives, and disclosed the status of its implementation on the company's website, and report on the plan to the board of directors once a year.				
(5) The company adopted risk management policies and procedures that have been passed by the board, and disclosed the scope of risk management, the corresponding organizational structure in place, and the status of risk management operations on the company's website.				
(6) The Company adopted an approval method for the recruitment, evaluation, and remuneration of its internal auditors by submission by the chief internal auditor to the chairman of the board for approval, and disclosed the method on the company's website.				
2. Priority matters and actions to be taken in 2021:				
(1) Conduct verification of the annual emissions of greenhouse gases(GHG) by an external institution.				
(2) Disclose how independent directors communicate on their own with the chief internal auditor and the external auditors on the company's website.				
(3) 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	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 : If a Member meets the following criteria in the two years prior to the date of appointment and during term of office, tick ✓ in the box under each criteria.

- (1) Not an employee of the Company or any of its affiliates.
- (2) Not a director or supervisor of the Company or any of its affiliates. Not applicable in cases where the person concurrently serves as the independent director, which is appointed in accordance with the Securities and Exchange Act or with the laws of the country of the parent company or subsidiary, of the Company and its parent company, subsidiaries, or any company that shares the same parent company with it.
- (3) Not a shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of total shares issued by the Company or ranks as one of its top ten natural-person shareholders.
- (4) Not a spouse, relative within the second degree of relationship, or lineal blood relative within the third degree of relationship of managerial officers listed in the criterion (1) or individuals listed in the criterion (2) and (3).
- (5) Not a director, supervisor, or employee of an institutional shareholder that directly holds 5% or more of the total shares issued by the Company, ranks as one of its top five shareholders or designates a representative as the director or supervisor of the Company pursuant to Paragraph 1 or 2, Article 27 of the Company Act. Not applicable in cases where the person concurrently serves as the independent director, which is appointed in accordance with the Securities and Exchange Act or with the laws of the country of the parent company or subsidiary, of the Company and its parent company, subsidiaries, or any company that shares the same parent company with it.
- (6) Not a director, supervisor, or employee of another company whose half of the seats of directors or shares with voting rights is controlled by the same person as the Company. Not applicable in cases where the person concurrently serves as the independent director, which is appointed in accordance with the Securities and Exchange Act or with the laws of the country of the parent company or subsidiary, of the Company and its parent company, subsidiaries, or any company that shares the same parent company with it.
- (7) Not a director (member of the governing board), supervisor (member of the supervisory board) or employee of another company or institution that the Chairman, President or person holds an equivalent position of it are the same person or the spouse of the person holding the aforementioned positions of the Company. Not applicable in cases where the person concurrently serves as the independent director, which is appointed in accordance with the Securities and Exchange Act or with the laws of the country of the parent company or subsidiary, of the Company and its parent company, subsidiaries, or any company that shares the same parent company with it.
- (8) Not a director (member of the governing board), supervisor (member of the supervisory board), managerial officer, or shareholder holding 5% or more of shares of a specified company or institution that has a financial or business relationship with the Company. Not applicable in cases where the company or institution holds more than 20% but no more than 50% of the total shares issued by the Company and where the person concurrently serves as the independent director, which is appointed in accordance with the Securities and Exchange Act or with the laws of the country of the parent company or subsidiary, of the Company and its parent company, subsidiaries, or any company that shares the same parent company with it.

(9) Not a professional individual who, or an owner, partner, director (member of the governing board), supervisor (member of the supervisory board), or managerial officer of a sole proprietorship, partnership, company, or institution, that provides audit services, or commercial, legal, financial, accounting or related services from which a cumulative amount of remuneration not exceeding NT\$500,000 has been obtained in the most recent two years, to the Company or to any of its affiliates, or a spouse thereof. Not applicable in cases where the person is a member of the remuneration committee, the public tender offer review committee or the special committee for merger/consolidation and acquisition who exercises powers pursuant to the Securities and Exchange Act and the Business Mergers and Acquisitions Act.

(10) Not been a person of any conditions defined in Article 30 of the Company Act.

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 2 meetings of Remuneration Committee were held from January 1, 2020 to December 31, 2020. Member attendance was as follows:

Title	Name	Attendance in Person	By Proxy	Attendance Rate (%)	Remarks (term)
Chair	Chan, Chia-Chang	2	0	100%	Third
Member	Chen, Yin-Chin	2	0	100%	Third
Member	Xu, En-De	1	1	50%	Third (appointed on Nov. 9, 2018)
Member	Lien, Li-Jen	2	0	100%	Third (appointed on Aug. 9, 2019)

Note: The Committee exercise the care of a good administrator to faithfully perform the following duties and present its recommendations to the board of directors for discussion.

1. Periodically reviewing this Charter and making recommendations for amendments.
2. Establishing and periodically reviewing the performance assessment standards, annual and long-term performance goals, and the policies, systems, standards, and structure for the compensation of the directors and managerial officers of this Corporation
3. Periodically assessing the degree to which performance goals for the directors and managerial officers of this Corporation have been achieved, setting the types and amounts of their individual compensation

4.4.3 Important notices

Date	Session	Motions	Resolution	Action Status
March 19, 2020	The 5 th session of the 3 rd term of the Board	<ul style="list-style-type: none"> 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 except the motion of indexes of board performance evaluation for FY 2020.	Approved by the Board
April 30, 2020	The 6 th session of the 3 rd term of the Board	<ul style="list-style-type: none"> 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”

Item	Implementation Status			Deviations from “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-listed Companies” and Reasons
	Y	N	Abstract	
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?	✓		In order to effectively identify and control the risks that affect the company operation, AIDC adopted the establishment of CSR Consultation Committee and designated CSR Promotion Group to conducts risk assessments on environmental, social and corporate governance issues related to the company's operations in accordance with the materiality principle. The information of risk management and plan is disclosed on official website at http://www.aidc.com.tw/tw/cse .	No Significant Variation
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?	✓		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).	No Significant Variation
III. (I) Environment Issues Does the company establish proper environmental management systems based on the characteristics of their industries?	✓		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 latest accreditation are as follows: 1. ISO-14001: Valid from September 2018 to October 2021. 2. ISO-50001: Valid from December 2019 to December 2022.	No Significant Variation

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 2020. 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 13 renewable energy certificates in 2020. 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 regularly assess the potential opportunities and risks of climate change from regulatory and physical aspect, and adopts measures to deal with related issues. The information is also disclosed on the Company's website (http://www.aidc.com.tw/tw/cse/environment)	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 lowering impact on the environment by actions including "conform to laws and regulations, cleaner production, full participation, and continuous improvement". The measures is elaborated below: <ol style="list-style-type: none"> 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?	✓		<p>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.</p> <p>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:</p> <ol style="list-style-type: none"> 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. <p>More information please refer to the official website at http://www.aidc.com.tw/tw/cse/employee</p>	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?	✓		<p>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 86 to 88, and the official website at http://www.aidc.com.tw/tw/cse/employee</p> <p>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</p>	No Significant Variation

Item	Implementation Status			Deviations from “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM- listed Companies” and Reasons
	Y	N	Abstract	
			Performance Bonus” based on regulation of “AIDC Employee Payroll Management Points” and “Payroll Management Operations Rules”, the bonus of employees is calculated accordingly.	
(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 2020, AIDC provided a general physical examination, which including carotid sonography to 3,914 employees, 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 customers. More information please refer to the official	No Significant Variation

Item	Implementation Status			Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-listed Companies" and Reasons
	Y	N	Abstract	
			website at http://www.aidc.com.tw/tw/cse/client	
(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 regulations of Occupational Safety and Health Act, the supplier will be advised to improve, and if the supplier repeatedly persuaded, the cooperation will be terminated. More information please refer to the official website at http://www.aidc.com.tw/tw/cse/client	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 organization?	✓		AIDC duly follows 2016 GRI Standard in the 2020 CSR report and has accredited from SGS Taiwan Ltd on 1, June, 2020. More information please refer to the CSR report and the official website at http://www.aidc.com.tw/Content/File/csrreptw201910.pdf .	No Significant Variation
<p>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:</p> <p>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".</p> <p>VII. Any other important information that helps to understand the conduct of corporate social responsibility:</p> <p>In the area of "social concern":</p> <ol style="list-style-type: none"> 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 typhoon Maysak and typhoon Chan-hom in 2020. 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 Malaysia 				

Item	Implementation Status			Deviations from “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM- listed Companies” and Reasons
	Y	N	Abstract	
			<p>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 establish better corporate image.</p> <p>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 2020, AIDC volunteers organized 3 charity activities with 156 person-times providing volunteer service to 23,525 person-times; co-organized 16 charity activities with 401 person-times providing volunteer service to 159,009 person-times. In addition, promotion 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.</p> <p>6. 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 organized corporate visitng for 4 rural elementary school in Heping District of Taichung, with more than 80 students attended in 2020. And invited Fu Chuen Primary School to join “Aviation Technology” activity to providing students with knowledge in aerospace industry.</p> <p>7. 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 3 social welfare organizations, namely Kaohsiung Autism Foundation-Autism Homeland, Taiwan Lourdes Association (Taichung office), and Hualien Walk with You Social Care Association. A total of 35 volunteers were at service, and the agency ’s service benefited 5,200 person-times in total.</p> <p>8. 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.</p> <p>In the area of “environment protection”:</p> <p>To fulfill environmental and corporate social responsibility, AIDC has conduct measures including source control, waste reduction and reuse, clean production, green procurement, air pollution prevention, waste (pollutant) water treatment, waste resource, toxic chemical substances substitutes and etc. Our effort in promoting energy saving and carbon reduction, resource recycling, environmental education, social participation, and green procurement, have been recognized by the government and won several honor such as "Second National Enterprise Environmental Protection Award" by Environment Protection Agency, the "Honorary Environmental Protection Award".</p>	

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 listed 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. (I) Fulfill operations integrity policy 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. The Company’s Supplier Code of Conduct is disclosed at website http://www.aidc.com.tw/Content/File/inde_supplier.pdf	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 has established policies to prevent conflicts of interest, the related regulation are as follow: <ul style="list-style-type: none"> ● Article 16 of “AIDC Ethical Corporate Management Best Practice Principles” ● Article 4 of “AIDC Codes of Ethical Conduct” ● Article 24 of “AIDC Working rules of Practitioner” ● Subparagraph4, paragraph 4, article 4 of “Regulation Governing Employee’s Position Transfer” ● Subparagraph 1, paragraph 1, article 3 of “Codes of Conducts on Procurement” ● Paragraph 6 of article 6 of “Procurement Regulation” The Security Division also 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.	No Significant Variation

Item	Implementation Status			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/GTSM- listed Companies” and Reasons
	Y	N	Abstract	
(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
(V) Does the company regularly hold internal and external educational trainings on operational integrity?	✓		<p>The Ethic & Security Dept. has conducted the followings in 2020.</p> <ol style="list-style-type: none"> 1. Completed the signing of “AIDC Employee Code of Conduct”, and signed by 99.99% 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 10 lectures on ethics and security with 72 person-times. 4. Registered 43 cases of bestow gifts abide by “AIDC Employee Code of Conduct”. 	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. 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 appropriate person for follow-up?	✓		According guidelines for releasing prizes and bonus, the person in charge of related operation can release a prize as encouragement for the person under relevant. 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 contact information also posted at official website, and as follow: Contact: Head of Ethics Team, Ethics & Security Division. Email: clean@ms.aidc.com.tw Tel: 04-11742373	No Significant Variation
(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				

Item	Implementation Status			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/GTSM- listed Companies” and Reasons
	Y	N	Abstract	
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:

Aerospace Industry Development Corporation Statement of Declaration on Internal Control

Date: March 26, 2021

Aerospace Industry Development Corporation has conducted internal audit in accordance with its Internal Control Regulation covering the period from January 1 to December 31, 2020, 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 26, 2021 with the presence of 10 directors in common consent.

Chairman: Hu, Kai-Hung
President: Ma, Wan-June

漢翔航空工業股份有限公司
內部控制制度聲明書

日期：110年3月26日

本公司民國109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之達成，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109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110年3月26日董事會通過，出席董事10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

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 2019 Major Resolutions of Shareholders' Meeting and Implementation Status

1. The 2019 Business report and financial report.
2. The distribution of Earnings for FY 2019
Implementation Status: Authorized by the BOD, Chairman set July 17, 2020 as the ex-dividend record date, and a cash dividend of NT\$1.19 per share, which made up the total of NT\$1,120,821,850 was to be distributed by August 3, 2020.
3. The proposal for amending Articles of Charter was approved.
Implementation Status: As per Approval Letter Jin Shang-Zi No.10901099230 issued by the Ministry of Economics Affairs on June 12, 2020, the amendment of Articles of Charter was registered and disclosed on the Company's website.

4.12.2 2019-2020 Major Resolutions of Board of Directors' Meetings

Date	Session	Motions
February 7, 2020	The 11 th session of the 8 th term of the Board	<ul style="list-style-type: none"> • Calling for the regular session of the General Meeting in FY 2020 • AIDC Land Lease Plan
March 27, 2020	The 12 th session of the 8 th term of the Board	<ul style="list-style-type: none"> • 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"
April 14, 2020	The 4 th special session of the 8 th term of the Board	<ul style="list-style-type: none"> • 2019 Unsecured Corporation Bond Report • Supplement of the 2020 shareholders' meeting
May 8, 2020	The 13 th session of the 8 th term of the Board	—
August 7, 2020	The 14 th session of the 8 th term of the Board	<ul style="list-style-type: none"> • Amendment to "AIDC Rules Governing the Scope of Powers of Independent Directors" • Amendment to "AIDC Organizational Charter" • Amendment to "AIDC Internal Control System" • Amendment to "AIDC Internal Audit Implementation Rules" • Amendment to 2020 Sales Target
September 16, 2020	The 5 th special session of the 8 th term of the Board	<ul style="list-style-type: none"> • Discharge and appointment of AIDC vice president • The project of early retirement package in 2020
October 16, 2020	The 15 th session of the 8 th term of the Board	<ul style="list-style-type: none"> • Internal Audit Plan for FY 2021 • The disposition of rear fuselage in commercial aviation project
December 18, 2020	The 16 th session of the 8 th term of the Board	<ul style="list-style-type: none"> • Appointment of General Manager of AIDC US Subsidiary • Amendment to "AIDC Rules of Procedure for Shareholders Meetings"

		<ul style="list-style-type: none"> • Amendment to "AIDC Procedures for Election of Directors" • Amendment to "AIDC Organizational Rules and Responsibilities of the Board of Directors, Chairman and President" • Amendment to "AIDC Internal Audit Implementation Rules" • Amendment to Accounting System • The establishment of the company's information security committee • Principle for bonus of Chairman, President, Vice Presidents and managerial officers concerned for FY 2020 • Business Plan for 2021
February 26, 2021	The 17 th session of the 8 th term of the Board	<ul style="list-style-type: none"> • The re-election of the 9th term of the Board • Lift the ban of non-compete on directors and their representatives elected to the new term of office • Calling for the regular session of the General Meeting in FY 2021
March 26, 2021	The 18 th session of the 8 th term of the Board	<ul style="list-style-type: none"> • Business Report for FY 2020 • Allocation amount of remuneration to employees and directors for FY 2020 • Financial Report for FY 2020 • Distribution of earnings for FY 2020 • Declaration of Internal Control for FY 2020 • Amendment to AIDC Corporate Charter (Articles of Incorporation) • Bonus of Chairman, President, Vice Presidents and managerial officers concerned for FY 2020 • Principles for bonus of Chairman, President, Vice Presidents and managerial officers concerned for FY 2021 • AIDC 2021 Unsecured Corporate Bond Issue • Change of external auditor

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	Done-Yuin Tseng	Lie-Dong Wu	2020	

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	3,316	557	3,873
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	Done-Yuin Tseng, Lie-Dong Wu	3,316				557	557	2020	1. Certification of Project financial statements amounted to NT\$144,000 2. Audit of business tax report amounted to NT\$152,000 3. Certification of transfer pricing report amounted to NT\$145,000 4. Secondary reviews of salary of full-time employees information amounted to NT\$116,000

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	0	0	0	0
	Representative: Ma, Wan-June	0	0	0	0
	Representative: Liou, Ming-Jong	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	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	0	0	0	0
President	Ma, Wan-June	0	0	0	0
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
Vice President	Chuang, Jennifer (Note 1)	0	0	0	0
Chief Audit Executive	Lin, Fu-Ji	0	0	0	0
Director, Finance & Accounting	Huang, Hsiu-Yen (Note 2)	0	0	0	0
R&D Officer	Wu, Tian-Sheng	(6,000)	0	0	0
Director, Strategy & Legal Affairs	Chuang, Jennifer	0	0	0	0
Corporate Governance Officer	Chen, Zong-Hong (Note 4)	0	0	0	0

Note 1: Ms. Chuang, Jennifer was appointed as vice president at the 5th special session of the 8th term of the Board, effective Sep. 16, 2020.

Note 2: Ms. Huang, Hsiu-Yen is in charge of both Finance and Accounting.

Note 3: 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 13, 2020 (note 1)/ 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	Relationship	
MOEA	331,301,773	35.18% (note 2)	N/A	N/A	-	-	-	-	
Representative: Hu, Kai-Hung	30,000	0.003%	-	-	-	-	-	-	
Representative: Ma, Wan-June	-	-	-	-	-	-	-	-	
Representative: Chang, Ming-Pin	-	-	-	-	-	-	-	-	
Representative: Shieu, Fuh-Sheng	-	-	-	-	-	-	-	-	
Representative: Liou, Ming-Jong	-	-	-	-	-	-	-	-	
Representative: Yu, Cheng-Tao	107,205	0.01%	-	-	-	-	-	-	
Representative: Hsu, Chung-Ming	75,502	0.01%					-	-	
Fubon Life Insurance Co., Ltd.	46,785,100	4.97%	N/A	N/A	-	-	-	-	
Responsible person: Tsai, Ming-Hsing	-	-	-	-	-	-	-	-	
The New Labor Pension Fund	28,884,820	3.07%	N/A	N/A	-	-	N/A	N/A	
Taipei Fubon Commercial Bank Co., Ltd. Trust Account	23,874,376	2.53%	N/A	N/A	-	-	N/A	N/A	
The Labor Insurance Fund	22,898,973	2.43%	N/A	N/A	-	-	N/A	N/A	
Cathay Life Insurance Co., Ltd.	17,260,620	1.83%	N/A	N/A	-	-	-	-	
Responsible person : Huang, Tiao-Kuei	-	-	-	-	-	-	-	-	
National Pension	16,297,234	1.73%	N/A	N/A	-	-	N/A	N/A	

Name	Current Shareholding		Spouse & Minor Shareholding		AIDC Shareholding by Nominee Arrangement		Name and Relationship between AIDC's Shareholders		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relationship	
Insurance Fund									
National Defense Industrial Development Foundation	11,063,201	1.17%	N/A	N/A	-	-	N/A	N/A	
Representative: Hsu, Yan-Pu	-	-	-	-	-	-	-	-	
TransGlobe Life Insurance Inc.	8,516,620	0.90%	N/A	N/A	-	-	-	-	
Representative: Peng, teng-de	-	-	-	-	-	-	-	-	
Far Glory Life Insurance Co Ltd	5,869,000	0.62%	N/A	N/A	-	-	-	-	
Representative: Roy Meng	-	-	-	-	-	-	-	-	

Note 1: the record date

Note 2: The Ministry of Economic Affairs holds a shareholding ratio of 35.175%, which is 35.18% after rounding.

10. Proportion of Overall Shareholding:

As of December 31, 2020/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)	100.00	—	—	(Note 1)	100.00
Jung Sheng Precision Ind. Co., Ltd.	5,000	31.25			5,000	31.25
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	3.11	—	—	1,100	3.11

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, 2021 / 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, 2021/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 13, 2020 (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	10	138	48,013	71	48,233
Shareholding	331,301,773	80,132,840	124,735,824	391,842,323	13,854,341	941,867,101
Holding Percentage (%)	35.18% (note)	8.51%	13.24%	41.60%	1.47%	100.00%

1.3 Distribution Profile of Share Ownership

As of July 13, 2020 (Last Record Date)

Shareholder Ownership (Unit: Share)	Number of Shareholders	Ownership (Unit: Share)	Ownership (%)
1 ~ 999	6,419	888,840	0.09%
1,000 ~ 5,000	29,253	61,462,071	6.53%
5,001 ~ 10,000	5,548	42,973,154	4.56%
10,001 ~ 15,000	1,880	22,950,462	2.44%
15,001 ~ 20,000	1,198	21,894,112	2.33%
20,001 ~ 30,000	1,082	27,006,088	2.87%
30,001 ~ 50,000	1,057	42,292,509	4.49%
50,001 ~ 100,000	1,081	78,589,755	8.34%
100,001 ~ 200,000	596	72,119,668	7.66%
200,001 ~ 400,000	75	20,540,689	2.18%
400,001 ~ 600,000	13	6,479,111	0.69%
600,001 ~ 800,000	6	4,059,270	0.43%
800,001 ~ 1,000,000	5	4,562,000	0.48%
Over 1,000,001	20	536,049,372	56.91%
Total	48,233	941,867,101	100.00%

Note: The Ministry of Economic Affairs holds a shareholding ratio of 35.175%, which is 35.18% after rounding.

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 13, 2020 (Last Record Date)

Shareholders	Total Shares Owned	Ownership (%)
MOEA	331,301,773	35.18% (note)
Fubon Life Insurance Co., Ltd.	46,785,100	4.97%
The New Labor Pension Fund	28,884,820	3.07%
Taipei Fubon Commercial Bank Co., Ltd. Trust Account	23,874,376	2.53%
The Labor Insurance Fund	22,898,973	2.43%
Cathay Life Insurance Co., Ltd.	17,260,620	1.83%
National Pension Insurance Fund	16,297,234	1.73%
National Defense Industrial Development Foundation	11,063,201	1.17%

TransGlobe Life Insurance Inc.	8,516,620	0.90%
Far Glory Life Insurance Co Ltd	5,869,000	0.62%

Note: The Ministry of Economic Affairs holds a shareholding ratio of 35.175%, which is 35.18% after rounding.

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

Units : NT\$ dollar/shares

Item		2019	2020	1/1/2021~3/31/2021
Market Price Per Share (Note 1)	Highest	36.15	36.70	30.85
	Lowest	30.05	24.90	27.05
	Average	32.21	29.17	28.59
Net Worth Per Share (Note 2)	Before Distribution	15.62	14.83	(Note 8)
	After Distribution	14.43	14.63 (Note 7)	(Note 8)
Earnings Per Share	Weighted Average Shares (thousand shares)	941,867	941,867	(Note 8)
	Earnings Per Share (Note 3)	1.99	0.42	(Note 8)
Dividends Per Share	Cash Dividends		1.19	0.20 (Note 7)
	Stock dividend	—	—	—
		—	—	—
	Accumulated Undistributed Dividend		—	—
Return on Investment	Price/Earnings Ratio (Note 4)	16.19	69.45	—
	Price/Dividend Ratio (Note 5)	27.07	145.85 (Note 7)	—
	Cash Dividend Yield (Note 6)	3.69%	0.69 % (Note 7)	—

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 pending 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 earnings, 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\$395,858 thousand in FY 2020. The appropriations of earnings for FY 2019 was proposed to and approved by the Company's board meeting on March 26, 2021. The amount of earnings for distribution is NT\$188,373 thousand with cash dividend at NT\$0.2/share.

Note: The appropriations of earnings of FY 2020 is subject to the resolution of the Shareholders' Meeting to be held on May 28, 2021.

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 2020, the remuneration to employees was NT\$18,883 thousand and remuneration to the directors was NT\$2,356 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 2020, following amounts are approved by the board meeting held on March 26, 2021:

(A) employee cash remuneration : NT\$18,833 thousand

(B) employee share dividend : NT\$ 0

(C) remuneration to the directors : NT\$2,356 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 27, 2020 that for FY 2019 the amount disbursed for employee bonus was NT\$106,953 thousand, remuneration to the directors was NT\$13,341 thousand, and no employee share dividend was proposed. The said Board resolution was reported to the Shareholders' Meeting on May 29, 2020. 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 sum upon 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, converted amount of (exchanged or subscribed)	Not applicable

	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	2019		2020	
	Amount	%	Amount	%
Maintenance of Airplanes and Vehicles (Note 1)	16,072,427	56.31	14,026,669	66.65
Engines (Note 2)	11,917,333	41.76	6,421,779	30.52
Industrial Technology Services	550,447	1.93	594,489	2.83
Total	28,540,207	100.00	21,042,937	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 energy system, 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 basic jet trainer, the next-generation fighter, fight for business opportunities of newly purchased F-16V fighters including adopt domestic engine and maintenance in business, and expand business in military aircraft and fleet maintenance and GOCO. By the increasing R&D and production projects with National Chung-Sahn Institute of Science and Technology (NCSIST), AIDC aim to become the main manufacturing base for NCSIST research product.

In the area of commercial planes, AIDC mainly focus on executing the existing orders in response to the outbreak of COVID-19 pandemic which severely weaken the commercial aircraft market in 2020. In the long run, 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 maintenance of engines.

In the area of industrial technology, AIDC plans to develop green energy business such as energy storage system, shipping power systems, and provide technology services including vehicle system, space

satellite, and advanced simulation, to expand the scope of business.

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.

In response to the escalating regional tensions in recent years, the government passed the "Special budget for the procurement of new fighter jet" project in 2019, which aim to build Taiwan's ability in designing and manufacturing defense weapon, and strengthen the defense capability. The business opportunities derived from this project is expecting to help boost the development of domestic aerospace industry.

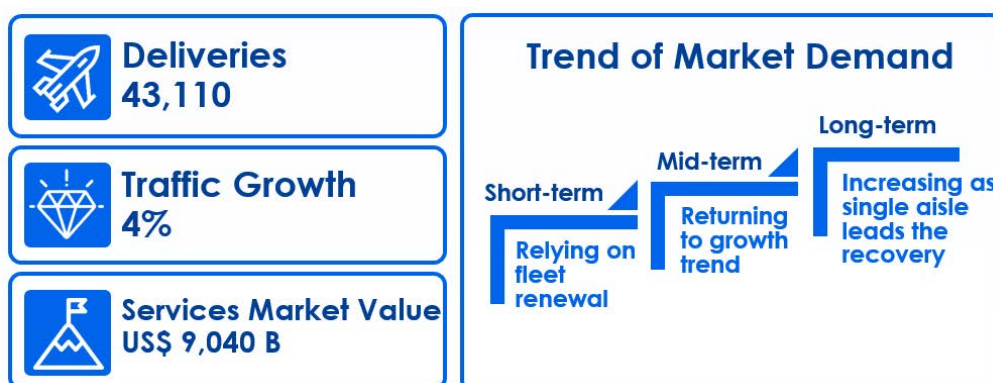
1.2.1.2 Commercial Aviation

The havoc wreaked by the COVID-19 pandemic at the beginning of 2020 leads to widespread border restrictions that choking international air travel, and the aerospace industry has been dramatically impacted. The aerospace supply chain has also been severely affected by dwindled orders since leading aerospace manufacturers, such as Boeing, Airbus, GE, Rolls-Royce have announced rounds of layoffs.

The International Air Transport Association (IATA) released an updated global passenger forecast showing that the global passenger traffic (revenue passenger kilometers or RPKs) will not return to pre-COVID-19 levels until 2024. Meanwhile, the market forecast released by Boeing, for the next 20 years (2020-2039) new airplane requirement is 43,110, and the passenger traffic average annual growth rate down to 4%, both numbers are lower than last forecast.

According to Boeing's forecast, in the short-term, new planes demand will be buoyed in part by a rise in the number of replacements as airlines accelerate the retirement of older jets; In the medium-term market will return to the growth trend; and the single-aisle jets are forecast to lead the way to recovery in the long-term.

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



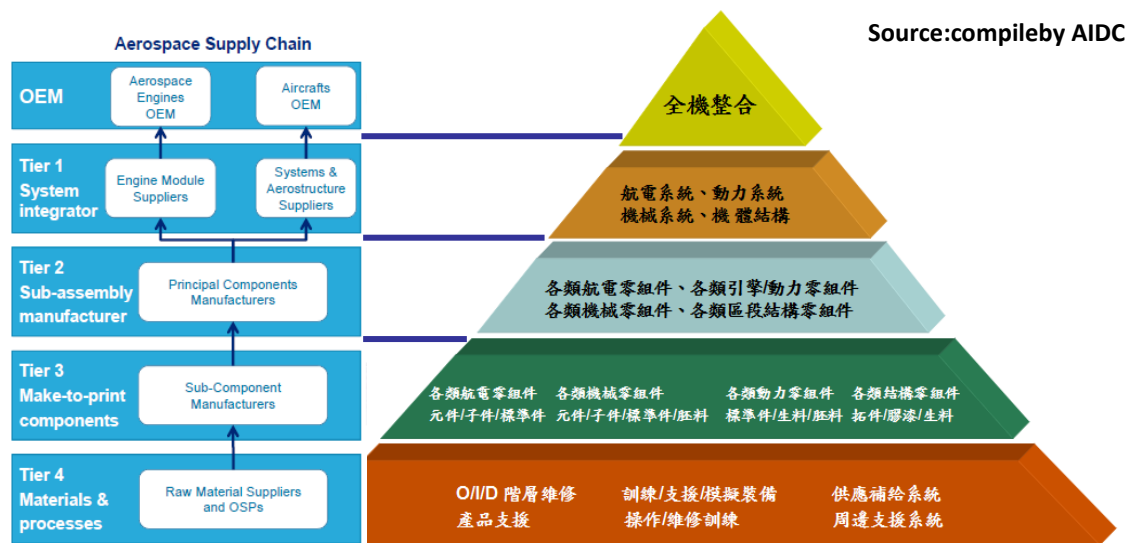
Sources: Boeing CMO (2020-2039)

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



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. Furthermore, AIDC elected as the main operator of the F-16 Maintenance & Support Center in 2020, and will assist the Air Force to solve the maintenance problem of high cost, high failures, and long delivery, and lead domestic manufacturers to seize production and maintenance opportunities of relevant projects. 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 oriented towards the development of system parts and components in recent years, and sought 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, manufacturing 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 competitiveness of Taiwan aerospace industry as a whole.

However, the aerospace industry is severely affected by the COVID-19 pandemic, the border restrictions choking international air travel, cause steep declines in airplane orders and aerospace giants have been lowering cost by layoff, and reducing outsourcing for its own survival, which disrupts the aerospace supply chain and severely affected Tier 2 and every stream of suppliers.

During the dim time of pandemic, Taiwan is relatively stable and secure due to its incredible success in seal off the threat of COVID-19. Taiwan' manufacture operation is undisrupted and can serve as great supplier in the global business.

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	2019	2020	Q1 of 2021
R&D Expenditures	548,281	516,700	Note 2
Net Revenue	28,540,207	21,042,937	Note 2
% of Revenue	1.92%	2.46%	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 2021 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 2020 are shown in the table below:

Item	Technology or Product	Result
1	Improvement of RTM Process	1. Established RTM new mold design and manufacture technology to attain production efficiency substantially. 2. The production efficiency is expected to meet STATOR VAN annual demand.
2	Automatic Assembly Process Development	1. Established the capability and related technology of Automatic Assembly. 2. Completed self design & manufacturing of Automatic assembly jig.
3	Development and Lean of Automated Process	1. Developed 7 CATIA V5 customized models by cooperation with National Tsing Hua University. 2. Developed the auto-correction software system of NC path for robots.
4	Sheet Metal SKIN Stretch Forming Analysis Research	1. Collected test data of coefficient of friction between Tooling material and alloy part material. 2. Spring back improve method analysis. Simulation and analysis parameter collect.
5	Thermoplastic Composite(TPC) Forming Technology Research and Development	1. Complete the thermoforming parts redesign of thermoplastic composite(TPC) materials. 2. Self-developed a thermoforming tool for Mid-Rib parts. 3. Evaluation for the second assembly technology of ultrasonic welding process for thermoplastic composite material.
6	Research, Analysis and Translation of Application Development of Ultrasonic Processing Technology	1. Use the oscillation principle to improve the chip breaking function during cutting and reduce the occurrence of tool damage. 2. Utilizing the existing ultrasonic T23 (2-inch disc knife) knife to improve to a 2.5-inch disc knife, and increase the production efficiency by 15%.
7	Commercial Airline Seats	1. Based on LOPA (Layout of Passenger Accommodations) requirement to design the economy class seats and prepare dynamic/static test planning. 2. Established the key process of civil aircraft cabin modification STC (Supplemental Type Certificate) application. 3. Established domestic supply chain and resources for aviation seats. 4. Built an international service team to keep abreast with information of aircraft seats design, materials, manufacturing process, analysis technology information and customer requirements.
8	Developing the key technology of ejector rack	1. Completed the design and analysis of critical parts in ejector rack. 2. Completed the verification of cylinder configuration.

Item	Technology or Product	Result
9	Development and manufacture of F124-200TW parts transitioned from G-workshare split to A-workshare split	<ol style="list-style-type: none"> 3. Complete the development of airfoil surface blades, compressor discs, centrifugal compression impellers, and combustion liners with more than 10,000 cooling holes, which will be of great benefit to the company and country's subsequent full engine research and development. 4. Complete the development of new material castings and new process technology.
10	Military Electrical Part Diminishing Manufacturing Sources Research and Development Project	<ol style="list-style-type: none"> 1. Resolved 68 DMS issues that worth NT\$ 750 million in accumulative sales. 2. Increased capabilities of reverse engineering and DMS problem-solving to resolve DMS problem of various military plane/outsourcing weapon system maintenance.
11	Application of Lean Production	<ol style="list-style-type: none"> 1. Held 62 Accelerated Improvement Workshops that guided by Genba Observation, and organized 376 improvement teams to complete proposed improvement actions from 2014 to 2020. 2. Total savings in this project is over NT\$ 800 million from 2014 to 2020.

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 aircraft structure and engine parts.

1.3.3.3 Management: Upgrade the fleet management system, AI project and Lean Activity.

1.3.3.4 Maintenance: Establish maintenance 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, alloy welding technique, 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, next generation fighters, F-16 fighters, and drone, 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 secure existing order first, then pursue increment and manufacturing proportion expansion, alleviate the impact of COVID-19 pandemic, 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: develop green energy business such as energy storage system, shipping power systems, and become a leading manufacturer of overall solutions for energy and power systems.

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, Lockheed Martin.
Commercial aviation	Foreign	Manufacturing of aircraft body: Aerospace manufacturing giant firms in Europe, America, and Japan, such as Boeing, Airbus, Bombardier, Leonardo, KHI, Mitsubishi, PFW Aerospace GmbH, Sikorsky, SUBARU, Spirit, and Bell Helicopter. Engines: Engine manufacturing giant firms in Europe and America, such as GE, Rolls-Royce, Honeywell, Pratt & Whitney, and Safran.
Industrial Technology Service	Domestic	Taipei Rapid Transit Corporation, National Chung-Sahn Institute of Science and Technology, Chang Chun Group, National Space Organization, Taiwan Mobile Corporation, Lu-Yeh Energy Corporation, Workforce Development Agency, Taiwan Hodaka Technology Co., Central Weather Bureau, Chunghwa Telecom Co.
	Foreign	The MTR Corporation Limited in Hong Kong, Nagoya University in Japan, Kilang Kelapa Sawit Lekir Sdn Bhd in Malaysia.

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 havoc wreaked by the COVID-19 pandemic at the beginning of the year and the Boeing 737MAX groundings have disrupted the initially optimistic outlook and have brought forward an impact worse than the 2007-2008 Financial Crisis. Aerospace giants, including Boeing, Airbus, GE, Rolls-Royce and others, have announced rounds of layoffs. The aerospace supply chain has also been severely affected by dwindled orders from leading aerospace manufacturers. The International Air Transport Association (IATA) forecast indicates that the RPKs will not return to pre-COVID-19 levels until 2024.

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.

- C. AIDC elected as the main operator of the F-16 Maintenance & Support Center in 2020, and plan to obtain technology transfer, authorization and certification from Lockheed Martin. AIDC aim to develop the core technology of defense aircraft, lead domestic manufacturers to seize production and maintenance opportunities of relevant projects with the aim of increasing technological capacity and build domestic supply chain of defense industry.

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.

Response

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.

- C. The havoc wreaked by the COVID-19 pandemic at the beginning of the year has severely impacted the aerospace giants operation, including Boeing, Airbus, GE, Rolls-Royce and others, have announced rounds of layoffs. The aerospace supply chain has also been severely affected by dwindled orders from leading aerospace manufacturers. AIDC's commercial aircraft programs are no exception.

Response

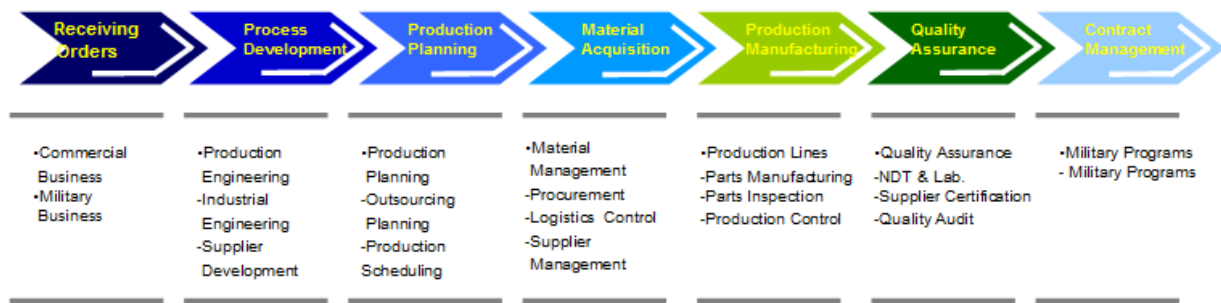
The commercial aircraft market outlook is no near optimistic in short-term, AIDC will focused on using strengths of military business and industrial services to compensate for damages in commercial aviation sector, to achieve sustainable and steady operation.

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, system parts, non-standardized parts 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 UAC FUTURE METALS	The key suppliers of aluminum, steel, titanium plate, sheet, tube, rod, and molded forms of metals in market.
Non-metals	CYTEC HEXCEL Argosy International Inc. PPG EURO COMPOSITES	The key suppliers of composite materials, rubber, paints, and cell devices in market.
Standard metal parts	WESCO Boeing Distribution Services Inc. Adept Fasteners Tyco Electronics Singapore Pte Ltd Peerless Aerospace Fastener	The key suppliers of standard metal parts, electronic parts.
Finished items and non-standardized parts	Moog Inc. Meggitt Aircraft Braking IMP Aerostructures Honeywell International D&S	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:

2019					2020				1/1/2021~3/31/2021			
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	1,413,232	9.49	None	A	1,956,871	18.77	None	A	Note 2	Note 2	None
	Others	13,480,681	90.51	-	Others	8,469,615	81.23	-	Others	Note 2	Note 2	-
	Net Revenue	14,893,913	100.00	-	Net Revenue	10,426,486	100.00	-	Net Revenue	Note 2	Note 2	-

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

Note 2: Financial information for Q1 of FY 2021 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; %

2019					2020				1/1/2021~3/31/2021			
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	11,524,123	40.38	None	A	12,149,913	57.74	None	A	Note 3	Note 3	Note3
2	B	6,886,221	24.13	None	B	2,281,720	10.84	None	B	Note 3	Note 3	Note3
	Others	10,129,863	35.49		Others	6,611,304	31.42		Others	Note 3	Note 3	Note3
	Net Revenue	28,540,207	100.00		Net Revenue	21,042,937	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 2019 and FY 2020 is based on the audited figures under IFRSs.

Note 3: Financial information for Q1 of FY 2021 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

Product	Val. & Vol.	2019			2020		
		Production Capacity	Production Volume	Production Value	Production Capacity	Production Volume	Production Value
Maintenance of Airplanes and Vehicles		—	—	14,680,274	—	—	12,867,937
Engines		—	—	10,874,322	—	—	6,528,165
Industrial Technology Services		—	—	407,410	—	—	460,614
Total		—	—	25,962,006	—	—	19,856,716

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 2019 and 2020 are based on the audited figures under IFRSs.

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

Unit : NT\$ thousands

Product	Year Val. & Vol.	2019				2020			
		Domestic		Foreign		Domestic		Foreign	
		Qty	Amount	Qty	Amount	Qty	Amount	Qty	Amount
Maintenance of Airplanes and Vehicles		—	8,692,709	—	7,379,718	—	8,812,853	—	5,213,816
Engines		—	2,280,119	—	9,637,214	—	2,085,944	—	4,335,835
Industrial Technology Services		—	501,373	—	49,074	—	545,325	—	49,164
Total		—	11,474,201	—	17,066,006	—	11,444,122	—	9,598,815

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 2019 and FY2020 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	2020
	Level I Executives and higher	27	27	29
	Others	4,988	5,268	5,075
	Total	5,015	5,295	5,104
Average Age (years)		45.6	45.6	44.6
Average Years of Service (years)		13.1	13.1	12.6
Education	Ph.D.	0.52%	0.53%	0.63%
	Master's	17.75%	17.54%	17.95%
	Bachelor's	36.67%	37.83%	40.10%
	Other Higher Education	22.83%	21.32%	20.87%
	High School	21.89%	22.48%	20.22%
Junior High and below		0.34%	0.30%	0.23%

Note: Chairman, President and employees on leave without pay are not included.

4. Information on Expenditures for Environmental Protection

In the last 2 years up to the fourth quarter of 2020, 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 Construction 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's suggestion and, including revise the relevant SOP documents by adding chapter of notification on equipment malfunction, increase inspection rate, and review related measures and implementation to prevent of such event.

4.3 The loss or penalty incurred from pollution to the environment in 2020: None.

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. Provide Employee Stock Ownership Trust for permanent employees with 20% compensation. Provide performance bonus and annual bonus. General physical examination for all employees and special physical examination for employees engaged in special duties are also offered.

5.1.1.2 Employee Welfare Committee: AIDC has established the Employee Welfare Committee in accordance with the Employee Welfare Fund Statute 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, and maintain equity in salary, bonus and promotion opportunity. 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 (2019~2020), 60 employees have taken parental leave, and the reinstatement rate is 70%.

5.1.2 Employee Training and Continuing Education

To observe the spirit of “Talent Quality-Management System, TTQS” introduced 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 requirements 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 2020, AIDC provided 4,017 training courses (excluding online learning courses) with 129,075 person-times participated and that amounted to a total of 382,080 training hours.

5.1.2.2 On-the-job Training: AIDC selects employees of good standing and with high potential to receive domestic 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 2020, 81 employees took part in the full-time or part-time education programs and the continuing education subsidized by AIDC; and 23 employees received subsidies for foreign language proficiency and 3 employees 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 February 6, April 29, July 27 and November 10, 2020 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** 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 2020; March, June, October and December in Sha-Lu; and March, June, October and December in Gang Shan.
- 5.1.4.2** To maintain good labor-management relations, the management hosted 6 meetings with Labor Union, and 14 meetings with employees to exchange opinions on related issue.

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

Contracting Party	Principal Content
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

Fiscal Year		Financial Information Covering the Last 5 Years					
Title		2016	2017	2018	2019	2020	2021Q1
Current Assets		20,455,490	23,111,931	29,014,820	32,154,259	29,794,603	Note 3
Real Properties, Plants, and Equipment		8,244,072	8,718,654	8,352,719	8,568,418	9,297,868	Note 3
Intangible Assets		734,805	1,000,404	867,785	1,246,970	1,156,391	Note 3
Other Assets (Note 4)		1,590,633	921,892	1,584,230	4,117,789	3,775,438	Note 3
Total Assets		31,025,000	33,752,881	39,819,554	46,087,436	44,024,300	Note 3
Current Liabilities	Cum-dividend	16,499,889	15,508,917	21,805,607	19,389,351	21,187,090	Note 3
	Ex-dividend	17,408,151	16,573,227	23,067,709	20,510,173	Note 2	Note 3
Non-current Liabilities		2,164,672	5,140,922	3,880,330	11,974,499	8,872,938	Note 3
Total Liabilities	Cum-dividend	18,664,561	20,649,839	25,685,937	31,363,850	30,060,028	Note 3
	Ex-dividend	19,572,823	21,714,149	26,948,039	32,484,672	Note 2	Note 3
Shareholders' Equity Attributable to the Parent Company		12,360,439	13,103,042	14,133,617	14,723,586	13,964,272	Note 3
Capital Stock		9,082,615	9,418,671	9,418,671	9,418,671	9,418,671	Note 3
Capital Surplus		—	—	—	—	—	Note 3
Retained Earnings	Cum-dividend	3,257,799	3,716,543	4,706,032	5,334,724	4,664,437	Note 3
	Ex-dividend	2,013,481	2,652,233	3,443,930	4,213,902	Note 2	Note 3
Other Equity		20,025	(32,172)	8,914	(29,809)	(118,836)	Note 3
Treasury Stock		—	—	—	—	—	Note 3
Uncontrolled Equity		—	—	—	—	—	Note 3
Total Equity	Cum-dividend	12,360,439	13,103,042	14,133,617	14,723,586	13,964,272	Note 3
	Ex-dividend	11,452,177	12,038,732	12,871,515	13,602,764	Note 2	Note 3

Note 1: The basis for FY 2016 to FY 2020 is audited figures under IFRSs.

Note 2: Up to the date of the printing of this annual report, proposal for distribution of earnings for FY 2020 has not been resolved by the shareholders' meeting.

Note 3: Up to the date of the printing of this annual report, the first quarter of FY 2021 has not been audited by the CPA.

Note 4: 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

Fiscal Year		Financial Information Covering the Last 5 Years				
Title		2016	2017	2018	2019	2020
Current Assets		20,440,224	23,098,583	28,977,692	32,121,745	29,739,071
Real Properties, Plants, and Equipment		8,242,666	8,717,619	8,351,958	8,567,935	9,297,653

Fiscal Year Title		Financial Information Covering the Last 5 Years				
		2016	2017	2018	2019	2020
Intangible Assets		734,805	1,000,404	867,785	1,246,856	1,156,321
Other Assets (Note 4)		1,606,922	900,628	1,602,010	4,130,114	3,825,123
Total Assets		31,024,617	33,717,234	39,799,445	46,066,650	44,018,168
Current Liabilities	Cum-dividend	16,499,622	15,473,314	21,785,498	19,371,001	21,181,710
	Ex-dividend	17,407,884	16,537,624	23,047,600	20,491,823	Note 3
Non-current Liabilities		2,164,556	5,140,878	3,880,330	11,972,063	8,872,186
Total Liabilities	Cum-dividend	18,664,178	20,614,192	25,665,828	31,343,064	30,053,896
	Ex-dividend	19,572,440	21,678,502	26,927,930	32,463,886	Note 3
Shareholders' Equity Attributable to the Parent Company		12,360,439	13,103,042	14,133,617	14,723,586	13,964,272
Capital Stock		9,082,615	9,418,671	9,418,671	9,418,671	9,418,671
Capital Surplus		—	—	—	—	—
Retained Earnings	Cum-dividend	3,257,799	3,716,543	4,706,032	5,334,724	4,664,437
	Ex-dividend	2,013,481	2,652,233	3,443,930	4,213,902	Note 3
Other Equity		20,025	(32,172)	8,914	(29,809)	(118,836)
Treasury Stock		—	—	—	—	—
Uncontrolled Equity		—	—	—	—	—
Total Equity	Cum-dividend	12,360,439	13,103,042	14,133,617	14,723,586	13,964,272
	Ex-dividend	11,452,177	12,038,732	12,871,515	13,602,764	Note 3

Note 1: The figures for FY 2016 to FY 2020 are audited under IFRSs.

Note 2: Proposal for distribution of earnings for FY 2019 has been resolved by the shareholders' meeting on May 29, 2020.

Note 3: Up to the date of the printing of this annual report, proposal for distribution of earnings for FY 2020 has not been resolved by the shareholders' meeting.

Note 4: 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

Fiscal Year Title		Financial Information Covering the Last 5 Years				
		2016	2017	2018	2019	2020
Revenue		27,325,514	27,537,414	28,182,098	28,540,207	21,042,937
Gross Profit		4,115,496	3,900,142	3,639,590	3,810,641	1,402,101
Operating Income		2,725,933	2,769,768	2,346,158	2,445,366	179,824
Non-operating Income and Expenses		(131,710)	(490,979)	305,860	(73,829)	299,799
Earnings before Taxation		2,594,223	2,278,789	2,652,018	2,371,537	479,623
Earnings for Continued Operations		2,082,655	1,747,981	2,092,016	1,874,287	395,858
Earnings for Discontinued Operations		—	—	—	—	—

Title \ Fiscal Year	Financial Information Covering the Last 5 Years					
	2016	2017	2018	2019	2020	2021Q1
Earnings in Current Period	2,082,655	1,747,981	2,092,016	1,874,287	395,858	Note 2
Other Incomes in Current Period (after taxation)	(13,575)	(97,116)	(91,468)	(22,216)	(34,350)	Note 2
Total Incomes in Current Period	2,069,080	1,650,865	2,000,548	1,852,071	361,508	Note 2
Earnings Attributable to Parent Shareholders	2,082,655	1,747,981	2,092,016	1,874,287	395,858	Note 2
Earnings Attributable to Uncontrolled Equity	—	—	—	—	—	Note 2
Total Comprehensive Incomes Attributable to Parent Shareholders	2,069,080	1,650,865	2,000,548	1,852,071	361,508	Note 2
Total Comprehensive Incomes Attributable to Uncontrolled Equity	—	—	—	—	—	Note 2
Earnings per Share (NTD) (Note 3)	2.21	1.86	2.22	1.99	0.42	Note 2

Note 1: The information for FY 2016 to FY 2020 are the audited figures under IFRSs.

Note 2: Up to the date of printing of this annual report, information of Q1 of FY 2021 has not been audited by the CPA, therefore it is not disclosed.

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.

1.1.4 Concise Individual Company Comprehensive Income Statement:

Unit : NT\$ thousands

Title \ Fiscal Year	Financial Information Covering the Last 5 Years					
	2016	2017	2018	2019	2020	
Revenue	27,325,514	27,537,414	28,156,144	28,515,619	21,020,879	
Gross Profit	4,115,496	3,887,062	3,596,641	3,752,713	1,354,943	
Operating Income	2,725,542	2,769,621	2,340,133	2,440,642	171,692	
Non-operating Income and Expenses	(131,475)	(568,342)	267,966	(140,569)	234,401	
Earnings before Taxation	2,594,067	2,201,279	2,608,099	2,300,073	406,093	
Earnings for Continued Operations	2,082,655	1,747,981	2,092,016	1,874,287	395,858	
Earnings for Discontinued Operations	—	—	—	—	—	
Earnings in Current Period	2,082,655	1,747,981	2,092,016	1,874,287	395,858	
Other Incomes in Current Period (after taxation)	(13,575)	(97,116)	(91,468)	(22,216)	(34,350)	
Total Incomes in Current Period	2,069,080	1,650,865	2,000,548	1,852,071	361,508	
Earnings Attributable to Parent Shareholders	2,082,655	1,747,981	2,092,016	1,874,287	395,858	
Earnings Attributable to Uncontrolled Equity	—	—	—	—	—	
Total Comprehensive Incomes Attributable to Parent Shareholders	2,069,080	1,650,865	2,000,548	1,852,071	361,508	
Total Comprehensive Incomes Attributable to Uncontrolled Equity	—	—	—	—	—	

Title \ Fiscal Year	Financial Information Covering the Last 5 Years				
	2016	2017	2018	2019	2020
Earnings per Share (NTD) (Note3)	2.21	1.86	2.22	1.99	0.42

Note 1: The figures for FY 2016-2020 are audited under IFRSs.

Note 2: 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
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
2020	Deloitte & Touche	Done-Yuin Tseng, Lie-Dong Wu	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:

Fiscal Year Title		Financial Analysis Covering the Last 5 Years					2021Q1
		2016	2017	2018	2019	2020	
Financial Structure (%)	Liabilities to Assets Ratio	60.15	61.17	64.50	68.05	68.28	Note 2
	Long-term Capital to Property, Plant, and Equipment	159.00	195.88	203.18	301.28	236.20	Note 2

Fiscal Year Title		Financial Analysis Covering the Last 5 Years					2021Q1
		2016	2017	2018	2019	2020	
	Ratio						
Ability to Pay Debt (%)	Current Ratio	123.97	149.02	133.06	165.83	140.62	Note 2
	Quick Ratio	61.94	69.48	75.27	76.39	68.37	Note 2
	Debt Service Coverage Ratio	21.37	20.17	20.89	11.84	3.55	Note 2
Utility	A/C Turnover Rate (times)	3.85	3.22	2.25	1.93	1.75	Note 2
	Average Daily Cash Receipt	94.80	113.35	162.22	189.11	208.57	Note 2
	Inventory Turnover Rate (times)	2.26	2.54	2.74	2.38	1.50	Note 2
	A/P Turnover Ratio (times)	16.22	15.69	12.63	13.14	13.97	Note 2
	Average Days of Sales	161.50	143.70	133.21	153.36	243.33	Note 2
	Property, Plant and Equipment Turnover Rate (times)	3.91	3.24	3.30	3.37	2.35	Note 2
	Total Assets Turnover Rate (times)	0.91	0.85	0.76	0.66	0.46	Note 2
Profitability	Return on Assets (%)	7.32	5.70	5.97	4.76	1.19	Note 2
	Return on Equity (%)	17.43	13.72	15.36	12.99	2.75	Note 2
	EBT to Paid-in Capital Ratio (%)	28.56	24.19	28.15	25.17	5.09	Note 2
	Net Profit Rate (%)	7.62	6.34	7.42	6.56	1.88	Note 2
	EPS (NTD)(Note 3)	2.21	1.86	2.22	1.99	0.42	Note 2
Cash Flow	Cash Flow Ratio (%)	27.47	6.64	—	0.07	22.86	Note 2
	Cash Flow Suitability Ratio (%)	119.13	85.39	59.77	50.54	58.45	Note 2
	Cash Reinvestment Ratio (%)	13.02	0.41	—	—	10.22	Note 2
Leverage	Operation Leverage	1.52	1.45	1.56	1.55	8.84	Note 2
	Financial Leverage	1.04	1.04	1.06	1.09	(894.64)	Note 2

The outbreak of COVID-19 pandemic and grounding of 737 Max in 2020 has made unprecedented impact upon supply chains of the global aviation industry. AIDC has implemented several measures to lower operational risks and mitigate influences on financial performance. 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. Decrease in long-term capital to property, plant, and equipment ratio of FY 2020 is due to decrease in long term borrowing and net profit. To reduce total liability, the Company has delay the investment in fixed assets, and negotiate the payment terms with customers and suppliers to increase cash flow.
2. Debt Service Coverage Ratio of FY 2020: Though the Company has reduced liability and lower interest expense, the decrease in net profit result in the decrease of debt service coverage ratio.
3. Increase in inventory turnover rate and decrease of average days of sales are due to the decrease of operation cost and the increase of inventory. The pandemic affects civil aviation business and reflects on the decline of operation income and cost. Meanwhile, the Company aim to lower inventory by negotiating with suppliers to cancel or postpone other material procurement, however, the contract

Title	Fiscal Year	Financial Analysis Covering the Last 5 Years					2021Q1
	2016	2017	2018	2019	2020		
terms of some procurements and the increase demand of military business (such as AJT) has increased the inventory which in turn lower the turnover rate.							
4. Property, Plant and Equipment Turnover Rate and Return on Assets of FY 2020 drops because of the significant decline in business.							
5. Return on assets, return on equity, EBT to paid-in capital ratio, net profit rate and ESP drop due to the significant decline in business during the pandemic and grounding of 737 MAX.							
6. Cash flow ratio and cash reinvestment ratio increased due to the decrease in purchase of materials and the increase in sales revenue result in the net cash inflow from operating activities increased.							
7. Increase in operation leverage and decrease in financial leverage are due to the significant decline in business that affects profit.							

Note 1: The figures for FY 2016-2020 are the audited figures under IFRSs.

Note 2: Up to the publication of this annual report, Q1 2021 financial statements have not been audited by the CPA, therefore it is not disclosed.

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 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 payables 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 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 – operating variable cost and expense) / operating income (Note 7)
 - (2) Financial leverage = operating income / (operating income – interest expenses)

Note 5: On applying the equation for calculation 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 retrospectively 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 shall 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.

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

— IFRSs:

Fiscal Year Title		Financial Information Covering the Last 5 Years				
		2016	2017	2018	2019	2020
Financial Structure (%)	Liabilities to Assets Ratio	60.15	61.13	64.48	68.03	68.27
	Long-term Capital to Property, Plant and Equipment Ratio	159.03	195.90	203.20	301.27	236.20
Ability to Pay Debt (%)	Current Ratio	123.88	149.28	133.01	165.82	140.39
	Quick Ratio	61.85	69.55	75.17	76.29	68.13
	Debt Service Coverage Ratio	21.37	19.52	20.57	11.52	3.16
Utility	A/C Turnover Rate (times)	3.85	3.22	2.25	1.93	1.75
	Average Daily Cash Receipt	94.80	113.35	162.22	189.11	208.57
	Inventory Turnover Rate (times)	2.26	2.54	2.74	2.38	1.50
	A/P Turnover Ratio (times)	16.22	15.70	12.64	13.15	13.99
	Average Days of Sales	161.50	143.70	133.21	153.36	243.33
	Property, Plant and Equipment Turnover Rate (times)	3.91	3.24	3.29	3.37	2.35
	Total Assets Turnover Rate (times)	0.91	0.85	0.76	0.66	0.46
Profitability	Return on Assets (%)	7.32	5.70	5.98	4.77	1.19
	Return on Equity (%)	17.43	13.72	15.36	12.99	2.75
	Pre-tax Income to Paid-in Capital Ratio (%)	28.56	23.37	27.69	24.42	4.31
	Net Profit Rate (%)	7.62	6.34	7.43	6.57	1.88
	EPS (NTD) (Note 2)	2.21	1.86	2.22	1.99	0.42
Cash Flow	Cash Flow Ratio (%)	27.47	6.92	—	0.39	23.29
	Cash Flow Suitability Ratio (%)	118.98	85.61	60.01	51.15	59.49
	Cash Reinvestment Ratio (%)	13.02	0.55	—	—	10.47
Leverage	Operation Leverage	1.52	1.45	1.56	1.56	9.20
	Financial Leverage	1.04	1.04	1.06	1.09	(20.96)

Title	Fiscal Year	Financial Information Covering the Last 5 Years				
		2016	2017	2018	2019	2020
The outbreak of COVID-19 pandemic and grounding of 737 Max in 2020 has made unprecedented impact upon supply chains of the global aviation industry. AIDC has implemented several measures to lower operational risks and mitigate influences on financial performance. 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. Decrease in long-term capital to property, plant, and equipment ratio of FY 2020 is due to decrease in long term borrowing and net profit. To reduce total liability, the Company has delay the investment in fixed assets, and negotiate the payment terms with customers and suppliers to increase cash flow.						
2. Debt Service Coverage Ratio of FY 2020: Though the Company has reduced liability and lower interest expense, the decrease in net profit result in the decrease of debt service coverage ratio.						
3. Increase in inventory turnover rate and decrease of average days of sales are due to the decrease of operation cost and the increase of inventory. The pandemic affects civil aviation business and reflects on the decline of operation income and cost. Meanwhile, the Company aim to lower inventory by negotitating with suppliers to cancel or postpone other material procurement, however, the contract terms of some procurements and the increase demand of military business (such as AJT) has increased the inventory which in turn lower the turnover rate.						
4. Property, Plant and Equipment Turnover Rate and Return on Assets of FY 2020 drops because of the significant decline in business.						
5. Return on assets, return on equity, EBT to paid-in capital ratio, net profit rate and ESP drop due to the significant decline in business during the pandemic and grounding of 737 MAX.						
6. Cash flow ratio and cash reinvestment ratio increased due to the decrease in purchase of materials and the increase in sales revenue result in the net cash inflow from operating activities increased.						
1. 7. Increase in operation leverage and decrease in financial leverage are due to the significant decline in business that affects profit.						

Note 1: The figures from FY 2016-2020 are audited under IFRSs.

Note 2: 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 3: 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 4)
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 5)
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 4: On applying the equation for calculation 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 retrospectively 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 distributed 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 5: 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 shall 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 6: 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.

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

Date: March 26, 2021

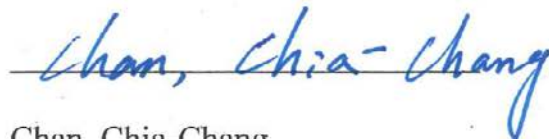
To: Aerospace Industrial Development Corporation
2021 Annual Shareholders' Meeting

Subject: Audit Committee Review Report

Dear Valued Shareholders,

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

Sincerely,

A handwritten signature in blue ink that reads "Chan, Chia-Chang". The signature is written over a horizontal line.

Chan, Chia-Chang
Chairman of the Audit Committee



勤業眾信

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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 subsidiary (collectively referred to as the "Group"), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters identified in the Group's consolidated financial statements for the year ended December 31, 2020 are stated as follows:

Impairment loss of inventory

The Group assesses the impairment of inventory by identifying raw materials individually. The Group's assessment of impairment loss of raw materials was based on current market condition and future consumption in accordance with IAS 2. Refer to Notes 5 and 9 to the consolidated financial statements for the relevant accounting policy, accounting judgments and estimation uncertainties, and other information. The assessment of impairment loss of raw materials involves management's critical judgment; therefore, we considered impairment of inventory as a key audit matter. Our key audit procedures performed in regard to the impairment assessment include the following:

1. We selected samples of the inventory aging report and tested the completeness and accuracy of the inventory.
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 and calculated the allowance for impairment loss.

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, 2020 and 2019 on which we have issued an unmodified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and 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, 2020 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 26, 2021

Notice to Readers

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

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

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARY

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

	December 31			
	2020		2019	
	Amount	%	Amount	%
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 4,587,565	11	\$ 634,140	2
Notes receivable (Notes 4 and 8)	48,561	-	5,637	-
Trade receivables from unrelated parties (Notes 4 and 8)	9,718,012	22	13,958,292	30
Trade receivables from related parties (Notes 4 and 29)	101,332	-	131,561	-
Other receivables (Notes 4 and 8)	11,655	-	81,918	-
Current tax assets	20,267	-	-	-
Inventories (Notes 4, 5 and 9)	12,196,505	28	9,820,034	21
Other financial assets - current (Notes 4, 15 and 30)	33,021	-	2,935,559	7
Other current assets (Notes 4, 16, 21 and 29)	<u>3,077,685</u>	<u>7</u>	<u>4,587,118</u>	<u>10</u>
Total current assets	<u>29,794,603</u>	<u>68</u>	<u>32,154,259</u>	<u>70</u>
NON-CURRENT ASSETS				
Financial assets at fair value through other comprehensive income - non-current (Notes 4 and 7)	49,928	-	87,334	-
Investments accounted for using equity method (Notes 4 and 11)	976,879	2	838,039	2
Property, plant and equipment (Notes 4, 12, 24 and 30)	9,297,868	21	8,568,418	18
Right-of-use assets (Notes 3, 4 and 13)	1,815,293	4	2,292,399	5
Intangible assets (Notes 4 and 14)	1,156,391	3	1,246,970	3
Deferred tax assets (Notes 4 and 25)	319,835	1	305,862	1
Prepayments for equipment (Note 24)	472,268	1	513,640	1
Other financial assets - non-current (Notes 4, 15 and 30)	47,841	-	14,054	-
Other non-current assets (Notes 4, 8 and 16)	<u>93,394</u>	<u>-</u>	<u>66,461</u>	<u>-</u>
Total non-current assets	<u>14,229,697</u>	<u>32</u>	<u>13,933,177</u>	<u>30</u>
TOTAL	<u>\$ 44,024,300</u>	<u>100</u>	<u>\$ 46,087,436</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Notes 17 and 30)	\$ 3,710,000	9	\$ 4,920,000	11
Short-term bills payable (Note 17)	11,696,287	27	8,357,255	18
Contract liabilities (Note 4)	1,480,736	3	584,119	1
Trade payables to unrelated parties	1,232,686	3	1,395,943	3
Trade payables to related parties (Note 29)	101,685	-	79,880	-
Other payables (Notes 19 and 29)	2,699,823	6	3,605,047	8
Current tax liabilities (Notes 4 and 25)	61,401	-	199,940	1
Lease liabilities - current (Notes 3, 4 and 13)	103,630	-	141,411	-
Net defined benefit liabilities - current (Notes 4 and 21)	-	-	61,813	-
Other current liabilities	<u>100,842</u>	<u>-</u>	<u>43,943</u>	<u>-</u>
Total current liabilities	<u>21,187,090</u>	<u>48</u>	<u>19,389,351</u>	<u>42</u>
NON-CURRENT LIABILITIES				
Bonds payable (Note 18)	2,997,014	7	2,996,210	7
Long-term borrowings (Notes 17 and 30)	3,260,000	7	5,928,299	13
Provisions - non-current (Notes 4 and 20)	442,175	1	551,553	1
Non-current tax liabilities (Notes 4 and 25)	92,101	-	-	-
Deferred tax liabilities (Notes 4 and 25)	157,145	-	116,343	-
Lease liabilities - non-current (Notes 3, 4 and 13)	1,740,938	4	2,167,424	5
Long-term deferred revenue (Note 4)	3,856	-	279	-
Guarantee deposits	<u>179,709</u>	<u>1</u>	<u>214,391</u>	<u>-</u>
Total non-current liabilities	<u>8,872,938</u>	<u>20</u>	<u>11,974,499</u>	<u>26</u>
Total liabilities	<u>30,060,028</u>	<u>68</u>	<u>31,363,850</u>	<u>68</u>
EQUITY				
Ordinary shares	9,418,671	21	9,418,671	20
Retained earnings				
Legal reserve	1,098,424	3	909,345	2
Special reserve	1,931,264	4	2,522,475	6
Unappropriated earnings	1,634,749	4	1,902,904	4
Other equity	<u>(118,836)</u>	<u>-</u>	<u>(29,809)</u>	<u>-</u>
Total equity	<u>13,964,272</u>	<u>32</u>	<u>14,723,586</u>	<u>32</u>
TOTAL	<u>\$ 44,024,300</u>	<u>100</u>	<u>\$ 46,087,436</u>	<u>100</u>

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

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARY

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

	For the Year Ended December 31			
	2020		2019	
	Amount	%	Amount	%
SALES (Notes 4, 23 and 29)	\$ 21,042,937	100	\$ 28,540,207	100
COST OF GOODS SOLD (Notes 9, 24 and 29)	<u>19,640,836</u>	<u>93</u>	<u>24,729,566</u>	<u>87</u>
GROSS PROFIT	<u>1,402,101</u>	<u>7</u>	<u>3,810,641</u>	<u>13</u>
OPERATING EXPENSES (Notes 24 and 29)				
Selling and marketing expenses	115,566	1	126,142	1
General and administrative expenses	597,985	3	682,722	2
Research and development expenses	516,700	2	548,281	2
Expected credit loss (gain) (Notes 4 and 8)	<u>(7,974)</u>	<u>-</u>	<u>8,130</u>	<u>-</u>
Total operating expenses	<u>1,222,277</u>	<u>6</u>	<u>1,365,275</u>	<u>5</u>
PROFIT FROM OPERATIONS	<u>179,824</u>	<u>1</u>	<u>2,445,366</u>	<u>8</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 4 and 24)	750,132	4	127,236	1
Other losses (Notes 4 and 24)	(552,757)	(3)	(407,261)	(1)
Share of profit of associates (Note 4)	241,233	1	322,639	1
Interest income	41,216	-	101,337	-
Finance costs (Notes 4 and 24)	<u>(180,025)</u>	<u>(1)</u>	<u>(217,780)</u>	<u>(1)</u>
Total non-operating income and expenses	<u>299,799</u>	<u>1</u>	<u>(73,829)</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	479,623	2	2,371,537	8
INCOME TAX EXPENSE (Notes 4 and 25)	<u>83,765</u>	<u>-</u>	<u>497,250</u>	<u>2</u>
NET PROFIT FOR THE YEAR	<u>395,858</u>	<u>2</u>	<u>1,874,287</u>	<u>6</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Note 4)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	54,677	-	16,507	-
Unrealized loss on investments in equity instruments designated as at fair value through other comprehensive income	<u>(37,406)</u>	<u>-</u>	<u>(16,133)</u>	<u>-</u>

(Continued)

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARY

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

	For the Year Ended December 31			
	2020		2019	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of the financial statements of foreign operations	\$ (51,621)	-	\$ (22,590)	-
Other comprehensive loss for the year, net of income tax	(34,350)	-	(22,216)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	\$ 361,508	2	\$ 1,852,071	6
EARNINGS PER SHARE (Note 26)				
Basic	\$ 0.42		\$ 1.99	
Diluted	\$ 0.42		\$ 1.98	

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

(Concluded)

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARY

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

	Equity Attributable to Owners of the Company				Other Equity (Note 4)		
	Ordinary Shares (Note 22)	Retained Earnings (Note 22)		Unappropriated Earnings	Exchange Differences on Translation of the Financial Statements of Foreign Operations	Unrealized gain (loss) on Investments in Equity Instruments Designated as at Fair Value Through Other Comprehensive Income	Total Equity
		Legal Reserve	Special Reserve				
BALANCE AT JANUARY 1, 2019	\$ 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
Appropriation of 2019 earnings							
Legal reserve	-	189,079	-	(189,079)	-	-	-
Special reserve	-	-	(591,211)	591,211	-	-	-
Cash dividends distributed by the Company	-	-	-	(1,120,822)	-	-	(1,120,822)
Profit for the year ended December 31, 2020	-	-	-	395,858	-	-	395,858
Other comprehensive income (loss) for the year ended December 31, 2020, net of income tax	-	-	-	54,677	(51,621)	(37,406)	(34,350)
Total comprehensive income (loss) for the year ended December 31, 2020	-	-	-	450,535	(51,621)	(37,406)	361,508
BALANCE AT DECEMBER 31, 2020	\$ 9,418,671	\$ 1,098,424	\$ 1,931,264	\$ 1,634,749	\$ (89,564)	\$ (29,272)	\$ 13,964,272

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

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARY

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

	For the Year Ended December 31	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 479,623	\$ 2,371,537
Adjustments for:		
Depreciation expense	1,090,238	1,088,615
Amortization expense	339,940	304,189
Expected credit loss recognized (reversed)	(7,974)	8,130
Finance costs	180,025	217,780
Interest income	(41,216)	(101,337)
Dividend income	(111)	(138)
Share of profit of associate	(241,233)	(322,639)
Loss on disposal of property, plant and equipment	21	669
Impairment loss recognized (reversed) on non-financial assets	267,345	(204,769)
Unrealized net loss on foreign currency exchange	47,887	254,577
Reversal of provisions	(72,336)	(95,802)
Other income from liabilities	(2,168)	(13,842)
Benefits from lease modification	(24,069)	-
Net changes in operating assets and liabilities		
Notes receivable	(42,924)	(2,953)
Trade receivables	4,236,879	1,059,240
Other receivables	65,077	20,421
Inventories	(2,638,183)	(2,940,936)
Other current assets	1,515,966	(715,910)
Contract liabilities	896,617	500,221
Trade payables	(139,964)	(808,744)
Other payables	(875,180)	43,275
Other current liabilities	57,490	(61,652)
Deferred income	3,577	(36)
Cash generated from operations	5,095,327	599,896
Interest received	46,402	99,284
Interest paid	(159,576)	(217,354)
Income tax paid	(137,310)	(468,146)
Net cash generated from operating activities	<u>4,844,843</u>	<u>13,680</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for investments accounted for using equity method	(50,000)	-
Payments for property, plant and equipment	(1,566,946)	(821,045)
Proceeds from disposal of property, plant and equipment	-	44
Increase in refundable deposits	(76,673)	(24,526)
Decrease in refundable deposits	51,448	11,227
Payments for intangible assets	(236,777)	(258,397)
Decrease (increase) in other financial assets	2,870,196	(1,081,960)

(Continued)

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARY

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

	For the Year Ended December 31	
	2020	2019
Increase in other non-current assets	\$ (27,123)	\$ (205,900)
Increase in prepayments for equipment	(151,457)	(488,622)
Dividends received	<u>103,083</u>	<u>70,535</u>
Net cash generated from (used in) investing activities	<u>915,751</u>	<u>(2,798,644)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	39,042,244	48,520,000
Repayments of short-term borrowings	(40,252,244)	(51,330,000)
Proceeds from short-term bills payable	79,086,586	37,430,463
Repayments of short-term bills payable	(75,747,554)	(31,572,783)
Proceeds from bonds payable	-	2,995,980
Proceeds from long-term borrowings	31,438,000	26,673,760
Repayments of long-term borrowings	(34,106,299)	(28,868,579)
Proceeds of guarantee deposits received	103,677	253,185
Refund of guarantee deposits	(138,359)	(244,534)
Repayment of the principal portion of lease liabilities	(110,216)	(133,799)
Cash dividends distributed	<u>(1,120,822)</u>	<u>(1,262,102)</u>
Net cash generated from (used in) financing activities	<u>(1,804,987)</u>	<u>2,461,591</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES	<u>(2,182)</u>	<u>(5,383)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,953,425	(328,756)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>634,140</u>	<u>962,896</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 4,587,565</u>	<u>\$ 634,140</u>

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

(Concluded)

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (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 subsidiary (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 26, 2021.

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

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

Except for the following, the initial application of the IFRSs endorsed and issued into effect by the FSC did not have material impact on the Group’s accounting policies.

Amendment to IFRS 16 “Covid-19-Related Rent Concessions”

The Group elected to apply the practical expedient provided in the amendment to IFRS 16 with respect to rent concessions negotiated with the lessor as a direct consequence of the COVID-19. The related accounting policies are stated in Note 4. Prior to the application of the amendment, the Group shall determine whether or not the abovementioned rent concessions need to be accounted for as lease modifications.

The Group applied the amendment from January 1, 2020. Because the abovementioned rent concessions affect only in 2020, retrospective application of the amendment has no impact on the retained earnings as of January 1, 2020.

- b. The IFRSs endorsed by the Financial Supervisory Commission (FSC) for application starting from 2021

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

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

New IFRSs	Effective Date Announced by IASB (Note 1)
“Annual Improvements to IFRS Standards 2018-2020”	January 1, 2022 (Note 2)
Amendments to IFRS 3 “Reference to the Conceptual Framework”	January 1, 2022 (Note 3)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2023
Amendments to IAS 1 “Disclosure of Accounting Policies”	January 1, 2023 (Note 4)
Amendments to IAS 8 “Definition of Accounting Estimates”	January 1, 2023 (Note 5)
Amendments to IAS 16 “Property, Plant and Equipment - Proceeds before Intended Use”	January 1, 2022 (Note 6)
Amendments to IAS 37 “Onerous Contracts - Cost of Fulfilling a Contract”	January 1, 2022 (Note 7)

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

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

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

Note 4: The amendments will be applied prospectively for annual reporting periods beginning on or after January 1, 2023.

Note 5: The amendments are applicable to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the annual reporting period beginning on or after January 1, 2023.

Note 6: The amendments will be applicable to property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after January 1, 2021.

Note 7: The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.

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.

The Group may not restate prior reporting periods when applying the aforementioned amendments, and recognize the cumulative effect in the retained earnings or other component of equity at the date of the initial application instead.

Except for the above impact, 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 and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within 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 of the Group.

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 5 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 entity in the Group, transactions in currencies other than the entity’s functional currency (i.e., foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting 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 entities in the Group (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 property, plant and equipment, right-of-use asset and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use asset and intangible assets, 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 and cash equivalents, 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.

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

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

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

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

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.

The Group negotiates with the lessor for rent concessions as a direct consequence of the Covid-19 to change the lease payments originally due by December 31, 2020, that results in the revised consideration for the lease less than the consideration for the lease immediately preceding the change. There is no substantive change to other terms and conditions. The Group elects to apply the practical expedient to all of these rent concessions lease contracts and, therefore, does not assess whether the rent concessions are lease modifications. Instead, the Group recognizes the reduction in lease payment in profit or loss, in the period in which the events or conditions that trigger the concession occur, and makes a corresponding adjustment to the lease liability.

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 services.

2) Retirement benefits

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

Defined benefit costs (including service cost, net interest and rereasurement) under 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

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

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

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

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities 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 Group considers the economic implications of the COVID-19 when making its critical accounting estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the 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 - 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.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2020	2019
Cash on hand and petty cash	\$ 412	\$ 147
Checking accounts and demand deposits	1,738,158	633,993
Cash equivalents		
Time deposits with original maturities three months or less	<u>2,848,995</u>	<u>-</u>
	<u>\$ 4,587,565</u>	<u>\$ 634,140</u>
<u>Rates of bank balance (%)</u>		
Demand deposits	0.00-0.24	0.08-1.58
Time deposits	0.25-0.28	-

7. FINANCIAL ASSETS AT FVTOCI

	December 31	
	2020	2019
<u>Emerging marked shares</u>		
UHT Unitech Co Ltd. (UHT Ltd.)	<u>\$ 16,731</u>	<u>\$ 53,504</u>
<u>Unlisted ordinary shares</u>		
Aerovision Avionics Inc. (AAI)	31,037	31,684
Metro Consulting Service Ltd. (Metro Ltd.)	<u>2,160</u>	<u>2,146</u>
	<u>33,197</u>	<u>33,830</u>
	<u>\$ 49,928</u>	<u>\$ 87,334</u>

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	
	2020	2019
Notes receivable	<u>\$ 48,561</u>	<u>\$ 5,637</u>
<u>Trade receivables from unrelated parties</u>		
At amortized cost		
Gross carrying amount	\$ 9,719,714	\$ 13,962,722
Less: Allowance for impairment loss	<u>(1,702)</u>	<u>(4,430)</u>
	<u>\$ 9,718,012</u>	<u>\$ 13,958,292</u>
<u>Other receivables</u>		
Tax return receivables	\$ 6,827	\$ 71,382
Others	<u>4,828</u>	<u>10,536</u>
	<u>\$ 11,655</u>	<u>\$ 81,918</u>

The Group's customers are mostly national defense organizations and international aerospace corporations. The international aerospace corporations' average credit period of sales of goods is 60 to 90 days in average. Trade receivables from government depends on budget allocation. 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 approach considering the 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 forecasted direction of economic conditions at the reporting date. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished according to the Group's different customer base.

The Group writes off a trade 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 notes 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
<u>December 31, 2020</u>						
Expected credit loss rate	0%	2%	5%	50%	100%	
Gross carrying amount	\$ 9,704,338	\$ 49,815	\$ 14,122	\$ 709	\$ 8,605	\$ 9,777,589
Loss allowance (Lifetime ECL)	-	(996)	(706)	(355)	(8,605)	(10,662)
Amortized cost	<u>\$ 9,704,338</u>	<u>\$ 48,819</u>	<u>\$ 13,416</u>	<u>\$ 354</u>	<u>\$ -</u>	<u>\$ 9,766,927</u>
<u>December 31, 2019</u>						
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	<u>\$ 13,770,583</u>	<u>\$ 189,422</u>	<u>\$ 3,924</u>	<u>\$ 8,073</u>	<u>\$ -</u>	<u>\$ 13,972,002</u>

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

	<u>For the Year Ended December 31, 2020</u>	
	<u>Trade receivables</u>	<u>Overdue receivables</u>
Balance at January 1, 2020	\$ 4,430	\$ 14,700
Impairment loss reversed	(2,728)	(5,246)
Amounts written-off	-	(494)
Balance at December 31, 2020	<u>\$ 1,702</u>	<u>\$ 8,960</u>
	<u>For the Year Ended December 31, 2019</u>	
	<u>Trade receivables</u>	<u>Overdue receivables</u>
Balance at January 1, 2019	\$ 5,208	\$ 5,792
Impairment loss recognized (reversed)	(778)	8,908
Balance at December 31, 2019	<u>\$ 4,430</u>	<u>\$ 14,700</u>

9. INVENTORIES

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Raw materials	\$ 7,768,439	\$ 5,546,698
Work in progress	<u>4,428,066</u>	<u>4,273,336</u>
	<u>\$ 12,196,505</u>	<u>\$ 9,820,034</u>

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

	<u>For the Year Ended December 31</u>	
	<u>2020</u>	<u>2019</u>
Recognition (reversal) of inventory write-downs	\$ 224,670	\$ (204,769)
Indemnity income	(143,880)	(131,655)
Income from sales of scraps	(17,877)	(25,641)
Loss on disposal of inventories	66,836	69,384

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

10. SUBSIDIARY

Subsidiary included in consolidated financial statements:

Investor	Investee	<u>% of Ownership December 31</u>	
		<u>2020</u>	<u>2019</u>
The Company	AIDC USA LLC (AIDC USA)	100	100

For the main businesses of AIDC USA, refer to Table 5.

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

	<u>December 31</u>			
	<u>2020</u>	<u>% of Ownership</u>	<u>2019</u>	<u>% of Ownership</u>
	<u>Amount</u>		<u>Amount</u>	
<u>Investment in associate</u>				
International Turbine Engine Company LLC (ITEC)	\$ 948,636	22.05	\$ 838,039	22.05
Jung Sheng Precision IND Co., Ltd. (JSPCO)	<u>28,243</u>	31.25	-	-
	<u>\$ 976,879</u>		<u>\$ 838,039</u>	

The investment of JSPCO were approved by the board of directors of the Company on December 20, 2019. In January 2020, the Company invested NT\$50,000 thousand and acquired 34.48% ownership of JSPCO. On March 20, 2020, the board of directors of JSPCO approved the cash injection to issue 1,500 thousand shares and the subscription base date was May 31, 2020. The Company did not participate in this subscription. Therefore, the Company's ownership interest in JSPCO was decreased to 31.25%.

Refer to "Table 5: 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

	Land Improvements	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Property in Construction	Total
<u>Cost</u>							
Balance at January 1, 2020	\$ 120,739	\$ 5,964,984	\$ 13,524,424	\$ 732,376	\$ 806,114	\$ 277,983	\$ 21,426,620
Additions	-	391,465	987,201	63,536	103,418	-	1,545,620
Disposals	-	-	(235,461)	(37,768)	(2,032)	-	(275,261)
Reclassification	-	266,065	195,769	8,267	3,051	(277,983)	195,169
Effects of foreign currency exchange differences	-	-	(6)	(62)	(10)	-	(78)
Balance at December 31, 2020	<u>\$ 120,739</u>	<u>\$ 6,622,514</u>	<u>\$ 14,471,927</u>	<u>\$ 766,349</u>	<u>\$ 910,541</u>	<u>\$ -</u>	<u>\$ 22,892,070</u>
<u>Accumulated depreciation and impairment</u>							
Balance at January 1, 2020	\$ 116,663	\$ 3,021,560	\$ 8,617,339	\$ 694,164	\$ 408,476	\$ -	\$ 12,858,202
Depreciation expense	766	178,811	753,828	22,767	55,131	-	1,011,303
Disposals	-	-	(139,983)	(37,768)	(2,032)	-	(179,783)
Impairment losses reversed	-	-	(95,457)	-	-	-	(95,457)
Effects of foreign currency exchange differences	-	-	(3)	(52)	(8)	-	(63)
Balance at December 31, 2020	<u>\$ 117,429</u>	<u>\$ 3,200,371</u>	<u>\$ 9,135,724</u>	<u>\$ 679,111</u>	<u>\$ 461,567</u>	<u>\$ -</u>	<u>\$ 13,594,202</u>
Carrying amount at January 1, 2020	<u>\$ 4,076</u>	<u>\$ 2,943,424</u>	<u>\$ 4,907,085</u>	<u>\$ 38,212</u>	<u>\$ 397,638</u>	<u>\$ 277,983</u>	<u>\$ 8,568,418</u>
Carrying amount at December 31, 2020	<u>\$ 3,310</u>	<u>\$ 3,422,143</u>	<u>\$ 5,336,203</u>	<u>\$ 87,238</u>	<u>\$ 448,974</u>	<u>\$ -</u>	<u>\$ 9,297,868</u>
<u>Cost</u>							
Balance at January 1, 2019	\$ 120,739	\$ 5,916,217	\$ 12,769,490	\$ 732,912	\$ 787,624	\$ 30,060	\$ 20,357,042
Additions	-	17,283	534,492	10,650	14,696	286,432	863,553
Disposals	-	(14,329)	(89,224)	(11,156)	(2,647)	-	(117,356)
Reclassification	-	45,813	309,668	-	6,446	(38,509)	323,418
Effects of foreign currency exchange differences	-	-	(2)	(30)	(5)	-	(37)
Balance at December 31, 2019	<u>\$ 120,739</u>	<u>\$ 5,964,984</u>	<u>\$ 13,524,424</u>	<u>\$ 732,376</u>	<u>\$ 806,114</u>	<u>\$ 277,983</u>	<u>\$ 21,426,620</u>
<u>Accumulated depreciation and impairment</u>							
Balance at January 1, 2019	\$ 115,514	\$ 2,853,900	\$ 7,993,676	\$ 693,812	\$ 347,421	\$ -	\$ 12,004,323
Depreciation expense	1,149	181,332	712,833	11,531	63,705	-	970,550
Disposals	-	(13,672)	(89,169)	(11,156)	(2,647)	-	(116,644)
Effects of foreign currency exchange differences	-	-	(1)	(23)	(3)	-	(27)
Balance at December 31, 2019	<u>\$ 116,663</u>	<u>\$ 3,021,560</u>	<u>\$ 8,617,339</u>	<u>\$ 694,164</u>	<u>\$ 408,476</u>	<u>\$ -</u>	<u>\$ 12,858,202</u>
Carrying amount at January 1, 2019	<u>\$ 5,225</u>	<u>\$ 3,062,317</u>	<u>\$ 4,775,814</u>	<u>\$ 39,100</u>	<u>\$ 440,203</u>	<u>\$ 30,060</u>	<u>\$ 8,352,719</u>
Carrying amount at December 31, 2019	<u>\$ 4,076</u>	<u>\$ 2,943,424</u>	<u>\$ 4,907,085</u>	<u>\$ 38,212</u>	<u>\$ 397,638</u>	<u>\$ 277,983</u>	<u>\$ 8,568,418</u>

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	2-35 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

	December 31	
	2020	2019
<u>Carrying amount</u>		
Land	\$ 1,797,200	\$ 2,260,856
Buildings	5,792	12,095
Machinery and equipment	9,001	12,575
Transportation equipment	486	1,033
Other equipment	2,814	5,840
	<u>\$ 1,815,293</u>	<u>\$ 2,292,399</u>
For the Year Ended December 31		
	2020	2019
Additions to right-of-use assets	<u>\$ 407</u>	<u>\$ 35,586</u>
Depreciation charge for right-of-use assets		
Land	\$ 102,647	\$ 142,956
Buildings	6,196	5,018
Machinery and equipment	3,574	1,576
Transportation equipment	513	453
Other equipment	3,433	599
	<u>\$ 116,363</u>	<u>\$ 150,602</u>

b. Lease liabilities

	December 31	
	2020	2019
<u>Carrying amount</u>		
Current	<u>\$ 103,630</u>	<u>\$ 141,411</u>
Non-current	<u>\$ 1,740,938</u>	<u>\$ 2,167,424</u>

Range of discount rate for lease liabilities was as follows:

	December 31	
	2020	2019
Land	1.6%	1.6%
Buildings	1.6%-5%	1.6%-5%
Machinery and equipment	1.6%	1.6%
Transportation equipment	3.14%-3.39%	3.14%-3.39%
Other equipment	1.6%	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.

The Group negotiated with National Property Administration, Ministry of Finance (NPA) on concessions for land lease. The NPA agreed to provide unconditional 20% rent reduction from January 1, 2020 to December 31, 2020, and deferral of rentals for January 1, 2020 to December 31, 2020, with the amount payable on December 15, 2020. The Group recognized rent concessions of NT\$24,069 thousand in profit or loss for the year ended December 31, 2020.

d. Other lease information

	For the Year Ended December 31	
	2020	2019
Expenses relating to short-term leases	\$ 40,111	\$ 29,779
Expenses relating to low-value asset leases	\$ 1,576	\$ 782
Total cash outflow for leases	\$ (151,903)	\$ (164,360)

The Group's leases of certain buildings, machinery and equipment and transportation equipment qualify as short-term leases, and certain machinery and equipment, transportation equipment and other equipment 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.

14. INTANGIBLE ASSETS

	December 31	
	2020	2019
<u>Other intangible assets</u>		
Computer software	\$ 69,824	\$ 121,479
Deferred technical cooperation expenses	17,773	24,017
Patent	1,235	859
Trademark	90	124
	<u>88,922</u>	<u>146,479</u>
<u>Developing intangible assets</u>		
Projects non-recurring costs	<u>1,067,469</u>	<u>1,100,491</u>
	<u>\$ 1,156,391</u>	<u>\$ 1,246,970</u>

	Other Intangible Assets	Developing Intangible Assets
<u>Cost</u>		
Balance at January 1, 2020	\$ 1,093,902	\$ 6,690,953
Additions from internal developments	-	268,446
Additions	14,656	-
Disposals	(6,171)	(412)
Reclassification	146	9,852
Effects of foreign currency exchange differences	(6)	-
	<u>Balance at December 31, 2020</u>	<u>\$ 1,102,527</u>
<u>Accumulated amortization and impairment</u>		
Balance at January 1, 2020	\$ 947,423	\$ 5,590,462
Amortization expense	72,354	268,645
Disposals	(6,171)	(412)
Reclassification	-	42,675
Effects of foreign currency exchange differences	(1)	-
	<u>Balance at December 31, 2020</u>	<u>\$ 1,013,605</u>
	<u>Carrying amount at December 31, 2020</u>	<u>\$ 88,922</u>
<u>Cost</u>		
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
	<u>Balance at December 31, 2019</u>	<u>\$ 1,093,902</u>
<u>Accumulated amortization and impairment</u>		
Balance at January 1, 2019	\$ 862,164	\$ 5,367,590
Amortization expense	85,261	203,728
Disposals	(2)	(2,937)
Reclassification	-	22,081
	<u>Balance at December 31, 2019</u>	<u>\$ 947,423</u>
	<u>Carrying amount at December 31, 2019</u>	<u>\$ 146,479</u>

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	10-20 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 for the years ended December 31, 2020 and 2019 were 0.18%-1.065% and 0.28%-2.73%, respectively.

16. OTHER ASSETS

	December 31	
	2020	2019
<u>Current</u>		
Prepayment	\$ 2,891,262	\$ 4,481,866
Net defined benefits (Note 21)	6,533	-
Others	<u>179,890</u>	<u>105,252</u>
	<u>\$ 3,077,685</u>	<u>\$ 4,587,118</u>
<u>Non-current</u>		
Overdue receivables (Note 8)	\$ 9,314	\$ 22,773
Less: Allowance for impairment loss	<u>(8,960)</u>	<u>(14,700)</u>
	354	8,073
Refundable deposits	60,283	35,064
Other	<u>32,757</u>	<u>23,324</u>
	<u>\$ 93,394</u>	<u>\$ 66,461</u>

17. BORROWINGS

a. Short-term borrowings

	December 31	
	2020	2019
Unsecured borrowings	\$ 3,710,000	\$ 3,920,000
Secured borrowings (Note 30)	<u>-</u>	<u>1,000,000</u>
	<u>\$ 3,710,000</u>	<u>\$ 4,920,000</u>
<u>Rates of interest per annum (%)</u>		
Unsecured borrowings	0.513-0.715	0.85-0.899
Secured borrowings	-	0.78

b. Short-term bills payable

	December 31	
	2020	2019
Commercial paper	\$ 11,700,000	\$ 8,360,000
Less: Unamortized discount on bills payable	<u>(3,713)</u>	<u>(2,745)</u>
	<u>\$ 11,696,287</u>	<u>\$ 8,357,255</u>
Rate of interest per annum (%)	0.26-0.36	0.64-0.77

c. Long-term borrowings

	December 31	
	2020	2019
Credit borrowings	\$ 3,260,000	\$ 4,128,299
Secured borrowings (Note 30)	<u>-</u>	<u>1,800,000</u>
	<u>\$ 3,260,000</u>	<u>\$ 5,928,299</u>
<u>Rates of interest per annum (%)</u>		
Credit borrowings	0.65-0.94	0.85-1.11
Secured borrowings	-	0.78

18. BONDS PAYABLE

	December 31	
	2020	2019
Unsecured domestic bonds	\$ 3,000,000	\$ 3,000,000
Less: Unamortized discount on bonds payable	<u>(2,986)</u>	<u>(3,790)</u>
	<u>\$ 2,997,014</u>	<u>\$ 2,996,210</u>

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.

19. OTHER PAYABLES

	December 31	
	2020	2019
Payables for salaries and bonuses	\$ 878,841	\$ 1,397,116
Payables for outsourcing	649,129	917,542
Payables for purchase of equipment	247,717	271,891
Payables for annual leave	103,902	165,988
Payables for service fee	85,797	88,290
Payables for compensation of employees and remuneration of directors	21,239	120,294
Others	<u>713,198</u>	<u>643,926</u>
	<u>\$ 2,699,823</u>	<u>\$ 3,605,047</u>

20. PROVISIONS - NON-CURRENT

	December 31	
	2020	2019
Warranties	\$ 342,808	\$ 452,186
Others	<u>99,367</u>	<u>99,367</u>
	<u>\$ 442,175</u>	<u>\$ 551,553</u>

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 Act 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 16.57% and 16.29% of total monthly salaries and wages for the years ended December 31, 2020 and 2019, 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	
	2020	2019
Present value of defined benefit obligation	\$ 2,496,373	\$ 2,245,092
Fair value of plan assets	<u>(2,502,906)</u>	<u>(2,183,279)</u>
Net defined benefit liabilities (assets)	<u>\$ (6,533)</u>	<u>\$ 61,813</u>

Movements in net defined benefit liabilities (assets) were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Balance at January 1, 2019	\$ 1,889,063	\$ (1,806,616)	\$ 82,447
Service cost			
Current service cost	423,927	-	423,927
Net interest expense (income)	<u>16,545</u>	<u>(17,706)</u>	<u>(1,161)</u>
Recognized in profit or loss	<u>440,472</u>	<u>(17,706)</u>	<u>422,766</u>
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	<u>(1,598)</u>	<u>-</u>	<u>(1,598)</u>
Recognized in other comprehensive income (loss)	<u>36,604</u>	<u>(57,238)</u>	<u>(20,634)</u>
Contributions from the employer	-	(422,766)	(422,766)
Benefits paid	<u>(121,047)</u>	<u>121,047</u>	<u>-</u>
Balance at December 31, 2019	<u>2,245,092</u>	<u>(2,183,279)</u>	<u>61,813</u>
Service cost			
Current service cost	411,007	-	411,007
Net interest expense (income)	<u>14,326</u>	<u>(15,257)</u>	<u>(931)</u>
Recognized in profit or loss	<u>425,333</u>	<u>(15,257)</u>	<u>410,076</u>

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	\$ -	\$ (67,076)	\$ (67,076)
Actuarial loss - changes in financial assumptions	63,507	-	63,507
Actuarial gain - experience adjustments	(64,777)	-	(64,777)
Recognized in other comprehensive income (loss)	(1,270)	(67,076)	(68,346)
Contributions from the employer	-	(410,076)	(410,076)
Benefits paid	(172,782)	172,782	-
Balance at December 31, 2020	<u>\$ 2,496,373</u>	<u>\$ (2,502,906)</u>	<u>\$ (6,533)</u> (Concluded)

Through the defined benefit plans under the Labor Standards Act, 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	
	2020	2019
Discount rate(s)	0.25%	0.65%
Expected rate(s) of salary increase	1.50%	1.50%

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

	December 31	
	2020	2019
Discount rate(s)		
0.25% increase	<u>\$ (39,975)</u>	<u>\$ (39,049)</u>
0.25% decrease	<u>\$ 40,939</u>	<u>\$ 40,049</u>
Expected rate(s) of salary increase		
0.25% increase	<u>\$ 40,329</u>	<u>\$ 39,610</u>
0.25% decrease	<u>\$ (39,585)</u>	<u>\$ (38,820)</u>

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

	December 31	
	2020	2019
The expected contributions to the plan for the next year	<u>\$ 384,520</u>	<u>\$ 410,076</u>
The average duration of the defined benefit obligation	6.2 years	6.9 years

22. EQUITY

a. Ordinary shares

	December 31	
	2020	2019
Number of shares authorized (in thousands)	<u>1,500,000</u>	<u>1,500,000</u>
Shares authorized	<u>\$ 15,000,000</u>	<u>\$ 15,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>941,867</u>	<u>941,867</u>
Shares issued	<u>\$ 9,418,671</u>	<u>\$ 9,418,671</u>

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 compensation of employees 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 2019 and 2018 having been approved in the shareholders’ meetings on May 29, 2020, and May 31, 2019, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	2019	2018	2019	2018
Legal reserve	\$ 189,079	\$ 207,007		
Special reserve	29,809	588,848		
Reverse special reserve	(621,020)	-		
Cash dividends	1,120,822	1,262,102	\$ 1.19	\$ 1.34

The appropriations of earnings for 2020 were proposed by the Company’s board of directors on March 26, 2021. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 45,053	
Special reserve	89,027	
Cash dividends	188,373	\$ 0.2

The appropriations of earnings for 2020 are subject to the resolution of the shareholders’ meeting to be held in May 2021.

23. REVENUE

	For the Year Ended December 31	
	2020	2019
Aircraft/vehicle maintenance	\$ 14,026,669	\$ 16,072,427
Aero/industrial engine	6,421,779	11,917,333
Industrial technology services	<u>594,489</u>	<u>550,447</u>
	<u>\$ 21,042,937</u>	<u>\$ 28,540,207</u>

24. NET PROFIT

a. Other income

	For the Year Ended December 31	
	2020	2019
Remedy income	\$ 679,652	\$ 41,055
Indemnity income	2,767	4,761
Other income from condoned liabilities	2,168	13,842
Others	<u>65,545</u>	<u>67,578</u>
	<u>\$ 750,132</u>	<u>\$ 127,236</u>

The subsidy income was mostly from the Company’s difficult business salary and working capital subsidy applied to the Industrial Bureau of the Ministry of Economic Affairs.

b. Other gains and losses

	For the Year Ended December 31	
	2020	2019
Net foreign exchange losses	\$ (339,044)	\$ (209,592)
Impairment loss	(42,675)	-
Loss on disposal of property, plant and equipment	(21)	(669)
Others	<u>(171,017)</u>	<u>(197,000)</u>
	<u>\$ (552,757)</u>	<u>\$ (407,261)</u>

c. Employee benefits, depreciation and amortization

	Operating Cost	Operating Expense	Non-operating Expense	Transfer to Developing Intangible Assets	Capital cost	Total
<u>For the Year Ended December 31, 2020</u>						
Employee benefits expense						
Salaries expense	\$ 4,122,016	\$ 552,580	\$ 10,694	\$ 54,846	\$ 1,632	\$ 4,741,768
Retirement benefit						
Defined contribution plans	120,276	16,845	276	1,645	51	139,093
Defined benefit plans	354,597	49,663	814	4,850	152	410,076
Labor and health insurance	313,051	33,528	65,074	3,917	95	415,665
Other employee benefits	35,255	3,521	7,199	23	27	46,025
Depreciation expense	999,965	71,069	19,204	36,846	582	1,127,666
Amortization expense	322,498	17,412	30	8,889	8	348,837
<u>For the Year Ended December 31, 2019</u>						
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

d. Compensation of employees and remuneration of directors

The Company stipulates distribution of compensation of employees 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 compensation of employees and remuneration of directors for 2020 and 2019 which were resolved by the board of directors on March 26, 2021 and March 27, 2020, were as follows:

	For the Year Ended December 31			
	2020		2019	
	The Proportion of Estimate	Amount of Money	The Proportion of Estimate	Amount of Money
Compensation of employees	4.65%	\$ 18,883	4.65%	\$ 106,953
Remuneration of directors	0.58%	2,356	0.58%	13,341

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 compensation of employees and remuneration of directors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2019 and 2018.

Information on the compensation of employees and the remuneration of directors resolved by the Company's board of directors 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	
	2020	2019
Foreign exchange gains	\$ 310,875	\$ 199,440
Foreign exchange losses	<u>(649,919)</u>	<u>(409,032)</u>
Net gains (losses)	<u>\$ (339,044)</u>	<u>\$ (209,592)</u>

f. Finance costs

Information about capitalized interest is as follows:

	For the Year Ended December 31	
	2020	2019
Capitalized interest amount	\$ 5,334	\$ 851
Capitalization rate (%)	0.93-1.11	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	
	2020	2019
Current tax		
In respect of the current year	\$ 73,543	\$ 463,252
Adjustments for prior years	(2,938)	496
Income tax on unappropriated earnings	-	30,843
Investment credits	<u>-</u>	<u>(24,645)</u>
	<u>70,605</u>	<u>469,946</u>
Deferred tax		
In respect of the current year	<u>13,160</u>	<u>27,304</u>
Income tax expense recognized in profit or loss	<u>\$ 83,765</u>	<u>\$ 497,250</u>

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

	For the Year Ended December 31	
	2020	2019
Income tax expense calculated at the statutory rate	\$ 154,749	\$ 531,478
Nondeductible expenses in determining taxable income	4,400	56
Tax-exempt income	(117,380)	(27)
Income tax on unappropriated earnings	-	30,843
Temporary differences	44,934	(40,951)
Investment credits	-	(24,645)
Adjustments for prior years' tax	<u>(2,938)</u>	<u>496</u>
Income tax expense recognized in profit or loss	<u>\$ 83,765</u>	<u>\$ 497,250</u>

In July 2019, the president of the ROC announced the amendments to the Statute for Industrial Innovation, which stipulate that the amounts of unappropriated earnings in 2018 and thereafter that are reinvested in the construction or purchase of certain assets or technologies are allowed as deduction when computing the income tax on unappropriated earnings. When calculating the tax on unappropriated earnings, the Group only deducts the amount of the unappropriated earnings that has been reinvested in capital expenditure.

The applicable tax rate used by a subsidiary in the United States in 2020 and 2019 are 25.9% and 39.05%, respectively.

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 2021 appropriation of earnings is uncertain, the potential income tax consequences of the 2020 unappropriated earnings are not reliably determinable.

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

	For the Year Ended December 31	
	2020	2019
Deferred tax		
Remeasurement of defined benefit plan	<u>\$ 13,669</u>	<u>\$ 4,127</u>

c. Deferred tax assets and liabilities

For the Year Ended December 31, 2020				
		Recognized in	Other	
	Opening Balance	Recognized in Profit or Loss	Comprehensive Income (Loss)	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Provisions	\$ 110,311	\$ (21,876)	\$ -	\$ 88,435
Intangible assets	68,935	8,535	-	77,470
Property plant and equipment	24,343	(19,091)	-	5,252
Payables for annual leave	33,197	(12,417)	-	20,780
Defined benefit plan	12,363	-	(12,363)	-
Unrealized loss on foreign currency exchange	52,710	(7,369)	-	45,341
Right-of-use assets	3,270	(3,270)	-	-
Loss carryforwards	-	81,702	-	81,702
Others	733	122	-	855
	<u>\$ 305,862</u>	<u>\$ 26,336</u>	<u>\$ (12,363)</u>	<u>\$ 319,835</u>

Deferred tax liabilities

Temporary differences				
Investments accounted for using equity method	\$ 116,343	\$ 39,496	\$ -	\$ 155,839
Defined benefit plan	-	-	1,306	1,306
	<u>\$ 116,343</u>	<u>\$ 39,496</u>	<u>\$ 1,306</u>	<u>\$ 157,145</u>

For the Year Ended December 31, 2019

		Recognized in	Other	
	Opening Balance	Recognized in Profit or Loss	Comprehensive Income (Loss)	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Provisions	\$ 154,215	\$ (43,904)	\$ -	\$ 110,311
Intangible assets	68,935	-	-	68,935
Property plant and equipment	24,343	-	-	24,343
Payables 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
	<u>\$ 286,129</u>	<u>\$ 23,860</u>	<u>\$ (4,127)</u>	<u>\$ 305,862</u>

Deferred tax liabilities

Temporary differences				
Investments accounted for using equity method	\$ 65,179	\$ 51,164	\$ -	\$ 116,343

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

	December 31	
	2020	2019
Deductible temporary differences		
Inventories	<u>\$ 2,180,623</u>	<u>\$ 1,955,953</u>

e. Unused loss carryforwards

	December 31	
	2020	2019
Loss carryforwards		
Expiry in 2030	<u>\$ 408,512</u>	<u>\$ -</u>

f. Income tax assessments

Income tax returns of the Company through 2018 have been examined and cleared by the tax authorities.

26. EARNINGS PER SHARE

Unit: NT\$ Per Share

	For the Year Ended December 31	
	2020	2019
Basic earnings per share	<u>\$ 0.42</u>	<u>\$ 1.99</u>
Diluted earnings per share	<u>\$ 0.42</u>	<u>\$ 1.98</u>

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	
	2020	2019
<u>Profit for the year attributable to owners of the Company</u>		
Earnings used in the computation of basic earnings per share		
(Earnings used in the computation of diluted earnings per share)	<u>\$ 395,858</u>	<u>\$ 1,874,287</u>
<u>Weighted average number of ordinary shares outstanding</u>		
<u>(in thousand shares)</u>		
Weighted average number of ordinary shares in computation of basic earnings per share	941,867	941,867
Effect of potentially dilutive ordinary shares		
Compensation of employees issued to employees	<u>1,653</u>	<u>3,919</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>943,520</u>	<u>945,786</u>

The Company may settle compensation or bonuses payable to employees in cash or shares; therefore, the Company assumes that the entire amount of the compensation or bonuses will be settled in shares, and the resulting potential shares, if dilutive, are 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, participation in international new aircraft developing and engine development cooperation project. 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
<u>December 31, 2020</u>				
Financial assets at FVTOCI				
Investments in equity instruments				
Emerging market shares	\$ 16,731	\$ -	\$ -	\$ 16,731
Unlisted shares	-	-	33,197	33,197
	<u>\$ 16,731</u>	<u>\$ -</u>	<u>\$ 33,197</u>	<u>\$ 49,928</u>
<u>December 31, 2019</u>				
Financial assets at FVTOCI				
Investments in equity instruments				
Emerging market shares	\$ 53,504	\$ -	\$ -	\$ 53,504
Unlisted shares	-	-	33,830	33,830
	<u>\$ 53,504</u>	<u>\$ -</u>	<u>\$ 33,830</u>	<u>\$ 87,334</u>

There were no transfers between Levels 1 and 2 for the years ended December 31, 2020 and 2019, respectively.

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

Financial Assets	Financial Assets at FVTOCI Equity Instruments
<u>For the Year Ended December 31, 2020</u>	
Balance at January 1, 2020	\$ 33,830
Recognized in other comprehensive loss	(633)
Balance at December 31, 2020	<u>\$ 33,197</u>
<u>For the Year Ended December 31, 2019</u>	
Balance at January 1, 2019	\$ 33,067
Recognized in other comprehensive gain	763
Balance at December 31, 2019	<u>\$ 33,830</u>

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

	<u>December 31</u>	
	2020	2019
<u>Financial assets</u>		
Financial assets at amortized cost	\$ 14,608,624	\$ 17,804,298
Investments in equity instruments at FVTOCI - non-current	49,928	87,334
<u>Financial liabilities</u>		
Financial liabilities at amortized cost	24,902,235	25,839,141

Financial assets at amortized cost comprise cash and cash equivalents, 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 payables for salaries and bonuses, payables for annual leave and payables for compensation of employees 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 property, plant and equipment 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 and cash equivalents, trade receivable, short-term borrowings, short-term bills payable, 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 33.

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 \$35,741 thousand and \$49,871 thousand for the years ended December 31, 2020 and 2019, 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, 2020 and 2019 would have decreased/increased by \$9,900 thousand and \$20,121 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 United States, which accounted for 27% and 41% of the total trade receivables as of December 31, 2020 and 2019, 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, 2020 and 2019, 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
<u>December 31, 2020</u>			
Non-interest bearing liabilities	\$ 3,059,225	\$ 179,709	\$ -
Lease liabilities	132,457	488,057	1,697,931
Variable interest rate liabilities	2,000,000	1,184,615	775,385
Fixed interest rate liabilities	<u>13,410,000</u>	<u>4,300,000</u>	<u>-</u>
	<u>\$ 18,601,682</u>	<u>\$ 6,152,381</u>	<u>\$ 2,473,316</u>

Non-derivative financial liabilities	Less than 1 Year	1 to 5 Year	More than 5 Year
<u>December 31, 2019</u>			
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	5,635,991	292,308
Fixed interest rate liabilities	<u>11,160,000</u>	<u>3,000,000</u>	<u>-</u>
	<u>\$ 16,881,018</u>	<u>\$ 9,690,060</u>	<u>\$ 2,150,651</u>

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)

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Unsecured bank overdraft facility:		
Amount unused	<u>\$ 18,006,995</u>	<u>\$ 13,832,767</u>

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

<u>Related Party</u>	<u>Relationship with the Consolidated Company</u>
ITEC	Associate
JSPCO	Associate
Ministry of Economic Affairs	Corporate director

b. Sales of goods

	<u>For the Year Ended December 31</u>	
<u>Related Party</u>	<u>2020</u>	<u>2019</u>
ITEC	\$ 334,839	\$ 804,801
JSPCO	<u>137</u>	<u>-</u>
	<u>\$ 334,976</u>	<u>\$ 804,801</u>

The Group's sales prices are based on the contracts. The collection terms are as follows:

<u>Item</u>	<u>Collection Terms</u>
Engine	90 days after the invoice date
Backup parts	Offset accounts receivable with accounts payable

There is no unrelated party with similar product item to compare the engine sales price. The backup parts are no significant difference between the sale price and conditions for related parties and non-related parties, and collection term is 1-2 months.

c. Purchase of goods

	<u>For the Year Ended December 31</u>	
<u>Related Party</u>	<u>2020</u>	<u>2019</u>
ITEC	<u>\$ 422,139</u>	<u>\$ 1,258,093</u>

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

	<u>For the Year Ended December 31</u>	
<u>Related Party</u>	<u>2020</u>	<u>2019</u>
ITEC	\$ 731,854	\$ 754,238
JSPCO	<u>57,483</u>	<u>-</u>
	<u>\$ 789,337</u>	<u>\$ 754,238</u>

e. Receivables from related parties

	<u>December 31</u>	
<u>Related Party</u>	<u>2020</u>	<u>2019</u>
ITEC	\$ 101,328	\$ 131,561
JSPCO	<u>4</u>	<u>-</u>
	<u>\$ 101,332</u>	<u>\$ 131,561</u>

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

	<u>December 31</u>	
<u>Related Party</u>	<u>2020</u>	<u>2019</u>
ITEC	<u>\$ 441,288</u>	<u>\$ 848,582</u>

g. Payables to related parties

	<u>December 31</u>	
<u>Related Party</u>	<u>2020</u>	<u>2019</u>
ITEC	<u>\$ 101,685</u>	<u>\$ 79,880</u>

The outstanding trade payables to related parties are unsecured.

h. Other payables

Related Party	December 31	
	2020	2019
JSPCO	\$ 11,980	\$ -
ITEC	-	14,977
	<u>\$ 11,980</u>	<u>\$ 14,977</u>

i. Compensation of key management personnel

	For the Year Ended December 31	
	2020	2019
Short-term benefits	\$ 38,087	\$ 37,217
Post-employment benefits	1,806	4,612
	<u>\$ 39,893</u>	<u>\$ 41,829</u>

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	
	2020	2019
Property, plant and equipment	\$ 1,976,291	\$ 2,049,647
Other financial assets - current	4,008	2,910,045
Other financial assets - non-current	<u>47,841</u>	<u>14,054</u>
	<u>\$ 2,028,140</u>	<u>\$ 4,973,746</u>

31. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Group as follows:

- As of December 31, 2020 and 2019, unused letters of credit for purchases of raw materials and machinery and equipment amounted to approximately \$363,428 thousand and \$519,571 thousand, respectively.
- As of December 31, 2020 and 2019, unpaid contract for purchases of raw materials and machinery and equipment amounted to approximately \$26,234,958 thousand and \$35,452,777 thousand, respectively.
- The Group intended to lease land from Taiwan Sugar Co., Ltd. (Taiwan Sugar Company) for the purpose of sustainable operations, which was approved by the board of directors on February 7, 2020. The Group had signed a land agreement with Taiwan Sugar Company and paid \$33,787 thousand for security deposit. According to the contract, the Group needs to apply for a land change before leasing

the land. At that time, The Group signed the lease agreement with Taiwan Sugar Company and paid \$39,121 thousand for compensation.

32. SIGNIFICANT SUBSEQUENT EVENTS

- The Group leased a land located in Xitun District, Taichung City. After the re-measurement, some parts of the land were actually outside the scope of the Company, so the leased area was reduced and the lease agreement was revised. The lease period of the land is 7 years, from January 1, 2021 to December 31, 2027. In addition, the Group leased a land located in Shalu factory, Taichung City. The rental amount was adjusted for any changes based on the announcement of the land price and re-measurement of the leased area. The lease period of the land is 36 years, from January 1, 2021 to December 31, 2056. The abovementioned lease of land impacted the right-of-use assets and lease liabilities, which were reduced by \$7,454 thousand on January 1, 2021.
- On March 26, 2021, the Company's board of directors approved the AIDC 2021 7-year unsecured corporate bond of \$3,500,000 thousand. An interest per annum will be paid, and the repayment will be due 7 years from the date of issuance.

33. EXCHANGE RATE OF FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Group's significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies of entities in the Group and the related exchange rates between foreign currencies and respective functional currencies were as follows:

	December 31					
	Foreign Currency	2020 Exchange Rate	New Taiwan Dollars	Foreign Currency	2019 Exchange Rate	New Taiwan Dollars
<u>Assets</u>						
Monetary items						
USD	\$	257,919	28.48	\$	339,937	29.98
			\$ 7,345,533			\$10,191,311
Non-monetary items						
USD		35,140	28.48		28,517	29.98
			1,000,783			854,928
<u>Liabilities</u>						
Monetary items						
USD		6,929	28.48		7,241	29.98
			197,338			217,085

The significant unrealized foreign exchange gains (losses) were as follows:

Foreign Currency	For the Year Ended December 31			
	2020 Exchange Rate	Net Foreign Exchange Loss	2019 Exchange Rate	Net Foreign Exchange Loss
USD	28.48	<u>\$(226,205)</u>	29.98	<u>\$(268,468)</u>

34. 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 subsidiary, 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. (None)
- 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 2)
- 8) Receivables from related parties amounting to at least \$100 million or 20% of the paid-in capital. (Table 3)
- 9) Trading in derivative instruments. (None)
- 10) Intercompany relationships and significant intercompany transactions. (Table 4)
- 11) Information on investees. (Table 5)

b. Information on investments in mainland China. (None)

c. Information of major shareholders : List all shareholders with ownership of 5% or greater showing the name of the shareholder, the number of shares owned, and percentage of ownership of each shareholder (Table 6)

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			
	2020		2019	
	Amount	%	Amount	%
Customer A	\$ 5,536,933	26	\$ 6,541,094	23
Customer B	3,516,436	17	4,535,924	16
Customer C	2,229,929	11	4,247,228	15

35. 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	
	2020	2019
Asia	\$ 12,760,901	\$ 12,874,626
America	6,347,611	13,199,209
Europe	<u>1,934,425</u>	<u>2,466,372</u>
	<u>\$ 21,042,937</u>	<u>\$ 28,540,207</u>

TABLE 1

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARY

MARKETABLE SECURITIES HELD
DECEMBER 31, 2020
(In Thousands of New Taiwan Dollars or Shares, Unless Stated Otherwise)

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2020			
				Number of Shares	Carrying Amount	Percentage of Ownership	Fair Value
The Company	<u>Share capital</u>						
	UHT Ltd.	-	Financial assets at FVTOCI - non-current	1,100	\$ 16,731	3.11%	\$ 16,731
	AAI	The Company is a corporate director.	Financial assets at FVTOCI - non-current	4,968	31,037	13.09%	31,037
	Metro Ltd.	The Company is a corporate director.	Financial assets at FVTOCI - non-current	300	2,160	6%	2,160

Note: Information about subsidiary and associates is provided in Table 5.

TABLE 2

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARY

**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, 2020
(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 Purchase	\$ (312,780) 422,139	(1) 4	Note Note	Note Note	Note Note	\$ 99,409 (101,685)	1 (8)	

Note: Information is provided in Note 29.

TABLE 3

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARY

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2020
(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	\$ 101,328	2.92	\$ -	-	\$ 99,408	\$ -

TABLE 4

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARY

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2020
(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	\$ 2,422	T/T 30 - 60 days	-
		AIDC USA	Parent company to subsidiary	Manufacturing expenses	24,736	T/T 30 - 60 days	-
		AIDC USA	Parent company to subsidiary	Operation expenses	22,483	T/T 30 - 60 days	-
		AIDC USA	Parent company to subsidiary	Accounts payables	497	T/T 30 - 60 days	-
		AIDC USA	Parent company to subsidiary	Other payables	3,894	T/T 30 - 60 days	-

Note: Transactions have been eliminated.

TABLE 5

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARY

INFORMATION ON INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2020
(In Thousands of New Taiwan Dollars or Shares, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2020			Net Income (Loss) of the Investee	Share of Profits (Loss)	Note
				December 31, 2020	December 31, 2019	Shares	%	Carrying Amount			
The Company	AIDC USA	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	\$ 1,000,783	\$ 197,476	\$ 197,476	Subsidiary
	JSPCO	Kaohsiung City, ROC	Design, maintain and manufacture of moulds, jigs, fixtures and mechanical parts	50,000	-	5,000	31.25	28,243	(68,094)	(21,757)	Associate
AIDC USA	ITEC	Delaware, USA	Development, production and remodel of aircraft	728	728	-	22.05	948,636	1,406,013	262,990	Associate

Table 6**AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND
SUBSIDIARY****INFORMATION OF MAJOR SHAREHOLDERS
DECEMBER 31, 2020**

Name of Major Shareholder	Shares	
	Number of Shares (In Thousands)	Percentage of Ownership (%)
Ministry of Economic Affairs	331,302	35.17

Note: The information of major shareholders is based on the number of ordinary shares and preference shares held by shareholders with ownership of 5% or greater, that have been issued without physical registration (included treasury shares) by the Company as of December 31, 2020. The share capital in consolidated financial report may differ from the actual number of shares that have been issued without physical registration because of different preparation basis.

6. Audited Individual Financial Statements in the Previous Year

Deloitte.

勤業眾信

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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, 2020 and 2019, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters identified in the Company's financial statements for the year ended December 31, 2020 are stated as follows:

Impairment loss of inventory

The Company assesses the impairment of inventory by identifying raw materials individually. The assessment of impairment loss of raw materials was based on current market condition 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. The assessment of impairment loss of

raw materials involves management's critical judgment; therefore, we considered impairment of inventory as a key audit matter. Our key audit procedures performed in regard to the impairment assessment include the following:

1. We selected samples of the inventory aging report and tested the completeness and accuracy of the inventory.
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 and calculated the allowance for impairment loss.

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 audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the year ended December 31, 2020 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 26, 2021

Notice to Readers

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

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

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

BALANCE SHEETS

DECEMBER 31, 2020 AND 2019

(In Thousands of New Taiwan Dollars)

	December 31			
	2020		2019	
ASSETS	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 4,550,068	11	\$ 605,287	1
Notes receivable (Notes 4 and 8)	48,561	-	5,637	-
Trade receivables from unrelated parties (Notes 4 and 8)	9,718,012	22	13,958,292	30
Trade receivables from related parties (Notes 4 and 28)	99,413	-	128,327	-
Other receivables (Notes 4 and 8)	11,655	-	81,914	-
Current tax assets	4,541	-	-	-
Inventories (Notes 4, 5 and 9)	12,196,505	28	9,820,034	22
Other financial assets - current (Notes 4, 14 and 29)	33,021	-	2,935,559	7
Other current assets (Notes 4, 15, 20 and 28)	<u>3,077,295</u>	<u>7</u>	<u>4,586,695</u>	<u>10</u>
Total current assets	<u>29,739,071</u>	<u>68</u>	<u>32,121,745</u>	<u>70</u>
NON-CURRENT ASSETS				
Financial assets at fair value through other comprehensive income - non-current (Notes 4 and 7)	49,928	-	87,334	-
Investments accounted for using equity method (Notes 4 and 10)	1,029,026	2	854,928	2
Property, plant and equipment (Notes 4, 11, 23 and 29)	9,297,653	21	8,567,935	18
Right-of-use assets (Notes 3, 4 and 12)	1,813,172	4	2,288,217	5
Intangible assets (Notes 4 and 13)	1,156,321	3	1,246,856	3
Deferred tax assets (Notes 4 and 24)	319,637	1	305,631	1
Prepayments for equipment (Note 23)	472,268	1	513,640	1
Other financial assets - non-current (Notes 4, 14 and 29)	47,841	-	14,054	-
Other non-current assets (Notes 4, 8 and 15)	<u>93,251</u>	<u>-</u>	<u>66,310</u>	<u>-</u>
Total non-current assets	<u>14,279,097</u>	<u>32</u>	<u>13,944,905</u>	<u>30</u>
TOTAL	<u>\$ 44,018,168</u>	<u>100</u>	<u>\$ 46,066,650</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Notes 16 and 29)	\$ 3,710,000	9	\$ 4,920,000	11
Short-term bills payable (Note 16)	11,696,287	27	8,357,255	18
Contract liabilities (Note 4)	1,480,736	3	584,119	1
Trade payables to unrelated parties	1,232,686	3	1,395,943	3
Trade payables to related parties (Note 28)	102,182	-	79,880	-
Other payables (Notes 18 and 28)	2,695,662	6	3,601,051	8
Current tax liabilities (Notes 4 and 24)	61,401	-	187,462	1
Lease liabilities-current (Notes 3, 4 and 12)	102,069	-	139,577	-
Net defined benefit liabilities - current (Notes 4 and 20)	-	-	61,813	-
Other current liabilities	<u>100,687</u>	<u>-</u>	<u>43,901</u>	<u>-</u>
Total current liabilities	<u>21,181,710</u>	<u>48</u>	<u>19,371,001</u>	<u>42</u>
NON-CURRENT LIABILITIES				
Bonds payable (Note 17)	2,997,014	7	2,996,210	7
Long-term borrowings (Notes 16 and 29)	3,260,000	7	5,928,299	13
Provisions - non-current (Notes 4 and 19)	442,175	1	551,553	1
Non-current tax liabilities (Notes 4 and 24)	92,101	-	-	-
Deferred tax liabilities (Notes 4 and 24)	157,145	-	116,343	-
Lease liabilities-non-current (Notes 3, 4 and 12)	1,740,186	4	2,164,988	5
Long-term deferred revenue (Note 4)	3,856	-	279	-
Guarantee deposits	<u>179,709</u>	<u>1</u>	<u>214,391</u>	<u>-</u>
Total non-current liabilities	<u>8,872,186</u>	<u>20</u>	<u>11,972,063</u>	<u>26</u>
Total liabilities	<u>30,053,896</u>	<u>68</u>	<u>31,343,064</u>	<u>68</u>
EQUITY				
Ordinary shares	9,418,671	21	9,418,671	20
Retained earnings				
Legal reserve	1,098,424	3	909,345	2
Special reserve	1,931,264	4	2,522,475	6
Unappropriated earnings	1,634,749	4	1,902,904	4
Other equity	<u>(118,836)</u>	<u>-</u>	<u>(29,809)</u>	<u>-</u>
Total equity	<u>13,964,272</u>	<u>32</u>	<u>14,723,586</u>	<u>32</u>
TOTAL	<u>\$ 44,018,168</u>	<u>100</u>	<u>\$ 46,066,650</u>	<u>100</u>

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, 2020 AND 2019

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

	For the Year Ended December 31			
	2020		2019	
	Amount	%	Amount	%
SALES (Notes 4, 22 and 28)	\$ 21,020,879	100	\$ 28,515,619	100
COST OF GOODS SOLD (Notes 9, 23 and 28)	<u>19,665,936</u>	<u>93</u>	<u>24,762,906</u>	<u>87</u>
GROSS PROFIT	<u>1,354,943</u>	<u>7</u>	<u>3,752,713</u>	<u>13</u>
OPERATING EXPENSES (Notes 23 and 28)				
Selling and marketing expenses	119,408	1	131,047	-
General and administrative expenses	555,117	3	624,613	2
Research and development expenses	516,700	2	548,281	2
Expected credit loss (gain) (Notes 4 and 8)	<u>(7,974)</u>	<u>-</u>	<u>8,130</u>	<u>-</u>
Total operating expenses	<u>1,183,251</u>	<u>6</u>	<u>1,312,071</u>	<u>4</u>
PROFIT FROM OPERATIONS	<u>171,692</u>	<u>1</u>	<u>2,440,642</u>	<u>9</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 4 and 23)	750,129	4	127,236	-
Other losses (Notes 4 and 23)	(552,756)	(3)	(407,253)	(1)
Share of profit of subsidiary and associates (Note 4)	175,719	1	255,822	1
Interest income	41,189	-	101,312	-
Finance costs (Notes 4 and 23)	<u>(179,880)</u>	<u>(1)</u>	<u>(217,686)</u>	<u>(1)</u>
Total non-operating income and expenses	<u>234,401</u>	<u>1</u>	<u>(140,569)</u>	<u>(1)</u>
PROFIT BEFORE INCOME TAX	406,093	2	2,300,073	8
INCOME TAX EXPENSE (Notes 4 and 24)	<u>10,235</u>	<u>-</u>	<u>425,786</u>	<u>2</u>
NET PROFIT FOR THE YEAR	<u>395,858</u>	<u>2</u>	<u>1,874,287</u>	<u>6</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
(Note 4)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	54,677	-	16,507	-
Unrealized loss on investments in equity instruments designated as at fair value through other comprehensive income	(37,406)	-	(16,133)	-

(Continued)

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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

	For the Year Ended December 31			
	2020		2019	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of the financial statements of foreign operations	\$ (51,621)	-	\$ (22,590)	-
Other comprehensive loss for the year, net of income tax	(34,350)	-	(22,216)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 361,508</u>	<u>2</u>	<u>1,852,071</u>	<u>6</u>
EARNINGS PER SHARE (Note 25)				
Basic	<u>\$ 0.42</u>		<u>1.99</u>	
Diluted	<u>\$ 0.42</u>		<u>1.98</u>	

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

(Concluded)

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

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

	Ordinary Shares (Note 21)	Retained Earnings (Note 21)			Other Equity (Note 4)		Total Equity
		Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translation of the Financial Statements of Foreign Operations	Unrealized gain (loss) on Investments in Equity Instruments Designated as at Fair Value through Other Comprehensive Income	
BALANCE AT JANUARY 1, 2019	\$ 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
Appropriation of 2019 earnings							
Legal reserve	-	189,079	-	(189,079)	-	-	-
Special reserve	-	-	(591,211)	591,211	-	-	-
Cash dividends distributed by the Company	-	-	-	(1,120,822)	-	-	(1,120,822)
Profit for the year ended December 31, 2020	-	-	-	395,858	-	-	395,858
Other comprehensive income (loss) for the year ended December 31, 2020, net of income tax	-	-	-	54,677	(51,621)	(37,406)	(34,350)
Total comprehensive income (loss) for the year ended December 31, 2020	-	-	-	450,535	(51,621)	(37,406)	361,508
BALANCE AT DECEMBER 31, 2020	\$ 9,418,671	\$ 1,098,424	\$ 1,931,264	\$ 1,634,749	\$ (89,564)	\$ (29,272)	\$ 13,964,272

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, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

	For the Year Ended December 31	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 406,093	\$ 2,300,073
Adjustments for:		
Depreciation expense	1,088,005	1,087,276
Amortization expense	339,901	304,182
Expected credit loss recognized (reversed)	(7,974)	8,130
Finance costs	179,880	217,686
Interest income	(41,189)	(101,312)
Dividend income	(111)	(138)
Share of profit of subsidiary and associate	(175,719)	(255,822)
Loss on disposal of property, plant and equipment	21	669
Impairment loss recognized (reversed) on non-financial assets	267,345	(204,769)
Unrealized net loss on foreign currency exchange	47,887	254,574
Reversal of provisions	(72,336)	(95,802)
Other income from liabilities	(2,168)	(13,842)
Benefits from lease modification	(24,069)	-
Net changes in operating assets and liabilities		
Notes receivable	(42,924)	(2,953)
Trade receivables	4,235,564	1,058,450
Other receivables	65,073	15,464
Inventories	(2,638,183)	(2,940,936)
Other current assets	1,515,933	(715,842)
Contract liabilities	896,617	500,221
Trade payables	(139,467)	(808,744)
Other payables	(875,345)	45,476
Other current liabilities	57,377	(61,670)
Deferred income	3,577	(36)
Cash generated from operations	5,083,788	590,335
Interest received	46,375	99,259
Interest paid	(159,576)	(217,261)
Income tax paid	(35,609)	(395,823)
Net cash generated from operating activities	<u>4,934,978</u>	<u>76,510</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for investments accounted for using equity method	(50,000)	-
Payments for property, plant and equipment	(1,566,886)	(820,997)
Proceeds from disposal of property, plant and equipment	-	34
Increase in refundable deposits	(76,673)	(24,519)
Decrease in refundable deposits	51,446	11,230
Payments for intangible assets	(236,777)	(258,272)
Decrease (increase) in other financial assets	2,870,196	(1,081,960)
Increase in other non-current assets	(27,123)	(205,900)

(Continued)

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

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

	For the Year Ended December 31	
	2020	2019
Increase in prepayments for equipment	\$ (151,457)	\$ (488,622)
Dividends received	<u>111</u>	<u>138</u>
Net cash generated from (used in) investing activities	<u>812,837</u>	<u>(2,868,868)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	39,042,244	48,520,000
Repayments of short-term borrowings	(40,252,244)	(51,330,000)
Proceeds from short-term bills payable	79,086,586	37,430,463
Repayments of short-term bills payable	(75,747,554)	(31,572,783)
Proceeds from bonds payable	-	2,995,980
Proceeds from long-term borrowings	31,438,000	26,673,760
Repayments of long-term borrowings	(34,106,299)	(28,868,579)
Proceeds of guarantee deposits received	103,677	253,185
Refund of guarantee deposits	(138,359)	(244,534)
Repayment of the principal portion of lease liabilities	(108,263)	(132,857)
Cash dividends distributed	<u>(1,120,822)</u>	<u>(1,262,102)</u>
Net cash generated from (used in) financing activities	<u>(1,803,034)</u>	<u>2,462,533</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,944,781	(329,825)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>605,287</u>	<u>935,112</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 4,550,068</u>	<u>\$ 605,287</u>

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

(Concluded)

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (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 26, 2021.

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

- a. Initial application of the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) (collectively, the "IFRSs") endorsed and issued into effect by the Financial Supervisory Commission (FSC)

Except for the following, the initial application of the IFRSs endorsed and issued into effect by the FSC did not have material impact on the Company's accounting policies.

Amendment to IFRS 16 "Covid-19-Related Rent Concessions"

The Company elected to apply the practical expedient provided in the amendment to IFRS 16 with respect to rent concessions negotiated with the lessor as a direct consequence of the COVID-19. The related accounting policies are stated in Note 4. Prior to the application of the amendment, the Company shall determine whether or not the abovementioned rent concessions need to be accounted for as lease modifications.

The Company applied the amendment from January 1, 2020. Because the abovementioned rent concessions affect only in 2020, retrospective application of the amendment has no impact on the retained earnings as of January 1, 2020.

- b. The IFRSs endorsed by the Financial Supervisory Commission (FSC) for application starting from 2021

New IFRSs	Effective Date Announced by IASB
Amendments to IFRS 4 "Extension of the Temporary Exemption from Applying IFRS 9"	Effective immediately upon promulgation by the IASB
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform - Phase 2"	January 1, 2021

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

New IFRSs	Effective Date Announced by IASB (Note 1)
"Annual Improvements to IFRS Standards 2018-2020"	January 1, 2022 (Note 2)
Amendments to IFRS 3 "Reference to the Conceptual Framework"	January 1, 2022 (Note 3)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	January 1, 2023
Amendments to IAS 1 "Disclosure of Accounting Policies"	January 1, 2023 (Note 4)
Amendments to IAS 8 "Definition of Accounting Estimates"	January 1, 2023 (Note 5)
Amendments to IAS 16 "Property, Plant and Equipment - Proceeds before Intended Use"	January 1, 2022 (Note 6)
Amendments to IAS 37 "Onerous Contracts - Cost of Fulfilling a Contract"	January 1, 2022 (Note 7)

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

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

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

Note 4: The amendments will be applied prospectively for annual reporting periods beginning on or after January 1, 2023.

Note 5: The amendments are applicable to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the annual reporting period beginning on or after January 1, 2023.

Note 6: The amendments will be applicable to property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after January 1, 2021.

Note 7: The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.

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.

The Company may not restate prior reporting periods when applying the aforementioned amendments, and recognize the cumulative effect in the retained earnings or other component of equity at the date of the initial application instead.

Except for the above impact, 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 (assets) 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 subsidiary 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 subsidiary and associates, the share of other comprehensive income of subsidiary 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 and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within 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 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 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 property, plant and equipment, right-of-use asset and intangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its property, plant and equipment, right-of-use asset and intangible assets, 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 and cash equivalents, 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.

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

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

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

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

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.

The Company negotiates with the lessor for rent concessions as a direct consequence of the Covid-19 to change the lease payments originally due by December 31, 2020, that results in the revised consideration for the lease less than the consideration for the lease immediately preceding the change. There is no substantive change to other terms and conditions. The Company elects to apply the practical expedient to all of these rent concessions lease contracts and, therefore, does not assess whether the rent concessions are lease modifications. Instead, the Company recognizes the reduction in lease payment in profit or loss, in the period in which the events or conditions that trigger the concession occur, and makes a corresponding adjustment to the lease liability.

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 rereasurement) 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 Act in the ROC, 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 Company considers the economic implications of the COVID-19 when making its critical accounting estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the 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 - 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.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2020	2019
Cash on hand and petty cash	\$ 412	\$ 147
Checking accounts and demand deposits	1,700,661	605,140
Cash equivalents		
Time deposits with original maturities three months or less	2,848,995	-
	<u>\$ 4,550,068</u>	<u>\$ 605,287</u>
<u>Rates of bank balance (%)</u>		
Demand deposits	0.00-0.24	0.08-1.58
Time deposits	0.25-0.28	-

7. FINANCIAL ASSETS AT FVTOCI

	December 31	
	2020	2019
<u>Emerging marked shares</u>		
UHT Unitech Co Ltd. (UHT Ltd.)	<u>\$ 16,731</u>	<u>\$ 53,504</u>
<u>Unlisted ordinary shares</u>		
Aerovision Avionics Inc. (AAI)	31,037	31,684
Metro Consulting Service Ltd. (Metro Ltd.)	2,160	2,146
	<u>33,197</u>	<u>33,830</u>
	<u>\$ 49,928</u>	<u>\$ 87,334</u>

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	
	2020	2019
Notes receivable	<u>\$ 48,561</u>	<u>\$ 5,637</u>
<u>Trade receivables from unrelated parties</u>		
At amortized cost		
Gross carrying amount	\$ 9,719,714	\$ 13,962,722
Less: Allowance for impairment loss	(1,702)	(4,430)
	<u>\$ 9,718,012</u>	<u>\$ 13,958,292</u>

	December 31	
	2020	2019
<u>Other receivables</u>		
Tax return receivables	\$ 6,827	\$ 71,382
Others	4,828	10,532
	<u>\$ 11,655</u>	<u>\$ 81,914</u>

The Company's customers are mostly national defense organizations and international aerospace corporations. The international aerospace corporations' average credit period of sales of goods is 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 approach considering the 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 notes 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
<u>December 31, 2020</u>						
Expected credit loss rate	0%	2%	5%	50%	100%	
Gross carrying amount	\$ 9,704,338	\$ 49,815	\$ 14,122	\$ 709	\$ 8,605	\$ 9,777,589
Loss allowance (Lifetime ECL)	-	(996)	(706)	(355)	(8,605)	(10,662)
Amortized cost	<u>\$ 9,704,338</u>	<u>\$ 48,819</u>	<u>\$ 13,416</u>	<u>\$ 354</u>	<u>\$ -</u>	<u>\$ 9,766,927</u>
<u>December 31, 2019</u>						
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	<u>\$ 13,770,583</u>	<u>\$ 189,422</u>	<u>\$ 3,924</u>	<u>\$ 8,073</u>	<u>\$ -</u>	<u>\$ 13,972,002</u>

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

	For the Year Ended December 31, 2020	
	Trade Receivables	Overdue Receivables
Balance at January 1, 2020	\$ 4,430	\$ 14,700
Impairment loss reversed	(2,728)	(5,246)
Amounts written-off	-	(494)
Balance at December 31, 2020	<u>\$ 1,702</u>	<u>\$ 8,960</u>

	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	<u>\$ 4,430</u>	<u>\$ 14,700</u>

9. INVENTORIES

	December 31	
	2020	2019
Raw materials	\$ 7,768,439	\$ 5,546,698
Work in progress	<u>4,428,066</u>	<u>4,273,336</u>
	<u>\$ 12,196,505</u>	<u>\$ 9,820,034</u>

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

	For the Year Ended December 31	
	2020	2019
Recognition (reversal) of inventory write-downs	\$ 224,670	\$ (204,769)
Indemnity income	(143,880)	(131,655)
Income from sales of scraps	(17,877)	(25,641)
Loss on disposal of inventories	66,836	69,384

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

10. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31			
	2020	% of Ownership	2019	% of Ownership
	Amount		Amount	
<u>Investment in subsidiary</u>				
AIDC USA LLC (AIDC USA)	\$ 1,000,783	100	\$ 854,928	100
<u>Investment in associate</u>				
Jung Sheng Precision IND Co., Ltd. (JSPCO)	<u>28,243</u>	31.25	<u>-</u>	-
	<u>\$ 1,029,026</u>		<u>\$ 854,928</u>	

The investment of JSPCO were approved by the board of directors of the Company on December 20, 2019. In January 2020, the Company invested NT\$50,000 thousand and acquired 34.48% ownership of JSPCO. On March 20, 2020, the board of directors of JSPCO approved the cash injection to issue 1,500 thousand shares and the subscription base date was May 31, 2020. The Company did not participate in this subscription. Therefore, the Company's ownership interest in JSPCO was decreased to 31.25%.

Refer to "Table 3: 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 subsidiary were based on the financial statements which have been audited for the same years.

11. PROPERTY, PLANT AND EQUIPMENT

	Land Improvements	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Property in Construction	Total
<u>Cost</u>							
Balance at January 1, 2020	\$ 120,739	\$ 5,964,984	\$ 13,524,342	\$ 731,140	\$ 805,917	\$ 277,983	\$ 21,425,105
Additions	-	391,465	987,141	63,536	103,418	-	1,545,560
Disposals	-	-	(235,461)	(37,768)	(2,032)	-	(275,261)
Reclassification	-	<u>266,065</u>	<u>195,769</u>	<u>8,267</u>	<u>3,051</u>	<u>(277,983)</u>	<u>195,169</u>
Balance at December 31, 2020	<u>\$ 120,739</u>	<u>\$ 6,622,514</u>	<u>\$ 14,471,791</u>	<u>\$ 765,175</u>	<u>\$ 910,354</u>	<u>\$ -</u>	<u>\$ 22,890,573</u>
<u>Accumulated depreciation and impairment</u>							
Balance at January 1, 2020	\$ 116,663	\$ 3,021,560	\$ 8,617,311	\$ 693,300	\$ 408,336	\$ -	\$ 12,857,170
Depreciation expense	766	178,811	753,797	22,523	55,093	-	1,010,990
Disposals	-	-	(139,983)	(37,768)	(2,032)	-	(179,783)
Impairment losses reversed	-	-	<u>(95,457)</u>	-	-	-	<u>(95,457)</u>
Balance at December 31, 2020	<u>\$ 117,429</u>	<u>\$ 3,200,371</u>	<u>\$ 9,135,668</u>	<u>\$ 678,055</u>	<u>\$ 461,397</u>	<u>\$ -</u>	<u>\$ 13,592,920</u>
Carrying amount at January 1, 2020	<u>\$ 4,076</u>	<u>\$ 2,943,424</u>	<u>\$ 4,907,031</u>	<u>\$ 37,840</u>	<u>\$ 397,581</u>	<u>\$ 277,983</u>	<u>\$ 8,567,935</u>
Carrying amount at December 31, 2020	<u>\$ 3,310</u>	<u>\$ 3,422,143</u>	<u>\$ 5,336,123</u>	<u>\$ 87,120</u>	<u>\$ 448,957</u>	<u>\$ -</u>	<u>\$ 9,297,653</u>

	Land Improvements	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Property in Construction	Total
<u>Cost</u>							
Balance at January 1, 2019	\$ 120,739	\$ 5,916,217	\$ 12,769,436	\$ 731,646	\$ 787,422	\$ 30,060	\$ 20,355,520
Additions	-	17,283	534,444	10,650	14,696	286,432	863,505
Disposals	-	(14,329)	(89,206)	(11,156)	(2,647)	-	(117,338)
Reclassification	-	45,813	309,668	-	6,446	(38,509)	323,418
Balance at December 31, 2019	<u>\$ 120,739</u>	<u>\$ 5,964,984</u>	<u>\$ 13,524,342</u>	<u>\$ 731,140</u>	<u>\$ 805,917</u>	<u>\$ 277,983</u>	<u>\$ 21,425,105</u>
<u>Accumulated depreciation and impairment</u>							
Balance at January 1, 2019	\$ 115,514	\$ 2,853,900	\$ 7,993,649	\$ 693,180	\$ 347,319	\$ -	\$ 12,003,562
Depreciation expense	1,149	181,332	712,822	11,276	63,664	-	970,243
Disposals	-	(13,672)	(89,160)	(11,156)	(2,647)	-	(116,635)
Balance at December 31, 2019	<u>\$ 116,663</u>	<u>\$ 3,021,560</u>	<u>\$ 8,617,311</u>	<u>\$ 693,300</u>	<u>\$ 408,336</u>	<u>\$ -</u>	<u>\$ 12,857,170</u>
Carrying amount at January 1, 2019	<u>\$ 5,225</u>	<u>\$ 3,062,317</u>	<u>\$ 4,775,787</u>	<u>\$ 38,466</u>	<u>\$ 440,103</u>	<u>\$ 30,060</u>	<u>\$ 8,351,958</u>
Carrying amount at December 31, 2019	<u>\$ 4,076</u>	<u>\$ 2,943,424</u>	<u>\$ 4,907,031</u>	<u>\$ 37,840</u>	<u>\$ 397,581</u>	<u>\$ 277,983</u>	<u>\$ 8,567,935</u>

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	2-35 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

	<u>December 31</u>	
	2020	2019
<u>Carrying amount</u>		
Land	\$ 1,797,200	\$ 2,260,856
Buildings	4,157	8,946
Machinery and equipment	9,001	12,575
Other equipment	<u>2,814</u>	<u>5,840</u>
	<u>\$ 1,813,172</u>	<u>\$ 2,288,217</u>

For the Year Ended December 31

	2020	2019
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Additions to right-of-use assets	<u>\$ 407</u>	<u>\$ 31,511</u>
Depreciation charge for right-of-use assets		
Land	\$ 102,647	\$ 142,956
Buildings	4,789	4,469
Machinery and equipment	3,574	1,576
Other equipment	<u>3,433</u>	<u>599</u>
	<u>\$ 114,443</u>	<u>\$ 149,600</u>

b. Lease liabilities

	<u>December 31</u>	
	2020	2019
<u>Carrying amount</u>		
Current	<u>\$ 102,069</u>	<u>\$ 139,577</u>
Non-current	<u>\$ 1,740,186</u>	<u>\$ 2,164,988</u>

Range of discount rates for lease liabilities was as follows:

	<u>December 31</u>	
	2020	2019
Land	1.6%	1.6%
Buildings	1.6%	1.6%
Machinery and equipment	1.6%	1.6%
Other equipment	1.6%	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.

The Company negotiated with National Property Administration, Ministry of Finance (NPA) on rent concessions for land lease. The NPA agreed to provide unconditional 20% rent reduction from January 1, 2020 to December 31, 2020 and deferral of rentals for January 1, 2020 to December 31, 2020, with the amount payable on December 15, 2020. The Company recognized rent concessions of NT\$24,069 thousand in profit or loss for the year ended December 31, 2020.

d. Other lease information

	<u>For the Year Ended December 31</u>	
	2020	2019
Expenses relating to short-term leases	<u>\$ 40,111</u>	<u>\$ 28,941</u>
Expenses relating to low-value asset leases	<u>\$ 1,576</u>	<u>\$ 781</u>
Total cash outflow for leases	<u>\$ (149,950)</u>	<u>\$ (162,579)</u>

The Company's leases of certain buildings, machinery and equipment and transportation equipment qualify as short-term leases, and certain machinery and equipment, transportation equipment and other equipment 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.

13. INTANGIBLE ASSETS

	December 31	
	2020	2019
<u>Other intangible assets</u>		
Computer software	\$ 69,754	\$ 121,365
Deferred technical cooperation expenses	17,773	24,017
Patent	1,235	859
Trademark	90	124
	<u>88,852</u>	<u>146,365</u>
<u>Developing intangible assets</u>		
Projects non-recurring costs	<u>1,067,469</u>	<u>1,100,491</u>
	<u>\$ 1,156,321</u>	<u>\$ 1,246,856</u>
	Other Intangible Assets	Developing Intangible Assets
<u>Cost</u>		
Balance at January 1, 2020	\$ 1,093,782	\$ 6,690,953
Additions from internal developments	-	268,446
Additions	14,656	-
Disposals	(6,171)	(412)
Reclassification	<u>146</u>	<u>9,852</u>
Balance at December 31, 2020	<u>\$ 1,102,413</u>	<u>\$ 6,968,839</u>
<u>Accumulated amortization and impairment</u>		
Balance at January 1, 2020	\$ 947,417	\$ 5,590,462
Amortization expense	72,315	268,645
Disposals	(6,171)	(412)
Reclassification	<u>-</u>	<u>42,675</u>
Balance at December 31, 2020	<u>\$ 1,013,561</u>	<u>\$ 5,901,370</u>
Carrying amount at December 31, 2020	<u>\$ 88,852</u>	<u>\$ 1,067,469</u>

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	<u>28,360</u>	<u>359,361</u>
Balance at December 31, 2019	<u>\$ 1,093,782</u>	<u>\$ 6,690,953</u>

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	<u>-</u>	<u>22,081</u>
Balance at December 31, 2019	<u>\$ 947,417</u>	<u>\$ 5,590,462</u>
Carrying amount at December 31, 2019	<u>\$ 146,365</u>	<u>\$ 1,100,491</u>

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	10-20 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 for the years ended December 31, 2020 and 2019 were 0.18%-1.065% and 0.28%-2.73%, respectively.

15. OTHER ASSETS

	December 31	
	2020	2019
<u>Current</u>		
Prepayment	\$ 2,890,872	\$ 4,481,443
Net defined benefits assets - current (Note 20)	6,533	-
Others	<u>179,890</u>	<u>105,252</u>
	<u>\$ 3,077,295</u>	<u>\$ 4,586,695</u>
<u>Non-current</u>		
Overdue receivables (Note 8)	\$ 9,314	\$ 22,773
Less: Allowance for impairment loss	<u>(8,960)</u>	<u>(14,700)</u>
	354	8,073
Refundable deposits	60,140	34,913
Others	<u>32,757</u>	<u>23,324</u>
	<u>\$ 93,251</u>	<u>\$ 66,310</u>

16. BORROWINGS

a. Short-term borrowings

	December 31	
	2020	2019
Credit borrowings	\$ 3,710,000	\$ 3,920,000
Secured borrowings (Note 29)	<u>-</u>	<u>1,000,000</u>
	<u>\$ 3,710,000</u>	<u>\$ 4,920,000</u>
<u>Rates of interest per annum (%)</u>		
Credit borrowings	0.513-0.715	0.85-0.899
Secured borrowings	-	0.78

b. Short-term bills payable

	December 31	
	2020	2019
Commercial paper	\$ 11,700,000	\$ 8,360,000
Less: Unamortized discount on bills payable	<u>(3,713)</u>	<u>(2,745)</u>
	<u>\$ 11,696,287</u>	<u>\$ 8,357,255</u>
Rate of interest per annum (%)	0.26-0.36	0.64-0.77

c. Long-term borrowings

	December 31	
	2020	2019
Credit borrowings	\$ 3,260,000	\$ 4,128,299
Secured borrowings (Note 29)	<u>-</u>	<u>1,800,000</u>
	<u>\$ 3,260,000</u>	<u>\$ 5,928,299</u>
<u>Rates of interest per annum (%)</u>		
Credit borrowings	0.65-0.94	0.85-1.11
Secured borrowings	-	0.78

17. BONDS PAYABLE

	December 31	
	2020	2019
Unsecured domestic bonds	\$ 3,000,000	\$ 3,000,000
Less: Unamortized discount on bonds payable	<u>(2,986)</u>	<u>(3,790)</u>
	<u>\$ 2,997,014</u>	<u>\$ 2,996,210</u>

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	
	2020	2019
Payables for salaries and bonuses	\$ 872,684	\$ 1,388,271
Payables for outsourcing	653,023	923,504
Payables for purchase of equipment	247,717	271,891
Payables for annual leave	103,902	165,988
Payables for service fee	85,797	88,290
Payables for compensation of employees and remuneration of directors	21,239	120,294
Others	<u>711,300</u>	<u>642,813</u>
	<u>\$ 2,695,662</u>	<u>\$ 3,601,051</u>

19. PROVISIONS - NON-CURRENT

	December 31	
	2020	2019
Warranties	\$ 342,808	\$ 452,186
Others	<u>99,367</u>	<u>99,367</u>
	<u>\$ 442,175</u>	<u>\$ 551,553</u>

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 Act 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 16.57% and 16.29% of total monthly salaries and wages for the years ended December 31, 2020 and 2019, 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	
	2020	2019
Present value of defined benefit obligation	\$ 2,496,373	\$ 2,245,092
Fair value of plan assets	<u>(2,502,906)</u>	<u>(2,183,279)</u>
Net defined benefit liabilities (assets)	<u>\$ (6,533)</u>	<u>\$ 61,813</u>

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 (Assets)
Balance at January 1, 2019	\$ 1,889,063	\$ (1,806,616)	\$ 82,447
Service cost			
Current service cost	423,927	-	423,927
Net interest expense (income)	<u>16,545</u>	<u>(17,706)</u>	<u>(1,161)</u>
Recognized in profit or loss	<u>440,472</u>	<u>(17,706)</u>	<u>422,766</u>
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	<u>(1,598)</u>	<u>-</u>	<u>(1,598)</u>
Recognized in other comprehensive income (loss)	<u>36,604</u>	<u>(57,238)</u>	<u>(20,634)</u>
Contributions from the employer	-	(422,766)	(422,766)
Benefits paid	<u>(121,047)</u>	<u>121,047</u>	<u>-</u>
Balance at December 31, 2019	<u>2,245,092</u>	<u>(2,183,279)</u>	<u>61,813</u>
Service cost			
Current service cost	411,007	-	411,007
Net interest expense (income)	<u>14,326</u>	<u>(15,257)</u>	<u>(931)</u>
Recognized in profit or loss	<u>425,333</u>	<u>(15,257)</u>	<u>410,076</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(67,076)	(67,076)
Actuarial loss - changes in financial assumptions	63,507	-	63,507
Actuarial gain - experience adjustments	<u>(64,777)</u>	<u>-</u>	<u>(64,777)</u>
Recognized in other comprehensive income (loss)	<u>(1,270)</u>	<u>(67,076)</u>	<u>(68,346)</u>
Contributions from the employer	-	(410,076)	(410,076)
Benefits paid	<u>(172,782)</u>	<u>172,782</u>	<u>-</u>
Balance at December 31, 2020	<u>\$ 2,496,373</u>	<u>\$ (2,502,906)</u>	<u>\$ (6,533)</u>

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

- 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	
	2020	2019
Discount rate(s)	0.25%	0.65%
Expected rate(s) of salary increase	1.50%	1.50%

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

	December 31	
	2020	2019
Discount rate(s)		
0.25% increase	\$ (39,975)	\$ (39,049)
0.25% decrease	\$ 40,939	\$ 40,049
Expected rate(s) of salary increase		
0.25% increase	\$ 40,329	\$ 39,610
0.25% decrease	\$ (39,585)	\$ (38,820)

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	
	2020	2019
The expected contributions to the plan for the next year	\$ 384,520	\$ 410,076
The average duration of the defined benefit obligation	6.2 years	6.9 years

21. EQUITY

a. Ordinary shares

	December 31	
	2020	2019
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 compensation of employees 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 2019 and 2018 having been approved in the shareholders' meetings on May 29, 2020, and May 31, 2019, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	2019	2018	2019	2018
Legal reserve	\$ 189,079	\$ 207,007		
Special reserve	29,809	588,848		
Reverse special reserve	(621,020)	-		
Cash dividends	1,120,822	1,262,102	\$ 1.19	\$ 1.34

The appropriations of earnings for 2020 were proposed by the Company's board of directors on March 26, 2021. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 45,053	
Special reserve	89,027	
Cash dividends	188,373	\$ 0.2

The appropriations of earnings for 2020 are subject to the resolution of the shareholders' meeting to be held in May 2021.

22. REVENUE

	For the Year Ended December 31	
	2020	2019
Aircraft/vehicle maintenance	\$ 14,026,669	\$ 16,072,427
Aero/industrial engine	6,421,779	11,917,333
Industrial technology services	572,431	525,859
	<u>\$ 21,020,879</u>	<u>\$ 28,515,619</u>

23. NET PROFIT

a. Other income

	For the Year Ended December 31	
	2020	2019
Remedy income	\$ 679,652	\$ 41,055
Indemnity income	2,767	4,761
Other income from condoned liabilities	2,168	13,842
Others	<u>65,542</u>	<u>67,578</u>
	<u>\$ 750,129</u>	<u>\$ 127,236</u>

The subsidy income was mostly from the Company's difficult business salary and working capital subsidy applied to the Industrial Bureau of the Ministry of Economic Affairs.

b. Other gains and losses

	For the Year Ended December 31	
	2020	2019
Net foreign exchange losses	\$ (339,044)	\$ (209,592)
Impairment loss	(42,675)	-
Loss on disposal of property, plant and equipment	(21)	(669)
Others	<u>(171,016)</u>	<u>(196,992)</u>
	<u>\$ (552,756)</u>	<u>\$ (407,253)</u>

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, 2020						
Employee benefits expense						
Salaries expense	\$ 4,122,016	\$ 496,993	\$ 10,694	\$ 54,846	\$ 1,632	\$ 4,686,181
Retirement benefit						
Defined contribution plans	120,276	16,845	276	1,645	51	139,093
Defined benefit plans	354,597	49,663	814	4,850	152	410,076
Remuneration of directors	-	5,058	-	-	-	5,058
Labor and health insurance	313,051	30,575	65,074	3,917	95	412,712
Other employee benefits	35,255	3,416	7,199	23	27	45,920
Depreciation expense	999,965	68,836	19,204	36,846	582	1,125,433
Amortization expense	322,498	17,373	30	8,889	8	348,798
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

In 2020 and 2019, the Company's average number of employees was 5,304 and 5,175, respectively, and there were both 7 non-employee directors. The head count basis was the same as the basis of employee benefits expense.

In 2020 and 2019, the Company's average employee benefits expense was \$1,075 thousand and \$1,240 thousand, respectively, and the average employee salary expense was \$885 thousand and \$1,049 thousand, respectively. The average employee salary decreased by 15.6% in 2020.

Under the dividends policy as set forth in the Company's Articles of Incorporation, distribution of remuneration of directors are subject to the approval of the remuneration committee and the board of directors. When the directors of the Company perform their duties, the board of directors are authorized to discuss the domestic and foreign industry standards. If the Company makes a profit during the year, the remuneration shall be distributed in accordance with Article 28 of the Company's Articles of Incorporation.

The compensation of the Company's managers and employees includes salary, bonuses and compensation of employees. The compensation policy is based on academic qualifications and experience, with reference to the salary level of the same industry, position held in the Company; in addition, employees are evaluated on their responsibilities, achievements, and contribution, and also annual company operating results.

d. Compensation of employees and remuneration of directors

The Company stipulate distribution of compensation of employees 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 compensation of employees and remuneration of directors for 2020 and 2019 which were resolved by the board of directors on March 26, 2021 and March 27, 2020 were as follows:

	For the Year Ended December 31			
	2020		2019	
	The Proportion of Estimate	Amount of Money	The Proportion of Estimate	Amount of Money
Compensation of employees	4.65%	\$ 18,883	4.65%	\$ 106,953
Remuneration of directors	0.58%	2,356	0.58%	13,341

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 compensation of employees and remuneration of directors paid and the amounts recognized in the financial statements for the year ended December 31, 2019 and 2018.

Information on the compensation of employees and the remuneration of directors resolved by the Company's board of directors in 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	
	2020	2019
Foreign exchange gains	\$ 310,875	\$ 199,440
Foreign exchange losses	<u>(649,919)</u>	<u>(409,032)</u>
Net gains (losses)	<u>\$ (339,044)</u>	<u>\$ (209,592)</u>

- f. Finance costs

Information about capitalized interest is as follows:

	For the Year Ended December 31	
	2020	2019
Capitalized interest amount	\$ 5,334	\$ 851
Capitalization rate (%)	0.93-1.11	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	
	2020	2019
Current tax		
Adjustments for prior years	\$ (2,938)	\$ 496
In respect of the current year	46	392,340
Income tax on unappropriated earnings	-	30,843
Investment credits	<u>-</u>	<u>(24,645)</u>
	<u>(2,892)</u>	<u>399,034</u>
Deferred tax		
In respect of the current year	<u>13,127</u>	<u>26,752</u>
Income tax expense recognized in profit or loss	<u>\$ 10,235</u>	<u>\$ 425,786</u>

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

	For the Year Ended December 31	
	2020	2019
Income tax expense calculated at the statutory rate (20%)	\$ 81,219	\$ 460,014
Nondeductible expenses in determining taxable income	4,400	56
Tax-exempt income	(117,380)	(27)
Income tax on unappropriated earnings	-	30,843
Temporary differences	44,934	(40,951)
Investment credits	-	(24,645)
Adjustments for prior years' tax	<u>(2,938)</u>	<u>496</u>
Income tax expense recognized in profit or loss	<u>\$ 10,235</u>	<u>\$ 425,786</u>

In July 2019, the president of the ROC announced the amendments to the Statute for Industrial Innovation, which stipulate that the amounts of unappropriated earnings in 2018 and thereafter that are reinvested in the construction or purchase of certain assets or technologies are allowed as deduction when computing the income tax on unappropriated earnings. When calculating the tax on unappropriated earnings, the Company only deducts the amount of the unappropriated earnings that has been reinvested in capital expenditure.

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 2021 appropriation of earnings is uncertain, the potential income tax consequences of the 2020 unappropriated earnings are not reliably determinable.

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

	For the Year Ended December 31	
	2020	2019
Deferred tax		
Remeasurement of defined benefit plan	<u>\$ 13,669</u>	<u>\$ 4,127</u>

- c. Deferred tax assets and liabilities

	For the Year Ended December 31, 2020			
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income (Loss)	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Provisions	\$ 110,311	\$ (21,876)	\$ -	\$ 88,435
Intangible assets	68,935	8,535	-	77,470
Property plant and equipment	24,343	(19,091)	-	5,252
Payables for annual leave	33,197	(12,417)	-	20,780
Defined benefit plan	12,363	-	(12,363)	-
Unrealized loss on foreign currency exchange	52,710	(7,369)	-	45,341
Right-of-use assets	3,270	(3,270)	-	-
Loss carryforwards	-	81,702	-	81,702
Other	<u>502</u>	<u>155</u>	<u>-</u>	<u>657</u>
	<u>\$ 305,631</u>	<u>\$ 26,369</u>	<u>\$ (12,363)</u>	<u>\$ 319,637</u>

Deferred tax liabilities

Temporary differences				
Investments accounted for using equity method	\$ 116,343	\$ 39,496	\$ -	\$ 155,839
Defined benefit plan	<u>-</u>	<u>-</u>	<u>1,306</u>	<u>1,306</u>
	<u>\$ 116,343</u>	<u>\$ 39,496</u>	<u>\$ 1,306</u>	<u>\$ 157,145</u>

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
Payables 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
	<u>\$ 285,346</u>	<u>\$ 24,412</u>	<u>\$ (4,127)</u>	<u>\$ 305,631</u>
Deferred tax liabilities				
Temporary differences				
Investments accounted for using equity method	<u>\$ 65,179</u>	<u>\$ 51,164</u>	<u>\$ -</u>	<u>\$ 116,343</u>
d. Deductible temporary differences for which no deferred tax assets have been recognized in the balance sheets				
			December 31	
			2020	2019
Deductible temporary differences				
Inventories			<u>\$ 2,180,263</u>	<u>\$ 1,955,953</u>
e. Unused loss carryforwards				
			December 31	
			2020	2019
Loss carryforwards				
Expiry in 2030			<u>\$ 408,512</u>	<u>\$ -</u>
f. Income tax assessments				
Income tax returns of the Company through 2018 have been examined and cleared by the tax authorities.				

25. EARNINGS PER SHARE

	Unit: NT\$ Per Share	
	For the Year Ended December 31 2020	For the Year Ended December 31 2019
Basic earnings per share	<u>\$ 0.42</u>	<u>\$ 1.99</u>
Diluted earnings per share	<u>\$ 0.42</u>	<u>\$ 1.98</u>
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 2020	For the Year Ended December 31 2019
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)	<u>\$ 395,858</u>	<u>\$ 1,874,287</u>
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		
Compensation of employees issued to employees	<u>1,653</u>	<u>3,919</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>943,520</u>	<u>945,786</u>

The Company may settle compensation or bonuses to employees in cash or shares; therefore, the Company assumes that the entire amount of the compensation or bonuses will be settled in shares, and the resulting potential shares, if dilutive, are 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, participation in international new aircraft developing and engine development cooperation project. 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
<u>December 31, 2020</u>				
Financial assets at FVTOCI				
Investments in equity instruments				
Emerging market shares	\$ 16,731	\$ -	\$ -	\$ 16,731
Unlisted shares	-	-	33,197	33,197
	<u>\$ 16,731</u>	<u>\$ -</u>	<u>\$ 33,197</u>	<u>\$ 49,928</u>
<u>December 31, 2019</u>				
Financial assets at FVTOCI				
Investments in equity instruments				
Emerging market shares	\$ 53,504	\$ -	\$ -	\$ 53,504
Unlisted shares	-	-	33,830	33,830
	<u>\$ 53,504</u>	<u>\$ -</u>	<u>\$ 33,830</u>	<u>\$ 87,334</u>

There were no transfers between Levels 1 and 2 for the years ended December 31, 2020 and 2019, respectively.

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

Financial Assets	Financial Assets at FVTOCI Equity Instruments
<u>For the Year Ended December 31, 2020</u>	
Balance at January 1, 2020	\$ 33,830
Recognized in other comprehensive loss	(633)
Balance at December 31, 2020	<u>\$ 33,197</u>
<u>For the Year Ended December 31, 2019</u>	
Balance at January 1, 2019	\$ 33,067
Recognized in other comprehensive gain	763
Balance at December 31, 2019	<u>\$ 33,830</u>

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

	<u>December 31</u>	
	2020	2019
<u>Financial assets</u>		
Financial assets at amortized cost	\$ 14,569,065	\$ 17,772,056
Investments in equity instruments at FVTOCI - non-current	49,928	87,334

Financial liabilities

Financial liabilities at amortized cost	24,904,728	25,843,990
-----------------------------------------	------------	------------

Financial assets at amortized cost comprise cash and cash equivalents, 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 payables for salaries and bonuses, payables for annual leave and payables for compensation of employees 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 property, plant and equipment 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 and cash equivalents, trade receivable, short-term borrowings, short-term bills payable, 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 32.

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 \$35,741 thousand and \$49,871 thousand for the years ended December 31, 2020 and 2019, 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, bonds 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, 2020 and 2019 would have decreased/increased by \$9,900 thousand and \$20,121 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 27% and 41% of the total trade receivables as of December 31, 2020 and 2019, 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, 2020 and 2019, 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
<u>December 31, 2020</u>			
Non-interest bearing liabilities	\$ 3,061,718	\$ 179,709	\$ -
Lease liabilities	130,825	487,291	1,697,931
Variable interest rate liabilities	2,000,000	1,184,615	775,385
Fixed interest rate liabilities	<u>13,410,000</u>	<u>4,300,000</u>	<u>-</u>
	<u>\$ 18,602,543</u>	<u>\$ 6,151,615</u>	<u>\$ 2,473,316</u>
<u>December 31, 2019</u>			
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	5,635,991	292,308
Fixed interest rate liabilities	<u>11,160,000</u>	<u>3,000,000</u>	<u>-</u>
	<u>\$ 16,883,885</u>	<u>\$ 9,687,535</u>	<u>\$ 2,150,651</u>

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	
	2020	2019
Unsecured bank overdraft facility:		
Amount unused	<u>\$ 18,006,995</u>	<u>\$ 13,832,767</u>

28. TRANSACTIONS WITH RELATED PARTIES

Details of transactions between the Company and related parties are disclosed below.

a. Related Party Categories/Names

Related Party	Relationship with the Company
AIDC USA	Subsidiary
ITEC	Associate
JSPCO	Associate
Ministry of Economic Affairs	Corporate director

b. Sales of goods

Related Party	For the Year Ended December 31	
	2020	2019
ITEC	\$ 312,780	\$ 780,213
JSPCO	<u>137</u>	<u>-</u>
	<u>\$ 312,917</u>	<u>\$ 780,213</u>

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 no significant difference between the sale price and conditions for related parties and non-related parties, and collection term is 1-2 months.

c. Purchase of goods

Related Party	For the Year Ended December 31	
	2020	2019
ITEC	\$ 422,139	\$ 1,258,093
AIDC USA	<u>2,422</u>	<u>1,614</u>
	<u>\$ 424,561</u>	<u>\$ 1,259,707</u>

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 Party	For the Year Ended December 31	
	2020	2019
ITEC	\$ 731,854	\$ 754,238
JSPCO	57,483	-
AIDC USA	<u>24,736</u>	<u>31,086</u>
	<u>\$ 814,073</u>	<u>\$ 785,324</u>

e. Operation expenses

Related Party	For the Year Ended December 31	
	2020	2019
AIDC USA	<u>\$ 22,483</u>	<u>\$ 21,259</u>

f. Receivable from related parties

Related Party	December 31	
	2020	2019
ITEC	\$ 99,409	\$ 128,327
JSPCO	<u>4</u>	<u>-</u>
	<u>\$ 99,413</u>	<u>\$ 128,327</u>

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 Party	December 31	
	2020	2019
ITEC	<u>\$ 441,288</u>	<u>\$ 848,582</u>

h. Payable to related parties

Related Party	December 31	
	2020	2019
ITEC	\$ 101,685	\$ 79,880
AIDC USA	<u>497</u>	<u>-</u>
	<u>\$ 102,182</u>	<u>\$ 79,880</u>

The outstanding trade payables to related parties are unsecured.

i. Other payables

Related Party	December 31	
	2020	2019
JSPCO	\$ 11,980	\$ -
AIDC USA	3,894	5,962
ITEC	<u>-</u>	<u>14,977</u>
	<u>\$ 15,874</u>	<u>\$ 20,939</u>

j. Compensation of key management personnel

	For the Year Ended December 31	
	2020	2019
Short-term benefits	\$ 32,415	\$ 30,311
Post-employment benefits	<u>1,806</u>	<u>4,612</u>
	<u>\$ 34,221</u>	<u>\$ 34,923</u>

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	
	2020	2019
Property, plant and equipment	\$ 1,976,291	\$ 2,049,647
Other financial assets - current	4,008	2,910,045
Other financial assets - non-current	<u>47,841</u>	<u>14,054</u>
	<u>\$ 2,028,140</u>	<u>\$ 4,973,746</u>

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:

- As of December 31, 2020 and 2019, unused letters of credit for purchases of raw materials and machinery and equipment amounted to approximately \$363,428 thousand and \$519,571 thousand, respectively.
- As of December 31, 2020 and 2019, unpaid contract for purchases of raw materials and machinery and equipment amounted to approximately \$26,234,958 thousand and \$35,452,777 thousand, respectively.

- The Company intended to lease land from Taiwan Sugar Co., Ltd. (Taiwan Sugar Company) for the purpose of sustainable operations, which was approved by the board of directors on February 7, 2020. The Company had signed a land agreement with Taiwan Sugar Company and paid \$33,787 thousand for security deposit. According to the contract, the Company needs to apply for a land change before leasing the land. At that time, The Company signed the lease agreement with Taiwan Sugar Company and paid \$39,121 thousand for compensation.

31. SIGNIFICANT SUBSEQUENT EVENTS

- The Company leased a land located in Xitun District, Taichung City. After the re-measurement, some parts of the land were actually outside the scope of the Company, so the leased area was reduced and the lease agreement was revised. The lease period of the land is 7 years, from January 1, 2021 to December 31, 2027. In addition, the Company leased a land located in Shalu factory, Taichung City. The rental amount was adjusted for any changes based on the announcement of the land price and re-measurement of the leased area. The lease period of the land is 36 years, from January 1, 2021 to December 31, 2056. The abovementioned lease of land impacted the right-of-use assets and lease liabilities, which were reduced by \$7,454 thousand on January 1, 2021.
- was by On March 26, 2021, the Company's board of directors approved the AIDC 2021 7-year unsecured corporate bond of \$3,500,000 thousand. An interest per annum will be paid, and the repayment will be due 7 years from the date of issuance.

32. 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					
	Foreign Currency	2020 Exchange Rate	New Taiwan Dollars	Foreign Currency	2019 Exchange Rate	New Taiwan Dollars
<u>Assets</u>						
Monetary items						
USD	\$ 257,919	28.48	\$ 7,345,533	\$ 339,937	29.98	\$10,191,311
Non-monetary items						
USD	35,140	28.48	1,000,783	28,517	29.98	854,928
<u>Liabilities</u>						
Monetary items						
USD	6,929	28.48	197,338	7,241	29.98	217,085

The significant unrealized foreign exchange gains (losses) were as follows:

Foreign Currency	For the Year Ended December 31			
	2020		2019	
	Exchange Rate	Net Foreign Exchange Loss	Exchange Rate	Net Foreign Exchange Loss
USD	28.48	<u>\$(226,205)</u>	29.98	<u>\$(268,468)</u>

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 subsidiary, 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. (None)
- 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 2)
- 8) Receivables from related parties amounting to at least \$100 million or 20% of the paid-in capital. (None)
- 9) Trading in derivative instruments. (None)
- 10) Information on investees. (Table 3)

b. Information on investments in mainland China. (None)

c. Information of major shareholders : List all shareholders with ownership of 5% or greater showing the name of the shareholder, the number of shares owned, and percentage of ownership of each shareholder (Table 4)

TABLE 1

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

MARKETABLE SECURITIES HELD
DECEMBER 31, 2020
(In Thousands of New Taiwan Dollars or Shares, Unless Stated Otherwise)

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2020			
				Number of Shares	Carrying Amount	Percentage of Ownership	Fair Value
The Company	<u>Share capital</u>						
	UHT Ltd.	-	Financial assets at FVTOCI - non-current	1,100	\$ 16,731	3.11%	\$ 16,731
	AAI	The Company is a corporate director.	Financial assets at FVTOCI - non-current	4,968	31,037	13.09%	31,037
	Metro Ltd.	The Company is a corporate director.	Financial assets at FVTOCI - non-current	300	2,160	6%	2,160

Note: Information about subsidiary and associates is provided in Table 3.

TABLE 2

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

**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, 2020
(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 Purchase	\$ (312,780) 422,139	(1) 4	Note Note	Note Note	Note Note	\$ 99,409 (101,685)	1 (8)	

Note: Information is provided in Note 28.

TABLE 3

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

INFORMATION ON INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2020
(In Thousands of New Taiwan Dollars or Shares, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2020			Net Income (Loss) of the Investee	Share of Profits (Loss)	Note
				December 31, 2020	December 31, 2019	Shares	%	Carrying Amount			
The Company	AIDC USA	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	\$ 1,000,783	\$ 197,476	\$ 197,476	Subsidiary
	JSPCO	Kaohsiung City, ROC	Design, maintain and manufacture of moulds, jigs, fixtures and mechanical parts	50,000	-	5,000	31.25	28,243	(68,094)	(21,757)	Associate
AIDC USA	ITEC	Delaware, USA	Development, production and remodel of aircraft	728	728	-	22.05	948,636	1,406,013	262,990	Associate

Table 4

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION
INFORMATION OF MAJOR SHAREHOLDERS
DECEMBER 31, 2020

Name of Major Shareholder	Shares	
	Number of Shares (In Thousands)	Percentage of Ownership (%)
Ministry of Economic Affairs	331,302	35.17

Note: The information of major shareholders is based on the number of ordinary shares and preference shares held by shareholders with ownership of 5% or greater, that have been issued without physical registration (included treasury shares) by the Company as of December 31, 2020. The share capital in financial report may differ from the actual number of shares that have been issued without physical registration because of different preparation basis.

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

Title \ Fiscal Year	2019	2020	Difference	
			Amount	%
Current Assets	32,154,259	29,794,603	(2,359,656)	(7.34)
Real Properties, Plant and Equipment	8,568,418	9,297,868	729,450	8.51
Intangible Assets	1,246,970	1,156,391	(90,579)	(7.26)
Other Assets (Note 2)	4,117,789	3,775,438	(342,351)	(8.31)
Total Assets	46,087,436	44,024,300	(2,063,136)	(4.48)
Current Liabilities	19,389,351	21,187,090	1,797,739	9.27
Noncurrent Liability	11,974,499	8,872,938	(3,101,561)	(25.90)
Total Liabilities	31,363,850	30,060,028	(1,303,822)	(4.16)
Capital Stock	9,418,671	9,418,671	0	0.00
Retained Earnings	5,334,724	4,664,437	(670,287)	(12.56)
Other Equity	(29,809)	(118,836)	(89,027)	(298.66)
Total Equity	14,723,586	13,964,272	(759,314)	(5.16)
<p>Significant changes in the components of assets, liabilities and shareholders' equity (change in 20% 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:</p> <ol style="list-style-type: none"> 1. Decrease of noncurrent liability: mainly because of the increase of cash inflow to reduce long-term borrowings and total financial liabilities. Meanwhile, land lease liability decrease due to the government announcement of lowering land rent. 2. Decrease of other equity: mainly because of exchange loss caused by fluctuations of USD exchange rate in AIDC USA LLC financial report. And the increase of unrealised losses from investments in equity instruments measured at fair value. 				

Note 1: The comparison is made by the audited figures in accordance with IFRSs in FY 2019-2020.

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

Title \ Fiscal Year	2019	2020	Difference	
			Amount	%
Current Assets	32,121,745	29,739,071	(2,382,674)	(7.42)
Real Properties, Plant and Equipment	8,567,935	9,297,653	729,718	8.52
Intangible Assets	1,246,856	1,156,321	(90,535)	(7.26)
Other Assets (Note 2)	4,130,114	3,825,123	(304,991)	(7.38)
Total Assets	46,066,650	44,018,168	(2,048,482)	(4.45)
Current Liabilities	19,371,001	21,181,710	1,810,709	9.35

Title \ Fiscal Year	2019	2020	Difference	
			Amount	%
Noncurrent Liability	11,972,063	8,872,186	(3,099,877)	(25.89)
Total Liabilities	31,343,064	30,053,896	(1,289,168)	(4.11)
Capital Stock	9,418,671	9,418,671	0	0.00
Retained Earnings	5,334,724	4,664,437	(670,287)	(12.56)
Other Equity	(29,809)	(118,836)	(89,027)	(298.66)
Total Equity	14,723,586	13,964,272	(759,314)	(5.16)

Significant changes in the components of assets, liabilities and shareholders' equity (change in 20% 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. Decrease of noncurrent liability: mainly because of the increase of cash inflow to reduce long-term borrowings and total financial liabilities. Meanwhile, land lease liability decrease due to the government announcement of lowering land rent.
2. Decrease of other equity: mainly because of exchange loss caused by fluctuations of USD exchange rate in AIDC USA LLC financial report. And the increase of unrealised losses from investments in equity instruments measured at fair value.

Note1 : The comparison was made by the audited figures in accordance with IFRSs in FY 2019 and FY 2020.

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	2019	2020	Difference	
			Amount	%
Net Operating Income	28,540,207	21,042,937	(7,497,270)	(26.27)
Operating Cost	24,729,566	19,640,836	(5,088,730)	(20.58)
Operating Gross Profit	3,810,641	1,402,101	(2,408,540)	(63.21)
Operating Expense	1,365,275	1,222,277	(142,998)	(10.47)
Operating Net Profit	2,445,366	179,824	(2,265,542)	(92.65)
Non-operating revenues and expenditures	(73,829)	299,799	373,628	506.07
EBT	2,371,537	479,623	(1,891,914)	(79.78)
Income Tax Expense	497,250	83,765	(413,485)	(83.15)
Earnings Net in Current Period	1,874,287	395,858	(1,478,429)	(78.88)
Other Comprehensive Income (after taxation)	(22,216)	(34,350)	(12,134)	(54.62)
Total Comprehensive Income in Current Period	1,852,071	361,508	(1,490,563)	(80.48)

The major causes of significant changes in revenue, operating income and EBT (change of more than 20% and the absolute value of change amounted to NT\$10 million):

1. Decrease of operating income: Due to the impact of COVID-19 pandemic and the grounding of B737 Max, the civil aviation and engine orders are postponed.
2. Operating cost: Due to the impact of COVID-19 pandemic and the grounding of B737 Max, the civil aviation and engine orders are postponed, and decrease the delivery volume, therefore the incurred operating cost is

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 outbreak of COVID-19 pandemic and grounding of 737 Max in 2020 has made unprecedented impact upon supply chains of the global aviation industry, AIDC is no exception. The civil aviation business face significant decline in 2020, and expects slow return to growth in the long run.

2.4 Possible Effect on the Financial Position and Operation of the Company:

The aerospace industry has been dramatically impacted by the outbreak of COVID-19 pandemic, and according to the International Air Transport Association (IATA) forecast, the global passenger traffic (revenue passenger kilometers or RPKs) will not return to pre-COVID-19 levels until 2024. As the operations faced serious impact in 2020, AIDC's leadership team had taken various measures. The Business Information Office was formed to detect signals of global aerospace manufacturing recovery. Three main corresponding strategies of broadening sources of income, reducing expenditure and gaining strength were the guideline of actions to cope with the crisis. Meanwhile, the Company spare no effort to conduct the three primary tasks, including the indigenous development of the Advanced Jet Trainer; the establishment of the fleet maintenance center; and the supply chain integration, and using strengths of the military business to compensate for the pandemic damages in the commercial aviation sector to sustain its operation.

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	2019	2020	Proportion of Change (%)
Cash flow ratio (%)	0.07%	22.86%	22.79%
Cash flow suitability ratio (%)	50.54%	58.45%	7.91%
Cash reinvestment ratio (%)	—	10.22%	10.22%
Notes to the Analysis of the Proportion of Change:			
1. Cash Flow Ratio and Cash Reinvestment Ratio increased: mainly because of the increase in sales cash that resulting in net cash inflows from operating activities.			
2. Cash Flow Suitability Ratio increased: because of increase in cash inflows from operating activities in the last 5 years.			

Note : The basis of comparison for FY 2019 and FY 2020 are the audited figures under IFRSs.

3.2 Liquidity Analysis of Individual Company Over the Last 2 Years:

Title \ Year	2019	2020	Proportion of Change (%)
Cash flow ratio (%)	0.39%	23.29%	22.90%
Cash flow suitability ratio (%)	51.15%	59.49%	8.34%
Cash reinvestment ratio (%)	—	10.47%	10.47%
Notes to the Analysis of the Proportion of Change:			
1. Cash Flow Ratio and Cash Reinvestment Ratio increased: mainly because of the increase in sales cash that resulting in net cash inflows from operating activities.			
2. Cash Flow Suitability Ratio increased: because of increase in cash inflows from operating activities in the last 5 years.			

Note : The basis of comparison for FY 2019 and FY 2020 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	2021
Plant and equipment	Equity fund and project loan	May, 2021	2,229,060	487,224	1,446,711	295,125

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 5 companies in 2020 with 3 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, 2020/Unit : NT\$ thousands

Industry Type	Name of Investee	Income/Loss	Main Cause of Profit or Loss	Improvement Plan
Aerospace Manufacturing	AIDC USA LLC	197,476	The main cause of profit is the proactive expansion of service business and non-operating income of investment	—
Metal Manufacture	Jung Sheng Precision Ind. Co., LTD	(68,094)	The COVID-19 pandemic severely affect aerospace industry and leads to sharp drop in orders.	The company has broaden its income source by developing new market.
Avionics	AeroVision Avionics Inc.	(59,737)	The main causes of loss is the suspension and postponed of orders which affected by COVID-19 pandemic.	The company implement measures such as, reduce operation cost, enhance employees training, and developed projects with customers to

Industry Type	Name of Investee	Income/Loss	Main Cause of Profit or Loss	Improvement Plan
				strive for related businesses.
Track Consulting	Metro Consulting Service Ltd.	2,288	The main cause of profit is the proactive expansion of service business and the effective control of operating expenses.	—
Other	UHT Unitech Co., Ltd.	(132,852)	The main causes of loss is the suspension of research projects which affected by COVID-19 pandemic.	Adjusted the business plan, use composite recycle know-how to build recycle chain, improve the company's operation, and attain circular economy.

Source: The audited FY 2020 financial statements of the above companies.

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 2020 amounted to NT\$41,216 thousand or accounted for 0.2% of the consolidated earnings. Interest expense in the same year amounted to NT\$180,025 thousand or accounted for 0.86% 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 2020 amounted to NT\$339,044 thousand or accounted for 1.61% 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 2020 decreased 0.23%, while Core CPI(*) increased 0.36%, 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 2020 to March FY 2021, the Company has not conducted any derivative trade.

6.3 R&D Plan in the Future and Projected R&D Expenses

Bearing the national mission of independent defense, AIDC has made ceaseless effort over the years to develop related products and upgrade research capacity. The Company also cooperate with National Chung-Shan Institute of Science and Technology (NCSIST), and leverage strengths complementary in developing key technologies, and expand the edge in defense industry.

AIDC also cooperate with domestic firms in developing advanced technology, aim to leads domestic supply chain into next level, and be able to manufacture items that developed and procured from foreign manufacturers.

To achieve those goals, AIDC 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.

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. In 2020, the Company has adjusted two projects in correspondent to the downward factors such as Boeing 737 Max suspension, COVID-19 pandemic, GE Leap-1B business cuts. The expected result, possible risk, and response of these two projects are elaborated below:

6.8.1 Turbine Center Frames (TCF)

6.8.1.1 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.

6.8.1.2 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 construction 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: The aviation industry is severely impacted by the COVID-19 pandemic and Boeing 737 Max suspension, in respond to need of securing cash flow, AIDC has rescheduled the planned date of equipment set up to May 2021.

6.8.2 1200 ton Plate Stretching Machine project

6.8.2.1 Expected Result: The Company's largest existing plate stretching machine is a 750 ton type which has been used for 28 years and facing frequent malfunction. In order to meet customer's demand and on time delivery, the procurement project of 1200 ton plate stretching machine was passed by Board of Directors on March 27, 2020, in hope to increase the Company's competitive edge in manufacturing large size of iron parts and fuselage skin.

6.8.2.2 Possible Risk and Response: The company has completed the assessment of the procurement schedule, business volume, production cost, source of capital, and taking factors of the COVID-19 epidemic into consideration and has mapped out the goals for managing relevant risks and a backup plan.

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 42.56%, 41.19% and 38.64% of purchase, respectively. The number one supplier in these years accounted for 11.42%, 9.49% and 18.77% 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 aviation 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 2020 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 Company'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>.

6.14 Other Major Risks and the Responses: COVID-19 Pandemic

In response to the havoc wreaked by the COVID-19 pandemic at the beginning of the year, AIDC has identified, assessed and propose measures to the potential upcoming risk on COVID-19 pandemic, the risk management chart of 2020 is adjusted accordingly. Meanwhile, Strategy Meetings have been called every day to monitor operational risks and review implementation on the following two aspects:

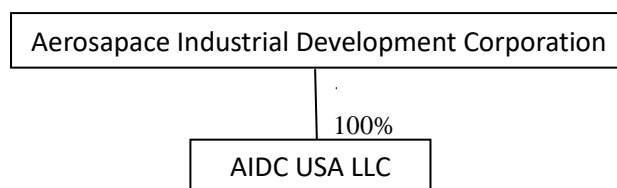
- (1) Operational aspect: The Company has imposed three measures of broadening sources of income, reducing expenditure and gaining strength, and established Business Information Office to detect signals of global aerospace manufacturing recovery.
- (2) COVID-19 Prevention Project: The Company has formulated "Guidelines for the Adoption of COVID-19 Prevention Measures for AIDC Employees" and implement measures such as conduct daily temperature checks and disinfect working environment frequently to provide employees a safe workplace. To reduce the risk of COVID-19 transmission disrupt production, the company has planned scheme of working shift and working area in advance, which can be adopted when necessary.

7. Other Important Notice: None.

VIII. Special Notes

1. Affiliates Information:

1.1 Organizational Chart of the Affiliates



6.2 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 affiliate 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, 2020; Unit: shares

Name of Affiliate	Title	Name or Representative	Shareholding	
			Number of Share	Shareholding ratio
AIDC USA LLC	Chairman President	Hu, Kai-Hung Yuan, Chin-Ping	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, 2020; Unit: US\$ thousands

Name	Capital	Total Assets	Total Liabilities	Book Value	Revenue	Operating Income	Net Income
AIDC USA LLC	9,470	37,161	370	36,791	2,426	275	8,275

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 2020 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 2020 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