

**FLEXIUM INTERCONNECT, INC. AND
SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS**

DECEMBER 31, 2018 AND 2017

For the convenience of readers and for information purpose only, the 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. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

Declaration of Consolidated Financial Statements of Affiliated Enterprises

For the year ended December 31, 2018, pursuant to “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises,” the company that is required to be included in the consolidated financial statements of affiliates, is the same as the company required to be included in the consolidated financial statements of the parent company and its subsidiaries under International Financial Reporting Standard No. 10. And if relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of the parent company and its subsidiaries, it shall not be required to prepare separate consolidated financial statements of affiliates.

Hereby declare,

FLEXIUM INTERCONNECT, INC.

By

MING-CHI CHENG

Chairman

February 14, 2019

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

PWCR18002663

To the Board of Directors and Shareholders of Flexium Interconnect, Inc.

Opinion

We have audited the accompanying consolidated balance sheets of Flexium Interconnect, Inc. and subsidiaries (the “Group”) as at December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, 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 the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis 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 of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements of the current period are stated as follows:

Key audit matter - Valuation of impairment of accounts receivable

Description

For the accounting policies on accounts receivable, please refer to Note 4(8). For the uncertainty of accounting estimates and assumptions in relation to accounts receivable, please refer to Note 5(2). For the details of net accounts receivable, please refer to Note 6(3).

The criteria that the Group uses to measure expected credit loss includes the aging of accounts receivable past due, financial situation of customers, internal credit ranking and historical transaction records. Based on this criterion, the Group estimates the amounts of allowance for accounts receivable that the Group has to provision. As the estimates are subject to management's judgement and involves uncertainty, the recoverable amount may be significantly affected. Thus, we consider the valuation of allowance for material accounts receivable as one of the key audit matters.

How our audit addressed the matter

We have evaluated the impairment of accounts receivable and performed the following audit procedures:

- A. Obtained an understanding of the Group's operation and sales customers. Assessed the reasonableness of policies and process applied in allowance for accounts receivable, including the objective evidence for the loss rate and compared whether the provision policies adopted in the different periods are consistently applied.

- B. Assessed the reasonableness of the relevant supporting documents of expected credit loss in the past due period for each group.
- C. Verified the accuracy of the classification for accounts receivable aging to confirm that the information in the reports is consistent with its policies.
- D. Selected samples and performed confirmation of material accounts receivable. Tested the reconciliation statement of the differences between the replies and account balances.

Key audit matter - Estimate of allowance for inventory valuation losses

Description

For the accounting policies on inventory valuation, please refer to Note 4(12). For the uncertainty of accounting estimates and assumptions in relation to inventory valuation, please refer to Note 5(2). For the details of inventory, please refer to Note 6(4).

The Group is primarily engaged in manufacturing and sales of flexible print circuit board which belongs to a rapidly changing industry and is easily affected by the market price. Thus, there is a higher risk of incurring inventory valuation losses or having obsolete inventory. The Group determines inventory value using the item-by-item approach and recognised at the lower of cost and net realisable value. For inventory that is over a certain age and individually identified obsolete or slow-moving inventory, the net realised value was calculated from the historical experience of disposing old inventories.

The determination of net realisable value for obsolete or slow-moving inventory are subject to management's judgement and involves uncertainty. Considering the Group's inventory balance and the allowance for inventory valuation losses are material to its financial statements, we consider the estimates of the allowance for inventory valuation losses as one of the key audit matters.

How our audit addressed the matter

For inventory which is over a specific age and obsolete inventory that is checked item by item, we have tested the inventory valuation loss process conducted by the management and performed the following audit procedures:

- A. Compared financial statements to check whether the provision policy of allowance for inventory valuation loss is consistently applied in all reporting periods and assessed the reasonability of the provision policy.
- B. Tested the estimated net realisable value of obsolete and damaged inventory reported. Discussed with management and obtained supporting evidences.
- C. Tested the accuracy of logic of management identified individual obsolete or damaged inventory aging report, and confirmed whether the obsolete inventories are recorded in the report.
- D. Assessed the reasonability and evidences of management in identifying individual obsolete or damaged inventory.
- E. Observed inventory count to match the count information with the obsolete or damaged inventory report which was compiled by management.
- F. Verified inventory write-down and allowance for individual inventory valuation losses and compared with individual inventory's impairment provision during the latest period, and assessed the reasonableness of allowance of inventory valuation losses.

Other matter – Parent company only financial reports

We have audited and expressed an unqualified opinion on the parent company only financial statements of Flexium Interconnect, Inc. as at and for the years ended December 31, 2018 and 2017.

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 the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's 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 auditor's 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 ROC GAAS 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 ROC GAAS, we exercise professional judgement 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 auditor's 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 auditor's 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 appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Liao, A-Shen

Liao, A-Shen

Wu, Chien-Chih

Wu, Chien-Chih

PricewaterhouseCoopers, Taiwan

February 14, 2019

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

FLEXIUM INTERCONNECT, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

Assets		Notes	December 31, 2018		December 31, 2017	
			AMOUNT	%	AMOUNT	%
Current assets						
1100	Cash and cash equivalents	6(1)	\$ 7,392,184	27	\$ 6,727,184	22
1110	Financial assets at fair value	6(2) and 12(4)				
	through profit or loss		420,398	2	1,621,153	5
1125	Available-for-sale financial assets	12(4)				
	- current		-	-	43,211	-
1170	Accounts receivable, net	6(3)	6,818,722	25	8,113,608	27
1200	Other receivables		39,486	-	59,066	-
130X	Inventories	6(4)	3,692,815	13	4,886,635	16
1410	Prepayments		161,220	1	319,984	1
1476	Other current financial assets	6(8)	2,613,320	9	2,198,320	7
11XX	Current Assets		21,138,145	77	23,969,161	78
Non-current assets						
1600	Property, plant and equipment	6(5)	5,630,571	20	6,196,860	20
1760	Investment property - net	6(6)	135,692	1	290,106	1
1780	Intangible assets	6(7)	85,717	-	37,325	-
1840	Deferred tax assets	6(23)	55,465	-	48,890	-
1990	Other non-current assets, others	6(8) and 8	579,112	2	183,891	1
15XX	Non-current assets		6,486,557	23	6,757,072	22
1XXX	Total assets		\$ 27,624,702	100	\$ 30,726,233	100

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FLEXIUM INTERCONNECT, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity		Notes	December 31, 2018		December 31, 2017	
			AMOUNT	%	AMOUNT	%
Current liabilities						
2170	Accounts payable		\$ 4,077,918	15	\$ 7,396,853	24
2200	Other payables	6(9)	2,988,145	11	3,607,951	12
2230	Income tax payable		405,584	1	659,421	2
2320	Long-term liabilities, current portion	6(10)	-	-	528,543	2
2399	Other current liabilities, others	12(5)	148,068	-	21,368	-
21XX	Current Liabilities		7,619,715	27	12,214,136	40
Non-current liabilities						
2570	Deferred tax liabilities	6(23)	766,929	3	597,627	2
2600	Other non-current liabilities	6(11)	36,381	-	54,062	-
25XX	Non-current liabilities		803,310	3	651,689	2
2XXX	Total Liabilities		8,423,025	30	12,865,825	42
Equity attributable to owners of parent						
Share capital 6(13)						
3110	Share capital - common stock		3,182,142	11	3,179,912	10
3140	Advance receipts for share capital		812	-	-	-
Capital surplus 6(10)(14)						
3200	Capital surplus		3,859,566	14	3,990,243	13
Retained earnings 6(15)						
3310	Legal reserve		1,550,104	6	1,244,420	4
3320	Special reserve		212,254	1	153,669	1
3350	Unappropriated retained earnings		11,225,027	41	10,476,420	34
Other equity interest 6(16)						
3400	Other equity interest		(303,446)	(1)	(212,254)	(1)
3500	Treasury stocks	6(13)	(524,782)	(2)	(972,002)	(3)
31XX	Equity attributable to owners of the parent		19,201,677	70	17,860,408	58
3XXX	Total equity		19,201,677	70	17,860,408	58
Significant contingent liabilities and unrecognized contract commitments 9						
3X2X	Total liabilities and equity		\$ 27,624,702	100	\$ 30,726,233	100

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

FLEXIUM INTERCONNECT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars, except earnings per share amounts)

		Year ended December 31			
Items	Notes	2018		2017	
		AMOUNT	%	AMOUNT	%
4000 Sales revenue	6(17)	\$ 26,770,491	100	\$ 25,846,403	100
5000 Operating costs	6(4)(7)	(21,650,208)	(81)	(20,184,575)	(78)
5900 Net operating margin		<u>5,120,283</u>	<u>19</u>	<u>5,661,828</u>	<u>22</u>
Operating expenses	6(7)				
6100 Selling expenses		(159,651)	(1)	(163,318)	(1)
6200 General and administrative expenses		(594,994)	(2)	(531,789)	(2)
6300 Research and development expenses		(1,211,453)	(4)	(1,005,855)	(4)
6450 Impairment loss determined in accordance with IFRS 9		(1,211)	-	-	-
6000 Total operating expenses		<u>(1,967,309)</u>	<u>(7)</u>	<u>(1,700,962)</u>	<u>(7)</u>
6900 Operating profit		<u>3,152,974</u>	<u>12</u>	<u>3,960,866</u>	<u>15</u>
Non-operating income and expenses					
7010 Other income	6(18)	270,259	1	266,821	1
7020 Other gains and losses	6(2)(19)	62,753	-	(334,644)	(1)
7050 Finance costs	6(20)	(5,283)	-	(16,257)	-
7000 Total non-operating income and expenses		<u>327,729</u>	<u>1</u>	<u>(84,080)</u>	<u>-</u>
7900 Profit before income tax		<u>3,480,703</u>	<u>13</u>	<u>3,876,786</u>	<u>15</u>
7950 Income tax expense	6(23)	(835,991)	(3)	(819,950)	(3)
8200 Profit for the year		<u>\$ 2,644,712</u>	<u>10</u>	<u>\$ 3,056,836</u>	<u>12</u>
Other comprehensive income					
Components of other comprehensive income that will not be reclassified to profit or loss					
8311 Other comprehensive income, before tax, actuarial losses on defined benefit plans	6(11)	(\$ 3,843)	-	(\$ 5,325)	-
Components of other comprehensive income that will be reclassified to profit or loss					
8361 Financial statements translation differences of foreign operations	6(16)	(74,692)	-	(96,716)	(1)
8362 Other comprehensive income, before tax, available-for-sale financial assets	6(16)	-	-	(42,116)	-
8500 Total comprehensive income for the year		<u>\$ 2,566,177</u>	<u>10</u>	<u>\$ 2,912,679</u>	<u>11</u>
Profit attributable to:					
8610 Profit attributable to owners of parent		<u>\$ 2,644,712</u>	<u>10</u>	<u>\$ 3,056,836</u>	<u>12</u>
Comprehensive income attributable to:					
8710 Comprehensive income, attributable to owners of parent		<u>\$ 2,566,177</u>	<u>10</u>	<u>\$ 2,912,679</u>	<u>11</u>
Earnings per share	6(24)				
9750 Basic earnings per share		<u>\$ 8.55</u>		<u>\$ 10.07</u>	
9850 Diluted earnings per share		<u>\$ 8.38</u>		<u>\$ 9.60</u>	

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

FLEXIUM INTERCONNECT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

	Equity attributable to owners of the parent								Treasury stocks	Total equity
	Share capital		Retained earnings			Other equity interest				
	Share capital - common stock	Advance receipts for share capital	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Exchange differences on translation of foreign financial statements	Unrealized gain or loss on available-for-sale financial assets		
Year ended December 31, 2017										
	\$ 2,991,044	\$ 4,281	\$ 4,504,836	\$ 1,016,902	\$ 153,669	\$ 8,372,889	(\$ 132,038)	\$ 58,616	(\$ 1,440,297)	\$ 15,529,902
6(24)	-	-	-	-	-	3,056,836	-	-	-	3,056,836
6(16)	-	-	-	-	-	-	(5,325)	(96,716)	(42,116)	(144,157)
	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	3,051,511	(96,716)	(42,116)	-	2,912,679
Appropriation and distribution of 2016 earnings:										
	-	-	-	227,518	-	(227,518)	-	-	-	-
6(15)	-	-	-	-	-	(720,462)	-	-	-	(720,462)
6(13)(14)	144,092	-	(144,092)	-	-	-	-	-	-	-
6(14)	-	-	(576,370)	-	-	-	-	-	-	(576,370)
6(12)(14)	1,250	-	(1,182)	-	-	-	-	-	145,040	145,108
6(10)(13)(14)	43,526	(4,281)	207,051	-	-	-	-	-	1,053,045	1,299,341
6(13)	-	-	-	-	-	-	-	-	(729,790)	(729,790)
	\$ 3,179,912	\$ -	\$ 3,990,243	\$ 1,244,420	\$ 153,669	\$ 10,476,420	(\$ 228,754)	\$ 16,500	(\$ 972,002)	\$ 17,860,408
Year ended December 31, 2018										
	\$ 3,179,912	\$ -	\$ 3,990,243	\$ 1,244,420	\$ 153,669	\$ 10,476,420	(\$ 228,754)	\$ 16,500	(\$ 972,002)	\$ 17,860,408
6(16) and 12(4)	-	-	-	-	-	16,500	-	(16,500)	-	-
	3,179,912	-	3,990,243	1,244,420	153,669	10,492,920	(228,754)	-	(972,002)	17,860,408
6(24)	-	-	-	-	-	2,644,712	-	-	-	2,644,712
6(16)	-	-	-	-	-	(3,843)	(74,692)	-	-	(78,535)
	-	-	-	-	-	2,640,869	(74,692)	-	-	2,566,177
Appropriation and distribution of 2017 earnings:										
	-	-	-	305,684	-	(305,684)	-	-	-	-
	-	-	-	-	58,585	(58,585)	-	-	-	-
6(15)	-	-	-	-	(1,544,493)	-	-	-	(1,544,493)	-
6(12)(14)	2,230	812	18,456	-	-	-	-	-	-	21,498
6(10)(13)(14)	-	-	(149,133)	-	-	-	-	-	681,212	532,079
6(13)	-	-	-	-	-	-	-	-	(233,992)	(233,992)
	\$ 3,182,142	\$ 812	\$ 3,859,566	\$ 1,550,104	\$ 212,254	\$ 11,225,027	(\$ 303,446)	\$ -	(\$ 524,782)	\$ 19,201,677

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

FLEXIUM INTERCONNECT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

		Years ended December 31	
	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		\$ 3,480,703	\$ 3,876,786
Adjustments			
Adjustments to reconcile profit (loss)			
Share-based payments	6(12)(14)	15,512	9,436
Provision for expected credit loss	12(2)	1,211	-
Provision (reversal of allowance) for sales returns and discounts	6(3)	29,264	(25,905)
Depreciation expense	6(5)(21)	1,228,608	1,007,998
Depreciation expense from investment properties	6(6)(21)	11,376	12,063
Amortization of intangible and other assets	6(7)(21)	29,663	27,739
Rental expense (land use rights)	6(8)	3,187	2,065
Profit (loss) on valuation of financial assets at fair value	6(2)(19)	(173)	10,512
Interest expense	6(20)	5,283	16,257
Interest income	6(18)	(110,999)	(97,523)
Dividend income	6(18)	-	(13,031)
Loss on disposal of property, plant and equipment	6(19)	16,070	61,224
Gain on disposal of investments	6(19)	-	(51,685)
Changes in operating assets and liabilities			
Changes in operating assets			
Decrease in financial assets at fair value-current		57,676	5,086
Decrease in notes receivable		-	3,788
Decrease (increase) in accounts receivable		1,264,421	(3,809,215)
Decrease (increase) in other receivables		19,405	(25,266)
Decrease (increase) in inventories		1,193,820	(2,867,618)
Decrease (increase) in prepayments		166,184	(88,687)
Increase in other financial assets-current		(415,000)	(177,220)
Decrease in other financial assets-non-current		-	465,317
Changes in operating liabilities			
Decrease in financial liabilities at fair value		(4,631)	(770)
(Decrease) increase in accounts payable		(3,318,935)	3,965,285
Increase in other payable		182,717	1,162,551
Increase (decrease) in other current liabilities		126,700	(17,422)
Cash inflow generated from operations		3,982,062	3,451,765
Interest received		51,966	129,893
Dividend received		-	13,031
Income tax paid		(927,101)	(496,613)
Net cash flows from operating activities		3,106,927	3,098,076

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FLEXIUM INTERCONNECT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

		Years ended December 31	
	Notes	2018	2017
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Increase in financial assets at fair value		(\$ 4,721,670)	(\$ 1,598,788)
Proceeds from disposal of financial assets at fair value through profit or loss, designated upon initial recognition		5,907,790	-
Proceeds from disposal of available-for-sale financial assets		-	143,581
Acquisition of property, plant and equipment	6(25)	(1,694,041)	(1,741,769)
Proceeds from disposal of property, plant and equipment		59,221	74,865
Acquisition of intangible assets	6(7)	(78,215)	(25,816)
Increase in refundable deposits		(167,019)	(8,298)
Increase in other non-current assets		-	(81,392)
Interest received		59,208	12,948
Net cash flows used in investing activities		(634,726)	(3,224,669)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
(Decrease) increase in other non-current liabilities		(21,524)	20,558
Cash dividends paid	6(14)(15)	(1,544,493)	(1,296,832)
Proceeds from issuance of stock from exercising employee stock options	6(12)	5,986	3,145
Treasury stock conversion cost	6(12)	-	132,926
Payments to acquire treasury shares	6(13)	(233,992)	(729,790)
Treasury stock transferred cost		(1,586)	(3,608)
Net cash flows used in financing activities		(1,795,609)	(1,873,601)
Effect of exchange rate changes on cash and cash equivalents		(11,592)	(17,267)
Net increase (decrease) in cash and cash equivalents		665,000	(2,017,461)
Cash and cash equivalents at beginning of year	6(1)	6,727,184	8,744,645
Cash and cash equivalents at end of year	6(1)	\$ 7,392,184	\$ 6,727,184

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

FLEXIUM INTERCONNECT, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT AS OTHERWISE
INDICATED)

1. HISTORY AND ORGANISATION

- (1) Flexium Interconnect, Inc. (the “Company”) was incorporated under the provisions of the Company Law of the Republic of China (R.O.C.) and other relevant regulations on December 19, 1997. The Company is primarily engaged in the following: (1) manufacturing of build-up copper clad laminate; (2) manufacturing, processing, research, development, trading and repair of build-up printed circuit boards, flexible printed circuit boards, related semi-finished goods and parts; (3) manufacturing, research, development, and trading of parts for semi-finished goods of polyimide film base copper clad laminate; (4) manufacturing, processing, repair, design, trading of moulds, tools and clamping apparatuses; and (5) sale of raw materials for the products mentioned above. The Company’s shares have been traded in the Taiwan Stock Exchange since September, 2003.
- (2) Please refer to Note 4(3) B. for the descriptions on the primary business operations of the Company and its subsidiaries (collectively referred herein as the “Group”).

2. THE DATE OF AUTHORISATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORISATION

These consolidated financial statements were authorised for issuance by the Board of Directors on February 14, 2019.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

- (1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRS”) as endorsed by the Financial Supervisory Commission (“FSC”)

New standards, interpretations and amendments endorsed by FSC effective from 2018 are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendments to IFRS 2, ‘Classification and measurement of share-based payment transactions’	January 1, 2018
Amendments to IFRS 4, ‘Applying IFRS 9, Financial instruments with IFRS 4, Insurance contracts’	January 1, 2018
IFRS 9, ‘Financial instruments’	January 1, 2018
IFRS 15, ‘Revenue from contracts with customers’	January 1, 2018
Amendments to IFRS 15, ‘Clarifications to IFRS 15, Revenue from contracts with customers’	January 1, 2018
Amendments to IAS 7, ‘Disclosure initiative’	January 1, 2017
Amendments to IAS 12, ‘Recognition of deferred tax assets for unrealised losses’	January 1, 2017

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IAS 40, 'Transfers of investment property'	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

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

A. IFRS 9, 'Financial instruments'

- (a) Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset measured at amortized cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.
- (b) The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognise 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument then has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Group shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.
- (c) The Group has elected not to restate prior period financial statements using the modified retrospective approach under IFRS 9. For details of the significant effect as at January 1, 2018, please refer to Note 12(4) B.

B. IFRS 15, 'Revenue from contracts with customers' and amendments

- (a) IFRS 15, 'Revenue from contracts with customers' replaces IAS 11, 'Construction contracts', IAS 18, 'Revenue' and relevant interpretations. According to IFRS 15, revenue is recognised when a customer obtains control of promised goods or services. A customer obtains control of goods or services when a customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify contracts with customer.

Step 2: Identify separate performance obligations in the contract(s).

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price.

Step 5: Recognise revenue when the performance obligation is satisfied.

Further, IFRS 15 includes a set of comprehensive disclosure requirements that requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

(b) The Group has elected not to restate prior period financial statements and recognised the cumulative effect of initial application as retained earnings at January 1, 2018, using the modified retrospective approach under IFRS 15.

(c) Presentation of assets and liabilities in relation to contracts with customers

In line with IFRS 15 requirements, the Group changed the presentation of certain accounts in the balance sheet as follows:

Under IFRS 15, liabilities in relation to expected volume discounts and refunds to customers are recognised as refund liabilities (shown as “other current liabilities”), but were previously presented as accounts receivable - allowance for sales returns and discounts in the balance sheet. As of January 1, 2018, the balance amounted to \$20,966.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Group

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 9, ‘Prepayment features with negative compensation’	January 1, 2019
IFRS 16, ‘Leases’	January 1, 2019
Amendments to IAS 19, ‘Plan amendment, curtailment or settlement’	January 1, 2019
Amendments to IAS 28, ‘Long-term interests in associates and joint ventures’	January 1, 2019
IFRIC 23, ‘Uncertainty over income tax treatments’	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment. The quantitative impact will be disclosed when the assessment is complete.

IFRS 16, 'Leases'

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognise a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

In the first quarter of 2018, the Group reported to the Board of Directors that IFRS 16 no has material impact to the Group.

The Group expects to recognize the lease contract of lessees in line with IFRS 16. However, the Group does not intend to restate the financial statements of prior period (collectively referred herein as the "modified retrospective approach"). On January 1, 2019, it is expected that 'right-of-use asset' and lease liability will be increased by \$40,368 and \$40,368, respectively.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendment to IAS 1 and IAS 8, 'Disclosure Initiative-Definition of Material'	January 1, 2020
Amendments to IFRS 3, 'Definition of a business'	January 1, 2020
Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture'	To be determined by International Accounting Standards Board
IFRS 17, 'Insurance contracts'	January 1, 2021

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”).

(2) Basis of preparation

A. Except for the following items, the consolidated financial statements have been prepared under the historical cost convention:

- (a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
- (b) Available-for-sale financial assets measured at fair value.
- (c) Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.

B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Group has elected to apply modified retrospective approach whereby the cumulative impact of the adoption was recognised as retained earnings or other equity as of January 1, 2018 and the financial statements for the year ended December 31, 2017 were not restated. The financial statements for the year ended December 31, 2017 were prepared in compliance with International Accounting Standard 39 (‘IAS 39’), International Accounting Standard 18 (‘IAS 18’) and related financial reporting interpretations. Please refer to Notes 12(4) and (5) for details of significant accounting policies and details of significant accounts.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

- (a) All subsidiaries are included in the Group’s consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
- (b) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

- (c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.
- (d) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity.
- (e) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognised in profit or loss. All amounts previously recognised in other comprehensive income in relation to the subsidiary are reclassified to profit or loss on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognised in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

B. Subsidiaries included in the consolidated financial statements:

			Ownership (%)		
			December 31,		
Name of investor	Name of subsidiary	Main business activities	2018	2017	Note
FLEXIUM INTERCONNECT INC.	FLEXIUM INTERCONNECT INC.	Business investment	100	100	
FLEXIUM INTERCONNECT INC.	UFLEX TECHNOLOGY CO., LTD.	Business investment	100	100	
FLEXIUM INTERCONNECT INC.	FLEXIUM INTERCONNECT INVESTMENT CO.,	Business investment	100	100	
FLEXIUM INTERCONNECT INC.	BOOM BUSINESS LIMITED	Business investment	100	100	
FLEXIUM INTERCONNECT INC.	SUCCESS GLORY INVESTMENTS LTD.	Business investment	100	100	
FLEXIUM INTERCONNECT INC.	GRANDPLUS ENTERPRISES LTD.	Business investment	100	100	
UFLEX TECHNOLOGY CO., LTD.	FLEXIUM INTERCONNECT AMERICA LLC.	Marketing supporting, and technology services	100	100	
SUCCESS GLORY INVESTMENTS LTD. and UFLEX TECHNOLOGY CO., LTD.	FLEXIUM INTERCONNECT (KUNSHAN) INCORPORATION	Research, development, manufacturing and sale of new-type electronic components and devices (such as flexible printed circuit boards)	100	100	Note
GRANDPLUS ENTERPRISES LTD.	CHOSEN GLORY LIMITED	Business investment	100	100	
GRANDPLUS ENTERPRISES LTD.	CHAMPION BEYOND LIMITED	Business investment	100	100	
GRANDPLUS ENTERPRISES LTD.	FOREVER MASTER LIMITED	Business investment	100	100	
BOOM BUSINESS LIMITED	CLEAR SUCCESS GLOBAL LIMITED	Business investment	100	100	
CLEAR SUCCESS GLOBAL LIMITED	FLEXIUM TECHNOLOGY (SUZHOU) INCORPORATION	Research, development, manufacturing and sale of new-type electronic components and devices (such as flexible printed circuit boards)	100	100	

Note : As of December 31, 2018 and 2017, the ownership percentages of SUCCESS GLORY INVESTMENTS LTD. were both 74.11%, and the ownership percentages of UFLEX TECHNOLOGY CO., LTD. were both 25.89%.

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Significant restrictions: None.

F. Subsidiaries that have non-controlling interests that are material to the Group: None.

(4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan dollars, which is the Company's functional and the Group's presentation currency.

A. Foreign currency transactions and balances

- (a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.
- (b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.
- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- (d) All other foreign exchange gains and losses based on the nature of those transactions are presented in the statement of comprehensive income within other gains and losses.

B. Translation of foreign operations

- (a) The operating results and financial position of all the group entities, associates and joint arrangements that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
 - ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
 - iii. All resulting exchange differences are recognised in other comprehensive income.
- (b) When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation. In addition, even when the Group still retains partial interest in the former foreign subsidiary after losing control of the former foreign subsidiary, such transactions should be accounted for as disposal of all interest in the foreign operation.

(5) Classification of current and non-current items

- A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
- (a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;
 - (b) Assets held mainly for trading purposes;
 - (c) Assets that are expected to be realised within twelve months from the balance sheet date;
 - (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.
- B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:
- (a) Liabilities that are expected to be settled within the normal operating cycle;
 - (b) Liabilities arising mainly from trading activities;
 - (c) Liabilities that are to be settled within twelve months from the balance sheet date;
 - (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

(7) Financial assets at fair value through profit or loss

Effective 2018

- A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortised cost or fair value through other comprehensive income.
- B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using settlement date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value and recognises the transaction costs in profit or loss. The Group subsequently measures the financial assets at fair value, and recognises the gain or loss in profit or loss.
- D. The Group recognises the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(8) Accounts and notes receivable

- A. Accounts and notes receivable entitle the Group a legal right to receive consideration in exchange for transferred goods or rendered services.
- B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(9) Impairment of financial assets

For financial assets at amortised cost, at each reporting date, the Group recognises the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognises the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts.

(10) Derecognition of financial assets

The Group derecognises a financial asset when one of the following conditions is met:

- A. The contractual rights to receive the cash flows from the financial asset expire.
- B. The contractual rights to receive cash flows of the financial asset have been transferred and the Group has transferred substantially all risks and rewards of ownership of the financial asset.
- C. The contractual rights to receive cash flows of the financial asset have been transferred; however, the Group has not retained control of the financial asset.

(11) Operating leases (lessor)

Lease income from an operating lease (net of any incentives given to the lessee) is recognised in profit or loss on a straight-line basis over the lease term.

(12) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods and work in process comprises raw materials, direct labour, other direct costs and related production overheads (allocated based on normal operating capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(13) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.
- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Buildings	2 ~ 35 years
Machinery equipment	3 ~ 15 years
Transportation equipment	3 ~ 15 years
Office equipment	5 ~ 10 years
Other equipment	2 ~ 10 years

(14) Operating leases (lessee)

Payments made under an operating lease (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the lease term.

(15) Investment property

An investment property is stated initially at its cost and measured subsequently using the cost model. Except for land, investment property is depreciated on a straight-line basis over its estimated useful life of 3 years.

(16) Intangible assets

Computer software is stated at cost and amortized using the straight-line method over its estimated economic service life.

(17) Impairment of non-financial assets

The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.

(18) Notes and accounts payable

- A. Accounts payable are liabilities for purchases of raw materials, goods or services and notes payable are those resulting from operating and non-operating activities.
- B. The short-term notes and accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(19) Financial liabilities at fair value through profit or loss

- A. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorised as financial liabilities held for trading unless they are designated as hedges or financial liabilities at fair value through profit or loss. Financial liabilities that meet one of the following criteria are designated as at fair value through profit or loss at initial recognition:
 - (a) Hybrid (combined) contracts; or
 - (b) They eliminate or significantly reduce a measurement or recognition inconsistency; or
 - (c) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management policy.
- B. At initial recognition, the Group measures the financial liabilities at fair value. All related transaction costs are recognised in profit or loss. The Group subsequently measures these financial liabilities at fair value with any gain or loss recognised in profit or loss.

(20) Derecognition of financial liabilities

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

(21) Offsetting financial instruments

Financial assets and liabilities are offset and reported in the net amount in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(22) Financial liabilities and equity instruments

Bonds payable

Convertible corporate bonds issued by the Group contain conversion options (that is, the bondholders have the right to convert the bonds into the Group's common shares by exchanging a fixed amount of cash for a fixed number of common shares), call options and put options. The Group classifies the bonds payable and derivative features embedded in convertible corporate bonds on initial recognition as a financial asset, a financial liability or an equity instrument ('capital surplus—stock warrants') in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability and an equity instrument. Convertible corporate bonds are accounted for as follows:

- A. Call options and put options embedded in convertible corporate bonds are recognised initially at net fair value as 'financial assets or financial liabilities at fair value through profit or loss'. They are subsequently remeasured and stated at fair value on each balance sheet date; the gain or loss is recognised as 'gain or loss on valuation of financial assets or financial liabilities at fair value through profit or loss'.
- B. Bonds payable of convertible corporate bonds is initially recognised at fair value and subsequently stated at amortised cost. Any difference between the proceeds and the redemption value is accounted for as the premium or discount on bonds payable and presented as an addition to or deduction from bonds payable, which is amortised in profit or loss as an adjustment to the 'finance costs' over the period of bond circulation using the effective interest method.
- C. Conversion options embedded in convertible corporate bonds issued by the Group, which meet the definition of an equity instrument, are initially recognised in 'capital surplus—stock warrants' at the residual amount of total issue price less amounts of 'financial assets or financial liabilities at fair value through profit or loss' and 'bonds payable—net' as stated above. Conversion options are not subsequently remeasured.
- D. Any transaction costs directly attributable to the issuance of convertible corporate bonds are allocated to the liability and equity components in proportion to the allocation of proceeds.

E. When bondholders exercise conversion options, the liability component of the bonds (including 'bonds payable' and 'financial assets or financial liabilities at fair value through profit or loss') shall be remeasured on the conversion date. The book value of common shares issued due to the conversion shall be based on the adjusted book value of the abovementioned liability component plus the book value of capital surplus - stock warrants.

(23) Non-hedging derivatives

Non-hedging derivatives are initially recognised at fair value on the date a derivative contract is entered into and recorded as financial assets or financial liabilities at fair value through profit or loss. They are subsequently remeasured at fair value and the gains or losses are recognised in profit or loss.

(24) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognised as expense in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expense when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

(b) Defined benefit plans

i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability; when there is no deep market in high-quality corporate bonds, the Group uses interest rates of government bonds (at the balance sheet date) instead.

ii. Remeasurements arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.

iii. Past service costs are recognised immediately in profit or loss.

C. Employees', directors' and supervisors' remuneration

Employees' remuneration and directors' and supervisors' remuneration are recognised as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is paid by shares, the Group calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(25) Employee share-based payment

For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-market vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. Ultimately, the amount of compensation cost recognised is based on the number of equity instruments that eventually vest.

(26) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is

probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

- D. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.
- F. A deferred tax asset shall be recognised for the carryforward of unused tax credits resulting from acquisitions of equipment or technology, research and development expenditures and equity investments to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilised.

(27) Share capital

- A. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.
- B. Where the Company repurchases the Company's equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their book value and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(28) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are approved by the Company's shareholders. Cash dividends are recorded as liabilities; stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance.

(29) Revenue recognition

- A. The Group manufactures and sells flexible printed circuit board products. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.
- B. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts and sales discounts and allowances.
- C. A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(30) Government grants

Government grants are recognised at their fair value only when there is reasonable assurance that the Group will comply with any conditions attached to the grants and the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises expenses for the related costs for which the grants are intended to compensate.

(31) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker. The Group's Chief Operating Decision-Maker is responsible for allocating resources and assessing performance of the operating segments.

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The above information is addressed below:

(1) Critical judgements in applying the Group's accounting policies

None.

(2) Critical accounting estimates and assumptions

A. Expected credit losses for accounts receivable

The Group shall measure the loss allowance at an amount equal to lifetime expected credit losses for accounts receivable. When assessing expected credit losses, the Group must use judgements to determine the influence factors for the collectability of accounts receivable such as customers' operation conditions and historical transaction records which may influence the payment abilities of customers also consider the time value of money and future economic conditions to estimate reasonable and supporting information. The aforementioned judgements and considerations may all have significant impacts on the measurement outcome of expected credit losses.

B. Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Group must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Group evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realisable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Cash:		
Cash on hand and revolving funds	\$ 988	\$ 909
Checking accounts and demand deposits	<u>2,796,313</u>	<u>2,743,358</u>
	2,797,301	2,744,267
Cash equivalents:		
Time deposits	<u>4,594,883</u>	<u>3,982,917</u>
	<u>\$ 7,392,184</u>	<u>\$ 6,727,184</u>

A. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B. The Group has no cash and cash equivalents pledged to others.

(2) Financial assets at fair value through profit or loss

Effective 2018

<u>Items</u>	<u>December 31, 2018</u>
Current items:	
Financial assets mandatorily measured at fair value through profit or loss	
Listed stocks	\$ 30,692
Structured certificates of deposit	403,015
Forward foreign exchange	-
	<u>\$ 433,707</u>
Valuation adjustments	(13,309)
	<u>\$ 420,398</u>

A. The Group recognised net gain of \$173 for the year ended December 31, 2018.

B. The Group entered into contracts relating to derivative financial assets which were not accounted for under hedge accounting. The information is listed below:

	<u>December 31, 2018</u>	
<u>Derivative Financial Assets</u>	<u>Contract Amount</u> <u>(notional principal)</u>	<u>Contract Period</u>
Structured certificates of deposit	RMB 70,000 thousand	2018.09~2019.01
Structured certificates of deposit	RMB 20,000 thousand	2018.07~2019.01

B. The Group has no financial assets at fair value through profit or loss pledged to others.

C. Information relating to credit risk of financial assets at fair value through profit or loss is provided in Note 12(2).

D. The information on financial assets at fair value through profit or loss as of December 31, 2017 is provided in Note 12(4).

(3) Accounts receivable

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Accounts receivable	\$ 6,870,153	\$ 8,134,574
Less: Allowance for doubtful accounts	(1,201)	-
Allowance for sales returns and discounts	(50,230)	(20,966)
	<u>\$ 6,818,722</u>	<u>\$ 8,113,608</u>

A. The ageing analysis of accounts receivable that were past due but not impaired is as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Up to 90 days	\$ 6,806,574	\$ 8,113,372
91 to 180 days	43,535	-
181 to 365 days	1,006	2,941
Over one year	19,038	18,261
	<u>\$ 6,870,153</u>	<u>\$ 8,134,574</u>

The above ageing analysis was based on overdue dates.

B. The Group does not hold collateral as security for accounts receivable.

C. As at December 31, 2018 and 2017, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the Group's accounts receivable were \$6,818,722 and \$8,113,608, respectively.

D. Information relating to credit risk of accounts receivable is provided in Note 12(2).

(4) Inventories

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Raw materials	\$ 577,684	\$ 770,631
Work in process and semi-finished goods	711,609	1,274,960
Finished goods	2,403,522	2,841,044
	<u>\$ 3,692,815</u>	<u>\$ 4,886,635</u>

The cost of inventories recognised as expense for the years ended December 31, 2018 and 2017, was \$21,650,208 and \$20,184,575 respectively, including the amount of \$70,622 for the year ended December 31, 2018, that the Group reversed from a previous inventory write-down and accounted for as reduction of cost of goods sold because the related inventory were scrapped or sold, as well as the amount of \$163,292 for the year ended December 31, 2017, that the Group wrote down from cost to net realisable value accounted for as increase of cost of goods sold.

(5) Property, plant and equipment

A. Book values of property, plant and equipment are as follows:

	December 31, 2018	December 31, 2017
Land	\$ 657,573	\$ 516,599
Buildings	1,091,569	1,248,553
Machinery	3,431,943	4,049,675
Transportation equipment	5,262	6,473
Office equipment	1,040	1,112
Other equipment	100,274	85,425
Construction in progress and equipment under acceptance	342,910	289,023
	<u>\$ 5,630,571</u>	<u>\$ 6,196,860</u>

B. Changes in property, plant and equipment are as follows:

Cost	For the year ended December 31, 2018				
	Opening net book amount	Additions and transfer	Deduction	Reclassifications	Effects of exchange rate changes
Land	\$ 516,599	\$ -	\$ -	\$ 140,974	\$ -
Buildings	1,904,502	15,884	(2,664)	6,192	(29,699)
Machinery	7,411,734	523,492	(172,197)	(701)	(100,889)
Transportation equipment	19,531	2,127	(672)	-	(251)
Office equipment	14,609	-	(27)	-	(208)
Other equipment	352,023	53,820	(8,575)	-	(3,899)
Construction in progress and equipment under acceptance	289,023	55,218	-	-	(1,331)
	<u>\$ 10,508,021</u>	<u>\$ 650,541</u>	<u>(\$ 184,135)</u>	<u>\$ 146,465</u>	<u>(\$ 136,277)</u>
					<u>\$ 10,984,615</u>

For the year ended December 31, 2017

Cost	Opening net book amount	Additions and transfer	Deduction	Reclassifications	Effects of exchange rate changes	Closing net book amount
Land	\$ 516,599	\$ -	\$ -	-	\$ -	\$ 516,599
Buildings	1,529,542	445,339	(44,828)	-	(25,551)	1,904,502
Machinery	5,766,175	1,947,349	(233,191)	-	(68,599)	7,411,734
Transportation equipment	19,497	2,944	(2,695)	-	(215)	19,531
Office equipment	14,901	-	(47)	-	(245)	14,609
Other equipment	325,500	52,157	(22,218)	-	(3,416)	352,023
Construction in progress and equipment under acceptance	336,769	(44,571)	-	-	(3,175)	289,023
	<u>\$ 8,508,983</u>	<u>\$ 2,403,218</u>	<u>(\$ 302,979)</u>	<u>\$ -</u>	<u>(\$ 101,201)</u>	<u>\$ 10,508,021</u>

For the year ended December 31, 2018

Accumulated depreciation and impairment	Opening net book amount	Additions	Deduction	Reclassifications	Effects of exchange rate changes	Closing net book amount
Buildings	\$ 655,949	\$ 158,698	\$ 2,664	\$ 4,128	\$ 13,465	\$ 802,646
Machinery	3,362,059	1,030,898	(101,321)	(69)	(62,071)	4,229,496
Transportation equipment	13,058	2,804	(221)	-	(168)	15,473
Office equipment	13,497	49	(25)	-	(187)	13,334
Other equipment	266,598	36,159	(6,624)	-	(3,038)	293,095
	<u>\$ 4,311,161</u>	<u>\$ 1,228,608</u>	<u>(\$ 110,855)</u>	<u>\$ 4,059</u>	<u>(\$ 78,929)</u>	<u>\$ 5,354,044</u>

For the year ended December 31, 2017

Accumulated depreciation and impairment	Opening net book amount	Additions	Deduction	Reclassifications	Effects of exchange rate changes	Closing net book amount
Buildings	\$ 524,137	\$ 138,243	\$ 358	\$ -	(\$ 6,073)	\$ 655,949
Machinery	2,684,956	833,845	(141,875)	-	(14,867)	3,362,059
Transportation equipment	12,506	3,137	(2,500)	-	(85)	13,058
Office equipment	13,352	399	(47)	-	(207)	13,497
Other equipment	256,477	32,374	(19,870)	-	(2,383)	266,598
	<u>\$ 3,491,428</u>	<u>\$ 1,007,998</u>	<u>(\$ 164,650)</u>	<u>\$ -</u>	<u>(\$ 23,615)</u>	<u>\$ 4,311,161</u>

C. No borrowing costs were capitalized as part of property, plant and equipment for the years ended December 31, 2018 and 2017.

D. Details of property, plant and equipment transferred from investment property for the year ended December 31, 2018 are provided in Note 6(6) B.

E. The Group did not have property, plant and equipment pledged to others as collaterals.

(6) Investment property

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
At January 1, 2018			
Cost	\$ 270,000	\$ 36,190	\$ 306,190
Accumulated depreciation and impairment	-	(16,084)	(16,084)
	<u>\$ 270,000</u>	<u>\$ 20,106</u>	<u>\$ 290,106</u>
2018			
Opening net book amount as at January 1	\$ 270,000	\$ 20,106	\$ 290,106
Reclassifications	(140,974)	(2,064)	(143,038)
Depreciation	-	(11,376)	(11,376)
Closing net book - amount as at December 31	<u>\$ 129,026</u>	<u>\$ 6,666</u>	<u>\$ 135,692</u>
At December 31, 2018			
Cost	\$ 129,026	\$ 29,998	\$ 159,024
Accumulated depreciation and impairment	-	(23,332)	(23,332)
	<u>\$ 129,026</u>	<u>\$ 6,666</u>	<u>\$ 135,692</u>
	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
At January 1, 2017			
Cost	\$ 270,000	\$ 36,190	\$ 306,190
Accumulated depreciation and impairment	-	(4,021)	(4,021)
	<u>\$ 270,000</u>	<u>\$ 32,169</u>	<u>\$ 302,169</u>
2017			
Opening net book amount as at January 1	\$ 270,000	\$ 32,169	\$ 302,169
Depreciation	-	(12,063)	(12,063)
Closing net book - amount as at December 31	<u>\$ 270,000</u>	<u>\$ 20,106</u>	<u>\$ 290,106</u>
At December 31, 2017			
Cost	\$ 270,000	\$ 36,190	\$ 306,190
Accumulated depreciation and impairment	-	(16,084)	(16,084)
	<u>\$ 270,000</u>	<u>\$ 20,106</u>	<u>\$ 290,106</u>

A. Rental income from investment property and direct operating expenses arising from investment property are shown below:

	For the years ended December 31,	
	2018	2017
Rental income from investment property	\$ 10,699	\$ 11,081
Direct operating expenses arising from the investment property that generated rental income during the period	\$ 12,046	\$ 13,204

B. Investment property reclassified to property, plant and equipment amounted to \$143,038 due to the use of investment property was changed to self-use in 2018.

C. The fair value of investment property held by the Group as at December 31, 2018 and 2017 was \$232,126 and \$311,195, respectively, which was estimated using the quoted value of the same location with the same nature from the website of trading prices of real estate from the Ministry of Interior. The fair value measurements are being categorized within Level 3.

(7) Intangible assets-computer software cost

A. Changes in computer software cost are as follows:

	2018	2017
At January 1	\$ 37,325	\$ 39,205
Additions-acquired separately	78,215	25,816
Amortization	(29,663)	(27,739)
Effects of exchange rate changes	(160)	43
At December 31	\$ 85,717	\$ 37,325

B. Details of amortization on intangible assets are as follows:

	For the years ended December 31,	
	2018	2017
Operating costs	\$ 119	\$ 397
Administrative expenses	19,238	18,706
Research and development expenses	10,306	8,636
	\$ 29,663	\$ 27,739

(8) Other financial assets and other non-current assets-other

Items	December 31, 2018	December 31, 2017
Other financial assets-current:		
Time deposit	\$ 2,613,320	\$ 2,198,320
Other non-current assets-other:		
Prepayment for land purchases	\$ 250,494	\$ -
Prepayments for equipment	31,611	48,073
Refundable deposits	178,756	11,938
Long-term prepaid rent	118,251	123,880
	\$ 579,112	\$ 183,891

A. Information about the refundable deposits that were pledged to others as collaterals is provided in Note 8.

B. The Group recognized rental expenses of \$3,187 and \$2,065 for the years ended December 31, 2018 and 2017, respectively.

(9) Other payables

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Processing fees payable	\$ 984,632	\$ 1,051,517
Wages and salaries payable	404,689	504,425
Payables on employees' bonus and remuneration to directors and supervisors	194,000	144,972
Payables on machinery and equipment	197,812	1,000,496
Other payables	<u>1,207,012</u>	<u>906,541</u>
	<u>\$ 2,988,145</u>	<u>\$ 3,607,951</u>

(10) Bonds payable

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Fourth domestic unsecured convertible bonds	\$ -	\$ 535,982
Less: Discount on bonds payable	<u>-</u>	<u>(7,439)</u>
	-	528,543
Less: current portion		
(Shown as "Long-term liabilities, current portion")	<u>-</u>	<u>(528,543)</u>
	<u>\$ -</u>	<u>\$ -</u>

The terms of the Fourth domestic unsecured convertible bonds issued by the Company are as follows:

A. On April 12, 2016, the Company issued 0% coupon, 2-year and 8-month domestic unsecured convertible bonds in the amount of \$1,600,000. The bonds along with interest payable refund (which is 1.3389% of the face value of the bond at maturity) are repayable in full by cash at face value at maturity. The bonds were traded in the Taipei Exchange since April 12, 2016.

B. The bondholders have the right to ask for conversion of the bonds into common stock during the period from the date after one month of issuance of bonds to the maturity date, except during the mandatory stop transfer period as required by law. The converted shares have same rights and obligations as common shares. As of December 31, 2018, the bonds with face value in the amount of \$1,600,000 had been converted into 22,514 thousand shares of common stocks.

C. The conversion price is set up according to the terms of the bonds and is subject to adjustments when the anti-dilution provisions occur. The conversion price was set at NT\$83.7 (in dollars) per share on issuance. If the conversion price reset according to the terms is higher than the original conversion price of current year, then the conversion price will not be adjusted. As of December 31, 2018, the conversion price was adjusted to NT\$65.8 (in dollars) per share.

- D. Under the terms of the bonds, all bonds redeemed (including those repurchased from Taipei Exchange), matured and converted will be retired and not to be reissued. The rights and obligations of the bonds will also cease.
- E. The fair value of equity conversion options in the amount of \$35,723 was separated from bonds payable and was recognized in "Capital reserve from stock options" in accordance with IAS 32. As of December 31, 2018, the balance of "Capital reserve from stock options" after adjusting the amount converted into common stock is \$0. The annual effective interest rate of the bonds payable after separation is 1.47%.

(11) Pensions

A. Defined benefit plans

- (a) The Company and its domestic subsidiaries have a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by the end of December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method, to the employees expected to be qualified for retirement next year, the Company will make contributions to cover the deficit by next March.
- (b) The amounts recognised in the balance sheet are as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Present value of defined benefit obligations	\$ 61,344	\$ 55,740
Fair value of plan assets	(38,091)	(35,033)
Net defined benefit liability		
(shown as 'Other non-current liabilities')	<u>\$ 23,253</u>	<u>\$ 20,707</u>

(c) Changes in present value of defined benefit obligations are as follows:

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
<u>Year ended December 31, 2018</u>			
Balance at January 1	(\$ 55,740)	\$ 35,033	(\$ 20,707)
Interest (expense) income	(1,003)	645	(358)
	(\$ 56,743)	\$ 35,678	(\$ 21,065)
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	758	758
Experience adjustments	(4,601)	-	(4,601)
	(4,601)	758	(3,843)
Pension fund contribution	-	1,655	1,655
Balance at December 31	(\$ 61,344)	\$ 38,091	(\$ 23,253)
	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
<u>Year ended December 31, 2017</u>			
Balance at January 1	(\$ 49,775)	\$ 33,039	(\$ 16,736)
Interest (expense) income	(896)	609	(287)
	(\$ 50,671)	\$ 33,648	(\$ 17,023)
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	(256)	(256)
Experience adjustments	(5,069)	-	(5,069)
	(5,069)	(256)	(5,325)
Pension fund contribution	-	1,641	1,641
Balance at December 31	(\$ 55,740)	\$ 35,033	(\$ 20,707)

- (d) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2018 and 2017 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.
- (e) The principal actuarial assumptions used were as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Discount rate	<u>1.55%</u>	<u>1.80%</u>
Future salary increases	<u>3.00%</u>	<u>3.00%</u>

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience in each territory.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

	<u>Discount rate</u>		<u>Future salary increases</u>	
	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>
	<u>0.25%</u>	<u>0.25%</u>	<u>1%</u>	<u>1%</u>
December 31, 2018				
Effect on present value of defined benefit obligation	(\$ 2,664)	\$ 2,809	\$ 11,996	(\$ 9,913)
December 31, 2017				
Effect on present value of defined benefit obligation	(\$ 2,507)	\$ 2,646	\$ 11,353	(\$ 9,326)

The sensitivity analysis above is based on other conditions that are unchanged but only one assumption is changed. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

The method and assumptions used for the preparation of sensitivity analysis during 2018 and 2017 are the same.

(f) Expected contributions to the defined benefit pension plans of the Group for the year ending December 31, 2019 amounts to \$1,655.

(g) As of December 31, 2018, the weighted average duration of that retirement plan is 19.5 years.

B. Defined contribution plan

(a) Effective July 1, 2005, the Company and its domestic subsidiaries have established a defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, Taiwan-based companies of the Group contribute monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.

(b) The Company’s mainland China subsidiaries, have a defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People’s Republic of China (PRC) are based on a certain percentage of employees’ monthly salaries and wages.

(c) The pension costs under the defined contribution pension plans of the Group for the years ended December 31 2018 and 2017 were \$150,866 and \$122,527, respectively.

(12) Share-based payment

A. Options granted during the period from January 1, 2004 through January 1, 2008

(a) The exercise price under stock-based employee compensation plan in 2007 was determined at the closing price (\$17 in dollars per share) of the Company’s common stock upon issuance of the stock option. If there is a change in common stock or the Company distributes cash dividend, the exercise price would be adjusted according to specific formulas. The expected vesting period is 10 years. After 2 years from the date of grant, an employee may exercise the options in accordance with certain schedules as prescribed by the employee option plan.

(b) Details of the share-based payment arrangements are as follows:

	2018		2017	
	Number of options	Weighted-average exercise price	Number of options	Weighted-average exercise price
Stock options	(in thousands)	(in dollars)	(in thousands)	(in dollars)
Options outstanding at January 1	-	\$ -	324	\$ 8.30
Options expired	-	-	(324)	8.30
Options outstanding at December 31	-	-	-	-
Options exercisable at December 31	-	-	-	-

(c) No stock options were exercised for the years ended December 31, 2018 and 2017.

(d) The fair value of stock options granted on grant date is measured using the Black-Scholes option-pricing model. Relevant information is as follows:

	January 29, 2007
Dividend yield rate	0%
Expected price volatility	56%
Risk-free interest rate	2%
Expected terms	10 years
Weighted-average fair value per share (in dollars)	42.32

B. Options granted after January 1, 2008

(a) The initial exercise price under stock-based employee compensation plan in 2010 was \$46.95 (in dollars) per share. If there is a change in common stock or the Company distributes cash dividend, the exercise price would be adjusted according to specific formulas. As of December 31, 2018, the adjusted exercise price was NT\$23.20 (in dollars). The expected vesting period is 10 years. After 2 years from the date of grant, an employee may exercise the options in accordance with certain schedules as prescribed by the employee option plan.

(b) Details of the employee stock options are set forth below:

Stock options	2018		2017	
	Number of options (in thousands)	Weighted-average exercise price (in dollars)	Number of options (in thousands)	Weighted-average exercise price (in dollars)
Options outstanding at January 1	687	\$ 24.40	812	\$ 26.60
Options exercised	(258)	23.20	(125)	25.16
Options outstanding at December 31	429	23.20	687	24.40
Options exercisable at December 31	429	23.20	687	24.40

(c) The weighted-average stock price of stock options at exercise dates for the years ended December 31, 2018 and 2017 was \$77.97 and \$126.07, respectively.

(d) The information on outstanding employee stock compensation plans is set forth below:

December 31, 2018					
Exercise price (in dollars)	Stock options outstanding			Stock options exercisable	
	Number of options (in thousands)	Weighted-average expected remaining period	Weighted-average exercise price (in dollars)	Number of options (in thousands)	Weighted-average exercise price (in dollars)
\$ 23.20	429	1 years and 2 months	\$ 23.20	429	\$ 23.20

December 31, 2017					
Exercise price (in dollars)	Stock options outstanding			Stock options exercisable	
	Number of options (in thousands)	Weighted-average expected remaining period	Weighted-average exercise price (in dollars)	Number of options (in thousands)	Weighted-average exercise price (in dollars)
\$ 24.40	687	2 years and 2 months	\$ 24.40	687	\$ 24.40

- (e) The fair value of stock options granted on grant date is measured using the Black-Scholes option-pricing model. Relevant information is as follows:

	March 18, 2010
Dividend yield rate	0%
Expected price volatility	40%
Risk-free interest rate	2%
Expected terms	10 years
Weighted-average fair value per share (in dollars)	11.10~16.91

- (f) Expenses incurred on equity-settled share-based payment transactions for the years ended December 31, 2018 and 2017 were both \$0.

C. On February 21, 2017, the Board of Directors adopted a resolution to transfer treasury stocks purchased from the seventh purchase to employees.

- (a) Information on the stock options above is as follows:

Type of arrangement	Grant date	Number of shares granted (in thousands)	Vesting conditions
Treasury stock transferred to employees	2017.02.21	1,627	Vested immediately

- (b) Details of the share-based payment arrangements are as follows:

Stock options	2018		2017	
	Number of options (in thousands)	Weighted-average exercise price (in dollars)	Number of options (in thousands)	Weighted-average exercise price (in dollars)
Options outstanding at January 1	-	\$ -	-	\$ -
Options granted	-	-	1,627	89.15
Options exercised	-	-	(1,627)	81.70
Options outstanding at December 31	-	-	-	-
Options exercisable at December 31	-	-	-	-

- (c) The fair value of stock options on the grant date was estimated under the Black-Scholes option-pricing model. Relevant information is as follows:

Type of arrangement	Grant date	Weighted-average stock price (in dollars)	Exercise price (in dollars)	Expected price volatility	Expected option life (in years)	Risk-free interest rate	Fair value per share (in dollars)
Treasury stock transferred to employees	2017.02.21	\$ 93.40	\$ 89.15	27.14%	0.11	0.11%	\$ 5.80

- (d) The compensation cost recognized at the grant date was \$9,436. As of December 28, 2017, the shares were issued to the employees from the treasury stock depository account.

D. On July 12, 2018, the Board of Directors adopted a resolution to transfer treasury stocks purchased from the ninth purchase to employees.

(a) Information on the stock options is as follows:

Type of arrangement	Grant date	Number of shares (in thousands)	Vesting conditions
Treasury stock transferred to employees	2018.7.12	\$ 2,506	Vested immediately

(b) Details of the share-based payment arrangements are as follows:

Stock options	2018		2017	
	Number of options (in thousands)	Weighted-average exercise price (in dollars)	Number of options (in thousands)	Weighted-average exercise price (in dollars)
Options outstanding at January 1	-	\$ -	-	\$ -
Options granted	2,506	93.37	-	-
Options outstanding at December 31	2,506	93.37	-	-
Options exercisable at December 31	2,506	93.37	-	-

(c) The fair value of stock options on the grant date is measured using the Black-Scholes option-pricing model. Relevant information is as follows:

Type of arrangement	Grant date	Weighted-average stock price (in dollars)	Exercise price (in dollars)	Expected price volatility	Expected option life (in years)	Risk-free interest rate	Fair value per share (in dollars)
Treasury stock transferred to employees	2018.7.12	\$ 97.90	\$ 93.37	39.74%	0.05	0.11%	\$ 6.19

(d) The compensation cost recognised at the grant date was \$15,512.

(13) Share capital

A. As of December 31, 2018, the Company's authorized capital was \$4,600,000 (including 20,000 thousand shares reserved for employee stock options and convertible bonds issued by the Company), and the paid-in capital was \$3,182,142, consisting of 318,214 thousand shares of ordinary stock, with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected.

Movements in the number of the Company's ordinary shares outstanding are as follows: (Shares in thousands)

	2018	2017
At January 1	307,615	279,112
Employee stock options exercised	223	1,752
Capitalization of capital reserve	-	14,409
Conversion of convertible bonds	7,890	18,969
Buyback of treasury stock	(2,506)	(6,627)
At December 31	313,222	307,615

- B. The stockholders at their annual stockholders' meeting on June 22, 2017 adopted a resolution to increase capital through capital reserve of \$144,092. The effective date of the capital increase was on August 9, 2017. This issuance was approved by the Financial Supervisory Commission, Executive Yuan and registered with the relevant Authority.
- C. The Company issued common stocks in the amount of \$2,230 for the exercise of employee stock options for the year ended December 31, 2018, and the registration had been completed. As of December 31, 2018, the registration of advance receipts for share capital of \$812 has not been completed.
- D. The Company issued common stock in the amount of \$1,250 for the exercise of employee stock options in 2017 and the registration has been completed.
- E. Convertible bonds in the amount of \$43,526 were converted from convertible bonds in 2017. Those shares had been registered with the relevant Authority.
- F. Treasury shares

(a) Reason for share reacquisition and movements in the number of the Company's treasury shares are as follows:

		December 31, 2018	
Name of company holding the shares	Reason for reacquisition	Number of shares in thousands	Carrying amount
The Company	For conversion of equity	2,486	\$ 290,790
The Company	To be reissued to employees	2,506	233,992
		4,992	\$ 524,782

		December 31, 2017	
Name of company holding the shares	Reason for reacquisition	Number of shares in thousands	Carrying amount
The Company	For conversion of equity	10,376	\$ 972,002

- (b) Pursuant to the R.O.C. Securities and Exchange Law, the number of shares bought back as treasury share should not exceed 10% of the number of the Company's issued and outstanding shares and the amount bought back should not exceed the sum of retained earnings, paid-in capital in excess of par value and realised capital surplus.
- (c) Pursuant to the R.O.C. Securities and Exchange Law, treasury shares should not be pledged as collateral and is not entitled to dividends before it is reissued.
- (d) Pursuant to the R.O.C. Securities and Exchange Law, treasury shares should be reissued to the employees or be distributed for equity transfer within three years from the reacquisition date and shares not reissued within the three-year period are to be retired. Treasury shares to enhance the Company's credit rating and the stockholders' equity should be retired within six months of acquisition.

- (e) On December 24, 2015, the Board of Directors resolved to repurchase 20 million shares of the Company and transferred the shares to employees, all the procedures were in line with related regulations. In addition, on February 16, 2016, the Board of Directors resolved to change its motivation of repurchasing treasury shares so that the Company distributed treasury shares for equity transfer, as of December 31, 2018, the Company repurchased 20 million shares, including 20 million shares were distributed for equity transfer.
- (f) The shares which were repurchased by the Company and transferred to employees amounted to 9 million shares that in accordance with related regulations, and as resolved by the Board of Directors on December 20, 2016. As of December 31, 2018, the Company has repurchased the Company's shares and transferred to employees in the amount of 1,627 thousand shares.
- (g) To maintain the Company's credit and the stockholders' equity, the Board of Directors during their meeting resolved to repurchase the Company's shares in the amount of 5 million shares that in accordance with related regulations on November 1, 2017. In addition, the Board of Directors resolved to change the purpose of repurchased shares for equity transfer on December 21, 2017. As of December 31, 2018, the Company has repurchased its own shares in the amount of 5 million shares, including 2,514 thousand shares were distributed from equity transfer.
- (h) The shares which were repurchased by the Company and transferred to employees amounted to 5 million shares in accordance with related regulations, and as resolved by the Board of Directors on June 11, 2018. As of December 31, 2018, the Company has repurchased its own shares in the amount of 2,506 thousand shares.
- (I) Information on treasury shares reissued to employees is provided in Note 6(12).

(14) Capital surplus

- A. Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital surplus to be capitalised mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

	2018				
	Share premium	Treasury share transactions	Employee restricted shares	Stock options	Total
At January 1, 2018	\$ 3,781,674	\$ 188,623	\$ 8,137	\$ 11,809	\$ 3,990,243
Employee stock options exercised	5,830	-	(2,886)	-	2,944
Share-based payment transactions	-	-	15,512	-	15,512
Conversion option of convertible bonds	(135,738)	(1,586)	-	(11,809)	(149,133)
At December 31, 2018	\$ 3,651,766	\$ 187,037	\$ 20,763	\$ -	\$ 3,859,566

	Share premium	Treasury share transactions	Employee restricted shares	Stock options	Total
At January 1, 2017	\$ 4,259,077	\$ 194,910	\$ 9,536	\$ 41,313	\$ 4,504,836
Employee stock options exercised	3,293 (3,076) (10,835)	- (10,618)
Capitalisation of capital surplus	(144,092)	-	-	- (144,092)
Capital surplus used to issue cash to shareholders	(576,370)	-	-	- (576,370)
Share-based payment transactions	-	-	9,436	-	9,436
Conversion option of convertible bonds	239,766 (3,211)	- (29,504)	207,051
At December 31, 2017	\$ 3,781,674	\$ 188,623	\$ 8,137	\$ 11,809	\$ 3,990,243

- B. On June 22, 2017, the shareholders during their meeting resolved to distribute cash dividends from capital surplus in the amount of \$576,370, at NT\$2 per share, increase the capital by issuing new shares amounting to \$144,092, at NT\$0.5 per share, and the total dividends is \$720,462.
- C. For details of capital reserve from stock options, please refer to Note 6(10).

(15) Retained earnings

- A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior years' operating losses and then 10% of the remaining amount shall be set aside as legal reserve until the legal reserve equals the total capital stock balance, and setting aside or reversal for special reserve in accordance with related laws or Competent Authority's rule, if any, the Board of Directors should present the distribution of the remaining earnings along with undistributed earnings at beginning of periods for the approval of the shareholders based on the capital condition and economic development.
- B. The Company's dividend policy is in line with the development plan and capital requirement for expanding production line in the near future as the Company is currently in the growth phase. Therefore, the Board of Directors proposed the appropriation of unappropriated retained earnings at the shareholders' meeting for approval. Cash dividend shall be more than 5% of total dividends, but will not be distributed if it is lower than \$0.1 per share, which will instead be distributed in the form of stocks.
- C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the 25% of the Company's paid-in capital.
- D. (a) In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.
- (b) The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently. Such amounts are reversed upon disposal or reclassified if the assets are investment property of land, and reversed over the use period if the assets are investment property other than land.

E. The Company resolved that total dividends for the distribution of earnings for 2017 was \$720,462 (\$2.5 (in dollars) per share). On June 14, 2018, the shareholders resolved that total dividends for the distribution of earnings for 2017 was \$1,544,493 (\$5 (in dollars) per share).

(16) Other equity items

	2018		
	Available-for-sale investment	Currency translation	Total
At January 1	\$ 16,500	(\$ 228,754)	(\$ 212,254)
Revaluation transferred to retained earnings	(16,500)	-	(16,500)
Currency translation differences:			
–Group	-	(74,692)	(74,692)
At December 31	<u>\$ -</u>	<u>(\$ 303,446)</u>	<u>(\$ 303,446)</u>

	2017		
	Available-for-sale investment	Currency translation	Total
At January 1	\$ 58,616	(\$ 132,038)	(\$ 73,422)
Revaluation	(42,116)	-	(42,116)
Currency translation differences:			
–Group	-	(96,716)	(96,716)
At December 31	<u>\$ 16,500</u>	<u>(\$ 228,754)</u>	<u>(\$ 212,254)</u>

(17) Operating revenue

Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods at a point in time in the following major geographical regions:

	For the years ended December 31,	
	2018	2017
	Revenue	Revenue
Taiwan	\$ 1,780,077	\$ 1,686,990
China	7,537,695	7,810,246
Asia (excluding Taiwan and China)	1,471,070	1,454,059
Europe and America	15,981,649	14,895,108
	<u>\$ 26,770,491</u>	<u>\$ 25,846,403</u>

(18) Other income

	For the years ended December 31,	
	2018	2017
Interest income:		
Interest income from bank deposits	\$ 54,842	\$ 81,654
Other interest income	56,157	15,869
Total interest income	110,999	97,523
Rent income	10,815	11,081
Dividend income	-	13,031
Other income-other	148,445	145,186
	<u>\$ 270,259</u>	<u>\$ 266,821</u>

(19) Other gains and losses

	For the years ended December 31,	
	2018	2017
Loss on disposal of property, plant and equipment	(\$ 16,070)	(\$ 61,224)
Gains on disposal of investments	-	51,685
Foreign exchange gains (losses)	96,643	(274,140)
Net gain (loss) on financial assets/ liabilities at fair value through profit or loss	173	(10,512)
Others	(17,993)	(40,453)
	<u>\$ 62,753</u>	<u>(\$ 334,644)</u>

(20) Finance costs

	For the years ended December 31,	
	2018	2017
Interest expense:		
Convertible bonds	\$ 5,225	\$ 15,560
Imputed interest on lease payable	-	661
Imputed interest on deposits	58	36
	<u>\$ 5,283</u>	<u>\$ 16,257</u>

(21) Expenses by nature

	For the years ended December 31,	
	2018	2017
Employee benefit expense	\$ 3,366,514	\$ 3,333,260
Depreciation charge on property, plant and equipment	1,228,608	1,007,998
Depreciation charge on investment property	11,376	12,063
Amortisation on intangible assets	29,663	27,739

(22) Employee benefit expense

	For the years ended December 31,	
	2018	2017
Wages and salaries	\$ 2,909,510	\$ 2,942,720
Employee stock options	15,512	9,436
Labor and health insurance fees	140,090	114,828
Pension costs	151,224	122,814
Other personnel expenses	150,178	143,462
	<u>\$ 3,366,514</u>	<u>\$ 3,333,260</u>

A. According to the Articles of Incorporation of the Company, a ratio of distributable profit of the current year, if any, shall not be less than 1% for employees' compensation, and shall be less than 2% for directors' and supervisors' remuneration. However, if the Company has accumulated deficit, the earnings shall first be reserved to offset the deficit.

B. For the years ended December 31, 2018 and 2017, employees' compensation was accrued at \$86,000 and \$93,000, respectively; directors' and supervisors' remuneration both were accrued at \$15,000, the employees' compensation and directors' and supervisors' remuneration were estimated and accrued based on certain proportion of distributable profit of current year as of the end of reporting period.

Employees' compensation and directors' and supervisors' remuneration of 2017 as resolved by the Board of Directors were in agreement with those amounts recognised in the 2017 financial statements.

Information about employees' compensation and directors' and supervisors' remuneration of the Company resolved by the Board of Directors and the shareholders at the shareholders' meeting will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(23) Income tax

A. Income tax expense

Components of income tax expense:

	For the years ended December 31,	
	2018	2017
Current tax :		
Current tax on profits for the year	\$ 614,881	\$ 662,917
Tax on undistributed earnings	114,275	132,335
Over estimation of prior year's income tax	(55,892)	(119,587)
Total current tax	<u>673,264</u>	<u>675,665</u>
Deferred tax:		
Origination and reversal of temporary differences	65,891	144,285
Impact of change in tax rate	96,836	-
Total deferred tax	<u>162,727</u>	<u>144,285</u>
Income tax expense	<u>\$ 835,991</u>	<u>\$ 819,950</u>

B. Reconciliation between income tax expense and accounting profit

	For the years ended December 31,	
	2018	2017
Tax calculated based on profit before tax and statutory tax rate	\$ 812,827	\$ 788,903
Effect from items adjusted in accordance with tax regulation	(35,219)	18,299
Tax on undistributed earnings	114,275	132,335
Over estimation of prior year's income tax	(55,892)	(119,587)
Income tax expense	<u>\$ 835,991</u>	<u>\$ 819,950</u>

Note: The basis for computing the applicable tax rate are the rates applicable in the respective countries where the Group entities operate.

C. Amounts of deferred tax assets or liabilities as a result of temporary differences are as follows:

	Year ended December 31, 2018				
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	Recognised in equity	December 31
Temporary differences:					
— Deferred tax assets:					
Allowance for sales returns and discounts	\$ 3,580	\$ 27,732	\$ -	\$ -	\$ 31,312
Allowance for obsolescence and decline in market value of inventories	20,738	(15,828)	-	-	4,910
Unrealised gross profit	19,131	(5,162)	-	-	13,969
Unrealised compensated absences	2,581	691	-	-	3,272
Cost of bond issuance	306	(306)	-	-	-
Unrealised estimated expense	2,532	(784)	-	-	1,748
Others	22	232	-	-	254
Subtotal	<u>\$ 48,890</u>	<u>\$ 6,575</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 55,465</u>
— Deferred tax liabilities:					
Gain on foreign investment accounted for under equity method	(596,043)	(164,450)	-	-	(760,493)
Pension expense	(1,124)	(458)	-	-	(1,582)
Unrealised exchange gain	(460)	(4,394)	-	-	(4,854)
Subtotal	<u>(597,627)</u>	<u>(169,302)</u>	<u>-</u>	<u>-</u>	<u>(766,929)</u>
Total	<u>(\$ 548,737)</u>	<u>(\$ 162,727)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(\$ 711,464)</u>

Year ended December 31, 2017					
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	Recognised in equity	December 31
Temporary differences:					
— Deferred tax assets:					
Allowance for sales returns and discounts	\$ 7,303	(\$ 3,723)	\$ -	\$ -	\$ 3,580
Allowance for obsolescence and decline in market value of inventories	2,323	18,415	-	-	20,738
Unrealised gross profit	13,965	5,166	-	-	19,131
Unrealised compensated absences	1,305	1,276	-	-	2,581
Cost of bond issuance	838	(532)	-	-	306
Unrealized exchange loss	50,714	(50,714)			
Unrealised estimated expense	-	2,532	-	-	2,532
Others	43	(21)	-	-	22
Subtotal	\$ 76,491	(\$ 27,601)	\$ -	\$ -	\$ 48,890
— Deferred tax liabilities:					
Gain on foreign investment accounted for under equity method	(466,390)	(129,653)	-	-	(596,043)
Pension expense	(894)	(230)	-	-	(1,124)
Unrealised exchange gain	(12,729)	12,269	-	-	(460)
Unrealised estimated expense	(930)	930	-	-	-
Subtotal	(480,943)	(116,684)	-	-	(597,627)
Total	(\$ 404,452)	(\$ 144,285)	\$ -	\$ -	(\$ 548,737)

- D. The Company's income tax returns through 2016 have been assessed and approved by the Tax Authority. In addition, the Company applied for reassessment for the income tax returns through 2014 and 2015, the reassessment was completed on November 21, 2018 and there was no significant impact to the Company.
- E. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Group has assessed the impact of the change in income tax rate.

(24) Earnings per share

For the year ended December 31, 2018			
		Weighted average number of ordinary shares outstanding	Earnings per share
	<u>Amount after tax</u>	<u>(shares in thousands)</u>	<u>(in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	<u>\$ 2,644,712</u>	<u>309,272</u>	<u>\$ 8.55</u>
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 2,644,712	309,272	
Assumed conversion of all dilutive potential ordinary shares			
Employees' stock options	-	498	
Employees' compensation	-	1,326	
Convertible bonds	<u>4,180</u>	<u>4,987</u>	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 2,648,892</u>	<u>316,083</u>	<u>\$ 8.38</u>

For the year ended December 31, 2017			
		Weighted average number of ordinary shares outstanding	Earnings per share
	<u>Amount after tax</u>	<u>(shares in thousands)</u>	<u>(in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	<u>\$ 3,056,836</u>	<u>303,555</u>	<u>\$ 10.07</u>
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 3,056,836	303,555	
Assumed conversion of all dilutive potential ordinary shares			
Employees' stock options	-	616	
Employees' compensation	-	1,067	
Convertible bonds	<u>12,915</u>	<u>14,577</u>	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 3,069,751</u>	<u>319,815</u>	<u>\$ 9.60</u>

(25) Supplemental cash flow information

A. Investing activities with partial cash payments:

	For the years ended December 31,	
	2018	2017
Purchase of property, plant and equipment (including prepayments for business facilities)	\$ 891,357	\$ 2,475,191
Add: opening balance of payable on equipment	1,000,496	267,074
Less: ending balance of payable on equipment	(197,812)	(1,000,496)
Cash paid during the period	<u>\$ 1,694,041</u>	<u>\$ 1,741,769</u>

B. Financing activities with no cash flow effects:

	For the years ended December 31,	
	2018	2017
Convertible bonds being converted to capital stocks and capital surplus	<u>\$ 532,079</u>	<u>\$ 1,299,341</u>

7. RELATED PARTY TRANSACTIONS

Key management compensation

	For the years ended December 31,	
	2018	2017
Short-term employee benefits	\$ 66,364	\$ 65,510
Post-employment benefits	186	175
Share-based payments	5,447	4,640
	<u>\$ 71,997</u>	<u>\$ 70,325</u>

8. PLEDGED ASSETS

Pledged asset	Book value		Purpose
	December 31, 2018	December 31, 2017	
Refundable deposits (recorded in "Other non-current assets, others")	<u>\$ 166,996</u>	<u>\$ -</u>	Guarantee for land bid

9. COMMITMENTS AND CONTINGENT LIABILITIES

- (1) As of December 31, 2018 and 2017, the Group issued promissory notes amounting to \$1,064,844 and \$1,070,463 for loans, sales on credit and forward exchange contracts, respectively.
- (2) As of December 31, 2018 and 2017, the Group's total unused letters of credit for the import of machinery and equipment were \$0 and \$22,628, respectively.
- (3) As of December 31, 2018 and 2017, the Group entered into several contracts for construction and acquisition of machinery with total values of \$2,433,616 and \$626,658, respectively, and the unpaid balance on these contracts amounted to \$1,802,407 and \$289,884, respectively.

10. SIGNIFICANT CATASTROPHE

None.

11. SUBSEQUENT EVENTS

None.

12. OTHERS

(1) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Total debt is calculated as 'current and non-current liabilities' as shown in the consolidated balance sheet.

During 2018, the Group's strategy, which was unchanged from 2017, was to maintain the balance of the capital structure. The gearing ratio at December 31, 2018 and 2017 were as follows:

	December 31, 2018	December 31, 2017
Total liabilities	\$ 8,423,025	\$ 12,865,825
Total assets	\$ 27,624,702	\$ 30,726,233
Gearing ratio	30	42

(2) Financial instruments

A. Financial instruments by category

	December 31, 2018	December 31, 2017
Financial assets		
Financial assets at fair value through profit or loss		
Financial assets mandatorily measured at fair value through profit or loss	\$ 420,398	\$ -
Financial assets held for trading	-	22,365
Financial assets designated as at fair value through profit or loss on initial recognition	-	1,598,788
	\$ 420,398	\$ 1,621,153
Available-for-sale financial assets	\$ -	\$ 43,211
Financial assets at amortised cost		
Cash and cash equivalents	\$ 7,392,184	\$ 6,727,184
Accounts receivable	6,818,722	8,113,608
Other receivables	39,486	59,066
Refundable deposits	178,756	11,938
Other financial assets	2,613,320	2,198,320
	\$ 17,042,468	\$ 17,110,116

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Financial liabilities		
Financial liabilities at amortised cost		
Accounts payable	\$ 4,077,918	\$ 7,396,853
Other payables	2,988,145	3,607,951
Bonds payable (including current portion)	-	528,543
Guarantee deposits received	11,385	29,804
	<u>\$ 7,077,448</u>	<u>\$ 11,563,151</u>

B. Financial risk management policies

- (a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. To minimise any adverse effects on the financial performance of the Group, derivative financial instruments, such as foreign exchange forward contracts are used to hedge certain exchange rate risk. Derivatives are used exclusively for hedging purposes and not as trading or speculative instruments.
- (b) Risk management is carried out by a central treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- i. The Group operates internationally and is exposed to exchange rate risk arising from the transactions of the Company and its subsidiaries used in various functional currency, primarily with respect to the USD and RMB. Exchange rate risk arises from future commercial transactions and recognised assets and liabilities.
- ii. Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The companies are required to hedge their entire foreign exchange risk exposure with the Group treasury. Exchange rate risk is measured through a forecast of highly probable USD and RMB expenditures. Forward foreign exchange contracts are adopted to minimise the volatility of the exchange rate affecting cost of forecast inventory purchases.

- iii. The Group hedges foreign exchange rate by using forward exchange contracts. However, the Group does not adopt hedging accounting. Details of financial assets or liabilities at fair value through profit or loss are provided in Note 6(2).
- iv. The Group's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: NTD; other certain subsidiaries' functional currency: USD and RMB). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

December 31, 2018

	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)	Sensitivity analysis		
				Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)						
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:NTD	\$ 331,454	30.733	\$ 10,186,576	1%	\$ 101,866	\$ -
USD:RMB	228,320	4.4779	7,016,959	1%	70,170	-
<u>Long-term equity investments accounted for under equity method</u>						
USD:NTD	200,567	30.733	6,164,033	1%	-	61,640
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:NTD	218,399	30.733	6,712,056	1%	(67,121)	-
USD:RMB	128,034	4.4779	3,934,869	1%	(39,349)	-

December 31, 2017

	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)	Sensitivity analysis		
				Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)						
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:NTD	\$ 364,996	29.8480	\$ 10,894,401	1%	\$ 108,944	\$ -
USD:RMB	231,360	4.5680	6,905,633	1%	69,056	-
<u>Long-term equity investments accounted for under equity method</u>						
USD:NTD	181,141	29.8480	5,406,707	1%	-	54,067
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:NTD	253,209	29.8480	7,557,782	1%	(75,578)	-
USD:RMB	234,919	4.5680	7,011,862	1%	(70,119)	-

- v. The total exchange gain (loss), including realised and unrealised arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2018 and 2017 amounted to \$96,643 and (\$274,140), respectively.

Price risk

- i. The Group's equity securities, which are exposed to price risk, are the held financial assets at fair value through profit or loss and available-for-sale financial assets. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.
- ii. The Group's investments in equity securities comprise shares issued by the domestic companies. The prices of equity securities would change due to the change of the future value of investee companies. However, the Group has settled a stop loss limit, no significant price risk is expected.

Cash flow and fair value interest rate risk

The Group's issued zero coupon liability financial instruments with embedded conversion options and call options. The fair value of the financial instrument is exposed under the risk of market fluctuation. There was no cash flow risk arising from significant changes in interest rate after assessment.

(b) Credit risk

Effective 2018

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms.
- ii. The Group manages their credit risk taking into consideration the entire group's concern. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored.
- iii. If the contract payments were past due over certain days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.
- iv. The default occurs when the contract payments are expected unrecoverable and are transferred to overdue receivables
- v. The Group classifies customers' accounts receivable in accordance with credit risk on trade. The Group applies the simplified approach using provision matrix to estimate expected credit loss under the provision matrix basis.

- vi. The Group used the forecastability to adjust historical and timely information to assess the default possibility of accounts receivable. On December 31, 2018, the provision matrix classified by customers is as follows:

	Group A	Group B	Group C	Group D	Group E	Total
December 31, 2018						
Total book value	\$ 4,578,593	\$ 333,808	\$ 1,657,437	\$ 38,625	\$ 261,690	\$ 6,870,153
Allowance for sales returns and discounts	(50,230)	-	-	-	-	(50,230)
Book value	<u>\$ 4,528,363</u>	<u>\$ 333,808</u>	<u>\$ 1,657,437</u>	<u>\$ 38,625</u>	<u>\$ 261,690</u>	<u>\$ 6,819,923</u>
Expected loss rate	0.01%	0.02%	0.03%	0.01%	0.02%	
Loss allowance	<u>\$ 584</u>	<u>\$ 65</u>	<u>\$ 492</u>	<u>\$ 5</u>	<u>\$ 55</u>	<u>\$ 1,201</u>

Accounts receivable is grouped based on stock liquidity, paid-in capital, current ratio and debt ratio of counterparties.

- vii. Movements in relation to the Group applying the simplified approach to provide loss allowance for accounts receivable are as follows:

	2018
At January 1_IAS 39	\$ -
Adjustments under new standards	-
At January 1_IFRS 9	-
Provision for impairment	1,211
Effect of exchange rate changes	(10)
At December 31	<u>\$ 1,201</u>

For provisioned loss for the year ended December 31, 2018, the impairment loss arising from customers' contracts is \$1,211.

- viii. Credit risk information of 2017 is provided in Note 12(4).

(c)Liquidity risk

- Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities.
- Surplus cash held by the operating entities over and above balance required for working capital management are invested in interest bearing current accounts, time deposits, structured certificates of deposit and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the abovementioned forecasts. As at December 31, 2018 and 2017, the Group held money market position of \$10,424,914 and \$10,588,959, respectively, that are expected to readily generate cash inflows for managing liquidity risk.

iii. The table below analyses the Group's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities:

<u>December 31, 2018</u>	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Over 2 years</u>
Non-derivative financial liabilities:			
Accounts payable	\$ 4,077,918	\$ -	\$ -
Other payables	2,988,145	-	-
<u>December 31, 2017</u>	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Over 2 years</u>
Non-derivative financial liabilities:			
Accounts payable	\$ 7,396,853	\$ -	\$ -
Other payables	3,607,951	-	-
Bonds payable	535,982	-	-

(3) Fair value information

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

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

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of the Group's investment in certain derivative instruments is included in Level 2.

Level 3: Unobservable inputs for the asset or liability.

B. Fair value information of investment property at cost is provided in Note 6(6).

C. Financial instruments not measured at fair value

The carrying amounts of financial instruments not measured at fair value, including cash and cash equivalents, accounts receivable, other receivables, other financial assets-current, guarantee deposits paid (recorded in "Other non-current assets-others"), accounts payable, other payables, bonds payable and guarantee deposits received (recorded in "Other non-current assets-others"), are approximate to their fair values.

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

(a) The related information of natures of the assets and liabilities is as follows:

<u>December 31, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Equity securities	\$ 17,383	\$ -	\$ -	\$ 17,383
Structured certificates of deposit	-	403,015	-	403,015
	<u>\$ 17,383</u>	<u>\$ 403,015</u>	<u>\$ -</u>	<u>\$ 420,398</u>
<u>December 31, 2017</u>				
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Equity securities	\$ 22,365	\$ -	\$ -	\$ 22,365
Financial assets designated as at fair value through profit or loss on initial recognition				
Structured certificates of deposit	-	1,598,788	-	1,598,788
Available-for-sale financial assets				
Equity securities	43,211	-	-	43,211
	<u>\$ 65,576</u>	<u>\$ 1,598,788</u>	<u>\$ -</u>	<u>\$ 1,664,364</u>

(b) The methods and assumptions the Group used to measure fair value are as follows:

- i. The instruments the Group used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

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

- ii. The assessment of structured certificates of deposit is calculated based on the product revenue that is provided by counterparties.

E. For the years ended December 31, 2018 and 2017, there was no transfer between Level 1 and Level 2.

F. For the years ended December 31, 2018 and 2017, there was no transfer into or out from Level 3.

G. Treasury segment is in charge of valuation procedures for fair value measurements being categorised within Level 3, which is to verify independent fair value of financial instruments using the actuarial reports issued by external experts. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently calibrating valuation model, performing back-testing, updating inputs used to the valuation model and making any other necessary adjustments to the fair value.

(4) Effects on initial application of IFRS 9 and information on application of IAS 39 in 2017

A. Summary of significant accounting policies adopted in 2017:

(a) Financial assets at fair value through profit or loss

i. They are financial assets held for trading or financial assets designated as at fair value through profit or loss on initial recognition. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets held for trading unless they are designated as hedges. Financial assets that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:

(i) Hybrid (combined) contracts; or

(ii) They eliminate or significantly reduce a measurement or recognition inconsistency; or

(iii) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

ii. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using settlement date accounting.

iii. Financial liabilities at fair value through profit or loss are initially recognised at fair value. Related transaction costs are expensed in profit or loss. These financial liabilities are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognised in profit or loss.

(b) Available-for-sale financial assets

i. They are non-derivatives that are either designated in this category or not classified in any of the other categories.

ii. On a regular way purchase or sale basis, available-for-sale financial assets are recognised and derecognised using settlement date accounting.

iii. They are initially recognised at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in other comprehensive income. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured or derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are presented in 'financial assets measured at cost'.

(c) Loans and receivables

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(d) Impairment of financial assets

- i. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
- ii. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:
 - (i) Significant financial difficulty of the issuer or debtor;
 - (ii) The disappearance of an active market for that financial asset because of financial difficulties;
 - (iii) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;
 - (iv) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;
 - (v) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.
- iii. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:
 - (i) Financial assets measured at amortised cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost that would have been at the date of reversal had the impairment loss not been recognised previously. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(ii) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. If, in a subsequent period, the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognised, such impairment loss is reversed through profit or loss. Impairment loss of an investment in an equity instrument recognised in profit or loss shall not be reversed through profit or loss. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(e) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Any changes in the fair value are recognised in profit or loss.

B. The reconciliation of carrying amount of financial assets transferred from December 31, 2017, IAS 39, to January 1, 2018, IFRS 9, were as follows:

	Available-for-sale-equity			Effects	
	Measured at fair value through profit or loss	Measured at fair value through other comprehensive income-equity	Total	Retained earnings	Other equity
IAS 39	\$ -	\$ 43,211	\$ 43,211	\$ -	\$ 16,500
Transferred into and measured at fair value through profit or loss	43,211	(43,211)	-	16,500	(16,500)
IFRS 9	\$ 43,211	\$ -	\$ 43,211	\$ 16,500	\$ -

Under IAS 39, the equity instruments, which were classified as "available-for-sale financial assets" amounting to \$43,211, were reclassified as "financial assets at fair value through profit or loss" (equity instruments) amounting to \$43,211, and increased retained earnings and decreased other equity interest both in the amount of \$16,500 under IFRS 9.

C. The significant accounts as of December 31, 2017 are as follows:

(a) Financial assets and liabilities at fair value through profit or loss

Items	December 31, 2017
Current items:	
Financial assets held for trading	
Listed stocks	\$ 40,513
Valuation adjustment	(18,148)
	<u>22,365</u>
Financial assets designated as at fair value through profit or loss on initial recognition	
Structured certificates of deposit	1,598,788
	<u>\$ 1,621,153</u>

- i. The Group recognised net loss amounting to \$13,123 on financial assets and liabilities held for trading for the year ended December 31, 2017.
- ii. The non-hedging derivative instruments transaction and contract information are as follows:

<u>Derivative instruments</u>	<u>December 31, 2017</u>	
	<u>Contract amount</u> <u>(Notional principal)</u>	<u>Contract period</u>
Current items:		
Structured certificates of deposit	RMB 50,000 thousand	2017.11~2018.02
Structured certificates of deposit	RMB 100,000 thousand	2017.12~2018.03
Structured certificates of deposit	RMB 30,000 thousand	2017.11~2018.03
Structured certificates of deposit	RMB 170,000 thousand	2017.12~2018.03

- iii. The Group has no financial assets at fair value through profit or loss pledged to others.

(b) Available-for-sale financial assets

<u>Items</u>	<u>December 31, 2017</u>
Current items:	
Listed stocks	\$ 26,711
Valuation adjustment	16,500
	<u>\$ 43,211</u>

The Group recognised \$12,180 in other comprehensive income for fair value change and reclassified \$54,296 from equity to profit or loss for the year ended December 31 2017.

D. Credit risk information for the year ended December 31, 2017 are as follows:

- (a) Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Credit risk arises from cash and cash equivalents and derivative financial instruments, as well as credit exposures to customers, including outstanding receivables.
- (b) For the year ended December 31, 2017, no credit limits were exceeded during the reporting periods and all these counterparties have optimised credit, and management does not expect any significant losses from non-performance by these counterparties.

(c) The ageing analysis of accounts receivable that were past due but not impaired is as follows:

	<u>December 31, 2017</u>
Up to 180 days	\$ 181,311
Over 181 days	-
	<u>\$ 181,311</u>

The above ageing analysis was based on past due date.

(d) Movements analysis of allowance for bad debts of impaired financial assets is as follows:

- i. As of December 31, 2017, the Group's accounts receivable that were impaired amounted to \$0.
- ii. Movements in the provision for impairment of accounts receivable are as follows:

	<u>2017</u>		
	<u>Individual provision</u>	<u>Group provision</u>	<u>Total</u>
At January 1	\$ 907	\$ -	\$ 907
Write-offs during the period	(907)	-	(907)
At December 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The sales usually are made with a credit term of 45 to 120 days after monthly billings. The Group takes into consideration customers' changes in credit quality from initial granting date to financial period-end, historical experience and current financial conditions to estimate the unrecoverable amount when the Group determines the recovery of accounts receivable.

(e) Accounts receivable that are neither past due nor impaired are mainly from clients with outstanding collection history

(5) Effects of initial application of IFRS 15 and information on application of IAS 18 in 2017

A. The significant accounting policies applied on revenue recognition for the year ended December 31, 2017 are set out below.

Sales of goods

(a) The Group manufactures and sells flexible printed circuit board products. Revenue is measured at the fair value of the consideration received or receivable taking into account of business tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group's activities. Revenue arising from the sales of goods is recognised when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

(b) The Group offers customers volume discounts and right of return for defective products. The Group estimates such discounts and returns based on historical experience. Provisions for such liabilities are recorded when the sales are recognised.

B. The sales revenue recognised by using the above accounting policies for the year ended December 31, 2017 amounts to \$25,846,403.

C. If the Group continues adopting above accounting policies for the year ended December 31, 2018, the effects to the current balance sheets are that the Group increased sales discounts and returns provision as deduction to accounts receivable and decreased refund liability (shown as 'Other current liabilities – other') both in the amount of \$107,491; for the comprehensive income statements, there was no effect.

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

A. Loans to others: Please refer to table 1.

B. Provision of endorsements and guarantees to others: None.

C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 2.

D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: Please refer table 3.

E. Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more: Please refer to table 4.

F. Disposal of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.

G. Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more: Please refer to table 5.

H. Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more: Please refer to table 6.

I. Trading in derivative instruments undertaken during the reporting periods: Please refer to Notes 6(2) and 12(2).

J. Significant inter-company transactions during the reporting periods: Please refer to table 7.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China): Please refer to table 8.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 9.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 10.

14. SEGMENT INFORMATION

(1) General information

The Group operates business in manufacturing and sale of flexible PCBs. The Company allocates resources and assesses performance of the Group as a whole, and has identified that the Group has only one reportable operating segment.

(2) Measurement of segment information

The Group evaluates the performances of the operating segments based on their net income (loss).

(3) Information about segment profit or loss, assets and liabilities

The segment information is provided to the Chief Operating Decision-Maker for the reportable segments. Please refer to the balance sheet and statement of comprehensive income.

(4) Reconciliation for segment income (loss)

The revenue from customers reported to the Chief Operating Decision-Maker is measured in a manner consistent with that in the statement of comprehensive income. The amounts provided to the Chief Operating Decision-Maker with respect to total assets and liabilities are measured in a manner consistent with that of the financial statements.

(5) Information on products and services

Revenue from external customers is mainly from sales of flexible printed circuit boards and related raw materials and supplies.

(6) Revenue information by geographic areas

Revenue information by geographic areas of the Group for 2018 and 2017 is shown below:

	Years ended December 31,			
	2018		2017	
	Revenue	Non-Current Assets	Revenue	Non-Current Assets
Taiwan	\$ 1,780,077	\$ 3,326,594	\$1,686,990	\$ 3,014,150
China	7,537,695	3,104,436	7,810,246	3,693,972
Other areas of Asia	1,471,070	-	1,454,059	-
Europe	15,981,649	62	14,895,108	60
	<u>\$ 26,770,491</u>	<u>\$ 6,431,092</u>	<u>\$25,846,403</u>	<u>\$ 6,708,182</u>

Revenue recognition is based on clients' geographic locations and non-current assets are classified based on their locations.

(7) Information on major customers

Information on major customers of the Group for 2018 and 2017 is shown below:

<u>Year ended December 31, 2018</u>		<u>Year ended December 31, 2017</u>	
<u>Customer</u>	<u>Revenue</u>	<u>Customer</u>	<u>Revenue</u>
A	\$ 15,803,579	A	\$ 14,718,449

Flexium Interconnect Inc.

Loans to others

Year ended December 31, 2018

Table 1

Expressed in thousands of NTD
(Except as otherwise indicated)

No. (Note 1)	Creditor	Borrower	General ledger account (Note 2)	Is a related party	Maximum outstanding balance during the year ended December 31, 2018 (Note 3)	Balance at December 31, 2018 (Note 9)	Actual amount drawn down	Interest rate	Nature of loan	Amount of transactions with the borrower (Note 5)	Reason for short-term financing (Note 6)	Allowance for doubtful accounts	Collateral	Limit on loans granted to a single party (Note 7)	Ceiling on total loans granted (Note 8)	Footnote
				Yes	\$	\$	\$		Note 4	\$	Company operation	\$	Item Value	\$	\$	
0	FLEXIUM INTERCONNECT INC.	FLEXIUM INTERCONNECT (KUNSHAN) INCORPORATION	Other receivables - related parties		960,084	960,084		1.1	Note 4	-	Company operation	-	-	1,920,168	7,680,671	-
0	FLEXIUM INTERCONNECT INC.	FLEXIUM TECHNOLOGY (SUZHOU) INCORPORATION	Other receivables - related parties	Yes	960,084	960,084		1.1	Note 4	-	Company operation	-	-	1,920,168	7,680,671	-

Note 1: The numbers filled in for the loans provided by the Company or subsidiaries are as follows:

(1) The Company is '0'.

(2) The subsidiaries are numbered in order starting from '1'.

Note 2: Fill in the name of account in which the loans are recognised, such as receivables associates, receivables-related parties, current account with stockholders, prepayments, temporary payments, etc.

Note 3: Fill in the maximum outstanding balance of loans to others for the year ended December 31, 2018.

Note 4: Fill in purpose of loan when nature of loan is for short-term financing.

Note 5: Fill in the amount of business transactions when nature of the loan is related to business transactions, which is the amount of business transactions occurred between the creditor and borrower in the current year.

Note 6: Fill in purpose of loan when nature of loan is for short-term financing, for example, repayment of loan, acquisition of equipment, working capital, etc.

Note 7: In accordance with the Company's "Procedures for Provision of Loans", limit on loans to a single party with business transactions is the higher value of purchasing and selling during current year on the year of financing and is 20% of the Company's net asset based on the latest audited or reviewed consolidated financial statements; limit on loans to a single party with short-term financing is 10% of the Company's net assets based on the latest audited or reviewed financial statements.

Note 8: In accordance with the Company's "Procedures for Provision of Loans", ceiling on total loans is 40% of the Company's net assets based on the latest audited or reviewed financial statements.

Note 9: Ending balance of loans at the balance sheet date is the limit approved by the Board of Directors.

Note 10: In accordance with the Company's "Procedures for Provision of Loans", limit on loans to a company of which the Company directly or indirectly holds 100% of its voting shares is 80% of the Company's net assets.

Flexium Interconnect Inc.

Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)

Year ended December 31, 2018

Table 2

Expressed in thousands of NTD
(Except as otherwise indicated)

Securities held by	Marketable securities (Note 1)	Relationship with the securities issuer (Note 2)	As of December 31, 2018				Footnote (Note 4)
			General ledger account	Number of shares	Book value (Note 3)	Ownership (%)	Fair value
FLEXIUM INTERCONNECT INVESTMENT CO., LTD.	MYCENAX BIOTECH INC. (Stock)	None.	Financial assets at fair value through profit or loss - current	374,000	\$ 9,649	Note 5	\$ 9,649
FLEXIUM INTERCONNECT INVESTMENT CO., LTD.	MEDEON BIODESIGN, INC. (Stock)	None.	Financial assets at fair value through profit or loss - current	87,000	7,734	Note 5	7,734

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities within the scope of IFRS 9, 'Financial instruments'

Note 2: Leave the column blank if the issuer of marketable securities is non-related party.

Note 3: Fill in the amount after adjusted at fair value and deducted by accumulated impairment for the marketable securities measured at fair value; fill in the acquisition cost or amortised cost deducted by accumulated impairment for the marketable securities not measured at fair value.

Note 4: The number of shares of securities and their amounts pledged as security or pledged for loans and their restrictions on use under some agreements should be stated in the footnote if the securities presented herein have such conditions.

Note 5: Not applicable since the percentage of ownership is less than 5%.

Flexium Interconnect Inc.

Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital
Year ended December 31, 2018

Table 3

Expressed in thousands of NTD
(Except as otherwise indicated)

Investor	Marketable securities (Note 1)	General ledger account	Counterparty (Note 2)	Relationship with the investor (Note 2)	Balance as at January 1, 2018		Addition (Note 3)		Disposal (Note 3)			Balance as at December 31, 2018	
					Number of shares	Amount	Number of shares	Amount	Selling price	Book value	Gain (loss) on disposal	Number of shares	Amount
FLEXIUM INTERCONNECT INC.	Stock	Prepayments for investments	Boom Business Limited	Subsidiary	-	\$ -	15,000,000	\$ 458,436	-	\$ -	-	15,000,000	\$ 458,436

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

Note 2: Fill in the columns the counterparty and relationship if securities are accounted for under the equity method; otherwise leave the columns blank.

Note 3: Aggregate purchases and sales amounts should be calculated separately at their market values to verify whether they individually reach NT\$300 million or 20% of paid-in capital or more.

Note 4: Paid-in capital referred to herein is the paid-in capital of parent company. In the case that shares were issued with no par value or a par value other than NT\$10 per share, the 20 % of paid-in capital shall be replaced by 10% of equity attributable to owners of the parent in the calculation.

Flexium Interconnect Inc.
Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more
Year ended December 31, 2018

Table 4

Expressed in thousands of NT\$
(Except as otherwise indicated)

If the counterparty is a related party, information as to the last transaction of the real estate is disclosed below:

Real estate acquired by	Real estate acquired at	Date of the event	Transaction amount	Status of payment	Relationship with the counterparty	Original owner who sold the real estate to the counterparty	Relationship between the original owner and the acquirer	Date of the original transaction			Basis or reference used in setting the price	Reason for acquisition of real estate and status of the real estate	
					Counterparty	Non-related party		Amount				estate	Other commitments
Flexium Interconnect, Inc.	Land located at Daliao Dist., Kaohsiung City	September 12, 2018	\$ 1,671,593	\$ 250,494	Kaohsiung City government		-	-	\$	-	Subscription based on the notice released by the Kaohsiung city government	Building plants	The land shall be constructed within 3 years starting from the next day of the land handed over

Note 1: The appraisal result should be presented in the 'Basis or reference used in setting the price' column if the real estate acquired should be appraised pursuant to the regulations.
Note 2: Paid-in capital referred to herein is the paid-in capital of parent company. In the case that shares were issued with no par value or a par value other than NT\$10 per share, the 20 % of paid-in capital shall be replaced by 10% of equity attributable to owners of the parent in the calculation
Note 3: Date of the event referred to herein is the date of contract signing date, date of payment, date of execution of a trading order, date of title transfer, date of board resolution, or other date that can confirm the counterparty and the monetary amount of the transaction, whichever is earlier.

Flexium Interconnect Inc.

Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more
Year ended December 31, 2018

Table 5

Expressed in thousands of NTD
(Except as otherwise indicated)

Transaction			Differences in transaction terms compared to third party transactions			Notes/accounts receivable (payable)		Percentage of total notes/accounts receivable (payable)	Footnote
Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price		
FLEXIUM INTERCONNECT INC.	GRANDPLUS ENTERPRISES LTD.	Subsidiary	Sales	(\$ 2,448,983)	9	180 days	Note 1	\$ 1,235,493	15 Note 7
GRANDPLUS ENTERPRISES LTD.	FLEXIUM INTERCONNECT INC.	The Company	Purchases	2,448,983	10	180 days	Note 1	(1,235,493)	16 Note 7
GRANDPLUS ENTERPRISES LTD.	CHAMPION BEYOND LIMITED	Subsidiary	Sales	(2,448,983)	10	180 days	Note 3	1,235,493	16 Note 7
CHAMPION BEYOND LIMITED	GRANDPLUS ENTERPRISES LTD.	Subsidiary	Purchases	2,448,983	10	180 days	Note 3	(1,235,493)	16 Note 7
CHAMPION BEYOND LIMITED	FLEXIUM INTERCONNECT(KUNSHAN) INCORPORATION	Subsidiary	Sales	(2,448,983)	10	180 days	Note 4	1,235,493	16 Note 7
FLEXIUM INTERCONNECT(KUNSHAN) INCORPORATION	CHAMPION BEYOND LIMITED	Subsidiary	Purchases	2,448,983	15	180 days	Note 4	(1,235,493)	4 Note 7
FLEXIUM INTERCONNECT(KUNSHAN) INCORPORATION	CHAMPION BEYOND LIMITED	Subsidiary	Sales	(22,206,332)	99	90 days	Note 5	6,329,163	98 Note 7
CHAMPION BEYOND LIMITED	FLEXIUM INTERCONNECT(KUNSHAN) INCORPORATION	Subsidiary	Purchases	22,206,332	91	90 days	Note 5	(6,329,163)	84 Note 7
CHAMPION BEYOND LIMITED	GRANDPLUS ENTERPRISES LTD.	Subsidiary	Sales	(22,206,332)	91	90 days	Note 6	6,329,163	84 Note 7
GRANDPLUS ENTERPRISES LTD.	CHAMPION BEYOND LIMITED	Subsidiary	Purchases	22,206,332	91	90 days	Note 6	(6,329,163)	84 Note 7
GRANDPLUS ENTERPRISES LTD.	FLEXIUM INTERCONNECT INC.	The Company	Sales	(22,218,448)	91	90 days	Note 2	6,329,163	84 Note 7
FLEXIUM INTERCONNECT INC.	GRANDPLUS ENTERPRISES LTD.	Subsidiary	Purchases	22,218,448	94	90 days	Note 2	(6,329,163)	93 Note 7

Flexium Interconnect Inc.

Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more

Year ended December 31, 2018

Table 5

Expressed in thousands of NTD
(Except as otherwise indicated)

Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount	Percentage of total purchases (sales)	Differences in transaction terms compared to third party transactions			Notes/accounts receivable (payable)	Percentage of total notes/accounts receivable (payable)	Footnote
						Credit term	Unit price	Credit term	Balance		
FLEXIUM TECHNOLOGY (SUZHOU) INCORPORATION	FLEXIUM INTERCONNECT(KUNSHAN) INCORPORATION	Subsidiary	Sales	\$ 442,702)	100	90 days	Note 8	Note 8	\$ 200,777	100	

Note 1: In the sales to related parties, the price of work in progress is based on mutual agreement. The price cannot be compared with regular sales due to a lack of similar counterparties. The price of materials and supplies is determined by adding the margin to the cost. The collection period to third parties is approximately 180 days after the end of each month while those to related parties are 45~120 days after the end of each month.

Note 2: The transaction prices to related parties are similar with those to third parties. The collection periods to third parties are 60 to 90 days after the end of each month while those to related parties are 90 days after the end of each month.

Note 3: The transaction is sales from GRANDPLUS ENTERPRISES LTD. to CHAMPION BEYOND LIMITED, and the collection period is approximately 180 days after the end of each month.

Note 4: The transaction is sales from CHAMPION BEYOND LIMITED to FLEXIUM INTERCONNECT (KUNSHAN) INCORPORATION, and the collection period is approximately 180 days after the end of each month.

Note 5: The transaction is sales from FLEXIUM INTERCONNECT (KUNSHAN) INCORPORATION to CHAMPION BEYOND LIMITED, and the collection period is approximately 90 days after the end of each month.

Note 6: The transaction is sales from CHAMPION BEYOND LIMITED to GRANDPLUS ENTERPRISES LTD., and the collection period is approximately 90 days after the end of each month.

Note 7: The purchase (sales) amount is contained the eliminates to sales revenue and operating costs (merchandise purchase) arising from raw material processing, which are provided by the Company through the offshore company that is in the third place to the subsidiary, FLEXIUM INTERCONNECT(KUNSHAN). The eliminated amount was \$2,448,983 for the year ended December 31, 2018.

Note 8: The transaction is sales from FLEXIUM TECHNOLOGY(SUZHOU) INCORPORATION to FLEXIUM INTERCONNECT(KUNSHAN) INCORPORATION, and the collection period is approximately 90 days after the end of each month.

Flexium Interconnect Inc.

Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more
Year ended December 31, 2018

Table 6

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2018	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts
					Amount	Action taken		
			Accounts receivable \$1,235,493	1.59	\$ -	-	\$ 368,796	\$ -
FLEXIUM INTERCONNECT INC.	GRANDPLUS ENTERPRISES LTD.	Subsidiary						
GRANDPLUS ENTERPRISES LTD.	CHAMPION BEYOND LIMITED	Subsidiary	Accounts receivable \$1,235,493	1.59	-	-	368,796	-
CHAMPION BEYOND LIMITED	FLEXIUM INTERCONNECT(KUNSHAN) INCORPORATION	Subsidiary	Accounts receivable \$1,235,493	1.59	-	-	368,796	-
FLEXIUM INTERCONNECT(KUNSHAN) INCORPORATION	CHAMPION BEYOND LIMITED	Subsidiary	Accounts receivable \$6,329,163	4.30	-	-	2,704,504	-
CHAMPION BEYOND LIMITED	GRANDPLUS ENTERPRISES LTD.	Subsidiary	Accounts receivable \$6,329,163	4.30	-	-	2,704,504	-
GRANDPLUS ENTERPRISES LTD.	FLEXIUM INTERCONNECT INC.	The Company	Accounts receivable \$6,329,163	3.41	-	-	2,704,504	-
FLEXIUM TECHNOLOGY (SUZHOU) INCORPORATION	FLEXIUM INTERCONNECT(KUNSHAN) INCORPORATION	Subsidiary	Accounts receivable \$ 200,777	2.98	-	-	17,096	-

Flexium Interconnect Inc.

Significant inter-company transactions during the reporting periods

Year ended December 31, 2018

Table 7

Details of significant inter-company transactions reaching NT\$100 million or 20% of paid-in capital or more are as follows:

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets (Note 3)
				General ledger account	Amount	Transaction terms	
0	FLEXIUM INTERCONNECT INC.	GRANDPLUS ENTERPRISES LTD.	1	Sales	\$ 2,448,983	Note 4	9
0	FLEXIUM INTERCONNECT INC.	GRANDPLUS ENTERPRISES LTD.	1	Accounts receivable	1,235,493	Note 4	4
1	GRANDPLUS ENTERPRISES LTD.	CHAMPION BEYOND LIMITED	3	Sales	2,448,983	Note 6	9
1	GRANDPLUS ENTERPRISES LTD.	CHAMPION BEYOND LIMITED	3	Accounts receivable	1,235,493	Note 6	4
1	GRANDPLUS ENTERPRISES LTD.	FLEXIUM INTERCONNECT INC.	2	Sales	22,218,448	Note 5	83
1	GRANDPLUS ENTERPRISES LTD.	FLEXIUM INTERCONNECT INC.	2	Accounts receivable	6,329,163	Note 5	23
2	CHAMPION BEYOND LIMITED	FLEXIUM INTERCONNECT(KUNSHAN) INCORPORATION	3	Sales	2,448,983	Note 7	9
2	CHAMPION BEYOND LIMITED	FLEXIUM INTERCONNECT(KUNSHAN) INCORPORATION	3	Accounts receivable	1,235,493	Note 7	4
2	CHAMPION BEYOND LIMITED	GRANDPLUS ENTERPRISES LTD.	3	Sales	22,206,332	Note 8	83
2	CHAMPION BEYOND LIMITED	GRANDPLUS ENTERPRISES LTD.	3	Accounts receivable	6,329,163	Note 8	23
3	FLEXIUM INTERCONNECT(KUNSHAN) INCORPORATION	CHAMPION BEYOND LIMITED	3	Sales	22,206,332	Note 9	83
3	FLEXIUM INTERCONNECT(KUNSHAN) INCORPORATION	CHAMPION BEYOND LIMITED	3	Accounts receivable	6,329,163	Note 9	23
4	FLEXIUM TECHNOLOGY (SUZHOU) INCORPORATION	FLEXIUM INTERCONNECT(KUNSHAN) INCORPORATION	3	Sales	442,702	Note 10	2
4	FLEXIUM TECHNOLOGY (SUZHOU) INCORPORATION	FLEXIUM INTERCONNECT(KUNSHAN) INCORPORATION	3	Accounts receivable	200,777	Note 10	1

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

(1) Parent company is "0".

(2) The subsidiaries are numbered in order starting from "1".

Flexium Interconnect Inc.

Significant inter-company transactions during the reporting periods

Year ended December 31, 2018

Table 7

Expressed in thousands of NTD

Note 2: Relationship between transaction company and counterparty is classified into the following three categories (If transactions between parent company and subsidiaries or between subsidiaries refer to the same transaction, it is not required to disclose twice. For example, if the parent company has already disclosed its transaction with a subsidiary, then the subsidiary is not required to disclose the transaction; for transactions between two subsidiaries, if one of the subsidiaries has disclosed the transaction, then the other is not required to disclose the transaction.):

- (1) Parent company to subsidiary.
- (2) Subsidiary to parent company.
- (3) Subsidiary to subsidiary.

Note 3: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.

Note 4: In the sales to related parties, the price of work in progress is based on mutual agreement. The price cannot be compared with regular sales due to a lack of similar counterparties. The price of materials and supplies is determined by adding the margin to the cost. The collection period to third parties is approximately 180 days after the end of each month while those to related parties are 45~120 days after the end of each month.

Note 5: The processing prices were determined in accordance with mutual agreements. The collection period to third parties is 60 to 90 days after the end of each month while those to related parties is 90 days after the end of each month.

Note 6: The transaction is sales from GRANDPLUS ENTERPRISES LTD. to CHAMPION BEYOND LIMITED, and the collection period is approximately 180 days after the end of each month.

Note 7: The transaction is sales from CHAMPION BEYOND LIMITED to FLEXIUM INTERCONNECT (KUNSHAN) INCORPORATION, and the collection period is approximately 180 days after the end of each month.

Note 8: The transaction is sales from CHAMPION BEYOND LIMITED to GRANDPLUS ENTERPRISES LTD., and the collection period is approximately 90 days after the end of each month.

Note 9: The transaction is sales from FLEXIUM INTERCONNECT (KUNSHAN) INCORPORATION to CHAMPION BEYOND LIMITED and the collection period is approximately 90 days after the end of each month.

Note 10: The transaction is sales from FLEXIUM TECHNOLOGY (SUZHOU) INCORPORATION to FLEXIUM INTERCONNECT (KUNSHAN) INCORPORATION, and the credit term is approximately 90 days after the end of each month.

Flexium Interconnect Inc.
Information on investees
Year ended December 31, 2018

Table 8

Expressed in thousands of NTD
(Except as otherwise indicated)

Investor	Investee (Notes 1 and 2)	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2018		Ownership (%)	Book value	Net profit (loss) of the investee for the year ended December 31, 2018 (Note 2(2))	Investment income(loss) recognised by the Company for the year ended December 31, 2018 (Note 2(3))	Footnote
				Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares						
FLEXIUM INTERCONNECT INC.	FLEXIUM INTERCONNECT INC.	British Virgin Islands	General investments	\$ 975,567	\$ 975,567	50,000	\$ 3,831,871	100	\$ 525,724	\$ 561,521		
FLEXIUM INTERCONNECT INC.	UFLEX TECHNOLOGY CO., LTD.	British Virgin Islands	General investments	468,199	468,199	50,000	1,683,552	100	185,687	198,192		
FLEXIUM INTERCONNECT INC.	FLEXIUM INTERCONNECT INVESTMENT CO., LTD.	Taiwan	General investments	50,000	50,000	5,000,000	33,361	100	5,167	5,167		
FLEXIUM INTERCONNECT INC.	BOOM BUSINESS LIMITED	Samoa	General investments	606,024	606,024	20,000,000	648,610	100	29,617	29,617		
FLEXIUM INTERCONNECT INC.	GRANDPLUS ENTERPRISES LTD.	Samoa	General investments	62,001	62,001	1,880,578	434	100	34	34		
FLEXIUM INTERCONNECT INC.	SUCCESS GLORY INVESTMENT'S LTD.	Samoa	General investments	859,357	859,357	28,010,000	4,018,096	100	513,299	513,299		
UFLEX TECHNOLOGY CO., LTD.	FLEXIUM INTERCONNECT AMERICA LLC.	U.S.A	Marketing, customer support and supporting technical services	7,282	7,282	-	8,821	100	2,280	2,280		
GRANDPLUS ENTERPRISES LTD.	CHOSEN GLORY LIMITED	Samoa	General investments	-	-	-	-	100	-	-		
GRANDPLUS ENTERPRISES LTD.	CHAMPION BEYOND LIMITED	Samoa	General investments	-	-	-	48	100	24	24		
GRANDPLUS ENTERPRISES LTD.	FOREVER MASTER LIMITED	Samoa	General investments	-	-	-	17	100	9	9		
BOOM BUSINESS LIMITED	CLEAR SUCCESS GLOBAL LIMITED	Samoa	General investments	606,024	606,024	20,000,000	646,051	100	29,617	29,617		

Note 1: If a public company is equipped with an overseas holding company and takes the consolidated financial report as the main financial report according to the local laws, it can only disclose the information of the overseas holding company about the disclosure of related overseas investee information.

Note 2: If situation does not belong to Note 1, fill in the columns according to the following regulations:

- (1) The columns of "Investee", "Location", "Main business activities", "Initial investment amount" and "Shares held as at December 31, 2018" should fill orderly in the Company's (public company's) information on investees and every directly or indirectly controlled investees' investment information, and note the relationship between the Company (public company) and its investee each (ex. Direct subsidiary or indirect subsidiary) in the "Footnote" column.
- (2) The "Net profit (loss) of the investee for the year ended December 31, 2018" column should fill in amount of net profit (loss) of the investee for this period.
- (3) The "Investment income (loss) recognised by the Company for the year ended December 31, 2018" column should fill in the Company (public company) recognised investment income (loss) of its direct subsidiary and recognised investment income (loss) of its investee accounted for under the equity method for this period. When filling in recognised investment income (loss) of its direct subsidiary, the Company (public company) should confirm that direct subsidiary's net profit (loss) for this period has included its investment income (loss) which shall be recognised by regulations.

Note 3: Investment income (loss) recognised by the Company for the year ended December 31, 2018 included elimination of unrealised gain (loss).

Flexium Interconnect Inc.

Information on investments in Mainland China

Year ended December 31, 2018

Table 9

Expressed in thousands of NTD
(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Amount remitted from Taiwan to Mainland China/			Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Amount remitted back to Taiwan for the year ended December 31, 2018	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Net income of investee as of December 31, 2018	Ownership held by the Company (direct or indirect)	Company for the year ended December 31, 2018 (Note 2)	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Footnote		
				Investment method (Note 1)	Mainland China	Remitted to Taiwan										Remitted back to Taiwan	from Taiwan to Mainland China as of December 31, 2018
FLEXIUM INTERCONNECT (KUNSHAN) INCORPORATION	Research, development, manufacture and sale of new-type electronic components and devices such as flexible printed circuit boards.	\$ 974,571	2	\$ 1,347,611	\$ -	\$ -	\$ 1,347,611	\$ 707,650	\$ 707,650	\$ 100	\$ 707,650	\$ 5,748,847	\$ -	Note 2、4			
FLEXIUM TECHNOLOGY (SUZHOU) INCORPORATION	Research, development, manufacture and sale of new-type electronic components and devices such as flexible printed circuit boards.	614,660	2	614,660	460,995	-	1,075,655	29,617	29,617	100	29,617	646,051	-	Note 2、5			

Note 1: Investment methods are classified into following three categories:

- (1) Directly invest in a company in Mainland China.
- (2) Through investing in an existing company in the third area, which then invested in the investee in Mainland China.
- (3) Others.

Note 2: The financial statements are audited and attested by R.O.C. parent company's CPA.

Note 3: The numbers in this table are expressed in New Taiwan Dollars. Translated at exchanges rate of NT\$30.73 US\$1.00.

Note 4: The Group invested in the company through FLEXIUM INTERCONNECT INC., SUCCESS GLORY INVESTMENTS LTD., and UFLEX TECHNOLOGY CO.,LTD.

Note 5: The Group invested in the company through BOOM BUSINESS LIMITED and CLEAR SUCCESS GLOBAL LIMITED.

Flexium Interconnect Inc.
Information on investments in Mainland China
Year ended December 31, 2018

Table 9

Expressed in thousands of NTD
(Except as otherwise indicated)

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA
FLEXIUM INTERCONNECT INC.	\$ 2,423,266	\$ 2,477,424	\$ -

Note: In accordance with 'Regulations Governing the Approval of Investment or Technical Cooperation in Mainland China' amended by Ministry of Economic Affairs effective on August 29, 2008, as the Company has obtained the certificate of being qualified for operating headquarters, issued by the Industrial Development Bureau, MOEA, the ceiling amount of the investment in Mainland China is not applicable to the Company.

Significant transactions conducted with investees in Mainland China directly or indirectly through other companies in the third areas

Year ended December 31, 2018

Expressed in thousands of NTD
(Except as otherwise indicated)

[illegible]

Note: The Company has reversed the sales revenue and operating cost (merchandise purchase) arising from raw material processing which are provided by the Company through the offshore company that is in the third place to the subsidiary, FLEXIUM INTERCONNECT(KUNSHAN), when preparing the financial statements. The eliminated amount for the year ended December 31, 2018 was \$2,448,983.