

English Translation of Financial Statements and a Report Originally Issued in Chinese

Ticker: 3189

**KINSUS INTERCONNECT TECHNOLOGY CORP.
PARENT-COMPANY-ONLY FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT
AS OF DECEMBER 31, 2018 AND 2017
AND FOR THE YEARS THEN ENDED**

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The reader is advised that these consolidated financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

English Translation of Financial Statements and a Report Originally Issued in Chinese
Parent-company-only financial statements
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English Translation of an Audit Report Originally Issued in Chinese
INDEPENDENT AUDITORS' REPORT

To: the Board of Directors and Shareholders of
Kinsus Interconnect Technology Corp.

Opinion

We have audited the accompanying parent-company-only balance sheets of Kinsus Interconnect Technology Corp. (the "Company") as of December 31, 2018 and 2017, and the related parent-company-only statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the parent-company-only financial statements, including the summary of significant accounting policies (together referred as "the parent-company-only financial statements").

In our opinion, based on the results of our audits and the report of other auditors (please refer to the Other Matter—Making Reference to the Audit of a Component Auditor section of our report), the parent-company-only financial statements referred to above present fairly, in all material respects, the parent-company-only financial position of the Company as of December 31, 2018 and 2017, and their parent-company-only financial performance and cash flows for the years then ended, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Parent-Company-Only Financial Statements section of our report. We are independent of the Company in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China (the "Norm"), and we have fulfilled our other ethical responsibilities in accordance with the Norm. Based on our audits and the reports of other auditor(s), 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 the most significance in our audit of parent-company-only financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the parent-company-only financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Revenue Recognition

We determine that revenue recognition is one of the key audit matters. The Company's consolidated revenue amounting to NT\$17,228,031 thousand for the year ended December 31, 2018 is a significant account to the Company's consolidated financial statements. The Company has conducted these sale activities in multi-marketplace, including Taiwan, China, USA, etc. Among these locations, the Company has established hub-warehouse for certain foreign customers' convenience. Furthermore, the timing of fulfilling performance obligation needs to be determined based on varieties of sale terms and conditions enacted in the main sale contracts or sale orders. Our audit procedures therefore include, but not limit to, evaluating the properness of accounting policy for revenue recognition, assessing and testing the effectiveness of relevant internal controls related to revenue recognition sampling-test of details, including obtaining major sale orders or agreements to inspect the terms and conditions, checking the consistency of the fulfillment timing, and performance obligation for revenue recognition from foreign warehouses with sale agreement or orders, performing analytical review procedures on monthly sale revenues, executing sale cut-off tests, etc. We have also evaluated the appropriateness of the related disclosure in Note 4 and 6 to the consolidated financial statements.

Market valuation on Inventory

We determined the market valuation on inventory one of key audit matters in considering that the amount of inventory was significant and the assessment of sufficiency of inventory loss requires significant management judgement. The Company's net inventory amounted to NT\$1,918,295 thousand as of December 31, 2018. As the application market of substract, the Company's main products, is characterized by rapid development in technology and the trend of consumers' preference, management, in timely considering the status of new products development and the demand from clients, has to evaluate the loss due to market value decline as well as write-down on slow-moving inventories to their net realizable value. Our audit procedures therefore include, but not limit to, evaluating the Company's policy with respect to assessment the loss from slow-moving inventory and phased-out items, (including identification method, testing the accuracy of inventory aging schedule, analysis on inventory movement), performing observation on the Company's inventory physical-taking, and inspecting the current status of inventory usage, etc. We also assessed the adequacy of the inventory-related disclosures shown in the Note 5 and 6 to the parent-company-only financial statements.

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Other Matter – Making Reference to the Audit of a Component Auditor

We did not audit the financial statements of FuYang Technology Corp., an indirectly invested associate accounted for under the equity method by the Company. The financial statements of FuYang Technology Corp. as of December 31, 2018 and 2017, and for the years then ended were audited by other auditors, whose reports thereon have been furnished to us. Our audit, insofar as it related to the investment in the associate accounted for under the equity method amounting to NT\$735,275 thousand and NT\$823,380 thousand as of December 31, 2018 and 2017 representing 2.03% and 2.28% of the Company's total assets, the related shares of income before tax from the associate under the equity method for the year then ended amounting to NT\$(99,606) thousand and NT\$(77,880) thousand representing (23.58)% and (12.62)% of the Company's income before tax, and the related shares of other comprehensive income from the associate under the equity method for the years then ended amounting to NT\$12,346 thousand and NT\$(19,180) thousand representing (47.45)% and 25.22% of the other comprehensive income, are based solely on the audit reports of other auditors.

Responsibilities of Management and Those Charged with Governance for the Parent-Company-Only Financial Statements

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

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

Those charged with governance, including audit committee, are responsible for overseeing the financial reporting process of the Company.

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Auditor's Responsibilities for the Audit of the Parent-Company-Only Financial Statements

Our objectives are to obtain reasonable assurance about whether the parent-company-only financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these parent-company-only financial statements.

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

1. Identify and assess the risks of material misstatement of the parent-company-only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than 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 internal control of the Company.
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 ability to continue as a going concern of the Company. 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 Company to cease to continue as a going concern.

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5. Evaluate the overall presentation, structure and content of the parent-company-only financial statements, including the accompanying notes, and whether the parent-company-only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the parent-company-only financial statements. We are responsible for the direction, supervision and performance of the company audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of 2018 parent-company-only financial statements 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.



Ernst & Young
February 18th, 2019
Taipei, Taiwan,
Republic of China

Notice to Readers

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

English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp.

Parent-Company-Only Balance Sheets

As of December 31, 2018 and 2017

(Amounts Expressed in Thousands of New Taiwan Dollars)

Assets			2018		2017	
Code	Accounts	Notes	Amount	%	Amount	%
	Current assets					
1100	Cash and cash equivalents	4, 6(1)	\$8,709,305	24	\$8,797,966	24
1110	Financial assets at fair value through profit or loss	4, 6(2)	1,005,335	3	1,410,216	4
1136	Financial assets carried at amortized cost	4, 6(3)	423,057	1	-	-
1147	Bond investments with no active market	4, 6(4)	-	-	423,057	1
1150	Notes receivable, net	4, 6(5)	241	-	1,756	-
1170	Accounts receivable, net	4, 6(6)	2,765,195	8	2,382,221	7
1180	Accounts receivable - related parties, net	4, 6(6), 7	1,131	-	954	-
1200	Other receivables		232,701	1	156,997	-
1210	Other receivables - related parties	7	31,727	-	11,656	-
1310	Inventories, net	4, 6(7)	1,918,295	5	1,255,598	4
1410	Prepayments		128,195	-	213,761	1
1470	Other current assets		50,504	-	47,735	-
11XX	Total current assets		<u>15,265,686</u>	<u>42</u>	<u>14,701,917</u>	<u>41</u>
	Non-current assets					
1550	Investment accounted for under equity method	4, 6(8)	4,021,997	11	4,121,363	11
1600	Property, plant and equipment, net	4, 6(9), 9	14,898,668	41	14,406,084	40
1780	Intangible assets, net	4, 6(10)	4,777	-	12,796	-
1840	Deferred tax assets	4, 6(27)	9,593	-	130,819	-
1915	Prepayment for equipment	4, 6(9), 9	1,972,157	6	2,758,841	8
1995	Other non-current assets	6(11)	3,787	-	3,886	-
15XX	Total non-current assets		<u>20,910,979</u>	<u>58</u>	<u>21,433,789</u>	<u>59</u>
1XXX	Total Assets		<u>\$36,176,665</u>	<u>100</u>	<u>\$36,135,706</u>	<u>100</u>

(The accompanying notes are an integral part of the parent-company-only financial statements.)

English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp.

Parent-Company-Only Balance Sheets (Continued)

As of December 31, 2018 and 2017

(Amounts Expressed in Thousands of New Taiwan Dollars)

Liabilities and Equity			2018		2017	
Code	Accounts	Notes	Amount	%	Amount	%
	Current liabilities					
2100	Short-term loans	6(12)	\$2,136,671	6	\$2,263,117	6
2130	Contract liability	4, 6(21)	1,082	-	-	-
2150	Notes payable		38,326	-	41,687	-
2170	Accounts payable		1,336,203	4	1,331,417	4
2180	Accounts payable - related parties	7	163,500	1	201,977	1
2200	Other payables	6(13), 7	1,947,831	5	2,292,456	6
2230	Current income tax liabilities	4, 6(27)	140,435	-	293,685	1
2300	Other current liabilities	6(14)	594,000	2	318,373	1
2365	Refund liability	6(15)	12,300	-	-	-
21XX	Total current liabilities		<u>6,370,348</u>	<u>18</u>	<u>6,742,712</u>	<u>19</u>
	Non-current liabilities					
2540	Long-term loans	6(16), 8	1,998,125	6	1,365,625	4
2570	Deferred tax liabilities	4, 6(27)	886	-	846	-
2600	Other non-current liabilities	4, 6(17), 6(18)	25,156	-	27,962	-
25XX	Total non-current liabilities		<u>2,024,167</u>	<u>6</u>	<u>1,394,433</u>	<u>4</u>
2XXX	Total liabilities		<u>8,394,515</u>	<u>24</u>	<u>8,137,145</u>	<u>23</u>
	Equity					
3100	Capital	6(19)				
3110	Common stock		4,508,410	12	4,460,000	12
3200	Capital surplus	6(19)	6,140,942	17	5,956,519	16
3300	Retained earnings	6(19)				
3310	Legal capital reserve		3,612,556	10	3,563,389	10
3320	Special reserve		77,677	-	613	-
3350	Unappropriated earnings		13,646,659	38	14,095,717	39
3400	Other components of equity		(203,356)	(1)	(77,677)	-
3500	Treasury Stock	6(19)	(738)	-	-	-
3XXX	Total equity		<u>27,782,150</u>	<u>76</u>	<u>27,998,561</u>	<u>77</u>
	Total liabilities and equity		<u>\$36,176,665</u>	<u>100</u>	<u>\$36,135,706</u>	<u>100</u>

(The accompanying notes are an integral part of the parent-company-only financial statements.)

English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp.

Parent-Company-Only Statements of Comprehensive Income

For the Years Ended December 31, 2018 and 2017

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

Code	Accounts	Notes	2018		2017	
			Amount	%	Amount	%
4000	Operating revenues	4, 6(21), 7	\$17,228,031	100	\$16,286,034	100
5000	Operating costs	7	(13,612,597)	(79)	(13,208,061)	(81)
5900	Gross profit		3,615,434	21	3,077,973	19
6000	Operating expenses	7				
6100	Selling		(595,067)	(3)	(347,294)	(2)
6200	General and administrative		(931,815)	(6)	(1,246,491)	(8)
6300	Research and development		(1,738,225)	(10)	(984,252)	(6)
6450	Expected credit gains (losses)	4, 6(22)	(3,782)	-	-	-
	Operating expenses total		(3,268,889)	(19)	(2,578,037)	(16)
6900	Operating income		346,545	2	499,936	3
7000	Non-operating income and expenses					
7010	Other income	6(25), 7	205,701	1	199,082	1
7020	Other gains and losses	6(25), 7	10,469	-	45,375	-
7050	Finance costs	6(25)	(64,432)	-	(39,078)	-
7070	Share of profit or loss of subsidiaries, associates and joint ventures		(75,815)	-	(88,187)	-
	Non-operating income and expense total		75,923	1	117,192	1
7900	Income from continuing operations before income tax		422,468	3	617,128	4
7950	Income tax	4, 6(27)	(72,983)	(1)	(125,452)	(1)
8200	Net income		349,485	2	491,676	3
8300	Other comprehensive income (loss)	6(26)				
8310	Item that may not be reclassified subsequently to profit or loss					
8311	Actuarial gain (loss) on defined benefit plans		(3,312)	-	1,004	-
8360	Items that may be reclassified subsequently to profit or loss					
8370	Share of other comprehensive income (loss) of subsidiaries, associates and joint ventures		(22,706)	-	(77,064)	-
	Total other comprehensive income, net of tax		(26,018)	-	(76,060)	-
8500	Total comprehensive income		\$323,467	2	\$415,616	3
9750	Earnings per share - basic (in NT\$)	6(28)	\$0.78		\$1.10	
9850	Earnings per share - diluted (in NT\$)	6(28)	\$0.78		\$1.10	

(The accompanying notes are an integral part of the parent-company-only financial statements.)

English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp.
Parent-Company-Only Statements of Changes in Equity
For the Years Ended December 31, 2018 and 2017
(Amounts Expressed in Thousands of New Taiwan Dollars)

Code	Items	Capital 3100	Capital Surplus 3200	Retained Earnings			Other Components of equity		Treasury Stock 3500	Total Equity 3XXX
				Legal Reserve 3310	Special Reserve 3320	Unappropriated Earnings 3350	Exchange differences arising on translation of foreign operations 3410	Unearned Employee Benefit 3490		
A1	Balance as of January 1, 2017	\$4,460,000	\$5,939,819	\$3,340,018	\$-	\$15,163,371	\$(613)	\$-	\$(32,885)	\$28,869,710
	Appropriation and distribution of 2016 earnings:									
B1	Legal reserve			223,371		(223,371)				-
B3	Special reserve				613	(613)				-
B5	Cash dividends - common shares					(1,336,350)				(1,336,350)
C7	Change in associates and joint ventures accounted for using equity method		8,329							8,329
D1	Net income for 2017					491,676				491,676
D3	Other comprehensive income (loss) for 2017					1,004	(77,064)			(76,060)
D5	Total comprehensive income	-	-	-	-	492,680	(77,064)	-	-	415,616
N1	Share-based payment transactions		8,371						32,885	41,256
A1	Balance as of December 31, 2017	4,460,000	5,956,519	3,563,389	613	14,095,717	(77,677)	-	-	27,998,561
	Appropriation and distribution of 2017 earnings:									
B1	Legal reserve			49,167		(49,167)				-
B3	Special reserve				77,064	(77,064)				-
B5	Cash dividends - common shares					(669,000)				(669,000)
C7	Change in associates and joint ventures accounted for using equity method		(845)							(845)
D1	Net income for 2018					349,485				349,485
D3	Other comprehensive income (loss) for 2018					(3,312)	(22,706)			(26,018)
D5	Total comprehensive income	-	-	-	-	346,173	(22,706)	-	-	323,467
T1	Employee restricted shares for cancellation and others	48,410	185,268					(102,973)	(738)	129,967
Z1	Balance as of December 31, 2018	<u>\$4,508,410</u>	<u>\$6,140,942</u>	<u>\$3,612,556</u>	<u>\$77,677</u>	<u>\$13,646,659</u>	<u>\$(100,383)</u>	<u>\$(102,973)</u>	<u>\$(738)</u>	<u>\$27,782,150</u>

(The accompanying notes are an integral part of the parent-company-only financial statements.)

NOTE: The employees' bonuses of NT\$55,074 and the directors' and supervisors' remuneration of NT\$3,352 thousand for the year ended December 31, 2018 had been deducted from comprehensive income for the year ended December 31, 2018.
The employees' bonuses of NT\$80,693 and the directors' and supervisors' remuneration of NT\$4,912 thousand for the year ended December 31, 2017 had been deducted from comprehensive income for the year ended December 31, 2017.

English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp.

Parent-Company-Only Statements of Cash Flows

For the Years Ended December 31, 2018 and 2017

(Amounts Expressed in Thousands of New Taiwan Dollars)

Code	Items	2018	2017	Code	Items	2018	2017
AAAA	Cash flows from operating activities:			BBBB	Cash flows from investing activities:		
A10000	Net income before tax	\$422,468	\$617,128	B01800	Acquisition of investment accounted for under equity method	-	(600,000)
A20000	Adjustments:			B02700	Acquisition of property, plant and equipment	(2,916,134)	(5,356,287)
A20010	Profit or loss not effecting cash flows:			B02800	Proceeds from disposal of property, plant and equipment	9,463	23
A20100	Depreciation	2,974,964	2,343,599	B03800	Decrease (increase) in refundable deposits	99	(48)
A20200	Amortization	18,663	23,069	B04500	Acquisition of intangible assets	(10,644)	(30,657)
A20300	Expected credit losses (gain on recovery)	3,782	(29,010)	BBBB	Net cash provided by (used in) investing activities	(2,917,216)	(5,986,969)
A20400	Net loss (gain) of financial assets (liabilities) at fair value through profit or loss	(5,200)	(6,700)				
A20900	Interest expense	64,432	39,078	CCCC	Cash flows from financing activities:		
A21200	Interest income	(47,973)	(52,634)	C00100	Increase in (repayment of) short-term loans	(126,446)	986,017
A21900	Cost of share based payment	82,525	8,371	C01600	Increase in long-term loans	1,200,000	870,000
A22300	Share of profit or loss of subsidiaries, associates and joint ventures	75,815	88,187	C01700	Repayment of long-term loans	(290,087)	(298,088)
A22500	Loss on disposal of property, plant and equipment	(724)	4,092	C03000	Increase in guarantee deposits received	(2,000)	-
A23800	Gain on reversal of impairment loss	-	(17,100)	C04500	Payment of cash dividends	(669,000)	(1,336,350)
				C04600	Issuance of common stock for cash	48,410	-
A30000	Changes in operating assets and liabilities:			C05100	Treasury stock purchased	-	32,885
A31110	Financial Assets at fair value through profit or loss	410,081	1,435,817	CCCC	Net cash provided by (used in) financing activities	160,877	254,464
A31130	Notes receivable	1,515	1,274				
A31150	Accounts receivable	(386,756)	160,235	EEEE	Net Increase (decrease) in cash and cash equivalents	(88,661)	(1,035,484)
A31160	Accounts receivable - related parties	(177)	32,776	E00100	Cash and cash equivalents at beginning of period	8,797,966	9,833,450
A31180	Other receivable	(75,788)	86,230	E00200	Cash and cash equivalents at end of period	\$8,709,305	\$8,797,966
A31190	Other receivable - related parties	(20,071)	302,371				
A31200	Inventories	(662,697)	62,660				
A31230	Prepayment	85,566	(139,819)				
A31240	Other current assets	(2,769)	(17,924)				
A32125	Decrease (increase) in contract liabilities	1,082	-				
A32130	Notes payable	(3,361)	(1,811)				
A32150	Accounts payable	4,786	256,556				
A32160	Accounts payable - related parties	(38,477)	(5,900)				
A32180	Other payable	(122,275)	(181,486)				
A32210	Advance receipts	-	(1,507)				
A32230	Other current liabilities	(1,786)	535				
A32240	Net pension liability under defined benefit plan	(4,118)	(4,043)				
A32990	Refund liability	12,300	-				
A33000	Cash generated from operations	2,785,807	5,004,044				
A33100	Dividend received	-	100,000				
A33100	Interest received	48,057	52,838				
A33300	Interest paid	(61,219)	(38,237)				
A33500	Income tax paid	(104,967)	(421,624)				
AAAA	Net cash provided by (used in) operating activities	2,667,678	4,697,021				

(The accompanying notes are an integral part of the parent-company-only financial statements.)

1. HISTORY AND ORGANIZATION

Kinsus Interconnect Technology Corp. (referred to “the Company”) was established on September 11, 2000. Its main business activities include the manufacture of electronic products, the whole-sale and retail-sale of electronic materials, and the consultation services of business operation and management. The Company’s stocks have been governmentally approved on May 20, 2004 to be listed and traded in Taiwan Stock Exchange starting November 1, 2004. The registered business premise and main operation address is at No. 1245, Chung Hua Rd., Hsinwu District, Taoyuan City, Taiwan 32747.

2. DATE AND PROCEDURE OF AUTHORIZATION FOR FINANCIAL STATEMENTS ISSUANCE

The financial statements of the Company were authorized to be issued in accordance with a resolution of the Board of Directors’ meeting held on February 18, 2019.

3. NEWLY ISSUED OR REVISED STANDARDS AND INTERPRETATIONS

- (1) Changes in accounting policies resulting from applying for the first time certain standards and amendments

The Company applied for the first time the International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are recognized by Financial Supervisory Commission (“FSC”) and become effective for annual periods beginning on or after January 1, 2018. The nature and the impact of each new standard and amendment that has a material effect on the Company is described below:

- (a) IFRS 15 “Revenue from Contracts with Customers” (including Amendments to IFRS 15 “Clarifications to IFRS 15 Revenue from Contracts with Customers”)

IFRS 15 replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations. In accordance with the transition provision in IFRS 15, the Company elected to recognize the cumulative effect of initially applying IFRS 15 at the date of initial application (January 1, 2018). The Company also elected to apply this standard retrospectively only to contracts that are not completed contracts at the date of initial application.

The Company's principal activities consist of the sale of goods and rendering of services. The impacts arising from the adoption of IFRS 15 on the Company are summarized as follows:

- A. Please refer to Note 4 for both the accounting policies before and after January 1, 2018.
- B. Before January 1, 2018, revenue from sale of goods was recognized when goods have been delivered to the buyer. Starting from January 1, 2018, in accordance with IFRS 15, the Company recognized revenue when (or as) the Company fulfills a performance obligation by transferring a promised good to a customer. IFRS 15 has no impact on the Company's revenue recognition for sale of goods. However, if the Company has transferred the goods to customers for some contracts but does not yet have a right to an amount of consideration that is unconditional, these contracts should be presented as contract assets. It is different from the accounting treatment of recognizing trade receivables before the date of initial application. Besides, loss allowance against contract assets should be assessed in accordance with IFRS 9. In summary, the GAAP difference between IFRS 15 and IAS 18 has no material impact on the Company's financial statements.
- C. For some rendering of contracts, part of the consideration was received in advance from customers upon the contract being signed. The Company subsequently has an obligation to provide the sale of goods. Prior to January 1, 2018, the Company recognized the consideration received in advance from customers under the caption of other current liabilities in accordance with IAS 18. Starting from January 1, 2018, such an advanced receipt should be recorded under the caption of contract liabilities in accordance with IFRS 15. The amount reclassified from other current liabilities to contracts liabilities as of the date of initial application was NT\$2,386 thousand. As of December 31, 2018, other current liabilities under IAS 18 decreased by NT\$1,082 thousand while contract liabilities under IFRS 15 increased by NT\$1,082 thousand.

Prior to January 1, 2018, the Company recognized an allowance for sale return and discount as a contra-account to accounts receivable when partial or all considerations received might be returned or a chargeback is expected to occur. While, after adopting IFRS 15 on January 1, 2018, such an allowance for sales return and discount shall be presented under the caption of refund liabilities within other current liabilities. The aforementioned impacts lead to an increase in both net account receivable and refund liabilities, due to the allowance for sale return and discount being recasted, amounted to NT\$11,400 thousand as of January 1, 2018 and NT\$12,300 thousand as of December 31, 2018.

D. Please refer to Note 4, Note 5 and Note 6 for additional disclosure note required by IFRS 15.

(2) IFRS 9“Financial Instruments”

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. In accordance with the transition provision in IFRS 9, the Company elected not to restate prior periods at the date of initial application (January 1, 2018). The adoption of IFRS 9 has the following impacts on the Company:

(a) The Company adopted IFRS 9 since January 1, 2018 and it adopted IAS 39 before January 1, 2018. Please refer to Note 4 for more details on accounting policies.

(b) In accordance with the transition provision in IFRS 9, the assessment of the business model and classification of financial assets into the appropriate categories are based on the facts and circumstances that existed as at January 1, 2018. The classifications of financial assets and it carrying amounts as at January 1, 2018 are as follow:

IAS 39		IFRS 9	
Measurement categories	Carrying amounts (NT\$'000)	Measurement categories	Carrying amounts (NT\$'000)
Fair value through profit or loss	1,410,216	Fair value through profit or loss	1,410,216
At amortized cost		At amortized cost (including	11,774,407
Loans and receivables	11,774,407	cash and cash equivalents,	
(including cash and cash		notes receivables, trade	
equivalents, notes receivables,		receivables, financial assets	
trade receivables, debt		measured at amortized cost	
instrument investments for		and other receivables)	
which no active market exists			
and other receivables)			
Total	<u>13,184,623</u>	Total	<u>13,184,623</u>

(c) The transition from IAS 39 to IFRS 9 as at January 1, 2018, the changes in the classifications of financial assets and financial liabilities are as follow:

IAS 39		IFRS 9			Retained earnings	Other components of equity
Class of financial instruments	Carrying amounts (NT\$'000)	Class of financial instruments	Carrying amounts (NT\$'000)	Difference	Adjusted amounts (NT\$'000)	Adjusted amounts (NT\$'000)
Financial assets at fair value through profit or loss (Note 1)						
Held-for-trading	1,410,216	Measured at fair value through profit or loss	1,410,216	-	-	-
Loans and receivables (Note 2)						
Cash and cash equivalents	8,797,766	Cash and cash equivalents	8,797,766	-	-	-
Debt instrument investments for which no active market exists	423,057	Financial assets measured at amortized costs	423,057	-	-	-
Notes receivables	1,756	Notes receivables	1,756	-	-	-
Trade receivables (including related parties)	2,383,175	Trade receivables (including related parties)	2,383,175	-	-	-
Other receivables (including related parties)	168,653	Other receivables (including related parties)	168,653	-	-	-
Subtotal	11,774,407					
Total	13,184,623	Total	13,184,623	-	-	-

Notes:

(1) In accordance with IAS 39, financial assets classified as held for trading which measured at fair value through profit or loss are included investments in funds and stocks of listed companies. In accordance with IFRS 9, as the cash flow characteristics for funds are not solely payments of principal and interest on the principal amount outstanding, so they are classified as financial assets mandatorily measured at fair value through profit or loss.

(2) In accordance with IAS 39, the cash flow characteristics for loans and receivables are solely payments of principal and interest on the principal amount outstanding. The assessment of the business model is based on the facts and circumstances that existed as at January 1, 2018. These financial assets were measured at amortized cost as they were held within a business model whose objective was to hold financial assets in order to collect contractual cash flows. Besides, in accordance with IFRS 9, there was no adjustment arising from the assessment of impairment losses for the aforementioned assets

as at January 1, 2018. Therefore, there is no impact on the carrying amount as at January 1, 2018. As at January 1, 2018, debt instrument investments for which no active market exists of NT\$423,057 thousand were reclassified to financial assets measured at amortized cost.

(d) Please refer to Note 4, Note 5, Note 6 and Note 12 for the related disclosures required by IFRS 7 and IFRS 9.

(3) Disclosure Initiative — Amendment to IAS 7 “Statement of Cash Flows”

The amendment relates to changes in liabilities arising from financing activities and to require a reconciliation of the carrying amount of liabilities at the beginning and end of the period. Please refer to Note 12 for the related disclosures.

2. Standards or interpretations issued, revised or amended, by International Accounting Standards Board (“IASB”) which are endorsed by FSC, but not yet adopted by the Company as at the end of the reporting period are listed below.

Items	New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB
a	IFRS 16 “Leases”	January 1, 2019
b	IFRIC 23 “Uncertainty Over Income Tax Treatments”	January 1, 2019
c	IAS 28 “Investment in Associates and Joint Ventures” — Amendments to IAS 28	January 1, 2019
d	Prepayment Features with Negative Compensation (Amendments to IFRS 9)	January 1, 2019
e	Improvements to International Financial Reporting Standards (2015-2017 cycle)	January 1, 2019
f	Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	January 1, 2019

(a) IFRS 16 “Leases”

The new standard requires lessees to account for all leases under one single accounting model (except for short-term or low-value asset lease exemptions), which is for lessees to recognize right-of-use assets and lease liabilities on the balance sheet and the depreciation expense and interest expense associated with those leases in the consolidated statements of comprehensive income. Besides, lessors’ classification remains unchanged as operating or finance leases, but additional disclosure information is required.

(b) IFRIC 23 “Uncertainty Over Income Tax Treatments”

The Interpretation clarifies application of recognition and measurement requirements in IAS 12 “Income Taxes” when there is uncertainty over income tax treatments.

(c) IAS 28 “Investment in Associates and Joint Ventures” — Amendments to IAS 28

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture before it applies IAS 28, and in applying IFRS 9, does not take account of any adjustments that arise from applying IAS 28.

(d) Prepayment Features with Negative Compensation (Amendments to IFRS 9)

The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract, to be measured at amortized cost or at fair value through other comprehensive income.

(e) Improvements to International Financial Reporting Standards (2015-2017 cycle):

IFRS 3 “Business Combinations”

The amendments clarify that an entity that has joint control of a joint operation shall remeasure its previously held interest in a joint operation when it obtains control of the business.

IFRS 11 “Joint Arrangements”

The amendments clarify that an entity that participates in, but does not have joint control of, a joint operation does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

IAS 12 “Income Taxes”

The amendments clarify that an entity shall recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

IAS 23 “Borrowing Costs”

The amendments clarify that an entity should treat as part of general borrowings any borrowing made specifically to obtain an asset when the asset is ready for its intended use or sale.

(f) Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

The amendments clarify that when a change in a defined benefit plan is made (such as amendment, curtailment or settlement, etc.), the entity should use the updated assumptions to remeasure its net defined benefit liability or asset.

The abovementioned standards and interpretations issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after January 1, 2019. The Company assessed all standards and interpretations have no material impact on the Company.

3. Standards or interpretations issued, revised or amended, by IASB but not yet endorsed by FSC at the date of issuance of the Company’s financial statements are listed below.

Items	New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB
a	IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” — Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures	To be determined by IASB
b	IFRS 17 “Insurance Contracts”	January 1, 2021
c	Definition of a Business (Amendments to IFRS 3)	January 1, 2020
d	Definition of Material (Amendments to IAS 1 and 8)	January 1, 2020

- (a) IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” — Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures

The amendments address the inconsistency between the requirements in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28

was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full.

IFRS 10 was also amended so that the gains or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors' interests in the associate or joint venture.

(b) IFRS 17 “Insurance Contracts”

(1) IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects (including recognition, measurement, presentation and disclosure requirements). The core of IFRS 17 is the General (building block) Model, under this model, on initial recognition, an entity shall measure a company of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. The fulfilment cash flows comprise of the following: estimates of future cash flows;

(2) Discount rate: an adjustment to reflect the time value of money and the financial risks related to the future cash flows, to the extent that the financial risks are not included in the estimates of the future cash flows; and

(3) a risk adjustment for non-financial risk.

The carrying amount of a company of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims.

Other than the General Model, the standard also provides a specific adaptation for contracts with direct participation features (the Variable Fee Approach) and a simplified approach (Premium Allocation Approach) mainly for short-duration contracts.

(c) Definition of a Business (Amendments to IFRS 3)

The amendments clarify the definition of a business in IFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

IFRS 3 continues to adopt a market participant's perspective to determine whether an acquired set of activities and assets is a business. The amendments clarify the minimum requirements for a business; add guidance to help entities assess whether an acquired process is substantive; and narrow the definitions of a business and of outputs; etc.

(d) Definition of a Material (Amendments to IAS 1 and 8)

The main amendment is to clarify new definition of material. It states that “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The abovementioned standards and interpretations issued by IASB have not yet endorsed by FSC at the date when the Company’s financial statements were authorized for issue, the local effective dates are to be determined by FSC. The company assessed all standards and interpretations have no material impact on the Company.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance

The parent-company-only financial statements of the Company for the years ended December 31, 2018 and 2017 were prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (“the Regulations”).

(2) Basis of preparation

The Company prepared parent-company-only financial statements in accordance with Article 21 of the Regulations, which provided that the profit or loss and other comprehensive income for the period presented in the parent-company-only financial statements shall be the same as the profit or loss and other comprehensive income attributable to stockholders of the parent presented in the consolidated financial statements for the period, and the total equity presented in the parent-company-only financial statements shall be the same as the equity attributable to the parent company presented in the consolidated financial statements. Therefore, the Company accounted for its investments in subsidiaries using equity method and, accordingly, made necessary adjustments.

The parent-company-only financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value. The parent-company-only financial statements are expressed in thousands of New Taiwan Dollars (“NT\$”) unless otherwise stated.

(3) Foreign currency transactions

The Company's parent-company-only financial statements are presented in its functional currency, New Taiwan Dollars (NTD). Items included in the parent-company-only financial statements are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Company at functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following.

- (a) Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.
- (b) Foreign currency items within the scope of IFRS 9 Financial Instruments (Before January 1, 2018: IAS 39 Financial Instruments: Recognition and Measurement) are accounted for based on the accounting policy for financial instrument
- (c) Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

(4) Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into NTD at the closing rate of exchange prevailing at the reporting date and the income and expenses are translated at an average exchange rate for the period. The exchange differences arising on the translation are

recognized in other comprehensive income. On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. The following are accounted for as disposals even if an interest in the foreign operation is retained by the Company: the loss of control over a foreign operation, the loss of significant influence over a foreign operation, or the loss of joint control over a foreign operation.

On partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is re-attributed to the non-controlling interests in that foreign operation. In partial disposal of an associate or jointly controlled entity that includes a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

(5) Current and non-current distinction

An asset is classified as current when:

- (a) The Company expects to realize the asset, or intends to sell or consume it, in its normal operating cycle.
- (b) The Company holds the asset primarily for the purpose of trading.
- (c) The Company expects to realize the asset within twelve months after the reporting period.
- (d) The asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

- (a) The Company expects to settle the liability in its normal operating cycle.
- (b) The Company holds the liability primarily for the purpose of trading.
- (c) The liability is due to be settled within twelve months after the reporting period.

- (d) The Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. 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.

All other liabilities are classified as non-current.

(6) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and 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 (include fixed-term deposits that have matures of 3 months from the date of acquisition).

(7) Financial instruments

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

The Company determines the classification of its financial assets at initial recognition. In accordance with IFRS 9 and the Regulations, financial assets of the Company are classified as financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, financial assets measured at amortized cost and notes, accounts and other receivables. All financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable costs. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement.

(a) Financial assets: Recognition and Measurement

Accounting policy since January 1, 2018

Purchase or sale of financial assets is recognized using trade date accounting. The Company classified financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both:

- A. The Company's business model for managing the financial assets and
- B. The contractual cash flow characteristics of the financial asset.

Financial assets measured at amortized cost

A financial asset is measured at amortized cost if both of the following conditions are met and presented as note receivables, trade receivables financial assets measured at amortized cost and other receivables etc., on balance sheet as at the reporting date:

- A. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- B. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets are subsequently measured at amortized cost (the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and adjusted for any loss allowance) and is not part of a hedging relationship. A gain or loss is recognized in profit or loss when the financial asset is derecognized, through the amortization process or in order to recognise the impairment gains or losses.

Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

- A. Purchased or originated credit-impaired financial assets. For those financial assets, the Company applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
- B. Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Company applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

Financial asset measured at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- A. The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and

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

Recognition of gain or loss on a financial asset measured at fair value through other comprehensive income are described as below:

- A. A gain or loss on a financial asset measured at fair value through other comprehensive income recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.
- B. When the financial asset is derecognized the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.
- C. Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:
- (i) Purchased or originated credit-impaired financial assets. For those financial assets, the Company applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
 - (ii) Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Company applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

Besides, at initial recognition, the Company make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies. Amounts presented in other comprehensive income are not be subsequently transferred to profit or loss (when disposal of such equity instrument, its cumulated amount included in other components of equity is transferred directly to the retained earnings) and should recorded as financial assets measured at fair value through other comprehensive income on balance sheet. Dividends on such investment are recognized in profit or loss unless the dividends clearly represents a recovery of part of the cost of investment.

Financial asset measured at fair value through profit or loss

Financial assets were measured at amortized cost or measured at fair value through other comprehensive income only if they met particular conditions. All other financial assets were measured at fair value through profit or loss and presented on the balance sheet as financial assets measured at fair value through profit or loss and trade receivable.

Such financial assets are measured at fair value, the gains or losses resulting from remeasurement is recognized in profit or loss which includes any dividend or interest received on such financial assets.

Accounting policy before January 1, 2018

The Company accounts for regular way purchase or sales of financial assets on the trade date.

Financial assets of the Company are classified into three categories, including financial assets at fair value through profit or loss, available-for-sale financial assets and loans and receivables. The Company determines the classification of its financial assets at initial recognition based on the nature and purpose.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated as at fair value through profit or loss.

A financial asset is classified as held for trading if:

- A. It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- B. On initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- C. It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial asset at fair value through profit or loss; or a financial asset may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

- A. It eliminates or significantly reduces a measurement or recognition inconsistency; or
- B. A Company of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Company is provided internally on that basis to the key management personnel.

Financial assets at fair value through profit or loss are measured at fair value with changes in fair value recognized in profit or loss. Dividends or interests on financial assets at fair value through profit or loss are recognized in profit or loss (including those received during the period of initial investment).

If financial assets do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

Available-for-sale financial assets

Available-for-sale investments are non-derivative financial assets that are designated as available-for-sale or those not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, or loans and receivables.

Foreign exchange gains and losses and interest calculated using the effective interest method relating to monetary available-for-sale financial assets, or dividends on an available-for-sale equity instrument, are recognized in profit or loss. Subsequent measurement of available-for-sale financial assets at fair value is recognized in equity until the investment is derecognized, at which time the cumulative gain or loss is recognized in profit or loss.

If equity instrument investments do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company upon initial recognition designates as available for sale, classified as at fair value through profit or loss, or those for which the holder may not recover substantially all of its initial investment.

Loans and receivables are separately presented on the balance sheet as receivables or debt instrument investments for which no active market exists. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

(b) Impairment of financial assets

Accounting policy since January 1, 2018

The Company is recognized a loss allowance for expected credit losses on debt instrument investments measured at fair value through other comprehensive income and financial asset measured at amortized cost. The loss allowance on debt instrument investments measured at fair value through other comprehensive income is recognized in other comprehensive income and not reduce the carrying amount in the statement of financial position.

The Company measures expected credit losses of a financial instrument in a way that reflects:

- A. An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- B. The time value of money; and
- C. Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The loss allowance is measures as follows:

- A. At an amount equal to 12-month expected credit losses: the credit risk on a financial asset has not increased significantly since initial recognition or the financial asset is

determined to have low credit risk at the reporting date. In addition, the Company measures the loss allowance for a financial asset at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that condition is no longer met.

- B. At an amount equal to the lifetime expected credit losses: the credit risk on a financial asset has increased significantly since initial recognition or financial asset that is purchased or originated credit-impaired financial asset.
- C. For trade receivables or contract assets arising from transactions within the scope of IFRS 15, the Company measures the loss allowance at an amount equal to lifetime expected credit losses.

At each reporting date, the Company needs to assess whether the credit risk on a financial asset has been increased significantly since initial recognition by comparing the risk of a default occurring at the reporting date and the risk of default occurring at initial recognition. Please refer to Note 12 for further details on credit risk.

Accounting policy before January 1, 2018

The Company assesses at each reporting date whether there is any objective evidence that a financial asset other than the financial assets at fair value through profit or loss is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset. The carrying amount of the financial asset impaired, other than receivables impaired which are reduced through the use of an allowance account, is reduced directly and the amount of the loss is recognized in profit or loss.

A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is considered a loss event.

Other loss events include:

- A. Significant financial difficulty of the issuer or obligor; or
- B. A breach of contract, such as a default or delinquency in interest or principal payments; or
- C. It becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- D. The disappearance of an active market for that financial asset because of financial difficulties.

For held-to-maturity financial assets and loans and receivables measured at amortized cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial asset that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a Company of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. Interest income is accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

In the case of equity investments classified as available-for-sale, where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss – is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized directly in other comprehensive income.

(c) Derecognition of financial assets

A financial asset is derecognized when:

- A. The rights to receive cash flows from the asset have expired
- B. The Company has transferred the asset and substantially all the risks and rewards of the asset have been transferred
- C. The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received or receivable including any cumulative gain or loss that had been recognized in other comprehensive income, is recognized in profit or loss.

(d) Financial liabilities and equity

Classification between liabilities or equity

The Company classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

Financial liabilities

Financial liabilities within the scope of IFRS 9 Financial Instruments (before January 1, 2018: IAS 39 Financial Instruments: Recognition and Measurement) are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated as at fair value through profit or loss. A financial liability is classified as held for trading if:

- A. It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- B. On initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- C. It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial liability at fair value through profit or loss; or a financial liability may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

- A. It eliminates or significantly reduces a measurement or recognition inconsistency; or
- B. A Company of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Company is provided internally on that basis to the key management personnel.

Gains or losses on the subsequent measurement of liabilities at fair value through profit or loss including interest paid are recognized in profit or loss.

Before January 1, 2018, if the financial liabilities at fair value through profit or loss do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial liabilities measured at cost on balance sheet and carried at cost as at the reporting date.

Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include interest bearing loans and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

Derecognition of financial liabilities

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified (whether or not attributable to the financial difficulty of the debtor), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts and

the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss

(e) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(8) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- (a) In the principal market for the asset or liability, or
- (b) In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

(9) Inventories

Inventories are valued at lower of cost or net realizable value item by item.

Costs incurred in bringing each inventory to its present location and condition are accounted for as follows.

Raw materials - At actual purchase cost, using weighted average method

Finished goods and work in progress –

Including cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity, using weighted average method.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Starting from January 1, 2018, rendering of services is accounted in accordance with IFRS 15 but not within the scoping of inventories.

(10) Investments accounted for using the equity method

The Company accounted for its investments in subsidiaries using equity method and made necessary adjustments in accordance with Article 21 of the Regulations. Such adjustments were made after the Company considered the different accounting treatments to account for its investments in subsidiaries in the consolidated financial statements under IFRS 10 “Consolidated Financial Statements” and the different IFRSs adopted from different reporting entity’s perspectives, and the Company recorded such adjustments by crediting or debiting to investments accounted for under the equity method, share of profit or loss of subsidiaries, associates and joint ventures and share of other comprehensive income of subsidiaries, associates and joint ventures.

The Company’s investment in its associate is accounted for using the equity method other than those that meet the criteria to be classified as held for sale. An associate is an entity over which the Company has significant influence. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture.

Under the equity method, the investment in the associate or investment in a joint venture is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Company’s share of net assets of the associate or joint venture. After the interest in the associate or joint venture is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. Unrealized gains and losses resulting from transactions between the Company and the associate or joint venture are eliminated to the extent of the Company’s related interest in the associate or joint venture.

When changes in the net assets of an associate or a joint venture occur and not those that are recognized in profit or loss or other comprehensive income and do not affect the Company's percentage of ownership interests in the associate or joint venture, the Company recognizes such changes in equity based on its percentage of ownership interests. The resulting capital surplus recognized will be reclassified to profit or loss at the time of disposing the associate or joint venture on a prorata basis.

When the associate or joint venture issues new stock, and the Company's interest in an associate or a joint venture is reduced or increased as the Company fails to acquire shares newly issued in the associate or joint venture proportionately to its original ownership interest, the increase or decrease in the interest in the associate or joint venture is recognized in Additional Paid in Capital and Investment accounted for using the equity method. When the interest in the associate or joint venture is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the Company disposes the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

The Company determines at each reporting date whether there is any objective evidence that the investment in the associate or an investment in a joint venture is impaired in accordance with IAS 28 Investments in Associates and Joint Ventures (before January 1, 2018: IAS 39 Financial Instruments: Recognition and Measurement). If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount in the 'share of profit or loss of an associate' in the statement of comprehensive income in accordance with IAS 36 Impairment of Assets. In determining the value in use of the investment, the Company estimates:

- (a) Its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment; or
- (b) The present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Because goodwill that forms part of the carrying amount of an investment in an associate or an investment in a joint venture is not separately recognized, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36 Impairment of Assets.

Upon loss of significant influence over the associate or joint venture, the Company measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss. Furthermore, if an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not remeasure the retained interest.

(11) Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. 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 is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Company recognized such parts as individual assets with specific useful lives and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 “Property, plant and equipment”. When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Buildings	10 to 25 years
Machinery	4 to 5 years
Transportation	5 years
Office equipment	3 to 5 years
Other equipment	3 to 25 years

An item of property, plant and equipment or any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in profit or loss.

The property, plant and equipment’s residual values, useful lives and methods of depreciation are reviewed at each financial year. If the expected values differ from the estimates, the differences are recorded as a change in accounting estimate.

(12) Leases

Company as a lessee

Finance leases which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

Company as a lessor

Leases in which the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Rental incomes under operating lease are recognized on a straight-line basis over the lease term. Contingent rents are recognized as revenue in the period in which they are earned.

(13) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, not meeting the recognition criteria, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit (CGU) level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are recognized in profit or loss.

The Company's accounting policies for intangible assets are as follows:

	Cost of Computer Software
Useful economic life	1 year
Amortization method	Straight-line method during the contract term
Internally generated or acquired externally	Acquired externally

(14) Impairment of non-financial assets

The Company assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 "Impairment of Assets" may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company would conduct impairment tests at individual or CGU level. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired. An asset's recoverable amount is the higher of an asset's net fair value or its value in use.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the recoverable amount of the asset or CGU. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed the carrying amount that would have been determined,

net of depreciation or amortization, had no impairment loss been recognized for the asset in prior years.

A cash generating unit, or companys of cash-generating units, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the cash generating unit (company of units), then to the other assets of the unit (company of units) pro rata on the basis of the carrying amount of each asset in the unit (company of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

Impairment loss or reversals of continuing operations are recognized in profit or loss.

(15) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Provisions for sales returns and allowances

Starting from January 1, 2018, Sales returns and allowances are accounted in accordance with IFRS 15. Before January 1, 2018, a provision has been recognized for sales returns and allowances based on past experience and other known factors.

(16) Revenue recognition

The accounting policy from January 1, 2018 is as follows:

The Company's revenue arising from contracts with customers mainly includes sale of goods and rendering of services. The accounting policies for the Company's types of revenue are explained as follow:

Sale of goods

The Company mainly manufactures and sells of its products. Sales are recognized when control of the goods is transferred to the customer and the goods are delivered to the customers. The main product of the Company is substrate and revenue is recognized based on the consideration stated in the contract. The remaining sales transactions are usually accompanied by volume discounts (based on the accumulated total sales amount for a specified period). Therefore, revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method. Revenue is only recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. During the period specified in the contract, refund liability is recognized for the products expected to be returned.

The credit period of the Company's sale of goods is from 30 to 90 days. For most of the contracts, when the Company transfers the goods to customers and has a right to an amount of consideration that is unconditional, these contracts are recognized as trade receivables. The period between the time when the Company transfers the goods to customers and when the customers pay for that goods is usually short and have no significant financing component to the contract. In the case that the Company has the right to transfer the goods to customers but does not has a right to an amount of consideration that is unconditional, these contacts should be presented as contract assets. Besides, in accordance with IFRS 9, the Company measures the loss allowance for a contract asset at an amount equal to the lifetime expected credit losses.

The accounting policy before January 1, 2018 was as follows:

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods

Revenue from the sale of goods is recognized when all the following conditions have been satisfied:

- (a) The significant risks and rewards of ownership of the goods have passed to the buyer;
- (b) Neither continuing managerial involvement nor effective control over the goods sold have been retained;
- (c) The amount of revenue can be measured reliably;
- (d) It is probable that the economic benefits associated with the transaction will flow to the entity; and
- (e) The costs incurred in respect of the transaction can be measured reliably.

Interest income

For all financial assets measured at amortized cost (including loans and receivables and held-to-maturity financial assets) and available-for-sale financial assets, interest income is recorded using the effective interest rate method and recognized in profit or loss.

Dividends

Revenue is recognized when the Company's right to receive the payment is established.

(17) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(18) Post-employment benefits

All regular employees of the Company are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account and hence, not associated with the Company. Therefore, fund assets are not included in the Company's parent-company-only financial statements. Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

For the defined contribution plan, the Company will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due. Overseas subsidiaries and branches make contribution to the plan based on the requirements of local regulations and the contribution is expensed as incurred.

Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions. Re-measurements, comprising of the effect of the actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets, excluding net interest, are recognized as other comprehensive income with a corresponding debit or credit to retained earnings in the period in which they occur. Past service costs are recognized in profit or loss on the earlier of:

- (a) the date of the plan amendment or curtailment, and
- (b) the date that the Company recognizes restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payment.

(19) Share-based payment transactions

The cost of equity-settled transactions between the Company and its subsidiaries is recognized based on the fair value of the equity instruments granted. The fair value of the equity instruments is determined by using an appropriate pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share

The cost of restricted stocks issued is recognized as salary expense based on the fair value of the equity instruments on the grant date, together with a corresponding increase in other capital reserves in equity, over the vesting period. The Company recognized unearned employee salary which is a transitional contra equity account; the balance in the account will be recognized as salary expense over the passage of vesting period.

The Group recognizes a liability at the grant date with respect to the receipt in advance from employees who participate, but are expected to resign based on an expected resigning rate, in a restricted stocks plan with a term of requiring employee's pre-payment and entitling the underlying employees to full refunds upon resignation. While for those employees expected to be vested under the restricted stock plan, the Group recognizes the employee's payment in advance as an equity.

(20) Income tax

Income tax expense (benefit) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting

period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

The 10% income tax for undistributed earnings of the Company and its subsidiaries is recognized as income tax expense in the subsequent year when the distribution proposal is approved by the Shareholders' meeting.

Deferred income tax

Deferred income tax is a temporary difference between the tax bases of assets and liabilities and their carrying amounts in balance sheet at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- (a) Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit (loss);
- (b) In respect of taxable temporary differences associated with investments in subsidiaries, and associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, any unused tax losses and carry forward of unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- (a) Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- (b) In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed and recognized at each reporting date.

Deferred tax assets and liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

(1) Judgement

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the consolidated financial statements:

A. De facto control without a majority of the voting rights in subsidiaries

The Company does not have majority of the voting rights in certain subsidiaries. However, after taking into consideration factors such as absolute size of the Company's holding, relative size of the other shareholdings, how widely spread are the remaining shareholders, contractual arrangements between shareholders, potential voting rights, etc., the Company reached the conclusion that it has de facto control over these subsidiaries. Please refer to Note 4 for further details.

(2) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that would have a significant risk for a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year are discussed below.

(a) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including income approach (for example, the discounted cash flows model) or the market approach. Changes in assumptions about these factors could affect the reported fair value of the financial instruments. Please refer to Note 12 for more details.

(b) Accounts receivables—estimation of impairment loss

Starting from January 1, 2018:

The Company estimates the impairment loss of accounts receivables at an amount equal to lifetime expected credit losses. The credit loss is the present value of the difference between the contractual cash flows that are due under the contract (carrying amount) and the cash flows that expects to receive (evaluate forward looking information). However, as the impact from the discounting of short-term receivables is not material, the credit loss is measured by the undiscounted cash flows. Where the actual future cash flows are lower than expected, a material impairment loss may arise. Please refer to Note 6 for more details.

Before January 1, 2018:

The Company considers the estimation of future cash flows when there is objective evidence showed indications of impairment. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. However, as the impact from the discounting of short-term receivables is not material, the impairment of short-term receivables is measured as the difference between the asset's carrying amount and the estimated undiscounted future cash flows. Where the actual future cash flows are lower than expected, a material impairment loss may arise. Please refer to Note 6 for more details.

(c) Inventory

Estimates of net realizable value of inventories take into consideration that inventories may be damaged, become wholly or partially obsolete, or their selling prices have declined. The estimates are based on the most reliable evidence available at the time the estimates are made. Please refer to Note 6 for more details.

(d) Post-employment benefits

The cost of post-employment benefit pension plan and the present value of the defined benefit obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions, including the change in the discount rate and expected salary level. The assumptions used for measuring pension cost and defined benefit obligation are disclosed in Note 6.

(e) Share-based payment transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 6.

(f) Revenue recognition – sale returns and allowances

Starting from January 1, 2018:

The Company estimates sales returns and allowance based on historical experience and other known factors at the time of sale, which reduces the operating revenue. In assessing the aforementioned sales returns and allowance, on the basis of highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Please refer to Note 6 for more details.

Before January 1, 2018:

The Company estimates sales returns and allowance based on historical experience and other known factors at the time of sale, which reduces the operating revenue. Please refer to Note 6 for more details.

(g) Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company's domicile.

Deferred tax assets are recognized for all carryforward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies.

6. CONTENTS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	As of December 31,	
	2018	2017
	(NT\$'000)	(NT\$'000)
Cash and petty cash	200	200
Checkings and savings	1,438,564	1,527,225
Time deposit	7,270,541	7,270,541
Total	8,709,305	8,797,966

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

	As of	
	12/31/2018	12/31/2017
	(Note)	(Note)
	(NT\$'000)	(NT\$'000)
Mandatorily measured at fair value through profit or loss:		
Money market fund	968,748	
Valuation adjustment of financial assets as measured by fair value through profit and loss	36,587	
Total	1,005,335	
Current	1,005,335	
Non-current	\$-	
	As of	
	12/31/2018	12/31/2017
	(Note)	(Note)
	(NT\$'000)	(NT\$'000)
Held for trading:		
Money market fund		1,367,864
Valuation adjustment of financial assets held for trading		42,352
Total		1,410,216
Current		1,410,216
Non-current		-

Note: The Company adopted IFRS 9 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

No financial asset at fair value through profit or loss was pledged as collateral

(3) Financial assets measured at amortized cost

	As of	
	12/31/2018	12/31/2017
	(Note)	
	(NT\$'000)	(NT\$'000)
Time deposits	423,057	
Current	423,057	
Non-current	-	

Note: The Company adopted IFRS 9 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

No financial asset measured at amortized cost was pledged as collateral.

(4) Bond investments with no active market

	As of December 31,	
	2018	2017
	(Note)	
	(NT\$'000)	(NT\$'000)
Time deposits		423,057
Current		423,057
Non-current		-

Note: The Company adopted IFRS 9 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

The Company adopted IAS 39 before January 1, 2018 and classified certain financial assets as debt instrument investments for which no active market exists. The above mentioned debt instrument investments were not pledged then.

(5) Notes receivable

	As of December 31,	
	2018	2017
	(NT\$'000)	(NT\$'000)
Notes receivable – from operations	241	1,756
Less: loss allowance	-	-
Net	241	1,756

No notes receivable was pledged by the Company as collateral.

The Company adopted IFRS 9 for impairment assessment since January 1, 2018. Please refer to Note 6 (22) for more details on accumulated impairment and Note 12 for more details on credit risk management.

(6) Accounts receivable and accounts receivable - related parties, net

A. Accounts receivable, net

	As of December 31,	
	2018	2017
	(NT\$'000)	(NT\$'000)
Accounts receivable, gross	2,791,647	2,416,291
Less: loss allowance	(26,452)	(22,670)
allowance for sales returns and discounts	Note	(11,400)
Net of allowances	2,765,195	2,382,221
Accounts receivable - related parties, gross	1,131	954
Less: loss allowance	-	-
Net of allowances	1,131	954
Total accounts receivable, net	2,766,326	2,383,175

Note: The Company has adopted IFRS 15 from January 1, 2018. The Company elected not to restate for period periods in accordance with the transition provision in IFRS 15.

- B. Account receivables were not pledged.
- C. The Company evaluated sales return and discount based on experiences and other known factors and recorded it as a reduction against sales at the time of recognizing revenue.
- D. The Company entered into factoring agreements with banks. Accounts receivables from selected customers are transferred to banks without recourse. The receivables under factoring agreements are accounted for as the financial assets derecognition since the Company no longer bears the credit risk of underlying accounts receivable, except from commercial disputes, after transferring the contractual rights to cash flows from such receivables. Details of the agreed credit limits and accounts receivables transferred were as follows:

	Financial Institution	Accounts receivable de-recognized (NT\$'000)	Advance received (NT\$'000)	Collateral	Credit Limit
12/31/2018	Mega International Commercial Bank - LanYa Branch	214,285	-	None	Note
12/31/2017	Mega International Commercial Bank - LanYa Branch	218,494	89,303	None	Note

Note: The credit limits were US\$30,000 thousand as of December 31, 2018 and 2017.

- E. The collection term of accounts receivables are generally on 30 to 90 day after monthly closing. The Company adopted IFRS 9 for impairment assessment since January 1, 2018. Please refer to Note 6 (24) for more details on impairment of trade receivables. The Company adopted IAS 39 for impairment assessment before January 1, 2018. The movements in the provision for impairment of trade receivables and trade receivables-related parties are as follows: (Please refer to Note 12 for more details on credit risk management.)

	Impaired Individually (NT\$'000)	Impaired Collectively (NT\$'000)	Total (NT\$'000)
As of January 1, 2017	-	51,680	51,680
Provision (reversal)	-	(29,010)	(29,010)
Effect of exchange rate changes	-	-	-
As of December 31, 2017	-	22,670	22,670

Aging analysis for the net accounts receivable, including related parties, were as follows.

	Neither past due nor impaired (NT\$'000)	Accounts receivable – past due, but not impaired				Total (NT\$'000)
		Less than 61 days (NT\$'000)	61 to 90 days (NT\$'000)	91 to 120 days (NT\$'000)	Longer than 120 days (NT\$'000)	
12/31/2017	2,194,246	188,929	-	-	-	2,383,175

(7) Inventory

A. Details of inventory:

	As of December 31,	
	2018 (NT\$'000)	2017 (NT\$'000)
Raw material	290,195	299,131
Supplies	35,854	31,194
Work in process	1,042,302	551,192
Finished goods	503,520	294,709
Merchandises	46,424	79,372
Total	1,918,295	1,255,598

B. For the years ended December 31, 2018 and 2017, the Company recognized NT\$13,612,597 thousand and NT\$13,208,061 thousand under the caption of costs of sale, respectively. The following items were also included in cost.

Item	For the year ended December 31,	
	2018 (NT\$'000)	2017 (NT\$'000)
Loss from (Gains on recovery of) inventory market decline	(19,732)	491,174
Loss from physical	7,093	21,227
Loss in inventory written-off and obsolescence	2,091,005	1,664,988
Total	2,078,366	2,177,389

The Company recognized gains on recovery of inventory market decline because some of the inventories previously provided with market loss or obsolescence were disposed.

C. The inventories were not pledged.

(8) Investments Accounted For Under the Equity Method

Investee companies	As of December 31,			
	2018		2017	
	Amount (NT\$'000)	Percentage of Ownership	Amount (NT\$'000)	Percentage of Ownership
Investments in subsidiaries:				
KINSUS CORP. (USA)	48,437	100.00%	39,874	100.00%
KINSUS HOLDING (SAMOA) LIMITED	2,125,024	100.00%	2,343,440	100.00%
KINSUS INVESTMENT CO., LTD.	1,848,536	100.00%	1,738,049	100.00%
Total	<u>4,021,997</u>		<u>4,121,363</u>	

A. Investments in subsidiaries

Investments in subsidiaries were present in the parent-company-only financial statements under the caption of investments accounted for under equity method. Valuation adjustment is made if deemed necessary.

B. The Company's investments accounted for under the equity method were not pledged.

(9) Property, plant and equipment

	Land	Buildings	Machinery	Office Equipment	Transportation	Other Equipment	Construction in progress and equipment awaiting inspection (including prepaid equipment)	Total
	(NT\$'000)	(NT\$'000)	(NT\$'000)	(NT\$'000)	(NT\$'000)	(NT\$'000)	(NT\$'000)	(NT\$'000)
<u>Cost:</u>								
As of 1/1/2018	1,609,729	3,576,635	13,567,359	74,166	6,275	3,806,068	4,983,777	27,624,009
Addition	-	28,073	14,495	748	310	255,354	2,390,623	2,689,603
Disposals	-	-	(75,475)	-	-	(107,749)	-	(183,224)
Effect of EX rate	-	-	-	-	-	-	-	-
Reclassification	-	15,951	2,465,038	7,600	660	642,911	(3,132,160)	-
As of 12/31/2018	<u>1,609,729</u>	<u>3,620,659</u>	<u>15,971,417</u>	<u>82,514</u>	<u>7,245</u>	<u>4,596,584</u>	<u>4,242,240</u>	<u>30,130,388</u>
As of 1/1/2017	1,562,442	3,568,908	10,383,166	36,265	4,540	2,635,081	4,241,349	22,431,751
Addition	-	-	9,038	20,148	1,735	113,339	5,270,309	5,414,569

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Disposals	-	-	(82,931)	-	-	(139,380)	-	(222,311)
Effect of EX rate	-	-	-	-	-	-	-	-
Reclassification	47,287	7,727	3,258,086	17,753	-	1,197,028	(4,527,881)	-
As of 12/31/2017	1,609,729	3,576,635	13,567,359	74,166	6,275	3,806,068	4,983,777	27,624,009
<u>Depreciation and impairment:</u>								
As of 1/1/2018	-	1,202,637	7,373,404	39,331	3,134	1,840,578	-	10,459,084
Depreciation	-	159,752	2,176,919	19,119	1,124	618,050	-	2,974,964
Impairment loss	-	-	-	-	-	-	-	-
Disposal	-	-	(67,046)	-	-	(107,439)	-	(174,485)
Effect of EX rate	-	-	-	-	-	-	-	-
Reclassification	-	-	-	-	-	-	-	-
As of 12/31/2018	-	1,362,389	9,483,277	58,450	4,258	2,351,189	-	13,259,563
As of 1/1/2017	-	1,034,147	5,760,949	20,845	2,047	1,532,793	-	8,350,781
Depreciation	-	168,490	1,708,371	18,486	1,087	447,165	-	2,343,599
Impairment loss	-	-	(17,100)	-	-	-	-	(17,100)
Disposal	-	-	(78,816)	-	-	(139,380)	-	(218,196)
Effect of EX rate	-	-	-	-	-	-	-	-
Reclassification	-	-	-	-	-	-	-	-
As of 12/31/2017	-	1,202,637	7,373,404	39,331	3,134	1,840,578	-	10,459,084
<u>Net carrying amount:</u>								
As of 12/31/2018	1,609,729	2,258,270	6,488,140	24,064	2,987	2,245,395	4,242,240	16,870,825
As of 12/31/2017	1,609,729	2,373,998	6,193,955	34,835	3,141	1,965,490	4,983,777	17,164,925

- A. "Significant components" of buildings primarily comprised the main buildings and the facilities, which are depreciated based on their respective useful economic life of 20 to 25 years and 10 to 25 years.
- B. Details of property, plant & equipment and prepayment for machinery is as follows.

	As of December 31,	
	2018 (NT\$'000)	2017 (NT\$'000)
Property, plant and equipment	14,898,668	14,406,084
Prepaid equipment	1,972,157	2,758,841
Total	16,870,825	17,164,925

- C. The Company purchased 40 parcels of land with a total area of 36,115.24 square meters. Lands are located at the addresses of No. 1113, 1114, 1438 to 1443, 1479, 1486 to 1487 at ShiLeiZi Sub-section, ShiLeiZi Section, No. 1044, 1047 to 1049 at QingHua Section, and No. 0001, 697 to 700 and 712 to 726 at RongHua Section, XinFeng Village. Due to regulatory restrictions, land cannot be registered under the Company's name while it has been temporarily registered under the general manager's name and, to secure the Company's right to the land, mortgage registration has been set aside with the Company being the obligee.

(10) Intangible assets

	Computer software (NT\$'000)
<u>Cost:</u>	
As of January 1, 2018	30,657
Additions – acquired separately	10,644
Derecognized upon retirement	(30,657)
Reclassification	-
Effect of exchange rate changes	-
As of December 31, 2018	10,644
As of January 1, 2017	12,086
Additions – acquired separately	30,657
Derecognized upon retirement	(12,086)
Effect of exchange rate changes	-
Reclassification	-
As of December 31, 2017	30,657
<u>Amortization and Impairment:</u>	
As of January 1, 2018	17,861
Amortization	18,663
Derecognized upon retirement	(30,657)
Effect of exchange rate changes	-
Reclassification	-
As of December 31, 2018	5,867
As of January 1, 2017	6,878
Amortization	23,069
Derecognized upon retirement	(12,086)

Effect of exchange rate changes	-
Reclassification	-
As of December 31, 2017	<u>17,861</u>
<u>Carrying amount, net:</u>	
As of December 31, 2018	<u>4,777</u>
As of December 31, 2017	<u>12,796</u>

Amounts of amortization recognized for intangible assets are as follows.

	For the year ended December 31,	
	2018	2017
	(NT\$'000)	(NT\$'000)
Operating expense	<u>18,663</u>	<u>23,069</u>

(11) Other non-current assets

	As of December 31,	
	2018	2017
	(NT\$'000)	(NT\$'000)
Refundable deposits	<u>3,787</u>	<u>3,886</u>

(12) Short-term loans

		As of December 31,	
	Interest interval	2018	2017
	(%)	(NT\$'000)	(NT\$'000)
Unsecured bank loans	0.72%~2.96%	<u>2,136,671</u>	<u>2,263,117</u>

As of December 31, 2018 and 2017, the line of unused short-term loan credit for the Company amounted to NT\$3,287,699 thousand and NT\$5,616,563 thousand, respectively.

(13) Other payable

	As of December 31,	
	2018	2017
	(NT\$'000)	(NT\$'000)
Accrued expense	1,441,901	1,563,208
Equipment payable	500,978	727,509
Accrued interest	4,952	1,739
Total	1,947,831	2,292,456

(14) Other current liabilities

	As of December 31,	
	2018	2017
	(NT\$'000)	(NT\$'000)
Other current liabilities	26,500	25,900
Unearned sales revenue	Note	2,386
Current portion of long-term loans	567,500	290,087
Total	594,000	318,373

Note: The Company adopted IFRS 15 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 15.

(15) Refund liability

	As of	
	12/31/2018	12/31/2017
	(NT\$'000)	(Note) (NT\$'000)
Refund liability	12,300	

Note: The Company adopted IFRS 15 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 15.

(16) Long-term loans

Details of long-term loans were as follows.

Debtor	Type of Loan	Maturity	Loan Balance	
			As of 12/31/2018 (NT\$'000)	Repayment
Mega International Commercial Bank - LanYa Branch	Credit loan	2021.09.05-2022.07.05	1,365,625	Note 1
The Shanghai Commercial & Savings Bank - ZhongLi Branch	Credit loan	2021.04.23	600,000	Note 2
Standard Chartered Bank -Xinwu Branch	Credit loan	2021.9.28	600,000	Note 3
Total			2,565,625	
Less: current portion			(567,500)	
Non-current portion			1,998,125	

Debtor	Type of Loan	Maturity	Loan Balance	
			As of 12/31/2017 (NT\$'000)	Repayment
Mega International Commercial Bank - LanYa Branch	Credit loan	2018.08.12-2021.09.05	1,655,712	Note 1
Less: current portion			(290,087)	
Non-current portion			1,365,625	

Note 1: A term is defined as every 3 months starting from the initial draw-down date. Loan period is 5 years. Grace period is 1 year (4 terms). Interest shall be paid monthly with principal repaid every 3 months. The rest is repayable in installments of equal amount for 16 terms.

Note 2: A term is defined as every 3 months starting from the initial draw-down date. Grace period is 1 years (4 terms). The rest is repayable in installments of equal amount for 8 terms.

Note 3: Grace period is 18 months from the initial draw-down date. 18 months after the initial draw-down date is considered the 1st term and the following terms are defined as every 6 months since then. The principal and interest are repayable in installments of equal amount for 4 terms.

As of December 31, 2018 and 2017, the interest rate intervals for long-term loans were 1.074%~1.15% and 1.022% ~2.37%, respectively.

(17) Other non-current liabilities

	As of December 31,	
	2018 (NT\$'000)	2017 (NT\$'000)
Accrued pension costs	25,156	25,962
Guarantee deposits received	-	2,000
Total	25,156	27,962

(18) Post-employment benefits

Defined contribution plan

The Company adopted a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. Under the Labor Pension Act, the Company will make monthly contributions of no less than 6% of the employees' monthly wages to the employees' individual pension accounts. The Company has made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

Expenses under the defined contribution plan for the years ended December 31, 2018 and 2017 are NT\$110,906 thousand and NT\$99,604 thousand, respectively.

Defined benefits plan

The Company adopts a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th

year. The total units shall not exceed 45 units. Under the Labor Standards Act, the Company contributes an amount equivalent to 2% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee.

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund. The pension fund is invested in-house or under mandate, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate manager flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury Funds can be used to cover the deficits after the approval of the competent authority. As the Company does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with paragraph 142 of IAS 19. The Group expects to contribute NT\$4,591 thousand to its defined benefit plan during the 12 months beginning after December 31, 2018.

As of December 31, 2018 and 2017, the maturities of Kinsus' defined benefit plan are in 2037 and 2037.

Pension costs recognized in profit or loss are as follows.

	For the year ended December 31,	
	2018 (NT\$'000)	2017 (NT\$'000)
Current service costs	58	135
Net interest of defined benefit liability (asset)	415	558
Past service cost	-	-
Settlement	-	-
Total	473	693

Reconciliation of liability (asset) of the defined benefit plan is as follows.

	As of		
	Dec. 31, 2018 (NT\$'000)	Dec. 31, 2017 (NT\$'000)	Jan. 1, 2017 (NT\$'000)
Defined benefit obligation	135,711	129,761	130,404
Plan assets at fair value	(110,555)	(103,799)	(99,395)
Other non-current liabilities – net defined benefit liability	25,156	25,962	31,009

Reconciliation of liability (asset) of the defined benefit liability is as follows.

	Present value of defined benefit obligation (NT\$'000)	Fair value of plan assets (NT\$'000)	Net defined benefit liability(asset) (NT\$'000)
1/1/2017	130,404	(99,395)	31,009
Current service cost	135	-	135
Interest cost	2,347	(1,789)	558
Past service cost and settlement	-	-	-
Total	2,482	(1,789)	693
Re-measurement on defined benefit liability/assets:			
Actuarial gain/loss due to change in population statistic assumptions	2,109	-	2,109
Actuarial gain/loss due to change in financial assumptions	4,902	-	4,902
Experience gain/loss	(8,789)	774	(8,015)
Re-measurement on defined benefit assets	-	-	-
Total	(1,778)	774	(1,004)
Benefits paid	(1,347)	1,347	-
Contributions by employer	-	(4,736)	(4,736)
Effect of exchange rate	-	-	-
12/31/2017	129,761	(103,799)	25,962
Current service cost	58	-	58
Interest cost	2,076	(1,661)	415
Pasts service cost and settlement	-	-	-
Total	2,134	(1,661)	473

Re-measurement on defined benefit liability/assets:			
Actuarial gain/loss due to change in population statistic assumptions	(1,931)	-	(1,931)
Actuarial gain/loss due to change in financial assumptions	10,044	-	10,044
Experience gain/loss	(2,324)	(2,477)	(4,801)
Re-measurement on defined benefit assets	-	-	-
Total	5,789	(2,477)	3,312
Benefits paid	(1,973)	1,973	-
Contributions by employer	-	(4,591)	(4,591)
Effect of exchange rate	-	-	-
12/31/2018	135,711	(110,555)	25,156

The actuarial assumptions used for the Company's defined benefit plan are shown below.

	As of December 31,	
	2018	2017
Discount rate	1.20%	1.60%
Expected rate of salary increases	3.00%	3.00%

Sensitivity analysis

	For the year ended December 31,			
	2018		2017	
	(NT\$'000)		(NT\$'000)	
	Increase in defined benefit obligation	Decrease in defined benefit obligation	Increase in defined benefit obligation	Decrease in defined benefit obligation
Discount rate increased by 0.5%	-	(12,261)	-	(12,019)
Discount rate decreased by 0.5%	13,713	-	13,482	-
Expected salary level increased by 0.5%	13,391	-	13,220	-
Expected salary level decreased by 0.5%	-	(12,114)	-	(11,919)

For the purpose of sensitivity analysis above, the Company calculated the impact on defined benefit obligation due to a reasonable and feasible change of one single assumption (i.e. discount rate or expected salary level) with other assumptions remaining equal. Please note that the sensitivity analysis has its limitation due to the co-relation between different actuarial assumptions and the rarity that only one assumption changes at a time.

The method used in the analysis is consistent for both current and prior years.

(19) Equity

A. Common shares

As of December 31, 2018, December 31, 2017, the Company's authorized capital were NT\$5,500,000 thousand, each share at par value of NT\$10, divided into 550,000 thousand. As of December 31, 2018, December 31, 2017, the Company's paid-in capital were NT\$4,508,410 thousand and NT\$4,460,000 thousand, respectively, divided into 450,841 thousand and 446,000 thousand shares, respectively. Each share represents a voting right and a right to receive dividends.

On January 29, 2018 and May 29, 2018, the Company's board of directors and shareholders' meetings resolved to increase the capital through an issuance of new 5,500,000 shares of restricted stock for employees. The application has been governmentally approved by FSC in the Order No. Financial-Supervisory-Securities-Corporate-1070324628 issued on July 10, 2018. The measurement date was at August 28, 2018. After the issuance, the Company's authorized capital was NT\$5,500,000 thousand and paid-in capital was NT\$4,508,410 thousand, divided into 450,841 thousand shares.

As of December 31, 2018, the restricted stocks plan has expired while there were 74 thousand shares to be cancelled yet.

B. Capital surplus

	As of December 31,	
	2018	2017
	(NT\$'000)	(NT\$'000)
Additional paid-in capital	5,887,857	5,850,000
Differences between equity purchase price and carrying amount arising from actual acquisition or disposal of subsidiaries	50,925	50,925
All changes in interests in subsidiaries	38,894	38,894
Change in joint ventures accounted for using equity method	7,484	7,484
Employee stock option in affiliate company	-	845
Shared-Based Payment	8,371	8,371
Restricted stocks for employees	147,411	-
Total	6,140,942	5,956,519

According to Taiwan Company Act, the capital surplus shall not be used except for making good the deficit of the Company. When a company incurs no loss, it may distribute the capital surplus related to the income derived from the issuance of new shares at a premium or income from endowments received by the company up to a certain percentage of paid-in capital. The said capital surplus could be distributed in cash to its shareholders in proportion to the number of shares being held by each of them. Capital surplus related to long-term equity investments cannot be used for any purpose.

C. Treasury stock

No treasury stock was held by the Company as of December 31, 2017 while treasury stock amounted to NT\$738 thousand, divided into 74 thousand shares, as of December 31, 2018.

The movement schedule of treasury stock for the year ended December 31, 2018 and 2017 was as below (in thousand shares).

<u>Purpose of repurchase</u>	<u>Beginning balance</u>	<u>Addition</u>	<u>Decrease</u>	<u>Ending balance</u>
<u>For the years ended December 31, 2018</u>				
Recover failed restricted stocks	-	74	-	74
<u>For the years ended December 31, 2017</u>				
To be transferred to employees	550	-	-	550

The Company transferred 550,000 shares of treasury stocks to qualified employees in accordance with its “Rule for Buying Back the Company’s Own Stocks in Second Time”. The measurement date was at September 22nd, 2017.

According to the Securities and Exchange Law of the R.O.C., total treasury stock shall not exceed 10% of the Company’s issued stock, and the total purchase amount shall not exceed the sum of the retained earnings, additional paid-in capital-premiums and realized additional paid-in capital. As such, the ceiling number of shares of treasury stock that the Company could hold as of December 31, 2018 were 45,084 thousand shares, with the maximum payments of NT\$23,147,072 thousand.

In compliance with Securities and Exchange Law of the R.O.C., treasury stock should not be pledged, nor should it be entitled to voting rights or receiving dividends.

D. Appropriation of earnings and dividend policies

(a) Earning distribution

According to the Company's original Articles of Incorporation, current year's earnings, if any, shall be distributed in the following order:

- a. Payment of all taxes and dues;
- b. Offset prior years' operation losses;
- c. Set aside 10% of the remaining amount as legal reserve. There is no requirement to further make such reserve when legal reserve reaches the capital amount.
- d. Set aside or reverse special reserve in accordance with law and regulations; and
- e. The distribution of the remaining portion, if any, will be recommended by the Board of Directors and resolved in the shareholders' meeting.

(b) Dividend policies

The Company is in an industry with versatile environment. For long-term finance planning requirements and to meet the shareholders' demand for cash, dividend policy aims for a steady balance. Cash dividends distributed each year cannot be less than 10% of the total dividends paid.

(c) Legal reserve

According to the Company Act, legal reserve shall be set aside until such amount equal total authorized capital. Legal reserve can be used to offset deficits. If the Company does not incur any loss, the portion of legal reserve exceeding 25% of the paid-in capital may be distributed to shareholders by issuing new shares or by cash in proportion to the number of shares held by each shareholder.

(d) Special reserve

Following the adoption of Taiwan IFRS, the Company complies with Order No. Jin-Guan-Zheng-Fa 1010012865 issued by FSC on April 6, 2012. On the Company's first-time adoption of the Taiwan IFRS, for any unrealized revaluation gains and cumulative translation adjustments recorded under shareholders' equity that the Company elects to transfer to retained earnings by application of the exemption under IFRS 1, an equal amount of special capital reserve shall be set aside. After the adoption of Taiwan IFRS for the preparation of financial statements, the Company shall set aside supplemental special reserve based on the difference between the amount already set aside according

to the requirements in the preceding point and other net deductions from shareholders' equity when appropriating distributable earnings. For any subsequent reversal of other net deductions from shareholders' equity, the amount reserved may be distributed as earnings.

The Company did not incur any special reserve upon the first-time adoption of Taiwan IFRS.

- (e) The appropriations of earnings for the Years 2018 and 2017 were approved through the Board of Directors' meetings and shareholders' meetings held on February 18, 2019 and May 29, 2018, respectively. The details of the distributions are as follows.

	Appropriation of earnings		Dividend per share (in NT\$)	
	2018 (NT\$'000)	2017 (NT\$'000)	2018	2017
Legal reserve	34,949	49,167		
Special reserve	22,706	77,064		
Cash dividend	676,261	669,000	1.50	1.50
Total	733,916	795,231		

Please refer to Note 6(24) for details on employees' compensation and remuneration to directors and supervisors.

(20) Share-based payment plans

Share-based payment plan for employees of the parent entity

- A. The Company transferred its treasury stocks to qualified employees in accordance with its "Rule for Buying Back The Company's Own Stocks in Second Time" on September 22nd, 2017 at a price of NT\$59.79 per share.

The fair value of the share options is estimated at the grant date using a binomial option pricing-model, taking into account the terms and conditions upon which the share options were granted.

The relevant details of the aforementioned share-based payment plan are as follows:

Date of grant	Total number of share options granted	Exercise price of share options (NT\$)
2017.09.22	550,000	59.79

The fair value of the share-based payment above was computed by using Black-Scholes valuation model. The underlying assumptions are as below.

	Information regarding treasury stock granted to employee
Exercise price	NT\$59.79
Market unit price at measurement date	NT\$75.2
Expected volatility (%)	25.26%
Risk-free interest rate (%)	0.6%
Expected dividend yield (%)	-%
Expected option life (Years)	0.032877 years
Fair value	NT\$15.4

The details of the plan regarding treasury stock transferred to employee was as below.

	For the year ended December 31, 2017	
	Number of share options outstanding (in thousands)	Weighted average exercise price of share options (NT\$)
Outstanding at beginning of period	-	-
Granted	550	59.79
Exercisable at end of period	(550)	(59.79)
Outstanding at end of period	-	-

For share options granted during the period, weighted average fair value of those options at the measurement date (NT\$)

15.4

- B. The expense recognized for employee services received during the year ended December 31, 2017 is shown in the following table:

	For the year ended December 31, 2017 (NT\$'000)
Total expense arising from equity-settled share-based payment transactions	8,371

Restricted stocks plan for employees

- A. On May 29, 2018, the shareholders' meetings resolved to issue of 5,500 thousand shares of restricted stocks for employees. The grantee is limited to employees who meet certain conditions. The restricted stocks have been approved by the Securities and Futures Bureau. On July 30, 2018, the board of directors resolved to issue 4,947 thousand shares. The measurement date was at August 28, 2018 and total shares issued were 4,841 thousand. The unit market price as of the granted date was NT\$49.1.

The employees who acquire the above shares can subscribe shares at the price of NT\$10 per shares while the vesting conditions are as below.

Vesting conditions	Proportion of vested shares
Within one month starting the granted date	20%
April 25, 2019	20%
September 25, 2019	15%
April 25, 2020	15%
September 25, 2020	15%
April 25, 2021	15%

Restriction on employee's right after granted but before vested:

- (a) The granted employee commit to the custodian institution, and shall not sell, pledge, transfer, donate, or dispose in any other ways, the right of restricted stocks before achieving the vesting conditions.
- (b) After new shares of restricted stock are issued, the granted employee should immediately commit to the custodian institution, and not to ask the trustee to return

the restricted stock in any other reasons or ways before achieving the vesting conditions.

(c)The restricted stock for employees can participate in receiving dividends during the vesting period.

(d)The right to vote and elect in a shareholders' meeting shall be executed by custodian institution in accordance with related regulations.

On August 28, 2018, the issuance of 4,841 thousand restricted shares for employees resulted in the increase of capital reserve—employee stock option amounting to NT\$184,530 thousand. The restricted stocks plan was invalidated as of December 31, 2018 and 74 thousand shares were recalled. As a result, capital reserve increased by NT\$738 thousand and the unearned employee compensation was NT\$102,973 thousand

B. The expense recognized for employee services received is shown in the following table.

	For the year ended December 31,2018 (NT\$'000)
Total expense arising from equity-settled share-based payment transactions	<u>\$82,525</u>

C. The Company did not modify the share-based payment plan for the year ended December 31, 2018.

(21) Sale

	For the year ended December 31,	
	2018 (Note) (NT\$'000)	2017 (NT\$'000)
Revenue from customer contracts		
Sales of goods	16,849,041	16,158,146
Other operating revenue	378,990	127,888
Total	<u>17,228,031</u>	<u>16,286,034</u>

Note: The Company has adopted IFRS 15 since January 1, 2018. The Company elected to recognize the cumulative effect of initially applying the standard at the date of initial application January 1, 2018.

The Company has adopted IFRS 15 starting January 1, 2018. Analysis of revenue from contracts with customers during the year is as follows:

A. Disaggregation of revenue

	IC Substrate (NT\$'000)
Sale of goods	17,228,031

The timing for revenue recognition:

At a point in time	17,228,031
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B. Contract balances

(a) Contract liabilities – current

	Beginning balance (NT\$'000)	Ending balance (NT\$'000)	Difference (NT\$'000)
Sales of goods	2,386	1,082	(1,304)

For the year ended December 31, 2018, contract liabilities decreased because certain performance obligations included in the beginning contract liability balance were satisfied and therefore recognized for revenues.

(22) Expected credit losses/ (gains)

	For the year ended December 31,	
	2018 (NT\$'000)	2017 (Note) (NT\$'000)
Operating expenses – Expected credit losses/(gains)		
Account receivables	3,782	

Note: The Company adopted IFRS 9 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Please refer to Note 12 for more details on credit risk.

The Company measured the impairment against the other receivables reclassified from accounts receivable due to factoring agreements mainly based on the expected credit loss for 12 months of the counter-party financial institutions. As of December 31, 2018, there was no other receivables pastdue. Furthermore, the Company assessed the related expected credit loss to be insignificant because the counter-party financial institutions are of good credit condition.

The Company measures the loss allowance of its contract assets and trade receivables (including note receivables and trade receivables) at an amount equal to lifetime expected credit losses. The assessment of the Company's loss allowance as of December 31, 2018 is as follow:

A. The Company needs to consider the companying of trade receivables by counter-parties' credit rating, by geographical region and by industry sector and its loss allowance is measured by using a provision matrix. Details are as follow:

Company 1	Neither past due (Note) (NT\$'000)	Past due				Total (NT\$'000)
		<=30 days	31-60 days	61-90 days	91-120 days	
		(NT\$'000)	(NT\$'000)	(NT\$'000)	(NT\$'000)	
Gross carrying amount	2,386,712	345,420	60,564	323	-	2,793,019
Loss ratio	-%	5%	15%	30%	50%	
Lifetime expected credit losses	-	(17,271)	(9,084)	(97)	-	(26,452)
Carrying amount of trade receivables	2,386,712	328,149	51,480	226	-	2,766,567

Note: all the Company's note receivables were not past due.

B. The movement schedule of the impairment provision against contract assets, note receivables, trade receivables and other receivables for the first half of 2018 is as follows:

	Note receivables (NT\$'000)	Account receivables (NT\$'000)
Beginning balance (in accordance with IAS 39)	-	22,670
Additions	-	3,782
Effect of exchange rate changes	-	-
Ending balance	-	26,452

(23) Operating lease

A. Company as a lessor

The leasing agreements that the Company entered into for plants have an average term of one to three years.

Future minimum rentals receivable under non-cancellable operating leases as of December 31, 2018 and 2017, are as follows:

	As of	
	12/31/2018 (NT\$'000)	12/31/2017 (NT\$'000)
Less than one year	35,316	42,379
Over one year less than five year	-	35,316
Total	35,316	77,695

For the years ended December 31, 2018 and 2017, rent incomes of the Company amounted to NT\$45,364 thousand and NT\$40,264 thousand, respectively.

B. Company as a lessee

Future minimum lease payments due to irrevocable leasing contracts were as follows:

	As of	
	12/31/2018 (NT\$'000)	12/31/2017 (NT\$'000)
Less than one year	5,605	14,241
More than one year but less than five years	5,622	2,379
Total	11,227	16,620

Operating lease expenses recognized are as follows:

	For the year ended December 31,	
	2018 (NT\$'000)	2017 (NT\$'000)
Minimum lease payment	15,752	25,655

(24) Summary statement of employee benefits, depreciation and amortization by function is as follows.

Function Nature	2018 (NT\$'000)			2017 (NT\$'000)		
	Cost of goods sold	Operating expense	Total	Cost of goods sold	Operating expense	Total
Employee benefit						
Salaries & wages	2,421,081	400,377	2,821,458	2,028,176	443,769	2,471,945
Labor and health insurance	222,349	40,201	262,550	191,800	42,039	233,839
Pension	90,093	21,286	111,379	78,609	21,688	100,297
Directors' remuneration	-	3,592	3,592	-	5,152	5,152
Other employee benefit	134,100	32,661	166,761	115,784	29,505	145,289
Depreciation	2,603,486	371,478	2,974,964	1,794,086	549,513	2,343,599
Amortization	-	18,663	18,663	-	23,069	23,069

Note: The headcounts of the Company amounted to 5,049 and 4,849, respectively, as of December 31, 2018 and 2017. Among the Company's directors, there were 6 who were not the employees.

According to the resolution, not lower than 10% of profit of the current year is distributable as employees' compensation and no higher than 1% of profit of the current year is distributable as remuneration to directors and supervisors. However, the Company's accumulated losses shall have been covered.

The Company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit to be distributable as employees' compensation in the form of shares or in cash; and in addition thereto a report of such distribution is submitted to the shareholders' meeting. Information on the Board of Directors' resolution regarding the employees' compensation and remuneration to directors and supervisors can be obtained from the "Market Observation Post System" on the website of the TWSE.

Based on profit of the year ended December 31, 2018, the Company estimated the amounts of the employees' compensation and remuneration to directors and supervisors for the year ended December 31, 2018 to be not lower than 10% and not higher than 1% of profit of the current year, respectively, recognized as employee benefits expense. As such, employees' compensation and remuneration to directors and supervisors for the year ended December 31, 2018 amount to NT\$55,074 thousand and NT\$3,352 thousand, respectively. The Company estimated the amounts of the employees' compensation and remuneration to directors and supervisors for the year ended December 31, 2017 to be NT\$80,693 thousand and NT\$4,912 thousand, respectively. The aforementioned employees' compensation and remuneration to directors and supervisors for the years ended December 31, 2018 and 2017 were estimated based on post-tax net income of the period and recognized as salaries expense. The number of stocks distributed as employees' compensation was calculated based on the closing price one day earlier than the date of shareholders' meeting. For example, if there was different between the estimated amount and the actual distribution of the employee bonuses and remuneration to directors and supervisors, it will recognize in profit or loss to next year.

The Company's Board has determined the employees' compensation and directors' remuneration, all in cash, to be NT\$55,074 thousand and NT\$3,352 thousand, respectively, in a meeting held on February 18, 2019.

No material differences exist between the estimated amount and the actual distribution of the employee bonuses and remuneration to directors and supervisors for the year ended December 31, 2018.

The Company's Board has determined the employees' compensation and directors' remuneration, all in cash, to be NT\$80,693 thousand and NT\$4,912 thousand, respectively, in a meeting held on January 29, 2018.

No material differences exist between the estimated amount and the actual distribution of the employee bonuses and remuneration to directors and supervisors for the year ended December 31, 2017.

(25) Non-operating incomes and expenses

A. Other incomes

	For the year ended December 31,	
	2018 (NT\$'000)	2017 (NT\$'000)
Interest income	Note	52,634
Financial assets measured at amortized cost	47,973	Note
Other income—gain from reversal of allowance for doubtful accounts receivable	-	29,010
Other income—others	157,728	117,438
Total	205,701	199,082

Note: The Company adopted IFRS 9 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

B. Other gains and losses

	For the year ended December 31,	
	2018 (NT\$'000)	2017 (NT\$'000)
Gain (loss) from disposal of property, plant and equipment	724	(4,092)
Foreign exchange gain (loss), net	5,197	28,247
Financial assets at fair value through profit (Note)	5,200	6,700
Gain on reversal of impairment loss	-	17,100
Other expenses	(652)	(2,580)
Total	10,469	45,375

Note: Balance in current period was arising from financial assets mandatorily measured at fair value through profit or loss and balance in prior period was arising from held for trading investment.

C. Finance costs

	For the year ended December 31,	
	2018	2017
	(NT\$'000)	(NT\$'000)
Interests due to bank loans	64,432	39,078

(26) Components of other comprehensive income (OCI)

For the year ended December 31, 2018

	Arising during the period (NT\$'000)	Reclassificati on during the period (NT\$'000)	Subtotal (NT\$'000)	Income tax benefit (expense) (NT\$'000)	OCI, Net of tax (NT\$'000)
<u>Not reclassified to profit or loss:</u>					
Actuarial gains or losses on defined benefits plan	(3,312)	-	(3,312)	-	(3,312)
<u>To be reclassified to profit or loss in subsequent period:</u>					
<u>Share of other comprehensive income of subsidiaries, associates, and joint ventures accounted for using the equity method</u>					
Exchange differences arising on translation of foreign operations	(22,706)	-	(22,706)	-	(22,706)
Total OCI	(26,018)	-	(26,018)	-	(26,018)

For the year ended December 31, 2017

	Arising during the period (NT\$'000)	Reclassificati on during the period (NT\$'000)	Subtotal (NT\$'000)	Income tax benefit (expense) (NT\$'000)	OCI, Net of tax (NT\$'000)
<u>Not reclassified to profit or loss:</u>					
Actuarial gains or losses on defined benefits plan	1,004	-	1,004	-	1,004
<u>To be reclassified to profit or loss in subsequent period:</u>					
<u>Share of other comprehensive income of subsidiaries, associates, and joint ventures accounted for using the equity method</u>					
Exchange differences arising on translation of foreign operations	(77,064)	-	(77,064)	-	(77,064)
Total OCI	<u>(76,060)</u>	<u>-</u>	<u>(76,060)</u>	<u>-</u>	<u>(76,060)</u>

(27) Income tax

Based on an amendment to the Income Tax Act announced on February 7, 2018, the Company's applicable corporate income tax rate changes from 17% to 20% and the surtax rate on undistributed earnings from 10% to 5% effective the year of 2018.

A. The major components of income tax expense (income) are as follows:

Income tax expense (benefit) recognized in profit or loss

	For the year ended December 31,	
	2018	2017
	(NT\$'000)	(NT\$'000)
Current income tax expense (benefit):		
Current income tax expense	72,943	259,537
Reversal of uncertain tax position upon finalization	(121,226)	(13,354)
Deferred tax expense (benefit):		
Deferred tax expense (benefit) relating to origination and reversal of temporary differences	142,510	(120,731)
Deferred tax expense (income) relating to changes in tax rate or the imposition of new taxes	(21,244)	-
Total income tax expense	72,983	125,452

B. Income tax recognized in other comprehensive income

	For the year ended December 31,	
	2018	2017
	(NT\$'000)	(NT\$'000)
Deferred tax expense (benefit):		
Exchange differences arising on translation of foreign operations	-	-

C. A reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rates is as follows:

	For the year ended December 31,	
	2018	2017
	(NT\$'000)	(NT\$'000)
Accounting profit (loss) before tax from continuing operations	422,468	617,128

Tax payable at the enacted tax rates (The tax rates are 20% and 17% for the years ended December 31, 2018 and 2017, respectively.)	84,494	104,912
10% surtax on undistributed earnings	-	67,241
Tax effect of income tax-exempted	(20,892)	(6,980)
Tax effect of deferred tax assets/liabilities	31,397	(26,367)
Reversal of uncertain tax position upon finalization	(22,016)	(13,354)
Total income tax recognized in profit or loss	<u>72,983</u>	<u>125,452</u>

D. Deferred tax assets (liabilities) relate to the following.

For the year ended December 31, 2018

	Beginning balance as of January 1, 2018 (NT\$'000)	Deferred tax income (expense) recognized in profit or loss (NT\$'000)	Effect of tax rate change (NT\$'000)	Deferred tax income (expense) recognized in other comprehensive income (NT\$'000)	Ending balance as of December 31, 2018 (NT\$'000)
Temporary differences					
Prepaid appreciation tax on agricultural land	9,593	-	-	-	9,593
Inventory valuation losses	121,226	(142,619)	21,393	-	-
Unrealized exchange loss (gain)	(846)	109	(149)	-	(886)
Deferred tax income/ (expense)		<u>(142,510)</u>	<u>21,244</u>	<u>-</u>	
Net deferred tax assets/(liabilities)	<u>129,973</u>				<u>8,707</u>
Reflected in balance sheet as follows:					
Deferred tax assets	<u>130,819</u>				<u>9,593</u>
Deferred tax liabilities	<u>(846)</u>				<u>(886)</u>

For the year ended December 31, 2017

	Beginning balance as of January 1, 2017 (NT\$'000)	Deferred tax income (expense) recognized in profit or loss (NT\$'000)	Deferred tax income (expense) recognized in other comprehensive income (NT\$'000)	Ending balance as of December 31, 2017 (NT\$'000)
Temporary differences				
Prepaid appreciation tax on agricultural land	9,593	-	-	9,593
Inventory valuation losses	-	121,226	-	121,226
Unrealized exchange loss (gain)	(351)	(495)	-	(846)
Deferred tax income/ (expense)		120,731	-	
Net deferred tax assets/(liabilities)	9,242			129,973
Reflected in balance sheet as follows:				
Deferred tax assets	9,593			130,819
Deferred tax liabilities	(351)			(846)

E. Unrecognized deferred tax assets

As of December 31, 2018 and 2017, deferred tax assets that have not been recognized as they may not be used to offset future taxable income amounted to NT\$755,316 thousand and NT\$494,231 thousand, respectively.

F. The Company's tax filings up to 2015, except for 2014, were finalized as of December 31, 2018.

(28) Earnings per share

Basic earnings per share is calculated by dividing net profit for the year attributable to the common shareholders of the parent entity by the weighted average number of common shares outstanding during the year.

Diluted earnings per share are calculated by dividing the net profit attributable to ordinary equity holders of the parent entity (after adjusting any influences) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

A. Basic earnings per share

	For the year ended December 31,	
	2018	2017
Net income available to common shareholders of the parent (NT\$'000)	349,485	491,676
Weighted average number of common shares outstanding (in thousand shares)	446,255	446,000
Basic earnings per share (in NT\$)	0.78	1.10

B. Diluted earnings per share

	For the year ended December 31,	
	2018	2017
Net income available to common shareholders of the parent (NT\$'000)	349,485	491,676
Net income available to common shareholders of the parent after dilution (NT\$'000)	349,485	491,676
Weighted average number of common shares outstanding (in thousand shares)	446,255	446,000
Effect of dilution:		
Employee bonus (compensation) – stock (in thousand shares)	1,779	1,932
Restricted stocks (in thousand shares)	362	-
Weighted average number of common shares outstanding after dilution (in thousand shares)	448,396	447,932
Diluted earnings per share (in NT\$)	0.78	1.10

No other transactions that would significantly change the outstanding common shares or potential common shares incurred during the period subsequent to reporting date and up to the approval date of financial statements.

7. RELATED PARTY TRANSACTIONS

(1) Deal with related parties as of the end of the reporting period

Related parties and Relationship

<u>Related parties</u>	<u>Relationship</u>
Pegatron Corporation	Parent company
FuYang Technology Corp.	Associate
AzureWave Technologies, Inc.	Other related party
AzureWave Technologies (Shanghai) Inc.	Other related party
PEGATRON JAPAN INC.	Other related party
Maintek Computer (Suzhou) Co., Ltd.	Other related party
GNDC(Shanghai) Co., Ltd.	Other related party

(2) Significant transactions with related parties

A.Sales

	<u>For the year ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>(NT\$'000)</u>	<u>(NT\$'000)</u>
Ultimate parent company	-	5,811
Subsidiaries	18,659	62,199
Other related parties	4,302	5,395
Total	<u>22,961</u>	<u>73,405</u>

Selling prices and collection terms to related parties are similar to those to third party customers for the years ended December 31, 2018 and 2017. The collection terms are 30 to 90 days from the end of delivery month by telegraphic transfer.

B.Purchases

	<u>For the year ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>(NT\$'000)</u>	<u>(NT\$'000)</u>
Subsidiaries	2,228,772	2,271,629
Associates	-	69,658
Total	<u>2,228,772</u>	<u>2,341,287</u>

The product specification of goods purchased from related parties in the year ended December 31, 2018 and 2017, differed from those purchased from other vendors. Thus, transaction prices are not comparable. The payment terms for related parties and non-related parties are 30 to 90 days from the end of delivery month by telegraphic transfer.

- C. The Company recognized commission expenses amounting to NT\$40,794 thousand and NT\$40,802 thousand, respectively, for the years ended December 31, 2018 and 2017 due to delegating its subsidiaries for marketing.
- D. For the years ended December 31, 2018 and 2017, the Company recognized travelling of NT\$201 thousand and NT\$115 thousand, respectively, for commissioning subsidiaries to handle travelling logistics.
- E. The Company's subcontracting fees to its subsidiaries amounted to NT\$52 thousand and NT\$289 thousand, respectively, for the years ended December 31, 2018 and 2017.
- F. The Company charged its subsidiaries for providing technology support in amount of NT\$2,374 thousand and NT\$3,321 thousand, recorded under the caption of other non-operating incomes, for the years ended December 31, 2018 and 2017, respectively.
- G. For the years ended December 31, 2018 and 2017, the Company recognized operating expenses of NT\$3,992 thousand and NT\$3,794 thousand, respectively for services provided by the Parent.
- Moreover, the years ended December 31, 2017, the Company recognized other incomes of NT\$259 thousand, for services provided by other related parties.
- The Company recognized NT\$2,612 thousand and NT\$2,285 thousand of operating expense for the year ended December 31, 2018 and 2017, respectively, due to subcontracting maintenance and repair for factories to associate.
- H. The Company recognized other incomes in amount of NT\$14,191 thousand and NT\$15,326 thousand for the years ended December 31, 2018 and 2017, respectively, due to selling tools and spare parts to its subsidiaries.
- I. For the year ended December 31, 2018 and 2017, the Company recognized rent income of NT\$43,666 thousand and NT\$39,142 thousand, respectively, for plants leased to associate.
- J. For the year ended December 31, 2018 and 2017, the Company recognized other income of NT\$19,823 thousand and NT\$18,709 thousand, respectively, for utility bills paid for associate.

Moreover, for the year ended December 31, 2017, the Company paid on behalf of associate in amount of NT\$140 thousand.

K.Accounts receivable - related parties

	As of December 31,	
	2018 (NT\$'000)	2017 (NT\$'000)
Ultimate parent company	-	234
Subsidiaries	198	27
Other related parties	933	693
Less: loss allowance	-	-
Net	1,131	954

L.Salaries and rewards to key management of the Company

	For the year ended December 31,	
	2018 (NT\$'000)	2017 (NT\$'000)
Short-term employee benefits	56,883	67,255
Post-employee benefits	756	756
Total	57,639	68,011

M.Other receivables

	As of December 31,	
	2018 (NT\$'000)	2017 (NT\$'000)
Associates	5,492	5,888
Subsidiaries	26,235	5,768
Total	31,727	11,656

N.Account payable- related parties

	As of December 31,	
	2018 (NT\$'000)	2017 (NT\$'000)
Subsidiaries	163,500	201,977

O. Accrued expenses

	As of December 31,	
	2018 (NT\$'000)	2017 (NT\$'000)
Parent company	-	3,741
Associates	447	452
Subsidiaries	3,403	3,402
Total	3,850	7,595

P. Detail of selling property, plant and equipment to related parties as of December 31, 2018 and 2017 was as follow.

Asset type	Related party	Carrying Value	Price	Disposal Of Losses (Profit)	Price Reference
2018					
Machinery	Subsidiaries	14,729	15,687	958	Bidding
2017					
None					

Q. The Company provided endorsement in amount of NT\$469,940 thousand and NT\$455,328 thousand for its subsidiaries' loans as of December 31, 2018 and 2017. The endorsement was not recorded in financial statements due to its nature of contingency.

8. PLEDGED ASSETS

None.

9. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) The Company's unused letters of credit (LC) as of December 31, 2018 were as follows:

Currency	LC Amount (in thousand)		Security (in thousand)
JPY	JPY	932,880	-
USD	USD	6,532	-

- (2) Detail of significant constructions in progress and outstanding contracts of property, plant and equipment as of December 31, 2018 was as follow.

Nature of Contract	Contract Amount (NT\$'000)	Amount Paid (NT\$'000)	Outstanding Balance (NT\$'000)
Machinery and construction contracts	4,167,326	3,360,032	807,294

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT SUBSEQUENT EVENT

None.

12. OTHERS

- (1) Categories of financial instruments

Financial assets

	As of December 31,	
	2018	2017
	(NT\$'000)	(NT\$'000)
Financial assets at fair value through profit or loss:		
Held for trading	(Note 1)	1,410,216
Mandatorily measured at fair value through P/L	1,005,355	(Note 1)
Financial assets measured at amortized cost (Note 2)	12,163,357	(Note 1)
Loans and receivables (Note 3)	(Note 1)	11,774,407
Total	13,168,712	13,184,623

Financial liabilities

	As of December 31,	
	2018 (NT\$'000)	2017 (NT\$'000)
Financial liabilities measured at amortized cost:		
Short-term loans	2,136,671	2,263,117
Payables	3,485,860	3,867,537
Long-term loans (including current portion)	2,565,625	1,655,712
Total	8,188,156	7,786,366

Note:

- (1) The Company adopted IFRS 9 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.
- (2) The item includes cash and cash equivalents, financial assets measured at amortized cost, notes receivable, trade receivables (including related party) and other receivables (including related party).
- (3) The item includes cash and cash equivalents, notes receivable, trade receivables (including related party), bond investments with no active market and other receivables (including related party).

(2) Objectives and policies of financial risk management

The Company's principal financial risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activities. The Company identifies, measures, and manages the aforementioned risks based on its policy and risk preferences.

The Company has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant transactions, due approval process by the Board of Directors and Audit Committee must be carried out based on related protocols and internal control procedures. The Company complies with its financial risk management policies at all times.

(3) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market risk comprises currency risk, interest rate risk and other price risk (e.g. equity instruments).

In practice, it is rarely the case that a single risk variable will change independently from other risk variables. There are usually interdependencies between risk variables. However, the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

Foreign currency risk

The Company's exposure to foreign currency risk relates primarily to the Company's operating activities (when revenue or expense are denominated in a different currency from the Company's functional currency) and the Company's net investments in foreign operations.

The Company has certain foreign currency receivables denominated in the same foreign currency as certain foreign currency payables, therefore natural hedge is achieved. Thus, hedge accounting is not adopted.

The foreign currency sensitivity analysis of the possible change in foreign exchange rates on the Company's profit/loss and equity is performed on significant monetary items denominated in foreign currencies as of the reporting period-end. The Company's foreign currency risk is mainly related to volatility in the exchange rates of US dollars. It is stated as follows:

If NT dollars appreciates/depreciates against US dollars by 1%, the net income (loss) for the years ended December 31, 2018 and 2017 would increase/decrease by NT\$4,778 thousand and NT\$391 thousand, respectively.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to interest rate risk relates primarily to the Company's investments with variable interest rates and loans with fixed and variable interest rates, which are all categorized as loans and receivables.

The interest rate sensitivity analysis is performed on items exposed to interest rate risk as of the end of the reporting period and presumed to be held for one accounting year, including investments and loans with variable interest rates. If interest rate increases/decreases by 0.1%, the net income (loss) for the years ended December 31, 2018 and 2017 would decrease/increase by NT\$3,264 thousand and decrease/increase by NT\$2,392 thousand, respectively.

(4) Credit risk management

Credit risk is the risk that counterparty will not meet its obligations under a contract and result in a financial loss. The Company is exposed to credit risk from operating activities (primarily for accounts and notes receivable) and financing activities (primarily for bank deposits and other financial instruments).

Customer credit risk is managed by each business unit subject to the Company's established policy, procedures and control relating to customer credit risk management. Credit risk of all customers are assessed based on a comprehensive review of the customers' financial status, credit ratings from credit institutions, past transactions, current economic conditions and the Company's internal credit ratings. The Company also employs some credit enhancement instruments (e.g. prepayment or insurance) to reduce certain customers' credit risk.

As of December 31, 2018 and 2017, receivables from the top ten customers were accounted for 51.99% and 49.57% of the Company's total accounts receivable, respectively. The concentration of credit risk is relatively not significant for the remaining receivables.

Credit risk from balances with banks, fixed-income securities and other financial instruments is managed by the Company's finance division in accordance with the Company's policy. The counterparties that the Company transacts with are determined by internal control procedures. They are banks with fine credit ratings and financial institutions, corporate and government agencies with investment-grade credit ratings. Thus, there is no significant default risk. Consequently, there is no significant credit risk for these counter parties.

The Company adopted IFRS 9 to assess the expected credit losses since 1 January 2018. Except for the loss allowance of trade receivables is measured at lifetime expected credit losses, the remaining debt instrument investments which are not measured at fair value through profit or loss, low credit risk for these investments is a prerequisite upon acquisition and by using their credit risk as a basis for the distinction of categories.

Financial assets are written off when there is no realistic prospect of future recovery (the issuer or the debtor is in financial difficulties or bankruptcy).

(5) Liquidity risk management

The Company maintains financial flexibility through the use of cash and cash equivalents, highly-liquid marketable securities, bank loans, etc. The table below summarizes the maturity profile of the Company's financial liabilities based on the contractual undiscounted payments and contractual maturity. The payment amount includes the contractual interest. The undiscounted interest payment relating to borrowings with variable interest rates is extrapolated based on the estimated yield curve as of the end of the reporting period.

Non-derivative financial instruments

	Less than 1 year (NT\$'000)	1 to 2 years (NT\$'000)	2 to 3 years (NT\$'000)	3 to 4 years (NT\$'000)	4 to 5 years (NT\$'000)	Total (NT\$'000)
<u>As of December 31, 2018</u>						
Loans	2,780,044	1,039,533	828,299	164,877	-	4,812,753
Payables	3,485,860	-	-	-	-	3,485,860
<u>As of December 31, 2017</u>						
Loans	2,603,431	431,456	427,190	371,390	164,792	3,998,259
Payables	3,867,537	-	-	-	-	3,867,537

(6) Movement schedule of liabilities arising from financing activities

Movement schedule of liabilities for the year ended December 31, 2018:

	Short-term borrowings (NT\$'000)	Long-term borrowings (NT\$'000)	Refundable deposits (NT\$'000)	Total liabilities from financing activities (NT\$'000)
As of January 1, 2018	2,263,117	1,655,712	2,000	3,920,829
Cash flows	(126,446)	909,913	(2,000)	781,467
As of December 31, 2018	2,136,671	2,565,625	-	4,702,296

Movement schedule of liabilities for the year ended December 31, 2017:

Not applicable

(7) Fair values of financial instruments

A. The evaluation methods and assumptions applied in determining the fair value

Fair value is the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between willing market participants (not under coercion or liquidation). The following methods and assumptions are used by the Company in estimating the fair values of financial assets and liabilities:

- (a) The carrying amount of cash and cash equivalents, receivables, payables and other current liabilities approximate their fair value due to their short maturity terms.
- (b) For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (e.g. listed stocks and bonds).
- (c) Fair value of equity instruments without active markets (including listed companies' shares from private placement, stocks of public companies not traded in an active market and unlisted stocks) are estimated using the market approach. Under the approach, factors, such as the trading prices of comparable equity instruments in an active market, and other relevant information (i.e. discount due to lack of liquidity, stock price-to-earning ratio (PER) and price-to-book ratio (PBR) of similar companies) are input into the pricing model for its fair value.
- (d) The fair value of derivatives which are not options and without market quotations, is determined based on the counterparty prices or discounted cash flow analysis using interest rate yield curve for the contract period. Fair value of option-based derivative financial instruments is obtained using on the counterparty prices or appropriate option pricing model (for example, Black-Scholes model) or other valuation method (for example, Monte Carlo Simulation).

B. Fair value of financial instruments measured at amortized cost

The carrying amount of the Company's financial assets and liabilities measure at amortized cost approximates their fair value.

C. Fair value measurement hierarchy for financial instruments

Please refer to Note 12(8) for fair value measurement hierarchy for financial instruments of the Company.

(8) Fair value measurement hierarchy

A. Fair value measurement hierarchy

All asset and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole. Level 1, 2 and 3 inputs are described as follows:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date

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

Level 3 – Unobservable inputs for the asset or liability

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization at the end of each reporting period.

B. Fair value measurement hierarchy of the Company's assets and liabilities

The Company does not have assets that are measured at fair value on a non-recurring basis. Fair value measurement hierarchy of the Company's assets and liabilities measured at fair value on a recurring basis is as follows.

As of December 31, 2018

	Level 1	Level 2	Level 3	Total
	(NT\$'000)	(NT\$'000)	(NT\$'000)	(NT\$'000)
<u>Financial assets:</u>				
Financial assets at fair value through profit or loss				
Funds	1,005,335	-	-	1,005,335
<u>Financial liabilities:</u>				
None				

As of December 31, 2017

	Level 1 (NT\$'000)	Level 2 (NT\$'000)	Level 3 (NT\$'000)	Total (NT\$'000)
<u>Financial assets:</u>				
Financial assets at fair value through profit or loss				
Funds	1,410,216	-	-	1,410,216
<u>Financial liabilities:</u>				
None				

Transfers between Level 1 and Level 2 during the period

For the year ended December 31, 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value hierarchy.

Reconciliation for fair value measurements in Level 3 of the fair value hierarchy

During the year ended December 31, 2018, there was not movement of fair value measurements.

(9) Significant financial assets and liabilities denominated in foreign currencies

Information regarding the Company's significant financial assets and liabilities denominated in foreign currencies was listed below. (In Thousands)

As of December 31,						
2018			2017			
Foreign Currencies (\$'000)	Exchange Rate	NTD (NT\$'000)	Foreign Currencies (\$'000)	Exchange Rate	NTD (NT\$'000)	
<u>Financial assets</u>						
Monetary items:						
USD	85,910	30.715	2,638,716	73,770	29.76	2,195,396
Non-monetary item:						
USD	70,762	30.715	2,173,461	80,084	29.76	2,383,314

Financial liabilities

Monetary items:

USD	70,198	30.715	2,156,136	75,091	29.76	2,234,693
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The above information is disclosed based on the carrying amount of foreign currency (after being converted to functional currency).

Foreign exchange gain/loss on monetary financial assets and liabilities is shown as below.

Foreign currency resulting in exchange gain or loss	For the year ended December 31,	
	2018 (NT\$'000)	2017 (NT\$'000)
USD	2,232	22,272
Other	2,965	5,975

(10) Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Company manages and adjusts its capital structure in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

13. ADDITIONAL DISCLOSURES

(1) Information on significant transactions

A. Financing provided to others: None.

B. Endorsement/Guarantee provided to others: Please refer to attachment 1.

C. Marketable securities held as of December 31, 2018 (excluding investments in subsidiaries, associates and joint ventures): Please refer to attachment 2.

D. Individual securities acquired or disposed of with accumulated amount of at least NT\$300 million or 20 percent of the paid-in capital for the year ended December 31, 2018: None.

E. Acquisition of individual real estate with amount of at least NT\$300 million or 20 percent of the paid-in capital for the year ended December 31, 2018: Please refer to attachment 3.

- F. Disposal of individual real estate with amount of at least NT\$300 million or 20 percent of the paid-in capital for the year ended December 31, 2018: None.
- G. Related party transactions with purchase or sales amount of at least NT\$100 million or 20 percent of the paid-in capital for the year ended December 31, 2018: Please refer to attachment 4.
- H. Receivables from related parties of at least NT\$100 million or 20 percent of the paid-in capital as of December 31, 2018: None.
- I. Derivative instrument transactions: None.

(2) Information on investees

- A. Investees over whom the Company exercises significant influence or control (excluding investees in Mainland China): Please refer to attachment 5.
- B. Investees over which the Company exercises control shall be disclosed of information under Note 13(1):
 - (a) Financing provided to others: None.
 - (b) Endorsement/Guarantee provided to others: None.
 - (c) Marketable securities held as of December 31, 2018 (excluding investments in subsidiaries, associates and joint ventures): Please refer to attachment 6.
 - (d) Individual securities acquired or disposed of with accumulated amount of at least NT\$300 million or 20 percent of the paid-in capital for the year ended December 31, 2018: Please refer to attachment 7.
 - (e) Acquisition of individual real estate with amount of at least NT\$300 million or 20 percent of the paid-in capital for the year ended December 31, 2018: Please refer to attachment 8.
 - (f) Disposal of individual real estate with amount of at least NT\$300 million or 20 percent of the paid-in capital for the year ended December 31, 2018: None.
 - (g) Related party transactions with purchase or sales amount of at least NT\$100 million or 20 percent of the paid-in capital for the year ended December 31, 2018: Please refer to attachment 9.

(h) Receivables from related parties of at least NT\$100 million or 20 percent of the paid-in capital as of December 31, 2018: Please refer to attachment 10.

(i) Derivative instrument transactions: None.

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Kinsus Interconnect Technology Corp.
Notes to Parent-Company-Only Financial Statements (Continued)

(3) Information on investments in Mainland China:

A. Name of investee in China, main business, paid-in capital, method of investment, investment flows, percentage of ownership, investment gain or loss, carrying amount at the end of reporting period, inward remittance of earning or loss and the upper limit on investment in China:

(In Thousands of New Taiwan Dollars)

Name of Investee in China	Main Business (NT\$'000)	Paid-in Capital (NT\$'000)	Method of Investment (NT\$'000)	Accumulated Outflow of Investment from Taiwan as of January 1, 2018 (NT\$'000)	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2018 (NT\$'000)	Profit/ Loss of Investee (NT\$'000)	Percentage of Ownership (Direct or Indirect Investment) (NT\$'000)	Share of Profit/Loss (NT\$'000)	Carrying Amount as of December 31, 2018 (NT\$'000)	Accumulated Inward Remittance of Earnings as of December 31, 2018 (NT\$'000)	Accumulated Outflow of Investment from Taiwan to Mainland China as of December 31, 2018 (NT\$'000)	Investment Amounts Authorized by Investment Commission, MOEA (NT\$'000)	Upper Limit on Investment in China by Investment Commission, MOEA (NT\$'000)
					Outflow (NT\$'000)	Inflow (NT\$'000)									
Kinsus Interconnect Technology Suzhou Corp.	Manufacturing and selling PCB (not high-density fine-line)	2,150,050 (Note 2)	(Note 1)	2,150,050 (Note 2)	-	-	2,150,050 (Note 2)	109,829 (Note 2 and Note 4)	100%	109,829 (Note 2 and Note 4)	1,336,522 (Note 2 and Note 4)	-	2,150,050 (Note 2)	2,150,050 (Note 2)	No upper limit (Note 5)

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Kinsus Interconnect Technology Corp.

Notes to Parent-Company-Only Financial Statements (Continued)

Piotek Computer (Suzhou) Co., Ltd.	Researching, developing, producing and selling electronic components, PCBs and related products and providing after-sale services	5,120,191 (Note 2)	(Note 1)	2,895,003 (Note 2)	-	-	2,895,003 (Note 2)	(586,619) (Note 2 and Note 4)	51%	(299,176) (Note 2 and Note 4)	686,987 (Note 2 and Note 4)	-	2,895,003 (Note 2)	2,895,003 (Note 2)	No upper limit (Note 5)
Xiang-Shuo (Suzhou) Trading Limited	Trading of PCB (not high-density fine-line) and material for related products	61,430 (Note 2)	(Note 1)	61,430 (Note 2)	-	-	61,430 (Note 2)	1,981 (Note 2 and Note 4)	100%	1,981 (Note 2 and Note 4)	62,316 (Note 2 and Note 4)	-	61,430 (Note 2)	61,430 (Note 2)	No upper limit (Note 5)
Pegavision Contact Lenses (Shanghai) Corporation	Selling medical equipment	65,062 (Note 3)	(Note 1)	65,062	-	-	65,062	3,302 (Note 2)	36.81%	1,215 (Note 2 and Note 4)	22,479 (Note 2 and Note 4)	-	65,062	65,062	1,204,705 (Note 6)

Note 1: Investment in Mainland China through companies in the third area.

Note 2: Amounts in foreign currencies are translated into New Taiwan dollars using the exchange rates on the balance sheet date.

Note 3: The paid-in capital is USD2,100 thousand, equivalent to NT\$65,062 thousand.

Note 4: Gain/loss on investment is recognized based on the audited financial statements of the parent company in Taiwan.

Note 5: The Company meets the conditions of corporate operation headquarter in the Principle of Evaluation for Investment and Technical Cooperation in Mainland China. Thus, there is no upper limit on investment amount.

Note 6: The upper limit on investment for Pegavision Contact Lenses (Shanghai) Corporation is calculated as 60% of the net value of the financial statements audited by recent accountants of Pegavision Corporation.

B. Significant transactions with investees in China.

(a) Purchase and balances of related accounts payable as of December 31, 2018:

	Purchases		Accounts Payable	
	Amount (NT\$'000)	% to Net Purchase	Amount (NT\$'000)	% to Account Balance
The Company's purchase from Kinsus Interconnect Technology Suzhou	2,228,772	27.80%	163,500	10.90%

The product specification of goods purchased by the Company from Kinsus Interconnect Technology Suzhou Corp. in the year ended December 31, 2018 differed from goods purchased from other vendors. Thus, transaction prices are not comparable. Payment term for related parties is 30 to 60 days from the end of delivery month. The payment terms for non-related parties are 30 to 120 days from the end of delivery month by telegraphic transfer.

(b) Sales, the ending balance of related accounts receivable and their weightings.

	Sales		Accounts receivable	
	Amount	% to Net Sales	Amount	% to Account Balance
Sale of Piotek Computer (Suzhou) to Piotek (H.K.) Trading (\$'000)	USD9,746	8.74%	USD1,801	6.68%
Sale of Piotek Computer (Suzhou) to Xiang- Shuo (Suzhou) Trading (\$'000)	USD2,544	2.28%	-	-%
Sale of Piotek Computer (Suzhou) to Kinsus Interconnect Technology Suzhou (\$'000)	RMB728	0.10%	-	-%
Sale of Xiang-Shuo (Suzhou) Trading to Piotek Computer (Suzhou) Trading (\$'000)	RMB22,572	55.68%	RMB3,338	96.63%
Sale of Xiang-Shuo (Suzhou) Trading to Kinsus Interconnect Technology Suzhou (\$'000)	RMB1,209	2.98%	RMB117	3.37%
Sale of the Company to Kinsus Interconnect Technology Suzhou(NT\$'000)	18,659	0.11%	198	0.01%

The product specification of goods sold between subsidiaries in the year ended December 31, 2018 differed from goods sold to other customers. Thus, transaction prices cannot be reasonably compared. Sales of the Company to Kinsus Interconnect Technology Suzhou Corp have the same product prices as sales to non-related parties. Collection terms are also equivalent to the ones for non-related parties, which is 30 to 60 days from delivery by telegraphic transfer.

- (c) Ending balance of endorsements/guarantees or collateral provided and the purposes: Please refer to attachment 1.
- (d) Maximum balance, ending balance, interest rate range and total interest for current period from financing provided to others: None.
- (e) Transactions that have significant impact on profit or loss of current period or the financial position, such as services provided or rendered:
 - a. The Company commissioned Kinsus Interconnect Technology (Suzhou) Corp. for processing of NT\$52 thousand for the year ended December 31, 2018.
 - b. The Company sold fixtures and spare parts to Piotek Computer (Suzhou) Co., Ltd., Kinsus Interconnect Technology Suzhou Corp. Trading Limited and Xiang-Shuo (Suzhou) Trading and recognized other income of NT\$14,191 thousand for the year ended December 31, 2018.
 - c. As of December 31, 2018, the balance of other receivables amounted to NT\$2,342 thousand and NT\$23,893 thousand, respectively. The other receivable were resulted from the Company's sale of fixtures to Piotek Computer (Suzhou) Co., Ltd. and Kinsus Interconnect Technology Suzhou Corp.
 - d. As of December 31, 2018, other receivables of Xiang-Shuo (Suzhou) Trading Limited due to payment and collection on behalf of Piotek Computer (Suzhou) Co., Ltd. amounted to RMB19 thousand.

14. OPERATING SEGMENT INFORMATION

The Company has provided the operating segment disclosure in the consolidated financial statements.

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Kinsus Interconnect Technology Corp.

Endorsement/Guarantee Provided to Others

For the Year Ended December 31, 2018

Table 1

(In Thousands of Foreign Currency / New Taiwan Dollars)

Endorsement/ Guarantee Provider		Guaranteed Party		Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party	Maximum Balance for the Period	Ending Balance	Amount Actually Drawn	Amount of Endorsement/ Guarantee secured by Properties	Ratio of Accumulated Endorsement/ Guarantee to Net Worth per Latest Financial Statements	Maximum Endorsement/ Guarantee Amount Allowed	Endorsement provided by parent company to subsidiaries	Endorsement provided by subsidiaries to parent company	Endorsement provided to entities in China
No. (Note 1)	Name	Name	Nature of Relationship										
0	Kinsus Interconnect Technology Corp.	Piotek Computer (Suzhou) Co., Ltd.	Investee accounted for using equity method indirectly	The overall amount of guarantees/ endorsements provided to a subsidiary in which the Company holds directly over 50% (inclusive) of common equity interest shall not exceed 20% of the net worth in the current financial statements. \$5,556,430	\$469,940 USD 15,300 (Note 2)	\$469,940 USD 15,300 (Note 2)	\$146,856	\$-	1.69%	Shall not exceed 50% of the net worth in the current financial statements. \$13,891,075	Y	N	Y

Note 1: Kinsus Interconnect Technology Corp. is coded "0".

Note 2: Amounts in foreign currencies are converted to New Taiwan Dollars using the exchange rates as of the balance sheet date.

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Kinsus Interconnect Technology Corp.

Marketable Securities

As of December 31, 2018

Table 2
(In Thousands of New Taiwan Dollars)

Name of Held Company	Type and Name of Marketable Securities	Relationship with the Issuer	Financial Statement Account	As of December 31, 2018				Note
				Shares / Units	Carrying Amount	Shareholding %	Fair Value (Note)	
Kinsus Interconnect Technology Corp.	Money market funds:							
	Taishin Ta Chong Money Market Fund	-	Financial assets at fair value through profit or loss	18,812,748	\$255,796	-%	\$266,850	
	FSITC Money Market Fund	-	Financial assets at fair value through profit or loss	1,168,258	200,000	-%	208,097	
	Mega Diamond Money Market Fund	-	Financial assets at fair value through profit or loss	21,355,432	257,509	-%	267,411	
	Jih Sun Money Market	-	Financial assets at fair value through profit or loss	17,776,549	255,443	-%	262,977	
	Subtotal				968,748		\$1,005,335	
	Add: Valuation adjustments of financial assets at fair value through profit or loss				36,587			
	Total				<u>\$1,005,335</u>			

Note: Companies without quotes in the open markets are valued at net equities.

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Kinsus Interconnect Technology Corp.

Acquisition of Individual Real Estate with Amount of at Least NT\$300 million or 20% of the Paid-in Capital

For the Year Ended December 31, 2018

Table 3

(In Thousands of New Taiwan Dollars)

Acquiring Company	Name of Property	Transaction Date	Transaction Amount	Payment Status	Counter-party	Relationship	Prior Transaction of Related Counter-party				Price Reference	Purpose and Use of Acquisition	Other Terms
							Owner	Relationship with the Company	Transfer Date	Amount			
Kinsus Interconnect Technology Corp.	<u>Houses and buildings</u> Construction of XinFeng Plant	2014.02.13 2015.03.24	\$2,268,036	NT\$ 2,052,032 thousand was paid as of December 31, 2018	Guo-Gong Construction Co., Ltd.	None	None	None	None	None	Bidding	Production expansion and operation planning	None

English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp.

Related Party Transactions with Purchase or Sales Amount of At least NT\$100 Million or 20% of the Paid-in Capital

For the Year Ended December 31, 2018

Table 4

(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/ Accounts Payable or Receivable		Note
			Purchase/ Sale	Amount	% to Total	Payment/ Collection Term	Unit Price	Payment/ Collection Term	Ending Balance	% to Total	
Kinsus Interconnect Technology Corp.	Kinsus Interconnect Technology Suzhou Corp.	Investee accounted for using equity method indirectly	Purchase	\$2,228,772	27.80%	Payment within 30 days from the end of delivery month	Specs of goods purchased are different from others. The prices cannot be reasonably compared.	Other vendors' payment term are also within 30~120 days from the end of delivery month	Accounts payable \$(163,500)	(10.90)%	

Kinsus Interconnect Technology Corp.

Investees over Which the Company Exercise Significant Influence or Control Directly or Indirectly (Excluding Investees in Mainland China)

As of December 31, 2018

Table 5

(In Thousands of Foreign Currency / New Taiwan Dollars)

Investor	Investee	Business Location	Main Business and Product	Original Investment Amount		Balance as of December 31, 2018			Net Income (Loss) of the Investee	Share of Income (Loss) of the Investee	Note
				As of December 31, 2017	As of December 31, 2018	Shares	%	Carrying Value			
Kinsus Interconnect Technology Corp.	KINSUS CORP. (USA)	CA. U.S.A.	Designing substrates, formulating marketing strategy analysis, developing new customers, researching and development new product technology	USD500	USD500	500,000 shares	100.00%	\$48,437	\$7,140	\$7,140	
Kinsus Interconnect Technology Corp.	KINSUS HOLDING (SAMOA) LIMITED	Samoa	Investing activities	USD166,309	USD166,309	166,308,720 shares	100.00%	\$2,125,024	\$(182,216)	\$(182,216)	
Kinsus Interconnect Technology Corp.	Kinsus Investment Co., Ltd.	Taoyuan City	Investing activities	\$1,600,000 (Note1)	\$1,600,000 (Note1)	160,000,000 shares	100.00%	\$1,848,536	\$99,261	\$99,261	
Kinsus Investment Co., Ltd.	Pegavision Corporation	Taoyuan City	Manufacturing medical equipment	\$286,418	\$286,418	22,088,736 shares	36.81%	\$739,178	\$541,157	\$199,224	
Kinsus Investment Co., Ltd.	FuYang Technology Corp.	Hsinchu County	Electronic Parts and Components Manufacturing	\$929,422	\$929,422	64,176,872 shares	35.65%	\$735,275	\$(279,370)	\$(99,606)	
KINSUS HOLDING (SAMOA) LIMITED	KINSUS HOLDING (CAYMAN) LIMITED	Cayman Islands	Investing activities	USD72,000	USD72,000	72,000,000 shares	100.00%	USD 45,543	USD 3,640	USD 3,640	
KINSUS HOLDING (SAMOA) LIMITED	PIOTEK HOLDINGS LTD. (CAYMAN)	Cayman Islands	Investing activities	USD94,309	USD94,309	95,755,000 shares	51.00%	USD 23,643	USD (19,004)	USD (9,692)	
PIOTEK HOLDINGS LTD. (CAYMAN)	PIOTEK HOLDING LIMITED	British Virgin Islands	Investing activities	USD139,841	USD139,841	139,840,790 shares	100.00%	USD 46,358	USD (19,004)	USD (19,004)	
PIOTEK HOLDING LIMITED	PIOTEK (H.K.) TRADING LIMITED	Hong Kong	Trading activities	USD26	USD26	200,000 shares	100.00%	USD 2,491	USD 103	USD 103	
Pegavision Corporation	PEGAVISION HOLDINGS CORPORATION	Samoa	Investing activities	USD2,130	USD2,130	2,130,000 shares	100.00%	\$(45,900)	\$3,286	\$3,286	
Pegavision Corporation	PEGAVISION JAPAN INC.	JAPAN	Selling medical equipment	JPY9,900	JPY 9,900	198 shares	100.00%	\$10,200	\$5,672	\$5,672	

Note1 : The Company's original investment in Kinsus Investment Co., Ltd. was NT\$500,000 thousand. Kinsus Investment Co., Ltd. reduced capital by NT\$102,000 thousand to offset deficits in 2013

And increased capital by NT\$602,000 thousand and NT\$600,000 thousand in 2017 and 2018, respectively. After the increases, the Company's investment amount increased to NT\$1,600,000 thousand.

English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp.

Marketable Securities (Excluding Investments in Subsidiaries, Associates and Jointly Controlled Entities)

As of December 31, 2018

Table 6

(In Thousands of New Taiwan Dollars)

Name of Held Company	Type and Name of Marketable Securities	Relationship with the Issuer	Financial Statement Account	As of December 31, 2018				Guarantee, Pledge or Other Restricted Conditions		
				Shares (Unit)	Carrying Amount	%	Fair Value (Net Equity)	Shares	Carrying Amount	Note
Kinsus Investment Co., Ltd.	Money market funds:									
	Taishin Ta Chong Money Market Fund	-	Financial assets at fair value through profit or loss	829,070	\$11,315	-%	\$11,760	-	\$-	
	Valuation adjustments of financial assets held for trading				445					
	Total				\$11,760					
Kinsus Investment Co., Ltd.	Stocks:									
	Yi-Shuo Creative Co., Ltd.	-	Financial assets carried at cost	5,000,000	\$50,000	7.49%	\$50,000	-	\$-	

English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp.

Marketable Securities Acquired and Disposed of At Costs or Prices of At Least NT\$300 Million or 20% of The Paid-In Capital

For the Year Ended December 31, 2018

Table 7

(In Thousands of New Taiwan Dollars)

Company Name	Type and Name of Marketable Securities	Financial Statement	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
		Account			Shares/Units	Amount	Shares/Units	Amount	Shares/Units	Amount	Carrying Value	Gain/Loss on Disposal	Shares/Units	Amount
Pegavision Corporation	Stock: Yuanta Wan Tai Money Market Fund	Financial assets at fair value through profit or loss	-	-	6,965,260	\$104,900	47,483,038	\$716,141	54,448,298	\$821,170	\$821,041	\$129	-	\$-

English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese
Kinsus Interconnect Technology Corp.
Acquisition of Individual Real Estate with Amount of at Least NT\$ 300 million or 20% of the Paid-in Capital
For the Year Ended December 31, 2018

Table 8
(In Thousands of New Taiwan Dollars)

Acquiring Company	Name of Property	Transaction Date	Transaction Amount	Payment Status	Counter-party	Relationship	Prior Transaction of Related Counter-party				Price Reference	Purpose and Use of Acquisition	Other Terms
							Owner	Relationship with the Company	Transfer Date	Amount			
Pegavision Corporation	<u>Land, houses and buildings</u> Donglong Section, Daxi District, Taoyuan City. Thirteen land	2018.06.26	\$1,311,000	By contract	Inventec Corporation	None	None	None	None	None	The transaction amount refer to professional appraisal institutions.	Expand capacity to satisfy the growth of business sales.	None
		2018.06.26	69,000										
		Total	<u>\$1,380,000</u>										

Kinsus Interconnect Technology Corp.

Related Party Transactions with Purchase or Sales Amount of At least NT\$100 Million or 20% of the Paid-in Capital

For the Year Ended December 31, 2018

Table 9

(In Thousands of US Dollars)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchase/ Sale	Amount	% to Total	Payment/ Collection Term	Unit Price	Payment/ Collection Term	Ending Balance	% to Total	
Piotek Computer (Suzhou) Co., Ltd.	Pegatron Corporation	Parent company	Sales	USD 49,253	44.18%	Payment within 60 days from the end of delivery month	Specs of goods sold are different from others. Cannot be reasonably compared.	No non-related parties to be compared with.	Accounts receivable USD 11,194	41.50%	
Kinsus Interconnect Technology Suzhou Corp.	Kinsus Interconnect Technology Corp.	Parent company	Sales	USD 74,106	98.78%	Payment within 30 days from the end of delivery month	Specs of goods sold are different from others. Cannot be reasonably compared.	No non-related parties to be compared with.	Accounts receivable USD 5,323	93.81%	
Piotek Computer (Suzhou) Co., Ltd.	Piotek (H.K.) Trading Limited	Also a subsidiary under the Company's control	Sales	USD 9,746	8.74%	Payment within 60 days from the end of delivery month	Specs of goods sold are different from others. Cannot be reasonably compared.	No non-related parties to be compared with.	Accounts receivable USD 1,801	6.68%	
Piotek (H.K.) Trading Limited	Piotek Computer (Suzhou) Co., Ltd.	Also a subsidiary under the Company's control	Purchase	USD 9,746	100.00%	Payment within 60 days from the end of delivery month	Specs of goods sold are different from others. Cannot be reasonably compared.	No non-related parties to be compared with.	Accounts payable (USD 1,801)	(100.00)%	
Xiang-Shuo (Suzhou) Trading Limited	Piotek Computer (Suzhou) Co., Ltd.	Also a subsidiary under the Company's control	Sales	USD 22,572	55.68%	Payment within 60 days from the end of delivery month	Specs of goods sold are different from others. Cannot be reasonably compared.	No non-related parties to be compared with.	Accounts receivable RMB 3,338	96.63%	
Piotek Computer (Suzhou) Co., Ltd.	Xiang-Shuo (Suzhou) Trading Limited	Also a subsidiary under the Company's control	Purchase	USD 22,572	4.52%	Payment within 60 days from the end of delivery month	Specs of goods sold are different from others. Cannot be reasonably compared.	No non-related parties to be compared with.	Accounts payable (RMB 3,338)	(2.37)%	
Pegavision Corporation	Pegavision Japan Inc.	Subsidiary	Sales	\$423,423	13.24%	Payment within 90 days from the end of delivery month	Similar to those to third party customers.	Payment within 90 days from telegraphic transfer.	Accounts receivable \$105,879	24.10%	
Pegavision Japan Inc.	Pegavision Corporation	Parent company	Purchase	\$423,423	100.00%	Payment within 90 days from the end of delivery month	No suppliers to be compared with.	No suppliers to be compared with.	Accounts payable \$(105,879)	(100.00)%	
Pegavision	Pegavision Contact Lenses (SHANGHAI) Corporation	Subsidiary	Sales	\$281,593	8.80%	Payment within 180 days from the end of delivery month	Similar to those to third party customers.	Payment within 90 days from telegraphic transfer.	Accounts receivable \$201,315	45.82%	
Pegavision Contact Lenses Corporation	Pegavision Corporation	Parent company	Purchase	\$281,593	100.00%	Payment within 180 days from the end of delivery month	No suppliers to be compared with.	No suppliers to be compared with.	Accounts payable \$(201,315)	(100.00)%	

English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp.

Receivables from Related Parties of at Least NT\$ 100 Million or 20% of the Paid-in Capital

As of December 31, 2018

Table 10

(In Thousands of US Dollars)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Ratio	Overdue		Amount Received in Subsequent Periods	Allowance for Doubtful Debts
					Amount	Action Taken		
Piotek Computer (Suzhou) Co., Ltd.	Pegatron Corporation	Parent company	USD 11,194 (Note)	4.45	\$-	-	\$-	\$-
Kinsus Interconnect Technology Suzhou Corp.	Kinsus Interconnect Technology Corp.	Parent company	USD 5,323 (Note)	12.24	\$-	-	\$-	\$-
Pegavision Corporation	Pegavision Contact Lenses (SHANGHAI) Corporation	Parent company	\$201,315 (Note)	2.45	\$-	-	\$13,757	\$-
Pegavision Corporation	Pegavision Japan Inc.	Parent company	\$105,879 (Note)	7.27	\$-	-	\$23,242	\$-

Note: Accounts receivable

Kinsus Interconnect Technology Corp.

1. Statement of Cash and Cash Equivalents

As of December 31, 2018

(In Thousands of New Taiwan Dollars)

Item	Description	Amount	Note
Petty cash:		\$200	1.Exchange Rate
			USD : NTD=30.715 : 1
			JPY : NTD=0.2782 : 1
			GBP : NTD=38.88 : 1
Savings:			EUR : NTD=35.2 : 1
Mega International Commercial Bank—LanYa Branch	#00938-6	562,858	2.Cash and Cash equivalents
Standard Chartered International Commercial Bank—Tunbei Business Department	#009858	158,311	were not pledged.
HSBC—Taipei Branch	#078997-031	100,201	3.The amount of bank account
Others		299,780	5% of the account balance.
Foreign currency bank accounts:			
Mega International Commercial Bank—LanYa Branch	#01566-9	287,280	
Others		30,134	
Subtotal		1,438,564	
Fixed-term deposits:			
Mega International Commercial Bank—LanYa Branch		4,130,411	
Shanghai Commercial & Saving Bank—ZhongLi Branch		2,495,000	
HSBC—Taipei Branch		300,000	
Bank of Taiwan—BeiTou Branch		145,130	
Land Bank of Taiwan—ZhongLi Branch		200,000	
Subtotal		7,270,541	
Total		\$8,709,305	

English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp.

2. Statement of Financial Assets at Fair Value through Profit or Loss

As of December 31, 2018

(In Thousands of New Taiwan Dollars)

Financial Instruments	Shares	Par value(NTD)	Amount	Interest Rates	Acquisition costs	Fair Value		Note
						Unit price(NTD)	Amount	
Money market funds:								
Taishin Ta Chong Money Market Fund	18,812,748	-	\$255,796	-	\$255,796	14.18450	\$266,850	
FSITC Money Market Fund	1,168,258	-	200,000	-	200,000	178.12600	208,097	
Mega Diamond Money Market Fund	21,355,432	-	257,509	-	257,509	12.52190	267,411	
Jih Sun Money Market	17,776,549	-	255,443	-	255,443	14.79350	262,977	
Subtotal			<u>\$968,748</u>		<u>968,748</u>		<u>\$1,005,335</u>	
Add: Valuation adjustments of financial assets held for trading					<u>36,587</u>			
Total					<u>\$1,005,335</u>			

English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp.

3. Statement of Accounts Receivable, net

As of December 31, 2018

(In Thousands of New Taiwan Dollars)

Client Name	Amount	Note
Client A	\$394,467	1.The amount of individual client included in others does not exceed 5% of the account balance.
Client B	266,047	
Client C	148,842	2.Non related parties.
Client D	210,489	
Client E	165,305	
Client F	165,032	
Client G	139,144	
Others	<u>1,302,321</u>	
Subtotal	2,791,647	
Less: loss allowance	<u>(26,452)</u>	
Net	<u>\$2,765,195</u>	

English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp.

4. Statement of Receivable from Related Parties

As of December 31, 2018

(In Thousands of New Taiwan Dollars)

Related Parties	Amount	Note
Kinsus Interconnect Technology Suzhou Corp.	198	The Receivable from Related Parties incurred from Sale of goods.
AzureWave Technologies (Shanghai) Inc.	933	
	<u>\$1,131</u>	

English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp.

5. Statement of Other Receivables from Related Parties

As of December 31, 2018

(In Thousands of New Taiwan Dollars)

	Amount	Note
Kinsus Interconnect Technology Suzhou Corp.	\$23,893	The other receivables incurred mainly from disposal of fixed assets, tools and spare parts.
Piotek Computer (Suzhou) Co., Ltd.	2,342	
FuYang Technology Corp.	5,492	
Total	<u>\$31,727</u>	

Kinsus Interconnect Technology Corp.

6. Statement of Inventories

As of December 31, 2018

(In Thousands of New Taiwan Dollars)

Item	Amount		Note
	Cost	Net Realizable Value	
Raw materials	\$330,424	\$312,758	1. Inventories are valued at lower of cost or net realizable value item by item.
Supplies & parts	40,042	40,201	
Work in progress	1,208,422	1,203,917	
Finished goods	973,895	753,921	2. The insurance coverage for inventories was NT\$ 1,461,395 thousand as of December 31, 2018.
Merchandises	47,477	52,869	
Subtotal	2,600,260	\$2,363,666	3. Inventories were not pledged.
Less: allowance for inventory valuation losses	(681,965)		
Net	\$1,918,295		

English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp.

7. Statement of Changes in Long-term Investment Accounted for Under the Equity Method

For the Year ended December 31, 2018

(In Thousands of New Taiwan Dollars)

Investee companies	As of January 1, 2018		Additions		Decrease		As of December 31, 2018			Fair Value/Net assets value		Collateral	Note
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	%	Amount	Unit price (NTD)	Total amount		
KINSUS CORP. (USA)	500,000	\$39,874	-	\$8,563 (Note1)	-	\$-	500,000	100.00%	\$48,437	\$96.87	\$48,437	None	
KINSUS HOLDING (SAMOA) LIMITED	166,308,720	2,343,440	-	-	-	218,416 (Note2)	166,308,720	100.00%	2,125,024	12.78	2,125,024	None	
KINSUS INVESTMENT CO., LTD.	100,000,000	1,738,049	-	110,487 (Note3)	-	-	160,000,000	100.00%	1,848,536	11.55	1,848,536	None	
Total		<u>\$4,121,363</u>		<u>\$119,050</u>		<u>\$218,416</u>			<u>\$4,021,997</u>		<u>\$4,021,997</u>		

Note1: Including investment gain recognized under equity method amounted to NT\$7,140 thousand and foreign currency statements translation adjustments amounted to NT\$1,423 thousand.

Note2: Including investment loss recognized under equity method amounted to NT\$182,216 thousand and foreign currency statements translation adjustments amounted to NT\$36,200 thousand.

Note3: Including investment gain recognized under equity method amounted to NT\$99,261 thousand, foreign currency statements translation adjustments amounted to NT\$12,071 thousand, and an decrease of NT\$845 thousand due to affiliate's employee stock option.

English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp.

8. Statement of Short-term Loan

As of December 31, 2018

(In Thousands of New Taiwan Dollars)

Description	Type	As of December 31, 2018	Contract Period	Interest Rates	Collateral	Note
Mega International Commercial Bank—LanYa Branch	Credit loans	\$869,234	2018.11.28-2019.11.27	Note	None	
HSBC—Taipei Branch	Credit loans	1,267,437	2014.01.20-2021.01.20	Note	None	
		<u>\$2,136,671</u>				

Note: As of December 31, 2018, the interest rate intervals for short-term loans were 0.72%~2.96%.

Kinsus Interconnect Technology Corp.

9. Statement of Accounts Payable

As of December 31, 2018

(In Thousands of New Taiwan Dollars)

Vendor Name	Amount	Note
Taiwan Uyemura Co., Ltd.	\$135,370	1. The amount of individual vendor included in "others" does not exceed 5% of the account balance.
Hitachi Chemical International Co., (Taiwan) Ltd.	131,965	
Mitsubishi Corporation Plastics Ltd.	131,030	
AJINOMOTO FINE-TECHNO CO.,INC	69,762	
Jetchem International Co. Ltd.	66,358	2. All accounts are not related parties.
Others	801,718	
Total	<u>\$1,336,203</u>	

English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp.

10. Statement of Payables to Related Parties

As of December 31, 2018

(In Thousands of New Taiwan Dollars)

Related Parties	Amount	Note
Kinsus Interconnect Technology Suzhou Corp.	\$163,500	Purchase of goods.

Kinsus Interconnect Technology Corp.

11. Statement of Other Payables

As of December 31, 2018

(In Thousands of New Taiwan Dollars)

Item	Amount	Note
Employee Bonus	\$169,484	The amount of individual vendor included in others does not exceed 5% of the account balance.
Accrued Payroll	466,991	
Accrued Manufacturing Overhead—outsourced	180,918	
Accrued Repair And Maintenance Expense	208,973	
Compensation Payable To Directors And Supervisors	3,352	
Accrued Interest Payable	4,952	
Payables On Equipment	500,978	
Accrued Commission Expense—related parties	3,403	
Accrued Repair And Maintenance Expense-related parties	325	
Others	408,455	
Total	<u>\$1,947,831</u>	
Payables On Equipment		
ORC MANUFACTURING CO.,LTD	\$199,748	
PROV Technology Corporation	77,259	
AMPOC FAR-EAST CO., LTD.	22,100	
Others	201,871	
Total	<u>\$500,978</u>	

Kinsus Interconnect Technology Corp.

12. Statement of Changes in Current Tax Liabilities

For the Year ended December 31, 2018

(In Thousands of New Taiwan Dollars)

Item	Amount	Note
Balance as of January 1, 2018	\$293,685	
Add: Income tax accrual for 2018	72,943	
Adjustments in respect of current income tax of prior periods	(121,226)	
Less : Income tax payment for 2017	(18,986)	
Interest withheld	(129)	
Interim temporary tax payment	(85,852)	
Balance as of December 31, 2018	<u>\$140,435</u>	

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Kinsus Interconnect Technology Corp.

13. Statement of Long-Term Loans

As of December 31, 2018

(In Thousands of New Taiwan Dollars)

Lenders	Description	Year maturity	Interest Rates	Amount	Reimbursement	Collateral
Mega International Commercial Bank—LanYa Branch	Credit loans	2021.09.05- 2022.07.05	Note	\$1,365,625	A term is defined as every 3 months starting from the initial draw-down date. Grace period is 1 years (4 terms). The rest is repayable in installments of equal amount for 16 terms.	None
Shanghai Commercial & Saving Bank	Credit loans	2021.04.23	Note	600,000	A term is defined as every 3 months starting from the initial draw-down date. Grace period is 1 years (4 terms). The rest is repayable in installments of equal amount for 8 terms.	None
Standard Chartered International Commercial Bank	Credit loans	2021.09.28	Note	600,000	Grace period is 18 months from the initial draw-down date. 18 months after the initial draw-down date is considered the 1st term and the following terms are defined as every 6 months since then. The principal and interest are repayable in installments of equal amount for 4 terms.	None
Total				2,565,625		
Less: Current portion of long-term loans				(567,500)		
Non-current portion of long-term loans				\$1,998,125		

Note : As of December 31, 2018, the interest rate intervals for long-term loans were 1.074%~1.15%.

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Kinsus Interconnect Technology Corp.

14. Statement of Operating Revenues

For the Year ended December 31, 2018

(In Thousands of New Taiwan Dollars)

Item	Quantity	Amount	Note
BGA Substrate	7,086,146 thousands PCS	\$14,317,067	
Others		2,910,964	
Total net operating revenues		<u>\$17,228,031</u>	

Kinsus Interconnect Technology Corp.

15. Statement of Operating Costs

For the Year ended December 31, 2018

(In Thousands of New Taiwan Dollars)

Item	Amount	Note
Direct Materials		
Beginning balance	\$323,927	
Add: Raw materials purchased	3,615,426	
Less: Ending balance	(330,424)	
Raw materials sold directly	(1,377)	
Transferred to supplies and parts	(15,158)	
Transferred to other accounts	(26,075)	
Direct materials used	<u>3,566,319</u>	
Supplies and parts		
Beginning balance	34,065	
Add: Supplies and parts purchased	2,175,603	
Transferred from direct materials	15,158	
Less: Ending balance	(40,042)	
Supplies and parts sold directly	(17,033)	
Transferred to other accounts	96	
Supplies and parts used	<u>2,167,847</u>	
Direct labor	1,539,057	
Manufacturing overhead (Detailed list 29)	<u>6,515,624</u>	
Manufacturing cost	13,788,847	
Add: Work in process, beginning balance	943,981	
Less: Work in process, ending balance	(1,208,422)	
Transferred from other accounts	(18,967)	
Cost of finished goods	<u>13,505,439</u>	
Add: Finished goods, beginning balance	571,807	
Less: Finished goods, ending balance	(973,895)	
Transferred to other accounts	(3,387,677)	
Cost of goods sold at normal production level	<u>9,715,674</u>	
Merchandise cost		
Beginning balance	83,515	
Add: Merchandise purchased	2,226,043	
Less: Ending balance	(47,477)	
Transferred to other accounts	(3,273)	
Cost of merchandise sold	<u>2,258,808</u>	
Cost of raw materials sold directly	1,377	
Cost of supplies and parts sold directly	17,033	
Loss from inventory valuation	(19,732)	
Loss from inventory scrapped	2,091,005	
Gain from inventory physical taking	7,093	
Revenue from sale of scraps	<u>(458,661)</u>	
Total	<u><u>\$13,612,597</u></u>	

English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp.

16. Statement of Manufacturing Overhead

For the Year ended December 31, 2018

(In Thousands of New Taiwan Dollars)

Item	Amount	Note
Indirect labor	\$926,011	
Employee compensation	46,106	
Repair and maintenance	916,939	
Utilities	873,607	
Manufacturing overhead — outsourced	467,464	
Depreciation	2,603,486	
Others	682,011	
Total	<u>\$6,515,624</u>	

English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp.

17. Statement of Selling

For the Year ended December 31, 2018

(In Thousands of New Taiwan Dollars)

Item	Amount	Note
Salaries and wages	\$59,767	
Employee compensation	1,136	
Travelling	22,398	
Shipping	22,083	
Depreciation	16	
Sample fee	39,433	
Commission expenses	73,688	
Import fee	19,134	
Others	357,412	
Total	<u>\$595,067</u>	

English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp.

18. Statement of General and Administrative

For the Year ended December 31, 2018

(In Thousands of New Taiwan Dollars)

Item	Amount	Note
Salaries and wages	\$156,361	
Employee compensation	4,191	
Remuneration of directors and supervisors	3,352	
Utilities	48,271	
Depreciation	353,846	
Amortization	18,663	
Miscellaneous purchase	49,285	
Others	297,846	
Total	<u>\$931,815</u>	

English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp.

19. Statement of Research and Development

For the Year ended December 31, 2018

(In Thousands of New Taiwan Dollars)

Item	Amount	Note
Salaries and wages	\$193,214	
Employee compensation	3,641	
Depreciation	17,616	
Materials utilized for testing	1,304,850	
Testing	172,964	
Others	45,940	
Total	<u>\$1,738,225</u>	

English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp.

20. Statement of Non-Operating Incomes and Expenses

For the Year ended December 31, 2018

(In Thousands of New Taiwan Dollars)

Item	Description	Amount	Note
Other incomes			
	Interest income	\$47,973	
	Rent revenue	45,364	
	Other income—others	112,364	
Total		<u>\$205,701</u>	
Other gains and losses			
	Gain on disposal of property, plant and equipment	\$724	
	Foreign exchange gains, net	5,197	
	Gain on financial assets at fair value through profit	5,200	
	Other expenses	(652)	
Total		<u>\$10,469</u>	
Finance costs			
	Interest on borrowings from banks	<u>\$64,432</u>	
Share of profit or loss of subsidiaries, associates and joint ventures			
	Investment losses	<u>\$75,815</u>	