

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

**Ticker: 3189**

**Kinsus Interconnect Technology Corp. and Subsidiaries**  
**Consolidated Financial Statements**  
**With Review Report of Independent Auditors**  
**As of September 30, 2018 and 2017**  
**And For The Nine-month Periods 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

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**REVIEW REPORT OF INDEPENDENT AUDITORS**

To The Board of Directors of  
Kinsus Interconnect Technology Corp.

**Introduction**

We have reviewed the accompanying consolidated balance sheets of Kinsus Interconnect Technology Corp. (the “Company”) and its subsidiaries as of September 30, 2018 and 2017, the related consolidated statements of comprehensive income, changes in equity and cash flows for the three-month and nine-month periods then ended, and notes to the consolidated financial statements, including the summary of significant accounting policies (together “the consolidated financial statements”). Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, “Interim Financial Reporting” as endorsed and issued into effect by Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

**Scope of Review**

Except as explained in the following paragraph, we conducted our reviews in accordance with Statement of Auditing Standards No. 65, “Review of Financial Information Performed by the Independent Auditor of the Entity” of the Republic of China. A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*(To be continued)*

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*(Continued)*

**Basis for Qualified Conclusion**

As disclosed at Note 4.(3), we did not review the financial statements of certain subsidiaries of the Company as of September 30, 2018 and 2017, and for the three-month and nine-month periods then ended. The total assets of those un-reviewed subsidiaries as of September 30, 2018 and 2017 were NT\$5,463,766 thousand and NT\$3,533,472 thousand, representing 12.59% and 8.16% of the total consolidated assets, respectively, and the total liabilities were NT\$2,510,419 thousand and NT\$963,760 thousand, representing 18.25% and 7.20% of the total consolidated liabilities, respectively, while the comprehensive incomes for the three-month periods then ended were NT\$220,922 thousand and NT\$31,070 thousand, representing 110.22% and 11.37% of total consolidated comprehensive incomes and, for the nine-month periods then ended, NT\$222,893 thousand and NT\$47,109 thousand, representing 73.09% and 18.71% of the total consolidated comprehensive incomes. As explained in Note 6.(10), the financial statements of the associate and joint venture accounted for under the equity method were not reviewed by independent auditors. The carrying values of the associate and joint venture under equity method amounted to NT\$679,325 thousand and NT\$791,939 thousand as of September 30, 2018 and 2017, respectively. The related shares of profits from the associate and joint venture under the equity method amounted to NT\$46,053 thousand, NT\$(34,392) thousand, NT\$(151,328) thousand and NT\$(125,736) thousand for the three-month and nine-month periods then ended September 30, 2018 and 2017, respectively. The related shares of other comprehensive income from the associate and joint venture under the equity method amounted to NT\$3,803 thousand, NT\$4,698 thousand, NT\$8,118 thousand and NT\$(2,331) thousand for the three-month and nine-month periods then ended September 30, 2018 and 2017, respectively. The information related to above subsidiaries, and associate and joint venture accounted for under the equity method disclosed in Note 13 was not reviewed by independent auditors either.

*(To be continued)*

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(Continued)

**Qualified Conclusion**

Based on our reviews, except for the effect of such adjustments, if any, as might have been determined to be necessary had the financial statements of certain not material subsidiaries, the associate and joint venture accounted for using equity method and the information disclosed in Note 13 been reviewed by independent auditors described in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of September 30, 2018 and 2017, and their consolidated financial performance for the three-month and nine-month periods then ended and cash flows for the nine-month periods then ended, in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, “Interim Financial Reporting” as endorsed and issued into effect by Financial Supervisory Commission of the Republic of China.

**Emphasis of Matter – Applying for New Accounting Standards**

We draw attention to Note 3 of the consolidated financial statements, which describes the Company and its subsidiaries applied for the International Financial Reporting Standard 9, “Financial Instruments” and 15, “Revenue from Contracts with Customers” starting from January 1, 2018, and elected not to restate the consolidated financial statements for prior periods. Our conclusion is not modified in respect of this matter.

Mao-Yi Hong

Yi-Hui Huang

Ernst & Young

Taiwan, R.O.C.

October 29<sup>th</sup>, 2018

Notices to Readers

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp. and Subsidiaries

Consolidated Balance Sheets

As of September 30, 2018, December 31, 2017 and September 30, 2017 (September 30, 2018 and 2017 are reviewed but unaudited)

(Amounts Expressed In Thousands of New Taiwan Dollars)

Assets			As of September 30, 2018		As of December 31, 2017		As of September 30, 2017	
Code	Accounts	Notes	Amount	%	Amount	%	Amount	%
	Current assets							
1100	Cash and cash equivalents	4, 6(1)	\$10,074,353	23	\$10,342,012	24	\$10,916,621	25
1110	Financial assets at fair value through P/L	4, 6(2)	1,015,889	2	1,553,833	4	1,420,440	3
1136	Financial assets carried at amortized cost	4, 6(3)	540,922	1	-	-	-	-
1147	Bond investments with no active market	4, 6(4)	-	-	423,057	1	423,057	1
1150	Notes receivable, net	4, 6(7)	395	-	1,756	-	-	-
1170	Accounts receivable, net	4, 6(8)	3,668,702	9	3,353,060	8	3,728,479	9
1180	Accounts receivable - related parties	6(8), 7	459,776	1	333,700	1	365,730	1
1200	Other receivables		380,428	1	208,485	-	284,973	1
1210	Other receivables - related parties	7	6,625	-	6,243	-	46,433	-
130x	Inventories, net	4, 6(9)	3,244,818	7	2,127,714	5	2,587,840	6
1410	Prepayments		232,035	1	260,566	1	292,139	1
1470	Other current assets		181,936	1	163,976	-	138,337	-
11xx	Total current assets		<u>19,805,879</u>	<u>46</u>	<u>18,774,402</u>	<u>44</u>	<u>20,204,049</u>	<u>47</u>
	Non-current assets							
1517	Financial asset at fair value through OCI	4, 6(5)	50,000	-	-	-	-	-
1543	Financial assets carried at cost	4, 6(6)	-	-	50,000	-	50,000	-
1550	Investment accounted for under equity method	4, 6(10)	679,325	2	823,380	2	791,939	2
1600	Property, plant and equipment, net	4, 6(11), 8	20,027,507	46	19,151,653	46	17,087,189	39
1780	Intangible	4, 6(12)	16,688	-	22,850	-	24,819	-
1840	Deferred income tax assets	4, 6(29)	10,504	-	131,090	-	9,647	-
1900	Other non-current assets	6(13), 7, 8	302,035	1	314,024	1	287,316	1
1915	Prepayment for acquiring machinery	6(11), 9	2,515,158	5	3,010,078	7	4,841,884	11
15xx	Total non-current assets		<u>23,601,217</u>	<u>54</u>	<u>23,503,075</u>	<u>56</u>	<u>23,092,794</u>	<u>53</u>
1xxx	Total Assets		<u>\$43,407,096</u>	<u>100</u>	<u>\$42,277,477</u>	<u>100</u>	<u>\$43,296,843</u>	<u>100</u>

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp. and Subsidiaries

Consolidated Balance Sheets-(Continued)

As of September 30, 2018, December 31, 2017 and September 30, 2017 (September 30, 2018 and 2017 are reviewed but unaudited)

(Amounts Expressed In Thousands of New Taiwan Dollars)

Liabilities and Equity			As of September 30, 2018		As of December 31, 2017		As of September 30, 2017	
Code	Accounts	Notes	Amount	%	Amount	%	Amount	%
	<b>Current liabilities</b>							
2100	Short-term loans	6(14)	\$3,561,026	8	\$3,297,397	8	\$3,624,239	8
2130	Contract liability	4, 6(23)	128,461	1	-	-	-	-
2150	Notes payable		31,002	-	44,804	-	48,830	-
2170	Accounts payable		2,527,504	6	2,526,036	6	2,561,312	6
2200	Other payables	6(15), 7	3,202,169	7	3,597,985	8	4,187,391	10
2230	Current income tax liabilities	4, 6(29)	271,355	1	352,272	1	201,918	0
2300	Other current liabilities	6(16)	887,147	2	719,393	2	759,613	2
2365	Refund liability	6(17)	87,207	-	-	-	-	-
21xx	Total current liabilities		<u>10,695,871</u>	<u>25</u>	<u>10,537,887</u>	<u>25</u>	<u>11,383,303</u>	<u>26</u>
	<b>Non-current liabilities</b>							
2540	Long-term loans	6(18), 8	2,988,453	7	1,746,800	4	1,923,913	5
2570	Deferred income tax liabilities	4, 6(29)	2,034	-	1,253	-	1,173	-
2600	Other non-current liabilities	6(19)	70,440	-	76,539	-	79,786	-
25xx	Total non-current liabilities		<u>3,060,927</u>	<u>7</u>	<u>1,824,592</u>	<u>4</u>	<u>2,004,872</u>	<u>5</u>
2xxx	Total liabilities		<u>13,756,798</u>	<u>32</u>	<u>12,362,479</u>	<u>29</u>	<u>13,388,175</u>	<u>31</u>
	<b>Equity attributable to shareholders of the parent</b>							
31xx	<b>Capital</b>							
3100	Capital	6(21)						
3110	Common stock		4,508,410	10	4,460,000	11	4,460,000	10
3200	Capital surplus	6(21)	6,140,203	14	5,956,519	14	5,956,184	14
3300	Retained earnings	6(21)						
3310	Legal reserve		3,612,556	9	3,563,389	8	3,563,389	8
3320	Special reserve		77,677	-	613	-	613	-
3350	Unappropriated earnings		13,646,172	32	14,095,717	33	14,079,039	33
3400	Other components of equity		(256,105)	(1)	(77,677)	-	(57,035)	-
3500	Treasury Stock	6(21)	-	-	-	-	(32,885)	-
36xx	Non-controlling interests	6(21)	1,921,385	4	1,916,437	5	1,939,363	4
3xxx	Total equity		<u>29,650,298</u>	<u>68</u>	<u>29,914,998</u>	<u>71</u>	<u>29,908,668</u>	<u>69</u>
	Total liabilities and equity		<u>\$43,407,096</u>	<u>100</u>	<u>\$42,277,477</u>	<u>100</u>	<u>\$43,296,843</u>	<u>100</u>

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp. and Subsidiaries

Consolidated Statements Of Comprehensive Incomes

For the three-month and nine-month periods ended September 30, 2018 and 2017 (Reviewed but unaudited)

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

Code	Items	Notes	For the three-month period ended September 30, 2018		For the three-month period ended September 30, 2017		For the nine-month period ended September 30, 2018		For the nine-month period ended September 30, 2017	
			Amount	%	Amount	%	Amount	%	Amount	%
4000	Operating revenues	4, 6(23), 7	\$6,414,968	100	\$6,151,871	100	\$17,469,064	100	\$16,042,492	100
5000	Operating costs	7	(4,960,656)	(77)	(4,907,522)	(80)	(13,515,969)	(77)	(12,873,665)	(80)
5900	Gross profit		1,454,312	23	1,244,349	20	3,953,095	23	3,168,827	20
6000	Operating expenses	7								
6100	Sales and marketing		(181,040)	(3)	(173,401)	(3)	(610,055)	(4)	(466,890)	(3)
6200	General and administrative		(308,157)	(5)	(421,640)	(7)	(1,044,014)	(6)	(1,180,420)	(7)
6300	Research and development		(553,680)	(8)	(367,054)	(6)	(1,600,266)	(9)	(1,052,780)	(7)
6450	Expected credit gains (losses)	4, 6(24)	142	-	-	-	(8,583)	-	-	-
	Total operating expenses		(1,042,735)	(16)	(962,095)	(16)	(3,262,918)	(19)	(2,700,090)	(17)
6900	Operating income		411,577	7	282,254	4	690,177	4	468,737	3
7000	Non-operating incomes and expenses									
7010	Other incomes	6(27), 7	43,038	1	49,544	1	200,772	1	163,325	1
7020	Other gains or losses	6(27), 7	(53,512)	(1)	12,742	-	(80,444)	-	48,111	-
7050	Finance costs	6(27), 7	(32,804)	(1)	(20,196)	-	(86,901)	(1)	(54,258)	-
7070	Share of the profit or loss of associates and joint ventures	6(10)	46,053	1	(34,392)	(1)	(151,328)	(1)	(125,736)	(1)
	Total non-operating incomes and expenses		2,775	-	7,698	-	(117,901)	(1)	31,442	-
7900	Income before income tax		414,352	7	289,952	4	572,276	3	500,179	3
7950	Income tax expenses	4, 6(29)	(106,327)	(2)	(73,871)	(1)	(204,032)	(1)	(159,401)	(1)
8200	Net income		308,025	5	216,081	3	368,244	2	340,778	2
8300	Other comprehensive income (loss)	6(28)								
8360	Items that may be reclassified subsequently to profit or loss									
8361	Exchange differences on translation of foreign operations		(111,387)	(2)	52,371	1	(71,405)	-	(86,652)	-
8370	Share of the other comprehensive profit or loss of joint ventures		3,803	-	4,698	-	8,118	-	(2,331)	-
	Total other comprehensive income (loss), net of tax		(107,584)	(2)	57,069	1	(63,287)	-	(88,983)	-
8500	Total comprehensive income		\$200,441	3	\$273,150	4	\$304,957	2	\$251,795	2
8600	Net income (loss) attributable to:									
8610	Stockholders of the parent		\$241,698	4	\$276,059	4	\$345,686	2	476,002	3
8620	Non-controlling interests		66,327	1	(59,978)	(1)	22,558	-	(135,224)	(1)
			\$308,025	5	\$216,081	3	\$368,244	2	\$340,778	2
8700	Comprehensive income (loss) attributable to:									
8710	Stockholders of the parent		\$164,065	2	\$316,441	5	\$300,009	2	\$419,580	3
8720	Non-controlling interests		36,376	1	(43,291)	(1)	4,948	-	(167,785)	(1)
			\$200,441	3	\$273,150	4	\$304,957	2	\$251,795	2
9750	Earnings per share-basic (in NTD)	6(30)	\$0.54		\$0.62		\$0.77		\$1.07	
9850	Earnings per share-diluted (in NTD)	6(30)	\$0.54		\$0.62		\$0.77		\$1.06	

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp. and Subsidiaries

Consolidated Statements of Changes in Equity

For the nine-month periods ended September 30, 2018 and 2017 (Reviewed but unaudited)

(Amounts Expressed In Thousands of New Taiwan Dollars)

Code	Items	Equity Attributable to Shareholders of the Parent								Non-controlling Interests	Total Equity	
		Capital	Capital Surplus	Retained Earnings			Others		Treasury Stock			Total
				Legal Reserve	Special reserve	Unappropriated Earnings	Exchange differences arising on translation of foreign operations	Unearned Employee Benefit				
		3100	3200	3310	3320	3350	3410	3490	3500	31XX	36XX	3XXX
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	\$2,145,059	\$31,014,769
	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)		(1,336,350)
C7	Change in joint ventures accounted for using equity method		7,895							7,895		7,895
D1	Net income for the nine-month period ended September 30, 2017					476,002				476,002	(135,224)	340,778
D3	Other comprehensive income (loss), net of tax, for the nine-month period ended September 30, 2017						(56,422)			(56,422)	(32,561)	(88,983)
D5	Total comprehensive income	-	-	-	-	476,002	(56,422)	-	-	419,580	(167,785)	251,795
N1	Share-based payment transaction		8,470							8,470		8,470
O1	Non-controlling interests increase (decrease)										(37,911)	(37,911)
Z1	Balance as of September 30, 2017	\$4,460,000	\$5,956,184	\$3,563,389	\$613	\$14,079,039	\$(57,035)	\$-	\$(32,885)	\$27,960,835	\$1,939,363	\$29,908,668
A1	Balance as of January 1, 2018	\$4,460,000	\$5,956,519	\$3,563,389	\$613	\$14,095,717	\$(77,677)	\$-	\$-	\$27,998,561	\$1,916,437	\$29,914,998
	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)		(669,000)
C7	Change in joint ventures accounted for using equity method		(845)							(845)		(845)
D1	Net income for the nine-month period ended September 30, 2018					345,686				345,686	22,558	368,244
D3	Other comprehensive income (loss), net of tax, for the nine-month period ended September 30, 2018						(45,677)			(45,677)	(17,610)	(63,287)
D5	Total comprehensive income	-	-	-	-	345,686	(45,677)	-	-	300,009	4,948	304,957
T1	Employee restricted shares for cancellation and others	48,410	184,529					(132,751)		100,188		100,188
Z1	Balance as of September 30, 2018	\$4,508,410	\$6,140,203	\$3,612,556	\$77,677	\$13,646,172	\$(123,354)	\$(132,751)	\$-	\$27,728,913	\$1,921,385	\$29,650,298

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
Kinsus Interconnect Technology Corp. and Subsidiaries  
Consolidated Statements of Cash Flows  
For the nine-month periods ended September 30, 2018 and 2017 (Reviewed but unaudited)  
(Amounts Expressed in Thousands of New Taiwan Dollars)

Code	Items	For the nine-month period ended September 30, 2018	For the nine-month period ended September 30, 2017	Code	Items	For the nine-month period ended September 30, 2018	For the nine-month period ended September 30, 2017
AAAA	Cash flows from operating activities:			BBBB	Cash flows from investing activities:		
A10000	Income before income tax	\$572,276	\$500,179	B00040	Acquisition of financial assets measured at amortized cost	(117,865)	-
A20000	Adjustments:			B01800	Acquisition of Investment accounted for under equity method	-	(479,422)
A20010	Income and expense adjustments:			B00700	Acquisition of property, plant and equipment	(3,921,001)	(4,401,513)
A20100	Depreciation	3,095,054	2,520,604	B02700	Disposal of property, plant and equipment	691	16
A20200	Amortization	20,946	21,756	B02800	Decrease (increase) in refundable deposits	1,496	(1,248)
A20300	Expected credit losses (gain on recovery)	8,583	(25,163)	B03800	Acquisition of intangible assets	(14,876)	(28,040)
A20400	Net gain of financial assets at fair value through P/L	(4,154)	(5,597)	B04500	Net cash provided by (used in) investing activities	(4,051,555)	(4,910,207)
A20900	Interest expense	86,901	54,258	BBBB			
A21200	Interest income	(47,210)	(47,646)	CCCC	Cash flows from financing activities:		
A21900	Cost of share based payment	52,746	8,470	C00100	Increase in (repayment of) short-term loans	263,629	1,395,761
A22300	Share of profit or loss of associates and joint ventures	151,328	125,736	C01600	Increase in long-term loans	1,900,000	725,396
A22500	Loss on disposal of property, plant and equipment	(381)	6,063	C01700	Repayments of long-term loans	(401,665)	(229,213)
A23800	Gain on reversal of impairment loss	23,782	(18,315)	C03000	Increase (decrease) in deposits received	(3,002)	(7,307)
A30000	Changes in operating assets and liabilities:			C04500	Cash dividends	(669,000)	(1,336,350)
A31110	Financial assets at fair value through profit or loss	542,098	1,853,592	C04600	Issuance of common stock for cash	48,410	-
A31130	Notes receivable	1,361	3,030	C05800	Increase (decrease) in non-controlling interests	-	(37,911)
A31150	Accounts receivable	(324,216)	(505,192)	CCCC	Net cash provided by (used in) financing activities	1,138,372	510,376
A31160	Accounts receivable - related parties	(126,076)	34,006	DDDD	Effect of exchange rate changes	(47,133)	(47,830)
A31180	Other receivables	(167,123)	3,584	EEEE	Increase (decrease) in cash and cash equivalents	(267,659)	(296,025)
A31190	Other receivables - related parties	(382)	261,213	E00100	Cash and cash equivalents at beginning of period	10,342,012	11,212,646
A31200	Inventories	(1,117,104)	(329,596)	E00200	Cash and cash equivalents at end of period	\$10,074,353	\$10,916,621
A31220	Prepayments	28,531	(157,463)				
A31240	Other current assets	(17,960)	(16,000)				
A31990	Long-term prepaid rents	10,493	9,317				
A32125	Decrease (increase) in contract liabilities	(8,487)	738				
A32130	Notes payable	(13,802)	434,827				
A32150	Accounts payable	1,468	(16,059)				
A32160	Accounts payable - related parties	-	(127,957)				
A32180	Other payables	11,059	-				
A32210	Unearned sales revenue	-	3,660				
A32230	Other current liabilities	35,111	35,511				
A32240	Accrued pension liabilities	(3,097)	(3,035)				
A32990	Refund liability	87,207	-				
A33000	Cash generated from (used in) operations	2,898,952	4,624,521				
A33100	Interest received	45,878	48,560				
A33300	Interest paid	(85,101)	(54,148)				
A33500	Income tax paid	(167,072)	(467,297)				
AAAA	Net cash provided by (used in) operating activities	2,692,657	4,151,636				

(The accompanying notes are an integral part of the consolidated 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.

Pegatron Corporation is the ultimate controller of the Group to which the Company belongs.

2. DATE AND PROCEDURE OF AUTHORIZATION FOR FINANCIAL STATEMENTS ISSUANCE

The consolidated financial statements of the Company and its subsidiaries (“the Group”) were authorized to be issued in accordance with a resolution of the Board of Directors’ meeting held on October 29<sup>th</sup>, 2018.

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 Group 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 Group 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 Group elected to recognize the cumulative effect of initially applying IFRS 15 at the date of initial application (January 1, 2018). The Group also elected to apply this standard retrospectively only to contracts that are not completed contracts at the date of initial application.

The Group's principal activities consist of the sale of goods and rendering of services. The impacts arising from the adoption of IFRS 15 on the Group 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 Group recognized revenue when (or as) the Group fulfills a performance obligation by transferring a promised good to a customer. IFRS 15 has no impact on the Group's revenue recognition for sale of goods. However, if the Group 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 Group'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 Group subsequently has an obligation to provide the sale of goods. Prior to January 1, 2018, the Group 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\$140,989 thousand. As of September 30, 2018, other current liabilities under IAS 18 decreased by NT\$128,461 thousand while contract liabilities under IFRS 15 increased by NT\$128,461 thousand.

Prior to January 1, 2018, the Group 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\$28,700 thousand as of January 1, 2018 and NT\$87,207 thousand as of September 30, 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 Group 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 Group:

- (a) The Group 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 its carrying amounts as at January 1, 2018 are as follow:

IAS 39	Carrying amounts (NT\$'000)	IFRS 9	Carrying amounts (NT\$'000)
Measurement categories		Measurement categories	
Fair value through profit or loss	1,553,833	Fair value through profit or loss	1,553,833
Fair value through other comprehensive income		Fair value through other comprehensive income	50,000
Available-for-sale financial assets (including NT\$50,000 thousand measured at cost)	50,000		
At amortized cost		At amortized cost (including	14,661,548
Loans and receivables (including cash and cash equivalents, notes receivables, trade receivables, debt instrument investments for which no active market exists and other receivables)	14,661,548	cash and cash equivalents, notes receivables, trade receivables, financial assets measured at amortized cost and other receivables)	
Total	<u>16,265,381</u>	Total	<u>16,265,381</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	Carrying amounts	IFRS 9	Carrying amounts	Difference	Retained	Other
					earnings	components
Class of financial instruments	(NT\$'000)	Class of financial instruments	(NT\$'000)		Adjusted amounts	Adjusted amounts
Financial assets at fair value through profit or loss (Note 1)						
Held-for-trading	1,553,833	Measured at fair value through profit or loss	1,553,833			
Available-for-sale financial assets (including initial investment cost of NT\$50,000 thousand and show separately as investments measured at cost) (Note 2)	50,000	Measured at fair value through other comprehensive income (equity instruments)	50,000	-	-	-
Loans and receivables (Note 3)						
Cash and cash equivalents	10,335,247	Cash and cash equivalents	10,335,247			
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)	3,686,760	Trade receivables (including related parties)	3,686,760			
Other receivables (including related parties)	214,728	Other receivables (including related parties)	214,728			
Subtotal	14,661,548					
Total	16,265,381	Total	16,265,381		-	-

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, available-for-sale financial assets are included investments in funds, stocks and bonds of listed companies and stocks of unlisted companies. Details are described as follow:

Stocks (including listed and unlisted companies)

The assessment is based on the facts and circumstances that existed as at January 1, 2018, as these equity investments are not held-for-trading, so the Group elected to designate them as financial assets measured at fair value through other comprehensive income. As at January 1, 2018, the Group reclassified available-for-sale financial assets (including measured at cost) to financial assets measured at fair value through other comprehensive income of NT\$50,000 thousands.

- (3) 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 Group 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 a single on-balance sheet model (subject to certain exemptions). Lessor accounting still uses the dual classification approach: operating lease and finance lease.

(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.

(g) 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.

(h) 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. As the Group is still currently determining the potential impact of the standards and interpretations listed under (a), it is not practicable to estimate their impact on the Group at this point in time. All other standards and interpretations have no material impact on the Group.

3. Standards or interpretations issued, revised or amended, by IASB but not yet endorsed by FSC at the date of issuance of the Group’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

- (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 group 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 group 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.

The abovementioned standards and interpretations issued by IASB have not yet endorsed by FSC at the date when the Group's financial statements were authorized for issue, the local effective dates are to be determined by FSC. The Group assesses that there will be no significant impact on the Group's financial statements then.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance

The consolidated financial statements for the three-month periods ended September 30, 2018 and 2017 have been prepared in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, "Interim Financial Reporting," by the FSC of the Republic of China.

(2)Basis of preparation

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

(3)Basis of consolidation

Preparation principle of consolidated financial statements

Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if and only if the Company has:

- (a) Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- (b) Exposure, or rights, to variable returns from its involvement with the investee, and
- (c) The ability to use its power over the investee to affect its returns

When the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) The contractual arrangement with the other vote holders of the investee
- (b) Rights arising from other contractual arrangements
- (c) The Company’s voting rights and potential voting rights

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Subsidiaries are fully consolidated from the acquisition date, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using uniform accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Total comprehensive income of the subsidiaries is attributed to the owners of the parent and to the NCIs even if this results in a deficit balance of the NCIs.

If the Company loses control of a subsidiary, it:

- (a) Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- (b) Derecognizes the carrying amount of any non-controlling interest;
- (c) Recognizes the fair value of the consideration received;
- (d) Recognizes the fair value of any investment retained;
- (e) Recognizes any surplus or deficit in profit or loss; and
- (f) Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

The consolidated entities are listed as follows:

Investor	Subsidiary	Main business	Percentage of Ownership (%)		
			As of		
			Sep. 30, 2018	Dec. 31, 2017	Sep. 30, 2017
The Company	KINSUS CORP. (USA)	Designing substrates, formulating marketing strategy analysis, developing new customers, researching and development new product technology	100.00%	100.00%	100.00%
The Company	KINSUS HOLDING (SAMOA) LIMITED	Investing activities	100.00%	100.00%	100.00%
The Company	KINSUS INVESTMENT CO., LTD. (Note 1)	Investing activities	100.00%	100.00%	100.00%
KINSUS HOLDING (SAMOA) LIMITED	KINSUS HOLDING (CAYMAN) LIMITED	Investing activities	100.00%	100.00%	100.00%

KINSUS HOLDING (SAMOA) LIMITED	PIOTEK HOLDINGS LTD. (CAYMAN)	Investing activities	51.00%	51.00%	51.00%
KINSUS INVESTMENT CO., LTD. (Note 1)	PEGAVISION CORPORATION	Manufacture of medical equipment	36.81% (Note)	36.81% (Note)	36.81% (Note)
KINSUS HOLDING (CAYMAN) LIMITED	KINSUS INTERCONNECT TECHNOLOGY SUZHOU CORP.	Manufacturing and selling printed circuit board (PCB) (not high- density fine-line)	100.00%	100.00%	100.00%
KINSUS HOLDING (CAYMAN) LIMITED	XIANG-SHOU (SUZHOU) TRADING LIMITED	Trading of PCB related products and materials (not high- density fine-line)	100.00%	100.00%	100.00%
PIOTEK HOLDINGS LTD. (CAYMAN)	PIOTEK HOLDINGS LIMITED	Investing activities	100.00%	100.00%	100.00%
PIOTEK HOLDINGS LIMITED	PIOTEK COMPUTER (SUZHOU) CO., LTD.	Researching, developing, producing and selling electronic components, PCBs and related products and providing after- sale services	100.00%	100.00%	100.00%
PIOTEK HOLDINGS LIMITED	PIOTEK (H.K.) TRADING LIMITED	Trading activities	100.00%	100.00%	100.00%
PEGAVISION CORPORATION	PEGAVISION HOLDINGS CORPORATION	Investing activities	100.00%	100.00%	100.00%
PEGAVISION CORPORATION	PEGAVISION JAPAN INC.	Selling medical equipment	100.00%	100.00%	100.00%

PEGAVISION HOLDINGS CORPORATION	PEGAVISION CONTACT LENSES (SHANGHAI) CORPORATION	Selling medical equipment	100.00%	100.00%	100.00%
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The financial statements of certain not material subsidiaries, including KINSUS CORP. (USA), KINSUS INVESTMENT CO., LTD., PEGAVISION CORPORATION, PEGAVISION HOLDINGS CORPORATION, PEGAVISION JAPAN INC. and PEGAVISION CONTACT LENSES (SHANGHAI) CORPORATION, as of September 30, 2018 and 2017 and for the three-month and nine-month periods were not reviewed by independent auditors. Total assets of the unreviewed subsidiaries were NT\$5,463,766 thousand and NT\$3,533,472 thousand, respectively, while the total liabilities were NT\$2,510,419 thousand and NT\$963,760 thousand, respectively. The un-reviewed comprehensive incomes were NT\$220,922 thousand, NT\$31,070 thousand, NT\$222,893 thousand and NT\$47,109 thousand for the three-month and nine-month periods then ended.

Note: The Group owned a compound 36.81% of ownership of Pegavision Corporation as of September 30, 2018, December 31, 2017 and September 30, 2017. The management decided to include Pegavision Corporation as a consolidated entity because the Group, in substance, possessed the control over this entity.

Note1: The subsidiary has been renamed for KINSUS INVESTMENT CO., LTD. since May 19, 2017.

#### (4) Foreign currency transactions

The Company's consolidated financial statements are presented in New Taiwan Dollar, which is the parent company's functional currency. Each entity in the Company determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Company entities at their respective functional currency rates prevailing at the date of the transaction. At the reporting date, monetary items denominated in foreign currencies are retranslated at the prevailing functional currency closing rate of exchange; non-monetary items measured at fair value in a foreign currency are retranslated using the exchange rates at the date when the fair value is determined; and non-monetary items 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 from the settlement or translation of 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 instruments
- 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.

(5) Foreign currency transactions and translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into New Taiwan dollar at the closing rate of exchange prevailing at the balance sheet date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income under exchange differences on translation of foreign operations. On disposal of the foreign operation, cumulative amount of the exchange differences recognized in other comprehensive income under separate component of equity is reclassified from equity to profit or loss when recognizing the disposal gain/loss.

On the 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 NCIs in that foreign operation, instead of recognized in profit or loss. 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 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.

(6) Current and non-current distinction for assets and liabilities

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.

(7) Cash and cash equivalents

Cash and cash equivalents comprise 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 (including fixed-term deposits that have maturities equal to or less than three months from the date of acquisition).

(8) Financial instruments

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

The Group 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 Group 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 Group'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 Group 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 Group 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 Group 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 Group applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

Besides, at initial recognition, the Group 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 Group accounts for regular way purchase or sales of financial assets on the trade date.

Financial assets of the Group 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 Group 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 group 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 group 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 Group 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 Group 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 Group 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 Group 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 Group measures the loss allowance at an amount equal to lifetime expected credit losses.

At each reporting date, the Group 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 Group 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 Group 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 Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group 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 Group has transferred the asset and substantially all the risks and rewards of the asset have been transferred
- C. The Group 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 Group 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 group 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 group 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.

#### (9) 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 Group.

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 Group 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.

#### (10) 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 conditions 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.

#### (11) Investments accounted for using the equity method

The Group'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 Group 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 an investment in a joint venture is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Group'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 Group 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 Group and the associate or joint venture are eliminated to the extent of the Group'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 Group's percentage of ownership interests in the associate or joint venture, the Group 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 Group's interest in an associate or a joint venture is reduced or increased as the Group 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 Group disposes the associate or joint venture.

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

The Group 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 Group 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 Group 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 Group 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.

#### (12) 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 Group 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	5 to 10 years

Vehicle	2 to 6 years
Office equipment	3 to 5 years
Other equipment	1 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.

### (13) Leasing

#### Group as a lessee

Finance leases which transfer to the Group 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.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group 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.

#### Group as a lessor

Leases in which the Group 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.

(14) 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 Group's accounting policies for intangible assets are as follows:

	<u>Cost of Computer Software</u>
Useful economic life	1 to 5 years
Amortization method	Straight-line method during the contract term
Internally generated or acquired externally	Acquired externally

(15) Impairment of non-financial assets

The Group 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 Group

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 Group 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 groups 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 (group of units), then to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group 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.

#### (16) Provisions

Provisions are recognized when the Group 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 Group 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.

(17) Treasury Stock

The Group's own equity instruments repurchased (treasury shares) are recognized at repurchase cost and deducted from equity. Any difference between the carrying amount and the consideration is recognized in equity.

(18) Revenue recognition

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

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

Sale of goods

The Group 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 Group 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 Group's sale of goods is from 30 to 90 days. For most of the contracts, when the Group 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 Group 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 Group 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 Group measures the loss allowance for a contract asset at an amount equal to the lifetime expected credit losses.

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

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group 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.

For the customer loyalty points programme that the Group operates, consideration received is allocated between the goods sold and the points issued, with the consideration allocated to the points equal to their fair value. The fair value of the points issued is deferred and recognized as revenue when the points are redeemed.

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 Group's right to receive the payment is established.

(19) 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.

(20) Post-employment benefits

All regular employees of Kinsus and its domestic subsidiaries are entitled to pension plans that are 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 Kinsus and its domestic subsidiaries. Therefore, fund assets are not included in the Group's consolidated 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, Kinsus and its domestic subsidiaries 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.

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted and disclosed for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events.

(21) Share-based payment transactions

The cost of equity-settled transactions between the Group 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 Group'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 Group 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.

(22) 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 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.

Interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the pre-tax income of the interim period. Only current income tax expense is using the estimated average annual effective income tax rate while deferred income tax is recognized and measured in consistent with annual financial reporting in accordance with IAS 12, "Income Tax." The impact of tax rate change in interim period, if any, is recognized in earnings, other comprehensive income or directly equity.

## 5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the 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.

(1) Judgement

In the process of applying the Group'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 Group 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 Group 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 Group 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 Group 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 Group 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 Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries 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		
	9/30/2018 (NT\$'000)	12/31/2017 (NT\$'000)	9/30/2017 (NT\$'000)
Cash and petty cash	6,453	6,765	5,239
Checkings and savings	2,199,394	2,321,910	2,740,022
Time deposit	7,868,506	8,013,337	8,171,360
Total	10,074,353	10,342,012	10,916,621

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

	As of		
	9/30/2018 (NT\$'000)	12/31/2017 (Note) (NT\$'000)	9/30/2017 (Note) (NT\$'000)
Mandatorily measured at fair value through profit or loss:			
Money market fund	980,063		
Valuation adjustment of financial assets as measured by fair value through profit and loss	35,826		
Total	1,015,889		
Current	1,015,889		
Non-current	-		
	As of		
	9/30/2018 (Note) (NT\$'000)	12/31/2017 (NT\$'000)	9/30/2017 (NT\$'000)
Held for trading:			
Money market fund		1,511,079	1,379,178
Valuation adjustment of financial assets held for trading		42,754	41,262
Total		1,553,833	1,420,440

Current	1,553,833	1,420,440
Non-current	-	-

Note: The Group adopted IFRS 9 since January 1, 2018. The Group 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		
	9/30/2018	12/31/2017	9/30/2017
	(NT\$'000)	(Note) (NT\$'000)	(Note) (NT\$'000)
Time deposits	540,922		
Current	540,922		
Non-current	-		

Note: The Group adopted IFRS 9 since January 1, 2018. The Group 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		
	9/30/2018	12/31/2017	9/30/2017
	(Note) (NT\$'000)	(NT\$'000)	(NT\$'000)
Time deposit		423,057	423,057
Current		423,057	423,057
Non-current		-	-

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

The Group 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) Financial assets at fair value through other comprehensive income

	As of		
	9/30/2018	12/31/2017	9/30/2017
	(Note)	(Note)	(Note)
	(NT\$'000)	(NT\$'000)	(NT\$'000)
Equity instruments investments measured at fair value through other comprehensive income – Non-current:			
Unlisted companies stocks	50,000		

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

No financial assets at fair value through other comprehensive income was pledged by the Group as collateral.

(6) Financial assets measured at cost

	As of		
	9/30/2018	12/31/2017	9/30/2017
	(Note)	(Note)	(Note)
	(NT\$'000)	(NT\$'000)	(NT\$'000)
Stocks		50,000	50,000
Non-current		50,000	50,000

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

The Group adopted IAS 39 before January 1, 2018. The above investments in the equity instruments of unlisted entities are measured at cost as the fair value of these investments are not reliably measurable due to the fact that the variability in the range of reasonable fair value measurements is significant for that investment and that the probabilities of the various estimates within the range cannot be reasonably assessed and used when measuring fair value.

Financial assets measured at cost were not pledged.

(7) Notes receivable

	As of		
	9/30/2018 (NT\$'000)	12/31/2017 (NT\$'000)	9/30/2017 (NT\$'000)
Notes receivable – from operations	395	1,756	-
Less: loss allowance	-	-	-
Net	395	1,756	-

Notes receivables were not pledged.

The Group adopted IFRS 9 for impairment assessment since January 1, 2018. Please refer to Note 6 (24) for more details on accumulated impairment and Note 12 for more details on credit risk management.

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

A. Accounts receivable, net

	As of		
	9/30/2018 (NT\$'000)	12/31/2017 (NT\$'000)	9/30/2017 (NT\$'000)
Accounts receivable, gross	3,701,248	3,405,732	3,782,490
Less: allowance against doubtful accounts	(32,546)	(23,972)	(27,845)
Less: allowance against return & discount	Note	(28,700)	(26,166)
Net of allowances	3,668,702	3,353,060	3,728,479
Accounts receivable - related parties, gross	459,776	333,700	365,730
Less: allowance against doubtful accounts	-	-	-
Net of allowances	459,776	333,700	365,730
Total accounts receivable, net	4,128,478	3,686,760	4,094,209

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

B. Account receivables were not pledged.

C. The Group 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 Group 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 Group 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
9/30/2018	Mega International Commercial Bank - LanYa Branch	256,085	-	None	Note
12/31/2017	Mega International Commercial Bank - LanYa Branch	218,494	89,303	None	Note
9/30/2017	Mega International Commercial Bank - LanYa Branch	295,986	214,295	None	Note

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

E. The Group 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 Group 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	-	53,303	53,303
Provision (reversal)	-	(25,163)	(25,163)
Effect of exchange rate changes	-	(295)	(295)
As of September 30, 2017	-	27,845	27,845

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

	<u>Accounts receivable – past due, but not impaired</u>					Total (NT\$'000)
	Neither past due nor impaired (NT\$'000)	Less than 61 days (NT\$'000)	61 to 90 days (NT\$'000)	91 to 120 days (NT\$'000)	Longer than 121 days (NT\$'000)	
	12/31/2017	3,466,530	216,653	3,577	-	
9/30/2017	3,893,088	201,121	-	-	-	4,094,209

#### (9) Inventory

##### A. Details of inventory:

	<u>As of</u>		
	9/30/2018 (NT\$'000)	12/31/2017 (NT\$'000)	9/30/2017 (NT\$'000)
	Raw material	572,962	548,399
Supplies	39,268	33,683	44,692
Work in process	1,644,685	862,335	1,147,161
Finished goods	922,781	603,925	628,398
Merchandises	65,122	79,372	74,622
Total	<u>3,244,818</u>	<u>2,127,714</u>	<u>2,587,840</u>

For the three-month periods ended September 30, 2018 and 2017, the Group recognized NT\$4,960,656 thousand and NT\$4,907,522 thousand under the caption of costs of sale, respectively. For the nine-month periods ended September 30, 2018 and 2017, the Group recognized NT\$13,515,969 thousand and NT\$12,873,665 thousand under the caption of costs of sale, respectively. The following items were also included in cost.

Item	<u>For the three-month period ended September 30,</u>		<u>For the nine-month period ended September 30,</u>	
	2018	2017	2018	2017
	(NT\$'000)	(NT\$'000)	(NT\$'000)	(NT\$'000)
Loss from inventory market decline	212,548	113,887	261,281	68,993
Loss from physical taking	1,106	4,143	5,676	17,667
Loss from inventory write-off obsolescence	529,053	568,104	1,603,439	1,525,739
Total	<u>742,707</u>	<u>686,134</u>	<u>1,870,396</u>	<u>1,612,399</u>

The inventories were not pledged.

(10) Investments accounted for using the equity method

Investees	As of					
	9/30/2018		12/31/2017		9/30/2017	
	Carrying amount (NT\$'000)	Percentage of ownership (%)	Carrying amount (NT\$'000)	Percentage of ownership (%)	Carrying amount (NT\$'000)	Percentage of ownership (%)
Investment in associates:						
FuYang Technology Corp.	<u>679,325</u>	35.65%	<u>823,380</u>	35.65%	<u>791,939</u>	35.65%

A. The Group invested in FuYang Technology Corp. during May 2017 for its 36% of ownership interest. The investment has been accounted for as an investment in associates under equity method because the Group gained a significant influence accordingly.

In May 2018, the Group participated in FuYang's cash offering by unproportionately investing NT\$479,422 thousand for 19,176,872 shares of FuYang and, therefore, recognized a capital surplus amounting to NT\$7,484 thousand. As a result of the offering, the Group's share interest on FuYang decreased to 35.65%.

B. Investments in associates

The aggregate carrying amount of the Group's interests in FuYang Technology Corp. is NT\$679,325 thousand. The aggregate financial information based on Group's share of FuYang Technology Corp. is as follows:

	For the three-month period ended September 30,		For the nine-month period ended September 30,	
	2018	2017	2018	2017
	(NT\$'000)	(NT\$'000)	(NT\$'000)	(NT\$'000)
Profit or loss from continuing operations	46,053	(34,392)	(151,328)	(125,736)
Other comprehensive income (post-tax)	3,803	4,698	8,118	(2,331)
Total comprehensive income	<u>49,856</u>	<u>(29,694)</u>	<u>(143,210)</u>	<u>(128,067)</u>

There were no contingent liabilities or capital commitments with respect to the investment in the associate as of September 30, 2018, December 31, 2017 and September 30, 2017. Nor any of the Group's share interest on FuYang was pledged as collateral.

C. The Group's investment accounted for under equity method as of September 30, 2018 and 2017 amounted to NT\$679,325 thousand and NT\$791,939 thousand while the related investment income/loss and joint venture income were NT\$46,053 thousand, NT\$(34,392) thousand, NT\$(151,328) thousand and NT\$(125,736) thousand for the three-month and nine-month period then ended September 30, 2018 and 2017, respectively. And other comprehensive income were NT\$3,803 thousand, NT\$4,698 thousand, NT\$8,118 thousand and NT\$(2,331) thousand for the three-month and nine-month period then ended September 30, 2018 and 2017, respectively. Please note that the financial statements of the investee for the same correspondent periods were not reviewed.

D. No investment accounted for under equity method was pledged as collateral as of September 30, 2018.

#### (11) Property, plant and equipment

	Land	Buildings	Machinery	Office Equipment	Transportatio n	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)
<b>Cost:</b>								
As of 1/1/2018	1,609,729	6,288,629	21,495,023	189,137	17,558	5,617,873	5,398,850	40,616,799
Addition	-	28,000	7,656	1,089	310	241,137	3,233,194	3,511,386
Disposals	-	(9,904)	(106,780)	(86)	(525)	(82,254)	-	(199,549)
Effect of EX rate	-	(69,794)	(160,464)	(1,493)	(261)	(32,868)	56,177	(208,703)
Reclassification	-	15,619	3,034,259	14,692	1,640	703,573	(3,769,783)	-
As of 9/30/2018	1,609,729	6,252,550	24,269,694	203,339	18,722	6,447,461	4,918,438	43,719,933
As of 1/1/2017	1,562,442	6,339,169	17,574,081	144,191	15,587	4,305,580	4,376,874	34,317,924
Addition	-	-	7,454	21,592	2,759	86,538	5,576,643	5,694,986
Disposals	-	(1,926)	(115,560)	(99)	-	(159,393)	-	(276,978)
Effect of EX rate	-	(53,448)	(118,500)	(1,167)	(191)	(25,848)	(2,258)	(201,412)
Reclassification	47,287	3,750	1,717,415	20,938	-	966,698	(2,758,408)	(2,320)
As of 9/30/2017	1,609,729	6,287,545	19,064,890	185,455	18,155	5,173,575	7,192,851	39,532,200

Depreciation and impairment:

As of 1/1/2018	-	2,214,267	13,016,978	128,173	12,836	3,082,814	-	18,455,068
Depreciation	-	211,846	2,267,712	25,375	1,142	588,979	-	3,095,054
(Gain on reversal of) Impairment loss	-	-	17,121	-	-	6,661	-	23,782
Disposal	-	(9,904)	(106,780)	(86)	(525)	(81,944)	-	(199,239)
Effect of EX rate	-	(28,956)	(138,748)	(1,378)	(228)	(28,087)	-	(197,397)
Reclassification	-	(332)	(57)	11	320	58	-	-
As of 9/30/2018	-	2,386,921	15,056,226	152,095	13,545	3,568,481	-	21,177,268

As of 1/1/2017	-	1,943,702	10,758,229	96,815	12,926	2,674,868	-	15,486,540
Depreciation	-	217,886	1,820,899	24,100	825	456,894	-	2,520,604
(Gain on reversal of) Impairment loss	-	-	(15,280)	-	-	(3,035)	-	(18,315)
Disposal	-	(1,926)	(109,482)	(98)	-	(159,393)	-	(270,899)
Effect of EX rate	-	(16,010)	(79,459)	(897)	(187)	(17,525)	-	(114,078)
Reclassification	-	-	(797)	17	-	55	-	(725)
As of 9/30/2017	-	2,143,652	12,374,110	119,937	13,564	2,951,864	-	17,603,127

Net carrying amount:

As of 9/30/2018	1,609,729	3,865,629	9,213,468	51,244	5,177	2,878,980	4,918,438	22,542,665
As of 12/31/2017	1,609,729	4,074,362	8,478,045	60,964	4,722	2,535,059	5,398,850	22,161,731
As of 9/30/2017	1,609,729	4,143,893	6,690,780	65,518	4,591	2,221,711	7,192,851	21,929,073

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		
	9/30/2018 (NT\$'000)	12/31/2017 (NT\$'000)	9/30/2017 (NT\$'000)
Property, plant and equipment	20,027,507	19,151,653	17,087,189
Prepayment for equipment	2,515,158	3,010,078	4,841,884
Total	22,542,665	22,161,731	21,929,073

C. The Group recognized an impairment loss amounting to NT\$23,782 thousand on certain real estate to an extent of the recoverable value in the half of the year of 2018. The Group

recognized a gain from impairment reversed in amount of NT\$18,315 thousand in the first quarter of 2017 due to an increase of recoverable value evaluated for purpose of business strategy adjustment. These impairment loss or gain from recovery has been recorded in the Group' s statements of comprehensive incomes. The reverable value is measured at usage values by the identified cash-generated units.

D. Please refer to Note 8 for details on property, plant and equipment pledged as collaterals.

E. The Group purchased 40 parcels of agricultural land with a total of 36,115.24 square meters. Lands are located at 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, the agricultural land can't be registered in the Group's name while it has been temporarily registered in the general manager's name and, to secure the Group's right, mortgage registration has been set aside in favor for the Group.

(12) Intangible assets

	Computer software (NT\$'000)
<u>Cost:</u>	
As of 1/1/2018	61,027
Additions – acquired separately	14,876
Derecognized upon retirement	(29,656)
Reclassification	-
Effect of exchange rate changes	(496)
As of 9/30/2018	<u>45,751</u>
As of 1/1/2017	42,255
Additions – acquired separately	28,040
Derecognized upon retirement	(15,603)
Reclassification	-
Effect of exchange rate changes	(383)
As of 9/30/2017	<u>54,309</u>
<u>Amortization and Impairment:</u>	
As of 1/1/2018	38,177
Amortization	20,946
Derecognized upon retirement	(29,656)

Reclassification	-
Effect of exchange rate changes	(404)
As of 9/30/2018	<u>\$29,063</u>
As of 1/1/2017	23,435
Amortization	21,756
Derecognized upon retirement	(15,603)
Reclassification	-
Effect of exchange rate changes	(98)
As of 9/30/2017	<u>29,490</u>
<u>Carrying amount, net:</u>	
As of 9/30/2018	<u>16,688</u>
As of 12/31/2017	<u>22,850</u>
As of 9/30/2017	<u>24,819</u>

Amounts of amortization recognized for intangible assets are as follows:

	<u>For the nine-month period ended September 30,</u>	
	2018	2017
	(NT\$'000)	(NT\$'000)
Cost of goods sold	151	127
Selling	192	520
General and administrative	20,493	21,029
Research and development	110	80
Total	<u>20,946</u>	<u>21,756</u>

(13) Other non-current assets

	<u>As of</u>		
	9/30/2018	12/31/2017	9/30/2017
	(NT\$'000)	(NT\$'000)	(NT\$'000)
Refundable deposits	78,156	79,652	51,167
Long-term prepaid rent	223,879	234,372	236,149
Total	<u>302,035</u>	<u>314,024</u>	<u>287,316</u>

As of September 30, 2018, December 31, 2017 and September 30, 2017, the right to use land, recorded under the caption of long-term prepaid rent, amounted to NT\$223,879 thousand, NT\$234,372 thousand and NT\$236,149 thousand, respectively.

## (14) Short-term loans

	Interest interval (%)	As of		
		9/30/2018 (NT\$'000)	12/31/2017 (NT\$'000)	9/30/2017 (NT\$'000)
Unsecured bank loans	0.72%~3.356%	3,561,026	3,297,397	3,624,239

As of September 30, 2018, December 31, 2017 and September 30, 2017, the line of unused short-term loan credit for the Group amounted to NT\$4,427,675 thousand, NT\$6,480,683 thousand and NT\$5,677,641 thousand, respectively.

## (15) Other payable

	As of		
	9/30/2018 (NT\$'000)	12/31/2017 (NT\$'000)	9/30/2017 (NT\$'000)
Accrued expense	2,319,776	2,307,749	2,165,808
Equipment payable	877,483	1,287,098	2,019,165
Accrued interest	4,910	3,138	2,418
Total	3,202,169	3,597,985	4,187,391

## (16) Other current liabilities

## A.

	As of		
	9/30/2018 (NT\$'000)	12/31/2017 (NT\$'000)	9/30/2017 (NT\$'000)
Other current liabilities	105,444	66,292	104,517
Unearned sales revenue	Note	136,948	84,709
Deferred revenue - customer loyalty programs	Note	4,041	1,979
Current portion of long-term loans	781,703	512,112	568,408
Total	887,147	719,393	759,613

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

B. Customer loyalty programs

	For the nine-month period ended September 30,	
	2018 (Note) (NT\$'000)	2017 (NT\$'000)
Balance, beginning		1,623
Deferred during the period		8,998
Recognized in profit or loss		(8,642)
Balance, ending		<u>1,979</u>

  

	As of		
	9/30/2018 (Note) (NT\$'000)	12/31/2017 (NT\$'000)	9/30/2017 (NT\$'000)
Current		4,041	1,979
Non-current		-	-
Total		<u>4,041</u>	<u>1,979</u>

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

(17) Refund liability

	As of		
	9/30/2018 (NT\$'000)	12/31/2017 (Note) (NT\$'000)	9/30/2017 (Note) (NT\$'000)
Refund liability	<u>87,207</u>		

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

## (18) Long-term loans

Details of long-term loans were as follows:

Debtor	Type of Loan	Maturity	Loan Balance	
			As of 9/30/2018 (NT\$'000)	Repayment
Mega International Commercial Bank – LanYa Branch	Secured bank loan	2020.05.07- 2023.03.16	248,000	Notes 1 and 2.
Mega International Commercial Bank – LanYa Branch	Credit loan	2020.04.02- 2023.06.29	2,113,406	Notes 1
The Shanghai Commercial & Savings Bank – ZhongLi Branch	Secured bank loan	2019.01.15	8,750	Notes 1
The Shanghai Commercial & Savings Bank – ZhongLi Branch	Credit loan	2021.03.31- 2021.04.23	800,000	Notes 4 and 5.
Standard Chartered Bank – Xinwu Branch	Credit loan	2021.9.28	600,000	Notes 6
Total			3,770,156	
Less: current portion			(781,703)	
Non-current portion			2,988,453	
			As of 12/31/2017	
Debtor	Type of Loan	Maturity	(NT\$'000)	Repayment
Mega International Commercial Bank – LanYa Branch	Secured bank loan	2020.05.07	66,000	Notes 2
Mega International Commercial Bank – LanYa Branch	Credit loan	2018.08.12- 2021.07.05	2,157,912	Notes 1
The Shanghai Commercial & Savings Bank – ZhongLi Branch	Secured bank loan	2018.09.09- 2019.01.15	35,000	Notes 1
Total			2,258,912	
Less: current portion			(512,112)	
Non-current portion			1,746,800	

Debtor	Type of Loan	Maturity	As of 9/30/2017	
			(NT\$'000)	Repayment
Mega International Commercial Bank – LanYa Branch	Secured bank loan	2020.05.07	72,000	Notes 2
Mega International Commercial Bank – LanYa Branch	Credit loan	2018.08.12- 2021.07.05	2,285,791	Notes 1
The Shanghai Commercial & Savings Bank – ZhongLi Branch	Secured bank loan	2018.09.09- 2019.01.15	43,750	Notes 1
Taipei Fubon Commercial Bank – BeiTou Branch	Credit loan	2017.12.14	90,780	Note 3
Total			2,492,321	
Less: current portion			(568,408)	
Non-current portion			1,923,913	

Note 1: A term is defined as every 3 months starting from the initial draw-down date. Grace period is 1 year (4 terms). The rest is repayable in installments of equal amount for 16 terms.

Note 2: The first year is the grace period while the loan principal is repaid in 16 installments 4% for each of the first 15 installments and 40% for the very last installment.

Note 3: One year after the initial draw-down date is considered term one and the following terms are defined as every 6 months since then. The principal and interest are repayable in installments of equal amount for 5 terms.

Note 4: 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 5: 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 6 terms.

Note 6: Grace period is 18 months from the initial draw-down date. 18 months after the initial draw-down date is considered the 1<sup>st</sup> 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.

A. A portion of property, plant and equipment were pledged to Mega International Commercial Bank and Shanghai Commercial & Savings Bank (the first-priority mortgagors) as collaterals for secured bank loans. Please refer to Note 8 for more details.

B. As of September 30, 2018, December 31, 2017 and September 30, 2017, the interest rate intervals for long-term loans were 1.074%~3.85%, 1.022%~2.8% and 1.022%~2.8%, respectively.

(19) Other non-current liabilities

	As of		
	9/30/2018 (NT\$'000)	12/31/2017 (NT\$'000)	9/30/2017 (NT\$'000)
Accrued pension costs	22,865	25,962	27,974
Deposits received	47,575	50,577	51,812
Total	70,440	76,539	79,786

(20) Post-employment benefits

Defined contribution plan

Expenses under the defined contribution plan for the three-month periods ended September 30, 2018 and 2017 were NT\$36,530 thousand and NT\$32,893 thousand, respectively, while for the nine-month periods ended September 30, 2018 and 2017 were NT\$105,337 thousand and NT\$89,754 thousand, respectively.

Defined benefits plan

Expenses under the defined benefits plan for the three-month periods ended September 30, 2018 and 2017 were NT\$118 thousand and NT\$173 thousand, respectively, while for the nine-month periods ended September 30, 2018 and 2017 were NT\$355 thousand and NT\$520 thousand, respectively.

(21) Equity

A. Common shares

As of September 30, 2018, December 31, 2017 and September 30, 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 September 30, 2018, December 31, 2017 and September 30, 2017, the Company's paid-in capital were NT\$4,508,410 thousand, NT\$4,460,000 thousand, and NT\$4,460,000 thousand, respectively, divided into 450,841 thousand, 446,000 thousand shares and 446,000 thousand shares, respectively. Each share represents a voting right and a right to receive dividends.

Treasury stocks brought back by the Company during the period from August 18, 2015 to September 25, 2015 for the purpose of transfer to employee totaled to 550 thousand shares. Please refer to Note 6(21)-C to the financial statements for more details.

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.

#### B. Capital surplus

	As of		
	9/30/2018 (NT\$'000)	12/31/2017 (NT\$'000)	9/30/2017 (NT\$'000)
Additional paid-in capital	5,887,857	5,850,000	5,850,000
Differences between purchase price and carrying amount arising from acquisition or disposal of subsidiaries	50,925	50,925	50,925
All changes in interests in subsidiaries	38,894	38,894	38,894
Change in joint ventures accounted for using equity method	7,484	7,484	7,484
Employee stock option in affiliate company	-	845	411
Shared-Based Payment	8,371	8,371	8,470
Restricted stocks for employees	146,672	-	-
Total	6,140,203	5,956,519	5,956,184

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 September 30, 2018 and December 31, 2017 while treasury stock amounted to NT\$32,885 thousand, divided into 550 thousand shares, as of September 30, 2017.

For the nine-month period ended September 30, 2017, there was no change in shares of treasury stock.

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 22<sup>nd</sup>, 2017.

According to the Securities and Exchange Law of the R.O.C., total treasury shares shall not exceed 10% of the Company’s issued shares, 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 treasury shares that the Company was allowed to hold as of September 30, 2018 were 44,600 thousand shares, with the maximum payments of NT\$23,146,585 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) Retained earnings and dividend policies

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, the Company's dividend policy aims for steadiness and balancing. Dividends to be distributed in cash for each year shall not 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 T-IFRS, the FSC on April 6, 2012 issued Order No. Financial-Supervisory-Securities-Corporate-1010012865, which sets out the following provisions for compliance:

On a public company's first-time adoption of the TIFRS, for any unrealized revaluation gains and cumulative translation adjustments (gains) recorded to shareholders' equity that the company elects to transfer to retained earnings by application of the exemption under IFRS 1, the company shall set aside an equal amount of special reserve. Following a company's adoption of the TIFRS for the preparation of its financial reports, when distributing distributable earnings, it shall set aside to special reserve, from the profit/loss of the current period and the undistributed earnings from the previous period, an amount equal to "other net deductions from shareholders' equity for the current fiscal year, provided that if the company has already set aside special reserve according to the requirements in the preceding point, it shall set aside supplemental special reserve based on the difference between the amount already set aside and other net deductions from shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

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

- (e) The appropriations of earnings for the Year 2017 and 2016 were approved through the shareholders' meetings held on May 29, 2018 and May 26, 2017, respectively. The details of the distributions are as follows:

	Appropriation of earnings		Dividend per share (in NT\$)	
	2017	2016	2017	2016
	(NT\$'000)	(NT\$'000)		
Legal reserve	49,167	223,371		
Special reserve	77,064	613		
Cash dividend	669,000	1,336,350	1.50	3.00
Total	795,231	1,560,334		

Please refer to Note 6(26) for details on employees' compensation and remuneration to directors and supervisors.

#### E. Non-controlling interests

	For the nine-month period ended September 30,	
	2018 (NT\$'000)	2017 (NT\$'000)
Beginning balance	1,916,437	2,145,059
Net gain (loss) attributable to NCIs	22,558	(135,224)
Other comprehensive income attributable to NCIs:		
Exchange differences arising on translation of foreign operations	(17,610)	(32,561)
Non-controlling interests increase / decrease	-	(37,911)
Ending balance	1,921,385	1,939,363

#### (22) 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 22<sup>nd</sup>, 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 nine-month period ended September 30, 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	-	-
Outstanding at end of period	550	59.79

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 nine-month periods ended 30 September, 2017 is shown in the following table:

	For the nine-month period ended September 30, 2017 (NT\$'000)
Total expense arising from equity-settled share-based payment transactions	<u>8,470</u>

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\$184,529 thousand. As of September 30, 2018, the balance of the unearned employee salary was NT\$132,751 thousand.

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

	For the three-month period ended September 30, 2018 (NT\$'000)	For the nine-month period ended September 30, 2018 (NT\$'000)
Total expense arising from equity-settled share-based payment transactions	52,746	52,746

C. The Company did not modify the share-based payment plan for the nine-month period ended September 30, 2018.

(23) Sale

	For the three-month period ended September 30, 2018 (Note) (NT\$'000)		For the nine-month period ended September 30, 2018 (Note) (NT\$'000)	
	2017 (NT\$'000)	2017 (NT\$'000)	2017 (NT\$'000)	2017 (NT\$'000)
Revenue from customer contracts				
Sales of goods	6,379,073	6,100,372	17,345,459	15,877,969
Other operating revenue	35,895	51,499	123,605	164,523
Total	6,414,968	6,151,871	17,469,064	16,042,492

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

The Group 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)	PCB (NT\$'000)	Optics (NT\$'000)	Total (NT\$'000)
Sale of goods	12,459,383	2,603,481	2,282,595	17,345,459
Other	123,605	-	-	123,605
Total	<u>12,582,988</u>	<u>2,603,481</u>	<u>2,282,595</u>	<u>17,469,064</u>

The timing for revenue recognition:

At a point in time	<u>12,582,988</u>	<u>2,603,481</u>	<u>2,282,595</u>	<u>17,469,064</u>
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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	136,948	120,515	(16,433)
Customer loyalty programs	4,041	7,946	3,905
Total	<u>140,989</u>	<u>128,461</u>	<u>(12,528)</u>

For the nine-month period ended September 30, 2018, contract liabilities decreased because certain performance obligations included in the beginning contract liability balance were satisfied and therefore recognized for revenues.

(24) Expected credit losses/ (gains)

	For the nine-month period ended September 30,	
	2018 (NT\$'000)	2017 (Note) (NT\$'000)
Operating expenses – Expected credit losses/(gains) Account receivables	<u>8,583</u>	

Note: The Group adopted IFRS 9 since January 1, 2018. The Group 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 Group 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 September 30, 2018, there was no other receivables pastdue. Furthermore, the Group assessed the related expected credit loss to be insignificant because the counter-party financial institutions are of good credit condition.

The Group 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 Group's loss allowance as of September 30, 2018 is as follow:

A. The Group needs to consider the grouping 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:

Group 1	Neither past due	Past due				Total
	(Note)	<=30 days	31-60 days	61-90 days	91-120 days	
	(NT\$'000)	(NT\$'000)	(NT\$'000)	(NT\$'000)	(NT\$'000)	
Gross carrying amount	3,433,697	461,883	38,694	1,534	-	3,935,808
Loss ratio	-%	5%	15%	30%	50%	
Lifetime expected credit losses	-	(23,094)	(5,804)	(460)	-	(29,358)
Subtotal	3,433,697	438,789	32,890	1,074	-	3,906,450
Group 2	Neither past due	Past due				Total
	(Note)	<=30 days	31-60 days	61-90 days	91-120 days	
	(NT\$'000)	(NT\$'000)	(NT\$'000)	(NT\$'000)	(NT\$'000)	
Gross carrying amount	225,611	-	-	-	-	225,611
Loss ratio	1.413%	-%	-%	-%	-%	
Lifetime expected credit losses	(3,188)	-	-	-	-	(3,188)
Subtotal	222,423	-	-	-	-	222,423
Carrying amount of trade receivables	3,656,120	438,789	32,890	1,074	-	4,128,873

Note: all the Group'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)	-	23,972
Additions	-	8,725
Effect of exchange rate changes	-	(9)
Ending balance	-	32,546

(25) Operating lease

A. Group as a lessee

The commercial leasing agreements that the Group entered into for buildings and plants have average terms of one to five years. There are no restrictive covenants for the Group in the contracts.

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

	As of		
	9/30/2018 (NT\$'000)	12/31/2017 (NT\$'000)	9/30/2017 (NT\$'000)
Less than one year	111,482	100,592	97,917
More than one year but less than five years	117,237	203,571	228,719
Total	228,719	304,163	326,636

Operating lease expenses recognized are as follows:

	For the three-month period ended September 30,		For the nine-month period ended September 30,	
	2018 (NT\$'000)	2017 (NT\$'000)	2018 (NT\$'000)	2017 (NT\$'000)
Minimum lease payment	47,192	43,607	137,502	126,446

B. Group 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 September 30, 2018, December 31, 2017 and September 30, 2017, are as follows:

	As of		
	9/30/2018 (NT\$'000)	12/31/2017 (NT\$'000)	9/30/2017 (NT\$'000)
Less than one year	43,094	42,379	1,622
More than one year but less than five years	3,532	35,316	-
Total	46,626	77,695	1,622

For the three-month periods ended September 30, 2018 and 2017, rent incomes of the Group amounted to NT\$12,625 thousand and NT\$15,073 thousand, respectively. For the nine-month periods ended September 30, 2018 and 2017, rent incomes of the Group amounted to NT\$38,989 thousand and NT\$44,513 thousand, respectively.

(26) Summary statement of employee benefits, depreciation and amortization by function:

Function \ Nature	For the three-month period ended September 30, 2018 (NT\$'000)			For the three-month period ended September 30, 2017 (NT\$'000)		
	Cost of goods sold	Operating expense	Total	Cost of goods sold	Operating expense	Total
Employee benefit						
Salaries & wages	1,103,876	272,137	1,376,013	857,940	241,917	1,099,857
Labor and health insurance	71,658	14,641	86,299	58,006	17,131	75,137
Pension	28,187	8,461	36,648	23,679	9,387	33,066
Other employee benefit	41,494	13,393	54,887	76,163	34,463	110,626
Depreciation	998,757	64,129	1,062,886	671,328	149,705	821,033
Amortization	50	5,333	5,383	43	8,516	8,559

Function \ Nature	For the nine-month period ended September 30, 2018 (NT\$'000)			For the nine-month period ended September 30, 2017 (NT\$'000)		
	Cost of goods sold	Operating expenses	Total	Cost of goods sold	Operating expenses	Total
Employee benefit						
Salaries	2,842,397	682,520	3,524,917	2,211,677	617,186	2,828,863
Labor and health insurance	200,873	47,451	248,324	158,802	50,089	208,891
Pension	80,108	25,583	105,692	64,164	26,110	90,274

Other employee benefit	142,106	43,840	185,946	194,056	91,839	285,895
Depreciation	2,721,086	373,968	3,095,054	2,035,727	484,877	2,520,604
Amortization	151	20,795	20,946	127	21,629	21,756

A resolution was adopted at the shareholders' meeting of the Company held on May 27, 2017 to amend the Articles of Incorporation of the Company. According to the resolution, no lower than 10% of profit from current year is distributable as employees' compensation and no higher than 1% of profit from current year is distributable as remuneration to directors and supervisors. However, the Company's accumulated losses, if any, 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 distributed 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 profitability and following the rule of not lower than 10% and not higher than 1%, the Company incurred the employees' compensation and the remuneration to directors and supervisors, respectively, for the nine-month period ended September 30, 2018 and recorded them as employee benefits. As such, employees' compensation and remuneration to directors and supervisors for the three-month period ended September 30, 2018 amounted to NT\$37,306 thousand and NT\$2,270 thousand, respectively, and, for the nine-month period ended September 30, 2018, NT\$51,002 thousand and NT\$3,104 thousand, respectively. The Company incurred the employees' compensation and remuneration to directors and supervisors for the three-month period ended September 30, 2017 in amount of NT\$44,741 thousand and NT\$2,723 thousand, respectively, and, for the nine-month period ended September 30, 2017, NT\$77,237 thousand and NT\$4,701 thousand, respectively. The employees' compensation and remuneration to directors and supervisors were calculated based on current profitability and recognized as salaries.

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 amount.

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, 2016.

## (27) Non-operating incomes and expenses

## A. Other incomes

	For the three-month period ended September 30,		For the nine-month period ended September 30,	
	2018	2017	2018	2017
	(NT\$'000)	(NT\$'000)	(NT\$'000)	(NT\$'000)
Interest income	Note	14,539	Note	47,646
Financial assets measured at amortized cost	15,515	Note	47,210	Note
Other income — gain from reversal of allowance for doubtful accounts receivable	-	(3,168)	-	25,163
Other income — others	27,523	38,173	153,562	90,516
Total	43,038	49,544	200,772	163,325

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

## B. Other gains and losses

	For the three-month period ended September 30,		For the nine-month period ended September 30,	
	2018	2017	2018	2017
	(NT\$'000)	(NT\$'000)	(NT\$'000)	(NT\$'000)
Loss from disposal of property, plant and equipment	65	(10)	381	(6,063)
Foreign exchange gain (loss), net	(32,988)	19,098	(26,447)	53,019
Financial assets at fair value through profit(Note)	1,292	1,485	4,154	5,597
Gain on reversal of impairment loss	(6,891)	1,302	(23,782)	18,315
Other expenses	(14,990)	(9,133)	(34,750)	(22,757)
Total	(53,512)	12,742	(80,444)	48,111

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 three-month period ended September 30,		For the nine-month period ended September 30,	
	2018 (NT\$'000)	2017 (NT\$'000)	2018 (NT\$'000)	2017 (NT\$'000)
Interest on bank loans	32,804	20,196	86,901	54,258

## (28) Components of other comprehensive income (OCI)

For the three-month period ended September 30, 2018

	Arising during the period (NT\$'000)	Reclassification during the period (NT\$'000)	Subtotal (NT\$'000)	Income tax benefit (expense) (NT\$'000)	OCI, Net of tax (NT\$'000)
<u>To be reclassified to profit or loss in subsequent period:</u>					
Exchange differences arising on translation of foreign operations	(111,387)	-	(111,387)	-	(111,387)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	3,803	-	3,803	-	3,803
Total OCI	(107,584)	-	(107,584)	-	(107,584)

For the three-month period ended September 30, 2017

	Arising during the period (NT\$'000)	Reclassification during the period (NT\$'000)	Subtotal (NT\$'000)	Income tax benefit (expense) (NT\$'000)	OCI, Net of tax (NT\$'000)
<u>To be reclassified to profit or loss in subsequent period:</u>					
Exchange differences arising on translation of foreign operations	52,371	-	52,371	-	52,371
Unrealized valuation gain (loss) on available-for-sale financial assets	4,698	-	4,698	-	4,698
Total OCI	57,069	-	57,069	-	57,069

For the nine-month period ended September 30, 2018

	Arising during the period (NT\$'000)	Reclassification during the period (NT\$'000)	Subtotal (NT\$'000)	Income tax benefit (expense) (NT\$'000)	OCI, Net of tax (NT\$'000)
<u>To be reclassified to profit or loss in subsequent period:</u>					
Exchange differences arising on translation of foreign operations	(71,405)	-	(71,405)	-	(71,405)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	8,118	-	8,118	-	8,118
Total OCI	<u>(63,287)</u>	<u>-</u>	<u>(63,287)</u>	<u>-</u>	<u>(63,287)</u>

For the nine-month period ended September 30, 2017

	Arising during the period (NT\$'000)	Reclassification during the period (NT\$'000)	Subtotal (NT\$'000)	Income tax benefit (expense) (NT\$'000)	OCI, Net of tax (NT\$'000)
<u>To be reclassified to profit or loss in subsequent period:</u>					
Exchange differences arising on translation of foreign operations	(86,652)	-	(86,652)	-	(86,652)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(2,331)	-	(2,331)	-	(2,331)
Total OCI	<u>(88,983)</u>	<u>-</u>	<u>(88,983)</u>	<u>-</u>	<u>(88,983)</u>

(29) Income tax

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

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.

Income tax expense (benefit) recognized in profit or loss

	For the three-month		For the nine-month	
	period ended September 30,		period ended September 30,	
	2018	2017	2018	2017
	(NT\$'000)	(NT\$'000)	(NT\$'000)	(NT\$'000)
Current income tax expense (benefit):				
Current income tax expense	106,991	79,515	202,041	163,844
Adjustments in respect of current income tax of prior periods	-	-	(119,377)	180
Deferred tax expense (benefit):				
Deferred tax expense (benefit) relating to origination and reversal of temporary differences	(664)	(5,644)	142,625	(4,623)
Deferred tax expense (income) relating to changes in tax rate or the imposition of new taxes	-	-	(21,257)	-
Total income tax expense	<u>106,327</u>	<u>73,871</u>	<u>204,032</u>	<u>159,401</u>

## B. The assessment of income tax return

As of September 30, 2018, the assessment status of income tax returns of the Company and subsidiaries were as follows:

	<u>The assessment of income tax returns</u>
The Company	Note
Subsidiary - Pegavision Corporation	Assessed and approved up to 2015
Subsidiary - Kinsus Investment Co., Ltd.	Assessed and approved up to 2016

Note: As of September 30, 2018, the Company's tax filings up to 2015, except for 2014, have been finalized.

## (30) 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 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 three-month period ended September 30,		For the nine-month period ended September 30,	
	2018	2017	2018	2017
Net income available to common shareholders of the parent (in thousand NT\$)	241,698	276,059	345,686	476,002
Weighted average number of common shares outstanding (in thousand shares)	446,011	445,450	446,011	445,450
Basic earnings per share (in NT\$)	0.54	0.62	0.78	1.07

## B. Diluted earnings per share

	For the three-month period ended September 30,		For the nine-month period ended September 30,	
	2018	2017	2018	2017
Net income available to common shareholders of the parent (in thousand NT\$)	241,698	276,059	345,686	476,002
Net income available to common shareholders of the parent after dilution (in thousand NT\$)	241,698	276,059	345,686	476,002
Weighted average number of common shares outstanding (in thousand shares)	446,011	445,450	446,011	445,450
Effect of dilution:				
Employee compensation – stock (in thousand shares)	981	1,031	1,671	1,624
Restricted stocks for employees (in thousand shares)	151	-	151	-

Weighted average number of common shares outstanding after dilution (in thousand shares)	447,143	446,481	447,833	447,074
Diluted earnings per share (in NT\$)	0.54	0.62	0.77	1.06

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.

(31) Subsidiary that has material non-controlling interests

Proportion of equity interest held by non-controlling interests:

Name	Country	As of		
		9/30/2018	12/31/2017	9/30/2017
PIOTEK HOLDINGS LTD. and its subsidiary	China	51.00%	51.00%	51.00%
Pegavision Corporation and its subsidiary	Taiwan	36.81%	36.81%	36.81%

Accumulated balances of material non-controlling interest:

	As of		
	9/30/2018 (NT\$'000)	12/31/2017 (NT\$'000)	9/30/2017 (NT\$'000)
PIOTEK HOLDINGS LTD. and subsidiaries	748,804	989,234	1,076,457
Pegavision Corporation and its subsidiary	1,172,581	927,203	862,906

Profit (loss) allocated to material non-controlling interest:

	For the nine-month period ended September 30,	
	2018 (NT\$'000)	2017 (NT\$'000)
PIOTEK HOLDINGS LTD. and subsidiaries	(223,765)	(262,228)
PEGAVISION CORPORATION and subsidiary	246,323	127,004

The summarized financial information of this subsidiary is provided below. This information is based on amounts before inter-company eliminations.

Summarized Piotek Holdings Ltd. and subsidiaries information of profit or loss is as follows:

	For the nine-month period ended September 30,	
	2018	2017
	(NT\$'000)	(NT\$'000)
Operating revenue	2,606,251	3,188,011
Profit/loss from continuing operation	(456,664)	(535,160)
Total comprehensive income for the period	(490,686)	(600,616)

Summarized Pegavision Corporation and subsidiaries information of profit or loss is as follows:

	For the nine-month period ended September 30,	
	2018	2017
	(NT\$'000)	(NT\$'000)
Operating revenue	2,282,594	1,519,389
Profit/loss from continuing operation	389,842	201,002
Total comprehensive income for the period	388,347	200,222

Summarized Piotek Holdings Ltd. and subsidiaries information of financial position is as follows:

	As of		
	9/30/2018	12/31/2017	9/30/2017
	(NT\$'000)	(NT\$'000)	(NT\$'000)
Current assets	1,734,888	2,051,595	2,131,393
Non-current assets	1,787,483	2,112,365	2,223,051
Current liabilities	1,605,249	1,594,928	1,540,990
Non-current liabilities	388,949	550,173	616,608

Summarized Pegavision Corporation and subsidiaries information of financial position is as follows:

	As of		
	9/30/2018 (NT\$'000)	12/31/2017 (NT\$'000)	9/30/2017 (NT\$'000)
Current assets	1,760,049	1,227,355	1,129,082
Non-current assets	2,604,535	1,682,133	1,199,793
Current liabilities	1,865,484	1,394,621	905,870
Non-current liabilities	643,321	47,435	57,332

Summarized Pirotek Holdings Ltd. and subsidiaries cash flows information is as follows:

	For the nine-month period ended September 30,	
	2018 (NT\$'000)	2017 (NT\$'000)
Operating activities	(125,011)	(39,736)
Investing activities	(59,854)	(40,355)
Financing activities	32,636	(74,688)
Net increase/(decrease) in cash and cash equivalents	(145,991)	(167,176)

Summarized Pirotek Holdings Ltd. and subsidiaries cash flows information is as follows:

	For the nine-month period ended September 30,	
	2018 (NT\$'000)	2017 (NT\$'000)
Operating activities	813,549	875,000
Investing activities	(1,671,040)	(424,385)
Financing activities	938,388	(65,295)
Net increase/(decrease) in cash and cash equivalents	79,408	384,567

**7. RELATED PARTY TRANSACTIONS**

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

## Related parties and Relationship

Related parties	Relation
Pegatron Corporation	Parent company
FuYang Technology Corp.	Associate
AS FLY TRAVEL SERVICE LIMITED	Other related party
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 Co., Ltd.	Other related party

## (2) Significant transactions with related parties

## A. Sale

	For the three-month period ended September 30,		For the nine-month period ended September 30,	
	2018	2017	2018	2017
	(NT\$'000)	(NT\$'000)	(NT\$'000)	(NT\$'000)
Ultimate parent company	428,942	356,761	1,149,733	1,078,968
Other related parties	12,440	13,605	29,099	45,539
Total	441,382	370,366	1,178,832	1,124,507

Selling prices and collection terms to related parties for the nine-month periods ended September 30, 2018 and 2017 were similar to those to third party customers. The collection terms were 30 to 90 days from the end of delivery month and by telegraphic transfer.

## B. Purchases

	For the three-month period ended September 30,		For the nine-month period ended September 30,	
	2018	2017	2018	2017
	(NT\$'000)	(NT\$'000)	(NT\$'000)	(NT\$'000)
Other related parties	-	(1,030)	-	69,658

The product specification of goods purchased from related parties for the nine-month periods ended September 30, 2018 and 2017, differed from those purchased from other vendors. Thus, transaction prices were not comparable. The payment terms for related parties were 60 days and non-related parties are 30 to 90 days from the end of delivery month by telegraphic transfer.

- C. For the nine-month periods ended September 30, 2018 and 2017, the Group recognized rent expenses of NT\$81,962 thousand and NT\$67,589 thousand, respectively, for plants leased from the Parent.

Moreover, for the nine-month periods ended September 30, 2018 and 2017, the Group recognized rent expenses of NT\$638 thousand and NT\$637 thousand, respectively, for plants leased from other related parties.

In addition, for the nine-month periods ended September 30, 2018 and 2017, the Group recognized rent expenses of NT\$786 thousand and NT\$135 thousand (tax included), respectively, for various facilities leased from the Parent.

- D. For the nine-month periods ended September 30, 2018 and 2017, the Group recognized operating expenses of NT\$2,557 thousand and NT\$3,851 thousand, respectively, for services provided by other related parties.

Moreover, for the nine-month periods ended September 30, 2018 and 2017, the Group recognized operating expenses of NT\$4,270 thousand and NT\$347 thousand (tax included), respectively, for services provided by the Parent.

In addition, for the nine-month periods ended September 30, 2018 and 2017, the Group incurred operating expenses of NT\$70,057 thousand and NT\$58,706 thousand (tax included), respectively, for utility bills paid by the Parent on behalf of the Group.

- E. For the nine-month periods ended September 30, 2018 and 2017, the Group recognized rent income of NT\$1,629 thousand and NT\$4,022 thousand, respectively, for plants leased to other related parties.

For the nine-month periods ended September 30, 2018 and 2017, the Group recognized rent income of NT\$32,744 thousand and NT\$29,532 thousand, respectively, for plants leased to other related parties.

- F. For the nine-month period ended September 30, 2018 and 2017, the Company recognized other income in amount of NT\$14,367 thousand and NT\$14,216 thousand due to paying utilities on behalf of associate.

The Company recognized NT\$1,968 thousand of operating expense for the nine-month period ended September 30, 2018 due to subcontracting maintenance and repair on factories to its associate.

For the nine-month period ended September 30, 2017, the Group recognized other income of NT\$259 thousand for providing services to other related parties.

For the nine-month period ended September 30, 2017, the Group paid on behalf of associate in amount of NT\$140 thousand.

#### G. Accounts receivable - related parties

	As of		
	9/30/2018 (NT\$'000)	12/31/2017 (NT\$'000)	9/30/2017 (NT\$'000)
Parent company	450,269	326,216	356,337
Other related parties	9,507	7,484	9,393
Total	459,776	333,700	365,730
Less: loss allowance	-	-	-
Net	459,776	333,700	365,730

#### H. Salaries and rewards to key management of the Group

	For the three-month period ended September 30,		For the nine-month period ended September 30,	
	2018 (NT\$'000)	2017 (NT\$'000)	2018 (NT\$'000)	2017 (NT\$'000)
Short-term employee benefit	17,386	19,810	49,705	59,935
Post-employee benefit	189	189	567	567
Total	17,575	19,999	50,272	60,502

#### I. Other receivables

	As of		
	9/30/2018 (NT\$'000)	12/31/2017 (NT\$'000)	9/30/2017 (NT\$'000)
Associate	6,336	5,888	45,110
Other related parties	289	355	1,323
Total	6,625	6,243	46,433

## J. Refundable deposits

	As of		
	9/30/2018 (NT\$'000)	12/31/2017 (NT\$'000)	9/30/2017 (NT\$'000)
Parent company	10,000	10,000	10,000

## K. Accrued expenses

	As of		
	9/30/2018 (NT\$'000)	12/31/2017 (NT\$'000)	9/30/2017 (NT\$'000)
Parent company	19,382	19,076	19,049
Associate	486	452	-
Other related parties	550	658	810
Total	20,418	20,186	19,859

8. PLEDGED ASSETS

The following assets of the Group are pledged as collaterals:

Item	Carrying Amount As of			Purpose
	9/30/2018 (NT\$'000)	12/31/2017 (NT\$'000)	9/30/2017 (NT\$'000)	
Property, plant and equipment – machinery (carrying amount)	808,049	141,132	156,504	Long-term secured loans
Property, plant and equipment – other equipment (carrying amount)	240,463	2,422	2,762	Long-term secured loans
Refundable deposits	2,000	2,000	2,000	Security deposit to custom authority
Total	1,050,512	145,554	161,266	

9. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) The Group's unused letters of credit (LC) as of September 30, 2018 were as follows:

Currency	LC Amount (in thousand)	Security(in thousand)
JPY	JPY 1,713,840	-
USD	USD 4,869	-

- (2) Details of significant constructions in progress and outstanding contracts of property, plant and equipment as of September 30, 2018 were as follows:

Nature of Contract	Contract Amount (NT\$'000)	Amount Paid (NT\$'000)	Outstanding Balance (NT\$'000)
Land	1,311,000	131,100	1,179,900
Machinery and construction contracts	4,814,612	3,828,964	985,648
Total	6,125,612	3,960,064	2,165,548

#### 10. SIGNIFICANT DISASTER LOSS

None

#### 11. SIGNIFICANT SUBSEQUENT EVENT

None

#### 12. OTHERS

- (1) Categories of financial instruments

##### Financial assets

	As of		
	9/30/2018 (NT\$'000)	12/31/2017 (NT\$'000)	9/30/2017 (NT\$'000)
Financial assets at fair value through profit or loss:			
Held for trading	(Note 1)	1,553,833	1,420,440
Mandatorily measured at fair value through P/L	1,015,889	(Note 1)	(Note 1)
Financial assets at fair value through OCI	50,000	(Note 1)	(Note 1)
Available-for-sale financial assets (Note 2)	(Note 1)	50,000	50,000
Financial assets measured at amortized cost (Note 3)	15,131,201	(Note 1)	(Note 1)
Loans and receivables (Note 4)	(Note 1)	14,661,548	15,760,054
Total	16,197,090	16,265,381	17,230,494

Financial liabilities

	As of		
	9/30/2018 (NT\$'000)	12/31/2017 (NT\$'000)	9/30/2017 (NT\$'000)
Financial liabilities at amortized cost:			
Short-term borrowings	3,561,026	3,297,397	3,624,239
Trade and other payables	5,760,675	6,168,825	6,797,533
Long-term borrowings(including current portion with maturity less than 1 year)	3,770,156	2,258,912	2,492,321
Total	13,091,857	11,725,134	12,914,093

## Note:

- 1) The Group adopted IFRS 9 since January 1, 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.
  - 2) Balances as of December 31, 2017 and September 30, 2017 include financial assets measured at cost.
  - 3) 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).
  - 4) 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 Group's principal financial risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activities. The Group identifies, measures, and manages the aforementioned risks based on its policy and risk preferences.

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

Foreign currency sensitivity analysis of possible change in foreign exchange rates on the Group's profit/loss and equity is performed on significant monetary items denominated in foreign currencies as of the reporting period-end. The Group'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%, net income (loss) for the nine-month periods ended September 30, 2018 and 2017 would increase/decrease by NT\$2,780 thousand and NT\$7,684 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 Group's exposure to interest rate risk relates primarily to the Group'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 nine-month periods ended September 30, 2018 and 2017

would decrease/increase by NT\$5,173 thousand and decrease/increase by NT\$3,392 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 Group 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 Group'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 Group's internal credit ratings. The Group also employs some credit enhancement instruments (e.g. prepayment or insurance) to reduce certain customers' credit risk.

As of September 30, 2018, December 31, 2017 and September 30, 2017, receivables from the top ten customers were accounted for 44.75%, 40.77% and 49.01% of the Group's total accounts receivable, respectively. The concentration of credit risk is relatively insignificant for the remaining receivables.

Credit risk from balances with banks, fixed-income securities and other financial instruments is managed by the Group's finance division in accordance with the Group's policy. The counterparties that the Group 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. Conclusively, no significant credit risk is expected by the Group.

#### (5) Liquidity risk management

The Group 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 Group'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 September 30, 2018</u>						
Loans	4,474,706	2,566,305	330,102	146,125	-	7,517,238
Payables	5,760,675	-	-	-	-	5,760,675
<u>As of December 31, 2017</u>						
Loans	3,901,916	693,052	560,167	371,390	164,792	5,691,317
Payables	6,168,825	-	-	-	-	6,168,825
<u>As of September 30, 2017</u>						
Loans	4,284,893	704,131	627,571	421,946	219,723	6,258,264
Payables	6,797,533	-	-	-	-	6,797,533

## (6) Movement schedule of liabilities arising from financing activities

Movement schedule of liabilities for the nine-month period ended September 30, 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	3,297,397	2,258,912	50,577	5,606,886
Cash flows	263,629	1,498,335	(3,002)	1,758,962
Currency rate change	-	12,909	-	12,909
As of September 30, 2018	<u>3,561,026</u>	<u>3,770,156</u>	<u>47,575</u>	<u>7,378,757</u>

Movement schedule of liabilities for the nine-month period ended September 30, 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 Group 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 informations (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 Group'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 Group.

## (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 Group 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 Group's assets and liabilities

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

As of September 30, 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	1,015,889	-	-	1,015,889
Financial assets at fair value through other comprehensive income				
Equity instrument measured at fair value through other comprehensive income	-	-	50,000	50,000

Financial liabilities:

None

As of December 31, 2017

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<u>(NT\$'000)</u>	<u>(NT\$'000)</u>	<u>(NT\$'000)</u>	<u>(NT\$'000)</u>
<u>Financial assets:</u>				
Financial assets at fair value through profit or loss				
Funds	1,553,833	-	-	1,553,833

Financial liabilities:

None

As of September 30, 2017

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<u>(NT\$'000)</u>	<u>(NT\$'000)</u>	<u>(NT\$'000)</u>	<u>(NT\$'000)</u>
<u>Financial assets:</u>				
Financial assets at fair value through profit or loss				
Funds	1,420,440	-	-	1,420,440

Financial liabilities:

None

Transfers between Level 1 and Level 2 during the period

For the nine-month periods ended September 30, 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 nine-month periods ended September 30, 2018, there was not movement of fair value measurements.

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

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

	As of					
	9/30/2018			12/31/2017		
	Foreign Currencies (\$'000)	Exchange Rate	NTD (NT\$'000)	Foreign Currencies (\$'000)	Exchange Rate	NTD (NT\$'000)
<u>Financial assets</u>						
Monetary items:						
USD	151,804	30.525	4,633,750	134,359	29.76	3,998,580
CNY	88,538	4.4373	392,867	99,637	4.5548	453,827
<u>Financial liabilities</u>						
Monetary items:						
USD	137,531	30.525	4,198,113	145,431	29.76	4,328,039
CNY	158,927	4.4373	705,207	118,753	4.5545	540,860
	As of					
	9/30/2017					
	Foreign Currencies (\$'000)	Exchange Rate	NTD (NT\$'000)			
<u>Financial assets</u>						
Monetary items:						
USD	139,379	30.26	4,217,606			
CNY	88,046	4.5597	401,459			
<u>Financial liabilities</u>						
Monetary items:						
USD	158,340	30.26	4,791,366			
CNY	109,036	4.5594	497,133			

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 nine-month period ended September 30,	
	2018 (NT\$'000)	2017 (NT\$'000)
USD	(25,023)	45,989
Other	(1,424)	7,030

(10) Capital management

The primary objective of the Group'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 Group manages and adjusts its capital structure in light of changes in economic conditions. To maintain or adjust the capital structure, the Group 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 September 30, 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 nine-month period ended September 30, 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 nine-month period ended September 30, 2018: Please refer to attachment 3.

F. Disposal of individual real estate with amount of at least NT\$100 million or 20 percent of the paid-in capital for the nine-month period ended September 30, 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 nine-month period ended September 30, 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 September 30, 2018: None.

I. Derivative instrument transactions: None.

J. Intercompany relationships and significant intercompany transactions for the nine-month period ended September 30, 2018: Please refer to attachment 11.

(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 September 30, 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 nine-month period ended September 30, 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 nine-month period ended September 30, 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 nine-month period ended September 30, 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 nine-month period ended September 30, 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 September 30, 2018: Please refer to attachment 10

(i) Derivative instrument transactions: None.

(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	Paid-in Capital (NT\$'000)	Method of Investment	Accumulated Outflow of Investment from Taiwan as of Jan. 1, 2018 (NT\$'000)	Investment Flows		Accumulated Outflow of Investment from Taiwan as of September 30, 2018 (NT\$'000)	Profit/Loss of Investee (NT\$'000)	Percentage of Ownership (Direct or Indirect Investment)	Share of Profit/Loss (NT\$'000)	Carrying Amount as of September 30, 2018 (NT\$'000)	Accumulated Inward Remittance of Earnings as of September 30, 2018 (NT\$'000)	Accumulated Outflow of Investment from Taiwan to Mainland China as of September 30, 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)	2,136,750 (Note 2)	(Note 1)	2,136,750 (Note 2)	-	-	2,136,750 (Note 2)	102,515 (Note 2 and Note 4)	100%	102,515 (Note 2、Note 4 and Note 7)	1,317,273 (Note 2、Note 4 and Note 7)	-	2,136,750 (Note 2)	2,136,750 (Note 2)	No upper limit (Note 5)

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Kinsus Interconnect Technology Corp.

Notes to Consolidated Financial Statements (Continued)

Piotek Computer (Suzhou) Co., Ltd.	Researching, developing, producing and selling electronic components, PCBs and related products and providing after-sale services	5,088,518 (Note 2)	(Note 1)	2,877,095 (Note 2)	-	-	2,877,095 (Note 2)	(467,916) (Note 2 and Note 4)	51%	(238,637) (Note 2、Note 4 and Note 7)	741,138 (Note 2、Note 4 and Note 7)	-	2,877,095 (Note 2)	2,877,095 (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	61,050 (Note 2)	(Note 1)	61,050 (Note 2)	-	-	61,050 (Note 2)	1,928 (Note 2 and Note 4)	100%	1,928 (Note 2、Note 4 and Note 7)	61,718 (Note 2、Note 4 and Note 7)	-	61,050 (Note 2)	61,050 (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	152 (Note 2 and Note 4)	36.81%	56 (Note 2 and Note 7)	21,157 (Note 2 and Note 7)	-	65,062	65,062	1,006,864 (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 reviewed 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 Pagavision Corporation.

Note 7: Transactions are eliminated upon preparation of consolidated financial statements.

B. Significant transactions with investees in China:

- (a) Purchase and balances of related accounts payable as of September 30, 2018: Please refer to attachment 11 for details.
- (b) Sale and balance of related accounts receivable as of September 30, 2018: Please refer to attachment 11 for details.
- (c) Property transaction amounts and resulting gain or loss: None.
- (d) Ending balance of endorsements/guarantees or collateral provided and the purposes: Please refer to attachment 1.
- (e) Maximum balance, ending balance, interest rate range and total interest for current period from financing provided to others: None.
- (f) Transactions that have significant impact on profit or loss of current period or the financial position, such as services provided or rendered: Please refer to attachment 11 for details.
- (g) Above transactions are eliminated upon preparation of consolidated financial statements. Please refer to attachment 11 for details.

14. OPERATING SEGMENT

For management purposes, the Group is organized into operating segments based on different products and services and has two reportable operating segments as follows:

IC Substrate: This segment produces and manufactures BGA substrates and sells the products to manufacturers of electronic products.

Printed Circuit Board (PCB): This segment produces and manufactures PCBs and sells the products to manufacturers of electronic products.

Optics: This segment produces, manufactures and sells contact lens.

No operating segments have been aggregated to form the above reportable operating segments.

The Group's operating segments adopts the same accounting policies as the ones in Note 4. Management monitors the operating results of its business units separately for the purpose of

decision-making on resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and measured consistently with methods applied to operating profit or loss in the consolidated financial statements.

Segment income (loss), assets and liabilities

For the three-month period ended September 30, 2018

	IC Substrate (NT\$'000)	PCB (NT\$'000)	Optics (NT\$'000)	Elimination (NT\$'000)	Consolidated (NT\$'000)
External customer	4,541,373	1,006,593	867,002	-	6,414,968
Inter-segment	-	-	-	-	-
Total revenue	4,541,373	1,006,593	867,002	-	6,414,968
Segment income (loss)	197,972	(69,979)	180,032	-	308,025

For the nine-month period ended September 30, 2018

	IC Substrate (NT\$'000)	PCB (NT\$'000)	Optics (NT\$'000)	Elimination (NT\$'000)	Consolidated (NT\$'000)
External customer	12,582,988	2,603,481	2,282,595	-	17,469,064
Inter-segment	-	-	-	-	-
Total revenue	12,582,988	2,603,481	2,282,595	-	17,469,064
Segment income (loss)	412,559	(434,157)	389,842	-	368,244

For the three-month period ended September 30, 2017

	IC Substrate (NT\$'000)	PCB (NT\$'000)	Optics (NT\$'000)	Elimination (NT\$'000)	Consolidated (NT\$'000)
External customer	4,472,642	1,153,903	525,326	-	6,151,871
Inter-segment	-	-	-	-	-
Total revenue	4,472,642	1,153,903	525,326	-	6,151,871
Segment income (loss)	362,050	(214,040)	68,071	-	216,081

For the nine-month period ended September 30, 2017

	IC Substrate (NT\$'000)	PCB (NT\$'000)	Optics (NT\$'000)	Elimination (NT\$'000)	Consolidated (NT\$'000)
External customer	11,667,224	2,855,879	1,519,389	-	16,042,492
Inter-segment	-	-	-	-	-

Total revenue	11,667,224	2,855,879	1,519,389	-	16,042,492
Segment income (loss)	683,636	(543,860)	201,002	-	340,778

Details of assets and liabilities under the Group's operating segments are as follows:

<u>Segment assets</u>	IC Substrate (NT\$'000)	PCB (NT\$'000)	Optics (NT\$'000)	Elimination (NT\$'000)	Consolidated (NT\$'000)
As of 9/30/2018	35,435,257	3,607,255	4,364,584		43,407,096
As of 12/31/2017	35,163,890	4,204,099	2,909,488	-	42,277,477
As of 9/30/2017	36,603,170	4,364,847	2,328,826	-	43,296,843

  

<u>Segment liabilities</u>	IC Substrate (NT\$'000)	PCB (NT\$'000)	Optics (NT\$'000)	Elimination (NT\$'000)	Consolidated (NT\$'000)
As of 9/30/2018	9,254,263	1,993,730	2,508,805		13,756,798
As of 12/31/2017	8,796,253	2,124,169	1,442,057	-	12,362,479
As of 9/30/2017	10,317,020	2,108,002	963,153	-	13,388,175

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Kinsus Interconnect Technology Corp. and Subsidiaries

Endorsement/Guarantee Provided to Others

For the nine-month period ended September 30, 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 or Relationship										
0	Kinsus Interconnect Technology Corp.	Piotek Computer (Suzhou) Co., Ltd.	The Company directly and indirectly hold more than 50% of the voting shares.	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 \$5,547,783.	\$467,033 USD 15,300  (Note 2)	\$467,033 USD 15,300  (Note 2)	\$175,137	\$-	1.68%	Shall not exceed 50% of the net worth in the current financial statements.  \$13,864,457	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. and Subsidiaries

Marketable Securities Held as of September 30, 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	September 30, 2018			Fair Value (Note)	Note
				Shares / Units	Carrying Amount	Shareholding %		
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	-%	\$266,524	
	FSITC Money Market Fund	-	Financial assets at fair value through profit or loss	1,168,258	200,000	-%	207,861	
	Mega Diamond Money Market Fund	-	Financial assets at fair value through profit or loss	21,355,432	257,509	-%	267,099	
	Jih Sun Money Market	-	Financial assets at fair value through profit or loss	17,776,549	255,443	-%	262,659	
	Subtotal				968,748		\$1,004,143	
	Add: Valuation adjustments of financial assets held for trading				35,395			
Total				<u>\$1,004,143</u>				

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

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Kinsus Interconnect Technology Corp. and Subsidiaries

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

For the nine-month period ended September 30, 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.	Houses and buildings Construction of XinFeng Plant	2014.02.13, 2015.03.24	\$2,268,036	NT\$2,052,032 thousand was paid as of September 30, 2018	Guo-Gong Construction Co., Ltd.	None	None	None	None	None	Bidding	Production expansion and operation planning	None

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Kinsus Interconnect Technology Corp. and Subsidiaries

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

For the nine-month period ended September 30, 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	\$1,722,967	28.70%	Payment within 30 days from the end of delivery month	Specs of goods purchased are different from others. Cannot be reasonably compared.	Other vendors also enjoy payment within 30~90 days from the end of delivery month	Accounts payable \$(250,056)	(14.92)%	Note

Note: Transactions are eliminated when preparing the consolidated financial statements.

Investor	Investee	Business Location	Main Business and Product	Original Investment Amount		Ending balance			Net Income (Loss) of the Investee	Share of Income (Loss) of the Investee	Note
				As of September 30, 2017	As of September 30, 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	100.00%	\$47,781	\$6,737	\$6,737	Note
Kinsus Interconnect Technology Corp.	KINSUS HOLDING (SAMOA) LIMITED	Samoa	Investing activities	USD166,309	USD166,309	166,308,720	100.00%	\$2,158,358	\$(130,667)	\$(130,667)	Note
Kinsus Interconnect Technology Corp.	Kinsus Investment Co., Ltd.	Taoyuan City	Investing activities	\$1,600,000 (Note 1)	\$1,600,000 (Note 1)	160,000,000	100.00%	\$1,736,378	\$(8,394)	\$(8,394)	Note
Kinsus Investment Co., Ltd.	Pegavision Corporation	Taoyuan City	Manufacturing medical equipment	\$286,418	\$286,418	22,088,736	36.81%	\$683,197	\$389,842	\$143,519	Note
Kinsus Investment Co., Ltd.	FuYang Technology Corp.	Hsinchu County	Electronic Parts and Components Manufacturing	\$929,422	\$929,422	64,176,872	35.65%	\$679,325	\$(424,437)	\$(151,328)	
KINSUS HOLDING (SAMOA) LIMITED	KINSUS HOLDING (CAYMAN) LIMITED	Cayman Islands	Investing activities	USD72,000	USD72,000	72,000,000	100.00%	USD 45,176	USD 3,422	USD 3,422	Note
KINSUS HOLDING (SAMOA) LIMITED	PIOTEK HOLDINGS LTD. (CAYMAN)	Cayman Islands	Investing activities	USD94,309	USD94,309	95,755,000	51.00%	USD 25,532	USD (15,284)	USD (7,795)	Note
PIOTEK HOLDINGS LTD. (CAYMAN)	PIOTEK HOLDING LIMITED	British Virgin Islands	Investing activities	USD139,841	USD139,841	139,840,790	100.00%	USD 50,063	USD (15,284)	USD (15,284)	Note
PIOTEK HOLDING LIMITED	PIOTEK (H.K.) TRADING LIMITED	Hong Kong	Trading activities	USD26	USD26	200,000	100.00%	USD 2,438	USD 47	USD 47	Note
Pegavision Corporation	PEGAVISION HOLDINGS CORPORATION	Samoa	Investing activities	USD2,130	USD2,130	2,130,000	100.00%	\$(8,194)	\$129	\$129	Note
Pegavision Corporation	PEGAVISION JAPAN INC.	JAPAN	Selling Medical facility	JPY 9,900	JPY 9,900	198	100.00%	\$8,413	\$4,194	\$4,194	Note

Note: Transactions are eliminated when preparing the consolidated financial statements.

Note 1: 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 2016 and 2017, respectively. After the increases, the Company's investment amount increased to NT\$1,600,000 thousand.

## Kinsus Interconnect Technology Corp. and Subsidiaries

Marketable Securities Held as of September 30, 2018 (Excluding Investments in Subsidiaries, Associates and Jointly Controlled Entities)

As of September 30, 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 September 30, 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:	-	Financial assets at fair value through profit or loss	829,070	\$11,315	-%	<u>\$11,746</u>	-	<u>\$-</u>	
	Taishin Ta Chong Money Market Fund									
	Valuation adjustments of financial assets held for trading				431					
	Total				<u>\$11,746</u>					
Kinsus Investment Co., Ltd.	Stocks:	-	Measured at fair value through other comprehensive income	5,000,000	\$50,000	7.49%	<u>\$50,000</u>	-	<u>\$-</u>	
	Yi-Shuo Creative Co., Ltd.									

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Kinsus Interconnect Technology Corp. and Subsidiaries

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 nine-month period ended September 30, 2018

Table 7

(In Thousands of New Taiwan Dollars)

Company Name	Type and Name of Marketable Securities	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal			Ending Balance		
					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	40,870,339	\$616,141	47,835,599	\$721,154	\$721,041	\$113	-	\$-

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp. and Subsidiaries

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

For the nine-month period ended September 30, 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	Land, houses and buildings Donglong Section, Daxi District, Taoyuan City. Thirteen land Five buildings	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. and Subsidiaries

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

As of September 30, 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 38,480	44.33%	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 14,751	43.56%	
Kinsus Interconnect Technology Suzhou Corp.	Kinsus Interconnect Technology Corp.	Parent company	Sales	USD 58,080	98.19%	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 8,589	92.49%	Note
Piotek Computer (Suzhou) Co., Ltd.	Piotek (H.K.) Trading Limited	Also a subsidiary under the Company's control	Sales	USD 6,692	7.71%	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 1,331	3.93%	Note
Piotek (H.K.) Trading Limited	Piotek Computer (Suzhou) Co., Ltd.	Also a subsidiary under the Company's control	Purchase	USD 6,692	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 (1,331)	(100.00)%	Note
Pegavision Corporation	Pegavision Japan Inc.	Subsidiary	Sales	\$307,421	13.36%	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 \$60,053	17.19%	Note
Pegavision Japan Inc.	Pegavision Corporation	Parent company	Purchase	\$307,421	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 \$(60,053)	(100.00)%	Note
Pegavision Corporation	Pegavision Contact Lenses (SHANGHAI) Corporation	Subsidiary	Sales	\$158,059	6.87%	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 \$109,432	31.32%	Note
Pegavision Contact Lenses (SHANGHAI) Corporation	Pegavision Corporation	Parent company	Purchase	\$158,059	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 \$(109,432)	(100.00)%	Note

Note: Transactions are eliminated when preparing the consolidated financial statements.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Kinsus Interconnect Technology Corp. and Subsidiaries

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

As of September 30, 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	<u>USD 14,751</u> (Note)	<u>3.99</u>	<u>\$-</u>	-	<u>\$-</u>	<u>\$-</u>
Kinsus Interconnect Technology Suzhou Corp.	Kinsus Interconnect Technology Corp.	Parent company	<u>USD 8,589</u> (Note and Note 1)	<u>10.07</u>	<u>\$-</u>	-	<u>\$-</u>	<u>\$-</u>
Pegavision Corporation	Pegavision Contact Lenses (SHANGHAI) Corporation	Parent company	<u>\$109,432</u> (Note and Note 1)	<u>3.06</u>	<u>\$-</u>	-	<u>\$-</u>	<u>\$-</u>

Note: Accounts receivable

Note 1: Transactions are eliminated when preparing the consolidated financial statements.

(In Thousands of Foreign Currency / New Taiwan Dollars)

No. (Note 1)	Company Name	Counter-Party	Nature of Relationship (Note 2)	Intercompany Transaction			Percentage to Consolidated Net Revenue or Total Assets (Note 3)
				Financial Statement Account	Amount	Terms	
	<u>2018.09.30</u>						
0	Kinsus Interconnect Technology Corp.	Xiang-Shuo (Suzhou) Trading Limited	1	Other receivables	\$1,171	Payment within 60 days from the end of delivery month by TT	0.01%
0	Kinsus Interconnect Technology Corp.	KINSUS CORP. (USA)	1	Accrued expense	\$3,403	Payment within 30 days from the end of delivery month by TT	0.01%
0	Kinsus Interconnect Technology Corp.	Kinsus Interconnect Technology Suzhou Corp.	1	Accounts payable	\$250,056	Payment within 30 days from the end of delivery month	0.58%
0	Kinsus Interconnect Technology Corp.	Piotek Computer (Suzhou) Co., Ltd.	1	Other receivables	\$2,881	-	0.01%
0	Kinsus Interconnect Technology Corp.	Kinsus Interconnect Technology Suzhou Corp.	1	Other receivables	\$20,858	-	0.05%
0	Kinsus Interconnect Technology Corp.	Kinsus Interconnect Technology Suzhou Corp.	1	Purchase	\$1,772,967	Payment within 30 days from the end of delivery month	10.15%
0	Kinsus Interconnect Technology Corp.	KINSUS CORP. (USA)	1	Commission expense	\$30,594	Payment within 60 days from the end of delivery month by TT	0.18%
0	Kinsus Interconnect Technology Corp.	KINSUS CORP. (USA)	1	Travel expense	\$149	-	-%
0	Kinsus Interconnect Technology Corp.	Kinsus Interconnect Technology Suzhou Corp.	1	Manufacturing - processing	\$52	Payment within 60 days from the end of delivery month	-%
0	Kinsus Interconnect Technology Corp.	Kinsus Interconnect Technology Suzhou Corp.	1	Sales revenue	\$16,375	Payment within 30 days from the end of delivery month	0.09%
0	Kinsus Interconnect Technology Corp.	Kinsus Interconnect Technology Suzhou Corp.	1	Other income	\$8,017	-	0.05%
0	Kinsus Interconnect Technology Corp.	Piotek Computer (Suzhou) Co., Ltd.	1	Other income	\$4,920	-	0.03%
0	Kinsus Interconnect Technology Corp.	PIOTEK (H.K.) TRADING LIMITED	1	Other income	\$1,902	-	0.01%
1	Piotek Computer (Suzhou) Co., Ltd.	PIOTEK (H.K.) TRADING LIMITED	3	Sales revenue	USD 6,692	Payment within 60-90 days from the end of delivery month	1.17%
1	Piotek Computer (Suzhou) Co., Ltd.	PIOTEK (H.K.) TRADING LIMITED	3	Accounts receivable	USD 1,331	Payment within 60-90 days from the end of delivery month	0.09%
1	Piotek Computer (Suzhou) Co., Ltd.	Xiang-Shuo (Suzhou) Trading Limited	3	Accounts receivable	USD 375	Payment within 60 days from the end of delivery month	0.03%
1	Piotek Computer (Suzhou) Co., Ltd.	Xiang-Shuo (Suzhou) Trading Limited	3	Sales revenue	USD 2,485	Payment within 60 days from the end of delivery month	0.43%
1	Piotek Computer (Suzhou) Co., Ltd.	Xiang-Shuo (Suzhou) Trading Limited	3	Prepaid Expenses	USD 5	-	-%
1	Piotek Computer (Suzhou) Co., Ltd.	Kinsus Interconnect Technology Suzhou Corp.	3	Sales revenue	RMB 726	Payment within 60-90 days from the end of delivery month	0.02%
1	Piotek Computer (Suzhou) Co., Ltd.	Kinsus Interconnect Technology Suzhou Corp.	3	Accounts payable	RMB 4,799	Payment within 60-90 days from the end of delivery month	0.05%
1	Piotek Computer (Suzhou) Co., Ltd.	Kinsus Interconnect Technology Suzhou Corp.	3	Other receivables	RMB 5	Payment within 60-90 days from the end of delivery month	-%
1	Piotek Computer (Suzhou) Co., Ltd.	Kinsus Interconnect Technology Suzhou Corp.	3	Purchase	RMB 4,765	Payment within 60-90 days from the end of delivery month	0.12%
2	Xiang-Shuo (Suzhou) Trading Limited	Piotek Computer (Suzhou) Co., Ltd.	3	Sales revenue	RMB 17,524	Payment within 60 days from the end of delivery month	0.45%
2	Xiang-Shuo (Suzhou) Trading Limited	Piotek Computer (Suzhou) Co., Ltd.	3	Accounts receivable	RMB 4,389	Payment within 60 days from the end of delivery month	0.04%
2	Xiang-Shuo (Suzhou) Trading Limited	Piotek Computer (Suzhou) Co., Ltd.	3	Other income	RMB 1,016	Payment within 60 days from the end of delivery month	0.03%
2	Xiang-Shuo (Suzhou) Trading Limited	Piotek Computer (Suzhou) Co., Ltd.	3	Other receivables	RMB 17	Payment within 60 days from the end of delivery month	-%
2	Xiang-Shuo (Suzhou) Trading Limited	Kinsus Interconnect Technology Suzhou Corp.	3	Sales revenue	RMB 1,209	Payment within 60 days from the end of delivery month	0.03%
2	Xiang-Shuo (Suzhou) Trading Limited	Kinsus Interconnect Technology Suzhou Corp.	3	Accounts receivable	RMB 117	Payment within 60 days from the end of delivery month	-%
0	Pegavision Corporation	PEGAVISION CONTACT LENSES (SHANGHAI) CORPORATION	1	Sales revenue	\$158,705	Payment within 180 days	0.90%
0	Pegavision Corporation	PEGAVISION CONTACT LENSES (SHANGHAI) CORPORATION	1	Accounts receivable	\$109,432	Payment within 180 days	0.25%
0	Pegavision Corporation	Pegavision Japan Inc.	1	Sales revenue	\$307,421	Payment within 90 days from the end of delivery month	1.76%
0	Pegavision Corporation	Pegavision Japan Inc.	1	Accounts receivable	\$60,053	Payment within 90 days from the end of delivery month	0.14%
0	Pegavision Corporation	Pegavision Japan Inc.	1	Temporary receipts	\$34,645	Payment within 90 days from the end of delivery month	0.08%
1	Pegavision Japan Inc.	Pegavision Corporation	2	Service income	\$9,404	Payment within 90 days from the end of delivery month	0.05%
1	Pegavision Japan Inc.	Pegavision Corporation	2	Payment on behalf of others	\$11	Payment within 90 days from the end of delivery month	-%

Note 1: Transaction information between Parent company and its subsidiaries should be disclosed by codes below:

(1) Parent company is coded "0".

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

Note 2: Relationship is divided into the following three types and the types are required to be indicated:

(1) From the parent company to a subsidiary.

(2) From a subsidiary to the parent company.

(3) Between subsidiaries.

Note 3: Regarding the percentage of transaction amount to consolidated operating revenues or total assets, it is computed based on the ending balance to consolidated total assets for balance sheet items; and based on interim accumulated amount to consolidated net revenue for income statement items.