

Xintec Inc.

**Financial Statements for the
Years Ended December 31, 2018 and 2017 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Xintec Inc.

Opinion

We have audited the accompanying financial statements of Xintec Inc. (the "Company"), which comprise the balance sheets as of December 31, 2018 and 2017, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Emphasis of Matter

As disclosed in Note 10 to the accompanying financial statements, the Company shall comply with the new operating policy of 300mm wafer level chip scale packaging services and shall stop producing 300mm wafer level chip scale packaging services within a year from the approval of the board of directors in their meeting held on June 15, 2018. Hence, the Company's management evaluates the carrying amount of the related machinery and equipment of 300mm wafer level chip scale packaging to be unrecoverable as it will be out of use in the future. Therefore, the Company recognized an impairment loss of NT\$974,040 thousand for the three months ended June 30, 2018. Our audit result is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Company's financial statements for the year ended December 31, 2018 are stated as follows:

Estimate of sales returns and allowances

In the face of the stiff competition of wafer packaging business in the semiconductor industry, the Company provides a variety of business incentives to specific customers or products to enhance its competitive advantages. The Company measures revenue by taking into account business incentives earned by customers and records a refund liability for estimated business incentives in the same period when performance obligations are satisfied. Such refund liability is recorded under the estimate for sales returns and allowances and is determined by management primarily based on historical experience and the varying contractual terms. Refer to Notes 4, 5 and 14 to the accompanying financial statements for the details of the information about the estimate of sales returns and allowances. Since the estimate for sales returns and allowances is subject to management's judgment, which leads to significant uncertainty, and the result could also affect the net revenue in the financial statements, it has been identified as a key audit matter.

Our audit procedures performed in respect of the above area included the following:

1. We understood and tested the design and operating effectiveness of the key controls over the estimate of sales returns and allowances;
2. We understood and assessed the reasonableness of management's assumptions made and the methodology used in estimating for sales returns and allowances;
3. We sampled and inspected the Company's sales contracts of its main products by agreeing the contractual terms and performing an analysis to challenge management's estimation of whether specific products have met business incentive conditions and to verify the reasonableness of the accrual of the sales allowances;
4. We evaluated the reasonableness of the estimate for sales returns and allowances by comparing it with the actual business incentives paid in the past; and
5. We inspected the Company's sales returns and allowances on the general ledger subsequent to the financial reporting date for any significant unusual transactions.

Impairment of property, plant and equipment (PP&E)

As of December 31, 2018, the carrying amount of the Company's PP&E was NT\$3,940,619 thousand, representing 61% of its total assets. According to IAS 36 "Impairment of Assets", management shall assess whether there is any indication that PP&E may be impaired. When any such indication exists, management shall estimate if the recoverable amount of PP&E is less than its carrying amount. As disclosed in Note 10 to the accompanying financial statements, the Company shall comply with the new operating policy of 300mm wafer level chip scale packaging services and shall stop producing 300mm wafer level chip scale packaging services within a year from the approval of the board of directors in their meeting held on June 15, 2018. Hence, the Company's management evaluates the carrying amount of the related machinery and equipment of 300mm wafer level chip scale packaging to be unrecoverable as it will be out of use in the future. Therefore, the Company recognized an impairment loss of NT\$974,040 thousand for the three months ended June 30, 2018. For the year ended December 31, 2018, the Company recognized impairment losses of NT\$14,363 thousand on certain equipment that was determined by management to be out of use in the future, and the carrying amount of

the equipment is expected to be unrecoverable. Refer to Notes 4, 5 and 10 to the accompanying financial statements for the details of the accounting policies, judgments, estimations, uncertainty of assumptions and the related disclosure information about the impairment of PP&E.

In the process of evaluating the potential impairment of PP&E, the Company's management assessed the recoverable amount of specific asset groups with the consideration of each asset's model in use and the nature of the industry. In determining the independent cash flows of each specific asset group, management makes assumptions and subjective judgments about the expected future 5-year revenue and expenses, useful lives and discount rates calculated from the weighted average cost of capital model. Since such assumptions are subject to management's judgments, future changes in economic conditions, industry trends or management's operational strategies, which involve significant uncertainty, the impairment of PP&E has been identified as a key audit matter.

Our audit procedures performed in respect of the above area included the following:

1. We understood and tested the design and operating effectiveness of the key controls over the process to assess the impairment of PP&E;
2. We understood and reviewed whether the estimation of the independent cash flows of specific asset groups was consistent with the financial projections approved by the board of directors. We inspected and evaluated whether the Company's management prepared its expected future 5-year operations results based on the Company's current operating results, historical trend and industry conditions that are updated timely;
3. We understood and assessed the reasonableness of the assumptions and model that the Company's management adopted to estimate the recoverable amount of specific asset groups, including the evaluation process and basis of the expected future 5-year operations. We evaluated whether the risk-free interest rate, expected volatility and risk premium used in calculating the weighted average cost of capital rate were consistent with the Company's current operating status and industry conditions, and we performed a recalculation; and
4. We compared the recent financial statements subsequent to the financial reporting date to the current period and evaluated any significant impact to the assumptions in assessing the impairment of PP&E.

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

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

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

Those charged with governance, including the Audit Committee, are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Yu Feng Huang and Cheng Chih Lin.

Deloitte & Touche
Taipei, Taiwan
Republic of China

February 15, 2019

Notice to Readers

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

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

XINTEC INC.

BALANCE SHEETS

(In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Note 6)	\$ 903,292	14	\$ 788,186	10
Financial assets at fair value through profit or loss (Note 7)	535	-	11,372	-
Contract assets (Notes 19 and 29)	228,752	3	-	-
Accounts receivable, net (Note 8)	264,695	4	323,668	4
Receivables from related parties, net (Notes 8 and 29)	649,812	10	830,423	10
Inventories (Notes 5 and 9)	207,392	3	448,320	5
Other financial assets	153	-	129	-
Other current assets (Notes 12 and 29)	<u>45,827</u>	<u>1</u>	<u>68,835</u>	<u>1</u>
Total current assets	<u>2,300,458</u>	<u>35</u>	<u>2,470,933</u>	<u>30</u>
NONCURRENT ASSETS				
Property, plant and equipment (Notes 5, 10 and 30)	3,940,619	61	5,457,634	67
Intangible assets (Note 11)	38,758	1	57,240	1
Deferred income tax assets (Notes 5 and 24)	204,403	3	204,403	2
Refundable deposits	10,510	-	11,040	-
Net defined benefit assets (Note 16)	<u>-</u>	<u>-</u>	<u>1,402</u>	<u>-</u>
Total noncurrent assets	<u>4,194,290</u>	<u>65</u>	<u>5,731,719</u>	<u>70</u>
TOTAL	<u>\$ 6,494,748</u>	<u>100</u>	<u>\$ 8,202,652</u>	<u>100</u>

LIABILITIES AND EQUITY	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss (Note 7)	\$ 2,676	-	\$ 178	-
Accounts payable	316,846	5	357,936	4
Salary and bonus payable	139,485	2	153,343	2
Payables to contractors and equipment suppliers	192,042	3	175,252	2
Provisions - current (Notes 5 and 13)	-	-	52,151	1
Long-term borrowings - current portion (Notes 15 and 30)	122,120	2	126,250	1
Accrued expenses and other current liabilities (Notes 14 and 29)	<u>480,207</u>	<u>7</u>	<u>498,744</u>	<u>6</u>
Total current liabilities	<u>1,253,376</u>	<u>19</u>	<u>1,363,854</u>	<u>16</u>
NONCURRENT LIABILITIES				
Long-term borrowings (Notes 15 and 30)	1,987,880	31	2,361,875	29
Provisions - noncurrent (Notes 5 and 13)	153,906	2	72,806	1
Net defined benefit liabilities (Note 16)	<u>1,552</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total noncurrent liabilities	<u>2,143,338</u>	<u>33</u>	<u>2,434,681</u>	<u>30</u>
Total liabilities	<u>3,396,714</u>	<u>52</u>	<u>3,798,535</u>	<u>46</u>
EQUITY (Notes 17 and 26)				
Capital stock - common stock	<u>2,717,597</u>	<u>42</u>	<u>2,719,193</u>	<u>33</u>
Capital surplus	<u>1,613,146</u>	<u>25</u>	<u>1,630,968</u>	<u>20</u>
Retained earnings				
Appropriated as legal reserve	79,104	1	274,233	3
Accumulated deficits	<u>(1,307,312)</u>	<u>(20)</u>	<u>(195,129)</u>	<u>(2)</u>
	<u>(1,228,208)</u>	<u>(19)</u>	<u>79,104</u>	<u>1</u>
Other	<u>(4,501)</u>	<u>-</u>	<u>(25,148)</u>	<u>-</u>
Total equity	<u>3,098,034</u>	<u>48</u>	<u>4,404,117</u>	<u>54</u>
TOTAL	<u>\$ 6,494,748</u>	<u>100</u>	<u>\$ 8,202,652</u>	<u>100</u>

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

(With Deloitte & Touche audit report dated February 15, 2019)

XINTEC INC.

STATEMENTS OF COMPREHENSIVE INCOME

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

	2018		2017	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 5, 19 and 29)	\$ 4,714,446	100	\$ 4,078,484	100
OPERATING COSTS (Notes 9, 26 and 29)	<u>4,704,934</u>	<u>100</u>	<u>4,428,092</u>	<u>109</u>
GROSS PROFIT (LOSS)	<u>9,512</u>	<u>-</u>	<u>(349,608)</u>	<u>(9)</u>
OPERATING EXPENSES (Notes 26 and 29)				
Sales and marketing	39,344	1	43,097	1
General and administrative	119,308	3	111,981	3
Research and development	<u>246,238</u>	<u>5</u>	<u>285,150</u>	<u>7</u>
Total operating expenses	<u>404,890</u>	<u>9</u>	<u>440,228</u>	<u>11</u>
OTHER OPERATING INCOME AND EXPENSES, NET (Notes 10, 20, 26 and 29)	<u>(909,114)</u>	<u>(19)</u>	<u>70,446</u>	<u>2</u>
LOSS FROM OPERATIONS	<u>(1,304,492)</u>	<u>(28)</u>	<u>(719,390)</u>	<u>(18)</u>
NON-OPERATING INCOME AND EXPENSES				
Interest income (Note 21)	3,998	-	5,866	-
Finance costs (Note 22)	(41,477)	(1)	(39,701)	(1)
Other gains and losses (Note 23)	<u>(9,980)</u>	<u>-</u>	<u>(7,629)</u>	<u>-</u>
Total non-operating income and expenses	<u>(47,459)</u>	<u>(1)</u>	<u>(41,464)</u>	<u>(1)</u>
LOSS BEFORE INCOME TAX	(1,351,951)	(29)	(760,854)	(19)
INCOME TAX BENEFIT (Note 24)	<u>-</u>	<u>-</u>	<u>27,574</u>	<u>1</u>
NET LOSS	<u>(1,351,951)</u>	<u>(29)</u>	<u>(733,280)</u>	<u>(18)</u>
OTHER COMPREHENSIVE LOSS				
Items that will not be reclassified subsequently to profit or loss				
Remeasurement of defined benefit plans (Note 16)	<u>(2,972)</u>	<u>-</u>	<u>(1,254)</u>	<u>-</u>
Other comprehensive loss for the year	<u>(2,972)</u>	<u>-</u>	<u>(1,254)</u>	<u>-</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<u>\$ (1,354,923)</u>	<u>(29)</u>	<u>\$ (734,534)</u>	<u>(18)</u>
LOSS PER SHARE (Note 25)				
Basic loss per share	<u>\$ (4.99)</u>		<u>\$ (2.71)</u>	
Diluted loss per share	<u>\$ (4.99)</u>		<u>\$ (2.71)</u>	

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

(With Deloitte & Touche audit report dated February 15, 2019)

XINTEC INC.

STATEMENTS OF CHANGES IN EQUITY (In Thousands of New Taiwan Dollars)

	<u>Capital Stock - Common Stock</u>		Capital Surplus	<u>Retained Earnings</u>			Total	<u>Other</u>	Total Equity
	(In Thousands)	Amount		Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Deficits)		Unearned Stock-Based Employee Compensation	
BALANCE, JANUARY 1, 2017	269,853	\$ 2,698,534	\$ 1,592,780	\$ 274,233	\$ 1,774	\$ 537,631	\$ 813,638	\$ -	\$ 5,104,952
Appropriation and distribution of 2016 earnings									
Reversal of special reserve	-	-	-	-	(1,774)	1,774	-	-	-
Net loss in 2017	-	-	-	-	-	(733,280)	(733,280)	-	(733,280)
Other comprehensive loss in 2017, net of income tax	-	-	-	-	-	(1,254)	(1,254)	-	(1,254)
Total comprehensive loss in 2017	-	-	-	-	-	(734,534)	(734,534)	-	(734,534)
Issuance of stock from exercise of employee stock options	944	9,439	11,978	-	-	-	-	-	21,417
Compensation cost of employee restricted stock	1,500	15,000	35,040	-	-	-	-	(37,758)	12,282
Retirement of employee restricted stock	(378)	(3,780)	(8,830)	-	-	-	-	12,610	-
BALANCE, DECEMBER 31, 2017	271,919	2,719,193	1,630,968	274,233	-	(195,129)	79,104	(25,148)	4,404,117
Effect of retrospective application	-	-	-	-	-	47,611	47,611	-	47,611
ADJUSTED BALANCED JANUARY 1, 2018	271,919	2,719,193	1,630,968	274,233	-	(147,518)	126,715	(25,148)	4,451,728
Appropriation and distribution of 2017 earnings									
Offset of deficit against legal reserve	-	-	-	(195,129)	-	195,129	-	-	-
Net loss in 2018	-	-	-	-	-	(1,351,951)	(1,351,951)	-	(1,351,951)
Other comprehensive loss in 2018, net of income tax	-	-	-	-	-	(2,972)	(2,972)	-	(2,972)
Total comprehensive loss in 2018	-	-	-	-	-	(1,354,923)	(1,354,923)	-	(1,354,923)
Compensation cost of employee restricted stock	100	1,000	5,010	-	-	-	-	(4,781)	1,229
Retirement of employee restricted stock	(259)	(2,596)	(22,832)	-	-	-	-	25,428	-
BALANCE, DECEMBER 31, 2018	271,760	\$ 2,717,597	\$ 1,613,146	\$ 79,104	\$ -	\$ (1,307,312)	\$ (1,228,208)	\$ (4,501)	\$ 3,098,034

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

(With Deloitte & Touche audit report dated February 15, 2019)

XINTEC INC.

STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	\$ (1,351,951)	\$ (760,854)
Adjustments for:		
Depreciation	917,052	1,010,143
Amortization	33,325	40,548
Reversal of expected credit loss	(30)	-
Reversal of impairment loss on accounts receivables	-	(117)
Finance costs	41,477	39,701
Interest income	(3,998)	(5,866)
Recognition of compensation cost of employee restricted stock	(771)	12,282
Loss (gain) on disposal of property, plant and equipment, net	4,380	(3,907)
Impairment loss recognized on property, plant and equipment	988,403	21,863
Loss (gain) on foreign exchange, net	2,140	(5,180)
Changes in operating assets and liabilities:		
Derivative financial instruments	13,335	(20,728)
Contract assets	77,626	-
Accounts receivable, net	59,070	103,018
Receivables from related parties, net	180,611	(705,882)
Inventories	(17,906)	(276,876)
Other current assets	16,416	27,721
Other financial assets	(5)	498
Accounts payable	(41,090)	141,765
Salary and bonus payable	(13,858)	(2,329)
Provisions	-	(3,216)
Accrued expenses and other current liabilities	(70,013)	191,887
Net defined benefit assets/liabilities	(18)	(816)
Cash generated (used in) from operations	834,195	(196,345)
Income tax refunded	89	26,824
Net cash generated from (used in) operating activities	834,284	(169,521)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property, plant and equipment	(308,961)	(514,066)
Intangible assets	(14,843)	(28,427)
Proceeds from disposal of:		
Property, plant and equipment	11,891	48,891
Refundable deposits paid	(1,593)	(18,870)
Refundable deposits refunded	2,123	18,845
Interest received	3,979	5,886
Net cash used in investing activities	(307,404)	(487,741)

(Continued)

XINTEC INC.

STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowings	\$ 1,000,000	\$ 2,107,000
Repayments of long-term borrowings	(1,378,125)	(1,843,875)
Proceeds from exercise of employee stock options	-	21,417
Interest paid	(35,649)	(48,256)
Proceeds from issuance of employee restricted stock	<u>2,000</u>	<u>-</u>
Net cash (used in) generated from financing activities	<u>(411,774)</u>	<u>236,286</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	115,106	(420,976)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>788,186</u>	<u>1,209,162</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 903,292</u>	<u>\$ 788,186</u>

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

(With Deloitte & Touche audit report dated February 15, 2019)

(Concluded)

XINTEC INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

1. GENERAL

Xintec Inc. (the “Company”) was incorporated on September 11, 1998. The Company is a dedicated subcontractor of advanced packaging services in the semiconductor industry and engages mainly in wafer level chip scale packaging (CSP) and wafer level post passivation interconnection services (PPI). The Company’s stock has been listed on the Taipei Exchange since March 30, 2015. The address of its registered office and principal place of business is 9F, No.23, Jilin Rd., Jhongli Dist., Taoyuan City 32062, Taiwan.

2. THE AUTHORIZATION OF FINANCIAL STATEMENTS

The financial statements were approved and authorized by the board of directors for issue on February 15, 2019.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

- 1) IFRS 9 “Financial Instruments” and related amendment

IFRS 9 supersedes IAS 39 “Financial Instruments: Recognition and Measurement”, with consequential amendments to IFRS 7 “Financial Instruments: Disclosures” and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Please refer to Note 4 for information relating to the relevant accounting policies.

Classification, measurement and impairment of financial assets and financial liabilities

On the basis of the facts and circumstances that existed as at January 1, 2018, the Company has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods. The impact on measurement categories, carrying amount and related reconciliation for each class of the Company's financial assets and financial liabilities when retrospectively applying IFRS 9 on January 1, 2018 is detailed below:

	<u>Measurement Category</u>		<u>Carrying Amount</u>		<u>Note</u>
	<u>IAS 39</u>	<u>IFRS 9</u>	<u>IAS 39</u>	<u>IFRS 9</u>	
<u>Financial assets</u>					
Cash and cash equivalents	Loans and receivables	Amortized cost	\$ 788,186	\$ 788,186	(1)
Accounts receivable, net (including related parties), other financial assets, and refundable deposits	Loans and receivables	Amortized cost	1,165,260	1,165,260	(1)
<u>Financial liabilities</u>					
Accounts payable, payables to contractors and equipment suppliers, accrued expenses and other current liabilities, and long-term borrowings	Amortized cost	Amortized cost	3,480,325	3,480,325	

- (1) Cash and cash equivalents, accounts receivables, net (including related parties), other financial assets and refundable deposits were classified as loans and receivables under IAS 39 are now classified at amortized cost with assessment of future 12-month or full-lifetime expected credit loss under IFRS 9.

Hedge accounting

The Company prospectively apply the requirements for hedge accounting upon initial application of IFRS 9. In addition, due to the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers, all derivative and non-derivative financial assets and financial liabilities which are designated as hedging instruments are presented as financial assets and financial liabilities for hedging starting 2018.

2) IFRS 15, "Revenue from Contracts with Customers" and related amendment

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and supersedes IAS 18, "Revenue," IAS 11, "Construction Contracts," and a number of revenue-related interpretations. Please refer to Note 4 for information relating to the relevant accounting policies.

For the manufacturing of customer-specific goods, if the customer controls the customized goods when they are created or enhanced, revenue is recognized over time under IFRS 15. Prior to the application of IFRS 15, the Company recognized revenue when the goods were delivered.

Under IFRS 15, the net effect of revenue recognized and consideration received and receivable is recognized as a contract asset or a contract liability. Prior to the application of IFRS 15, receivable was recognized or deferred revenue was reduced when revenue was recognized for the contract under IAS 18.

The Company elected only to retrospectively apply IFRS 15 to contracts that were not completed on January 1, 2018 and elected not to restate prior reporting period with the cumulative effect of the initial application recognized at the date of initial application.

The impact on assets, liabilities and equity when retrospectively applying IFRS 15 on January 1, 2018 is detailed below:

	Carrying Amount as of December 31, 2017 (IAS 18 and Revenue-related Interpretations)	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018 (IFRS 15)	Note
Inventories	\$ 448,320	\$ (258,834)	\$ 189,486	(1)
Contract assets	<u>-</u>	<u>306,445</u>	<u>306,445</u>	(1)
Total effect on assets	<u>\$ 448,320</u>	<u>\$ 47,611</u>	<u>\$ 495,931</u>	
Provisions - current	\$ 52,151	\$ (52,151)	\$ -	(2)
Accrued expenses and other current liabilities	<u>498,744</u>	<u>52,151</u>	<u>550,895</u>	(2)
Total effect on liabilities	<u>\$ 550,895</u>	<u>\$ -</u>	<u>\$ 550,895</u>	
Retained earnings	<u>\$ 79,104</u>	<u>\$ 47,611</u>	<u>\$ 126,715</u>	(1)
Total effect on equity	<u>\$ 79,104</u>	<u>\$ 47,611</u>	<u>\$ 126,715</u>	

(1) Prior to the application of IFRS 15, the Company recognizes revenue based on the accounting treatment of the sales of goods. Under IFRS 15, the Company will change to recognize revenue over time because customers are deemed to have control over the products when the products are manufactured. As a result, the Company will recognize contract assets and adjust related assets and equity accordingly.

(2) Prior to the application of IFRS 15, the Company recognized the estimation of sales returns and allowance as provisions. Under IFRS 15, the Company recognizes such estimation as refund liability (classified under accrued expenses and other current liabilities).

The impact of continuing the application of IAS 18 instead of IFRS 15 for the twelve months ended December 31, 2018 is detailed as follows:

Impact on assets, liabilities and equity for current year

	December 31, 2018
Decrease in inventories	\$ (191,790)
Increase in contract assets	<u>228,819</u>
Total effect on assets	<u>\$ 37,029</u>
Decrease in provisions - current	\$ (72,977)
Increase in accrued expenses and other current liabilities	<u>72,977</u>
Total effect on liabilities	<u>\$ -</u>
Increase in retained earnings	<u>\$ 37,029</u>
Total effect on equity	<u>\$ 37,029</u>

Impact on Total Comprehensive Income

	For the Year Ended December 31, 2018
Increase in operating revenues	\$ 228,819
Increase in operating costs	<u>(191,790)</u>
Increase in net income for the period	<u>\$ 37,029</u>

- b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs endorsed by the FSC for application starting from 2019

New, Revised or Amended Standards and Interpretations	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 “Prepayment Features with Negative Compensation”	January 1, 2019 (Note 2)
IFRS 16 “Leases”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019 (Note 3)
Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”	January 1, 2019
IFRIC 23 “Uncertainty Over Income Tax Treatments”	January 1, 2019

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

Note 2: The FSC permits the election for early adoption of the amendments starting from 2018.

Note 3: The Company shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

1) IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, and a number of related interpretations.

Definition of a lease

Upon initial application of IFRS 16, the Company will elect to apply IFRS 16 only to contracts entered into (or changed) on or after January 1, 2019 in order to determine whether those contracts are, or contain, a lease. Contracts identified as containing a lease under IAS 17 and IFRIC 4 will not be reassessed and will be accounted for in accordance with the transitional provisions under IFRS 16.

The Company as lessee

Upon initial application of IFRS 16, except for payments for low-value asset and short-term leases will be recognized as expenses on a straight-line basis, the Company will recognize right-of-use assets and lease liabilities for all leases on the balance sheets.

On the statements of comprehensive income, the Company will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the statements of cash flows, cash payments for both the principal and interest portion of the lease liability are classified within financing activities. Prior to the application of IFRS 16, the contracts classified as operating leases are recognized as expenses on a straight-line basis. Cash flows for operating leases are classified within operating activities on the statements of cash flows.

Upon initial application of IFRS 16, the Company will apply IFRS 16 retrospectively with the cumulative effect of the initial application recognized at the date of initial application but will not restate comparative information.

Lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases with the application of IAS 17. Lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets will be measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. The Company will apply IAS 36 to all right-of-use assets.

The Company expects to apply the following practical expedients:

- a) The Company will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- b) The Company will account for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.
- c) The Company will exclude initial direct costs from the measurement of right-of-use assets on January 1, 2019.
- d) The Company will use hindsight, such as in determining lease terms, to measure lease liabilities.

The weighted average lessee's incremental borrowing rate used by the Company to calculate lease liabilities recognized on January 1, 2019 is 1.96%. The reconciliation between the lease liabilities recognized and the future minimum lease payments of non-cancellable operating lease on December 31, 2018 is presented as follows:

The future minimum lease payments of non-cancellable operating lease on December 31, 2018	<u>\$ 324,488</u>
Discounted using the incremental borrowing rate on January 1, 2019	\$ 311,144
Less: Recognition exemption for short-term leases	(2,723)
Less: Recognition exemption for leases of low-value assets	<u>(4,356)</u>
Lease liabilities recognized on January 1, 2019	<u>\$ 304,065</u>

The Company as lessor

Except for sublease transactions, the Company will not make any adjustments for leases in which it is a lessor, and will account for those leases under IFRS 16 starting from January 1, 2019. On the basis of the remaining contractual terms and conditions as operating lease on January 1, 2019, all of the Company's subleases will be classified as operating leases.

Impact on assets, liabilities and equity on January 1, 2019

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Prepayments for leases - current (Classified under other current assets)	\$ 7,829	\$ (7,829)	\$ -
Right-of-use assets	<u>-</u>	<u>311,894</u>	<u>311,894</u>
Total effect on assets	<u>\$ 7,829</u>	<u>\$ 304,065</u>	<u>\$ 311,894</u>
Lease liabilities - current	\$ -	\$ 44,000	\$ 44,000
Lease liabilities - non-current	<u>-</u>	<u>260,065</u>	<u>260,065</u>
Total effect on liabilities	<u>\$ -</u>	<u>\$ 304,065</u>	<u>\$ 304,065</u>

2) IFRIC 23 “Uncertainty Over Income Tax Treatments”

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Company should assume that the taxation authority will have full knowledge of all related information when making related examinations. If the Company concludes that it is probable that the taxation authority will accept an uncertain tax treatments, the Company should determine the taxable profit, tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Company should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the Company expects to better predict the resolution of the uncertainty. The Company has to reassess its judgments and estimates if facts and circumstances change.

On initial application, the Company shall apply IFRIC 23 either retrospectively to each prior reporting period presented, if this is possible without the use of hindsight, or retrospectively with the cumulative effect of the initial application of IFRIC 23 recognized at the date of initial application.

3) Annual Improvements to IFRSs 2015-2017 Cycle

Several standards, including IFRS 3, IFRS 11, IAS 12 and IAS 23 “Borrowing Costs”, were amended in this annual improvement. IAS 23 was amended to clarify that, if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

As of the date the financial statements were authorized for issue, the Company is assessing the possible impact that the application of abovementioned standards and interpretations will have on the Company’s financial position and financial performance.

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

New, Revised or Amended Standards and Interpretations	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 2)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 3)

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

Note 2: The Group shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Statement of Compliance

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

Basis of Preparation

The financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Classification of Current and Noncurrent Assets and Liabilities

Current assets include:

- a. Assets held primarily for the purpose of trading;
- b. Assets expected to be realized within 12 months after the reporting period; and
- c. Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

- a. Liabilities held primarily for the purpose of trading;
- b. Liabilities due to be settled within 12 months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorized for issue; and
- c. Liabilities for which the Company does not have an unconditional right to defer settlement for at least 12 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.

Assets and liabilities that are not classified as current are classified as noncurrent.

Foreign Currencies

In preparing the financial statements, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Such exchange differences are recognized in profit or loss in the year in which they arise. Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the year except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income. Non-monetary items that are measured at historical cost in foreign currencies are not retranslated.

Cash Equivalents

Cash equivalents, for the purpose of meeting short-term cash commitments and investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Inventories

Inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made on an item-by-item basis, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and necessary selling costs. Inventories are recorded at weighted-average cost on the balance sheet date.

Property, Plant and Equipment and Assets Leased to Others

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment. Costs include any incremental costs that are directly attributable to the construction or acquisition of the item of property, plant and equipment. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Other than stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Properties, plant and equipment in the course of construction are carried at cost, less any recognized impairment loss. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Depreciation is recognized so as to write off the cost of the assets less their residual values over their useful lives, and it is computed using the straight-line method over the following estimated useful lives:

Buildings	3 to 35 years
Machinery and equipment	3 to 8 years
Office equipment	3 to 11 years
Leased improvements	3 to 16 years
Other equipment	3 to 11 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimates accounted for on a prospective basis. Freehold land is not depreciated.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the assets. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible Assets

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized using the straight-line method over the following estimated useful lives:

Acquired special technology	20 years
Software	3 years
Others	2 to 6 years

The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Expenditure on research activities is recognized as an expense when incurred. An internally-generated intangible asset arising from development activities is capitalized and then amortized on a straight-line basis over its useful life if the recognition criteria for an intangible asset have been met; otherwise, the development expenditure is recognized as an expense when incurred.

Impairment of Tangible and Intangible Assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset or a cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Before the company recognizes an impairment loss from assets related to contract costs, any impairment loss on inventories, property, plant and equipment and intangible assets related to the contract applicable under IFRS 15 shall be recognized in accordance with applicable standards. Then, impairment loss from the assets related to the contract costs is recognized to the extent that the carrying amount of the assets exceeds the remaining amount of consideration that the company expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services and which have not been recognized as expenses. The assets related to the contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that cash-generating unit.

Financial Instruments

Financial assets and liabilities shall be recognized when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and liabilities are initially recognized at fair values. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss. Fair value is determined in the manner described in Note 28.

Financial Assets

The classification of financial assets depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis for which financial assets were classified in the same way, respectively. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

a. Category of financial assets and measurement

2018

Financial assets are classified into the following categories: financial assets at fair value through profit or loss and financial assets at amortized cost.

1) Financial assets at fair value through profit or loss

Derivative financial instruments that do not meet the criteria for hedge accounting are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

2) Financial assets at amortized cost

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

- 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.

Subsequent to initial recognition, financial assets at amortized cost (including cash and cash equivalents, accounts receivable measured at amortized cost and other receivables) are measured at amortized cost, which equals to gross carrying amount determined by the effective interest method less any impairment loss.

2017

Financial assets are classified into the following categories: Financial assets “at fair value through profit or loss” (FVTPL), “available-for-sale” financial assets and “loans and receivables”. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

1) Financial assets at fair value through profit or loss

Derivative financial instruments that do not meet the criteria for hedge accounting are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

2) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity financial assets or (c) financial assets at fair value through profit or loss.

3) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables including cash and cash equivalents, notes and accounts receivable (including receivables from related parties) and other receivables are measured at amortized cost using the effective interest method less any impairment, except for those receivables with immaterial discounted effect.

b. Impairment of financial assets

2018

The Company recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including accounts receivables and contract assets).

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

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

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

2017

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Those financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets; their estimated future cash flows have been affected.

For financial assets carried at amortized cost, such as accounts receivable, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. The Company assesses the collectability of receivables by performing the account aging analysis and examining current trends in the credit quality of its customers.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account.

c. Derecognition of financial assets

2018

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

On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

2017

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

Financial Liabilities and Equity Instruments

a. Classification as debt or equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

b. 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. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

c. Financial liabilities

Financial liabilities are subsequently measured either at amortized cost using effective interest method or at FVTPL.

Financial liabilities measured at FVTPL are derivative financial instruments that do not meet the criteria for hedge accounting, and they are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

Financial liabilities other than those held for trading purposes and designated as at FVTPL are subsequently measured at amortized cost at the end of each reporting period.

d. Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Derivative Financial Instruments

The Company enters into a variety of derivative financial instruments to manage its market risk exposure to foreign exchange rates and interest rates, including forward exchange contracts and interest rate swap contracts.

Derivative financial instruments are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative financial instrument is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The effective portion of changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of cash flow hedges reserve. Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the period when the hedged item is recognized in profit or loss.

Provision

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Revenue Recognition

2018

Packaging Service Revenue

The Company identifies the contract with the customers and recognizes revenue when performance obligations are satisfied.

The packaging service is to provide the manufacturing of customer-specific goods. If the customer controls the customized goods when they are in packaging process, revenue is recognized over time. Packaging service revenue is measured at the fair value of the consideration received or receivable. Packaging service revenue is reduced for estimated customer returns, rebates and other similar allowances.

Provision for estimated sales returns and other allowances is generally made and adjusted based on historical experience and the consideration of varying contractual terms to recognize refund liabilities, which is classified under accrued expenses and other current liabilities.

In principle, the payment term granted to customers is due 30 days to 45 days from the end of the month of when the invoice is issued, and to few customers is 60 days from the end of the month when the invoice is issued. Due to the short term nature of the receivables from packaging service revenue with the immaterial discounted effect, the Company measures them at the original invoice amounts without discounting.

2017

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sale of Goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- The costs incurred or to be incurred with respect to the transaction can be measured reliably.

Interest Income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Leases

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

Rental income from operating lease is recognized on a straight-line basis over the term of the relevant lease. Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Employee Benefits

Short-term employee benefits

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

Retirement benefits

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

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the Projected Unit Credit Method. Service cost (including current service cost), and net interest on the net defined benefit liability (asset) are recognized as employee

benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

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

Share-based Payment Arrangements

The Company elected to take the optional exemption under IFRS 1, "First-time Adoption of International Financial Reporting Standards" for the share-based payment transactions granted and vested before the date of transition to IFRSs.

Employee stock options that were granted after January 1, 2012 are measured at the fair value of the stock options at the grant date. The fair value of the stock option granted determined at the grant date of the stock options is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in capital surplus - employee stock option. The estimate is revised if subsequent information indicates that the number of stock options expected to vest differs from original estimates. It is recognized as an expense in full at the grant date if vesting immediately.

For cash-settled share-based payments, a liability is recognized for the goods or services acquired, measured initially at the fair value of the liability incurred. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognized in profit or loss.

When restricted shares for employees are issued, other equity - unearned employee benefits is recognized on the grant date, with a corresponding increase in capital surplus - restricted shares for employees. If restricted shares for employees are granted for consideration and should be returned, they are recognized as payables. Dividends paid to employees on restricted shares that do not need to be returned if employees resign in the vesting period are recognized as expenses when the dividends are declared with a corresponding adjustment in retained earnings and capital surplus - restricted shares for employees.

At the end of each reporting period, the Corporation revises its estimate of the number of restricted shares for employees expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expenses reflect the revised estimate, with a corresponding adjustment to capital surplus - restricted shares for employees.

Taxation

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

Current tax

Income tax on unappropriated earnings is expensed in the year the shareholders approved the appropriation of earnings which is the year subsequent to the year the earnings are generated.

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

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets

are generally recognized for all deductible temporary differences, unused loss carryforwards, and unused tax credits from purchases of machinery, equipment and technology, research and development expenditures, and personnel training expenditures to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered. The deferred tax assets which originally not recognized is also reviewed at the end of each reporting period and recognized to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered.

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

Current and deferred tax for the year

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in Note 4, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The following are the critical judgments, apart from those involving assumptions and estimations, that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

Revenue Recognition

2018

For every contract, the Company determines whether its performance obligation is satisfied over time or at a point in time based on the conditions in the contract and applicable regulation described in Note 4 are satisfied. The Company also records a refund liability for estimated future returns and other allowances in the same period when performance obligations are satisfied. Estimate of sales returns and other allowances is generally made and adjusted based on historical experience and the varying contractual terms that would significantly affect the allowance, and our management periodically reviews the adequacy of the percentage used.

2017

The Company recognizes revenue when the conditions described in Note 4 are satisfied. The Company also records a provision for estimated future returns and other allowances in the same period the related revenue is recorded. Provision for estimated sales returns and other allowances is generally made and adjusted based on historical experience and the varying contractual terms that would significantly affect the allowance, and our management periodically reviews the adequacy of the percentage used.

Impairment of Property, Plant and Equipment

In the process of evaluating the potential impairment of property, plant and equipment, the Company is required to make subjective judgments in determining the independent cash flows, useful lives, expected future revenue and expenses related to the specific asset groups with the consideration of the nature of the industry. Any changes in these estimates based on changes in economic conditions, industry trends or management's operational strategies could result in significant impairment charges in future years.

Realization of Deferred Income Tax Assets

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which those deferred tax assets can be utilized. Assessment of the realization of the deferred tax assets requires the Company's subjective judgment and estimate including the future revenue growth and profitability, tax holidays, the amount of tax credits that can be utilized and feasible tax planning strategies. Any changes in the global economic environment, the industry trends and relevant laws and regulations could result in significant adjustments to the deferred tax assets.

Valuation of Inventory

Inventories are stated at the lower of cost or net realizable value, and the Company has to use judgment and estimate to determine the net realizable value of inventory at the end of each reporting period.

Due to the rapid technological changes, the Company estimates the net realizable value of inventory for obsolescence and unmarketable items at the end of reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions of future demand within a specific time horizon.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2018	2017
Cash and deposits in banks	\$ 861,404	\$ 764,586
Repurchase agreements collateralized by corporate bonds	<u>41,888</u>	<u>23,600</u>
	<u>\$ 903,292</u>	<u>\$ 788,186</u>

7. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2018	2017
<u>Derivative financial assets</u>		
Forward exchange contracts	\$ <u>535</u>	\$ <u>11,372</u>
<u>Derivative financial liabilities</u>		
Forward exchange contracts	\$ <u>2,676</u>	\$ <u>178</u>

The Company entered into derivative contracts to manage exposures due to fluctuations of foreign exchange rates. The derivative contracts entered into by the Company did not meet the criteria for hedge accounting. Therefore, the Company did not apply hedge accounting treatment for derivative contracts.

Outstanding forward exchange contracts consisted of the following:

	Maturity Date	Contract Amount (In Thousands)
<u>December 31, 2018</u>		
Sell US\$/Buy NT\$	January 2019-March 2019	US\$37,326/NT\$1,145,260
<u>December 31, 2017</u>		
Sell US\$/Buy NT\$	January 2018-March 2018	US\$41,686/NT\$1,247,559

8. ACCOUNTS RECEIVABLE

	December 31	
	2018	2017
<u>Unrelated Parties</u>		
Accounts receivable	\$ 264,926	\$ 323,996
Less: Allowance for impairment loss	<u>(231)</u>	<u>(328)</u>
Accounts receivable, net	<u>264,695</u>	<u>323,668</u>
<u>Related Parties</u>		
Accounts receivable	649,812	830,423
Less: Allowance for impairment loss	<u>-</u>	<u>-</u>
Accounts receivable, net	<u>649,812</u>	<u>830,423</u>
	<u>\$ 914,507</u>	<u>\$ 1,154,091</u>

2018

In principle, the payment term granted to customers ranges from 30 days to 45 days from the end of the month in which the invoice is issued and to a few customers is up to 60 days from the end of the month in which the invoice is issued. Aside from recognizing impairment loss for credit-impaired accounts receivable, the Company recognizes loss allowance based on the expected credit loss ratio of customers by

different risk levels. Such risk levels are determined with factors of historical loss ratios and customers' current financial conditions and business outlook (such as economic outlook of the industries in which the customer operate and future changes in purchasing requirements during a certain period, etc.). For accounts receivable past due over 90 days without collaterals or guarantees, the Company recognizes loss allowance at full amount.

Except for those impaired, for the rest of the accounts receivable, the account aging analysis at the end of the reporting period is summarized in the following table. Accounts receivable include amounts that are past due but for which the Company has not recognized a specific allowance for doubtful receivables after the assessment since there has not been a significant change in the credit quality of its customers and the amounts are still considered recoverable.

Aging analysis of accounts receivable, net

	December 31, 2018
Neither past due nor impaired	<u>\$ 914,507</u>
Movements of the loss allowance for accounts receivables:	
Balance on January 1, 2018 (IAS 39)	\$ 328
Effect of retrospective application of IFRS 9	<u>-</u>
Balance on January 1, 2018 (IFRS 9)	328
Reversal of expected credit loss	<u>(97)</u>
Balance on December 31, 2018	<u>\$ 231</u>

2017

In principle, the payment term granted to customers ranges from 30 days to 45 days from the end of the month in which the invoice is issued. The term granted to some customers is only 30 days from the invoice date and to a few customers is up to 60 days from the end of the month in which the invoice is issued. The allowance for doubtful receivables is assessed by reference to the collectability of receivables by performing the account aging analysis, historical experience and current financial condition of customers.

Except for those impaired, for the rest of the accounts receivable, the account aging analysis at the end of the reporting period is summarized in the following table. Accounts receivable include amounts that are past due but for which the Company has not recognized a specific allowance for doubtful receivables after the assessment since there has not been a significant change in the credit quality of its customers and the amounts are still considered recoverable.

Aging analysis of accounts receivable, net

	December 31, 2017
Neither past due nor impaired	\$ 1,153,199
Past due within 30 days	<u>892</u>
	<u>\$ 1,154,091</u>

Aging analysis of past due but not impaired accounts receivable, net

	December 31, 2017
Past due within 30 days	\$ <u>892</u>

Movements of the allowance for doubtful receivables

	Collectively Assessed for Impairment
Balance on January 1, 2017	\$ 445
Reversal	<u>(117)</u>
Balance at December 31, 2017	\$ <u>328</u>

9. INVENTORIES

	December 31	
	2018	2017
Finished goods	\$ -	\$ 72,688
Work in process	-	186,146
Raw materials	<u>207,392</u>	<u>189,486</u>
	\$ <u>207,392</u>	\$ <u>448,320</u>

The cost of inventories recognized as cost of goods sold consisted of the following:

	Years Ended December 31	
	2018	2017
(Recognition) reversal of inventory losses	\$ <u>(7,163)</u>	\$ <u>3,140</u>
Revenue from sale of scraps	\$ <u>14,865</u>	\$ <u>6,497</u>

10. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and Equipment	Office Equipment	Leased Improvement	Other Equipment	Equipment under Installation and Construction in Progress	Total
<u>Cost</u>								
Balance at January 1, 2018	\$ 772,029	\$ 1,981,995	\$ 9,686,776	\$ 198,984	\$ 737,392	\$ 925,770	\$ 66,575	\$14,369,521
Additions	-	162,513	109,238	7,485	102,984	52,507	(30,016)	404,711
Disposals or retirements	<u>-</u>	<u>-</u>	<u>(338,876)</u>	<u>(140)</u>	<u>(115,070)</u>	<u>(31,223)</u>	<u>-</u>	<u>(485,309)</u>
Balance at December 31, 2018	\$ <u>772,029</u>	\$ <u>2,144,508</u>	\$ <u>9,457,138</u>	\$ <u>206,329</u>	\$ <u>725,306</u>	\$ <u>947,054</u>	\$ <u>36,559</u>	\$14,288,923

(Continued)

	Land	Buildings	Machinery and Equipment	Office Equipment	Leased Improvement	Other Equipment	Equipment under Installation and Construction in Progress	Total
Accumulated depreciation and impairment								
Balance at January 1, 2018	\$ -	\$ 726,092	\$ 7,045,410	\$ 135,218	\$ 555,257	\$ 449,910	\$ -	\$ 8,911,887
Depreciation	-	156,211	599,149	24,892	44,682	92,118	-	917,052
Impairment losses	-	-	988,403	-	-	-	-	988,403
Disposals or retirements	-	-	(328,127)	(140)	(111,549)	(29,222)	-	(469,038)
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ 882,303</u>	<u>\$ 8,304,835</u>	<u>\$ 159,970</u>	<u>\$ 488,390</u>	<u>\$ 512,806</u>	<u>\$ -</u>	<u>\$ 10,348,304</u>
Carrying amount at December 31, 2018	<u>\$ 772,029</u>	<u>\$ 1,262,205</u>	<u>\$ 1,152,303</u>	<u>\$ 46,359</u>	<u>\$ 236,916</u>	<u>\$ 434,248</u>	<u>\$ 36,559</u>	<u>\$ 3,940,619</u>
Cost								
Balance at January 1, 2017	\$ 772,029	\$ 1,897,336	\$ 9,763,998	\$ 189,043	\$ 659,217	\$ 851,490	\$ 138,818	\$ 14,271,931
Additions	-	84,659	229,856	10,111	78,430	75,198	(72,243)	406,011
Disposals or retirements	-	-	(307,078)	(170)	(255)	(918)	-	(308,421)
Balance at December 31, 2017	<u>\$ 772,029</u>	<u>\$ 1,981,995</u>	<u>\$ 9,686,776</u>	<u>\$ 198,984</u>	<u>\$ 737,392</u>	<u>\$ 925,770</u>	<u>\$ 66,575</u>	<u>\$ 14,369,521</u>
Accumulated depreciation and impairment								
Balance at January 1, 2017	\$ -	\$ 568,319	\$ 6,597,847	\$ 112,155	\$ 509,338	\$ 355,659	\$ -	\$ 8,143,318
Depreciation	-	157,773	687,811	23,233	46,157	95,169	-	1,010,143
Impairment losses	-	-	21,846	-	17	-	-	21,863
Disposals or retirements	-	-	(262,094)	(170)	(255)	(918)	-	(263,437)
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 726,092</u>	<u>\$ 7,045,410</u>	<u>\$ 135,218</u>	<u>\$ 555,257</u>	<u>\$ 449,910</u>	<u>\$ -</u>	<u>\$ 8,911,887</u>
Carrying amount at December 31, 2017	<u>\$ 772,029</u>	<u>\$ 1,255,903</u>	<u>\$ 2,641,366</u>	<u>\$ 63,766</u>	<u>\$ 182,135</u>	<u>\$ 475,860</u>	<u>\$ 66,575</u>	<u>\$ 5,457,634</u>

(Concluded)

The significant part of the Company's buildings includes main plants, mechanical and electrical power equipment and clean rooms, and the related depreciation is calculated using the estimated useful lives of 18 to 32 years, 7 to 11 years and 10 to 11 years, respectively. The significant part of the Company's machinery and equipment includes etching machines and sputters, and the related depreciation is calculated using the estimated useful lives of 3 to 8 years.

The Company shall comply with the new operating policy of 300mm wafer level chip scale packaging services and shall stop producing 300mm wafer level chip scale packaging services within a year from the approval of the board of directors in their meeting held on June 15, 2018. Hence, the Company's management evaluates the carrying amount of the related machinery and equipment of 300mm wafer level chip scale packaging to be unrecoverable as it will be uselessness in the future. Therefore, the Company recognized an impairment loss of NT\$974,040 thousand for the three months ended June 30, 2018. Such impairment loss was included in other operating income and expenses.

The Company recognized impairment loss of NT\$14,363 thousand and NT\$21,863 thousand for the year ended December 31, 2018 and 2017, respectively. Such the carrying amount of some of property, plant and equipment is expected to be unrecoverable. Such impairment loss was included in other operating income and expenses.

The Company leased certain buildings, machinery and equipment to VisEra Technology Company Ltd. (VisEra) and Taiwan Semiconductor Manufacturing Company Limited (TSMC) under operating lease agreement. The lease term and rental were both determined in accordance with mutual agreements. The lease term were from November 2018 to November 2020 and from February 2017 to January 2019, respectively and the rental were received monthly. The related rental and depreciation of such leased assets were included in other operating income and expenses.

The carrying amount of leased assets were as follows:

	December 31	
	2018	2017
Carrying amount of leased buildings	\$ <u>41,516</u>	\$ <u>52,331</u>

Future minimum lease payments under the above non-cancellable operating leases are as follows:

	December 31	
	2018	2017
Not later than 1 year	\$ 76,390	\$ 96,091
Later than 1 year and not later than 5 years	<u>69,850</u>	<u>-</u>
	\$ <u>146,240</u>	\$ <u>96,091</u>

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

11. INTANGIBLE ASSETS

	Acquired Special Technology	Software	Patents and Others	Total
<u>Cost</u>				
Balance at January 1, 2018	\$ 113,340	\$ 76,100	\$ 133,854	\$ 323,294
Additions	<u>-</u>	<u>2,943</u>	<u>11,900</u>	<u>14,843</u>
Balance at December 31, 2018	\$ <u>113,340</u>	\$ <u>79,043</u>	\$ <u>145,754</u>	\$ <u>338,137</u>
<u>Accumulated amortization</u>				
Balance at January 1, 2018	\$ 92,089	\$ 63,597	\$ 110,368	\$ 266,054
Additions	<u>5,667</u>	<u>7,534</u>	<u>20,124</u>	<u>33,325</u>
Balance at December 31, 2018	\$ <u>97,756</u>	\$ <u>71,131</u>	\$ <u>130,492</u>	\$ <u>299,379</u>
Carrying amount at December 31, 2018	\$ <u>15,584</u>	\$ <u>7,912</u>	\$ <u>15,262</u>	\$ <u>38,758</u>

(Continued)

	Acquired Special Technology	Software	Patents and Others	Total
<u>Cost</u>				
Balance at January 1, 2017	\$ 113,340	\$ 68,094	\$ 113,433	\$ 294,867
Additions	<u>-</u>	<u>8,006</u>	<u>20,421</u>	<u>28,427</u>
Balance at December 31, 2017	<u>\$ 113,340</u>	<u>\$ 76,100</u>	<u>\$ 133,854</u>	<u>\$ 323,294</u>
<u>Accumulated amortization</u>				
Balance at January 1, 2017	\$ 86,422	\$ 51,576	\$ 87,508	\$ 225,506
Additions	<u>5,667</u>	<u>12,021</u>	<u>22,860</u>	<u>40,548</u>
Balance at December 31, 2017	<u>\$ 92,089</u>	<u>\$ 63,597</u>	<u>\$ 110,368</u>	<u>\$ 266,054</u>
Carrying amount at December 31, 2017	<u>\$ 21,251</u>	<u>\$ 12,503</u>	<u>\$ 23,486</u>	<u>\$ 57,240</u> (Concluded)

12. OTHER CURRENT ASSETS

	December 31	
	2018	2017
Prepaid expenses	\$ 38,709	\$ 56,492
Temporary payment	3,710	9,373
Others	<u>3,408</u>	<u>2,970</u>
	<u>\$ 45,827</u>	<u>\$ 68,835</u>

13. PROVISIONS

	December 31	
	2018	2017
Sales returns and allowances	\$ -	\$ 52,151
Decommissioning costs	<u>153,906</u>	<u>72,806</u>
	<u>\$ 153,906</u>	<u>\$ 124,957</u>
Current portion	\$ -	\$ 52,151
Noncurrent portion	<u>153,906</u>	<u>72,806</u>
	<u>\$ 153,906</u>	<u>\$ 124,957</u>

	Sales Returns and Allowances	Decommissioning Costs	Total
<u>Year Ended December 31, 2018</u>			
Balance, beginning of year	\$ 52,151	\$ 72,806	\$ 124,957
Recognition	-	81,100	81,100
Reclassified as refund liability	<u>(52,151)</u>	<u>-</u>	<u>(52,151)</u>
Balance, end of year	<u>\$ -</u>	<u>\$ 153,906</u>	<u>\$ 153,906</u>

Year Ended December 31, 2017

Balance, beginning of year	\$ 55,367	\$ 36,837	\$ 92,204
Recognition	22,017	35,969	57,986
Payment	<u>(25,233)</u>	<u>-</u>	<u>(25,233)</u>
Balance, end of year	<u>\$ 52,151</u>	<u>\$ 72,806</u>	<u>\$ 124,957</u>

Provisions for sales returns and allowances are estimated based on historical experience, management judgment, and the varying contractual terms that would significantly affect the returns and allowances, and are recognized as a reduction of revenue in the same period of the related product sales.

Starting from 2018, the Company recognizes the estimation of sales returns and allowance as refund liability (classified under accrued expenses and other current liabilities) upon initial application of IFRS 15.

Decommissioning cost represents provision for cost of disassembly and removal of leased equipment and restoration of the location. Such amount of provision is measured using the discounted cash flows estimated to settle future obligation. The estimated decommissioning cost is assessed and adjusted reasonably at the end of each reporting period.

14. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	December 31	
	2018	2017
Subcontracting expenses payables	\$ 101,229	\$ 155,232
Refund liabilities	72,977	-
Rental payables	47,133	30,947
Pollution prevention expenses payables	19,935	31,667
Others	<u>238,933</u>	<u>280,898</u>
	<u>\$ 480,207</u>	<u>\$ 498,744</u>

15. LONG-TERM BORROWINGS

	December 31	
	2018	2017
Unsecured borrowings:		
Repayable quarterly from June 2020 in 9 installments; with annual interest rates at 1.20% in 2018 and 2017	\$ 610,000	\$ 610,000
Repayable semiannually from September 2019 in 7 installments; with annual interest rate at 1.24%-1.29% and 1.24% in 2018 and 2017, respectively; acquired bank borrowing in the amount of NT\$400,000 thousand in 2018	500,000	100,000
Repayable with annual interest rates at 1.08% and 0.96%-1.08% in 2018 and 2017, respectively and will redeem in April 2021; NT\$400,000 thousand redeemed in advance in 2018	300,000	700,000
Repayable with annual interest rates at 1.15% and 1.09%-1.15% in 2018 and 2017, respectively and will redeem in May 2022	300,000	300,000
Repayable quarterly from February 2019 in 16 installments; with annual interest rate at 1.70% in 2018 and 2017	200,000	200,000
Repayable with annual interest rates at 1.06%-1.18% in 2017 and will redeem in June 2022; NT\$200,000 thousand redeemed in advance in 2018	-	200,000
Repayable quarterly from December 2018 in 16 installments; with annual interest rate at 1.60% in 2017; NT\$50,000 thousand redeemed in advance in 2018	-	50,000
Repayable quarterly from July 2014 in 16 installments; with annual interest rates at 1.05% in 2017	-	37,500
Repayable quarterly from October 2014 in 16 installments; with annual interest rates at 1.05% in 2017	-	28,125
Repayable quarterly from September 2014 in 16 installments; with annual interest rates at 1.05% in 2017	-	12,500
Secured borrowings:		
Repayable quarterly from February 2019 in 17 installments; with annual interest rate at 1.55% in 2018	200,000	-
Repayable quarterly from April 2018 in 11 installments; with annual interest rate at 1.60% at 2017; NT\$250,000 thousand redeemed in advance in 2018	-	250,000
	<u>\$ 2,110,000</u>	<u>\$ 2,488,125</u>
Current portion	\$ 122,120	\$ 126,250
Non-current portion	<u>1,987,880</u>	<u>2,361,875</u>
	<u>\$ 2,110,000</u>	<u>\$ 2,488,125</u>

Under certain bank loan agreements, the Company has to meet certain financial covenants and criteria per semiannual reviewed financial statements and annual audited financial statements. Such inspection of certain financial covenants and criteria will start for 2019 semiannual reviewed financial statements.

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

16. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The pension plan under the Labor Pension Act (the “Act”) is deemed a defined contribution retirement plan. Pursuant to the Act, the Company makes monthly contributions equal to 6% of each employee’s monthly salary to employees’ pension accounts. Accordingly, the Company recognized expenses of NT\$56,289 thousand and NT\$54,974 thousand in the statements of comprehensive income for the year ended December 31, 2018 and 2017, respectively.

b. Defined benefit plans

The Company has defined benefit plans under the Labor Standards Law that provide benefits based on an employee’s length of service and average monthly salary for the six-month period prior to retirement. The Company contributes an amount equal to 2% of salaries paid each month to their respective pension funds (the Fund), which are administered by the Labor Pension Fund Supervisory Committee (the Committee) and deposited in the Committee’s name in the Bank of Taiwan.

Before the end of each year, the Company assesses the balance in the Fund. If the amount of the balance in the Fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The Fund is managed by the Bureau of Labor Funds, Ministry of Labor (“the Bureau”); as such, the Company has no right to influence the investment policy and strategy.

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

	December 31	
	2018	2017
Present value of defined benefit obligation	\$ 46,961	\$ 42,419
Fair value of plan assets	<u>(45,409)</u>	<u>(43,821)</u>
Net defined benefit liabilities (assets)	<u>\$ 1,552</u>	<u>\$ (1,402)</u>

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

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Balance at January 1, 2018	<u>\$ 42,419</u>	<u>\$ (43,821)</u>	<u>\$ (1,402)</u>
Service cost			
Net interest expense (income)	<u>530</u>	<u>(548)</u>	<u>(18)</u>
Recognized in profit or loss	<u>530</u>	<u>(548)</u>	<u>(18)</u>

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Remeasurement			
Return on plan assets	\$ -	\$ (1,231)	\$ (1,231)
Actuarial loss - changes in demographic assumptions	30	-	30
Actuarial loss - changes in financial assumptions	1,436	-	1,436
Actuarial gain - experience adjustments	<u>2737</u>	<u>-</u>	<u>2737</u>
Recognized in other comprehensive income	<u>4,203</u>	<u>(1,231)</u>	<u>2,972</u>
Benefits paid	<u>(191)</u>	<u>191</u>	<u>-</u>
Balance at December 31, 2018	<u>\$ 46,961</u>	<u>\$ (45,409)</u>	<u>\$ 1,552</u>
Balance at January 1, 2017	<u>\$ 41,350</u>	<u>\$ (43,190)</u>	<u>\$ (1,840)</u>
Service cost	-	-	-
Net interest expense (income)	<u>620</u>	<u>(660)</u>	<u>(40)</u>
Recognized in profit or loss	<u>620</u>	<u>(660)</u>	<u>(40)</u>
Remeasurement			
Return on plan assets	-	238	238
Actuarial loss - changes in demographic assumptions	294	-	294
Actuarial loss - changes in financial assumptions	1,468	-	1,468
Actuarial gain - experience adjustments	<u>(746)</u>	<u>-</u>	<u>(746)</u>
Recognized in other comprehensive income	<u>1,016</u>	<u>238</u>	<u>1,254</u>
Contributions from the employer	<u>-</u>	<u>(776)</u>	<u>(776)</u>
Benefits paid	<u>(567)</u>	<u>567</u>	<u>-</u>
Balance at December 31, 2017	<u>\$ 42,419</u>	<u>\$ (43,821)</u>	<u>\$ (1,402)</u>

(Concluded)

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plans is as follows:

	Years Ended December 31	
	2018	2017
General and administrative expenses	\$ <u>(18)</u>	\$ <u>(40)</u>

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

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

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

The actuarial valuations of the present value of plan assets and defined benefit obligations were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2018	2017
Discount rate	1.00%	1.25%
Expected rate of salary increase	2.00%	2.00%
Turnover rate	0.62%	0.30%

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

	December 31	
	2018	2017
Discount rate		
0.25% increase	\$ (1,556)	\$ (1,477)
0.25% decrease	\$ 1,627	\$ 1,546
Expected rate of salary increase		
0.25% increase	\$ 1,607	\$ 1,503
0.25% decrease	\$ (1,545)	\$ (1,444)
Turnover rate		
10% increase	\$ (127)	\$ (92)
10% decrease	\$ 127	\$ 92

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

	December 31	
	2018	2017
The expected contributions to the plan for the next year	\$ -	\$ -
The average duration of the defined benefit obligation	13 years	16 years

The maturity analysis of undiscounted pension benefits is as follows:

	December 31	
	2018	2017
Less than 1 year	\$ 1,323	\$ 1,687
Later than 1 year and not later than 5 years	3,076	8,770
Later than 5 years	<u>48,781</u>	<u>33,393</u>
	<u>\$ 53,180</u>	<u>\$ 43,850</u>

17. EQUITY

a. Capital stock

	December 31	
	2018	2017
Authorized stock (in thousands)	<u>300,000</u>	<u>300,000</u>
Authorized capital	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>
Issued and paid stock (in thousands)	<u>271,760</u>	<u>271,919</u>
Issued capital	<u>\$ 2,717,597</u>	<u>\$ 2,719,193</u>

A holder of issued common stock with par value of NT\$10 is entitled to vote and to receive dividends.

The authorized stock include 12,000 thousand stocks allocated for the exercise of employee stock options.

b. Capital surplus

	December 31	
	2018	2017
Additional paid-in capital	\$ 1,609,768	\$ 1,604,758
Employee restricted stocks	<u>3,378</u>	<u>26,210</u>
	<u>\$ 1,613,146</u>	<u>\$ 1,630,968</u>

Under the Company Law, the capital surplus generated from the excess of the issuance price over the par value of capital stock may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to capital stock (limited to a certain percentage of the Company's capital surplus and once a year).

The capital surplus arising from employee restricted stocks and employee stock options may not be used for any purpose.

c. Retained earnings and dividend policy

Under the dividend policy as set forth in the Company's Articles of Incorporation, if there is any profit after annual closing, it should be first deducted for income tax and accumulated deficits. Then appropriate 10% as legal reserve until the accumulated legal reserve equals the Company's paid-in capital, and appropriate (or reverse) the special reserve in accordance with relevant laws or regulations or as requested by the authorities in charge. Any remaining balance together with any unappropriated earnings shall be allocated according to the proposal of the board of directors and the resolution of the stockholders' meeting.

For the policy about the profit sharing bonus for employees and compensation for directors, please refer to Note 26.

The policy on the appropriation of dividends shall take the following factors into account: The Company's capital budget, intermediate and long term operational planning, and financial position. The following principles shall be followed and earnings shall be allocated according to the resolution of the stockholders' meeting:

- 1) The Company shall consider financial, business and operating factors when distributing profits. The profits may be distributed by way of cash dividend and/or stock dividend. However, due to the Company's business growing stage at present, the proportions of dividends that will be distributed

depend on future expansion plans and capital budget needs. The proportion of cash dividends shall not be lower than 50% of the total dividends.

- 2) If there is no profit or the distributable profit is far lower than the previous year's amounts distributed, or in consideration of financial, business and operating factors, the appropriation for capital reserve shall be in accordance with relevant laws or regulations or as requested by the authorities in charge.

Any appropriations of the profits are subject to stockholders' approval in the following year.

The appropriation for legal capital reserve shall be made until the reserve equals the Company's paid-in capital. The reserve may be used to offset a deficit, or be distributed as dividends in cash or stocks for the portion in excess of 25% of the paid-in capital if the Company incurs no loss.

Pursuant to existing regulations, the Company is required to set aside additional special reserve equivalent to the net debit balance of the other components of stockholders' equity, such as gain/loss from changes in fair value of hedging instruments in cash flow hedges, etc. For the subsequent decrease in the deduction amount to stockholders' equity, any special reserve appropriated may be reversed to the extent that the net debit balance reverses.

The Company's offset of deficits for 2017 was approved in the Company's stockholders in their meeting held on May 31, 2018 and was as follows:

	Deficit Offset of For Fiscal Year 2017
Balance of unappropriated earnings, beginning of year	\$ 539,405
Remeasurement of defined benefit plans	(1,254)
Net loss in 2017	(733,280)
Legal reserve for offset with deficits	<u>195,129</u>
Balance of unappropriated earnings, end of year	<u>\$ -</u>

The Company reversed its special reserve in accordance with the relevant regulations in the amount of NT\$1,774 thousand and planned not to distribute dividend.

The Company's offset of deficits for 2018 was approved in the meeting of the board of directors held on February 15, 2019 and was as follows:

	Deficit Offset of For Fiscal Year 2018
Balance of unappropriated earnings, beginning of year	\$ -
Adjustment on initial application	47,611
Remeasurement of defined benefit plans	(2,972)
Net loss in 2018	(1,351,951)
Legal reserve for offset with deficits	79,104
Capital surplus for offset with deficits	<u>1,228,208</u>
Balance of unappropriated earnings, end of year	<u>\$ -</u>

The offset of deficits for 2018 are subject to the resolution of the Company's shareholders' meeting scheduled to be held on May 30, 2019.

d. Others

Unearned stock-based employee compensation

On May 31, 2018 and June 14, 2016, the stockholder's meeting of the Company approved a restricted stock plan for employees. Refer to Note 18.

	<u>For the Year Ended December 31</u>	
	2018	2017
Balance, beginning of year	\$ (25,148)	\$ -
Issuance of stock	(4,010)	(50,040)
Forfeit of stock	25,428	12,610
(Reverse) stock-based payment expenses recognized	<u>(771)</u>	<u>12,282</u>
Balance, end of year	<u>\$ (4,501)</u>	<u>\$ (25,148)</u>

18. STOCK-BASED PAYMENTS

a. Optional exemption from adopting IFRS 2 "Share-based Payment" (IFRS 2)

The Company elected to take the optional exemption from adopting IFRS 2 retrospectively for stock-based payment transactions granted and vested before January 1, 2012. Such employee stock option plans are described as follows:

The Company's Employee Stock Option Plans, consisting of the "2007 Plan" and the "2006 Plan", were approved by the Securities and Futures Bureau (SFB) on June 26, 2007 and July 3, 2006, respectively. The maximum number of stock options authorized to be granted was 6,000 thousand units for each plan, with each stock option providing its holder with the eligibility to subscribe for one common stock when the option is exercised. The stock options may be granted to qualified employees of the Company. The stock options of all the plans are valid for ten years and exercisable at certain percentages subsequent to the second anniversary of the grant date.

Information about the Company's employee stock options is described as follows:

	<u>2007 Employee Stock Option Plans</u>		<u>2006 Employee Stock Option Plans</u>	
	Number of Stock Options (In Thousands)	Weighted- average Exercise Price (NT\$)	Number of Stock Options (In Thousands)	Weighted- average Exercise Price (NT\$)
The year ended December 31, <u>2017</u>				
Balance, beginning of year	2	\$ 14.80	-	\$ -
Options exercised	<u>(2)</u>	14.80	<u>-</u>	-
Balance, end of year	<u>-</u>	-	<u>-</u>	-
Balance exercisable, end of year	<u>-</u>	-	<u>-</u>	-

The exercise prices of outstanding stock options has been adjusted to reflect the distribution of earnings by the Company in accordance with the plan.

b. Adoption of IFRS 2

1) Equity-settled stock-based compensation

The Company adopted IFRS 2 for the following plan of the stock-based payment transactions granted and vested after January 1, 2012. Such employee stock option plan is described as follows:

The Company's 2011 Employee Stock Option Plan was approved by the SFB on January 10, 2012 (the "2011 Plan"). The maximum number of stock options authorized to be granted under the 2011 Plan was 6,000 thousand units, with each stock option providing its holder with the eligibility to subscribe for one common stock when the option is exercised. The stock options may be granted to qualified employees of the Company and its affiliated companies. The options of the 2011 Plan are valid for five years and exercisable at certain percentages subsequent to the second anniversary of the grant date.

Information about the Company's employee stock options is described as follows:

	2011 Employee Stock Option Plans	
	Number of Stock Options (In Thousands)	Weighted- average Exercise Price (NT\$)
<u>The year ended December 31, 2017</u>		
Balance, beginning of year	1,034	\$ 22.70
Options exercised	(942)	22.70
Options canceled	<u>(92)</u>	22.70
Balance, end of year	<u>-</u>	-
Balance exercisable, end of year	<u>-</u>	-

The exercise price of outstanding stock options has been adjusted to reflect the distribution of earnings by the Company in accordance with the plan.

The aforementioned stock options granted on June 14, 2012 were priced using the Black-Scholes pricing model, and the inputs to the model were as follows:

Stock price on grant date (NT\$/stock)	\$ 19.42
Exercise price (NT\$/stock)	\$ 22.30
Expected volatility	43.73%
Expected life	3.88 years
Expected dividend yield	-
Risk-free interest rate	0.96%

The stock price on the grant date was determined based on the market approach. The expected volatility was calculated based on the historical stock prices of the competitive companies of the Company.

Compensation costs of the above stock options recognized was NT\$0 for the year ended December 31, 2017.

2) Cash-settled stock-based compensation

The Company's 2012 cash-settled stock-based compensation plan ("Stock Appreciation Rights", SARs) was approved by the Company's board of directors on June 14, 2012, and the options may be granted to qualified employees of the Company. The aforementioned SARs are valid for ten years and holders of the SARs may exercise their rights at a cumulative proportion basis after the grant date. The Company shall pay the intrinsic value of the SARs to the employees at the date of exercise.

The Company's 2012 SARs plan is described as follows:

	2012 SARs
Grant date	June 14, 2012
SARs granted (in thousand)	2,000
Valid period	10 years
Current turnover rate	-
Future turnover rate (estimated)	-
Exercise price on the grant date (NT\$/stock)	\$ 49.4

Information about the Company's 2012 SARs plan was as follows:

	Number of SARs (In Thousands)	Weighted- average Exercise Price (NT\$)
<u>Year ended December 31, 2017</u>		
Balance, beginning of year	1,000	\$ 47.20
Options exercised	<u>(1,000)</u>	47.20
Balance, end of year	<u> -</u>	-
Balance exercisable, end of year	<u> -</u>	-

The exercise price of outstanding SARs has been adjusted to reflect the distribution of earnings by the Company in accordance with the plan.

The remaining exercisable SARs were all exercised in July, 2017.

The Company reversed total expenses of NT\$1,843 thousand with respect to the SARs for the year ended December 31, 2017.

3) Employee Restricted Stock Plans

On June 14, 2016, the stockholder's of the Company, in their stockholder's meeting, approved a restricted stock plan for employees with a total amount of NT\$15,000 thousand, consisting of 1,500 thousand units with a par value of NT\$10, for a consideration of NT\$0 (issued for no consideration). The restricted stock plan was approved by the FSC on June 27, 2016.

According to the abovementioned resolution, the Company's board of directors approved to grant the restricted stocks to employees with a total amount of NT\$15,000 thousand, consisting of 1,500 thousand units with a par value of NT\$10, for a consideration of NT\$0 (issued for no consideration) on February 17, 2017. The restricted stocks were granted on February 17, 2017 and issued on

March 15, 2017; the value of the stock was based on a fair value of NT\$41.70 per share at the date of grant.

Vesting conditions requires that an employee should reach the Company's performance and the individual's performance criteria at the same time. Vesting stocks are to be calculated as one full stock. Fractional stock (less than one stock) shall be rounded-down.

a) The first year vesting (one year has elapsed from the issuance date)

The Company's Performance EPS (see Remark 1 below) is positive, and is such that, it has increased by 10% or more from the previous year. An employee who remains employed at the Company after one year has elapsed from the time of vesting, whose labor contract was never violated, and also who achieved a performance rating equal to or higher than S (see Remark 2 below) in the current year will be eligible for vesting an installment of 20% of the stock.

b) The second year vesting (two years have elapsed from the issuance date)

The Company's Performance EPS is positive, and is such that, it has increased by 10% or more from the previous year. An employee who remains employed at the Company after two years has elapsed from the time of vesting, whose labor contract was never violated, and also who achieved a performance rating equal to or higher than S (see Remark 2 below) in the current year will be eligible for vesting an installment of 20% of the stock.

c) The third year vesting (three years have elapsed from the issuance date)

- i. The Company's Performance EPS is positive, and is such that, it has increased by 10% or more from the previous year. An employee who remains employed at the Company after three years has elapsed from the time of vesting, whose labor contract was never violated, and also who achieved a performance rating equal to or higher than S (see Remark 2 below) in the current year will be eligible for vesting an installment of 26.7% of the stock.
- ii. The Company's Performance EPS has achieved an amount of NT\$2 or more. An employee who remains employed at the Company after three years has elapsed from the time of vesting, whose labor contract was never violated, and also who achieved a performance rating equal to or higher than S in the current year will be eligible for vesting an installment of 33.3% of the stock.

Remark 1: The Company's Performance EPS: That refers to the Company's earnings per share as shown in financial statements audited by the Company's CPA of the year prior to the vesting date.

Remark 2: The Company's Performance Rating Rule is as follows: O (Outstanding), S (Successful), I (Improvement Needed), and U (Unacceptable).

Restrictions on the rights associated with stocks that have not yet vested:

- i. During the vesting period, an employee may not sell, pledge, transfer, give to another person, request the Company to buy back, or otherwise dispose of, new restricted employee stocks.
- ii. The stockholder's right due to the new restricted employee stocks is executed based on a Trust contract signed by the employees.

- iii. During the vesting period, the employees holding new restricted employee stocks can still participate in stock and cash dividends and subscriptions to cash rights issues, and such cash dividends and subscriptions are not required to be deposited in a trust and will not be subject to restrictions.

On May 31, 2018, the stockholders' of the Company, in their stockholders' meeting, approved a restricted stock plan for employees with a total amount of NT\$5,000 thousand, consisting of 500 thousand units with a par value of NT\$10, for a consideration of NT\$20 per share. The restricted stock plan was approved by the FSC on June 28, 2018.

According to the abovementioned resolution, the Company's board of directors approved to grant the restricted stocks to employees with a total amount of NT\$1,000 thousand, consisting of 100 thousand stocks with a par value of NT\$10, for a consideration of NT\$20 on August 3, 2018. The restricted stocks were granted on August 3, 2018 and issued on August 9, 2018; the value of the stock was based on a fair value of NT\$60.10 per share at the date of grant.

Vesting conditions are such that if an employee is still employed after three months of receiving new restricted employee stock, they can acquire the full amount of the stocks.

Restrictions on the rights associated with stocks that have not yet vested:

- i. During the vesting period, an employee may not sell, pledge, transfer, give to another person, request the Company to buy back, or otherwise dispose of, new restricted employee stocks.
- ii. The stockholder's rights due to the new restricted employee stocks is executed based on a Trust contract signed by the employees.
- iii. During the vesting period, the employees holding new restricted employee stocks can still participate in stock and cash dividends and subscriptions to cash rights issues, and such cash dividends and subscriptions are not required to be deposited in a trust and will not be subject to restrictions.

Compensation costs of employee restricted stocks reversed and recognized were NT\$771 thousand and NT\$12,282 thousand for the years ended December 31, 2018 and 2017, respectively.

Movements in employee restricted stocks for the year ended December 31, 2017 were as follows:

	<u>Number of Stocks (In Thousands)</u>	
	<u>Year Ended December 31</u>	
	2018	2017
Balance, beginning of period	1,122	-
Issuance of stocks	100	1,500
Vesting of stocks	(100)	-
Forfeit of stocks (Note)	<u>(259)</u>	<u>(378)</u>
Balance, end of period	<u>863</u>	<u>1,122</u>

Note: The Company includes 35 thousand shares to be cancelled and 224 shares cancelled in 2018.

19. OPERATING REVENUE

- a. The analysis of the Company's net revenue

Wafer level chip scale packaging (CSP) and wafer level post passivation interconnection services (PPI)

The packaging service is to provide the manufacturing of customer-specific goods. If the customer controls the customized goods when they are in packaging process, packaging service revenue is recognized over time.

- b. Disaggregation of revenue from contracts with customers

	Year Ended December 31, 2018
Production	
Wafer level CSP	\$ 3,795,502
Wafer level PPI	896,047
Others	<u>22,897</u>
	<u>\$ 4,714,446</u>
	Year Ended December 31, 2018
Region	
Taiwan	\$ 3,091,171
United States	1,430,609
Europe	159,470
Others	<u>33,196</u>
	<u>\$ 4,714,446</u>
	Year Ended December 31, 2018
Customer Type	
Foundry companies	\$ 2,769,960
Design house	<u>1,944,486</u>
	<u>\$ 4,714,446</u>
	Year Ended December 31, 2018
Application Type	
Consumer	\$ 3,973,374
Automotive	<u>741,072</u>
	<u>\$ 4,714,446</u>

c. Contract balances

	December 31, 2018	January 1, 2018
<u>Unrelated Parties</u>		
Contract assets	\$ 66,652	\$ 56,691
Less: Allowance for impairment loss	<u>(67)</u>	<u>-</u>
Contract assets, net	<u>66,585</u>	<u>56,691</u>
<u>Related Parties</u>		
Contract assets	162,167	249,754
Less: Allowance for impairment loss	<u>-</u>	<u>-</u>
Contract assets, net	<u>162,167</u>	<u>249,754</u>
	<u>\$ 228,752</u>	<u>\$ 306,445</u>

The changes in the contract assets balances primarily result from the timing difference between the satisfaction of performance obligation and the customer's payment.

The Company recognized expected credit loss NT\$ 67 thousand for the ended December 31, 2018.

Movements of the loss allowance for contract assets:

	Year Ended December 31, 2018
Balance at January 1, 2018	\$ -
Add: Net remeasurement of loss allowance	<u>67</u>
Balance at December 31, 2018	<u>\$ 67</u>

d. Partially completed contracts

The transaction price allocated to the performance obligations that are not fully satisfied and the expected timing for recognition of revenue are as below:

	Year Ended December 31, 2018
Packaging service	
The three months ended March 31, 2019	<u>\$ 228,752</u>

20. OTHER OPERATING INCOME AND EXPENSES, NET

	Year Ended December 31	
	2018	2017
Income (expenses) of leased assets		
Rental income	\$ 117,468	\$ 115,498
Depreciation of leased assets	(16,985)	(12,225)
Others	<u>(16,814)</u>	<u>(14,871)</u>
	83,669	88,402
Impairment loss on property, plant and equipment	(988,403)	(21,863)
(Loss) gain on disposal of property, plant and equipment, net	<u>(4,380)</u>	<u>3,907</u>
	<u>\$ (909,114)</u>	<u>\$ 70,446</u>

21. INTEREST INCOME

	Year Ended December 31	
	2018	2017
Interest income		
Bank deposits	<u>\$ 3,998</u>	<u>\$ 5,866</u>

22. FINANCE COSTS

	Year Ended December 31	
	2018	2017
Interest expense		
Bank loans	\$ 31,674	\$ 30,843
Others	<u>9,803</u>	<u>8,858</u>
	<u>\$ 41,477</u>	<u>\$ 39,701</u>

23. OTHER GAINS AND LOSSES

	Year Ended December 31	
	2018	2017
Net (loss) gain arising on financial instruments designated as at FVTPL	\$ (29,709)	\$ 39,457
Net foreign exchange gain (loss)	14,066	(54,819)
Others	<u>5,663</u>	<u>7,733</u>
	<u>\$ (9,980)</u>	<u>\$ (7,629)</u>

24. INCOME TAX

a. Income tax expense recognized in profit or loss

Income tax expense consisted of the following:

	Year Ended December 31	
	2018	2017
Current income tax benefit		
Income tax adjustments on prior years	\$ -	\$ 22,840
Deferred income tax benefit (expense)		
Effect of tax rate changes	36,071	-
The origination and reversal of temporary differences	(9,313)	(5,245)
Loss carryforwards	(26,758)	9,979
	<u>-</u>	<u>4,734</u>
Income tax benefit recognized in profit or loss	\$ -	\$ 27,574

A reconciliation of income before income tax and income tax expense recognized in profit or loss was as follows:

	Years Ended December 31	
	2018	2017
Loss before tax	\$ (1,351,951)	\$ (760,854)
Income tax benefit at the statutory rate (20% and 17% for the year 2018, 2017 respectively)	\$ 270,390	\$ 129,345
Tax effect of adjusting items:		
(Increaseable) Deductible items in determining taxable income	(145,430)	28,238
Unrecognized loss carryforwards	(179,037)	(144,719)
Unrecognized deductible temporary differences	(152,984)	-
The origination and reversal of temporary differences	145,430	(5,245)
Effect of tax rate changes	36,071	-
Remeasurement of investment tax credits	25,560	(2,885)
Income tax adjustments on prior years	<u>-</u>	<u>22,840</u>
Income tax benefit recognized in profit or loss	\$ -	\$ 27,574

In 2017, the applicable corporate income tax rate used by the group entities in the ROC is 17%. However, the Income Tax Act in the ROC. was amended in 2018 and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%.

b. Deferred income tax balance

The analysis of deferred income tax assets in the balance sheets was as follows:

	December 31	
	2018	2017
Loss carryforwards	\$ 151,632	\$ 151,632
Temporary differences		
Depreciation	29,641	32,886
Refund liabilities/provision for sales returns and allowance	14,595	8,866
Unrealized loss on inventories	6,328	4,359
Others	<u>2,207</u>	<u>6,660</u>
	<u>\$ 204,403</u>	<u>\$ 204,403</u>

Movements of deferred income tax assets were as follows:

	Balance, Beginning of Year	Recognized in Profit or Loss	Balance, End of Year
<u>Year ended December 31, 2018</u>			
Loss carryforwards	\$ 151,632	\$ -	\$ 151,632
Temporary differences			
Depreciation	32,886	(3,245)	29,641
Refund liabilities	8,866	5,729	14,595
Unrealized loss on inventories	4,359	1,969	6,328
Others	<u>6,660</u>	<u>(4,453)</u>	<u>2,207</u>
	<u>\$ 204,403</u>	<u>\$ -</u>	<u>\$ 204,403</u>
<u>Year ended December 31, 2017</u>			
Loss carryforwards	\$ 141,653	\$ 9,979	\$ 151,632
Temporary differences			
Depreciation	38,863	(5,977)	32,886
Provisions for sales returns and allowances	9,412	(546)	8,866
Unrealized loss on inventories	4,893	(534)	4,359
Others	<u>4,848</u>	<u>1,812</u>	<u>6,660</u>
	<u>\$ 199,669</u>	<u>\$ 4,734</u>	<u>\$ 204,403</u>

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

	December 31	
	2018	2017
Loss carryforwards		
Expire in 2026	\$ 58,122	\$ -
Expire in 2027	935,856	851,289
Expire in 2028	<u>624,802</u>	<u>-</u>
	<u>\$ 1,618,780</u>	<u>\$ 851,289</u>
Deductible temporary differences		
Depreciation	<u>\$ 764,918</u>	<u>\$ -</u>

- d. Information about unused loss carryforwards and tax exemptions

Loss carryforwards as December 31, 2018 comprised of:

Expiry Year	Unused Amount
2022	\$ 1,210
2026	815,072
2027	935,856
2028	<u>624,802</u>
	<u>\$ 2,376,940</u>

As of December 31, 2018, the profits generated from integrated circuit packaging are exempt from income tax for a five-year period:

	Tax-exemption Period
Third construction and expansion	2015 to 2019

- e. Income tax examination

The tax authorities have examined income tax returns of the Company through 2016. All investment tax credit adjustments assessed by the tax authorities have been recognized accordingly.

25. LOSS PER SHARE

	Years Ended December 31	
	2018	2017
Basic and diluted loss per share	<u>\$ (4.99)</u>	<u>\$ (2.71)</u>

Loss per share is computed as follows:

	Amounts (Numerator)	Number of Stocks (Denominator) (In Thousands)	Loss Per Share (NT\$)
<u>Year ended December 31, 2018</u>			
Basic and diluted loss per share			
Net loss available to common stockholders	<u>\$ (1,351,951)</u>	<u>270,839</u>	<u>\$ (4.99)</u>
<u>Year ended December 31, 2017</u>			
Basic and diluted loss per share			
Net loss available to common stockholders	<u>\$ (733,280)</u>	<u>270,649</u>	<u>\$ (2.71)</u>

If the Company offered to settle the obligation by cash or by issuing stocks, the profit sharing bonus for employees which will be settled in stocks were included in the weighted average number of stocks outstanding in the calculation of diluted EPS, as the stocks have a dilutive effect. Such dilutive effect of the potential stocks is included in the calculation of diluted EPS until the profit sharing bonus for employees to be settled in the form of common stocks is approved in the following year.

26. ADDITIONAL INFORMATION OF EXPENSES BY NATURE

Net loss included the following items:

	<u>Years Ended December 31</u>	
	2018	2017
a. Depreciation of property, plant and equipment		
Recognized in operating costs	\$ 889,037	\$ 987,717
Recognized in operating expenses	11,030	10,201
Recognized in other operating income and expenses	<u>16,985</u>	<u>12,225</u>
	<u>\$ 917,052</u>	<u>\$ 1,010,143</u>
b. Amortization of intangible assets		
Recognized in operating costs	\$ 12,119	\$ 14,653
Recognized in operating expenses	<u>21,206</u>	<u>25,895</u>
	<u>\$ 33,325</u>	<u>\$ 40,548</u>
c. Research and development costs expensed as incurred	<u>\$ 246,238</u>	<u>\$ 285,150</u>

	Years Ended December 31, 2018	January 1, 2017
d. Employee benefits expenses		
Post-employment benefits (Note 16)		
Defined contribution plans	\$ 56,289	\$ 54,974
Defined benefit plans	<u>(18)</u>	<u>(40)</u>
	<u>56,271</u>	<u>54,934</u>
Stock-based payments (Note 18)		
Equity-settled	(771)	12,282
Cash-settled	<u>-</u>	<u>(1,843)</u>
	<u>(771)</u>	<u>10,439</u>
Other employee benefits	<u>1,450,404</u>	<u>1,415,154</u>
	<u>\$ 1,505,904</u>	<u>\$ 1,480,527</u>
Employee benefits expense summarized by function		
Recognized in operating costs	\$ 1,220,721	\$ 1,180,829
Recognized in operating expenses	<u>285,183</u>	<u>299,698</u>
	<u>\$ 1,505,904</u>	<u>\$ 1,480,527</u>

If the Company has annual profits, the Company shall allocate a profit sharing bonus for employees and compensation for directors at rates of not less than 1% and not more than 2% of annual profits, respectively. Directors who also serve as executive officers of the Company are not entitled to receive the compensation for directors. The Company's profit sharing bonus for employees and compensation for directors have to be resolved by a majority vote at a board of directors meeting attended by two-thirds of the total number of directors and shall be reported in the stockholders' meeting. However, the Company shall reserve a sufficient profit to offset its accumulated deficits, and then set aside a profit sharing bonus for employees and compensation for directors in accordance with the predetermined ratio. The Company also can allocate a profit sharing bonus for the employees of affiliated companies upon meeting the conditions set by the Board of directors.

The Company accrued a profit sharing bonus for employees and compensation for directors based on a percentage of income before income tax (before a profit sharing bonus for employees and compensation for directors during the period under the amended Company Act), which both amounted to NT\$1,800 thousand (both including NT\$1,800 thousand of compensation for independent directors) for both years ended December 31, 2018 and 2017.

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

The board of directors of the Company held a meeting on February 6, 2018 and decided not to grant a profit sharing bonus for employees and compensation for directors but approved a NT\$1,800 thousand compensation for independent directors for the year ended December 31, 2017. The aforementioned approved amount has no difference with the one recognized in the financial statements for the year ended December 31, 2017.

The board of directors of the Company held a meeting on February 17, 2017 and approved the profit sharing bonus for employees and compensation for directors but approved a NT\$1,800 thousand compensation for independent directors) in the year ended December 31, 2016. The aforementioned approved amount has no difference from the one recognized in the financial statements for the year ended December 31, 2016.

The board of directors of the Company held a meeting on February 15, 2019 and decided not to grant a profit sharing bonus for employees and compensation for directors but approved a NT\$1,800 thousand of compensation for independent directors for the year ended December 31, 2018.

The information about the appropriations of the Company's profit sharing bonus for employees and bonuses and compensation for directors is available at the Market Observation Post System website.

27. CAPITAL MANAGEMENT

The Company manages its capital to ensure that the Company will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Company manages its capital in a manner to ensure that it has sufficient and necessary financial resources to fund its working capital needs, capital asset purchases, research and development activities, dividend payments, debt service requirements and other business requirements associated with its existing operations over the next 12 months.

28. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	December 31	
	2018	2017
<u>Financial assets</u>		
FVTPL	\$ 535	\$ 11,372
Amortized cost (Note 1)	1,828,462	-
Loans and receivables (Note 2)	-	1,953,446
	<u>\$ 1,828,997</u>	<u>\$ 1,964,818</u>
<u>Financial liabilities</u>		
FVTPL	\$ 2,676	\$ 178
Amortized cost (Note 3)	<u>3,043,317</u>	<u>3,480,325</u>
	<u>\$ 3,045,993</u>	<u>\$ 3,480,503</u>

Note 1: The balance including cash and cash equivalents, accounts receivable (including related parties), other financial assets and refundable deposits.

Note 2: The balance including cash and cash equivalents, accounts receivable (including related parties), other financial assets, other receivables from related parties and refundable deposits.

Note 3: The balance including accounts payable, payables to contractors and equipment suppliers, accrued expenses and other current liabilities, and long-term borrowings.

b. Financial risk management objectives and policies

The Company seeks to ensure sufficient cost-efficient funding readily available when needed. The Company manages its exposure to foreign currency risk, interest rate risk, credit risk and liquidity risk with the objective to reduce the potentially adverse effects stemming from the market uncertainties that may affect its financial performance.

The plans for material treasury activities are reviewed by board of directors in accordance with procedures required by relevant regulations and internal controls. During the implementation of such plans, the treasury function must comply with certain treasury procedures that provide guiding principles for overall financial risk management and segregation of duties.

c. Market risk

The Company is exposed to the market risks arising from changes in foreign exchange rates, interest rates, and utilizes some derivative financial instruments to reduce the related risks.

Foreign currency risk

Most of the Company's operating activities are denominated in foreign currencies. Consequently, the Company is exposed to foreign currency risk. To protect against reductions in value and the volatility of future cash flows caused by changes in foreign exchange rates, the Company utilizes derivative financial instruments, including forward exchange contracts, to hedge its currency exposure. These instruments help to reduce, but do not eliminate, the impact of foreign currency exchange rate movements.

The Company's sensitivity analysis to foreign currency risk mainly focuses on the foreign currency monetary items at the end of the reporting period. Assuming an unfavorable 10% movement in the levels of foreign exchange rates against the New Taiwan dollar, the net loss for the years ended December 31, 2018 and 2017 would have decreased by NT\$391 thousand and increased by NT\$802 thousand, respectively, after taking into consideration of the hedging contracts and the hedged items.

Interest rate risk

Variable-rate long-term bank borrowings cause the Company to be exposed to cash flow interest rate risk, but not fair value interest rate risk. Consequently, the Company entered into interest rate swap contracts to mitigate the risk of changes in interest rates on cash flow.

The Company's analysis of sensitivity to interest rate risk is prepared assuming the amount of the variable-rate long-term bank borrowings outstanding at the end of the reporting period was outstanding for the whole year. If interest rates had been 100 basis points (1%) higher and all other variables were held constant, the Company's interest expense, net of income tax, for the years ended December 31, 2018 and 2017 would increase by NT\$16,880 thousand and NT\$20,651 thousand, respectively.

d. Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company is exposed to credit risk from operating activities, primarily accounts receivable, and from investing activities, primarily deposits with banks. As of the balance sheet date, the Company's maximum credit risk exposure is mainly from the carrying amount of financial assets recognized in the balance sheet.

Business-related credit risk

The Company has considerable accounts receivable outstanding with its customers worldwide. A substantial majority of the Company's outstanding accounts receivable are not covered by collateral or credit insurance. While the Company has procedures to monitor and limit exposure to credit risk on accounts receivable, there can be no assurance such procedures will effectively limit its credit risk and avoid losses.

The Company's concentration of credit risk of 90% and 89% of total trade receivables/total amounts of trade receivables and contract assets as of December 31, 2018 and 2017, respectively, was on the Company's the two largest customers.

Financial credit risk

The Company regularly monitors and reviews the transaction limit applied to counterparties and adjusts the concentration limit according to market conditions and the credit standing of the counterparties. The Company mitigates its exposure by selecting creditworthy financial institutions.

e. Liquidity risk management

The objective of liquidity risk management is to ensure the Company has sufficient liquidity to fund its business requirements. The Company manages its liquidity risk by maintaining adequate cash and banking facilities.

The Company relies on bank borrowings as a significant source of liquidity. As of December 31, 2018 and 2017, the unused financing facilities of the Company amounted to NT\$1,572,500 thousand and NT\$3,747,374 thousand, respectively.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments, including principal and interest.

December 31, 2018

	Less Than 1 Year	2-3 Years	4-5 Years	Total
<u>Non-derivative financial liabilities</u>				
Accounts payable	\$ 316,846	\$ -	\$ -	\$ 316,846
Payables to contractors and equipment suppliers	192,042	-	-	192,042
Accrued expenses and other current liabilities	424,429	-	-	424,429
Long-term borrowings	<u>148,137</u>	<u>1,156,426</u>	<u>874,371</u>	<u>2,178,934</u>
	<u>1,081,454</u>	<u>1,156,426</u>	<u>874,371</u>	<u>3,112,251</u>
<u>Derivative financial liabilities (assets)</u>				
Forward exchange contracts				
Outflows	1,147,401	-	-	1,147,401
Inflows	<u>(1,145,260)</u>	<u>-</u>	<u>-</u>	<u>(1,145,260)</u>
	<u>2,141</u>	<u>-</u>	<u>-</u>	<u>2,141</u>
	<u>\$ 1,083,595</u>	<u>\$ 1,156,426</u>	<u>\$ 874,371</u>	<u>\$ 3,114,392</u>

December 31, 2017

	Less Than 1 Year	2-3 Years	4-5 Years	Total
<u>Non-derivative financial liabilities</u>				
Accounts payable	\$ 357,936	\$ -	\$ -	\$ 357,936
Payables to contractors and equipment suppliers	175,252	-	-	175,252
Accrued expenses and other current liabilities	459,012	-	-	459,012
Long-term borrowings	<u>156,181</u>	<u>601,447</u>	<u>1,830,571</u>	<u>2,588,199</u>
	<u>1,148,381</u>	<u>601,447</u>	<u>1,830,571</u>	<u>3,580,399</u>

(Continued)

	Less Than 1 Year	2-3 Years	4-5 Years	Total
<u>Derivative financial liabilities (assets)</u>				
Forward exchange contracts				
Outflows	\$ 1,236,365	\$ -	\$ -	\$ 1,236,365
Inflows	<u>(1,247,559)</u>	<u>-</u>	<u>-</u>	<u>(1,247,559)</u>
	<u>(11,194)</u>	<u>-</u>	<u>-</u>	<u>(11,194)</u>
	<u>\$ 1,137,187</u>	<u>\$ 601,447</u>	<u>\$ 1,830,571</u>	<u>\$ 3,569,205</u>
				(Concluded)

f. Fair value of financial instruments

1) Fair value of financial instruments carried at amortized cost

The Company considers that the carrying amounts of financial assets and financial liabilities carried at amortized cost recognized in the financial statements approximate their fair values.

2) Fair value measurements recognized in the balance sheets

The Company's financial assets and liabilities are measured at fair value. The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 inputs are unobservable inputs for the asset or liability.

3) Fair value of financial instruments that are measured at fair value on a recurring basis

Fair value hierarchy

The following table presents the Company's financial assets and liabilities measured at fair value on a recurring basis:

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
<u>Financial assets at FVTPL</u>				
Derivative financial instruments	\$ -	\$ 535	\$ -	\$ 535
<u>Financial liabilities at FVTPL</u>				
Derivative financial instruments	\$ -	\$ 2,676	\$ -	\$ 2,676

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
<u>Financial assets at FVTPL</u>				
Derivative financial instruments	\$ <u>-</u>	\$ <u>11,372</u>	\$ <u>-</u>	\$ <u>11,372</u>
<u>Financial liabilities at FVTPL</u>				
Derivative financial instruments	\$ <u>-</u>	\$ <u>178</u>	\$ <u>-</u>	\$ <u>178</u>

There were no transfers between Level 1 and Level 2 of the fair value hierarchy for the year ended December 31, 2018 and 2017, respectively.

There were no purchases and disposals for financial assets on Level 3 for the years ended December 31, 2018 and 2017, respectively.

Valuation techniques and assumptions applied for the purpose of measuring fair value

The fair values of financial assets and financial liabilities were determined as follows:

- Forward exchange contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

29. RELATED PARTY TRANSACTIONS

Besides as disclosed elsewhere in the other notes, the transactions between the Company and its related parties are summarized as follows:

a. Related party name and categories

<u>Related Party Name</u>	<u>Related Party Category</u>
Taiwan Semiconductor Manufacturing Company Limited (TSMC)	Investors that have significant influence over the Company
VisEra Technologies Company Ltd. (VisEra)	Other related parties

b. Operating transactions

	<u>Operating Revenue, Net</u> <u>Years Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
TSMC	\$ 2,769,960	\$ 2,074,265
VisEra	<u>15</u>	<u>-</u>
	<u>\$ 2,769,975</u>	<u>\$ 2,074,265</u>

The sales prices and payment terms of sales to related parties were not significantly different from those of sales to third parties.

		Manufacturing Overhead	
		Years Ended December 31	
		2018	2017
VisEra		\$ 544,158	\$ 403,106
TSMC		<u>40</u>	<u>-</u>
		<u>\$ 544,198</u>	<u>\$ 403,106</u>

		Operating Expenses	
		Years Ended December 31	
		2018	2017
VisEra		<u>\$ 26</u>	<u>\$ 957</u>

		Rental Income	
		Years Ended December 31	
		2018	2017
VisEra		\$ 98,350	\$ 98,000
TSMC		<u>19,118</u>	<u>17,498</u>
		<u>\$ 117,468</u>	<u>\$ 115,498</u>

The Company leased property, plant and equipment to related parties. The lease terms and prices were both determined in accordance with mutual agreements. The rental income was received monthly; the related rental income of leased assets was recognized under other operating income and expenses.

		Contract Assets
		December 31,
		2018
TSMC		<u>\$ 162,167</u>

The Company did not recognize loss allowance for the contract assets from related parties for the year ended December 31, 2018.

		Receivables from Related Parties	
		(Not Including Contract Assets)	
		December 31	
		2018	2017
TSMC		<u>\$ 649,812</u>	<u>\$ 830,423</u>

The Company did not obtain guarantees to receivables from related parties. The Company did not recognize loss allowance for receivables from related parties for the year ended December 31, 2018 and 2017, respectively.

		Other Current Assets	
		December 31	
		2018	2017
VisEra		\$ <u>50</u>	\$ <u>54</u>
		Accrued Expenses and Other	
		Current Liabilities	
		December 31	
		2018	2017
VisEra		\$ 101,278	\$ 155,232
TSMC		<u>3,182</u>	<u>3,182</u>
		<u>\$ 104,460</u>	<u>\$ 158,414</u>

For other related party transactions, price and terms were determined in accordance with mutual agreements.

c. Compensation of key management personnel

The compensation of directors and other key management personnel were as follows:

		Years Ended December 31	
		2018	2017
Short-term employee benefits		\$ 16,102	\$ 19,163
Stock-based payments		3,378	(299)
Post-employment benefits		<u>332</u>	<u>468</u>
		<u>\$ 19,812</u>	<u>\$ 19,332</u>

The compensation of directors and other key management personnel were determined by the Compensation Committee of the Company in accordance with the individual performance and the market trends.

30. PLEDGED ASSETS

The following assets were provided as collateral for long-term bank borrowings:

		Years Ended December 31	
		2018	2017
Land		\$ 101,518	\$ -
Buildings		43,668	-
Machinery and equipment		<u>-</u>	<u>274,164</u>
		<u>\$ 145,186</u>	<u>\$ 274,164</u>

31. OPERATING LEASE ARRANGEMENTS

The Company leases several parcels of plants and offices from the Jhongli Industrial Park. These operating leases expire between March 2019 and July 2031. The lease agreement can be renewed upon expiration, and Jhongli Industrial Park can adjust annual rental amounts by lease agreement.

The Company expensed the lease payments as follows:

	Years Ended December 31	
	2018	2017
Minimum lease payments	<u>\$ 73,180</u>	<u>\$ 87,531</u>

Future minimum lease payments under the above non-cancellable operating leases are as follows:

	December 31	
	2018	2017
No more than 1 year	\$ 53,561	\$ 70,991
More than 1 year and not later than 5 years	130,520	148,597
More than 5 years	<u>140,407</u>	<u>116,952</u>
	<u>\$ 324,488</u>	<u>\$ 336,540</u>

32. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

Significant contingent liabilities and unrecognized commitments of the Company as of the end of the reporting period, excluding those disclosed in other notes, were as follows:

- As of December 31, 2018 and 2017, unused letters of credit for purchases of machinery and equipment amounted to NT\$0 and NT\$366 thousand, respectively.
- The amount that the Company has committed to purchase property, plant and equipment was NT\$252,123 thousand as of December 31, 2018.

33. EXCHANGE RATE INFORMATION OF FOREIGN-CURRENCY FINANCIAL ASSETS AND LIABILITIES

The significant financial assets and financial liabilities denominated in foreign currencies were as follows:

December 31, 2018

	Foreign Currencies (In Thousands)	Exchange Rate (Note)	Carrying Amount (In Thousands)
<u>Financial assets</u>			
Monetary items			
USD	\$ 43,282	30.740	\$ 1,330,496
JPY	62,747	0.2782	17,456
CHF	183	31.19	5,706
EUR	114	35.20	4,008
			(Continued)

	Foreign Currencies (In Thousands)	Exchange Rate (Note)	Carrying Amount (In Thousands)
<u>Financial liabilities</u>			
Monetary items			
USD	\$ 5,849	30.740	\$ 179,786
JPY	65,800	0.2782	18,306
CHF	183	31.19	5,706
EUR	45	35.20	1,575
			(Concluded)

December 31, 2017

	Foreign Currencies (In Thousands)	Exchange Rate (Note)	Carrying Amount (In Thousands)
<u>Financial assets</u>			
Monetary items			
USD	\$ 49,880	29.659	\$ 1,479,392
JPY	75,413	0.2642	19,924
CHF	202	30.46	6,164
EUR	137	35.57	4,876

Financial liabilities

Monetary items			
USD	8,461	29.659	250,948
JPY	81,496	0.2642	21,531
CHF	202	30.46	6,164
EUR	141	35.57	5,011

Note: Exchange rate represents the number of NT dollars for which one foreign currency could be exchanged.

The significant (realized and unrealized) foreign exchange gain (loss) was as follows:

Years Ended December 31				
Foreign Currencies	2018		2017	
	Exchange Rate	Net Foreign Exchange Gain (Loss)	Exchange Rate	Net Foreign Exchange Gain (Loss)
USD	30.740	\$ 14,338	29.659	\$ (54,837)
JPY	0.2782	(152)	0.2642	(82)
EUR	35.20	(122)	35.57	78
CHF	31.19	<u>2</u>	30.46	<u>22</u>
		<u>\$ 14,066</u>		<u>\$ (54,819)</u>

34. OPERATING SEGMENT INFORMATION

a. Operating segments

The Company operates in individual industry on the basis of how the Company's chief operating decision maker regularly reviews information in order to allocate resources and assess performance. The basis for the measurement of the operating segment profit (loss), assets and liabilities is the same as that for the preparation of financial statements. Please refer to the financial statements for the related operating segment information.

b. Geographic operating revenue information

	Years Ended December 31	
	2018	2017
<u>Region</u>		
Taiwan	\$ 3,091,171	\$ 2,405,599
United States	1,430,609	1,264,164
Europe	159,470	357,871
Asia	<u>33,196</u>	<u>50,850</u>
	<u>\$ 4,714,446</u>	<u>\$ 4,078,484</u>

The geographic information is presented by billed regions. Noncurrent assets were all placed in Taiwan, so the disclosure of noncurrent asset information was not required.

c. Production information

Production	Years Ended December 31	
	2018	2017
Wafer level CSP	\$ 3,795,502	\$ 2,825,299
Wafer level PPI	896,047	1,232,794
Others	<u>22,897</u>	<u>20,391</u>
	<u>\$ 4,714,446</u>	<u>\$ 4,078,484</u>

d. Major customers contributing at least 10% to the Company's operating revenue

	Years Ended December 31			
	2018		2017	
	Amount	%	Amount	%
Customer A	\$ 2,769,960	59	\$ 2,074,265	51
Customer B	1,247,876	26	1,078,319	26

35. ADDITIONAL DISCLOSURES

a. Significant transactions

- 1) Financing provided to others: None
- 2) Endorsements/guarantees provided: None
- 3) Marketable securities held (excluding investment in subsidiaries, associates and joint ventures):
None
- 4) Marketable securities acquired and disposed at costs or prices at least NT\$300 million or 20% of the paid-in capital: None
- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital: None
- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital: None
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: See Table 1 attached
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: See Table 2 attached
- 9) Information about the derivative instruments transaction: See Notes 7

b. Information on investees: None

c. Information on investments in China Mainland: None

TABLE 1

XINTEC INC.

**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2018
(Amounts in Thousands of New Taiwan Dollars)**

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Accounts Payable or Receivable		Note
			Purchases/ Sales	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
The Company	TSMC	TSMC is an equity-method investor of the Company	Sales	\$ 2,769,960	59	30 days after monthly closing	Note 29	Note 29	\$ 649,812	71	-

TABLE 2

XINTEC INC.

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Company Name	Related Party	Relationship	Ending Balance	Turnover Days	Overdue		Amounts Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Actions Taken		
The Company	TSMC	TSMC is equity method investor of the Company	\$ 649,812	98	\$ -	-	\$ 422,766	\$ -

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STATEMENT 1**XINTEC INC.****STATEMENT OF CASH AND CASH EQUIVALENTS****DECEMBER 31, 2018****(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

Item	Description	Amount
Cash		
Petty cash and cash on hand		\$ 7
Cash in banks		
Checking accounts and demand deposits		7,988
Foreign currency deposits	Including US\$12,362 thousand at US\$30.740:NT\$1, JPY\$8,747 thousand at JPY\$0.2782:NT\$1, EUR\$2 thousand at EUR\$35.20:NT\$1 and CHF\$26 thousand at CHF\$31.19:NT\$1	383,307
Time deposits (Note 1)	Including NT\$446,240 thousand, JPY\$54,000 thousand at JPY\$0.2782:NT\$1, EUR\$112 thousand at EUR\$35.20:NT\$1 and CHF\$157:NT\$1 thousand at CHF\$31.19:NT\$1	470,102
Cash equivalents		
Repurchase agreements collateralized by corporate bonds (Note 2)	Including NT\$5,000 thousand, US\$1,200 thousand at US\$30.740:NT\$1	<u>41,888</u>
Total		<u>\$ 903,292</u>

Note 1: The deposits will mature consecutively by April 2019, and the annual interest rates were 0.4%-0.66%.

Note 2: The bonds will mature consecutively by January 2019, and the annual interest rates were 0.4%-2.45%.

XINTEC INC.**STATEMENT OF ACCOUNTS RECEIVABLE, NET
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)**

Client Name	Amount
Customer B	\$ 174,125
Customer C	26,766
Customer D	20,306
Customer E	14,421
Others (Note)	<u>29,077</u>
Total	<u>\$ 264,695</u>

Note: The amount of individual client included in others does not exceed 5% of the account balance.

XINTEC INC.

**STATEMENT OF RECEIVABLES FROM RELATED PARTIES, NET
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)**

Client Name	Amount
Taiwan Semiconductor Manufacturing Company Limited	<u>\$ 649,812</u>

STATEMENT 4

XINTEC INC.

STATEMENT OF INVENTORIES

DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars)

Item	Amount	
	Cost	Market Price (Note)
Raw materials	<u>\$ 207,392</u>	<u>\$ 211,563</u>

Note: Market value is based on the net realizable value.

XINTEC INC.**STATEMENT OF ACCOUNTS PAYABLE****DECEMBER 31, 2018****(In Thousands of New Taiwan Dollars)**

Vendor Name	Amount
Thipod International Co., Ltd.	\$ 44,185
Disco Hi-Tec Taiwan Co., Ltd.	40,983
Rohm and Haas Electronic Materials Taiwan Limited	17,762
Air Products San Fu Co., Ltd.	17,299
Others (Note)	<u>196,617</u>
Total	<u>\$ 316,846</u>

Note: The amount of individual vendor included in others does not exceed 5% of the account balance.

XINTEC INC.**STATEMENT OF PAYABLES TO CONTRACTORS AND EQUIPMENT SUPPLIERS****DECEMBER 31, 2018****(In Thousands of New Taiwan Dollars)**

Vendor Name	Amount
Yankey Engineering Co., Ltd.	\$ 83,585
Trusval Technology Co., Ltd	26,239
Markettech International Corp.	13,203
Chang-Yu Technology Co., Ltd.	11,000
Others (Note)	<u>58,015</u>
Total	<u>\$ 192,042</u>

Note: The amount of individual vendor included in others does not exceed 5% of the account balance.

XINTEC INC.

STATEMENT OF LONG-TERM BORROWING

DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Type	Balance, End of Year	Contract Period	Range of Interest Rates (%)	Collateral
Secured borrowings				
Mega Commercial Bank	\$ 200,000	2018.02-2023.02	1.55	Carrying value of land and buildings was NT\$145,186 thousand
Unsecured borrowings				
Taipei Fubon Commercial Bank	610,000	2017.06-2022.06	1.20	Nil
Taishin International Bank	500,000	2017.09-2022.09	1.24-1.29	Nil
Far Eastern International Bank	300,000	2016.04-2021.04	1.08	Nil
Taipei Fubon Commercial Bank	300,000	2015.07-2022.05	1.15	Nil
Hua Nan Commercial Bank	<u>200,000</u>	2017.11-2022.11	1.70	Nil
Subtotal	2,110,000			
Current portion	<u>(122,120)</u>			
	<u>\$ 1,987,880</u>			

XINTEC INC.**STATEMENT OF OPERATING REVENUES****FOR THE YEAR ENDED DECEMBER 31, 2018****(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

Item	Shipments (Piece)	Amount
Wafer level CSP	8-inch wafer equivalents, 277 thousand pieces	\$ 3,795,502
Wafer level PPI	8-inch wafer equivalents, 339 thousand pieces	896,047
Others		<u>22,897</u>
Net revenue		<u>\$ 4,714,446</u>

XINTEC INC.
STATEMENT OF OPERATING COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Item	Amount
Raw materials, beginning of year	\$ 189,486
Raw materials purchased	1,209,250
Raw materials scrapped	(5,139)
Transferred to manufacturing or operating expenses	(492,826)
Others	(402)
Raw materials, end of year	<u>(207,392)</u>
Raw materials used	692,977
Direct labor	649,861
Manufacturing expenses	<u>3,374,107</u>
Manufacturing costs	4,716,945
Work in process, beginning of year (Note)	-
Material requisition for research and development use	(6,209)
Work in process, end of year	<u>-</u>
Cost of finished goods	4,710,736
Finished goods, beginning of year (Note)	-
Finished goods, end of year	-
Samples disposed	<u>(5,310)</u>
Cost of production and marketing	4,705,426
Others	(5,631)
Loss from raw material scraps	<u>5,139</u>
Total	<u>\$ 4,704,934</u>

Note: The cumulative effect of the initial application recognized at the date of initial application of IFRS 15; for the adjustment amount, refer to Note 3.

XINTEC INC.**STATEMENT OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)**

Item	Sales and Marketing Expenses	General and Administrative Expenses	Research and Development Expenses
Payroll and bonus	\$ 30,888	\$ 78,212	\$ 139,798
Insurance expenses	2,121	6,341	12,700
Professional service fees	1	7,732	13,672
Amortization expense	-	1,623	19,583
Outsourcing research expenses	-	-	13,304
Others (Note)	<u>6,334</u>	<u>25,400</u>	<u>47,181</u>
Total	<u>\$ 39,344</u>	<u>\$ 119,308</u>	<u>\$ 246,238</u>

Note: The amount of each item in others does not exceed 5% of the account balance.

XINTEC INC.

STATEMENT OF LABOR, DEPRECIATION AND AMORTIZATION BY FUNCTION
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	Year Ended December 31, 2018				Year Ended December 31, 2017			
	Classified as Operating Costs	Classified as Operating Expenses	Classified as Other Operating Income and Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Classified as Other Operating Income and Expenses	Total
Labor cost								
Salary and bonus	\$ 1,042,289	\$ 246,498	\$ -	\$ 1,288,787	\$ 1,013,949	\$ 258,821	\$ -	\$ 1,272,770
Labor and health insurance	96,770	20,011	-	116,781	92,387	21,018	-	113,405
Pension	44,550	11,721	-	56,271	42,520	12,414	-	54,934
Remuneration of directors	-	2,400	-	2,400	-	2,410	-	2,410
Others	<u>37,112</u>	<u>4,553</u>	<u>-</u>	<u>41,665</u>	<u>31,973</u>	<u>5,035</u>	<u>-</u>	<u>37,008</u>
	<u>\$ 1,220,721</u>	<u>\$ 285,183</u>	<u>\$ -</u>	<u>\$ 1,505,904</u>	<u>\$ 1,180,829</u>	<u>\$ 299,698</u>	<u>\$ -</u>	<u>\$ 1,480,527</u>
Depreciation	<u>\$ 889,037</u>	<u>\$ 11,030</u>	<u>\$ 16,985</u>	<u>\$ 917,052</u>	<u>\$ 987,717</u>	<u>\$ 10,201</u>	<u>\$ 12,225</u>	<u>\$ 1,010,143</u>
Amortization	<u>\$ 12,119</u>	<u>\$ 21,206</u>	<u>\$ -</u>	<u>\$ 33,325</u>	<u>\$ 14,653</u>	<u>\$ 25,895</u>	<u>\$ -</u>	<u>\$ 40,548</u>

Note: As of December 31, 2018 and 2017, the Company had 1,813 and 1,997 employees, respectively. There were 4 non-employee directors for both years.