

**CHENG MEI MATERIALS TECHNOLOGY
CORPORATION (FORMERLY CHI MEI
MATERIALS TECHNOLOGY
CORPORATION) AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REVIEW REPORT OF INDEPENDENT
ACCOUNTANTS
SEPTEMBER 30, 2019 AND 2018**

For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of Cheng Mei Materials Technology Corporation

Introduction

We have reviewed the accompanying consolidated balance sheets of Cheng Mei Materials Technology Corporation (formerly Chi Mei Materials Technology Corporation) and subsidiaries (the “Group”) as at September 30, 2019 and 2018, and the related consolidated statements of comprehensive income for the three months and nine months then ended, as well as the consolidated statements of changes in equity and of cash flows for the nine months then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

Scope of Review

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

Basis for Qualified Conclusion

As explained in Note 4(3), the financial statements of certain insignificant consolidated subsidiaries were not reviewed by independent accountants. Those statements reflect total assets of NT\$340,092 thousand and NT\$1,566,034 thousand, constituting 1.32% and 5.59% of the consolidated total assets, and total liabilities of NT\$24,087 thousand and NT\$55,508 thousand, constituting 0.19% and 0.39% of the consolidated total liabilities as at September 30, 2019 and 2018, and total comprehensive income of (NT\$32,560) thousand, (NT\$26,675) thousand, (NT\$59,559) thousand, and (NT\$54,051) thousand, constituting 5.04%, 10.11%, 6.13%, and 5.38% of the consolidated total comprehensive income for the three months and nine months then ended September 30, 2019 and 2018, respectively.

Qualified Conclusion

Except for the adjustments to the consolidated financial statements, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries been reviewed by independent accountants, that we might have become aware of had it not been for the situation described above, based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as at September 30, 2019 and 2018, and of its consolidated financial performance for the three months and nine months then ended and its consolidated cash flows for the nine months then ended in accordance with “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission.

Significant Uncertainty in Operating as a Going Concern

As described in Note 6 (15) of the consolidated financial statements, a bank has informed Kunshan Chimei Materials Technology Co., Ltd. to settle its remaining principal, and as described in Note 12(4), Cheng Mei Materials Technology Corporation has implemented a debt negotiation with the bank, of which the borrowings maturing within 1 year amounting to NT\$7,920,089 thousand have not been refinanced, and no capital was raised for repaying the borrowings. There may be a significant uncertainty for the Group to continue as a going concern. The qualified conclusion has not been modified to consider the going concern issue.

Liu, Tzu-Meng

Wu, Chien-Chih

For and on behalf of PricewaterhouseCoopers, Taiwan

November 11, 2019

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

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

CHENG MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES
(FORMERLY CHI MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES)
CONSOLIDATED BALANCE SHEETS

(Expressed in thousands of New Taiwan dollars)
(The balance sheets as of September 30, 2019 and 2018 are reviewed, not audited)

Assets		Notes	September 30, 2019		December 31, 2018		September 30, 2018	
			AMOUNT	%	AMOUNT	%	AMOUNT	%
Current assets								
1100	Cash and cash equivalents	6(1)	\$ 853,623	3	\$ 3,105,426	11	\$ 3,388,735	12
1110	Current financial assets at fair value through profit or loss	6(2)	3,500	-	84,525	-	67,856	-
1136	Current financial assets at amortised cost	6(4) and 8	1,272,401	5	1,313,826	5	1,811,511	7
1150	Notes receivable, net	6(5) and 8	243,397	1	186,620	1	111,967	-
1160	Notes receivable, net - related parties	6(5) and 7	-	-	18,806	-	-	-
1170	Accounts receivable, net	6(5)	1,795,695	7	4,199,939	16	3,773,911	14
1180	Accounts receivable, net - related parties	6(5) and 7	1,494,755	6	197,791	1	76,692	-
1200	Other receivables	6(7)	76,633	-	114,977	1	877,465	3
1210	Other receivables - related parties	7	269	-	88,256	-	223,964	1
1220	Current tax assets		978	-	1,230	-	1,019	-
130X	Inventories	6(6)	3,293,553	13	3,883,297	14	3,195,434	11
1410	Prepayments	6(8) and 7	1,137,704	5	259,968	1	486,053	2
1479	Other current assets	6(12)	34,400	-	43,882	-	79,192	-
11XX	Total current assets		10,206,908	40	13,498,543	50	14,093,799	50
Non-current assets								
1517	Non-current financial assets at fair value through other comprehensive income	6(3) and 7	185,975	1	215,727	1	250,000	1
1600	Property, plant and equipment	6(9) and 8	13,895,993	54	10,693,045	39	10,807,113	39
1755	Right-of-use assets	6(10)	288,665	1	-	-	-	-
1780	Intangible assets	6(11)	62,909	-	91,846	-	100,918	-
1840	Deferred tax assets		91,590	-	112,646	-	112,505	-
1915	Prepayments for equipment	7	252,074	1	1,567,878	6	1,613,947	6
1990	Other non-current assets	6(12)	801,126	3	1,054,232	4	1,041,122	4
15XX	Total non-current assets		15,578,332	60	13,735,374	50	13,925,605	50
1XXX	Total assets		\$ 25,785,240	100	\$ 27,233,917	100	\$ 28,019,404	100

(Continued)

CHENG MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES
(FORMERLY CHI MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES)
CONSOLIDATED BALANCE SHEETS

(Expressed in thousands of New Taiwan dollars)

(The balance sheets as of September 30, 2019 and 2018 are reviewed, not audited)

	Liabilities and Equity	Notes	September 30, 2019		December 31, 2018		September 30, 2018	
			AMOUNT	%	AMOUNT	%	AMOUNT	%
	Current liabilities							
2100	Short-term bank loans	6(13) and 8	\$ 5,344,096	21	\$ 5,441,325	20	\$ 5,651,785	20
2120	Current financial liabilities at fair value through profit or loss	6(2)	135	-	2,681	-	-	-
2130	Contract liabilities	6(20) and 7	14,357	-	33,760	-	31,473	-
2150	Notes payable		-	-	156,037	-	491,956	2
2170	Accounts payable		1,300,621	5	2,350,148	9	2,362,824	8
2180	Accounts payable - related parties	7	253,856	1	375,639	1	264,145	1
2200	Other payables	6(14)	979,475	4	1,076,211	4	1,046,335	4
2230	Current tax liabilities		-	-	147	-	1,886	-
2280	Current lease liabilities		16,052	-	-	-	-	-
2320	Current portion of long-term bank loans	6(15)	2,575,993	10	3,170,244	12	3,784,000	14
2399	Other current liabilities	6(31)	15,067	-	23,360	-	17,879	-
21XX	Total current liabilities		<u>10,499,652</u>	<u>41</u>	<u>12,629,552</u>	<u>46</u>	<u>13,652,283</u>	<u>49</u>
	Non-current liabilities							
2540	Long-term bank loans	6(15)	1,835,122	7	202,996	1	-	-
2570	Deferred tax liabilities		22,674	-	22,674	-	22,826	-
2580	Non-current lease liabilities		33,795	-	-	-	-	-
2645	Guarantee deposits		131	-	49	-	259,146	1
2670	Other non-current liabilities	6(31)	180,388	1	193,877	1	195,103	-
25XX	Total non-current liabilities		<u>2,072,110</u>	<u>8</u>	<u>419,596</u>	<u>2</u>	<u>477,075</u>	<u>1</u>
2XXX	Total liabilities		<u>12,571,762</u>	<u>49</u>	<u>13,049,148</u>	<u>48</u>	<u>14,129,358</u>	<u>50</u>
	Equity attributable to the owners of the company							
	Share capital							
3110	Common shares	6(17)	6,657,285	26	6,657,285	24	6,657,285	24
	Capital surplus							
3200	Capital surplus	6(18)	851,689	3	851,689	3	857,055	3
	Retained earnings	6(19)						
3310	Legal reserve		1,085,124	4	1,085,124	4	1,085,124	4
3320	Special reserve		447,530	2	246,224	1	246,224	1
3350	Unappropriated retained earnings		1,246,568	5	2,091,473	8	2,234,799	8
3400	Other equity interest		(610,065)	(3)	(447,530)	(2)	(349,572)	(1)
31XX	Total equity attributable to owners of the Company		<u>9,678,131</u>	<u>37</u>	<u>10,484,265</u>	<u>38</u>	<u>10,730,915</u>	<u>39</u>
36XX	Non-controlling interest	4(3) and 6(28)	3,535,347	14	3,700,504	14	3,159,131	11
3XXX	Total equity		<u>13,213,478</u>	<u>51</u>	<u>14,184,769</u>	<u>52</u>	<u>13,890,046</u>	<u>50</u>
	Significant contingent liabilities and unrecognized contract commitments	9						
	Significant events after the balance sheet date	11						
3X2X	Total liabilities and equity		<u>\$ 25,785,240</u>	<u>100</u>	<u>\$ 27,233,917</u>	<u>100</u>	<u>\$ 28,019,404</u>	<u>100</u>

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

CHENG MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES
(FORMERLY CHIMEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars, except for earnings (loss) per share amount)
(UNAUDITED)

	Items	Notes	Three months ended September 30			Nine months ended September 30		
			2019		2018		2019	
			AMOUNT	%	AMOUNT	%	AMOUNT	%
4000	Net sales	6(20) and 7	\$ 3,444,173	100	\$ 3,551,277	100	\$ 11,179,793	100
5000	Cost of sales	6(6)(11)(24)(25) and 7	(3,334,306)	(97)	(3,125,575)	(88)	(10,737,657)	(96)
5900	Gross loss		109,867	3	425,702	12	442,136	4
	Operating expenses	6(11)(24)(25) and 12(2)						
6100	Selling and marketing expenses		(70,977)	(2)	(83,465)	(2)	(199,061)	(2)
6200	General and administrative expenses		(91,306)	(3)	(90,100)	(3)	(303,708)	(3)
6300	Research and development expenses		(126,523)	(4)	(123,915)	(3)	(327,526)	(3)
6450	Impairment gain and reversal of impairment loss determined in accordance with IFRS 9							
6000	Total operating expenses		21,982	1	-	-	86,092	1
6900	(Loss) income from operations		(266,824)	(8)	(297,480)	(8)	(744,203)	(7)
	Non-operating income and expenses		(156,957)	(5)	(128,222)	(4)	(302,067)	(3)
7010	Other income							
7020	Other gains and losses	6(21)	23,981	1	13,203	-	89,640	1
7050	Finance costs	6(2)(22)	(128,724)	(4)	(165,949)	(5)	(235,838)	(2)
7000	Total non-operating income and expenses	6(9)(23)	(79,785)	(2)	(77,681)	(2)	(239,752)	(2)
7900	Loss before income tax		(184,528)	(5)	(230,427)	(7)	(385,950)	(3)
7950	Income tax benefit (expense)		(341,485)	(10)	(102,205)	(3)	(688,017)	(6)
8200	Loss for the period	6(26)	182	-	(3,097)	-	(22,867)	(1)
	Other comprehensive income (loss)		(341,303)	(10)	(105,302)	(3)	(710,884)	(7)
8316	Items that may not be reclassified subsequently to profit or loss							
	Unrealised gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	6(3)	\$ -	-	\$ -	-	\$ 42,680	-
8361	Items that may be reclassified subsequently to profit or loss							
8300	Exchange differences on translating of foreign financial statements		(304,968)	(9)	(158,508)	(4)	(217,727)	(2)
8500	Total other comprehensive loss		(304,968)	(9)	(158,508)	(4)	(260,407)	(2)
	Net loss attributable to		(646,271)	(19)	(263,810)	(7)	(971,291)	(9)
8610	Owners of the Company							
8620	Non-controlling interests		(247,647)	(7)	(45,425)	(1)	(643,649)	(7)
	Net loss		(93,656)	(3)	(150,727)	(4)	(67,235)	(1)
8710	Total comprehensive loss attributable to		(341,303)	(10)	(105,302)	(3)	(710,884)	(7)
8720	Owners of the Company							
	Net loss		(414,762)	(12)	(64,334)	(1)	(806,134)	(8)
	Non-controlling interests		(231,509)	(7)	(199,476)	(6)	(165,157)	(1)
	Net loss		(646,271)	(19)	(263,810)	(7)	(971,291)	(9)
9750	(Loss) earnings per share	6(27)						
	Basic (loss) earnings per share		\$ 0.37		\$ 0.07		\$ 0.97	
9850	Diluted (loss) earnings per share		\$ 0.37		\$ 0.07		\$ 0.97	

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

CHENG MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES
(FORMERLY CHI MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in thousands of New Taiwan dollars)
(UNAUDITED)

	Equity attributable to owners of the parent								Non-controlling interest	Total equity	
	Notes	Share capital - common shares	Capital surplus, additional paid-in capital	Retained Earnings				Total			
				Legal reserve	Special reserve	Unappropriated retained earnings	Exchange differences on translation of foreign financial statements				Unrealised gains (losses) from financial assets measured at fair value through other comprehensive income
For the nine months ended September 30, 2018											
		\$ 6,657,285	\$ 856,768	\$ 1,085,124	\$ 202,973	\$ 2,789,804	(\$ 246,224)	\$ -	\$ 11,345,730	\$ 1,935,541	\$ 13,281,271
Net loss for the period		-	-	-	-	(511,754)	-	-	(511,754)	(344,930)	(856,684)
Other comprehensive loss for the period		-	-	-	-	-	(103,348)	-	(103,348)	(45,034)	(148,382)
Total comprehensive loss for the period		-	-	-	-	(511,754)	(103,348)	-	(615,102)	(389,964)	(1,005,066)
Distribution of 2017 earnings											
Special reserve	6(19)	-	-	-	43,251	(43,251)	-	-	-	-	-
Difference between consideration and carrying amount of the subsidiaries' disposal	6(18)(28)	-	3,714	-	-	-	-	-	3,714	2,286	6,000
Changes in ownership interests in subsidiaries	6(18)(28)	-	(3,427)	-	-	-	-	-	(3,427)	1,611,268	1,607,841
Balance at September 30, 2018		\$ 6,657,285	\$ 857,055	\$ 1,085,124	\$ 246,224	\$ 2,234,799	(\$ 349,572)	\$ -	\$ 10,730,915	\$ 3,159,131	\$ 13,890,046
For the nine months ended September 30, 2019											
Balance at January 1, 2019		\$ 6,657,285	\$ 851,689	\$ 1,085,124	\$ 246,224	\$ 2,091,473	(\$ 323,257)	(\$ 124,273)	\$ 10,484,265	\$ 3,700,504	\$ 14,184,769
Net loss for the period		-	-	-	-	(643,649)	-	-	(643,649)	(67,235)	(710,884)
Other comprehensive loss for the period	6(3)	-	-	-	-	-	(119,805)	(42,680)	(162,485)	(97,922)	(260,407)
Total comprehensive loss for the period		-	-	-	-	(643,649)	(119,805)	(42,680)	(806,134)	(165,157)	(971,291)
Distribution of 2018 earnings											
Special reserve	6(19)	-	-	-	201,306	(201,306)	-	-	-	-	-
Disposal of investments in equity instruments designated at fair value through other comprehensive income	6(3)	-	-	-	-	50	-	(50)	-	-	-
Balance at September 30, 2019		\$ 6,657,285	\$ 851,689	\$ 1,085,124	\$ 447,530	\$ 1,246,568	(\$ 443,062)	(\$ 167,003)	\$ 9,678,131	\$ 3,535,347	\$ 13,213,478

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

CHENG MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES
(FORMERLY CHI MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars)
(UNAUDITED)

	Notes	Nine months ended September 30,	
		2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(\$ 688,017)	(\$ 882,043)
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation expense	6(9)(10)(24)	745,639	825,486
Gain arising from lease modification	6(10)(22)	(110)	-
Amortization expense	6(11)(24)	35,608	39,438
Expected credit gain	12(2)	(86,092)	-
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	6(2)(22)	22,858	(14,425)
Interest expense	6(23)	239,752	205,900
Interest income	6(21)	(24,911)	(15,206)
Dividends income	6(21)	(712)	-
Loss on disposal of property, plant and equipment	6(22)	5,034	95
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets at fair value through profit or loss-current		55,621	(53,780)
Notes receivable	(	56,777)	372,425
Notes receivable - related parties		18,806	4,565
Accounts receivable		2,398,084	(710,978)
Accounts receivable - related parties	(	1,296,964)	(76,692)
Other receivables	(	30,337)	(156,022)
Other receivables - related parties	(	269)	(223,964)
Inventories		589,744	(912,724)
Prepayments	(	877,736)	-
Other current assets		3,834	151,477
Changes in operating liabilities			
Contract liabilities - current	(	19,403)	21,994
Notes payable	(	156,037)	359,493
Accounts payable	(	1,049,527)	388,473
Accounts payable - related parties	(	121,783)	264,145
Other payables	(	47,197)	19,146
Other current liabilities	(	8,293)	(7,210)
Cash outflow generated from operations	(	349,185)	(400,407)
Interest received		24,911	11,562
Interest paid	(	245,718)	(202,502)
Dividends received		712	-
Income tax paid	(	2,552)	(8,585)
Income taxes refunded		503	-
Net cash flows used in operating activities		(571,329)	(599,932)

(Continued)

CHENG MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES
(FORMERLY CHI MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars)
(UNAUDITED)

	Notes	Nine months ended September 30,	
		2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of non-current financial assets at fair value through other comprehensive income		(\$ 14,478)	(\$ 250,000)
Proceeds from disposal of non-current financial assets at fair value through other comprehensive income	6(3)	1,550	-
Decrease (increase) in current financial assets at amortised cost		41,425	(1,537,972)
Decrease (increase) in other receivables		68,681	(557,519)
Decrease in other receivables - related parties		179,751	12,422
Acquisition of property, plant and equipment	6(29)	(2,717,986)	(1,161,161)
Proceeds from disposal of property, plant and equipment		202	74,860
Acquisition of intangible assets	6(11)	(7,274)	(40,840)
Increase in equipment prepayments		(263,310)	(1,478,216)
Increase in other non-current assets		6,698	(564,882)
Net cash flows used in investing activities		(2,704,741)	(5,503,308)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term bank loans	6(30)	9,938,112	14,210,187
Repayments of short-term bank loans	6(30)	(9,948,785)	(12,371,661)
Decrease in short-term notes and bills payable	6(30)	-	(100,000)
Proceeds from long-term bank debt	6(30)	4,315,686	1,144,167
Repayments of long-term bank debt	6(30)	(3,212,483)	-
Payment of lease liabilities	6(30)	(11,719)	-
Increase in guarantee deposits received	6(30)	82	258,975
(Decrease) increase in other non-current liabilities		(13,489)	195,103
Proceeds from disposal of ownership interests in subsidiaries (without losing control)	6(28)	-	6,000
Change in non-controlling interests	6(28)	-	1,607,841
Net cash flows from financing activities		1,067,404	4,950,612
Effect of exchange rate changes on cash and cash equivalents		(43,137)	44,067
Net decrease in cash and cash equivalents		(2,251,803)	(1,108,561)
Cash and cash equivalents at beginning of period	6(1)	3,105,426	4,497,296
Cash and cash equivalents at end of period	6(1)	\$ 853,623	\$ 3,388,735

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

CHI MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES
(FORMERLY CHI MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

(Reviewed, not audited)

1. HISTORY AND ORGANISATION

(1) Cheng Mei Materials Technology Corporation (the “Company”) was incorporated under the provisions of the Company Act of the Republic of China (R.O.C.) on May 17, 2005. The Company and its subsidiaries (collectively referred herein as the “Group”) are primarily engaged in manufacturing and selling optoelectronic material and components (polarizing film).

(2) On October 24, 2011, the Company’s shares were listed on the Taiwan Stock Exchange (TWSE). Since September 2017, the Company’s common shares have been traded on the Singapore Exchange Limited (SGX) under the symbol “US16412W1071” in the form of global depositary shares.

The shareholders at the shareholders’ meeting approved the change of name of the Company from Chi Mei Materials Technology Corporation to Cheng Mei Materials Technology Corporation on June 22, 2018.

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

These consolidated financial statements were reported to the Board of Directors on November 11, 2019.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

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

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

IFRS 16, 'Leases'

- A. IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognise a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.
- B. The Group has elected to apply IFRS 16 by not restating the comparative information (referred herein as the 'modified retrospective approach') when applying "IFRSs" effective in 2019 as endorsed by the FSC. Accordingly, the Group increased 'right-of-use asset' by \$310,076, increased 'lease liability' by \$58,020 and decreased prepaid lease by \$252,056 (which is shown as "other current assets" amounting to \$5,648 and "other non-current assets" amounting to \$246,408) with respect to the lease contracts of lessees on January 1, 2019.
- C. The Group has used the following practical expedients permitted by the standard at the date of initial application of IFRS 16:
- (a) Reassessment as to whether a contract is, or contains, a lease is not required, instead, the application of IFRS 16 depends on whether or not the contracts were previously identified as leases applying IAS 17 and IFRIC 4.
 - (b) The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.
 - (c) The accounting for operating leases whose period will end before December 31, 2019 are treated as short-term leases and accordingly, rent expense of \$3,310 was recognised in the third quarter of 2019.
 - (d) The exclusion of initial direct costs for the measurement of 'right-of-use asset'.
- D. The Group calculated the present value of lease liabilities by using the weighted average incremental borrowing interest rate range from 1.50% to 4.96%.
- E. The Group recognised lease liabilities which had previously been classified as 'operating leases' under the principles of IAS 17, 'Leases'. The reconciliation between operating lease commitments under IAS 17 measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate and lease liabilities recognised as of January 1, 2019 is as follows:

Operating lease commitments disclosed by applying IAS 17 as at December 31, 2018	\$	63,851
Less: Short-term leases	(	2,033)
Total lease contracts amount recognised as lease liabilities by applying IFRS 16 on January 1, 2019	\$	61,818
Incremental borrowing interest rate at the date of initial application		1.50%~4.96%
Lease liabilities recognised as at January 1, 2019 by applying IFRS 16	\$	58,020

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

New standards, interpretations and amendments endorsed by the FSC effective from 2020 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendment to IAS 1 and IAS 8, 'Disclosure Initiative-Definition of Material'	January 1, 2020
Amendments to IFRS 3, 'Definition of a business'	January 1, 2020

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

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

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 9, IAS 39 and IAS 7, 'Interest rate benchmark reform'	January 1, 2020
Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture'	To be determined by International Accounting Standards Board
IFRS 17, 'Insurance contracts'	January 1, 2021

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted are consistent with Note 4 in the consolidated financial statements for the year ended December 31, 2018, except for the compliance statement, basis of preparations, basis of consolidation and additional policies are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

- A. The consolidated financial statements of the Group have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the International Accounting Standard 34, 'Interim financial reporting' as endorsed by the FSC.
- B. The consolidated financial statements are to be read in conjunction with the consolidated financial statements for the year ended December 31, 2018.

(2) Basis of preparation

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

- (a) Financial assets and liabilities (including derivative instruments) at fair value through profit or loss.
(b) Financial assets and liabilities at fair value through other comprehensive income.

B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”) requires the use of certain critical accounting estimates. It also requires management exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

The basis for preparation of consolidated financial statements is consistent with the basis used in the 2018 consolidated financial statements.

B. Subsidiaries included in the consolidated financial statements:

Name of investor	Name of subsidiary	Main business activities	Ownership(%)			Description
			September 30, 2019	December 31, 2018	September 30, 2018	
Cheng Mei Materials Technology Corporation (“CMMT”)	Cheng Mei Materials Technology (SAMOA) Corp. (“CMMTS”)	Investment Company	100%	100%	100%	-
	(Formerly Chi Mei Materials Technology (SAMOA) Corp.) (“CMMTS”)					
	CM Visual Technology Corporation (“CMVT”)	Electronic component manufacturing and selling	68.33%	68.33%	68.33%	Note 5
	(Formerly Chi Mei Visual Technology Corporation) (“CMVT”)					
	Chi Mei Materials Technology Investment Co., Ltd. (“CMMTI”)	Investment Company	100%	100%	100%	-
	Cheng Hui Investment Co., Ltd. (“CHI”)	Investment Company	100%	100%	100%	Note 5
CMMTS	(Formerly Mao Yu Investment Co., Ltd.) (“MYI”)					
	Cheng Hui Trading Co., Ltd. (“CHT”)	Trading business	100%	100%	100%	Note 5
	(Formerly Mao Fong Trading Co., Ltd.) (“MFT”)					
	Ningbo Cheng Mei Materials Technology Co., Ltd.	Electronic component manufacturing and selling	100%	100%	100%	-
	(Formerly Ningbo Chi Mei Materials Technology Co., Ltd.) (“NBCMMT”)					
	CMMTI	Electronic component manufacturing and selling	49.5%	49.5%	49.5%	Note 1
KSCMMT	Kunshan Chimei Materials Technology Co., Ltd. (“KSCMMT”)	Trading business	100%	100%	100%	-
	(“KSCMS”)					
CHI	Xi’an Jinyahongtai New Materials Technology Co., Ltd. (“XJHM”)	Electronic component manufacturing and selling	100%	100%	100%	Note 5
	CMVT	Electronic component manufacturing and selling	11%	11%	11%	Note 2, 5
CHT	Mao Fong Group Co., Ltd. (Mao Fong Group)	Investment Company	100%	-	-	Note 3, 5
Mao Fong Group	Kunshan Xin Mao Fong International Trading Co., Ltd. (“KSMF”)	Trading business	100%	-	-	Note 4, 5

Note 1: The Group holds 49.5% of the shares of KSCMMT, and the Group is the single largest shareholder. According to the agreement among shareholders, the Group is entitled to appoint a Chairman and recommend a person for the position of General Manager. Because the Group has control over KSCMMT, KSCMMT is classified as a subsidiary.

Note 2: CHI disposed of a portion of its shareholding in CMVT for NT\$6,000 thousand in January 2018, reducing its continuing interest from 13% to 11%, refer to Note 6(28).

Note 3: The Group set up the company in August 2018 and it paid the capital for shares in February 2019.

Note 4: The Group set up the company in November 2018, and it paid the capital for shares in February 2019.

Note 5: The financial statements of the entity as of and for the nine months ended September 30, 2019 and 2018 were not reviewed by independent accountants as the entity did not meet the definition of a significant subsidiary.

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

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

E. Significant restrictions: None.

F. Subsidiaries that have non-controlling interests that are material to the Group:

As of September 30, 2019, December 31, 2018 and September 30, 2018, the non-controlling interest amounted to \$3,535,347, \$3,700,504 and \$3,159,131, respectively. The information of non-controlling interest and respective subsidiaries is as follows:

Name of subsidiary	Principal place of business	Non-controlling interest					
		September 30, 2019		December 31, 2018		September 30, 2018	
		Amount	Ownership (%)	Amount	Ownership (%)	Amount	Ownership (%)
KSCMMT	China	\$ 3,513,310	50.5	\$ 3,668,813	50.5	\$ 3,128,111	50.5

Summarised financial information of the subsidiaries:

Balance sheets

	KSCMMT		
	September 30, 2019	December 31, 2018	September 30, 2018
Current assets	\$ 5,241,557	\$ 5,817,921	\$ 5,136,880
Non-current assets	10,958,102	8,696,270	8,834,875
Current liabilities	(7,393,372)	(7,052,337)	(7,323,272)
Non-current liabilities	(1,849,238)	(196,877)	(454,204)
Total net assets	\$ 6,957,049	\$ 7,264,977	\$ 6,194,279

Statements of comprehensive income

	KSCMMT	
	Three months ended September 30,	
	2019	2018
Revenue	\$ 1,533,317	\$ 1,398,918
Loss for the period	(\$ 176,515)	(\$ 294,109)
Total comprehensive loss for the period	(\$ 176,515)	(\$ 294,109)
Comprehensive loss attributable to non-controlling interest	(\$ 89,140)	(\$ 148,522)

	KSCMMT	
	Nine months ended September 30,	
	2019	2018
Revenue	\$ 5,413,315	\$ 2,940,036
Loss for the period	(\$ 114,022)	(\$ 669,323)
Total comprehensive loss for the period	(\$ 114,022)	(\$ 669,323)
Comprehensive loss attributable to non-controlling interest	(\$ 57,581)	(\$ 338,306)

Statements of cash flows

	KSCMMT	
	Nine months ended September 30,	
	2019	2018
Net cash provided by operating activities	\$ 438,695	\$ 99,525
Net cash used in investing activities	(2,657,863)	(4,285,848)
Net cash provided by financing activities	1,445,291	3,787,857
Decrease in cash and cash equivalents	(\$ 773,877)	(\$ 398,466)

(4) Leasing arrangements (lessee) — right-of-use assets/ lease liabilities

Effective 2019

- A. Leases are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group. For short-term leases or leases of low-value assets, lease payments are recognised as an expense on a straight-line basis over the lease term.
- B. Lease liabilities include the net present value of the remaining lease payments at the commencement date, discounted using the incremental borrowing interest rate. Lease payments are comprised of fixed payments, less any lease incentives receivable.

The Group subsequently measures the lease liability at amortised cost using the interest method and recognises interest expense over the lease term. The lease liability is remeasured and the amount of remeasurement is recognised as an adjustment to the right-of-use asset when there are

changes in the lease term or lease payments and such changes do not arise from contract modifications.

- C. At the commencement date, the right-of-use asset is stated at cost comprising the amount of the initial measurement of lease liability.

The right-of-use asset is measured subsequently using the cost model and is depreciated from the commencement date to the earlier of the end of the asset's useful life or the end of the lease term.

When the lease liability is remeasured, the amount of remeasurement is recognised as an adjustment to the right-of-use asset.

(5) Operating leases (lessee)

Prior to 2018

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

(6) Income tax

- A. The interim period income tax expense is recognised based on the estimated average annual effective income tax rate expected for the full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.

- B. If a change in tax rate is enacted or substantively enacted in an interim period, the Group recognises the effect of the change immediately in the interim period in which the change occurs. The effect of the change on items recognised outside profit or loss is recognised in other comprehensive income or equity while the effect of the change on items recognised in profit or loss is recognised in profit or loss.

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

There have been no significant changes as of September 30, 2019. Please refer to Note 5 in the consolidated financial statements for the year ended December 31, 2018.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Cash on hand and revolving funds	\$ 926	\$ 851	\$ 775
Checking accounts and demand deposits	742,424	2,865,537	2,191,500
Repurchase agreements collateralized bonds	-	-	103,785
Time deposits	110,273	239,038	1,092,675
	<u>\$ 853,623</u>	<u>\$ 3,105,426</u>	<u>\$ 3,388,735</u>

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

B. Information about cash and cash equivalents that were pledged to others as collaterals is provided in Note 8.

C. Time deposits were classified as cash and equivalents with original maturities of less than three months. The Group has no time deposits pledged to others.

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

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Current items:			
Financial assets mandatorily measured at fair value through profit or loss			
Listed stocks	\$ -	\$ 84,127	\$ 76,676
Derivatives	-	11,897	-
Debt instruments	3,500	2,500	-
	<u>3,500</u>	<u>98,524</u>	<u>76,676</u>
Valuation adjustment	-	(13,999)	(8,820)
	<u>\$ 3,500</u>	<u>\$ 84,525</u>	<u>\$ 67,856</u>

Current items:

Financial liabilities held for

Short selling	\$ -	\$ 2,725	\$ -
Derivatives	135	-	-
	<u>135</u>	<u>2,725</u>	<u>-</u>
Valuation adjustment	-	(44)	-
	<u>\$ 135</u>	<u>\$ 2,681</u>	<u>\$ -</u>

A. Amounts recognised in profit or loss in relation to financial assets and liabilities at fair value through profit or loss are listed below:

	<u>Three months ended September 30, 2019</u>	<u>Three months ended September 30, 2018</u>
Financial assets and liabilities mandatorily measured at fair value through profit or loss		
Equity instruments	\$ -	(\$ 8,820)
Derivatives	(16,736)	1,683
	<u>(\$ 16,736)</u>	<u>(\$ 7,137)</u>
	<u>Nine months ended September 30, 2019</u>	<u>Nine months ended September 30, 2018</u>
Financial assets and liabilities mandatorily measured at fair value through profit or loss		
Equity instruments	\$ 23,007	(\$ 8,820)
Derivatives	(45,865)	23,245
	<u>(\$ 22,858)</u>	<u>\$ 14,425</u>

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

Derivative Financial Assets	September 30, 2019		December 31, 2018		September 30, 2018	
	Contract Amount (notional principal)	Contract Period	Contract Amount (notional principal)	Contract Period	Contract Amount (notional principal)	Contract Period
Current items:						
Foreign exchange option agreement	-	-	USD 3,000 thousand (BUY)	2018.12~ 2019.3	-	-
Derivative instruments liabilities	September 30, 2019		December 31, 2018		September 30, 2018	
	Contract Amount (notional principal)	Contract Period	Contract Amount (notional principal)	Contract Period	Contract Amount (notional principal)	Contract Period
Current items:						
Interest rate swap contracts	JPY 430,940	108.9~ 108.10	-	-	-	-

The Group entered into foreign exchange option contracts and forward foreign exchange contracts to hedge exchange rate risk of assets and liabilities denominated in foreign currencies whose values would be affected by the exchange rate fluctuations. However, these forward foreign exchange contracts are not accounted for under hedge accounting.

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

(3) Financial assets at fair value through other comprehensive income

Items	September 30, 2019	December 31, 2018	September 30, 2018
Non-current items:			
Equity instruments			
Unlisted stocks	\$ 352,978	\$ 340,000	\$ 250,000
Valuation adjustment	(167,003)	(124,273)	-
	<u>\$ 185,975</u>	<u>\$ 215,727</u>	<u>\$ 250,000</u>

A. The Group has elected to classify equity instruments that are considered to be strategic investments as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to \$185,975, \$215,727 and \$250,000 as at September 30, 2019, December 31, 2018 and September 30, 2018, respectively.

B. In response to the modified investment strategy, the Group sold \$0 and \$1,550 of unlisted stocks at fair value and resulted in cumulative gains on disposal of \$0 and \$50 for the three months ended September 30, 2019 and nine months ended September 30, 2019, respectively.

C. Amounts recognised in profit or loss and other comprehensive income in relation to the financial assets at fair value through other comprehensive income are listed below:

Equity instruments at fair value through other comprehensive income	Three months ended September 30, 2019	Three months ended September 30, 2018
Fair value change recognised in other comprehensive income	\$ -	\$ -
Equity instruments at fair value through other comprehensive income	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Fair value change recognised in other comprehensive income	(\$ 42,680)	\$ -
Cumulative gains reclassified to retained earnings due to derecognition	\$ 50	\$ -

D. The Group has no financial assets at fair value through other comprehensive income pledged to others.

(4) Financial assets at amortised cost

Items	September 30, 2019	December 31, 2018	September 30, 2018
Current items:			
Escrow demand deposits	\$ 122,294	\$ -	\$ -
Pledged deposit	962,347	1,253,226	1,799,411
Investment in debt instrument without active market	49,000	50,000	-
Time deposits with original maturities of more than three months	138,760	10,600	12,100
	<u>\$ 1,272,401</u>	<u>\$ 1,313,826</u>	<u>\$ 1,811,511</u>

A. As at September 30, 2019, December 31, 2018 and September 30, 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the financial assets at amortised cost held by the Group was \$1,272,401, \$1,313,826 and \$1,811,511, respectively.

B. Details of the Group's financial assets at amortised cost pledged to others as collateral are provided in Note 8.

C. Information relating to credit risk of financial assets at amortised cost is provided in Note 12(2).

(5) Notes and accounts receivable

	September 30, 2019	December 31, 2018	September 30, 2018
Notes receivable (including related parties)	\$ 243,397	\$ 205,426	\$ 111,967
Less: Allowance for uncollectible accounts	-	-	-
	<u>\$ 243,397</u>	<u>\$ 205,426</u>	<u>\$ 111,967</u>
Accounts receivable (including related parties)	\$ 3,298,238	\$ 4,399,358	\$ 3,850,603
Less: Allowance for uncollectible accounts	(7,788)	(1,628)	-
	<u>\$ 3,290,450</u>	<u>\$ 4,397,730</u>	<u>\$ 3,850,603</u>

A. The ageing analysis of notes receivable and accounts receivable is as follows:

	September 30, 2019		December 31, 2018		September 30, 2018	
	Notes receivable	Accounts receivable	Notes receivable	Accounts receivable	Notes receivable	Accounts receivable
Not past due	\$ 243,397	\$ 3,153,268	\$ 205,426	\$ 4,394,899	\$ 111,967	\$ 3,833,410
Up to 30 days	-	143,290	-	4,459	-	17,193
31 to 60 days	-	210	-	-	-	-
61 to 90 days	-	-	-	-	-	-
Over 90 days	-	1,470	-	-	-	-
	<u>\$ 243,397</u>	<u>\$ 3,298,238</u>	<u>\$ 205,426</u>	<u>\$ 4,399,358</u>	<u>\$ 111,967</u>	<u>\$ 3,850,603</u>

The above ageing analysis was based on past due date.

- B. As of September 30, 2019, December 31, 2018, September 30, 2018 and January 1, 2018, the balances of receivables (including notes receivable) from contracts with customers amounted to \$3,541,635, \$4,604,784, \$3,962,570, and \$3,551,890, respectively.
- C. As of September 30, 2019, December 31, 2018 and September 30, 2018, the Group had outstanding discounted notes receivable amounting to \$86,839 (which include consolidated elimination amounting to \$86,839), \$164,177 and \$45,271, respectively. However, in general, the Group does not expect that the drawers of the notes would refuse to pay for the notes at maturity. The liabilities arising on discounted notes receivable were presented as short-term borrowings.
- D. As at September 30, 2019, December 31, 2018 and September 30, 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the Group's notes and accounts receivable were \$243,397, \$205,426 and \$111,967; \$3,290,450, \$4,397,730 and \$3,850,603, respectively.
- E. Information relating to credit risk of notes receivable and accounts receivable is provided in Note 12(2).

(6) Inventories

September 30, 2019			
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 1,961,955	(\$ 228,541)	\$ 1,733,414
Work in progress	1,279,141	(133,798)	1,145,343
Finished goods	852,597	(437,801)	414,796
Commodities	82,870	(82,870)	-
	<u>\$ 4,176,563</u>	<u>(\$ 883,010)</u>	<u>\$ 3,293,553</u>
December 31, 2018			
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 2,274,630	(\$ 224,806)	\$ 2,049,824
Work in progress	1,372,903	(139,713)	1,233,190
Finished goods	1,265,703	(670,756)	594,947
Commodities	83,272	(77,936)	5,336
	<u>\$ 4,996,508</u>	<u>(\$ 1,113,211)</u>	<u>\$ 3,883,297</u>
September 30, 2018			
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 1,765,363	(\$ 294,488)	\$ 1,470,875
Work in progress	1,245,213	(151,992)	1,093,221
Finished goods	1,245,747	(620,383)	625,364
Commodities	5,974	-	5,974
	<u>\$ 4,262,297</u>	<u>(\$ 1,066,863)</u>	<u>\$ 3,195,434</u>

The cost of inventories recognized as expense for the three months ended September 30, 2019 and 2018, and nine months ended September 30, 2019 and 2018, was \$3,334,306, \$3,125,575, \$10,737,657 and \$8,547,911, respectively, including the amount of \$99,621, \$186,235, \$230,201 and \$382,370, respectively, that the Group reversed from a previous inventory write-down and accounted for as reduction of cost of goods sold because of the clearance of inventories that was already provisioned loss in market value decline.

(7) Other receivables

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Financing provided to others(Note)	\$ -	\$ 68,681	\$ 557,519
Others	<u>76,633</u>	<u>46,296</u>	<u>319,946</u>
	<u>\$ 76,633</u>	<u>\$ 114,977</u>	<u>\$ 877,465</u>

Note : This represents the accounts receivable which resulted from the triangular trade conducted in KSCMS. The Group regarded it as a loan to the companies with business relationship.

(8) Prepayments

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Prepayments to suppliers	\$ 302,527	\$ 1,483	\$ 182,709
Net input VAT	774,274	212,077	256,192
Others	<u>60,903</u>	<u>46,408</u>	<u>47,152</u>
	<u>\$ 1,137,704</u>	<u>\$ 259,968</u>	<u>\$ 486,053</u>

(9) Property, plant and equipment

2019

	Land	Buildings and structures	Machinery and equipment	Office equipment	Factory equipment	Miscellaneous equipment	Construction in progress and equipment under acceptance	Total
<u>At January 1</u>								
Cost	\$ 1,428,543	\$ 7,524,465	\$ 7,212,313	\$ 72,305	\$ 4,682,095	\$ 341,469	\$ 170,187	\$ 21,431,377
Accumulated depreciation and impairment	-	(2,025,767)	(4,925,982)	(49,297)	(3,495,367)	(241,919)	-	(10,738,332)
	<u>\$ 1,428,543</u>	<u>\$ 5,498,698</u>	<u>\$ 2,286,331</u>	<u>\$ 23,008</u>	<u>\$ 1,186,728</u>	<u>\$ 99,550</u>	<u>\$ 170,187</u>	<u>\$ 10,693,045</u>
Opening net book amount as at January 1	\$ 1,428,543	\$ 5,498,698	\$ 2,286,331	\$ 23,008	\$ 1,186,728	\$ 99,550	\$ 170,187	\$ 10,693,045
Additions	-	6,331	30,731	3,513	27,630	5,050	2,732,919	2,806,174
Disposals	-	-	(108)	(454)	(479)	(4,195)	-	(5,236)
Reclassifications	-	(89,017)	26,160	-	(298,396)	428	1,808,178	1,447,353
Depreciation charge	-	(245,335)	(295,734)	(7,331)	(151,179)	(27,620)	-	(727,199)
Net exchange differences	-	(86,265)	(44,023)	(228)	(10,786)	(1,444)	(175,398)	(318,144)
Closing net book amount as at September 30	<u>\$ 1,428,543</u>	<u>\$ 5,084,412</u>	<u>\$ 2,003,357</u>	<u>\$ 18,508</u>	<u>\$ 753,518</u>	<u>\$ 71,769</u>	<u>\$ 4,535,886</u>	<u>\$ 13,895,993</u>
<u>At September 30</u>								
Cost	\$ 1,428,543	\$ 7,329,495	\$ 7,200,923	\$ 74,032	\$ 4,390,172	\$ 333,860	\$ 4,535,886	\$ 25,292,911
Accumulated depreciation and impairment	-	(2,245,083)	(5,197,566)	(55,524)	(3,636,654)	(267,091)	-	(11,401,918)
	<u>\$ 1,428,543</u>	<u>\$ 5,084,412</u>	<u>\$ 2,003,357</u>	<u>\$ 18,508</u>	<u>\$ 753,518</u>	<u>\$ 66,769</u>	<u>\$ 4,535,886</u>	<u>\$ 13,890,993</u>

2018

	Land	Buildings and structures	Machinery and equipment	Office equipment	Factory equipment	Miscellaneous equipment	Construction in progress and equipment under acceptance	Total
<u>At January 1</u>								
Cost	\$ 1,428,543	\$ 7,263,777	\$ 6,799,675	\$ 70,449	\$ 4,638,174	\$ 337,523	\$ 409,419	\$ 20,947,560
Accumulated depreciation and impairment	-	(1,434,198)	(4,594,076)	(49,403)	(3,212,644)	(213,503)	(274,041)	(9,777,865)
	<u>\$ 1,428,543</u>	<u>\$ 5,829,579</u>	<u>\$ 2,205,599</u>	<u>\$ 21,046</u>	<u>\$ 1,425,530</u>	<u>\$ 124,020</u>	<u>\$ 135,378</u>	<u>\$ 11,169,695</u>
Opening net book amount as at January 1	\$ 1,428,543	\$ 5,829,579	\$ 2,205,599	\$ 21,046	\$ 1,425,530	\$ 124,020	\$ 135,378	\$ 11,169,695
Additions	-	96,601	135,791	4,710	29,993	34,479	401,487	703,061
Disposals	-	-	(72,869)	(162)	(1,329)	(595)	-	(74,955)
Reclassifications	-	1,345	442,895	-	27,607	5,651	(453,562)	23,936
Depreciation charge	-	(251,328)	(312,458)	(6,953)	(225,465)	(29,282)	-	(825,486)
Net exchange differences	-	(102,103)	(55,930)	(268)	(25,450)	(3,257)	(2,130)	(189,138)
Closing net book amount as at September 30	<u>\$ 1,428,543</u>	<u>\$ 5,574,094</u>	<u>\$ 2,343,028</u>	<u>\$ 18,373</u>	<u>\$ 1,230,886</u>	<u>\$ 131,016</u>	<u>\$ 81,173</u>	<u>\$ 10,807,113</u>
<u>At September 30</u>								
Cost	\$ 1,428,543	\$ 7,246,187	\$ 7,168,641	\$ 65,133	\$ 4,649,933	\$ 369,954	\$ 347,470	\$ 21,275,861
Accumulated depreciation and impairment	-	(1,672,093)	(4,825,613)	(46,760)	(3,419,047)	(238,938)	(266,297)	(10,468,748)
	<u>\$ 1,428,543</u>	<u>\$ 5,574,094</u>	<u>\$ 2,343,028</u>	<u>\$ 18,373</u>	<u>\$ 1,230,886</u>	<u>\$ 131,016</u>	<u>\$ 81,173</u>	<u>\$ 10,807,113</u>

A. Amount of borrowing costs capitalised as part of property, plant and equipment and the range of the interest rates for such capitalisation are as follows:

	Three months ended September 30, 2019	Three months ended September 30, 2018
Amount capitalised	\$ 19,357	\$ 6,662
Range of the interest rates for capitalisation	2.20%~5.58%	2.01%
	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Amount capitalised	\$ 50,768	\$ 8,650
Range of the interest rates for capitalisation	2.00%~5.58%	2.00%~2.69%

B. As of September 30, 2019, December 31, 2018 and September 30, 2018, the accumulated impairment of property, plant and equipment was \$261,135, \$268,459 and \$291,090, respectively, and the reportable segment was in Mainland China.

C. The above property, plant and equipment were used for the operations of the Group and were not available for lease.

D. Information about the property, plant and equipment that were pledged to others as collaterals is provided in Note 8.

(10) Leasing arrangements — lessee

Effective 2019

A. The Group leases various assets including land, buildings and other equipment. Rental contracts are typically made for periods of 1 to 50 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose covenants, but leased assets may not be used as security for borrowing purposes and parts of lease are not allowed to be subletted, leased, sold or any ways for others to use.

B. Short-term leases with a lease term of 12 months or less comprise buildings and multifunction printers.

C. The carrying amount of right-of-use assets and the depreciation charge are as follows:

	September 30, 2019	Three months ended September 30, 2019	Nine months ended September 30, 2019
	Carrying amount	Depreciation charge	Depreciation charge
Land	\$ 241,059	\$ 1,402	\$ 4,281
Buildings	47,394	5,549	14,117
Other equipment	212	14	42
	<u>\$ 288,665</u>	<u>\$ 6,965</u>	<u>\$ 18,440</u>

D. For the three months ended September 30, 2019 and nine months ended September 30, 2019, the additions to right-of-use assets were \$21,024 and \$21,940, respectively.

E. The information on income and expense accounts relating to lease contracts is as follows:

	Three months ended September 30, 2019	Nine months ended September 30, 2019
<u>Items affecting profit or loss</u>		
Interest expense on lease liabilities	\$ 453	\$ 1,553
Expense on short-term lease contracts	5,223	12,358
Gain arising from lease modification	110	110

F. For the three months ended September 30, 2019 and nine months ended September 30, 2019, the Group's total cash outflow for leases were \$9,600 and \$25,610, respectively.

(11) Intangible assets

	2019				
	Computer Software	Core Technology	Goodwill	Licenses and Franchises	Total
<u>At January 1</u>					
Cost	\$ 135,585	\$ 67,622	\$ 8,056	\$ 9,200	\$ 220,463
Accumulated amortisation and impairment	(87,104)	(33,233)	-	(8,280)	(128,617)
	<u>\$ 48,481</u>	<u>\$ 34,389</u>	<u>\$ 8,056</u>	<u>\$ 920</u>	<u>\$ 91,846</u>
At January 1	\$ 48,481	\$ 34,389	\$ 8,056	\$ 920	\$ 91,846
Additions-acquired separately	7,274	-	-	-	7,274
Amortisation charge	(25,952)	(8,736)	-	(920)	(35,608)
Net exchange differences	(299)	(304)	-	-	(603)
At September 30	<u>\$ 29,504</u>	<u>\$ 25,349</u>	<u>\$ 8,056</u>	<u>\$ -</u>	<u>\$ 62,909</u>
<u>At September 30</u>					
Cost	\$ 141,259	\$ 67,059	\$ 8,056	\$ 9,200	\$ 225,574
Accumulated amortisation and impairment	(111,755)	(41,710)	-	(9,200)	(162,665)
	<u>\$ 29,504</u>	<u>\$ 25,349</u>	<u>\$ 8,056</u>	<u>\$ -</u>	<u>\$ 62,909</u>

	2018				
	Computer Software	Core Technology	Goodwill	Licenses and Franchises	Total
<u>At January 1</u>					
Cost	\$ 113,901	\$ 47,000	\$ 8,056	\$ 9,200	\$ 178,157
Accumulated amortisation and impairment	(49,843)	(26,242)	-	(6,440)	(82,525)
	<u>\$ 64,058</u>	<u>\$ 20,758</u>	<u>\$ 8,056</u>	<u>\$ 2,760</u>	<u>\$ 95,632</u>
At January 1	\$ 64,058	\$ 20,758	\$ 8,056	\$ 2,760	\$ 95,632
Additions-acquired separately	19,656	-	-	-	19,656
Additions-from internal development	-	21,184	-	-	21,184
Reclassifications	1,264	-	-	-	1,264
Amortisation charge	(29,594)	(4,113)	-	(1,380)	(35,087)
Net exchange differences	(1,022)	(709)	-	-	(1,731)
At September 30	<u>\$ 54,362</u>	<u>\$ 37,120</u>	<u>\$ 8,056</u>	<u>\$ 1,380</u>	<u>\$ 100,918</u>
<u>At September 30</u>					
Cost	\$ 133,061	\$ 67,455	\$ 8,056	\$ 9,200	\$ 217,772
Accumulated amortisation and impairment	(78,699)	(30,335)	-	(7,820)	(116,854)
	<u>\$ 54,362</u>	<u>\$ 37,120</u>	<u>\$ 8,056</u>	<u>\$ 1,380</u>	<u>\$ 100,918</u>

A. Details of amortisation on intangible assets are as follows:

	Three months ended September 30, 2019	Three months ended September 30, 2018
Cost of sales	\$ 3,499	\$ 2,202
General and administrative expenses	6,505	10,063
Research and development expenses	1,210	255
	<u>\$ 11,214</u>	<u>\$ 12,520</u>
	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Cost of sales	\$ 10,457	\$ 5,503
General and administrative expenses	20,601	26,059
Research and development expenses	4,550	3,525
	<u>\$ 35,608</u>	<u>\$ 35,087</u>

B. Goodwill is allocated as follows to the Group's cash-generating units:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
CMVT	\$ <u>8,056</u>	\$ <u>8,056</u>	\$ <u>8,056</u>

Goodwill is allocated to the cash-generating units identified by the Group. The recoverable amount of all cash-generating units has been determined based on value-in-use calculations. These calculations use future cash flow projections covering a five-year period. The recoverable amount of all cash-generating units calculated using the value-in-use exceeded their carrying amount, so goodwill was not impaired. The calculation of value in use mainly considers the operating profit margin, growth rate and discount rate. Management determined gross margin based on past performance and its expectations of market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments.

(12) Other assets

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Current			
Import VAT	\$ 10,554	\$ 833	\$ 54,071
Temporary payments	20,541	26,732	18,247
Prepayments for leases	-	5,648	5,603
Payments on behalf of others	3,305	5,483	1,271
Other	-	5,186	-
	<u>\$ 34,400</u>	<u>\$ 43,882</u>	<u>\$ 79,192</u>
	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Non-Current			
Prepayments for technical royalty (Note)	\$ 764,563	\$ 786,006	\$ 779,995
Prepayments for leases	-	246,408	245,825
Refundable deposits	18,729	11,368	11,635
Others	17,834	10,450	3,667
	<u>\$ 801,126</u>	<u>\$ 1,054,232</u>	<u>\$ 1,041,122</u>

Note: Refer to details on Note 9 (4).

(13) Short-term borrowings

Type of borrowings	September 30, 2019	Interest rate range	Collateral
Bank borrowings			
Bank secured borrowings	\$ 86,839	3.20%	Notes receivable
- Transferred receivables			
Bank secured borrowings	568,865	0.63%~2.67%	Land、buildings and structures
Bank unsecured borrowings	4,688,392	0.31%~6.09%	-
	<u>\$ 5,344,096</u>		
Type of borrowings	December 31, 2018	Interest rate range	Collateral
Bank borrowings			
Bank secured borrowings	\$ 164,177	4.02%~4.62%	Notes receivable
- Transferred receivables			
Bank unsecured borrowings	5,277,148	0.59%~5.66%	-
	<u>\$ 5,441,325</u>		
Type of borrowings	September 30, 2018	Interest rate range	Collateral
Bank borrowings			
Bank secured borrowings	\$ 45,271	4.02%~4.26%	Notes receivable
- Transferred receivables			
Bank unsecured borrowings	5,606,514	0.65%~5.66%	-
	<u>\$ 5,651,785</u>		

- A. Information about interest expense recognised in profit or loss is provided in Note 6(23).
- B. The Company proposed a debt repayment plan to Taiwan Cooperative Bank and other financial institutions during the debt negotiation meeting held on April 11, 2019. The resolutions of the meeting are as follows:
- (a) During the debt negotiation, the bank loans are secured by the Company's chairman, Ho, Jau-Yang, as a joint guarantor.
 - (b) The principal is extended for one year (until the end of March 2020) and the interest is repayable monthly.
 - (c) The Company is willing to pledge additional land and plants as collateral to creditor banks for providing greater protection of creditor's rights.
 - (d) The Company sets up an escrow account and funds are remitted into the account for a centralised management and supervision. (The escrow account is set up in the largest creditor bank)

On July 26, 2019, the resolutions made during the debt negotiation meeting were approved in writing by all the creditor institutions.

(14) Other payables

	September 30, 2019	December 31, 2018	September 30, 2018
Payables for salaries or bonuses	\$ 238,828	\$ 275,416	\$ 221,706
Payables for purchase of equipment	189,883	375,950	474,940
Payables for purchase of land or buildings	155,203	12,709	5,772
Payables for annual leave	39,192	38,304	52,157
Payables for insurance premiums	22,419	17,641	16,491
Accrued taxes payable	18,077	23,574	16,337
Payables for interest	16,259	22,225	16,695
Other	299,614	310,392	242,237
	<u>\$ 979,475</u>	<u>\$ 1,076,211</u>	<u>\$ 1,046,335</u>

(15) Long-term borrowings

Type of borrowings	September 30, 2019	December 31, 2018	September 30, 2018
<u>Unsecured borrowings</u>			
Syndicated loan: Lead bank - Bank of Taiwan			
Repayable quarterly on interest from September 23, 2016; repayable from March 23, 2019 to September 23, 2021.	\$ 2,558,593	\$ 3,161,300	\$ 3,784,000
<u>Borrowings</u>			
Repayable monthly on interest from December 17, 2018. The principal was repaid in full on the maturity date (December 17, 2020).	200,000	200,000	-
<u>Borrowings</u>			
Repayable monthly on interest from November 15, 2018; repayable from November 6, 2019 to November 14, 2023	1,652,522	11,940	-
	4,411,115	3,373,240	3,784,000
Less: Current portion	(2,575,993)	(3,170,244)	(3,784,000)
	<u>\$ 1,835,122</u>	<u>\$ 202,996</u>	<u>\$ -</u>
Interest rate range	<u>1.50%~4.75%</u>	<u>1.50%~4.75%</u>	<u>4.27%</u>

A. Information on interest expense recognised in profit or loss is provided in Note 6(23).

B. In September 2016, KSCMMT signed the syndicated loan agreement with Bank of Taiwan and other banks for the purpose of enriching long-term operating capital. CMMT, Hangzhou Jinjiang Group Co., Ltd. ("HJ") and Zhejiang Renyuan Import & Export Co., Ltd. jointly stood for KSCMMT's credit line.

The above long-term bank loan agreement requires the maintenance of certain financial ratios based on the Group's annual financial statements. The related restrictions are as follows:

- (a) Current ratio: at least 100%;
- (b) Debt ratio: no more than 100%;

- (c) Interest coverage ratio: at least 3; and
- (d) Tangible net worth: at least \$10 billion.

During 2018 and 2017, the Group breached certain terms of its long-term loan agreements, which are primarily related to the interest coverage ratio of the Group. The management had applied for an exemption when the ratios were breached, and the Group has reach an agreement for the exemption with the bank for year 2017. In addition, the bank has informed KSCMMT to raise capital to repay the syndicated loan and settle the remaining principal by December 23, 2019. KSCMMT agreed to raise capital to repay the principal and interest of the syndicated loan. The loan was classified as a current liability as at September 30, 2019, December 31, 2018 and September 30, 2018, in the amounts of \$2,558,593, \$3,161,300 and \$3,784,000, respectively.

(16) Pensions

- A. The Company and its domestic subsidiaries have established a defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company and its domestic subsidiaries contribute monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.
- B. NBCMMT, KSCMMT, KSCMS, XJHM and KSMF makes monthly contributions based on certain percentages of the basic salaries of their employees.
- C. The pension costs under defined contribution pension plans of the Group for the three months ended September 30, 2019 and 2018, and nine months ended September 30, 2019 and 2018, were \$19,498, \$21,451, \$62,189, and \$60,259, respectively.

(17) Share capital

- A. As of September 30, 2019, the Company’s authorised capital was \$12,000,000, consisting of 1,200,000 thousand shares and the paid-in capital was \$6,657,285 with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected.

Movements in the number of the Company’s ordinary shares outstanding are as follows:

	(Units: in thousand shares)	
	2019	2018
At January 1 (and September 30)	<u>665,729</u>	<u>665,729</u>

B. GDRS

- (a) On December 20, 2016, the Company’s Board of Directors approved to increase its capital by the issuance of 150,000 thousand shares of common shares by sponsoring the issuance of global depositary receipts (GDRs), which was approved by the FSC. Each GDR represents 40 common shares, which have been listed on the SGX since September 12, 2017, with a per-unit issue price of USD17.31 and a total amount of USD 64,913 thousand. As of September 30, 2019, the outstanding 3 thousand units of GDRs represented 116 thousand common shares. The agreement clause of a GDR purchase stipulates the following:

i. Voting rights

Unless stipulated otherwise by applicable laws and regulations, the Bank of New York Mellon (the “Depositary”) may exercise the voting rights associated with the underlying common shares represented by the GDRs on behalf of the holders of the GDRs in accordance with the Deposit Agreement (the “Deposit Agreement”) entered into by the Company, the Depositary, and the individual holders of the GDRs as well as in accordance with the laws and regulations of the ROC.

ii. Sale and withdrawal of the underlying common shares

The holders of the GDRs may request to withdraw and hold the common shares represented by the GDRs pursuant to the relevant laws and regulation of the ROC and the Deposit Agreement; or the holders of the GDRs may request to withdraw and ask the Depositary to sell such withdrawn common shares on behalf of the holders of the GDRs and pay the sales proceeds after deducting tax and other relevant fees to the holders of the GDRs pursuant to the relevant laws and regulation of the ROC and the Deposit Agreement.

iii. Distribution of dividends, pre-emptive rights, and other interests

Unless otherwise provided in the Deposit Agreement, the holders of the GDRs shall be entitled to the same rights on dividends distribution or on their distributions as the holders of common shares of the Company. If the Company distributes share dividends or makes other share distributions in the future, the Depositary will, in accordance with the Deposit Agreement and the relevant laws and regulations, issue additional GDRs to the holders of the GDR unit, or sell such distributed shares on behalf of the holder of the GDRs and then pay the sales proceeds after deducting tax and other relevant fees to the holder of the GDRs on a pro rata basis.

(18) Capital surplus

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

	2019			
	Share premium	Difference between consideration and carrying amount of subsidiaries acquired or disposed	Changes in ownership interests in subsidiaries	Total
At January 1 (and September 30)	\$ 803,494	\$ 6,776	\$ 41,419	\$ 851,689

	Share premium	Difference between consideration and carrying amount of subsidiaries acquired or disposed	Changes in ownership interests in subsidiaries	Total
At January 1	\$ 803,494	\$ 3,062	\$ 50,212	\$ 856,768
Purchase price and carrying amount arising from acquisition or disposal of subsidiaries	-	3,714	-	3,714
Changes in equity of subsidiaries	-	-	(3,427)	(3,427)
At September 30	<u>\$ 803,494</u>	<u>\$ 6,776</u>	<u>\$ 46,785</u>	<u>\$ 857,055</u>

(19) Retained earnings

- A. Under the Company's Articles of Incorporation, surplus should be used to pay tax, offset the aggregated loss, and 10% surplus in mandatory reserve. However, 10 % mandatory reserve may not to be executed as the reserve reaches to the amount of registered capital of the company; the Board of Directors is authorized to assign dividend and bonus wholly or partially in cash and report to shareholders' meeting if mandatory reserve, tax and levies have been paid out.
- B. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.
- C. Special reserve
- In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.
- D. On June 28, 2019 and June 22, 2018, the shareholders resolved that the Company will not distribute dividends, but set aside special reserve amounting to \$201,306 and \$43,251, respectively.

(20) Operating revenue

A. Disaggregation of revenue from contracts with customers

The Group derives revenue from contracts with customers, divided into the following major geographical regions:

<u>Three months ended September 30, 2019</u>	<u>Taiwan</u>	<u>China</u>	<u>Total</u>
Total segment revenue	\$ 1,083,603	\$ 2,360,570	\$ 3,444,173
Inter-segment revenue	771,492	105,662	877,154
Elimination of internal transaction	(771,492)	(105,662)	(877,154)
Revenue from external customer	<u>\$ 1,083,603</u>	<u>\$ 2,360,570</u>	<u>\$ 3,444,173</u>

<u>Three months ended September 30, 2018</u>	<u>Taiwan</u>	<u>China</u>	<u>Total</u>
Total segment revenue	\$ 1,024,953	\$ 2,526,324	\$ 3,551,277
Inter-segment revenue	1,478,318	24,533	1,502,851
Elimination of internal transaction	(1,478,318)	(24,533)	(1,502,851)
Revenue from external customer	<u>\$ 1,024,953</u>	<u>\$ 2,526,324</u>	<u>\$ 3,551,277</u>
<u>Nine months ended September 30, 2019</u>	<u>Taiwan</u>	<u>China</u>	<u>Total</u>
Total segment revenue	\$ 3,247,813	\$ 7,931,980	\$ 11,179,793
Inter-segment revenue	2,783,269	563,611	3,346,880
Elimination of internal transaction	(2,783,269)	(563,611)	(3,346,880)
Revenue from external customer	<u>\$ 3,247,813</u>	<u>\$ 7,931,980</u>	<u>\$ 11,179,793</u>
<u>Nine months ended September 30, 2018</u>	<u>Taiwan</u>	<u>China</u>	<u>Total</u>
Total segment revenue	\$ 2,919,645	\$ 5,890,009	\$ 8,809,654
Inter-segment revenue	3,212,041	241,076	3,453,117
Elimination of internal transaction	(3,212,041)	(241,076)	(3,453,117)
Revenue from external customer	<u>\$ 2,919,645</u>	<u>\$ 5,890,009</u>	<u>\$ 8,809,654</u>

B. Contract liabilities

The Group has recognised the following revenue-related contract liabilities:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>	<u>January 1, 2018</u>
Contract liabilities –				
sale of goods	<u>\$ 14,357</u>	<u>\$ 33,760</u>	<u>\$ 31,473</u>	<u>\$ 9,479</u>

Revenue recognised that was included in the contract liability balance at the beginning of the period.

	<u>Three months ended September 30, 2019</u>	<u>Three months ended September 30, 2018</u>
Revenue recognised that was included in the contract liability balance at the beginning of the period		
Sale of goods	<u>\$ 202</u>	<u>\$ -</u>
	<u>Nine months ended September 30, 2019</u>	<u>Nine months ended September 30, 2018</u>
Revenue recognised that was included in the contract liability balance at the beginning of the period		
Sale of goods	<u>\$ 4,142</u>	<u>\$ 9,479</u>

(21) Other income

	Three months ended September 30, 2019	Three months ended September 30, 2018
Interest income	\$ 6,542	\$ 6,081
Rental income	404	248
Dividend income	712	-
Government grants	2,790	2,829
Others	13,533	4,045
	<u>\$ 23,981</u>	<u>\$ 13,203</u>
	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Interest income	\$ 24,911	\$ 15,206
Rental income	1,218	700
Dividend income	712	-
Government grants	8,520	8,660
Disgorgement income	11,033	-
Technical service income	19,700	-
Others	23,546	19,588
	<u>\$ 89,640</u>	<u>\$ 44,154</u>

(22) Other gains and losses

	Three months ended September 30, 2019	Three months ended September 30, 2018
Losses on disposals of property, plant and equipment	(\$ 4,797)	(\$ 91)
Gain arising from lease modification	110	-
Foreign exchange losses	(101,598)	(155,598)
Net losses on financial assets or liabilities at fair value through profit or loss	(16,736)	(7,137)
Compensation losses	104	-
Others	(5,807)	(3,123)
	<u>(\$ 128,724)</u>	<u>(\$ 165,949)</u>
	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Losses on disposals of property, plant and equipment	(\$ 5,034)	(\$ 95)
Gain arising from lease modification	110	-
Foreign exchange losses	(167,631)	(198,158)
Net (losses) gains on financial assets or liabilities at fair value through profit or loss	(22,858)	14,425
Compensation losses	(27,255)	-
Others	(13,170)	(4,926)
	<u>(\$ 235,838)</u>	<u>(\$ 188,754)</u>

(23) Finance costs

	Three months ended September 30, 2019	Three months ended September 30, 2018
Interest expense - bank borrowings	\$ 79,332	\$ 77,681
Interest expense - lease liabilities	453	-
	<u>\$ 79,785</u>	<u>\$ 77,681</u>
	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Interest expense - bank borrowings	\$ 238,219	\$ 205,900
Interest expense - lease liabilities	1,533	-
	<u>\$ 239,752</u>	<u>\$ 205,900</u>

(24) Expenses by nature

	Three months ended September 30, 2019	Three months ended September 30, 2018
Employee benefit expense	\$ 432,870	\$ 421,019
Depreciation charges on property, plant and equipment	224,372	276,238
Depreciation charges on right-of-use assets	6,965	-
Amortisation charges on intangible assets	11,214	12,520
Amortisation charges on prepayment for leases	-	1,434
	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Employee benefit expense	\$ 1,302,630	\$ 1,214,634
Depreciation charges on property, plant and equipment	727,199	825,486
Depreciation charges on right-of-use assets	18,440	-
Amortisation charges on intangible assets	35,608	35,087
Amortisation charges on prepayment for leases	-	4,351

(25) Employee benefit expense

	Three months ended September 30, 2019	Three months ended September 30, 2018
Pension costs	\$ 19,498	\$ 21,451
Short-term employee benefits	413,372	399,568
	<u>\$ 432,870</u>	<u>\$ 421,019</u>
	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Pension costs	\$ 62,189	\$ 60,259
Short-term employee benefits	1,240,441	1,154,375
	<u>\$ 1,302,630</u>	<u>\$ 1,214,634</u>

- A. In accordance with the Articles of Incorporation of the Company, a ratio of distributable profit of the current year, after covering accumulated losses, shall be distributed as employees' compensation and directors' and supervisors' remuneration. The ratio shall not be lower than 2% for employees' compensation and shall not be higher than 1% for directors' and supervisors' remuneration.
- B. The Company incurred losses for the nine months ended September 30, 2019 and 2018; thus, neither employees' compensation nor remuneration of directors and supervisors were estimated. The Company incurred losses for the year ended December 31, 2018; thus, neither employees' compensation nor remuneration of directors and supervisors were estimated.
- Information about employees' compensation and directors' and supervisors' remuneration of the Company as approved at the meeting of Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(26) Income tax

A. Income tax expense (benefit)

	Three months ended September 30, 2019	Three months ended September 30, 2018
Current tax:		
Current tax on profit in current period	\$ -	\$ 2,750
Prior year income tax overestimation	-	-
Total current tax	<u>-</u>	<u>2,750</u>
Deferred tax:		
Origination and reversal of temporary differences	(182)	347
Impact of change in tax rate	<u>-</u>	<u>-</u>
Total deferred tax	<u>(182)</u>	<u>347</u>
Income tax benefit	<u>(\$ 182)</u>	<u>\$ 3,097</u>

	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Current tax:		
Current tax on profit in current period	\$ -	\$ 9,073
Prior year income tax underestimation	2,014	9
Total current tax	2,014	9,082
Deferred tax:		
Origination and reversal of temporary differences	20,853	(25,198)
Impact of change in tax rate	-	(9,243)
Total deferred tax	20,853	(34,441)
Income tax expense (benefit)	\$ 22,867	(\$ 25,359)

B. The Company's income tax returns through 2017 have been assessed and approved by the Tax Authority.

C. Under the amendments to the Income Tax Act which was promulgated in February, 7, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from the year 2018.

The Group has assessed the impact of the change in income tax rate.

(27) (Loss) earnings per share

	Three months ended September 30, 2019		
	Weighted average number of ordinary shares outstanding		Loss per share
	Amount after tax (share in thousands)		(in dollars)
<u>Basic and diluted loss per share</u>			
Loss attributable to ordinary shareholders of the parent	(\$ 247,647)	665,729	(\$ 0.37)
	Three months ended September 30, 2018		
	Weighted average number of ordinary shares outstanding		Earnings per share
	Amount after tax (share in thousands)		(in dollars)
<u>Basic and diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 45,425	665,729	\$ 0.07

Nine months ended September 30, 2019			
		Weighted average number of ordinary shares outstanding (share in thousands)	Loss per share (in dollars)
	Amount after tax		
<u>Basic and diluted loss per share</u>			
Loss attributable to ordinary shareholders of the parent	(\$ 643,649)	665,729	(\$ 0.97)
Nine months ended September 30, 2018			
		Weighted average number of ordinary shares outstanding (share in thousands)	Loss per share (in dollars)
	Amount after tax		
<u>Basic and diluted loss per share</u>			
Loss attributable to ordinary shareholders of the parent	(\$ 511,754)	665,729	(\$ 0.77)

(28) Transactions with non-controlling interest

A. Disposal of equity interest in a subsidiary (that did not result in a loss of control)

In January 2018, the Group disposed of 2% of its interest in CMVT, reducing its continuing interest from 81.33% to 79.33%.

The above transactions were accounted for as equity transactions, since the Group did not cease to have control over these subsidiaries.

	CMVT
Cash consideration received	\$ 6,000
Proportionate share of the carrying amount of the net assets of the subsidiary transferred from non-controlling interests	(2,286)
Differences recognized from equity transactions	\$ 3,714
<u>Line items adjusted for equity transactions</u>	
Capital surplus - purchase price and carrying amount differences from acquisitions or disposals of subsidiaries	\$ 3,714

B. The Group did not participate in the capital increase raised by a subsidiary proportionally to its interest to the subsidiary.

The Group and another shareholder of KSCMMT increased their equity capital of KSCMMT by US\$30 million respectively in May and September, 2018. The transaction increased non-controlling interest by \$1,611,268 and decreased equity attributable to owners of parent by \$3,427. The effect of changes in interest in KSCMMT on the equity attributable to owners of the parent for the nine months ended September 30, 2018 is shown below:

		Nine months ended September 30, 2018
Cash		\$ 1,607,841
Increase in the carrying amount of non-controlling interest		(1,611,268)
Capital surplus		
- recognition of changes in ownership interest in subsidiaries		(\$ 3,427)
(29) <u>Supplemental cash flow information</u>		
A. Investing activities with partial cash payments		
	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Purchase of property, plant and equipment	\$ 2,806,174	\$ 703,061
Add: Opening balance of payable on equipment	375,950	933,040
Opening balance of payable for purchase of land or building	12,709	3,831
Less: Discount of payable on equipment	(131,761)	-
Ending balance of payable on equipment	(189,883)	(474,940)
Ending balance of payable for purchase of land or building	(155,203)	(5,772)
Effect of foreign exchange	-	1,941
Cash paid during the nine months ended September 30, 2019	<u>\$ 2,717,986</u>	<u>\$ 1,161,161</u>
B. Investing activities with no cash flow effects		
	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Prepayments for equipment transferred to property, plant and equipment	<u>\$ 1,447,353</u>	<u>\$ 29,975</u>
Property, plant and equipment transferred to other current assets	<u>\$ -</u>	<u>\$ 6,039</u>
Other non-current assets transferred to other intangible assets	<u>\$ -</u>	<u>\$ 1,264</u>

(30) Changes in liabilities from financing activities

	At January 1, 2019	Changes in cash flow from financing activities	Changes in other non-cash items	Effect of foreign exchange	At September 30, 2019
Short-term borrowings	\$ 5,441,325	(\$ 10,673)	\$ -	(\$ 86,556)	\$ 5,344,096
Lease liabilities	58,020	(11,719)	5,078	(1,532)	49,847
Long-term borrowings	3,373,240	1,103,203	-	(65,328)	4,411,115
Guarantee deposits received	49	82	-	-	131
Liabilities from financing activities-gross	<u>\$ 8,872,634</u>	<u>\$ 1,080,893</u>	<u>\$ 5,078</u>	<u>(\$ 153,416)</u>	<u>\$ 9,805,189</u>

	At January 1, 2018	Changes in cash flow from financing activities	At September 30, 2018
Short-term borrowings	\$ 3,813,259	\$ 1,838,526	\$ 5,651,785
Short-term notes payable	100,000	(100,000)	-
Long-term borrowings	2,639,833	1,144,167	3,784,000
Guarantee deposits received	171	258,975	259,146
Liabilities from financing activities-gross	<u>\$ 6,553,263</u>	<u>\$ 3,141,668</u>	<u>\$ 9,694,931</u>

(31) Government grants

KSCMMT acquired government subsidy for the amount of RMB 48,380 thousand dollars in January 2018. The government grant is from the Kunshan government to encourage enterprises to set up factories in the Kunshan development zone. After the establishment of a factory is completed, grants are granted. It is an asset-related government grant, which is recognised as deferred revenue. As of September 30, 2019, December 31, 2018 and September 30, 2018, the balance of this deferred revenue is \$191,321 (which is shown as “other current liabilities” amounting to \$10,933 and “other non-current liabilities” amounting to \$180,388), \$205,116 (which is shown as “other current liabilities” amounting to \$ 11,239 and “other non-current liabilities” amounting to \$193,877), and \$206,252 (which is shown as “other current liabilities” amounting to \$11,149 and “other non-current liabilities” amounting to \$195,103), respectively. For the three months ended September 30, 2019 and 2018, and nine months ended September 30, 2019 and 2018, the revenue realized based on the service life of the factory was \$2,790, \$2,829, \$8,520 and \$8,660, respectively.

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

<u>Names of related parties</u>	<u>Relationship with the Group</u>
Hangzhou Jinjiang Group Co., Ltd ("HJ")	Affiliates (Note 1)
Zhejiang Zhengjie Commercial and Trading Co., Ltd. ("ZZ")	Affiliates
Lulin Optoelectronics (Kunshan) Co., Ltd. ("LL")	Affiliates
Shenzhen SAPO Photoelectric Co., Ltd. ("SAPO")	Affiliates
Jun Hong Optronics Corporation ("JH")	Affiliates (Note 2)
Bao Dui International Limited (BAO DUI)	Affiliates (Note 3)
Yeh Mei Li	Former vice chairman of the Company (Note 4)
Ki Kin Corporation ("KK")	Affiliates (Note 5)
Innolux Corporation ("Innolux")	Persons as director of the Company (Note 6)
Foshan Innolux Optoelectronics Ltd.	Affiliates (Note 7)
Shanghai Innolux Optoelectronics Ltd.	Affiliates (Note 7)
Nanjing Innolux Optoelectronics Ltd.	Affiliates (Note 7)
Ningbo Innolux Optoelectronics Ltd. ("Ningbo Innolux")	Affiliates (Note 7)
Ningbo Innolux Display Ltd.	Affiliates (Note 7)

Note 1: HJ originally held a 47.97% equity interest in KSCMMT, and subsequently transferred its ownership to Tinglin (Kunshan) Intelligent Manufacturing Industry Investment Partnership Enterprise Co. Ltd. on December 19, 2018, However, Tinglin (Kunshan) Intelligent Manufacturing Industry Investment Partnership Enterprise Co. Ltd.'s partner is Zhejiang Hengjie Co., Ltd. which is the subsidiary owned by HJ. Therefore, HJ is still the Group's related party.

Note 2: During the transaction, Mei-Li, Yeh served as the general manager and director of the company.

Note 3: During the transaction, the Company's representative is the first degree of kinship of Mei-Li, Yeh.

Note 4: Mei-Li, Yeh had served as the vice chairman of the Group from July 18, 2018 until April 26, 2019.

Note 5: It is the subsidiary owned by HJ.

Note 6: It had served as the legal persons as director of the Company from April 26, 2019.

Note 7: It is the subsidiary owned by Innolux.

(2) Significant related party transactions

A. Operating revenue:

	<u>Three months ended September 30, 2019</u>	<u>Three months ended September 30, 2018</u>
Sales of goods:		
Innolux	\$ 623,835	\$ -
Ningbo Innolux	488,398	-
Affiliates	589,148	8,010
	<u>\$ 1,701,381</u>	<u>\$ 8,010</u>

	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Sales of goods:		
Innolux	\$ 1,077,176	\$ -
Affiliates	<u>1,945,303</u>	<u>8,010</u>
	<u>\$ 3,022,479</u>	<u>\$ 8,010</u>

There is no significant difference between the selling price and payment terms between related parties and non-related parties.

B. Purchases:

	Three months ended September 30, 2019	Three months ended September 30, 2018
Affiliates	<u>\$ 116,448</u>	<u>\$ 94,475</u>
	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Affiliates	<u>\$ 588,547</u>	<u>\$ 94,475</u>

Because there is no similar counterparty or transaction, the purchase prices and payment terms with related parties are conducted by mutual agreement.

C. Receivables from related parties:

	September 30, 2019	December 31, 2018	September 30, 2018
Notes receivable:			
Affiliates	<u>\$ -</u>	<u>\$ 18,806</u>	<u>\$ -</u>
Accounts receivable:			
Innolux	\$ 459,636	\$ -	\$ -
Ningbo Innolux	438,284	-	-
Affiliates	<u>596,835</u>	<u>197,791</u>	<u>76,692</u>
	<u>\$ 1,494,755</u>	<u>\$ 197,791</u>	<u>\$ 76,692</u>
Other receivables			
BAO DUI (Note 1)	\$ -	\$ 88,256	\$ -
ZZ (Note 2)	-	91,495	-
SAPO (Note 3)	-	-	223,964
Affiliates	<u>269</u>	<u>-</u>	<u>-</u>
	269	179,751	223,964
Less: Allowance for credit	<u>-</u>	<u>(91,495)</u>	<u>-</u>
	<u>\$ 269</u>	<u>\$ 88,256</u>	<u>\$ 223,964</u>

Note 1: The Group prepaid certain payments to BAO DUI. However, since BAO DUI did not deliver goods based on the contract terms, the contract was cancelled under mutual agreement in January 2019. The Group classified BAO DUI as a counterparty of loans to others, which has a business relationship.

Note 2: This is the accounts receivable resulting from the triangular trade conducted in KSCMS.
The Group regarded it as a loan to the companies with business relationship.

Note 3: It represents receivables resulting from purchasing raw materials for SAPO.

D. Prepayment (categorized as ‘other current asset’)

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Payment in advance			
Affiliates	\$ <u>-</u>	\$ <u>-</u>	\$ <u>77,387</u>

E. Payables to related parties

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Accounts payable			
SAPO	\$ <u>253,856</u>	\$ <u>375,639</u>	\$ <u>264,145</u>

F. Contract liabilities

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
JH	\$ <u>-</u>	\$ <u>29,560</u>	\$ <u>27,791</u>

The Group’s advance receipts arising from JH have been returned to JH in March 2019, because the Group did not deliver goods based on the contract terms, and the contract has been cancelled under mutual agreement in the same month.

G. In October 2018, the Group acquired 6 million shares of JH from a non-related party, at a price of NT\$15 per share, the total consideration is \$90,000, and this transaction was recognised in ‘Financial assets at fair value through other comprehensive income-non-current’. The fair value on September 30, 2019 and December 31, 2018 is \$26,609 and \$27,060, respectively. These shares were formerly held by Mei-li, Yeh. Such transactions were made in one month.

H. Prepayment for equipment

The subsidiary, KSCMMT, signed an equipment purchasing agreement with Ki Kin Corporation on March 15, 2018, and paid RMB 135,985 thousand in advance on May 17, 2018. Because the progress of the machine was delayed, KSCMMT cancelled this agreement on July 27, 2018 and required KK to return the advance payment. As of September 30, 2019, the advance payment has been returned in full.

I. Endorsements and guarantees provided by the related parties to the Group:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
HJ	\$ <u>1,176,953</u>	\$ <u>1,454,198</u>	\$ <u>1,740,640</u>

(3) Key management compensation

	Three months ended September 30, 2019	Three months ended September 30, 2018
Salaries and other short-term employee benefits	\$ 6,650	\$ 3,348
Post-employment benefits	116	86
	<u>\$ 6,766</u>	<u>\$ 3,434</u>
	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Salaries and other short-term employee benefits	\$ 20,967	\$ 10,934
Post-employment benefits	300	203
	<u>\$ 21,267</u>	<u>\$ 11,137</u>

8. PLEDGED ASSETS

The Group's assets pledged as collateral are as follows:

Pledged asset	Book value			Purpose
	September 30, 2019	December 31, 2018	September 30, 2018	
Demand deposit (Note)	\$ 122,294	\$ -	\$ -	An escrow account for debt negotiation procedures
Pledged deposits (Note)	962,347	1,253,226	1,799,411	Provided as collateral for the letters of credit for purchases of raw materials
Notes receivable	86,839	164,177	45,271	Short-term loan resulting from notes receivable factoring
Property, plant and equipment - land	1,428,543	-	-	Short-term loan and provided as collateral for credit line
Property, plant and equipment - buildings and structures, net	1,921,211	-	-	Short-term loan and provided as collateral for credit line
	<u>\$ 4,521,234</u>	<u>\$ 1,417,403</u>	<u>\$ 1,844,682</u>	

Note: It is categorized as "financial assets at amortized cost".

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

In addition to those disclosed in other notes to the consolidated financial statements, significant commitments and contingencies of the Group as of September 30, 2019, December 31, 2018 and September 30, 2018, were as follows:

A. As of September 30, 2019, December 31, 2018 and September 30, 2018, unused letters of credit for purchases of raw materials and equipment were as follows:

	Units: Foreign currency (in thousand)		
	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
JPY	\$ 4,211,572	\$ 9,490,383	\$ 9,373,693
USD	13,988	15,744	14,599
TWD	-	20,454	-
RMB	40,589	-	8,000

- B. As of September 30, 2019, December 31, 2018 and September 30, 2018, the amounts of guarantees provided by financial institutions for the purpose of importing goods were \$75,513, \$183,880 and \$43,488, respectively.
- C. As of September 30, 2019, December 31, 2018 and September 30, 2018, the unpaid amounts of the construction contracts that the Group entered into for the expansion of factories and machinery equipment were \$186,269, \$1,984,517 and \$448,997, respectively.
- D. The technology licensing agreement with Nitto Denko Corporation is for up to JPY 15 billion and was signed by KSCMMT, Hangzhou Jinjiang Group, which is the strategic partner and major shareholder of KSCMMT, and SAPO, which is an investee of Hangzhou Jinjiang Group. KSCMMT will have the rights to three 2,500 mm production lines, of which the total value will be JPY 7.5 billion. The total contract price is JPY 15 billion. As of September 30, 2019, December 31, 2018 and September 30, 2018, KSCMMT's unpaid amount were all JPY 4.5 billion.

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

- (1) Since the overall objective circumstances were changed, and the Company has implemented the debt negotiation with all creditor banks, based on the assessments of overall current conditions, the Board of Directors during its meeting on October 24, 2019 adopted a resolution that CMMTI would waive its subscription rights for original shareholders on capital increase raised by KSCMMT.
- (2) The Board of Directors during its meeting on October 24, 2019 adopted a resolution that KSCMMT would raise additional cash from external investors, Homwon Capital Management Co., Ltd. or investment organisations controlled by Homwon Capital Management Co., Ltd. and the total amount of the capital increase shall be lower than RMB 0.8 billion. On the same day, the Board of Directors of the Company resolved that CMMTI would sign the capital increase agreement for increasing capital to KSCMMT with Tinglin (Kunshan) Intelligent Manufacturing Industry Investment Partnership Enterprise Co. Ltd. (limited partnership), Zhejiang Renyuan Import & Export Co., Ltd. and Homwon Capital Management Co., Ltd. or investment organisations controlled by Homwon Capital Management Co., Ltd.
- (3) CMMTI's ownership percentage of KSCMMT would be decreased by more than 10% if the subscription rights for original shareholders on capital increase were waived. The Company has appointed an independent expert to issue a written opinion regarding the reasonableness of historical price and impact to shareholders' equity and the conclusion had no significant impact to the shareholders' equity.

12. OTHERS

(1) Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged.

The key management personnel of the Group reviews the capital structure on a periodic basis. As part of this review, the key management personnel considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Group may adjust the amount of dividends paid to shareholders and/or the number of new shares issued.

The gearing ratios at September 30, 2019, December 31, 2018 and September 30, 2018, were as follows:

	September 30, 2019	December 31, 2018	September 30, 2018
Total liabilities	\$ 12,571,762	\$ 13,049,148	\$ 14,129,358
Total assets	\$ 25,785,240	\$ 27,233,917	\$ 28,019,404
Gearing ratio	49%	48%	50%

(2) Financial instruments

A. Financial instruments by category

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Financial assets</u>			
Financial assets at fair value through profit or loss			
Financial assets mandatorily measured at fair value through profit or loss	\$ 3,500	\$ 84,525	\$ 67,856
Financial assets at fair value through other comprehensive income			
Designation of equity instrument	\$ 185,975	\$ 215,727	\$ 250,000
Financial assets at amortised cost/Loans and receivables			
Cash and cash equivalents	\$ 853,623	\$ 3,105,426	\$ 3,388,735
Financial assets at amortised cost	1,272,401	1,313,826	1,811,511
Notes receivable	243,397	205,426	111,967
Accounts receivable	3,290,450	4,397,730	3,850,603
Other receivables	76,902	203,233	1,101,429
Refundable deposits	18,729	11,368	11,635
	<u>\$ 5,755,502</u>	<u>\$ 9,237,009</u>	<u>\$ 10,275,880</u>

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Financial liabilities</u>			
Financial liabilities at fair value through profit or loss			
Financial liabilities held for trading	\$ 135	\$ 2,681	\$ -
Financial liabilities at amortised cost			
Short-term borrowings	\$ 5,344,096	\$ 5,441,325	\$ 5,651,785
Notes payable	-	156,037	491,956
Accounts payable	1,554,477	2,725,787	2,626,969
Other payables	979,475	1,076,211	1,046,335
Long-term borrowings (including current portion)	4,411,115	3,373,240	3,784,000
Guarantee deposits received	131	49	259,146
	<u>\$ 12,289,294</u>	<u>\$ 12,772,649</u>	<u>\$ 13,860,191</u>
Lease liabilities	<u>\$ 49,847</u>	<u>\$ -</u>	<u>\$ -</u>

B. Financial risk management policies

- (a) The Group's Corporate Treasury function monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk. To minimise any adverse effects on the financial performance of the Group, derivative financial instruments, such as foreign exchange forward contracts and foreign currency option contracts are used to hedge certain exchange rate risk, and interest rate swaps are used to fix variable future cash flows. Derivatives are used exclusively for hedging purposes and not as trading or speculative instruments.
- (b) The Group sought to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives was governed by the Group's policies approved by the board of directors, which provided written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments and the investment of excess liquidity. Compliance with policies and exposure limitations was reviewed by the internal auditors on a continuous basis. The Group did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.
- (c) The Group Treasury function is an independent body that monitors risks and policies implemented to mitigate risk exposures.
- (d) Information about derivative financial instruments that are used to hedge certain exchange rate risk are provided in Note 6(2).

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- i. The Group operates internationally and is exposed to foreign exchange risk arising from the transactions of the Company and its subsidiaries used in various functional currency, primarily with respect to the USD and RMB. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

- ii. Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The Group manages its foreign currency risk and interest rate by using derivative financial instrument, including foreign exchange forward contracts to hedge the risk arising from US dollar-denominated assets generated by sales and Japanese yen-denominated liabilities generated by the importation of raw materials from Japan.
- iii. The Group hedges foreign exchange rate by using foreign exchange option and forward exchange contracts. However, the Group does not adopt hedging accounting. Details of financial assets and liabilities at fair value through profit or loss are provided in Note 6(2).
- iv. The Group's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: NTD; other certain subsidiaries' functional currencies: USD and RMB). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

September 30, 2019			
(Foreign currency: functional currency)	Foreign currency	Exchange rate	Book value
	amount (In thousands)		
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 99,081	31.04	\$ 3,075,474
JPY:NTD	184,120	0.2878	52,990
RMB:NTD	155,412	4.35	676,042
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	159,469	31.04	4,949,918
JPY:NTD	8,425,007	0.2878	2,424,717
RMB:NTD	555	4.35	2,414
December 31, 2018			
(Foreign currency: functional currency)	Foreign currency	Exchange rate	Book value
	amount		
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 131,906	30.72	\$ 4,052,152
JPY:NTD	274,402	0.2782	76,339
RMB:NTD	375,483	4.47	1,678,409
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	157,307	30.72	4,832,471
JPY:NTD	15,959,991	0.2782	4,440,069
RMB:NTD	131,436	4.47	587,519

September 30, 2018

Foreign currency		
amount		Book value
(In thousands)	Exchange rate	(NTD)

(Foreign currency: functional currency)

Financial assets

Monetary items

USD:NTD	\$ 140,094	30.53	\$ 4,276,369
JPY:NTD	2,422,466	0.2692	652,128
RMB:NTD	68,973	4.44	305,964

Financial liabilities

Monetary items

USD:NTD	179,783	30.53	5,487,876
JPY:NTD	15,359,250	0.2692	4,134,710
EUR:NTD	51	35.48	1,810

- v. Total exchange loss, including realized and unrealized arising from significant foreign exchange variation on the monetary items held by the Group for the three months ended September 30, 2019 and 2018, and nine months ended September 30, 2019 and 2018, amounted to \$101,598, \$155,598, \$167,631 and \$198,158, respectively.
- vi. Analysis of foreign currency market risk arising from significant foreign exchange variation:

Nine months ended September 30, 2019

Sensitivity analysis

Degree of variation	Effect on profit or loss	Effect on other comprehensive income
---------------------	--------------------------	--------------------------------------

(Foreign currency: functional currency)

Financial assets

Monetary items

USD:NTD	0.5%	15,377	-
JPY:NTD	0.5%	265	-
RMB:NTD	0.5%	3,380	-

Financial liabilities

Monetary items

USD:NTD	0.5%	24,750	-
JPY:NTD	0.5%	12,124	-
RMB:NTD	0.5%	12	-

Nine months ended September 30, 2018			
	Sensitivity analysis		
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	0.5%	21,382	-
JPY:NTD	0.5%	3,261	-
RMB:NTD	0.5%	1,530	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	0.5%	27,439	-
JPY:NTD	0.5%	20,674	-
EUR:NTD	0.5%	9	-

Price risk

- A. The Group's equity securities, which are exposed to price risk, are the held financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.
- B. The Group invests mainly in equity instruments issued by domestic companies. The equity's price will be affected by the uncertainty of the future value of the investment target. If the equity instrument price had increased/decreased by 1% with all other variables held constant, other comprehensive income classified as equity investment at fair value through other comprehensive income for the nine months ended September 30, 2019 and 2018 would have increased/decreased by \$1,860 and \$2,500, respectively.

Interest rate risk

The Group's main interest rate risk arises from borrowings with variable rates. If the borrowing interest rate had increased/decreased by 1% with all other variables held constant, net profit for the nine months ended September 30, 2019 and 2018 would have increased/decreased by \$43,898 and \$55,535, respectively.

(b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the contract cash flows of debt instruments stated at amortised cost, at fair value through profit or loss and at fair value through other comprehensive income.

- ii. The Group's concentration of credit risk, was related to the Group's five largest customers. The average credit period of sales of goods was 90 to 120 days. No interest was charged on trade receivables. The Group adopted a policy of only dealing with entities that are rated the equivalent of the investment grade or higher. Credit rating information used to rate the Group's major customers is obtained from other publicly available financial information or the Group's own trading records. The Group's exposure and the credit ratings of its counterparties are continuously monitored, and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee periodically.
- iii. When the trade parties have major financial difficulties, or overdue amount exists for period of time that will obviously not be recovered, it is deemed that a default has occurred.
- iv. The Group applies the simplified approach to provisions for expected credit losses prescribed by IFRS 9, which permits the use of a lifetime expected losses provision for all trade receivables. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience with the respective debtor and an analysis of the debtor's current financial position, adjusted for the general economic conditions of the industry in which the debtor operates and an assessment of both the current as well as the forecasted direction of economic conditions at the reporting date. As the Group's historical credit losses experience does not show significantly different loss patterns for different customer segments, the provision for losses based on the past due status of receivables is not further distinguished according to different segments of the Group's customer base. The Group's credit risk of other receivables is assessed individually. Impairment gains on other receivables that an impairment loss recognised in prior periods have recovered for the nine months ended September 30, 2019 is \$92,477. Impairment loss due to other receivables which were past due was \$0 for the nine months ended September 30, 2018.
- v. The following indicators are used to determine whether the credit impairment of debt instruments has occurred:
 - (i) It becomes probable that the issuer will enter bankruptcy or other financial reorganization due to their financial difficulties;
 - (ii) The disappearance of an active market for that financial asset because of financial difficulties;
 - (iii) Default or delinquency in interest or principal repayments;
 - (iv) Adverse changes in national or regional economic conditions that are expected to cause a default.

vi. The following table details (the loss allowance of trade receivables) based on the Group's provision matrix.

		Up to 30 days				
At September 30, 2019	Not past due	past due	31 to 60 days	61 to 90 days	91 to 180 days	Total
Expected loss rate	0%	0%	0%	0%	0%	
Total book value	\$ 3,153,268	\$ 143,290	\$ 210	\$ -	\$ 1,470	\$ 3,298,238

		Up to 30 days				
At December 31, 2018	Not past due	past due	31 to 60 days	61 to 90 days	91 to 180 days	Total
Expected loss rate	0%	0%	0%	0%	0%	
Total book value	\$ 4,394,899	\$ 4,459	\$ -	\$ -	\$ -	\$ 4,399,358

		Up to 30 days				
At September 30, 2018	Not past due	past due	31 to 60 days	61 to 90 days	91 to 180 days	Total
Expected loss rate	0%	0%	0%	0%	0%	
Total book value	\$ 3,833,410	\$ 17,193	\$ -	\$ -	\$ -	\$ 3,850,603

vii. Movements in relation to the Group applying the modified approach to provide (loss allowance for accounts receivable) is as follows:

	2019	2018
January 1	\$ 1,628	\$ -
Provision for impairment	6,385	-
Effects on exchange rate	(225)	-
September 30	\$ 7,788	\$ -

viii. For provisioned loss for the nine months ended September 30, 2019, the impairment losses arising from customers' contract amounts to \$6,385.

(c) Liquidity risk

- The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank loans and ensures compliance with loan covenants. The forecast considers that debt financing plan, debt clauses following, and financial ratio target which compare to internal balance sheet of the company. However, the Group breached certain terms of its long-term loan agreement during 2018. Refer to Note 6(15) for details.
- Group treasury invests surplus cash in interest bearing current accounts, check deposit, time deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts. As of September 30, 2019, December 31, 2018 and September 30, 2018, the Group held money market position of \$991,457, \$3,185,603 and \$3,467,916, respectively, that are expected to readily generate cash inflows for managing liquidity risk.
- The Group relies on bank loans as a significant source of liquidity, the Group had available unutilized short-term bank loan facilities as below:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Unsecured bank overdraft facility, reviewed annually			
Amount unused	\$ 4,804,585	\$ 12,284,861	\$ 11,492,410
Secured bank overdraft facility, reviewed annually			
Amount unused	342,225	-	-
	<u>\$ 5,146,810</u>	<u>\$ 12,284,861</u>	<u>\$ 11,492,410</u>

The Group is unable to use the bank credit line due to suspended account, refer to Note 12(4) for details.

iv. Liquidity and interest rate risk table for non-derivative financial liabilities

The following table details the Group's remaining contractual maturities for its non-derivative financial liabilities with agreed repayment periods. The table was drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

September 30, 2019

	<u>Less than 1 year</u>	<u>1 year to 5 years</u>	<u>Over 5 years</u>
<u>Non-derivative financial liabilities</u>			
Short-term borrowings	\$ 5,404,754	\$ -	\$ -
Notes payable	-	-	-
Accounts payable	1,554,477	-	-
Other payables	979,475	-	-
Lease liabilities	18,154	35,396	-
Long-term borrowings	2,791,699	1,992,972	-
(including current portion)			

December 31, 2018

	<u>Less than 1 year</u>	<u>1 year to 5 years</u>	<u>Over 5 years</u>
Short-term borrowings	\$ 5,479,881	\$ -	\$ -
Financial liabilities at fair value through profit or loss	2,681	-	-
Notes payable	156,037	-	-
Accounts payable	2,725,787	-	-
Other payables	1,076,211	-	-
Long-term borrowings	3,316,864	206,073	-
(including current portion)			

September 30, 2018

	<u>Less than 1 year</u>	<u>1 year to 5 years</u>	<u>Over 5 years</u>
Short-term borrowings	\$ 5,683,832	\$ -	\$ -
Notes payable	491,956	-	-
Accounts payable	2,626,969	-	-
Other payables	1,046,335	-	-
Long-term borrowings	3,942,747	-	-
(including current portion)			

(3) Fair value information

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

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

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

Level 3: Unobservable inputs for the asset or liability. The fair value of the Group's investment in equity investment without active market and investment property is included in Level 3.

B. Financial instruments not measured at fair value

The management considers that the carrying amounts of financial assets and financial liabilities not measured at fair value approximate their fair values or cannot be reliably measured.

C. Fair value of financial instruments measured at fair value on a recurring basis

(a) Fair value hierarchy

September 30, 2019

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at FVTPL				
Debt instruments	\$ -	\$ -	\$ 3,500	\$ 3,500
Financial assets at FVOCI				
Equity securities	-	-	185,975	185,975
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 189,475</u>	<u>\$ 189,475</u>
Financial liabilities at FVTPL				
Derivative instruments	<u>\$ -</u>	<u>\$ 135</u>	<u>\$ -</u>	<u>\$ 135</u>

December 31, 2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at FVTPL				
Equity securities	\$ 70,428	\$ -	\$ -	\$ 70,428
Debt instruments	-	-	2,500	2,500
Derivative instruments	-	11,597	-	11,597
Financial assets at FVOCI				
Equity securities	-	-	215,727	215,727
	<u>\$ 70,428</u>	<u>\$ 11,597</u>	<u>\$ 218,227</u>	<u>\$ 300,252</u>
Financial liabilities at FVTPL				
Short selling	<u>\$ 2,681</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,681</u>

September 30, 2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at FVTPL				
Equity instruments	\$ 67,856	\$ -	\$ -	\$ 67,856
Financial assets at FVOCI				
Equity instruments	-	-	250,000	250,000
	<u>\$ 67,856</u>	<u>\$ -</u>	<u>\$ 250,000</u>	<u>\$ 317,856</u>

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

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

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

- ii. The valuation of derivative financial instruments is based on valuation model widely accepted by market participants, such as present value techniques and option pricing models. Foreign exchange option and forward exchange contracts are usually valued based on the current spot exchange rate.
- iii. The fair value of financial instruments without active market is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the consolidated balance sheet date.

(c) Valuation techniques and inputs applied for the purpose of Level 2 fair value measurement

Financial Instruments	Listed shares
Derivatives-foreign exchange forward contracts	Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates.
Derivatives-foreign exchange option contracts	Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates.

D. For the nine months ended September 30, 2019 and 2018, there was no transfer between level 1 and level 2.

E. The following chart is the movement of Level 3:

	Nine months ended September 30, 2019	Nine months ended September 30, 2019
	Equity instrument	Debt instrument
At January 1	\$ 215,727	\$ 2,500
Acquired in the period	14,478	1,000
Sold in the period	(1,550)	-
Gains recognised in other comprehensive income (Recorded as unrealised gains (losses) on valuation of investments in equity instruments measured at fair value)	(42,680)	-
At September 30	<u>\$ 185,975</u>	<u>\$ 3,500</u>
Movement of unrealised gain or loss in profit or loss of assets and liabilities held as at September 30, 2019	<u>\$ -</u>	<u>\$ -</u>

	Nine months ended September 30, 2018	Nine months ended September 30, 2018
	Equity instrument	Debt instrument
At January 1	\$ -	\$ -
Acquired in the period	250,000	-
At September 30	<u>\$ 250,000</u>	<u>\$ -</u>
Movement of unrealised gain or loss in profit or loss of assets and liabilities held as at September 30, 2018 (Note)	<u>\$ -</u>	<u>\$ -</u>

Note: Recorded as non-operating income and expense.

- F. For the nine months ended September 30, 2019 and 2018, there was no transfer into or out from Level 3.
- G. Either the financial department segment or the external appraiser is in charge of valuation procedures for fair value measurements being categorised within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price.
- H. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

	Fair value at September 30, 2019	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity instruments					
Unlisted shares	\$ 144,888	Market comparable companies	Multiple price-book ratio	0.79~2.44	The higher the price-book ratio, the higher the fair value
Unlisted shares	26,609	Market comparable companies	Multiple price-book ratio	0.40~1.26	The higher the price-book ratio, the higher the fair value
Unlisted shares	14,478	Market comparable companies	Price to earnings ratio	13.33~21.11	The higher the price to earnings ratio, the higher the fair value
	Fair value at December 31, 2018	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity instruments					
Unlisted shares	\$ 188,667	Market comparable companies	Multiple price-book ratio	1.02~2.61	The higher the price-book ratio, the higher the fair value
Unlisted shares	27,060	Market comparable companies	Multiple price-book ratio	0.40~1.26	The higher the price-book ratio, the higher the fair value

	Fair value at September 30, 2018	Valuation technique	Significant unobservable input	Range (weighted average)	of inputs to fair value
Non-derivative equity instruments	\$ 250,000	Discounted cash flow	Long-term revenue growth rate	None	The higher the long-term revenue growth rate, the higher the fair value

- I. The Group has carefully assessed the valuation models and assumptions used to measure fair value. However, the use of different valuation models or assumptions may result in different measurement. The following is the effect of profit or loss or of other comprehensive income from financial assets and liabilities categorized within Level 3 if the inputs used to valuation models have changed:

		September 30, 2019 Recognised in other comprehensive income		
	Input	Change	Favourable change	Unfavourable change
Financial assets				
Equity instruments	Multiple price-book ratio	±5%	\$ 8,591	(\$ 8,516)
		December 31, 2018 Recognised in other comprehensive income		
	Input	Change	Favourable change	Unfavourable change
Financial assets				
Equity instruments	Multiple price-book ratio	±5%	\$ 10,893	(\$ 10,659)
		September 30, 2018 Recognised in other comprehensive income		
	Input	Change	Favourable change	Unfavourable change
Financial assets				
Equity instruments	Long-term revenue growth rate	±5%	\$ 14,500	(\$ 13,000)

(4) Strategic planning for maintaining the Group's ability to continue as a going concern

In January 2019, there was turmoil in the management of the Company. Each creditor bank suspended the credit line for protecting creditor's right. The Company held a meeting with all creditor banks to negotiate on April 11, 2019 and all creditor financial institutions agreed on July 26, 2019 that the initial expiry date of repayable principal is extended to March 31, 2020. For details of resolutions in relation to the debt negotiation meeting, please refer to Note 6(13). Because the borrowings maturing within 1 year have not been refinanced, and no capital was raised for repaying

the borrowings, the Company's debt-paying ability results in a significant uncertainty. The Group plans to adopt the following countermeasures to maintain the Group's ability to continue to operate:

- A. Obtaining a permission to refinance the amount of current credit line from all creditor banks and payoff the remaining borrowings matured within the debt negotiation period to settle debt and to restore normal credit and increase credit line.
- B. Assisting KSCMMT to increase capital from external sources.
- C. Continually seeking support from other banks for increasing the credit line.
- D. Negotiating with major customers to shorten the billing period for early payment.
- E. Cost reduction: The Group reviews, adjusts and improves its costs, expenses and skilled employees.
- F. Continually developing new customers and new applications to increase revenue, profit and cash inflows.

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

- A. Loans to others: Please refer to table 1.
- B. Provision of endorsements and guarantees to others: Please refer to table 2.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 3.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: None.
- E. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: Please refer to table 4.
- F. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 5.
- H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 6.
- I. Trading in derivative instruments undertaken during the reporting periods: Please refer to Notes 6(2) and 12(3).
- J. Significant inter-company transactions during the reporting periods: Please refer to table 7.

(2) Information on investees

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

(3) Information on investments in Mainland China

- A. Basic information: Please refer to table 9
- B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 10.

14. SEGMENT INFORMATION

(1) General information

The Group considers the business and formulates the strategies from a geographic perspective, therefore the management identifies the reportable segments with the same approach.

The Group has two reportable segments and the operation is located in Taiwan and Mainland China individually. Both are primarily engaged in manufacturing and selling optoelectronic material and components (polarizing film).

(2) Segment revenue and results

The segment information provided to the chief operating decision-maker for the reportable segments is as follows:

Three months ended September 30, 2019				
	Taiwan	Mainland China	Adjustment and write-off (Note)	Total
Revenue from external customers	\$ 1,083,603	\$ 2,360,570	\$ -	\$ 3,444,173
Inter-segment revenue	771,492	105,662	(877,154)	-
Total segment revenue	<u>\$ 1,855,095</u>	<u>\$ 2,466,232</u>	<u>(\$ 877,154)</u>	<u>\$ 3,444,173</u>
Segment income (loss)	<u>(\$ 215,012)</u>	<u>\$ 42,981</u>	<u>\$ 15,074</u>	<u>(\$ 156,957)</u>
Three months ended September 30, 2018				
	Taiwan	Mainland China	Adjustment and write-off (Note)	Total
Revenue from external customers	\$ 1,024,953	\$ 2,526,324	\$ -	\$ 3,551,277
Inter-segment revenue	1,478,318	24,533	(1,502,851)	-
Total segment revenue	<u>\$ 2,503,271</u>	<u>\$ 2,550,857</u>	<u>(\$ 1,502,851)</u>	<u>\$ 3,551,277</u>
Segment income (loss)	<u>\$ 196,258</u>	<u>(\$ 65,117)</u>	<u>(\$ 2,919)</u>	<u>\$ 128,222</u>
Nine months ended September 30, 2019				
	Taiwan	Mainland China	Adjustment and write-off (Note)	Total
Revenue from external customers	\$ 3,247,813	\$ 7,931,980	\$ -	\$ 11,179,793
Inter-segment revenue	2,783,269	563,611	(3,346,880)	-
Total segment revenue	<u>\$ 6,031,082</u>	<u>\$ 8,495,591</u>	<u>(\$ 3,346,880)</u>	<u>\$ 11,179,793</u>
Segment income (loss)	<u>(\$ 655,549)</u>	<u>\$ 303,207</u>	<u>\$ 50,275</u>	<u>(\$ 302,067)</u>

Nine months ended September 30, 2018

			Adjustment and write-off	
	Taiwan	Mainland China	(Note)	Total
Revenue from external customers	\$ 2,919,645	\$ 5,890,009	\$ -	\$ 8,809,654
Inter-segment revenue	<u>3,212,041</u>	<u>241,076</u>	(3,453,117)	-
Total segment revenue	<u>\$ 6,131,686</u>	<u>\$ 6,131,085</u>	<u>(\$ 3,453,117)</u>	<u>\$ 8,809,654</u>
Segment income (loss)	<u>(\$ 159,692)</u>	<u>(\$ 413,774)</u>	<u>\$ 41,923</u>	<u>(\$ 531,543)</u>

Note: Refer to the internal revenue write-offs.

(3) Reconciliation for segment income (loss)

The total amounts and other significant disclosures in relation to the reportable segments mentioned in item (2) above are in agreement with those presented as related corresponding items in the Group's financial statements and are measured in a manner consistent with those thereon.

Cheng Mei Materials Technology Corporation and subsidiaries
Loans to others
Nine months ended September 30, 2019

Table 1
Expressed in thousands of NTD

No. (Note 1)	Materials	Borrower	General ledger account	Is a related party	Maximum outstanding balance during Nine months ended September 30, 2019	Balance at September 30, 2019	Actual amount drawn down	Interest rate	Nature of loan	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral		Limit on loans granted to a single party (Note 2)	Ceiling on total loans granted (Note 3)	Footnote
													Item	Value			
0	Cheng Mei Materials Technology Co., Ltd.	CM Visual Technology Corporation	Other receivables - related parties	Yes	\$ 108,387	\$ 92,637	\$ 92,637	1.18%~4.16%	Business relationship	\$ 133,492	-	\$ -	None	\$ -	133,492	\$ 5,806,879	Notes 2
0	Cheng Mei Materials Technology Co., Ltd.	Kunshan Chimei Materials Technology Co., Ltd.	Other receivables - related parties	Yes	-	-	221,687	-	Business relationship	931,593	-	-	None	-	931,593	5,806,879	Notes 2, 8
1	Kunshan Chimei Materials Technology Co., Ltd.	Kunshan Chimei Materials Trading Corp.	Other receivables - related parties	Yes	228,800	-	-	4.35%	Short-term financing	-	Operating capital	-	None	-	2,782,820	4,174,229	Note 3
2	Kunshan Chimei Materials Trading Corp.	Hangzhou Rong Jie Trading Co., Ltd.	Other receivables	No	121,099	-	-	-	Business relationship	287,949	-	-	None	-	-	-	Notes 4, 5, 6
2	Kunshan Chimei Materials Trading Corp.	Kunshan Chimei Materials Technology Co., Ltd.	Other receivables - related parties	Yes	130,500	130,500	130,500	4.35%	Short-term financing	-	Operating capital	-	None	-	95,360	143,040	Note 4
2	Kunshan Chimei Materials Trading Corp.	Xi'an Jinyachongtai New Materials Technology Co., Ltd.	Other receivables - related parties	Yes	2,256	-	-	4.35%	Short-term financing	-	Operating capital	-	None	-	95,360	143,040	Note 4
2	Kunshan Chimei Materials Trading Corp.	Zhejiang Zheng Jie Trading Co., Ltd.	Other receivables - related parties	Yes	270,459	-	-	-	Business relationship	534,766	-	-	None	-	-	-	Notes 4, 5, 6
3	Ningbo Cheng Mei Materials Technology Co., Ltd.	Kunshan Chimei Materials Technology Co., Ltd.	Other receivables - related parties	Yes	-	-	181,818	-	Business relationship	312,422	-	-	None	-	312,422	312,422	Notes 7, 8

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

(1) The Company is '0'.

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

Note 2: According to the Company's "Procedures for Provision of Loans", when nature of the loan is related to business transactions, the ceiling on total loans granted shall no more than 60% of net assets in the latest financial statements of the Company; the limit on loans granted to a single party shall no more than the amount of business transactions occurred between the creditor and borrower in the latest year.

Note 3: According to the Kunshan Chimei Materials Technology Co., Ltd.'s "Procedures for Provision of Loans", limit on loans to a single party ceiling on total loans is 40% of the Kunshan Chimei Materials Technology Co., Ltd.'s net assets. Ceiling on total loans is 60% of the Kunshan Chimei Materials Technology Co., Ltd.'s net asset.

Note 4: According to the Kunshan Chimei Materials Trading Corp.'s "Procedures for Provision of Loans", loans are limited to Kunshan Chimei Materials Trading Corp.'s and wholly-owned subsidiaries, and do not be loaned to others. Limit on a single party ceiling on loans to total loans is 40% of the Kunshan Chimei Materials Trading Corp.'s net assets, ceiling on total loan is 60% of the Kunshan Chimei Materials Trading Corp.'s net assets.

Note 5: Kunshan Chimei Materials Trading Corp. and the companies are traded by triangle trade, and the amount of business transactions is calculated based on the total revenue.

Note 6: This is the summation of accounts receivables and the advance payment of inventory which resulted from the triangular trade conducted in Kunshan Chimei Materials Trading Corp. The group regarded it as a loan to the companies with business relationship.

Note 7: According to the Ningbo Cheng Mei Materials Technology Co., Ltd.'s "Procedures for Provision of Loans", when nature of the loan is related to business transactions, the ceiling on total loans granted shall no more than 40% of net assets in the latest financial statements of the Ningbo Cheng Mei Materials Technology Co., Ltd.; the limit on loans granted to a single party shall no more than the amount of business transactions occurred between the creditor and borrower in the latest year.

Note 8: The amount is the accounts receivable due from related parties that is past due a certain period of time over the normal credit term and is the other receivables transferred from loans granted based on the assessment.

Cheng Mei Materials Technology Corporation and subsidiaries
Provision of endorsements and guarantees to others
Nine months ended September 30, 2019

Expressed in thousands of NTD

Table 2

Number (Note 1)	Endorser/ guarantor	Party being endorsed/guaranteed		Relationship with the endorser/ guarantor (Note 2)	Limit on endorsements/ guarantees provided for a single party	Maximum outstanding endorsement/ guarantee amount as of September 30, 2019	Outstanding endorsement/ guarantee amount at September 30, 2019	Actual amount drawn down	Amount of endorsements/ guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company	Ceiling on total amount of endorsements/ guarantees provided	Provision of endorsements/ guarantees by parent company to subsidiary	Provision of endorsements/ guarantees by subsidiary to parent company	Provision of endorsements/ guarantees to the party in Mainland China	Footnote
		Company name	Cheng Hui Trading Co., Ltd.		\$	\$	\$	\$	\$	\$	\$	Y	N	N	Note
0	Cheng Mei Materials Technology Corporation	Cheng Hui Trading Co., Ltd.	4		\$ 4,839,066	\$ 1,241,600	\$ 1,241,600	\$ -	\$ -	12.83	\$ 9,678,131	Y	N	N	Note 3,4
0	Cheng Mei Materials Technology Corporation	Kunshan Chimei Materials Technology Co., Ltd.	6		4,839,066	3,371,433	3,371,433	2,511,264	-	34.84	9,678,131	Y	N	Y	Note 3,4
1	Kunshan Chimei Materials Technology Co., Ltd.	Kunshan Chimei Materials Trading Corp.	4		4,174,229	1,740,000	870,000	51,235	-	12.51	6,957,049	N	N	Y	Note 5,6

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

(1) The Company is '0'

(2) The subsidiaries are numbered in order starting from '1'. The same Company will have the same number.

Note 2: Relationship between the endorser/guarantor and the party being endorsed/guaranteed is classified into the following seven categories:

(1) Having business relationship.

(2) The endorser/guarantor parent company owns directly or indirectly more than 50% voting shares of the endorsed/guaranteed subsidiary.

(3) The endorsed/guaranteed company owns directly and indirectly more than 50% voting shares of the endorser/guarantor parent company.

(4) The endorser/guarantor parent company owns directly and indirectly more than 90% voting shares of the endorsed/guaranteed company.

(5) Mutual guarantee of the trade as required by the construction contract.

(6) Due to joint venture, each shareholder provides endorsements/guarantees to the endorsed/guaranteed company in proportion to its ownership.

(7) Joint guarantee of the performance guarantee for pre-sold home sales contract as required under the Consumer Protection Act.

Note 3: In accordance with the Group's related regulations, the limit on endorsements and guarantees for any single entity is 50% of the Company's net worth based on the latest financial statements.

Note 4: In accordance with the Group's related regulations, the limit on accumulated amount of transactions of endorsements and guarantees is the Company's net worth based on the latest financial statements.

Note 5: In accordance with KSCMMT's related regulations, the limit of endorsements and guarantees for any single entity is 60% of the KSCMMT's net worth based on the latest financial statements.

Note 6: In accordance with KSCMMT's related regulations, the limit of endorsements and guarantees for total accumulated amount is KSCMMT's net worth based on the latest financial statements.

Cheng Mei Materials Technology Corporation and subsidiaries
Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)
September 30, 2019

Table 3

Expressed in thousands of NTD

Securities held by	Relationship with the securities issuer	General ledger account	As of September 30, 2019				Footnote
			Number of shares	Book value	Ownership (%)	Fair value	
Cheng Mei Materials Technology Corporation	None	Non-current financial assets at fair value through other comprehensive income	16,667	\$ 144,888	7.10%	\$ 144,888	-
Cheng Hui Investment Co., Ltd.	None	Non-current financial assets at fair value through other comprehensive income	381	14,478	Note	14,478	-
Cheng Hui Investment Co., Ltd.	None	Non-current financial assets at fair value through other comprehensive income	2,500	11,275	Note	11,275	-
Cheng Hui Trading Co., Ltd.	None	Non-current financial assets at fair value through other comprehensive income	3,400	15,334	Note	15,334	-

Note: The shareholding ratio is less than 5% and therefore will not be disclosed.

Cheng Mei Materials Technology Corporation and subsidiaries

Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more

Nine months ended September 30, 2019

Table 4

If the counterparty is a related party, information as to the last transaction of the real estate is disclosed below:										Expressed in thousands of NTD (Except as otherwise indicated)	
Real estate acquired by	Real estate acquired	Date of the event	Transaction amount	Status of payment	Counterparty	Relationship			Reason for acquisition of real estate and status of the real estate		
						Relationship with the counterparty	Original owner who sold the real estate to the counterparty	Relationship between the original owner and the acquirer		Date of the original transaction	
Kunshan Chimei Technology Co., Ltd.	Electrical equipment of clean room and warehouse	2018/10/30	RMB 146,966 thousands	RMB 64,508 thousands	CTCI Shanghai Co., Ltd.	None	None	None	None	Based on the price specified in the order	Production line and warehouse N/A
								Amount			Other commitments

Cheng Mei Materials Technology Corporation and subsidiaries

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

Nine months ended September 30, 2019

Table 5

Expressed in thousands of NTD

Differences in transaction terms compared to third party												
Transaction						Notes/accounts receivable (payable)						
Purchaser/seller			Relationship with the counterparty	Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	Footnote
Cheng Mei Materials Technology Co., Ltd.	Ningbo Cheng Mei Materials Technology Co., Ltd.	Subsidiary	Sales	(\$ 2,000,999)	(34%)	-	-	-	-	\$ 434,447	22%	
Cheng Mei Materials Technology Co., Ltd.	Kunshan Chimei Materials Technology Co., Ltd.	Subsidiary	Sales	(735,305)	(12%)	-	-	-	-	453,044	26%	
Cheng Mei Materials Technology Co., Ltd.	Innolux Corporation	Related party	Sales	(1,066,397)	(18%)	-	-	-	-	455,929	23%	
Cheng Mei Materials Technology Co., Ltd.	Foshan Innolux Optoelectronics Ltd.	Related party	Sales	(345,503)	(6%)	-	-	-	-	218,295	11%	
Ningbo Cheng Mei Materials Technology Co., Ltd.	Foshan Innolux Optoelectronics Ltd.	Brother-Sister	Sales	(170,658)	(6%)	-	-	-	-	76,444	9%	
Ningbo Cheng Mei Materials Technology Co., Ltd.	Ningbo Innolux Optoelectronics Ltd.	Related party	Sales	(828,324)	(30%)	-	-	-	-	438,284	43%	
Ningbo Cheng Mei Materials Technology Co., Ltd.	Foshan Innolux Optoelectronics Ltd.	Related party	Sales	(193,872)	(7%)	-	-	-	-	96,286	10%	
Ningbo Cheng Mei Materials Technology Co., Ltd.	Ningbo Innolux Display Ltd.	Related party	Sales	(198,083)	(7%)	-	-	-	-	116,894	12%	
Kunshan Chimei Materials Technology Co., Ltd.	Kunshan Chimei Materials Trading Corp.	Subsidiary	Sales	(279,148)	(5%)	-	-	-	-	86,839	4%	
Kunshan Chimei Materials Technology Co., Ltd.	Shengzhen SAPO photoelectric Co., Ltd.	Related party	Sales	(375,937)	(7%)	-	-	-	-	154,932	8%	
Cheng Mei Materials Technology Co., Ltd.	Ningbo Cheng Mei Materials Technology Co., Ltd.	Subsidiary	Purchases	108,018	2%	-	-	-	-	(23,116)	(4%)	
Kunshan Chimei Materials Technology Co., Ltd.	Shengzhen SAPO photoelectric Co., Ltd.	Related party	Purchases	494,131	11%	-	-	-	-	(253,856)	(13%)	

Cheng Mei Materials Technology Corporation and subsidiaries

Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more
Nine months ended September 30, 2019

Table 6

Expressed in thousands of NTD

Creditor	Counterparty	Relationship with the counterparty	Balance as at September 30, 2019		Turnover rate		Overdue receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts
			Accounts receivable	\$ 434,447	3.19	\$	Amount	Action taken		
Cheng Mei Materials Technology Corporation	Ningbo Cheng Mei Materials Technology Co., Ltd.	Subsidiary	Accounts receivable	453,044	2.85	399,966	Dunning	-	219,536	\$ -
Cheng Mei Materials Technology Corporation	Kunshan Chimei Materials Technology Co., Ltd.	Subsidiary	Other receivable	263,473	-	-	-	-	-	-
Cheng Mei Materials Technology Corporation	Kunshan Chimei Materials Technology Co., Ltd.	Subsidiary	Accounts receivable	455,929	2.28	-	-	-	-	-
Cheng Mei Materials Technology Corporation	Innolux Corporation	Related party	Accounts receivable	218,295	2.34	-	-	-	-	-
Cheng Mei Materials Technology Corporation	Foshan Innolux Optoelectronics Ltd	Related party	Other receivable	181,818	-	-	-	-	-	-
Ningbo Cheng Mei Materials Technology Co., Ltd.	Kunshan Chimei Materials Technology Co., Ltd.	Brother-Sister	Accounts receivable	438,284	2.07	-	-	-	-	-
Ningbo Cheng Mei Materials Technology Co., Ltd.	Ningbo Innolux Optoelectronics Ltd	Related party	Accounts receivable	116,894	1.71	-	-	-	-	-
Ningbo Cheng Mei Materials Technology Co., Ltd.	Ningbo Innolux Display Ltd	Related party	Accounts receivable	154,932	3.41	-	-	-	67,185	-
Kunshan Chimei Materials Technology Co., Ltd.	Shengzhen SAPO photoelectric Co., Ltd.	Related party	Other receivable	130,500	-	-	-	-	-	-
Kunshan Chimei Materials Trading Corp.	Kunshan Chimei Materials Technology Co., Ltd.	Brother-Sister								

Cheng Mei Materials Technology Corporation and subsidiaries
Significant inter-company transactions during the reporting periods
Nine months ended September 30, 2019

Table 7

Expressed in thousands of NTD

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction		
				General ledger account	Amount	Percentage of consolidated total operating revenues or total assets (Note 4)
0	Cheng Mei Materials Technology Corporation	Ningbo Cheng Mei Materials Technology Co., Ltd.	1	Sales	\$ 2,000,999	18%
0	Cheng Mei Materials Technology Corporation	Ningbo Cheng Mei Materials Technology Co., Ltd.	1	Accounts receivable	434,447	2%
0	Cheng Mei Materials Technology Corporation	CM Visual Technology Corporation	1	Sales	41,092	0%
0	Cheng Mei Materials Technology Corporation	CM Visual Technology Corporation	1	Accounts receivable	20,453	0%
0	Cheng Mei Materials Technology Corporation	CM Visual Technology Corporation	1	Other receivable	92,637	0%
0	Cheng Mei Materials Technology Corporation	Kunshan Chimei Materials Technology Co., Ltd.	1	Sales	735,305	7%
0	Cheng Mei Materials Technology Corporation	Kunshan Chimei Materials Technology Co., Ltd.	1	Other revenue	46,428	0%
0	Cheng Mei Materials Technology Corporation	Kunshan Chimei Materials Technology Co., Ltd.	1	Accounts receivable	453,044	2%
0	Cheng Mei Materials Technology Corporation	Kunshan Chimei Materials Technology Co., Ltd.	1	Other receivable	263,473	1%
0	Cheng Mei Materials Technology Corporation	Kunshan Chimei Materials Technology Co., Ltd.	1	Endorsement / Guarantee	3,371,433	13%
0	Cheng Mei Materials Technology Corporation	Cheng Hui Trading Co., Ltd.	1	Other receivable	206,000	1%
0	Cheng Mei Materials Technology Corporation	Cheng Hui Investment Co., Ltd.	1	Other receivable	146,870	1%
0	Cheng Mei Materials Technology Corporation	Cheng Hui Trading Co., Ltd.	1	Endorsement / Guarantee	1,241,600	5%
1	Ningbo Cheng Mei Materials Technology Co., Ltd.	Cheng Mei Materials Technology Corporation	2	Sales	108,018	0%
1	Ningbo Cheng Mei Materials Technology Co., Ltd.	Cheng Mei Materials Technology Corporation	2	Accounts receivable	23,116	0%
1	Ningbo Cheng Mei Materials Technology Co., Ltd.	Kunshan Chimei Materials Technology Co., Ltd.	3	Sales	170,658	2%
1	Ningbo Cheng Mei Materials Technology Co., Ltd.	Kunshan Chimei Materials Technology Co., Ltd.	3	Accounts receivable	76,444	0%
1	Ningbo Cheng Mei Materials Technology Co., Ltd.	Kunshan Chimei Materials Technology Co., Ltd.	3	Other receivable	181,818	1%
2	Kunshan Chimei Materials Technology Co., Ltd.	Kunshan Chimei Materials Trading Corp.	3	Sales	279,148	2%
2	Kunshan Chimei Materials Technology Co., Ltd.	Kunshan Chimei Materials Trading Corp.	3	Accounts receivable	86,839	0%
2	Kunshan Chimei Materials Technology Co., Ltd.	Kunshan Chimei Materials Trading Corp.	3	Endorsement / Guarantee	870,000	3%
3	Kunshan Chimei Materials Trading Corp.	Kunshan Chimei Materials Technology Co., Ltd.	3	Other receivable	130,500	1%

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

(1)Parent company is '0'.

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

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

(1)Parent company to subsidiary.

(2)Subsidiary to parent company.

(3)Subsidiary to subsidiary.

Note 3: Prices and terms were determined in accordance with mutual agreements.

Note 4: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.

Cheng Mei Materials Technology Corporation and subsidiaries
Information on investees (not including investees in Mainland China)

Nine months ended September 30, 2019

Table 8

Expressed in thousands of NTD

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at September 30, 2019		Book value	Net profit (loss) of the investee for the nine months ended September 31, 2019		Investment income (loss) recognised by the Company for nine months ended September 30, 2019	Footnote
				Balance as at September 30, 2019	Balance as at December 31, 2018	Number of shares	Ownership (%)		(Note 1)			
Cheng Mei Materials Technology Corporation	Cheng Mei Materials Technology (SAMOA) Corporation	Samoa	Investment company	\$ 431,482	\$ 431,482	13,300	100%	\$ 776,244	\$ 25,829	\$	25,829	Note 1
Cheng Mei Materials Technology Corporation	CM Visual Technology Corporation	Taiwan	Electronic component manufacture and sale	205,000	205,000	20,500	68.33%	31,300	(46,705)	(	35,438)	Note 2
Cheng Mei Materials Technology Corporation	Chi Mei Materials Technology Investment Co., Ltd.	Samoa	Investment company	4,447,763	4,447,763	146,500	100%	3,415,643	(56,440)	(	56,440)	Note 1
Cheng Mei Materials Technology Corporation	Cheng Hui Investment Co., Ltd.	Taiwan	Investment company	5,000	350,000	500	100%	(50,437)	10,306		10,306	Note 2
Cheng Mei Materials Technology Corporation	Cheng Hui Trading Co., Ltd.	Taiwan	Trading company	5,000	1,001,000	500	100%	(143,760)	20,671	(	20,671)	Note 2
Cheng Hui Investment Co., Ltd.	CM Visual Technology Corporation	Taiwan	Electronic component manufacture and sale	33,000	33,000	3,300	11%	4,439	(46,705)	(	Note 3	Note 2
Cheng Hui Trading Co., Ltd.	Mao Fong Group Co., Ltd.	Samoa	Investment company	30,870	-	1,000	100%	29,223	(56)	(	Note 3	Note 2

Note 1: The financial statements that are reviewed and attested by R.O.C. parent company's CPA.

Note 2: It is calculated based on the investees' financial statements for the same reporting period which were not reviewed by other independent accountants.

Note 3: According to the regulations, the amount recognised of investment profit or loss of the Company could exempt from disclosing.

Cheng Mei Materials Technology Corporation and subsidiaries
Information on investments in Mainland China
Nine months ended September 30, 2019

Table 9

Expressed in thousands of NTD

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Mainland China as of January 1, 2019	Amount remitted from Taiwan to Mainland China /Amount remitted back to Taiwan for nine months ended September 30, 2019	Accumulated amount of remittance from Taiwan to Mainland China as of September 30, 2019	Net income of investee as of September 30, 2019	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for nine months ended September 30, 2019	Book value of investments in Mainland China as of September 30, 2019	Accumulated amount of investment income remitted back to Taiwan as of September 30, 2019	Footnote
Ningbo Cheng Mei Materials Technology Co., Ltd.	Electronic component manufacture and sale	\$ 573,963	2	\$ 412,832	\$ -	\$ 412,832	\$ 25,828	100.00	\$ 21,228	\$ 781,055	\$ -	Note 2
Kunshan Chimei Materials Technology Co., Ltd.	Electronic component manufacture and sale	8,372,896	2	4,547,360	-	4,547,360	(114,022)	49.50	(56,441)	3,443,739	-	Note 2
Kunshan Chimei Materials Trading Corp.	Trading	217,500	2	-	-	-	85,121	49.50	42,135	118,008	-	Note 2
Xi'an Jinyahongtai New Materials Technology Co., Ltd.	Electronic component manufacture and sale	8,918	2	-	-	-	(1,947)	49.50	(964)	1,757	-	Note 3
Kunshan Shin Mao Fong International Trading Co., Ltd.	Trading	31,040	2	-	31,040	-	(56)	100.00	(56)	29,236	-	Note 3

Note 1: Investment methods are classified into the following three categories; fill in the number of category each case belongs to:

(1) Directly invest in a company in Mainland China.

(2) Through investing in Cheng Mei Materials Technology (Samoa) Corporation, Chi Mei Materials Technology Investment Co., Ltd and Mao Fong Group Co., LTD. in the third area, which then invested in the investee in Mainland China.

(3) Others

Note 2: The investment profit or loss was recognised basing on the financial statements that were reviewed and attested by R.O.C. parent company's CPA.

Note 3: It is calculated based on the investees' financial statements for the same reporting period which were not reviewed by other independent accountants.

Note 4: The numbers in this table are expressed in New Taiwan dollars. Amount denominated in foreign currencies related to income and expenses in this table are re-translated at average exchange rates of NTD 30.98 to US\$1 from January 1, 2019 to June 30, 2019, otherwise are re-translated at the exchange rates of NTD 31.06 to US\$1 prevailing at the end of the financial reporting period.

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of June 30, 2019	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Ministry of Investment Commission of MOEA (Note 5)
Cheng Mei Materials Technology Corporation	\$4,991,232	\$4,991,232	\$7,928,087

Note 5: The Ceiling is calculated based on 60% of the consolidated net value.

Cheng Mei Materials Technology Corporation and subsidiaries

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

Nine months ended September 30, 2019

Table 10

Expressed in thousands of NTD

Investee in Mainland China	Sale (purchase)		Property transaction		Maximum outstanding Accounts receivable (payable)		Provision of endorsements/guarantees or collaterals		Financing			
	Amount	%	Amount	%	Balance at September 30, 2019	%	Balance at September 30, 2019	Purpose	Maximum balance during the nine months ended September 30, 2019	Balance at September 30, 2019	Interest rate	Interest during the nine months ended ended ended 30, 2019
												Others
Ningbo Cheng Mei Materials Technology Co., Ltd.	\$ 2,000,999	34%	\$ -	-	\$ 434,447	22%	\$ -	-	\$ -	\$ -	-	-
Ningbo Cheng Mei Materials Technology Co., Ltd.	(108,018)	2%	-	-	(23,116)	4%	-	-	-	-	-	-
Kunshan Chimei Materials Technology Co., Ltd.	735,305	12%	-	-	453,044	26%	3,371,433	Endorsement / Guarantee	221,687	221,687	-	-
												Other revenue \$ 46,428
												Other receivables 263,473