

**CHENG MEI MATERIALS TECHNOLOGY
CORPORATION
(FORMERLY CHI MEI MATERIALS
TECHNOLOGY CORPORATION) AND
SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REVIEW REPORT OF INDEPENDENT
ACCOUNTANTS
MARCH 31, 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 March 31, 2019, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the three 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\$623,233 thousand, constituting 2.20% of the consolidated total assets, and total liabilities of NT\$41,012 thousand, constituting 0.29% of the consolidated total liabilities as at March 31, 2019 and total comprehensive income of NT\$12,304 thousand, constituting 9.05% of the consolidated total comprehensive income for the three months then ended.

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 March 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the three 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 for operating as a going concern

The Group has a short-term revolving capital difficulty as the bank facility was suspended by the bank and cannot be used as described in Note 12(4) of the consolidated financial statements. The implementation of debt negotiation procedures has been initiated by the Board of Directors, however, there may be a significant uncertainty for the Group to continue as a going concern. The qualified conclusion has not been modified to include the going concern issue.

Other matter

The Group's consolidated financial statements for the three months ended March 31, 2018 before restatement were reviewed by other independent accountants who expressed an unqualified conclusion on those statements dated May 4, 2018. As described in Note 6(19), the Group has elected to restate the aforementioned financial statements. The independent accountants who previously conducted the review did not express a conclusion on the restated financial statements. In addition, we were not engaged to review the restated consolidated financial statements of the Group for the three months ended March 31, 2018, which are presented here for reference purpose only.

Liu, Tzu-Meng

Wu, Chien-Chih

For and on behalf of PricewaterhouseCoopers, Taiwan
May 13, 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 consolidated balance sheets as of March 31, 2019 and 2018 are reviewed, not audited)

			March 31, 2019		December 31, 2018		March 31, 2018				
Assets			Notes	AMOUNT	%	AMOUNT	%	AMOUNT	%		
Current assets											
1100	Cash and cash equivalents	6(1)	\$	1,559,138	5	\$	3,105,426	11	\$	4,401,949	17
1110	Current financial assets at fair value through profit or loss	6(2)		3,815	-		84,525	-		1,614	-
1136	Current financial assets at amortised cost	6(4) and 8		1,599,701	6		1,313,826	5		196,179	1
1150	Notes receivable, net	6(5) and 8		225,910	1		186,620	1		232,350	1
1160	Notes receivable, net - related parties	6(5) and 7		-	-		18,806	-		-	-
1170	Accounts receivable, net	6(5)		4,386,861	15		4,199,939	16		3,130,298	12
1180	Accounts receivable, net - related parties	6(5) and 7		211,139	1		197,791	1		266	-
1200	Other receivables	6(7)		58,644	-		114,977	1		144,977	1
1210	Other receivables - related parties	7		-	-		88,256	-		12,441	-
1220	Current tax assets			1,188	-		1,230	-		-	-
130X	Inventories	6(6)		3,291,796	12		3,883,297	14		2,589,579	10
1410	Prepayments			853,963	3		259,968	1		917,337	4
1479	Other current assets	6(11)		565,941	2		43,882	-		116,941	-
11XX	Total current assets			12,758,096	45		13,498,543	50		11,743,931	46
Non-current assets											
1517	Non-current financial assets at fair value through other comprehensive income	6(3) and 7		229,754	1		215,727	1		-	-
1600	Property, plant and equipment	6(8) and 8		13,674,951	48		10,693,045	39		11,461,590	45
1755	Right-of-use assets	6(9)		312,211	1		-	-		-	-
1780	Intangible assets	6(10)		80,520	-		91,846	-		89,004	1
1840	Deferred tax assets			89,081	1		112,646	-		56,552	-
1915	Prepayments for equipment	7		337,744	1		1,567,878	6		933,794	4
1990	Other non-current assets	6(11)		835,564	3		1,054,232	4		1,085,568	4
15XX	Total non-current assets			15,559,825	55		13,735,374	50		13,626,508	54
1XXX	Total assets		\$	28,317,921	100	\$	27,233,917	100	\$	25,370,439	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 consolidated balance sheets as of March 31, 2019 and 2018 are reviewed, not audited)

	Liabilities and Equity	Notes	March 31, 2019		December 31, 2018		March 31, 2018	
			AMOUNT	%	AMOUNT	%	AMOUNT	%
	Current liabilities							
2100	Short-term bank loans	6(12)	\$ 5,696,532	20	\$ 5,441,325	20	\$ 5,729,143	23
2120	Current financial liabilities at fair value through profit or loss	6(2)	-	-	2,681	-	-	-
2130	Contract liabilities	6(19) and 7	5,693	-	33,760	-	650	-
2150	Notes payable		-	-	156,037	-	46,702	-
2170	Accounts payable		2,099,274	7	2,350,148	9	1,707,183	7
2180	Accounts payable - related parties	7	412,948	2	375,639	1	-	-
2200	Other payables	6(13)	1,005,482	4	1,076,211	4	1,053,526	4
2230	Current tax liabilities		150	-	147	-	2,305	-
2280	Current lease liabilities		17,013	-	-	-	-	-
2320	Current portion of long-term bank loans	6(14)	2,879,694	10	3,170,244	12	3,623,379	14
2399	Other current liabilities	6(30)	12,693	-	23,360	-	19,066	-
21XX	Total current liabilities		<u>12,129,479</u>	<u>43</u>	<u>12,629,552</u>	<u>46</u>	<u>12,181,954</u>	<u>48</u>
	Non-current liabilities							
2540	Long-term bank loans	6(14)	1,610,136	5	202,996	1	-	-
2570	Deferred tax liabilities		22,674	-	22,674	-	-	-
2580	Lease liabilities - non-current		39,167	-	-	-	-	-
2645	Guarantee deposits		49	-	49	-	173	-
2670	Other non-current liabilities	6(30)	195,681	1	193,877	1	210,223	1
25XX	Total non-current liabilities		<u>1,867,707</u>	<u>6</u>	<u>419,596</u>	<u>2</u>	<u>210,396</u>	<u>1</u>
2XXX	Total liabilities		<u>13,997,186</u>	<u>49</u>	<u>13,049,148</u>	<u>48</u>	<u>12,392,350</u>	<u>49</u>
	Equity attributable to the owners of the company							
	Share capital							
3110	Common shares	6(16)	6,657,285	23	6,657,285	24	6,657,285	26
	Capital surplus							
3200	Capital surplus	6(17)	851,689	3	851,689	3	860,482	4
	Retained earnings	6(18)						
3310	Legal reserve		1,085,124	4	1,085,124	4	1,085,124	4
3320	Special reserve		246,224	1	246,224	1	202,973	1
3350	Unappropriated retained earnings		1,953,447	7	2,091,473	8	2,450,910	10
	Other equity interest							
3400	Other equity interest		(341,011)	(1)	(447,530)	(2)	(198,916)	(1)
31XX	Total equity attributable to owners of the Company		<u>10,452,758</u>	<u>37</u>	<u>10,484,265</u>	<u>38</u>	<u>11,057,858</u>	<u>44</u>
36XX	Non-controlling interest	4(3) and 6(30)	<u>3,867,977</u>	<u>14</u>	<u>3,700,504</u>	<u>14</u>	<u>1,920,231</u>	<u>7</u>
3XXX	Total equity		<u>14,320,735</u>	<u>51</u>	<u>14,184,769</u>	<u>52</u>	<u>12,978,089</u>	<u>51</u>
	Significant contingent liabilities and unrecognized contract commitments	9						
	Significant events after the balance sheet date	11						
3X2X	Total liabilities and equity		<u>\$ 28,317,921</u>	<u>100</u>	<u>\$ 27,233,917</u>	<u>100</u>	<u>\$ 25,370,439</u>	<u>100</u>

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 COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars, except for loss per share amount)
(UNAUDITED)

			Three months ended March 31			
			2019		2018 (Restated)	
Items	Notes		AMOUNT	%	AMOUNT	%
4000 Net sales	6(19) and 7	\$	4,024,327	100	\$ 2,499,643	100
5000 Cost of sales	6(6)(10)(19)(23)(24) and 7	(	3,940,674	98	(2,613,633)	105
5900 Gross profit (loss)			83,653	2	113,990	5
Operating expenses	6(10)(23)(24) and 12(2)					
6100 Selling and marketing expenses		(	58,465	1	(62,319)	2
6200 General and administrative expenses		(	103,777	3	(66,723)	3
6300 Research and development expenses		(	102,320	3	(107,837)	4
6450 Impairment loss (impairment gain and reversal of impairment loss) determined in accordance with IFRS 9			68,480	2	-	-
6000 Total operating expenses		(	196,082	5	(236,879)	9
6900 Loss from operations		(	112,429	3	(350,869)	14
Non-operating income and expenses						
7010 Other income	6(20)		49,857	1	7,210	-
7020 Other gains and losses	6(2)(21)		113,112	3	19,145	1
7050 Finance costs	6(8)(22)	(	83,483	2	(63,451)	2
7000 Total non-operating income and expenses			79,486	2	37,096	1
7900 Loss before income tax		(	32,943	1	(387,965)	15
7950 Income tax benefit	6(25)	(	26,516	1	(2,287)	-
8200 Loss for the period		(\$	59,459	2	(\$ 390,252)	15
Other comprehensive income (loss)						
Items that may not be reclassified subsequently to profit or loss						
8316 Unrealised losses from investments in equity instruments measured at fair value through other comprehensive income	6(3)	\$	1,099	-	\$ -	-
Items that may be reclassified subsequently to profit or loss						
8361 Exchange differences on translation of foreign financial statements			194,326	5	81,070	3
8300 Total other comprehensive income		\$	195,425	5	\$ 81,070	3
8500 Total comprehensive income (loss) for the period		\$	135,966	3	(\$ 309,182)	12
Net loss attributable to						
8610 Owners of the Company		(\$	138,076	4	(\$ 338,894)	13
8620 Non-controlling interests			78,617	2	(51,358)	2
Net loss		(\$	59,459	2	(\$ 390,252)	15
Total comprehensive loss attributable to						
8710 Owners of the Company		(\$	31,507	1	(\$ 291,586)	11
8720 Non-controlling interests			167,473	4	(17,596)	1
Net loss		\$	135,966	3	(\$ 309,182)	12
Loss per share	6(26)					
9750 Basic loss per share		(\$	0.21		(\$ 0.51)	
9850 Diluted loss per share		(\$	0.21		(\$ 0.51)	

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

CHENG MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)
(UNAUDITED)

	Equity attributable to owners of the parent										Non-controlling interest	Total equity
	Notes	Share capital - common shares	Capital surplus, additional paid-in capital	Legal reserve	Special reserve	Unappropriated retained earnings	Exchange differences on translation of foreign financial statements	Other equity interest		Total		
								Unrealised gains (losses) from financial assets measured at fair value through other comprehensive income				
For the three months ended March 31, 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	
		-	-	-	-	(338,894)	-	-	(338,894)	(51,358)	(390,252)	
		-	-	-	-	-	47,308	-	47,308	33,762	81,070	
		-	-	-	-	(338,894)	47,308	-	(291,586)	(17,596)	(309,182)	
	6(17)(27)	-	3,714	-	-	-	-	-	3,714	2,286	6,000	
		\$ 6,657,285	\$ 860,482	\$ 1,085,124	\$ 202,973	\$ 2,450,910	\$ 198,916	\$ -	\$ 11,057,858	\$ 1,920,231	\$ 12,978,089	
For the three months ended March 31, 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	
		-	-	-	-	(138,076)	-	-	(138,076)	78,617	(59,459)	
		-	-	-	-	-	105,470	1,099	106,569	88,856	195,425	
		-	-	-	-	(138,076)	105,470	1,099	(31,507)	167,473	135,966	
		-	-	-	-	50	-	(50)	-	-	-	
		\$ 6,657,285	\$ 851,689	\$ 1,085,124	\$ 246,224	\$ 1,953,447	\$ 217,787	\$ 123,224	\$ 10,452,758	\$ 3,867,977	\$ 14,320,735	

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)

		Three months ended March 31,	
	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(\$ 32,943)	(\$ 387,965)
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation expense	6(8)(9)(23)	269,306	271,193
Amortization expense	6(10)(23)	12,490	12,380
Expected credit gain	12(2)	(68,480)	-
Net gain on financial assets or liabilities at fair value through profit or loss	6(21)	(5,195)	(1,963)
Net gains on disposal of financial assets at fair value through profit or loss		-	(589)
Interest expense	6(22)	83,483	63,451
Interest income	6(20)	(13,166)	(2,871)
Foreign exchange gains		-	(22,743)
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets at fair value through profit or loss - current		83,224	-
Notes receivable	(	39,290)	252,042
Notes receivable - related parties		18,806	4,565
Accounts receivable	(	186,925)	(75,597)
Accounts receivable - related parties	(	13,348)	(266)
Other receivables	(	7,389)	10,041
Other receivables - related parties		-	(19)
Inventories		591,501	(320,025)
Prepayments	(	593,995)	(179,387)
Other current assets	(	527,707)	(138,065)
Other non-current assets	(	8,591)	-
Changes in operating liabilities			
Contract liabilities - current	(	28,067)	(8,829)
Notes payable	(	156,037)	(85,761)
Accounts payable	(	250,874)	(298,318)
Accounts payable - related parties		37,309	-
Other payables	(	46,526)	(61,365)
Other payables - related parties		-	(938)
Other current liabilities	(	10,667)	(17,702)
Cash outflow generated from operations	(	893,081)	(988,731)
Interest received		8,115	8,470
Interest paid	(	81,827)	(52,940)
Income tax paid	(	2,112)	(467)
Net cash flows used in operating activities	(	968,905)	(1,033,668)

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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)

		Three months ended March 31,	
	Notes	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of current financial assets at fair value through profit or loss, designated as upon initial recognition		\$ -	(\$ 355,496)
Proceeds from disposal of current financial assets at fair value through profit or loss, designated upon initial recognition		-	356,090
(Increase) decrease in financial assets at amortised cost - current		(285,875)	77,360
Acquisition of non-current financial assets at fair value through other comprehensive income	12(3)	(14,478)	-
Proceeds from disposal of non-current financial assets at fair value through other comprehensive income	6(3)	1,550	-
Decrease in other receivables		68,681	-
Decrease in other receivables - related parties		156,736	-
Acquisition of property, plant and equipment	6(28)	(1,726,628)	(829,539)
Acquisition of intangible assets	6(10)	-	(3,676)
Increase in equipment prepayments		(149,312)	(764,031)
(Increase) decrease in refundable deposits		(167)	3,374
Increase in other non-current assets		-	(192)
Increase in long-term prepayments		-	(609,778)
Government grants received		-	224,822
Net cash flows used in investing activities		(1,949,493)	(1,901,066)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term bank loans	6(29)	3,195,371	4,033,190
Repayments of short-term bank loans	6(29)	(2,927,324)	(2,189,289)
Decrease in short-term notes and bills payable	6(29)	-	(100,000)
Proceeds from long-term bank loans	6(29)	1,402,551	1,093,890
Repayments of long-term bank loans	6(29)	(303,011)	-
Repayment of lease liabilities	6(29)	(3,670)	-
Increase in guarantee deposits received		-	2
Increase in other non-current liabilities		(2,868)	(2,920)
Disposal of ownership interests in subsidiaries (without losing control)	6(27)	-	6,000
Net cash flows from financing activities		1,361,049	2,840,873
Effect of exchange rate changes on cash and cash equivalents		11,061	(1,486)
Net decrease in cash and cash equivalents		(1,546,288)	(95,347)
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)	\$ 1,559,138	\$ 4,401,949

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)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 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.
- (3) 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 May 13, 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	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 (shown under "other non-current assets") by \$252,056 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 \$1,517 was recognised in the first 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

None.

(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:

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies 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
			March 31, 2019	December 31, 2018	March 31, 2018	
Cheng Mei Materials Technology Corporation (“CMMT”)	Cheng Mei Materials Technology (SAMOA)	Investment Company	100%	100%	100%	-
	Corp. (“CMMTS”) (Formerly Chi Mei Materials Technology (SAMOA) Corp.) (“CMMTS”)					
	CM Visual Technology Corporation (“CMVT”) (Formerly Chi Mei Visual Technology Corporation) (“CMVT”)	Electronic component manufacturing and selling	68.33%	68.33%	68.33%	Note 6
	Chi Mei Materials Technology Investment Co., Ltd. (“CMMTI”)	Investment Company	100%	100%	100%	-
	Mao Yu Investment Co., Ltd. (“MYI”) (Formerly Chi Tsai Investment Co., Ltd.) (“CTI”)	Investment Company	100%	100%	100%	Note 6
CMMTS	Mao Fong Trading Co., Ltd. (“MFT”) (Formerly Chi Tsai Trading Co., Ltd.) (“CTT”)	Trading business	100%	100%	100%	Note 6
	Ningbo Cheng Mei Materials Technology Co., Ltd. (Formerly Ningbo Chi Mei Materials Technology Co., Ltd.) (“NBCMMT”)	Electronic component manufacturing and selling	100%	100%	100%	-
CMMTI	Kunshan Chimei Materials Technology Co., Ltd. (“KSCMMT”)	Electronic component manufacturing and selling	49.5%	49.5%	49%	Note 1、2
KSCMMT	Kunshan Chimei Materials Trading Corp. (“KSCMS”)	Trading business	100%	100%	100%	-
	Xian Jinyahongtai New Materials Technology Co., Ltd. (“XJHM”)	Electronic component manufacturing and selling	100%	100%	100%	Note 6
MYI	CMVT	Electronic component manufacturing and selling	11%	11%	11%	Note 3, 6
MFT	Mao Fong Group Co., Ltd. (Mao Fong Group)	Investment Company	100%	-	-	Note 4, 6
Mao Fong Group	Kunshan Xin Mao Fong International Trading Co., Ltd. (“KSMF”)	Trading business	100%	-	-	Note 5, 6

- 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: The Group participated in the capital increase and invested the amount of US\$73 million from May to December 2018, which resulted in the change of shareholding percentage.
- Note 3: MYI 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(27).
- Note 4: The Group set up the company in August 2018 and it paid the capital for shares in February 2019.
- Note 5: The Group set up the company in November 2018, and it paid the capital for shares in February 2019.
- Note 6: The financial statements of the entity as of and for the three months ended March 31, 2019 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 March 31, 2019, December 31, 2018 and March 31, 2018, the non-controlling interest amounted to \$3,867,977, \$3,700,504 and \$1,920,031, respectively. The information of non-controlling interest and respective subsidiaries is as follows:

Name of subsidiary	Principal place of business	Non-controlling interest					
		March 31, 2019		December 31, 2018		March 31, 2018	
		Amount	Ownership (%)	Amount	Ownership (%)	Amount	Ownership (%)
KSCMMT	China	\$ 3,836,022	50.5	\$ 3,668,813	50.5	\$ 1,886,453	51

Summarised financial information of the subsidiaries:

Balance sheets

	Kunshan Chimei Materials Technology Co., Ltd.		
	March 31, 2019	December 31, 2018	March 31, 2018
Current assets	\$ 6,419,245	\$ 5,817,921	\$ 3,285,413
Non-current assets	10,656,179	8,696,270	8,527,552
Current liabilities	(7,848,866)	(7,052,337)	(7,903,716)
Non-current liabilities	(1,630,473)	(196,877)	(210,321)
Total net assets	\$ 7,596,085	\$ 7,264,977	\$ 3,698,928

Statements of comprehensive income

Kunshan Chimei Materials Technology Co., Ltd.		
Three months ended March 31,		
	2019	2018
Revenue	\$ 2,065,360	\$ 638,122
Profit (loss) for the period	\$ 155,156	(\$ 93,120)
Total comprehensive income (loss) for the period	\$ 155,156	(\$ 93,120)
Comprehensive income (loss) attributable to non-controlling interest	\$ 78,354	(\$ 47,491)

Statements of cash flows

Kunshan Chimei Materials Technology Co., Ltd.		
Three months ended March 31,		
	2019	2018
Net cash (used in) provided by operating activities	\$ 63,499	\$ 459,483
Net cash used in investing activities	(2,254,066)	(2,213,420)
Net cash provided by financing activities	1,618,863	2,028,764
(Decrease) increase in cash and cash equivalents	(\$ 571,704)	\$ 274,827

(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 March 31, 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>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Cash on hand and revolving funds	\$ 880	\$ 851	\$ 487
Checking accounts and demand deposits	1,446,048	2,865,537	4,128,936
Time deposits	112,210	239,038	272,526
	<u>\$ 1,559,138</u>	<u>\$ 3,105,426</u>	<u>\$ 4,401,949</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>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Current items:			
Financial assets mandatorily measured at fair value through profit or loss			
Listed stocks	\$ -	\$ 84,127	\$ -
Derivatives	315	11,897	1,614
Debt instruments	3,500	2,500	-
	<u>3,815</u>	<u>98,524</u>	<u>1,614</u>
Valuation adjustment	-	(13,999)	-
	<u>\$ 3,815</u>	<u>\$ 84,525</u>	<u>\$ 1,614</u>

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Current items:			
Financial liabilities held for trading			
Short selling	\$ -	\$ 2,725	\$ -
Valuation adjustment	-	(44)	-
	<u>\$ -</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 March 31, 2019</u>	<u>Three months ended March 31, 2018</u>
Financial assets and liabilities mandatorily measured at fair value through profit or loss		
Equity instruments	\$ 23,850	\$ -
Derivatives	(18,655)	18,201
	<u>5,195</u>	<u>18,201</u>
Financial assets and liabilities designated as at fair value through profit or loss	-	589
Derivatives	<u>\$ 5,195</u>	<u>\$ 18,790</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:

	<u>March 31, 2019</u>		<u>December 31, 2018</u>	
	Contract Amount		Contract Amount	
<u>Derivative Financial Assets</u>	<u>(notional principal)</u>	<u>Contract Period</u>	<u>(notional principal)</u>	<u>Contract Period</u>
Current items:				
Foreign exchange option agreement	USD 1,000 thousand (SELL)	2019.1~2019.4	USD 3,000 thousand (BUY)	2018.12~2019.3

<u>Derivative Financial Assets</u>	<u>March 31, 2018</u>	
	<u>Contract Amount</u> <u>(notional principal)</u>	<u>Contract Period</u>
Current items:		
Forward exchange agreement	USD 20,000 thousand (SELL)	2018.4~2018.5
Forward exchange agreement	USD 5,595 thousand (SELL)	2018.5

The Group entered into foreign exchange option 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

<u>Items</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Non-current items:			
Equity instruments			
Unlisted stocks	\$ 352,978	\$ 340,000	\$ -
Valuation adjustment	(123,224)	(124,273)	-
	<u>\$ 229,754</u>	<u>\$ 215,727</u>	<u>\$ -</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 \$229,754, \$215,727 and \$0 as at March 31, 2019, December 31, 2018 and March 31, 2018, respectively.

B. In response to the modified investment strategy, the Group sold \$1,550 of unlisted stocks at fair value and resulted in cumulative gains on disposal of \$50 for the three months ended March 31, 2019.

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:

<u>Equity instruments at fair value through other comprehensive income</u>	<u>Three months ended</u> <u>March 31, 2019</u>
Fair value change recognised in other comprehensive income	(\$ 1,099)
Cumulative gains reclassified to retained earnings due to derecognition	<u>\$ 50</u>

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

(4) Financial assets at amortised cost

Items	March 31, 2019	December 31, 2018	March 31, 2018
Current items:			
Pledged deposit	\$ 1,547,701	\$ 1,253,226	\$ 180,779
Investment in debt instrument without active market	49,000	50,000	-
Time deposits with original maturities of more than three months	3,000	10,600	15,400
	<u>\$ 1,599,701</u>	<u>\$ 1,313,826</u>	<u>\$ 196,179</u>

A. As at March 31, 2019, December 31, 2018 and March 31, 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 \$1,599,701, \$1,313,826 and \$196,179, 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

	March 31, 2019	December 31, 2018	March 31, 2018
Notes receivable (including related parties)	\$ 225,910	\$ 205,426	\$ 232,350
Less: Allowance for uncollectible accounts	-	-	-
	<u>\$ 225,910</u>	<u>\$ 205,426</u>	<u>\$ 232,350</u>
Accounts receivable (including related parties)	\$ 4,599,631	\$ 4,399,358	\$ 3,130,564
Less: Allowance for uncollectible accounts	(1,631)	(1,628)	-
	<u>\$ 4,598,000</u>	<u>\$ 4,397,730</u>	<u>\$ 3,130,564</u>

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

	March 31, 2019		December 31, 2018	
	Accounts receivable	Notes receivable	Accounts receivable	Notes receivable
Not past due	\$ 225,910	\$ 4,505,127	\$ 205,426	\$ 4,394,899
Up to 30 days	-	85,090	-	4,459
31 to 60 days	-	218	-	-
61 to 90 days	-	6,730	-	-
91 to 180 days	-	2,466	-	-
	<u>\$ 225,910</u>	<u>\$ 4,599,631</u>	<u>\$ 205,426</u>	<u>\$ 4,399,358</u>

	March 31, 2018	
	Accounts receivable	Notes receivable
Not past due	\$ 232,350	\$ 3,105,173
Up to 30 days	-	25,391
	<u>\$ 232,350</u>	<u>\$ 3,130,564</u>

The above ageing analysis was based on past due date.

- B. As of March 31, 2019, December 31, 2018 and March 31, 2018, the Group had outstanding discounted notes receivable amounting to \$275,445 (which does not exclude consolidated elimination amount \$49,535), \$164,177 and \$139,410, 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.
- C. As at March 31, 2019, December 31, 2018 and March 31, 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 \$225,910, \$205,426 and \$232,350, \$4,598,000, \$4,397,730 and \$3,130,564, respectively.
- D. Information relating to credit risk of notes receivable and accounts receivable is provided in Note 12(2).

(6) Inventories

	March 31, 2019	December 31, 2018	March 31, 2018
Raw materials	\$ 1,378,606	\$ 2,049,824	\$ 1,317,441
Work in progress	1,264,914	1,233,190	785,134
Finished goods	648,276	594,947	480,322
Commodities	-	5,336	6,682
	<u>\$ 3,291,796</u>	<u>\$ 3,883,297</u>	<u>\$ 2,589,579</u>

The cost of inventories recognized as expense for the three months ended March 31, 2019 and 2018, was \$3,940,674 and \$2,613,633 (restated), respectively, including the amounts of \$65,337, that the Group wrote down from cost to net realizable value and accounted for as cost of good sold, and the amount of \$169,209, 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

	March 31, 2019	December 31, 2018	March 31, 2018
Financing provided to others (Note)	\$ -	\$ 68,681	\$ -
Others	58,644	46,296	144,977
	<u>\$ 58,644</u>	<u>\$ 114,977</u>	<u>\$ 144,977</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) Property, plant and equipment

	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, 2019</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>
<u>2019</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	-	11,300	4,314	1,910	17,337	605	1,798,273	1,833,739
Reclassifications	-	(89,909)	(1,799)	-	(303,564)	-	1,641,748	1,246,476
Depreciation charge	-	(82,493)	(102,759)	(2,432)	(66,320)	(9,527)	-	(263,531)
Net exchange differences	-	83,632	44,132	205	20,229	1,760	15,264	165,222
Closing net book amount as at March 31	<u>\$ 1,428,543</u>	<u>\$ 5,421,228</u>	<u>\$ 2,230,219</u>	<u>\$ 22,691</u>	<u>\$ 854,410</u>	<u>\$ 92,388</u>	<u>\$ 3,625,472</u>	<u>\$ 13,674,951</u>
<u>At March 31, 2019</u>								
Cost	\$ 1,428,543	\$ 7,547,754	\$ 7,274,273	\$ 74,794	\$ 4,421,727	\$ 350,244	\$ 3,625,472	\$ 24,722,807
Accumulated depreciation and impairment	-	(2,126,526)	(5,044,054)	(52,103)	(3,567,317)	(257,856)	-	(11,047,856)
	<u>\$ 1,428,543</u>	<u>\$ 5,421,228</u>	<u>\$ 2,230,219</u>	<u>\$ 22,691</u>	<u>\$ 854,410</u>	<u>\$ 92,388</u>	<u>\$ 3,625,472</u>	<u>\$ 13,674,951</u>

	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, 2018</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>
<u>2018</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	-	92,515	20,195	-	9,613	3,415	325,861	451,599
Reclassification	-	(3,191)	177,889	-	(6,471)	1,098	(177,226)	(7,901)
Depreciation charge	-	(83,808)	(101,289)	(2,298)	(73,914)	(9,884)	-	(271,193)
Net exchange differences	-	66,425	30,162	174	17,436	1,593	3,600	119,390
Closing net book amount as at March 31	<u>\$ 1,428,543</u>	<u>\$ 5,901,520</u>	<u>\$ 2,332,556</u>	<u>\$ 18,922</u>	<u>\$ 1,372,194</u>	<u>\$ 120,242</u>	<u>\$ 287,613</u>	<u>\$ 11,461,590</u>
<u>At March 31, 2018</u>								
Cost	\$ 1,428,543	\$ 7,425,100	\$ 7,033,883	\$ 62,396	\$ 4,662,564	\$ 344,509	\$ 566,577	\$ 21,523,572
Accumulated depreciation and impairment	-	(1,523,580)	(4,701,327)	(43,474)	(3,290,370)	(224,267)	(278,964)	(10,061,982)
	<u>\$ 1,428,543</u>	<u>\$ 5,901,520</u>	<u>\$ 2,332,556</u>	<u>\$ 18,922</u>	<u>\$ 1,372,194</u>	<u>\$ 120,242</u>	<u>\$ 287,613</u>	<u>\$ 11,461,590</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 March 31, 2019	Three months ended March 31, 2018
Amount capitalised	\$ 11,179	\$ 1,284
Range of the interest rates for capitalisation	2.00%~4.75%	2.00%~2.69%

B. As of March 31, 2019, December 31, 2018 and March 31, 2018, the accumulated impairment of property, plant and equipment was \$274,942, \$268,459 and \$278,964, 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.

(9) 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:

	March 31, 2019	Three months ended March 31, 2019
	Carrying amount	Depreciation charge
Land	\$ 256,697	\$ 1,441
Buildings	55,275	4,320
Other equipment	239	14
	<u>\$ 312,211</u>	<u>\$ 5,775</u>

D. For the three months ended March 31, 2019, the additions to right-of-use assets were \$916.

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

	Three months ended March 31, 2019
<u>Items affecting profit or loss</u>	
Interest expense on lease liabilities	\$ 560
Expense on short-term lease contracts	4,037

F. For the three months ended March 31, 2019, the Group's total cash outflow for leases were \$8,267.

(10) Intangible assets

	Computer Software	Core Technology	Goodwill	Licenses and Franchises	Total
<u>At January 1, 2019</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>
<u>2019</u>					
At January 1	\$ 48,481	\$ 34,389	\$ 8,056	\$ 920	\$ 91,846
Amortisation charge	(9,101)	(2,929)	-	(460)	(12,490)
Net exchange differences	727	437	-	-	1,164
At March 31	<u>\$ 40,107</u>	<u>\$ 31,897</u>	<u>\$ 8,056</u>	<u>\$ 460</u>	<u>\$ 80,520</u>
<u>At March 31, 2019</u>					
Cost	\$ 136,478	\$ 68,120	\$ 8,056	\$ 9,200	\$ 221,854
Accumulated amortisation and impairment	(96,371)	(36,223)	-	(8,740)	(141,334)
	<u>\$ 40,107</u>	<u>\$ 31,897</u>	<u>\$ 8,056</u>	<u>\$ 460</u>	<u>\$ 80,520</u>
	Computer Software	Core Technology	Goodwill	Licenses and Franchises	Total
<u>At January 1, 2018</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>
<u>2018</u>					
At January 1	\$ 64,058	\$ 20,758	\$ 8,056	\$ 2,760	\$ 95,632
Additions-acquired separately	3,676	-	-	-	3,676
Amortisation charge	(9,289)	(1,175)	-	(460)	(10,924)
Net exchange differences	620	-	-	-	620
At March 31	<u>\$ 59,065</u>	<u>\$ 19,583</u>	<u>\$ 8,056</u>	<u>\$ 2,300</u>	<u>\$ 89,004</u>
<u>At March 31, 2018</u>					
Cost	\$ 118,406	\$ 47,000	\$ 8,056	\$ 9,200	\$ 182,662
Accumulated amortisation and impairment	(59,341)	(27,417)	-	(6,900)	(93,658)
	<u>\$ 59,065</u>	<u>\$ 19,583</u>	<u>\$ 8,056</u>	<u>\$ 2,300</u>	<u>\$ 89,004</u>

Details of amortisation on intangible assets are as follows:

	Three months ended March 31, 2019	Three months ended March 31, 2018
Cost of sales	\$ 3,462	\$ 1,700
General and administrative expenses	7,358	7,589
Research and development expenses	1,670	1,635
	<u>\$ 12,490</u>	<u>\$ 10,924</u>

(11) Other assets

	March 31, 2019	December 31, 2018	March 31, 2018
Current			
Import VAT	\$ 539,994	\$ 833	\$ 81,940
Temporary payments	25,589	26,732	29,112
Prepayments for leases	-	5,648	5,869
Payments on behalf of others	358	5,483	20
Other	-	5,186	-
	<u>\$ 565,941</u>	<u>\$ 43,882</u>	<u>\$ 116,941</u>
	March 31, 2019	December 31, 2018	March 31, 2018
Non-Current			
Prepayments for technical royalty (Note)	\$ 804,988	\$ 786,006	\$ 811,590
Prepayments for leases	-	246,408	260,452
Refundable deposits	11,535	11,368	10,828
Others	19,041	10,450	2,698
	<u>\$ 835,564</u>	<u>\$ 1,054,232</u>	<u>\$ 1,085,568</u>

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

(12) Short-term borrowings

Type of borrowings	March 31, 2019	Interest rate range	Collateral
Bank borrowings			
Bank secured borrowings	\$ 275,445	3.42%~3.66%	Notes receivable
- Transferred receivables			
Bank unsecured borrowings	5,421,087	0.46%~6.09%	-
	<u>\$ 5,696,532</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	March 31, 2018	Interest rate range	Collateral
Bank borrowings			
Bank secured borrowings	\$ 139,410	5.80%	Notes receivable
- Transferred receivables			
Bank unsecured borrowings	5,589,733	0.66%~5.25%	-
	<u>\$ 5,729,143</u>		

Information about interest expense recognised in profit or loss is provided in Note 6(22).

(13) Other payables

	March 31, 2019	December 31, 2018	March 31, 2018
Payables for purchase of equipment	\$ 233,476	\$ 375,950	\$ 557,137
Payables for salaries or bonuses	203,742	275,416	177,020
Payables for purchase of land or buildings	129,324	12,709	2,825
Payables for annual leave	38,771	38,304	38,822
Accrued taxes payable	24,294	23,574	20,635
Payables for interest	23,881	22,225	22,859
Payables for insurance premiums	22,994	17,641	16,598
Other	329,000	310,392	217,630
	<u>\$ 1,005,482</u>	<u>\$ 1,076,211</u>	<u>\$ 1,053,526</u>

(14) Long-term borrowings

Type of borrowings	March 31, 2019	December 31, 2018	March 31, 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.	\$ 2,870,534	\$ 3,161,300	\$ 3,623,379
<u>Borrowings</u>			
Repayable monthly on interest from December 17, 2018.	200,000	200,000	-
The principal was repaid in full on the maturity date (December 17, 2020).			
<u>Borrowings</u>			
Repayable monthly on interest from November 15, 2018; repayable from November 6, 2019 to November 14, 2023	1,419,296	11,940	-
	4,489,830	3,373,240	3,623,379
Less: Current portion	(2,879,694)	(3,170,244)	(3,623,379)
	<u>\$ 1,610,136</u>	<u>\$ 202,996</u>	<u>\$ -</u>
Interest rate range	<u>1.50%~6.18%</u>	<u>1.50%~6.18%</u>	<u>3.69%~4.17%</u>

- A. Information on interest expense recognised in profit or loss is provided in Note 6(22).
- 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. However, for year 2018, the exemption is still in the process of application. Since the lender has not agreed to waive its right to demand immediate payment at the end of the reporting period, the loan was classified as a current liability as at March 31, 2019, December 31, 2018 and March 31, 2018, in the amounts of \$2,870,534, \$3,161,300 and \$3,623,379 respectively.

(15) 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 March 31, 2019 and 2018, were \$21,616 and \$19,293, respectively.

(16) Share capital

- A. As of March 31, 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 March 31)	665,729	665,729

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 March 31, 2019, the outstanding 1,691.5 thousand units of GDRs represented 67,660 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.

(17) 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 March 31)	\$ 803,494	\$ 6,776	\$ 41,419	\$ 851,689
2018				
	2018			
	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 disposal of subsidiaries	-	3,714	-	3,714
At March 31	\$ 803,494	\$ 6,776	\$ 50,212	\$ 860,482

(18) Retained earnings

- A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior years' operating losses and then 10% of the remaining amount shall be set aside as a legal reserve. When such legal reserve amounts to the total paid-in capital, the Company shall not be subject to this requirement. The Company may then appropriate or reverse a certain amount as a special reserve according to the relevant regulations. The remaining earnings, plus the accumulated undistributed earnings, may be appropriated to shareholders as dividends or bonuses according to the distribution plan proposed by the board of directors and approved in the shareholders' meeting.
- B. The Company's dividend policy is summarized below: after taking into account the Company's current and future development plan, investment environment, fund requirements, domestic and international competition, and the interests of shareholders, the Company is to set aside no less than 20% of the distributable earnings as shareholders' dividends and bonuses. However, in the case where accumulated distributable earnings is less than 50%, of paid in capital, the Company may choose not to distribute dividends. Dividends to common shareholders may be distributed by way of a combination of cash dividends and share dividends provided that the cash dividends shall not be less than 10% of the total dividends.
- C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.

D. 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.

E. On May 13, 2019, the Board of Directors proposed that the Company will not distribute dividends, but set aside special reserve \$201,306.

(19) 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 March 31, 2019</u>	<u>Taiwan</u>	<u>China</u>	<u>Total</u>
Total segment revenue	\$ 1,117,606	\$ 2,906,721	\$ 4,024,327
Inter-segment revenue	1,370,900	359,125	1,730,025
Elimination of internal transaction	(1,370,900)	(359,125)	(1,730,025)
Revenue from external customer	<u>\$ 1,117,606</u>	<u>\$ 2,906,721</u>	<u>\$ 4,024,327</u>
 <u>Three months ended March 31, 2018</u>	 <u>Taiwan</u>	 <u>China</u>	 <u>Total</u>
Total segment revenue	\$ 862,936	\$ 1,636,707	\$ 2,499,643
Inter-segment revenue	933,343	31,304	964,647
Elimination of internal transaction	(933,343)	(31,304)	(964,647)
Revenue from external customer	<u>\$ 862,936</u>	<u>\$ 1,636,707</u>	<u>\$ 2,499,643</u>

B. Contract liabilities

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

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Contract liabilities – sale of goods	\$ <u>5,693</u>	\$ <u>33,760</u>	\$ <u>650</u>

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

	<u>Three months ended March 31, 2019</u>	<u>Three months ended March 31, 2018</u>
Revenue recognised that was included in the contract liability balance at the beginning of the period		
Sale of goods	\$ <u>3,893</u>	\$ <u>9,428</u>

C. The revenue and costs arising from triangular trade in the first quarter, 2018 by the Company's subsidiary, KSCMS, were presented in net amounts as operating revenue after reevaluating the economic substance of the transactions and terms of sale. The Group has elected to restate the financial statements for the three months ended March 31, 2018, thereon the operating revenue and operating costs are as follows:

	Three months ended March 31, 2018
Before restatement	
Net sales	\$ 2,882,022
Cost of sales	(2,996,012)
	<u>(\$ 113,990)</u>
After restatement	
Net sales	\$ 2,499,643
Cost of sales	(2,613,633)
	<u>(\$ 113,990)</u>

(20) Other income

	Three months ended March 31, 2019	Three months ended March 31, 2018
Interest income	\$ 13,166	\$ 2,871
Rental income	409	210
Government grants	2,868	2,920
Disgorgement income	11,033	-
Technical service income	19,700	-
Others	2,681	1,209
	<u>\$ 49,857</u>	<u>\$ 7,210</u>

(21) Other gains and losses

	Three months ended March 31, 2019	Three months ended March 31, 2018
Foreign exchange gains	\$ 109,996	\$ 366
Net gains on financial assets or liabilities at fair value through profit or loss	5,195	18,790
Others	(2,079)	(11)
	<u>\$ 113,112</u>	<u>\$ 19,145</u>

(22) Finance costs

	Three months ended March 31, 2019	Three months ended March 31, 2018
Interest expense - bank borrowings	\$ 82,923	\$ 62,969
Interest expense - lease liabilities	560	-
Others	-	482
	<u>\$ 83,483</u>	<u>\$ 63,451</u>

(23) Expenses by nature

	Three months ended March 31, 2019	Three months ended March 31, 2018
Employee benefit expense	\$ 448,270	\$ 402,998
Depreciation charges on property, plant and equipment	263,531	271,193
Depreciation charges on right-of-use assets	5,775	-
Amortisation charges on intangible assets	12,490	10,924
Amortisation charges on prepayment for leases	-	1,456

(24) Employee benefit expense

	Three months ended March 31, 2019	Three months ended March 31, 2018
Pension costs	\$ 21,616	\$ 19,293
Short-term employee benefits	426,654	383,705
	<u>\$ 448,270</u>	<u>\$ 402,998</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 three months ended March 31, 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.

(25) Income tax

A. Income tax benefit

	Three months ended March 31, 2019	Three months ended March 31, 2018
Current tax:		
Current tax on profit in current period	\$ -	\$ 2,337
Prior year income tax underestimation	2,154	-
Total current tax	2,154	2,337
Deferred tax:		
Origination and reversal of temporary differences	24,362	(50)
Total deferred tax	24,362	(50)
Income tax benefit	\$ 26,516	\$ 2,287

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.

(26) Loss per share

	Three months ended March 31, 2019		
		Weighted average number of ordinary shares outstanding (share in thousands)	Loss per share (in dollars)
<u>Amount after tax</u>			
<u>Basic and diluted loss per share</u>			
Loss attributable to ordinary shareholders of the parent	(\$ 138,076)	665,729	(\$ 0.21)
	Three months ended March 31, 2018		
		Weighted average number of ordinary shares outstanding (share in thousands)	Loss per share (in dollars)
<u>Amount after tax</u>			
<u>Basic and diluted loss per share</u>			
Loss attributable to ordinary shareholders of the parent	(\$ 338,894)	665,729	(\$ 0.51)

(27) Transactions with non-controlling interest

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	<u>\$ 3,714</u>

Line items adjusted for equity transactions

Capital surplus - purchase price and carrying amount differences from acquisitions or disposals of subsidiaries	<u>\$ 3,714</u>
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(28) Supplemental cash flow information

1. Investing activities with partial cash payments

	Three months ended March 31, 2019	Three months ended March 31, 2018
Purchase of property, plant and equipment	\$ 1,833,739	\$ 451,599
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	(132,970)	-
Ending balance of payable on equipment	(233,476)	(557,137)
Ending balance of payable for purchase of land or building	(129,324)	(2,825)
Effect of foreign exchange	-	1,031
Cash paid during the three months ended March 31, 2019	<u>\$ 1,726,628</u>	<u>\$ 829,539</u>

2. Investing activities with no cash flow effects

	Three months ended March 31, 2019	Three months ended March 31, 2018
Prepayments for equipment transferred to property, plant and equipment	<u>\$ 1,379,446</u>	<u>\$ -</u>
Property, plant and equipment transferred to prepayments for equipment	<u>\$ -</u>	<u>\$ 9,399</u>
Other non-current assets transferred to property, plant and equipment	<u>\$ -</u>	<u>\$ 1,498</u>
Discount of payable on equipment	<u>\$ 132,970</u>	<u>\$ -</u>

(29) 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 March 31, 2019
Short-term borrowings	\$ 5,441,325	\$ 268,047	\$ -	(\$ 12,840)	\$ 5,696,532
Lease liabilities	58,020	(3,670)	916	914	56,180
Long-term borrowings	3,373,240	1,099,540	-	17,050	4,489,830
Liabilities from financing activities-gross	<u>\$ 8,872,585</u>	<u>\$ 1,363,917</u>	<u>\$ 916</u>	<u>\$ 5,124</u>	<u>\$ 10,242,542</u>

	At January 1, 2018	Changes in cash flow from financing activities	Effect of foreign exchange	At March 31, 2018
Short-term borrowings	\$ 3,813,259	\$ 1,843,901	\$ 71,983	\$ 5,729,143
Short-term notes payable	100,000	(100,000)	-	-
Long-term borrowings	2,639,833	1,093,890	(110,344)	3,623,379
Liabilities from financing activities-gross	<u>\$ 6,553,092</u>	<u>\$ 2,837,791</u>	<u>(\$ 38,361)</u>	<u>\$ 9,352,522</u>

(30) 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 March 31, 2019, December 31, 2018 and March 31, 2018, the balance of this deferred revenue is \$207,192 (which is shown as “other current liabilities” amounting to \$11,511 and “other non-current liabilities” amounting to \$195,681), \$205,116 (which is shown as “other current liabilities” amounting to \$ 11,239 and “other non-current liabilities” amounting to \$193,877), and \$221,902 (which is shown as “other current liabilities” amounting to \$11,679 and “other non-current liabilities” amounting to \$210,223), respectively. For the three months ended March 31, 2019 and 2018, the revenue realized based on the service life of the factory was \$2,868 and \$2,920, 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 (Note 2)
Jun Hong Optronics Corporation ("JH")	Affiliates (Note 3)
Bao Dui International Limited (BAO DUI)	Affiliates (Note 4)
Yeh Mei Li	The vice chairman of the group (Note 5)
Ki Kin Corporation ("KK")	Affiliates (Note 6)

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 parties.

Note 2: The vice chairman of KSCMMT, Huang Yuan, has served as general manager of SAPO since September 13, 2018.

Note 3: During the transaction, Mei-Li, Yeh served as the general manager and director of the company.

Note 4: The Company's representative is the first degree of kinship of Mei-Li, Yeh.

Note 5: She had served as the vice chairman of the Group from July 18, 2018 until April 26, 2019.

Note 6: It is the subsidiary owned by HJ.

(2) Significant related party transactions

A. Operating revenue:

	<u>Three months ended</u> <u>March 31, 2019</u>	<u>Three months ended</u> <u>March 31, 2018</u>
Sales of goods:		
Affiliates	\$ <u>80,583</u>	\$ <u>7,680</u>

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

B. Purchases:

	<u>Three months ended</u> <u>March 31, 2019</u>	<u>Three months ended</u> <u>March 31, 2018</u>
SAPO	\$ <u>171,229</u>	\$ <u>-</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:

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Accounts receivable:			
Affiliates	<u>\$ 211,139</u>	<u>\$ 197,791</u>	<u>\$ 266</u>
Notes receivable:			
Affiliates	<u>\$ -</u>	<u>\$ 18,806</u>	<u>\$ -</u>
Other receivables			
Bao Dui (Note 1)	\$ -	\$ 88,256	\$ -
ZZ (Note 2)	25,005	91,495	-
Affiliates	<u>-</u>	<u>-</u>	<u>12,441</u>
	25,005	179,751	12,441
Less: Allowance for credit	<u>(25,005)</u>	<u>(91,495)</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 88,256</u>	<u>\$ 12,441</u>

Note 1: The Group prepaid certain payments to Bao Dui. However, 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 business relationship, and those prepayments have been recovered as of March 31, 2019.

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.

D. Payables to related parties

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Accounts payable			
SAPO	<u>\$ 412,948</u>	<u>\$ 375,639</u>	<u>\$ -</u>

E. Contract liabilities

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
JH	<u>\$ -</u>	<u>\$ 29,560</u>	<u>\$ -</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.

F. 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 March 31, 2019 and December 31, 2018 is \$26,609 and \$27,060, respectively. These shares were formerly held by the Company's vice chairman, Mei-li, Yeh. Such transactions were made in one month.

G. Prepayment for equipment

The subsidiary, KSCMMT, signed an equipment purchasing agreement with Ki Kin Corporation on March 15, 2018, and paid RMB 135,985 thousands in advance on May 17, 2018. Because the progress of the machine is delayed, KSCMMT cancelled this agreement on July 27, 2018 and required KK to return the advance payment. As of March 31, 2019, the advance payment has been returned in full.

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

	March 31, 2019	December 31, 2018	March 31, 2018
HJ	\$ 1,320,446	\$ 1,454,198	\$ 1,666,754

(3) Key management compensation

	Three months ended March 31, 2019	Three months ended March 31, 2018
Salaries and other short-term employee benefits	\$ 7,893	\$ 4,763
Post-employment benefits	108	59
	<u>\$ 8,001</u>	<u>\$ 4,822</u>

8. PLEDGED ASSETS

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

Pledged asset	Book value			Purpose
	March 31, 2019	December 31, 2018	March 31, 2018	
Pledged deposits (Note)	\$ 1,547,701	\$ 1,253,226	\$ 180,779	Provided as collateral for the letters of credit for purchases of raw materials
Notes receivable	275,445	164,177	139,410	Short term loan resulting from notes receivable factoring
Property, plant and equipment - land	1,428,543	-	-	Provided as collateral for credit line
Property, plant and equipment - buildings and structures, net	1,986,130	-	-	Provided as collateral for credit line
	<u>\$ 5,237,819</u>	<u>\$ 1,417,403</u>	<u>\$ 320,189</u>	

Note: Pledged certificates of deposit 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 March 31, 2019, December 31, 2018 and March 31, 2018, were as follows:

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

	Units: Foreign currency (in thousand)		
	March 31, 2019	December 31, 2018	March 31, 2018
JPY	\$ 3,193,730	\$ 9,490,383	\$ 3,729,786
USD	17,747	15,744	60,476
TWD	3,859	20,454	-
RMB	-	-	14,510

- B. As of March 31, 2019, December 31, 2018 and March 31, 2018, the amounts of guarantees provided by financial institutions for the purpose of importing goods were \$190,200, \$183,880 and \$75,428, respectively.
- C. As of March 31, 2019, December 31, 2018 and March 31, 2018, the unpaid amounts of the construction contracts that the Group entered into for the expansion of factories and machinery equipment were \$895,196, \$1,984,517 and \$519,163, 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 March 31, 2019, December 31, 2018 and March 31, 2018, KSCMMT's unpaid amount were both JPY 4.5 billion.

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

- A. The subsidiary, KSCMMT, set up a provisional management team, approved by the Board on February 1, 2019, to represent the Board of Directors for performing the authority of operating management. The members of the provisional management team are: Ho, Jau-Yang, Huang Yuan, Jhao Huei. Huang Yuan is the convener of the team. After the Company resolves the management right dispute, KSCMMT will hold the Board of Directors meeting again. The Board meeting decided that if the dispute is not effectively resolved before March 31, 2019, HJ will exercise the operating management after the other two shareholders of KSCMMT (total shareholding 50.5%) agree in writing. KSCMMT received a letter from the above two shareholders to give notice that they have agreed to authorize HJ to exercise the operating management starting April 1, 2019. HJ issued KSCMMT a letter on April 22, 2019, which mentions that, according to the written consent of the two shareholders, HJ now authorizes Huang Yuan for setting up an operating management group in KSCMMT, which will exercise operating management authority and requires KSCMMT to fully cooperate with the team. However, according to KSCMMT's Articles of Incorporation, the top operating management decision-making body of KSCMMT is the Board of Directors, and the amendment of the Articles of Incorporation requires the approval of all the board members who attend the Board meeting. Currently, the organization of the Board has not changed. Additionally, according to KSCMMT's Articles of Incorporation, the Chairman of the Board of Directors is

appointed by the Company, the appointment and dismissal of general manager requires more than two-thirds of the directors to attend the Board of Directors meeting, and more than two-thirds of the attending directors are required to approve the decision. Currently, the Chairman and General Manager both are Ho, Jau-Yang, which has not been changed. In response to the above matters, the Company has appointed a lawyer to issue a legal opinion to the other two shareholders and HJ, which expresses and claims that the Company still has an operating management right of KSCMMT.

- B. KSCMMT will increase its capital up to USD 500 million which has been approved by the Board on February 1, 2019. The board meeting on April 6, 2019 decided that, in the initial phase of the capital increase, USD 75 million will be subscribed by shareholders in proportion to their shareholding. Those who do not subscribe by April 30, 2019 will be deemed to have given up the right to participate in the capital increase. In the second phase of the capital increase, USD 75 million will be subscribed by shareholders in proportion to their shareholding. Those who do not subscribe to the capital increase by June 30, 2019 will be deemed to have given up the right to participate in the capital increase. Furthermore, other shareholders can subscribe to the remaining shares of the capital increase. After all shareholders completed the capital increase, for the remaining balance of the USD 150 million, shareholders and management teams can actively introduce external investors, and report the investment plan to the Board for review and approval before May 20, 2019. As of review report date, each shareholder has not paid the first phase of the capital increase.
- C. On May 13, 2019, the Company's Board of Directors approved to issue its common shares through public or private offering, issue new shares to participate in overseas depository receipts, or issue overseas or domestic convertible corporate bonds, which includes secured or unsecured convertible corporate bonds. The amount is limited in 200,000 thousand shares.

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 March 31, 2019, December 31, 2018 and March 31, 2018, were as follows:

	March 31, 2019	December 31, 2018	March 31, 2018
Total liabilities	\$ 13,997,186	\$ 13,049,148	\$ 12,392,350
Total assets	\$ 28,317,921	\$ 27,233,917	\$ 25,370,439
Gearing ratio	49%	48%	49%

(2) Financial instruments

A. Financial instruments by category

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
<u>Financial assets</u>			
Financial assets at fair value through profit or loss			
Financial assets mandatorily measured at fair value through profit or loss	<u>\$ 3,815</u>	<u>\$ 84,525</u>	<u>\$ 1,614</u>
Financial assets at fair value through other comprehensive income			
Designation of equity instrument	<u>\$ 229,754</u>	<u>\$ 215,727</u>	<u>\$ -</u>
Financial assets at amortised cost/Loans and receivables			
Cash and cash equivalents	\$ 1,559,138	\$ 3,105,426	\$ 4,401,949
Financial assets at amortised cost	1,599,701	1,313,826	196,179
Notes receivable	225,910	205,426	232,350
Accounts receivable	4,598,000	4,397,730	3,130,564
Other receivables	58,644	203,233	157,418
Refundable deposits	11,535	11,368	10,828
	<u>\$ 8,052,928</u>	<u>\$ 9,237,009</u>	<u>\$ 8,129,288</u>
	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
<u>Financial liabilities</u>			
Financial liabilities at fair value through profit or loss			
Financial liabilities held for trading	<u>\$ -</u>	<u>\$ 2,681</u>	<u>\$ -</u>
Financial liabilities at amortised cost			
Short-term borrowings	\$ 5,696,532	\$ 5,441,325	\$ 5,729,143
Notes payable	-	156,037	46,702
Accounts payable	2,512,222	2,725,787	1,707,183
Other payables	1,005,482	1,076,211	1,053,526
Lease liabilities	56,180	-	-
Long-term borrowings (including current portion)	4,489,830	3,373,240	3,623,379
Guarantee deposits received	49	49	173
	<u>\$ 13,760,295</u>	<u>\$ 12,772,649</u>	<u>\$ 12,160,106</u>

B. Financial risk management policies

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.

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.

The Group Treasury function is an independent body that monitors risks and policies implemented to mitigate risk exposures.

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:

March 31, 2019			
	Foreign currency amount		Book value
	(In thousands)	Exchange rate	(NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 113,314	30.82	\$ 3,492,337
JPY:NTD	179,788	0.2783	50,035
RMB:NTD	184,176	4.58	843,526
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	153,786	30.82	4,739,685
JPY:NTD	13,863,813	0.2783	3,858,299
RMB:NTD	385	4.58	1,763

December 31, 2018			
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
<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

	March 31, 2018		
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 163,384	29.11	\$ 4,755,291
JPY:NTD	3,605,646	0.2739	987,586
RMB:NTD	167	4.65	776
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	161,980	29.11	4,714,428
JPY:NTD	14,087,737	0.2739	3,858,631
RMB:NTD	600	4.65	2,788

- v. Total exchange gain, including realized and unrealized arising from significant foreign exchange variation on the monetary items held by the Group for the three months ended March 31, 2019 and 2018, amounted to \$109,996 and \$366, respectively.

vi. Analysis of foreign currency market risk arising from significant foreign exchange variation:

Three months ended March 31, 2019			
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%	17,462	-
JPY:NTD	0.5%	250	-
RMB:NTD	0.5%	4,218	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	0.5%	23,698	-
JPY:NTD	0.5%	19,291	-
RMB:NTD	0.5%	9	-

Three months ended March 31, 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%	23,776	-
JPY:NTD	0.5%	4,938	-
	0.5%	4	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	0.5%	23,572	-
JPY:NTD	0.5%	19,293	-
RMB:NTD	0.5%	14	-

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 would have increased/decreased by \$2,298 and \$0, 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 three months ended March 31, 2019 and 2018 would have increased/decreased by \$92,938 and \$43,694, 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 three months ended March 31, 2019 is \$68,480. Impairment loss due to other receivables which were past due was \$0 for the three months ended March 31, 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.

At March 31, 2019	Not past due	Up to 30 days past due	31 to 60 days	61 to 90 days	91 to 180 days	Total
Expected loss rate	0%	0%	0.11%	0.11%	0.11%	
Total book value	\$ 4,505,127	\$ 85,090	\$ 218	\$ 6,730	\$ 2,466	\$ 4,599,631

At December 31, 2018	Not past due	Up to 30 days 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

At March 31, 2018	Not past due	Up to 30 days 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	\$ 3,105,173	\$ 25,391	\$ -	\$ -	\$ -	\$ 3,130,564

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	\$ -
Effects on exchange rate	3	-
March 31	\$ 1,631	\$ -

viii. For provisioned loss for the three months end March 31, 2019 and 2018, the impairment losses arising from customers' contract amounts to \$0.

(c) Liquidity risk

- i. 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. On discovery of the breach, management informed the lender and commenced renegotiation of the terms of the loan with the relevant bank. As of May 13, 2019, those negotiations had not been concluded. Refer to Note 6(14) for details.
- ii. 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 March 31, 2019, December 31, 2018 and March 31, 2018, the Group held money market position of \$1,561,258, \$3,185,603 and \$4,416,862, respectively, that are expected to readily generate cash inflows for managing liquidity risk.
- iii. 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>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Unsecured bank overdraft facility			
Amount unused	<u>\$ 5,745,256</u>	<u>\$ 12,284,861</u>	<u>\$ 15,471,527</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.

March 31, 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	\$ 5,729,042	\$ -	\$ -
Accounts payable	2,512,222	-	-
Other payables	1,005,482	-	-
Lease liabilities	18,957	41,573	-
Long-term borrowings (including current portion)	3,094,686	1,738,811	-

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 (including current portion)	3,316,864	206,073	-

March 31, 2018

	<u>Less than 1 year</u>	<u>1 year to 5 years</u>	<u>Over 5 years</u>
Short-term borrowings	\$ 5,757,684	\$ -	\$ -
Notes payable	46,702	-	-
Accounts payable	1,707,183	-	-
Other payables	1,053,526	-	-
Long-term borrowings (including current portion)	3,761,430	-	-

(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

March 31, 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
Derivative instruments	-	315	-	315
Financial assets at FVOCI				
Equity securities	-	-	229,754	229,754
	<u>\$ -</u>	<u>\$ 315</u>	<u>\$ 233,254</u>	<u>\$ 233,569</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>

March 31, 2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial liabilities at FVTPL				
Derivative instruments	<u>\$ -</u>	<u>\$ 1,614</u>	<u>\$ -</u>	<u>\$ 1,614</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.

D. For the three months ended March 31, 2019 and 2018, there was no transfer between level 1 and level 2.

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

	Three months ended March 31, 2019	Three months ended March 31, 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)	1,099	-
At March 31	<u>\$ 229,754</u>	<u>\$ 3,500</u>
Movement of unrealised gain or loss in profit or loss of assets and liabilities held as at March 31, 2019	<u>\$ -</u>	<u>\$ -</u>

For the three months ended March 31, 2018: None.

F. For the three months ended March 31, 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:

		<u>Fair value at March 31, 2019</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average)</u>	<u>Relationship of inputs to fair value</u>
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		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
		<u>Fair value at December 31, 2018</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average)</u>	<u>Relationship of inputs to fair value</u>
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

March 31, 2018: None.

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:

		March 31, 2019		
		Recognised in other comprehensive income		
	<u>Input</u>	<u>Change</u>	<u>Favourable change</u>	<u>Unfavourable change</u>
Financial assets				
Equity instruments	Price - Book Ratio	±5%	\$ 10,861	(\$ 10,645)

			December 31, 2018	
			Recognised in other	
			comprehensive income	
	Input	Change	Favourable change	Unfavourable change
Financial assets				
Equity instruments	Price - Book Ratio	±5%	\$ 10,893	(\$ 10,659)

March 31, 2018: None.

(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. Significant uncertainty of the funds to purchase raw materials and the repayment of the debts due will be generated in the coming year. The Company intends to adopt the following countermeasures to maintain the Company's ability to continue to operate:

- A. To obtain cash flow and put the Group's operation back on track, the Board of Directors during its meeting on March 22, 2019 resolved to initiate a debt settlement process and request the banking syndicate for an extension of repayment period and coordinate with supplement of securities to make the banking syndicate agree on opening letters of credit for covering the suppliers' payment and for the normal purchases. Gong-Jhih-Zih Letter No. 10800348200 issued by the Industrial Development Bureau, Ministry of Economic Affairs on April 3, 2019 requested the largest creditor financial institution, Taiwan Cooperative Bank, to handle the debt negotiation. The Company held a meeting with all creditor banks to negotiate on April 11, 2019. Taiwan Cooperative Bank has asked each creditor bank to signify their decision of approving or rejecting in a "written reply of creditor bank" and reply to Taiwan Cooperative Bank before May 17, 2019.
- B. Negotiating with major customers for early payment.
- C. Cost reduction: The Group reviews, adjusts and improves its costs, expenses and skilled employees.
- D. The above strategies are based on the results of the debt negotiation which still remains a material uncertainty.

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: None.
- 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 4.
- H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 5.
- 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 6.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China) : Please refer to table 7.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 8.

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

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 March 31, 2019			
	Taiwan	Mainland China	Adjustment and write-off (Note)	Total
Revenue from external customers	\$ 1,117,606	\$ 2,906,721	\$ -	\$ 4,024,327
Inter-segment revenue	1,370,900	359,125	(1,730,025)	-
Total segment revenue	<u>\$ 2,488,506</u>	<u>\$ 3,265,846</u>	<u>(\$ 1,730,025)</u>	<u>\$ 4,024,327</u>
Segment income (loss)	<u>(\$ 219,781)</u>	<u>\$ 87,397</u>	<u>\$ 19,955</u>	<u>(\$ 112,429)</u>

Note: Refer to the internal revenue write-offs.

Three months ended March 31, 2018 (Restated)

			Adjustment and write-off	
	Taiwan	Mainland China	(Note)	Total
Revenue from external customers	\$ 862,936	\$ 1,636,707	\$ -	\$ 2,499,643
Inter-segment revenue	933,343	31,304	(964,647)	-
Total segment revenue	<u>\$ 1,796,279</u>	<u>\$ 1,668,011</u>	<u>(\$ 964,647)</u>	<u>\$ 2,499,643</u>
Segment income (loss)	<u>(\$ 182,920)</u>	<u>(\$ 186,140)</u>	<u>\$ 18,191</u>	<u>(\$ 350,869)</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
Three months ended March 31, 2019

Table 1

Expressed in thousands of NTD

No. (Note 1)	Materials	Borrower	General ledger account	Is a related party	Maximum outstanding balance during		Balance at March 31, 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	
					March 31, 2019	March 31, 2019								Item	Value				
																			Yes
0	Cheng Mei Materials Technology Co., Ltd.	CM Visual Technology Corporation	Other receivables - related parties	Yes	\$ 108,387	\$ 92,637	\$ 92,637	\$ 92,637	1.82%-4.16%	Business relationship	\$ 162,351	-	\$ -	-	None	\$ -	\$ 162,351	\$ 6,271,655	Notes 2
1	Kunshan Chimei Materials Technology Co., Ltd.	Kunshan Chimei Materials Trading Corp.	Other receivables - related parties	Yes	229,000	-	-	-	4.35%	Short-term financing	-	Operating capital	\$ -	-	None	\$ -	\$ 3,038,434	\$ 4,557,651	Note 3
2	Kunshan Chimei Materials Trading Corp.	Kunshan Chimei Materials Technology Co., Ltd.	Other receivables - related parties	Yes	68,700	68,700	-	-	4.35%	Short-term financing	-	Operating capital	-	-	None	-	90,763	136,144	Note 4
2	Kunshan Chimei Materials Trading Corp.	Xi'an JinyaoHongtai New Materials Technology Co., Ltd.	Other receivables - related parties	Yes	2,290	2,290	-	-	4.35%	Short-term financing	-	Operating capital	-	-	None	-	90,763	136,144	Note 4
2	Kunshan Chimei Materials Trading Corp.	Hangzhou Rong Jie Trading Co., Ltd.	Other receivables	No	121,205	-	-	-	-	Business relationship	303,174	-	-	-	None	-	-	-	Notes 4 - 5 - 6
2	Kunshan Chimei Materials Trading Corp.	Zhejiang Zheng Jie Trading Co., Ltd	Other receivables - related parties	Yes	270,316	20,725	25,005	-	-	Business relationship	563,041	-	-	-	None	-	-	-	Notes 4 - 5 - 6
2	Mao Fong Trading Co., Ltd.	Cheng Mei Materials Technology Co., Ltd.	Other receivables - related parties	Yes	390,000	-	-	-	2.20%	Short-term financing	-	Operating capital	-	-	None	-	70,793	106,190	Notes 7

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: In accordance with 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: In accordance with 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: 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 purchase.

Note 7: In accordance with Mao Fong Trading Co., Ltd.'s "Procedures for Provision of Loans", limit on loans to a single party ceiling on total loans is 40% of the Mao Fong Trading Co., Ltd.'s net assets. Ceiling on total loans is 60% of the Mao Fong Trading Co., Ltd.'s net asset.

Cheng Mei Materials Technology Corporation and subsidiaries
Provision of endorsements and guarantees to others
Three months ended March 31, 2019

Expressed in thousands of NTD

Table 2

Number (Note 1)	Endorser/ guarantor	Party being endorsed/guaranteed		Maximum outstanding endorsement/ guarantee amount as of March 31, 2019	Limit on endorsements/ guarantees provided for a single party	Relationship with the endorser/ guarantor (Note 2)	Outstanding endorsement/ guarantee amount at March 31, 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 parent company subsidiary to the party in Mainland China	Footnote
		Company name									\$	N			
0	Cheng Mei Materials Technology Corporation	Mao Fong Trading Co., Ltd.	4	1,232,800	5,226,379		1,232,800	-	-	11.79	10,452,758	Y	N	N	Note 3,4
0	Cheng Mei Materials Technology Corporation	Kunshan Chimei Materials Technology Co., Ltd.	6	3,436,606	5,226,379		3,436,606	2,392,943	-	32.88	10,452,758	Y	N	Y	Note 3,4
1	Kunshan Chimei Materials Technology Co., Ltd.	Kunshan Chimei Materials Trading Corp.	4	1,832,000	4,557,651		916,000	91,211	-	12.06	7,596,084	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 KSCMNT's related regulations, the limit of endorsements and guarantees for any single entity is 60% of the KSCMNT's net worth based on the latest financial statements.

Note 6: In accordance with KSCMNT's related regulations, the limit of endorsements and guarantees for total accumulated amount is KSCMNT'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)

March 31, 2019

Table 3

Expressed in thousands of NTD

Securities held by Cheng Mei Materials Technology Corporation	Marketable securities	Relationship with the securities issuer	General ledger account	As of March 31, 2019			
				Number of shares	Book value	Ownership (%)	Fair value
	SHIHLIEN FINE CHEMICALS CO., LTD.(Stock)	None	Non-current financial assets at fair value through other comprehensive income	16,667	\$ 188,667	7.10%	\$ 188,667
							Footnote
Mao Yu Investment Co., Ltd.	JEOUTAI TECHNOLOGY CO., LTD.(Stock)	None	Non-current financial assets at fair value through other comprehensive income	381	14,478	Note	14,478
							-
Mao Yu Investment Co., Ltd.	JUN HONG OPTRONICS CORPORATION(Stock)	Affiliates	Non-current financial assets at fair value through other comprehensive income	2,500	11,275	Note	11,275
							-
Mao Fong Trading Co., Ltd.	JUN HONG OPTRONICS CORPORATION(Stock)	Affiliates	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

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

Three months ended March 31, 2019

Table 4

Expressed in thousands of NTD

Differences in transaction terms compared to third party											
Transaction			transactions					Notes/accounts receivable (payable)			
Purchaser/seller	Counterparty	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	(\$ 741,246)	30%	-	-	-	\$ 1,032,443	34%	
Cheng Mei Materials Technology Co., Ltd.	Kunshan Chimei Materials Technology Co., Ltd.	Subsidiary	Sales	(617,777)	25%	-	-	-	801,140	26%	
Ningbo Cheng Mei Materials Technology Co., Ltd.	Kunshan Chimei Materials Technology Co., Ltd.	Brother-Sister	Sales	(170,763)	16%	-	-	-	293,233	22%	
Kunshan Chimei Materials Technology Co., Ltd.	Kunshan Chimei Materials Trading Corp.	Subsidiary	Sales	(138,008)	7%	-	-	-	114,013	5%	

Cheng Mei Materials Technology Corporation and subsidiaries

Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more

Three months ended March 31, 2019

Table 5

Expressed in thousands of NTD

Creditor	Counterparty	Relationship with the counterparty	Balance as at March 31, 2019	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts
					Amount	Action taken		
Cheng Mei Materials Technology Corporation	Ningbo Cheng Mei Materials Technology Co., Ltd.	Subsidiary	Accounts receivable \$ 1,032,443	2.61	\$ -	-	\$ 382,480	\$ -
Cheng Mei Materials Technology Corporation	Kunshan Chimei Materials Technology Co., Ltd.	Subsidiary	Accounts receivable 801,140	4.77	41,384	Dunning	-	-
Ningbo Cheng Mei Materials Technology Co., Ltd.	Kunshan Chimei Materials Technology Co., Ltd.	Brother-Sister	Accounts receivable 293,233	3.94	57,314	Dunning	-	-
Kunshan Chimei Materials Technology Co., Ltd.	Kunshan Chimei Materials Technology Corp.	Brother-Sister	Accounts receivable 114,013	9.68	-	-	-	-
Kunshan Chimei Materials Technology Co., Ltd.	Shengzhen SAPO photoelectric Co., Ltd.	Related party	Accounts receivable 177,239	2.07	54,560	Dunning	90,974	-

Cheng Mei Materials Technology Corporation and subsidiaries
Significant inter-company transactions during the reporting periods
Three months ended March 31, 2019

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	\$ 741,246	18%
0	Cheng Mei Materials Technology Corporation	Ningbo Cheng Mei Materials Technology Co., Ltd.	1	Accounts receivable	1,032,443	4%
0	Cheng Mei Materials Technology Corporation	CM Visual Technology Corporation	1	Sales	11,877	0%
0	Cheng Mei Materials Technology Corporation	CM Visual Technology Corporation	1	Accounts receivable	19,254	0%
0	Cheng Mei Materials Technology Corporation	CM Visual Technology Corporation	1	Other receivable	92,905	0%
0	Cheng Mei Materials Technology Corporation	Kunshan Chimnei Materials Technology Co., Ltd.	1	Sales	617,777	15%
0	Cheng Mei Materials Technology Corporation	Kunshan Chimnei Materials Technology Co., Ltd.	1	Other revenue	18,571	0%
0	Cheng Mei Materials Technology Corporation	Kunshan Chimnei Materials Technology Co., Ltd.	1	Accounts receivable	801,140	3%
0	Cheng Mei Materials Technology Corporation	Kunshan Chimnei Materials Technology Co., Ltd.	1	Other receivable	16,169	0%
0	Cheng Mei Materials Technology Corporation	Kunshan Chimnei Materials Technology Co., Ltd.	1	Endorsement / Guarantee	3,436,606	12%
0	Cheng Mei Materials Technology Corporation	Mao Fong Trading Co., Ltd.	1	Endorsement / Guarantee	1,232,800	4%
1	Ningbo Cheng Mei Materials Technology Co., Ltd.	Cheng Mei Materials Technology Corporation	2	Accounts receivable	46,666	0%
1	Ningbo Cheng Mei Materials Technology Co., Ltd.	Kunshan Chimnei Materials Technology Co., Ltd.	3	Sales	170,763	4%
1	Ningbo Cheng Mei Materials Technology Co., Ltd.	Kunshan Chimnei Materials Technology Co., Ltd.	3	Accounts receivable	293,233	1%
2	Kunshan Chimnei Materials Technology Co., Ltd.	Kunshan Chimnei Materials Trading Corp.	3	Sales	138,008	3%
2	Kunshan Chimnei Materials Technology Co., Ltd.	Kunshan Chimnei Materials Trading Corp.	3	Accounts receivable	114,013	0%
2	Kunshan Chimnei Materials Technology Co., Ltd.	Kunshan Chimnei Materials Trading Corp.	3	Endorsement / Guarantee	916,000	3%

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)

Three months ended March 31, 2019

Table 7

Expressed in thousands of NTD

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at March 31, 2019		Book value	Net profit (loss) of the investee for the year ended March 31, 2019 (Note 1)	Investment income(loss) recognised by the Company for three months ended March 31, 2019	Footnote
				Balance as at March 31, 2019	Balance as at December 31, 2018	Number of shares	Ownership (%)				
Cheng Mei Materials Technology Corporation	Cheng Mei Materials Technology (SAMOA) Corporation	Samoa	Investment company	\$ 431,482	\$ 431,482	13,300	100%	\$ 713,087	82,605	(\$ 82,605)	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%	66,779	1,277	(303)	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%	3,759,810	76,803	76,803	Note 1
Cheng Mei Materials Technology Corporation	Mao Yu Investment Co., Ltd.	Taiwan	Investment company	250,000	350,000	25,000	100%	203,597	19,341	19,341	Note 2
Cheng Mei Materials Technology Corporation	Mao Fong Trading Co., Ltd.	Taiwan	Trading company	690,000	690,000	31,100	100%	176,982	7,462	(7,462)	Note 2
Mao Yu Investment Co., Ltd.	CM Visual Technology Corporation	Taiwan	Electronic component manufacture and sale	33,000	33,000	3,300	11%	9,717	1,277	Note 3	Note 2
Mao Fong Trading Co., Ltd.	Mao Fong Group Co., Ltd.	Samoa	Investment company	30,870	-	1,000	100%	30,753	58	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
Three months ended March 31, 2019

Expressed in thousands of NTD

Table 8

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2019	Amount remitted from Taiwan to Mainland China /Amount remitted back to Taiwan for three months ended March 31, 2019	Accumulated amount of remittance from Taiwan to Mainland China as of March 31, 2019	Net income of investee as of March 31, 2019	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for three months ended March 31, 2019	Book value of investments in Mainland China as of March 31, 2019	Accumulated amount of investment income remitted back to Taiwan as of March 31, 2019	Footnote
Ningbo Cheng Mei Materials Technology Co., Ltd.	Electronic component manufacture and sale	\$ 604,311	2	\$ 409,906	\$ -	\$ 409,906	\$ 82,666	100.00	\$ 82,666	\$ 713,310	\$ -	Note 2
Kushan Chimei Materials Technology Co., Ltd.	Electronic component manufacture and sale	8,815,601	2	4,515,130	-	4,515,130	155,156	49.50	76,802	3,760,061	-	Note 2
Kushan Chimei Materials Trading Corp.	Trading	229,000	2	-	-	-	61,952	49.50	30,666	112,319	-	Note 2
Xi'an Jinyahongtai New Materials Technology Co., Ltd.	Electronic component manufacture and sale	9,389	2	-	-	-	1,842	49.50	912	1,912	-	Note 3
Kushan Shua Mao Fong Internation Trading Co., Ltd.	Trading	30,820	2	-	30,820	30,820	(57)	100.00	(57)	30,763	-	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, Chu 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 30.82 to US\$1 from January 1, 2019 to March 31, 2019, otherwise are re-translated at the exchange rates of NTD 30.83 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 March 31, 2019	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of the Ministry of Economic Affairs (MOEA)
Cheng Mei Materials Technology Corporation	\$4,955,856	\$4,955,856	\$8,592,441

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

Three months ended March 31, 2019

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 March 31, 2019	%	Balance at March 31, 2019	Purpose	Maximum balance during the three months ended March 31, 2019	Balance at March 31, 2019	Interest rate	Interest during the three months ended March 31, 2019	Others
Ningbo Cheng Mei Materials Technology Co., Ltd.	\$ 741,246	30%	\$ -	-	\$ 1,032,443	34%	\$ -	-	\$ -	\$ -	-	\$ -	-
Ningbo Cheng Mei Materials Technology Co., Ltd.	-	-	(46,666)	-	46,666)	3%	-	-	-	-	-	-	-
Kunshan Chimei Materials Technology Co., Ltd.	617,777	25%	-	-	801,140	26%	3,436,606	Endorsement / Guarantee	-	-	-	-	- Other revenue \$ 18,571 Other receivables 16,169