

**CHENG MEI MATERIALS TECHNOLOGY
CORPORATION AND SUBSIDIARIES
(FORMERLY CHI MEI MATERIALS
TECHNOLOGY CORPORATION) AND
SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS
DECEMBER 31, 2018 (RESTATED) AND 2017**

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.

Representation Letter

In connection with the Consolidated Financial Statements of Affiliated Enterprises of CHENG MEI MATERIALS TECHNOLOGY CORPORATION (the “Consolidated FS of the Affiliates”), we represent to you that, the entities required to be included in the Consolidated FS of the Affiliates as of and for the year ended December 31, 2018 in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” are the same as those required to be included in the Consolidated Financial Statements of CHENG MEI MATERIALS TECHNOLOGY CORPORATION and its subsidiaries (the “Consolidated FS of the Group”) in accordance with International Financial Reporting Standard 10, as well as that, the information required to be disclosed in the Consolidated FS of Affiliates is disclosed in the Consolidated FS of the Group. Consequently, CHENG MEI MATERIALS TECHNOLOGY CORPORATION does not prepare a separate set of Consolidated FS of Affiliates.

Very truly yours,

CHENG MEI MATERIALS TECHNOLOGY CORPORATION

By

Jau-Yang Ho, Chairman

April 29, 2019

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of Cheng Mei Materials Technology Corporation Co., Ltd.

Opinion

We have audited the accompanying restated consolidated balance sheet of Cheng Mei Materials Technology Corporation Co., Ltd. (formerly Chi Mei Materials Technology Corporation) and subsidiaries (the “Group”) as at December 31, 2018, and the related restated consolidated statements of comprehensive income, of changes in equity and of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects the consolidated financial position of the Group as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of the Company in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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(5) 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 opinion has not been modified to include the going concern issue.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters. These do not include the matters described in the basis for qualified opinion paragraph and the material uncertainty related to going concern paragraph.

Key audit matters for the Group's consolidated financial statements of the current period are stated as follows:

Fair value measurement of investment in unlisted stock without active market

Description

In terms of the fair value of unlisted stock without active market, refer to Note 4(8) for the relevant accounting policies, Note 5(2) for the uncertainty of accounting estimates and assumptions, Note 6(3) for details of financial assets, and Note 12(3) for fair value information of financial instruments.

Unlisted stock investments without active market are recognised as financial assets at fair value through other comprehensive income, and any changes in the fair value of these financial assets are recognised in other comprehensive income.

Given that the fair values of unlisted stocks without an active market were evaluated by an external appraiser commissioned by the management and the estimation involves multiple assumptions and a high degree of uncertainty that may affect the share price, we consider the fair value measurement of unlisted stocks without an active market one of the key audit matters.

How our audit addressed the matter

Our audit procedures in respect of the above key audit matter included:

1. Obtained the stock value calculation report provided by the commissioned appraiser and evaluated the professional expertise, competence and objectivity of the appraiser.
2. Reviewed the content of the appraisal report to understand and assess the reasonableness of source of the information used, valuation method and conclusions.
3. Consulted with our internal experts regarding the valuation method and inputs used in the estimation process and compared it with the historical market data to confirm the reasonableness of estimated prices.

Impairment assessment of property, plant and equipment

Description

In terms of property, plant and equipment, refer to Note 4(15) for the relevant accounting policies, Note 5(2) for uncertainty of accounting estimates and assumptions and Note 6(8) for account details.

Due to the recurring losses in recent years, the management assesses that there is an indication that the above assets are impaired and measures the recoverable amounts based on estimated future cash flows discounted at an appropriate discount rate. Given that the estimation of future cash flows rely on multiple assumptions that may affect the recoverable amounts, we consider impairment assessment as one of the key audit matters.

How our audit addressed the matter

Our audit procedures in respect of the above key audit matter included:

1. Obtained an understanding and assessed the estimation of future cash flows and checked whether the forecasting revenue in the following year used in the valuation model is consistent with the budget approved by the Board of Directors.
2. Obtained the source information referenced to determine the recoverable amounts, examined the management's intention and capability to perform the business plans and compared business performance during certain period after the balance sheet date based on the management's projection on expected income and expenses.

3. Verified that the discount rate uses reasonable parameters such as risk-free rate for cost of equity capital, industry risk coefficient, returns of similar assets and equity-to-capital ratio.
4. Checked the formula in the valuation model.

Other matter — Revised audit opinion

We have previously issued a qualified opinion, dated March 31, 2019, for the consolidated financial statements before restatement of the Group for the year ended December 31, 2018. The qualification was due to the lack of sufficient and adequate audit evidence available for us to assess whether inventories were impaired. Thus, we were unable to make a judgement whether such inventories need possible impairment adjustments. As described in Note 12 (6) of the consolidated financial statements, the Group has reevaluated the amount of inventories and has restated the consolidated financial statements for the year ended December 31, 2018. As a result, we have revised our opinion on the restated consolidated financial statement of the Group for the year ended December 31, 2018, which is different from the opinion we previously expressed.

Other matter – Scope of the Audit

The consolidated financial statements before restatement of the Group for the year ended December 31, 2017, were audited by other auditors who expressed an unqualified opinion on those statements on March 19, 2018. As mentioned in Note 6(18), the Group has elected to restate the financial statements for the year ended December 31, 2017, however, the predecessor auditor did not reissue the audit report. We did not audit the restated consolidated financial statements of the Group. The information is for reference only.

Other matter – Parent company only financial reports

We have audited the parent company only financial statements of Cheng Mei Materials Technology Corporation for the year ended December 31, 2018, on which we have expressed an opinion with additional paragraphs on the significant uncertainty for operating as a going concern and other matter on these restated parent company only financial statements.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including the audit committee, are responsible for overseeing the Group’s financial reporting process.

Auditor’s responsibilities for the audit of the consolidated financial statements

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

As part of an audit in accordance with ROC GAAS, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

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

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

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

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

Lin, Yi- Zhang

Liu, Zi-Meng

PricewaterhouseCoopers, Taiwan

April 29, 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

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2018 AND 2017

(Expressed in thousands of New Taiwan dollars)

Assets	Notes	(Restated)		December 31, 2017	
		December 31, 2018	%	December 31, 2017	%
		AMOUNT		AMOUNT	
Current assets					
1100	Cash and cash equivalents	6(1)	\$ 3,105,426	11	\$ 4,497,296
1110	Current financial assets at fair value through profit or loss	6(2)	84,525	-	-
1136	Current financial assets at amortised cost	6(4) and 8	1,313,826	5	-
1150	Notes receivable, net	6(5) and 8	186,620	1	484,392
1160	Notes receivable, net - related parties	6(5) and 7	18,806	-	4,565
1170	Accounts receivable, net	6(5) and 12(4)	4,199,939	16	3,062,933
1180	Accounts receivable, net - related parties	6(5) and 7	197,791	1	-
1200	Other receivables	6(7)	114,977	1	160,660
1210	Other receivables - related parties	7	88,256	-	12,422
1220	Current tax assets		1,230	-	-
130X	Inventories	5 and 6(6)	3,883,297	14	2,282,710
1410	Prepayments		259,968	1	608,201
1479	Other current assets	6(10), 8 and 12(4)	43,882	-	382,060
11XX	Total current assets		<u>13,498,543</u>	<u>50</u>	<u>11,495,239</u>
Non-current assets					
1517	Non-current financial assets at fair value through other comprehensive income	6(3) and 7	215,727	1	-
1600	Property, plant and equipment	5 and 6(8)	10,693,045	39	11,169,695
1780	Intangible assets	6(9)	91,846	-	95,632
1840	Deferred tax assets	6(24)	112,646	-	56,502
1915	Prepayments for equipment	7	1,567,878	6	165,706
1990	Other non-current assets	6(10)	1,054,232	4	475,817
15XX	Total non-current assets		<u>13,735,374</u>	<u>50</u>	<u>11,963,352</u>
1XXX	Total assets		<u>\$ 27,233,917</u>	<u>100</u>	<u>\$ 23,458,591</u>

(Continued)

CHENG MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2018 AND 2017

(Expressed in thousands of New Taiwan dollars)

	Liabilities and Equity	Notes	(Restated) December 31, 2018		December 31, 2017	
			AMOUNT	%	AMOUNT	%
	Current liabilities					
2100	Short-term bank loans	6(11)	\$ 5,441,325	20	\$ 3,813,259	16
2110	Short-term bills payable		-	-	100,000	1
2120	Current financial liabilities at fair value through profit or loss	6(2) and 12(4)	2,681	-	349	-
2130	Contract liabilities	3(1), 6(18) and 7	33,760	-	-	-
2150	Notes payable		156,037	-	132,463	1
2170	Accounts payable		2,350,148	9	1,974,351	8
2180	Accounts payable - related parties	7	375,639	1	-	-
2200	Other payables	6(12)	1,076,211	4	1,481,891	6
2230	Current tax liabilities		147	-	435	-
2250	Provisions for liabilities - current	3(1)	-	-	9,564	-
2320	Current portion of long-term bank loans	6(13)	3,170,244	12	2,639,833	11
2399	Other current liabilities	3(1) and 6(30)	23,360	-	25,004	-
21XX	Total current liabilities		<u>12,629,552</u>	<u>46</u>	<u>10,177,149</u>	<u>43</u>
	Non-current liabilities					
2540	Long-term bank loans	6(13)	202,996	1	-	-
2570	Deferred tax liabilities	6(24)	22,674	-	-	-
2645	Guarantee deposits		49	-	171	-
2670	Other non-current liabilities	6(30)	193,877	1	-	-
25XX	Total non-current liabilities		<u>419,596</u>	<u>2</u>	<u>171</u>	<u>-</u>
2XXX	Total liabilities		<u>13,049,148</u>	<u>48</u>	<u>10,177,320</u>	<u>43</u>
	Equity attributable to the owners of the company					
	Share capital					
3110	Common shares	6(15)	6,657,285	24	6,657,285	28
	Capital surplus					
3200	Capital surplus	6(16)	851,689	3	856,768	4
	Retained earnings	6(17)				
3310	Legal reserve		1,085,124	4	1,085,124	5
3320	Special reserve		246,224	1	202,973	1
3350	Unappropriated retained earnings		2,091,473	8	2,789,804	12
3400	Other equity interest		(447,530)	(2)	(246,224)	(1)
31XX	Total equity attributable to owners of the Company		<u>10,484,265</u>	<u>38</u>	<u>11,345,730</u>	<u>49</u>
36XX	Non-controlling interest	4(3) and 6(26)	3,700,504	14	1,935,541	8
3XXX	Total equity		<u>14,184,769</u>	<u>52</u>	<u>13,281,271</u>	<u>57</u>
	Significant contingent liabilities and unrecognized contract	9				
	Significant events after the balance sheet date	11				
3X2X	Total liabilities and equity		<u>\$ 27,233,917</u>	<u>100</u>	<u>\$ 23,458,591</u>	<u>100</u>

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

CHENG MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars, except loss per share)

			Year ended December 31			
Items	Notes		2018 (Restated)		2017 (Restated)	
			AMOUNT	%	AMOUNT	%
4000 Net sales	6(18) and 7		\$ 12,767,162	100	\$ 9,878,148	100
5000 Cost of sales	6(6)(9)(18)(22)(23) and 7		(12,205,208)	(96)	(10,627,260)	(108)
5900 Gross profit (loss)			561,954	4	749,112	8
Operating expenses	6(9)(22)(23) and 12(2)					
6100 Selling and marketing expenses			(309,435)	(2)	(224,416)	(2)
6200 General and administrative expenses			(314,634)	(2)	(256,749)	(3)
6300 Research and development expenses			(449,827)	(4)	(440,846)	(4)
6450 Impairment loss (impairment gain and reversal of impairment loss) determined in accordance with IFRS 9			(94,926)	(1)	-	-
6000 Total operating expenses			(1,168,822)	(9)	(922,011)	(9)
6900 Loss from operations			(606,868)	(5)	(1,671,123)	(17)
Non-operating income and expenses						
7010 Other income	6(19)		99,516	1	47,890	-
7020 Other gains and losses	6(2)(20)		(274,928)	(2)	67,143	1
7050 Finance costs	6(8)(21)		(290,580)	(2)	(126,827)	(1)
7000 Total non-operating income and expenses			(465,992)	(3)	(11,794)	-
7900 Loss before income tax			(1,072,860)	(8)	(1,682,917)	(17)
7950 Income tax benefit	6(24)		24,714	-	132,891	2
8200 Loss for the year			(\$ 1,048,146)	(8)	(\$ 1,550,026)	(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) and 12(3)		(\$ 124,273)	(1)	\$ -	-
Items that may be reclassified subsequently to profit or loss						
8361 Exchange differences on translation of foreign financial statements			(141,173)	(1)	(72,632)	(1)
8362 Unrealized loss on available-for-sale financial assets			-	-	(28)	-
8300 Other comprehensive loss, net			(\$ 265,446)	(2)	(\$ 72,660)	(1)
8500 Total comprehensive loss for the year			(\$ 1,313,592)	(10)	(\$ 1,622,686)	(16)
Net loss attributable to						
8610 Owners of the Company			(\$ 655,080)	(5)	(\$ 1,226,260)	(12)
8620 Non-controlling interests			(393,066)	(3)	(323,766)	(3)
Net loss			(\$ 1,048,146)	(8)	(\$ 1,550,026)	(15)
Total comprehensive loss attributable to						
8710 Owners of the Company			(\$ 856,386)	(6)	(\$ 1,269,892)	(12)
8720 Non-controlling interests			(457,206)	(4)	(352,794)	(4)
Net loss			(\$ 1,313,592)	(10)	(\$ 1,622,686)	(16)
Loss per share	6(25)					
9750 Basic loss per share			(\$ 0.98)		(\$ 2.18)	
9850 Diluted loss per share			(\$ 0.98)		(\$ 2.18)	

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
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

	Equity attributable to owners of the parent								Total	Non-controlling interest	Total equity	
	Notes	Share capital - common shares	Capital surplus, additional paid-in capital	Retained earnings			Other equity interest					
				Legal reserve	Special reserve	Unappropriated retained earnings	Exchange differences on translation of foreign financial statements	Unrealised gains (losses) from financial assets measured at fair value through other comprehensive income				Unrealized gain or loss on available-for-sale financial assets
Year ended December 31, 2017												
Balance at January 1, 2017		\$ 5,157,285	\$ 453,761	\$ 1,085,124	\$ 36,849	\$ 4,182,188	(\$ 202,996)	\$ -	\$ 23	\$ 10,712,234	\$ 2,287,298	\$ 12,999,532
Loss for the year		-	-	-	-	(1,226,260)	-	-	-	(1,226,260)	(323,766)	(1,550,026)
Other comprehensive loss for the year		-	-	-	-	-	(43,609)	-	(23)	(43,632)	(29,028)	(72,660)
Total comprehensive loss for the year		-	-	-	-	-	(43,609)	-	(23)	(1,269,892)	(352,794)	(1,622,686)
Distribution of 2016 earnings												
Special reserve		-	-	-	166,124	(166,124)	-	-	-	-	-	-
Issuance of shares	6(15)(16)	1,500,000	403,007	-	-	-	-	-	-	1,903,007	-	1,903,007
Difference between consideration and carrying amount of subsidiaries acquired or disposed		-	-	-	-	-	381	-	-	381	(4,839)	(4,458)
Changes in ownership interests in subsidiaries	6(27)	-	-	-	-	-	-	-	-	-	5,876	5,876
Balance at December 31, 2017		\$ 6,657,285	\$ 856,768	\$ 1,085,124	\$ 202,973	\$ 2,789,804	(\$ 246,224)	\$ -	\$ -	\$ 11,345,730	\$ 1,935,541	\$ 13,281,271
Year ended December 31, 2018 (Restated)												
Balance at January 1, 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
Loss for the year		-	-	-	-	(655,080)	-	-	-	(655,080)	(393,066)	(1,048,146)
Other comprehensive loss for the year		-	-	-	-	-	(77,033)	(124,273)	-	(201,306)	(64,140)	(265,446)
Total comprehensive loss for the year		-	-	-	-	-	(77,033)	(124,273)	-	(856,386)	(457,206)	(1,313,592)
Distribution of 2017 earnings												
Special reserve		-	-	-	43,251	(43,251)	-	-	-	-	-	-
Difference between consideration and carrying amount of subsidiaries disposed	6(16)(26)	-	3,714	-	-	-	-	-	-	3,714	2,286	6,000
Changes in ownership interests in subsidiaries	6(16)(26)	-	(8,793)	-	-	-	-	-	-	(8,793)	2,219,883	2,211,090
Balance at December 31, 2018		\$ 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

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

CHENG MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

	Notes	2018 (Restated)	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(\$ 1,072,860)	(\$ 1,682,917)
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation expense	6(8)(22)	1,096,227	968,042
Amortization expense	6(9)(22)	54,051	40,077
Expected credit impairment	12(2)	94,926	-
Reversal of provision for liabilities		-	9,564
Net gain on financial assets or liabilities at fair value through profit or loss	6(20)	(4,334)	(2,457)
Interest expense	6(21)	290,580	124,319
Interest income	6(19)	(28,568)	(21,474)
Dividend income	6(19)	(430)	-
Gain on disposal of investments	6(20)	(787)	(1,348)
Loss on disposal of property, plant and equipment	6(20)	7,315	36
Property, plant and equipment transferred to expenses		8,221	-
Foreign exchange gains		-	(22,778)
Changes in operating assets and liabilities			
Changes in operating assets			
Current financial assets at fair value through profit or loss		(79,797)	-
Notes receivable		297,772	(484,392)
Notes receivable - related parties		(14,241)	(4,565)
Accounts receivable		(1,138,634)	(173,360)
Accounts receivable - related parties		(197,791)	-
Other receivables		116,393	(42,080)
Other receivables - related parties		-	(12,417)
Inventories		(1,600,587)	(232,163)
Prepayments		354,227	13,550
Other current assets		64,639	(243,413)
Other non-current assets		-	(10)
Changes in operating liabilities			
Contract liabilities - current		24,281	-
Notes payable		23,574	132,463
Accounts payable		375,797	40,989
Accounts payable to related parties		375,639	-
Other payables		142,482	35,897
Provision for liabilities - current		-	(1,647)
Other current liabilities		(1,729)	(7,017)
Cash outflow generated from operations		(813,634)	(1,567,173)
Interest received		26,538	21,550
Interest paid		(281,652)	(117,002)
Income tax paid		(10,985)	(6,371)
Income tax refund received		3	-
Dividends received		430	-
Net cash flows used in operating activities		(1,079,300)	(1,668,996)

(Continued)

CHENG MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

	Notes	2018 (Restated)	2017
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of financial assets at fair value through profit or loss, designated upon initial recognition		\$ -	(\$ 3,825,470)
Proceeds from disposal of financial assets at fair value through profit or loss, designated upon initial recognition		-	3,973,837
Proceeds from disposal of available-for-sale financial assets		-	12,045
Increase in current financial assets at amortised cost		(1,037,562)	-
Increase in other receivables		(68,681)	-
Increase in other receivables - related parties		(167,329)	-
Increase in other current financial assets		-	(134,707)
Acquisition of non - current financial assets at fair value through other comprehensive income	6(3)	(340,000)	-
Net cash inflow on acquisition of subsidiaries	6(27)	-	5,343
Net cash outflow on disposal of subsidiaries		-	(13,861)
Acquisition of property, plant and equipment	6(28)	(1,359,252)	(1,686,527)
Proceeds from disposal of property, plant and equipment		75,253	393
Acquisition of intangible assets	6(9)	(40,970)	(29,760)
Increase in equipment prepayments		(1,450,214)	(148,130)
(Increase) decrease in refundable deposits		2,834	(9,939)
(Increase) decrease in other non-current assets		(587,008)	1,366
Net cash flows used in investing activities		(4,972,929)	(1,855,410)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term loans	6(29)	17,362,686	291,592
Repayment of short-term loans	6(29)	(15,798,012)	-
(Decrease) increase in short-term notes and bills payable	6(29)	(100,000)	100,000
Proceeds from long-term bank loans	6(29)	1,237,006	1,412,173
Repayment of long-term bank loans		(606,117)	-
(Decrease) increase in guarantee deposits received		(122)	86
Increase in other non-current liabilities		193,877	-
Disposal of ownership interests in subsidiaries (without losing control)	6(26)	6,000	-
Change in non-controlling interests	6(26)	2,211,090	-
Proceeds from issuance of shares	6(15)	-	1,903,007
Net cash flows from financing activities		4,506,408	3,706,858
Effect of exchange rate changes on cash and cash equivalents		153,951	(26,676)
Net (decrease) increase in cash and cash equivalents		(1,391,870)	155,776
Cash and cash equivalents at beginning of year	6(1)	4,497,296	4,341,520
Cash and cash equivalents at end of year	6(1)	\$ 3,105,426	\$ 4,497,296

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
YEARS ENDED DECEMBER 31, 2018 (RESTATED) AND 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT AS OTHERWISE
INDICATED)

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 restatement consolidated financial statements were reported to the Board of Directors on March 28, 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 FSC effective from 2018 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 2, ‘Classification and measurement of share-based payment transactions’	January 1, 2018
Amendments to IFRS 4, ‘Applying IFRS 9, Financial instruments with IFRS 4, Insurance contracts’	January 1, 2018
IFRS 9, ‘Financial instruments’	January 1, 2018
IFRS 15, ‘Revenue from contracts with customers’	January 1, 2018
Amendments to IFRS 15, ‘Clarifications to IFRS 15, Revenue from contracts with customers’	January 1, 2018
Amendments to IAS 7, ‘Disclosure initiative’	January 1, 2017

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IAS 12, 'Recognition of deferred tax assets for unrealised losses'	January 1, 2017
Amendments to IAS 40, 'Transfers of investment property'	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

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.

A. IFRS 9, 'Financial instruments'

- (a) Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset at amortised cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present subsequent changes in the fair value of an investment in an equity instrument that is not held for trading in other comprehensive income.
- (b) The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognise 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Group shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.
- (c) The Group has elected not to restate prior period financial statements using the modified retrospective approach under IFRS 9. For details of the significant effect as at January 1, 2018, please refer to Note 12(4) B.

B. IFRS 15, 'Revenue from contracts with customers' and amendments

- (a) IFRS 15, 'Revenue from contracts with customers' replaces IAS 11, 'Construction contracts', IAS 18, 'Revenue' and relevant interpretations. According to IFRS 15, revenue is recognized when a customer obtains control of promised goods or services. A customer obtains control of goods or services when a customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognizes revenue in accordance with that core principle by applying the following steps:

Step 1: Identify contracts with customer.

Step 2: Identify separate performance obligations in the contract(s).

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price.

Step 5: Recognise revenue when the performance obligation is satisfied.

Further, IFRS 15 includes a set of comprehensive disclosure requirements that requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

- (b) The Group has elected not to restate prior period financial statements and recognised the cumulative effect of initial application as retained earnings at January 1, 2018, using the modified retrospective approach under IFRS 15. The Group applied retrospectively IFRS 15 only to incomplete contracts as of January 1, 2018, by adopting an optional transition expedient. The significant effects of adopting the modified transition as of January 1, 2018 are summarised below:

<u>Affected items</u>	<u>Book value under previous revenue standard</u>	<u>Adjustment for initial application of IFRS 15</u>	<u>Adjusted amount after IFRS 15 adoption</u>
<u>January 1, 2018</u>			
Provisions-current	\$ 9,564	(\$ 9,564)	\$ -
Other current liabilities	-	9,564	9,564
Advance receipts	9,479	(9,479)	-
Contract liabilities	-	9,479	9,479
	<u>\$ 19,043</u>	<u>\$ -</u>	<u>\$ 19,043</u>

Presentation of assets and liabilities in relation to contracts with customers

In line with IFRS 15 requirements, the Group changed the presentation of certain accounts in the balance sheet as follows:

i. Under IFRS 15, liabilities in relation to expected volume discounts and refunds to customers are recognised as refund liabilities (shown as other current liabilities), but were previously presented as current provisions in the balance sheet. As of January 1, 2018, the balance amounted to \$9,564.

ii Under IFRS 15, liabilities are recognized as contract liabilities, but were previously presented as deferred revenue in the balance sheet. As of January 1, 2018, the balance amounted to \$9,479.

C. Amendments to IAS 7, 'Disclosure initiative'

This amendment requires that an entity shall provide more disclosures related to changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group expects to provide additional disclosure to explain the changes in liabilities arising from financing activities.

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

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

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

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

IFRS 16, 'Leases'

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.

The Group expects to recognise the lease contract of lessees in line with IFRS 16. However, the Group does not intend to restate the financial statements of the prior period (collectively referred herein as the "modified retrospective approach"). On January 1, 2019, it is expected that 'right-of-use asset' and lease liability will be increased by \$310,076 and \$58,020, respectively and prepaid lease will be decreased by \$252,056.

(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 applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers", International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs").

(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 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.

C. In adopting IFRS 9 effective January 1, 2018, the Group has elected to apply modified retrospective approach whereby the cumulative impact of the adoption was recognised as retained earnings or other equity as of January 1, 2018 and the financial statements for the year ended December 31, 2017 were not restated. The financial statements for the year ended December 31, 2017 were prepared in compliance with International Accounting Standard 39 ('IAS 39'), and related financial reporting interpretations. Please refer to Note 12(4) for details of significant accounting policies and details of significant accounts.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

- (a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
- (b) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- (c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.
- (d) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity.
- (e) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognised in profit or loss. All amounts previously recognised in other comprehensive income in relation to the subsidiary are reclassified to profit or loss on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognised in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

B. Subsidiaries included in the consolidated financial statements:

Name of investor	Name of subsidiary	Main business activities	Ownership(%)		Description
			December 31, 2018	December 31, 2017	
Cheng Mei Materials Technology Corporation ("CMMT")	Cheng Mei Materials Technology (SAMOA) Corp. ("CMMTS") (Formerly Chi Mei Materials Technology (SAMOA) Corp.) ("CMMTS")	Investment Company	100%	100%	
	CM Visual Technology Corporation ("CMVT") (Formerly Chi Mei Visual Technology Corporation) ("CMVT")	Electronic component manufacturing and selling	68.33%	68.33%	
	Chi Mei Materials Technology Investment Co., Ltd. ("CMMTI")	Investment Company	100%	100%	
	Mao Yu Investment Co., Ltd. ("MYI") (Formerly Chi Tsai Investment Co., Ltd.) ("CTI")	Investment Company	100%	100%	
	Mao Fong Trading Co., Ltd. ("MFT") (Formerly Chi Tsai Trading Co., Ltd.) ("CTT")	Trading business	100%	100%	
	Ki Kin Corporation ("KK")	Trading business	-	-	Note 3
	Ningbo Cheng Mei Materials Technology Co., Ltd. (Formerly Ningbo Chi Mei Materials Technology Co., Ltd.) ("NBCMMT")	Electronic component manufacturing and selling	100%	100%	
CMMTS					
CMMTI	Kunshan Chimei Materials Technology Co., Ltd. ("KSCMMT")	Electronic component manufacturing and selling	49.5%	49%	Notes 1、2
KSCMMT	Kunshan Chimei Materials Trading Corp. ("KSCMS")	Trading business	100%	100%	
	Xi'an Jinyahongtai New Materials Technology Co., Ltd. ("XJHM")	Electronic component manufacturing and selling	100%	-	Notes 4
MYI	CMVT	Electronic component manufacturing and selling	11%	13%	Notes 5
MFT	Mao Fong Group Co., Ltd. (Mao Fong Group)	Investment Company	-	-	Notes 6
Mao Fong Group	Kunshan Shin Mao Fong International Trading Co., Ltd.	Trading business	-	-	Notes 7

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 the 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, which resulted in the change of shareholding percentage.

Note 3 : KK whose original name was Jin Jiang Corporation ("JJ"), was invested in by Zhejiang Hengjie Co., Ltd. ("ZH") in the amount of JPY 23,000 thousand on June 29, 2016. ZH held a 100% interest in KK. On March 3, 2017, the Company injected JPY 47,000 thousand into JJ, which raised the Company's percentage of ownership over KK to 67.14%. The investment purpose was to reduce the cost of purchasing raw materials. However, the economic returns have not been as expected. The Company sold all of its shares in KK to ZH for JPY 47,000 thousand on December 25, 2017. Refer to Note 6(27).

Note 4 : XJHM was incorporated in October 2017. ZH held a 100% interest in XJHM. KSCMMT acquired the 100% interest of XJHM from ZH on March 12, 2018, so as to expand its production line and capacity.

Note 5 : 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(26).

Note 6 : The Group set up the company in August 2018, as of December 31, 2018, it has not paid the capital for shares.

Note 7 : The Group set up the company in December 2018, as of December 31, 2018, it has not paid the capital for shares.

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 December 31, 2018 and 2017, the non-controlling interest amounted to \$3,700,504 and \$1,935,541, respectively. The information of non-controlling interest and respective subsidiaries is as follows:

Name of subsidiary	Principal place of business	Non-controlling interest			
		December 31, 2018		December 31, 2017	
		Amount	Ownership (%)	Amount	Ownership (%)
KSCMMT	China	\$ 3,668,813	50.5	\$ 1,900,183	51

Summarised financial information of the subsidiaries:

Balance sheets

	Kunshan Chimei Materials Technology Co., Ltd.	
	December 31, 2018	December 31, 2017
Current assets	\$ 5,817,921	\$ 3,073,618
Non-current assets	8,696,270	6,526,196
Current liabilities	(7,052,337)	(5,873,870)
Non-current liabilities	(196,877)	(96)
Total net assets	\$ 7,264,977	\$ 3,725,848

Statements of comprehensive income

	Kunshan Chimei Materials Technology Co., Ltd.	
	Years ended December 31,	
	2018	2017
Revenue	\$ 4,907,223	\$ 1,488,216
Loss for the year	(\$ 765,974)	(\$ 622,275)
Total comprehensive loss for the year	(\$ 765,974)	(\$ 622,275)
Comprehensive loss attributable to non-controlling interest	(\$ 387,113)	(\$ 317,360)

Statements of cash flows

		Kunshan Chimei Materials Technology Co., Ltd.	
		Years ended December 31,	
		2018	2017
Net cash used in operating activities	(\$	349,360)	(\$ 1,815,146)
Net cash used in investing activities	(	3,946,904)	(1,740,562)
Net cash provided by financing activities		4,723,013	2,624,007
Increase (decrease) in cash and cash	\$	426,749	(\$ 931,701)

(4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan Dollars, which is the Company's functional and the Group's presentation currency.

A. Foreign currency transactions and balances

- (a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.
- (b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.
- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- (d) All other foreign exchange gain and losses based on the nature of those transactions are presented in the statement of comprehensive income within other gains and losses.

B. Translation of foreign operations

- (a) The operating results and financial position of all the group entities, associates and joint arrangements that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
 - ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
 - iii. All resulting exchange differences are recognised in other comprehensive income.
- (b) When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation. In addition, even when the Group retains partial interest in the former foreign subsidiary after losing control of the former foreign subsidiary, such transactions should be accounted for as disposal of all interest in the foreign operation.
- (c) Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rates at the balance sheet date.

(5) Classification of current and non-current items

- A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
- (a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;
 - (b) Assets held mainly for trading purposes;
 - (c) Assets that are expected to be realised within twelve months from the balance sheet date;
 - (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.
- B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:
- (a) Liabilities that are expected to be settled within the normal operating cycle;
 - (b) Liabilities arising mainly from trading activities;
 - (c) Liabilities that are to be settled within twelve months from the balance sheet date;
 - (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

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

- A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortised cost or fair value through other comprehensive income.

- B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value and recognises the transaction costs in profit or loss. The Group subsequently measures the financial assets at fair value, and recognises the gain or loss in profit or loss.
- D. The Group recognises the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

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

- A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Group has made an irrevocable election at initial recognition to recognise changes in fair value in other comprehensive income.
- B. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. The Group subsequently measures the financial assets at fair value:
The changes in fair value of equity investments that were recognised in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognised as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(9) Financial assets at amortised cost

- A. Financial assets at amortised cost are those that meet all of the following criteria:
 - (a) The objective of the Group's business model is achieved by collecting contractual cash flows.
 - (b) The assets' contractual cash flows represent solely payments of principal and interest.
- B. On a regular way purchase or sale basis, financial assets at amortised cost are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. Interest income from these financial assets is included in finance income using the effective interest method. A gain or loss is recognised in profit or loss when the asset is derecognised or impaired.
- D. The Group's time deposits which do not fall under cash equivalents are those with a short maturity period and are measured at initial investment amount as the effect of discounting is immaterial.

(10) Accounts and notes receivable

- A. Accounts and notes receivable entitle the Group a legal right to receive consideration in exchange for transferred goods or rendered services.
- B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(11) Impairment of financial assets

For financial assets at amortised cost, at each reporting date, the Group recognises the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognises the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable or contract assets that do not contain a significant financing component, the Group recognises the impairment provision for lifetime ECLs.

(12) Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expire.

(13) Operating leases (lessor)

Lease income from an operating lease (net of any incentives given to the lessee) is recognized in profit or loss on a straight-line basis over the lease term.

(14) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (allocated based on normal operating capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(15) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.
- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.

D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Buildings and structures	14 ~ 25 years
Machinery and equipment	4 ~ 10 years
Office equipment	3 ~ 5 years
Factory equipment	5 ~ 10 years
Other equipment	3 ~ 10 years

(16) Leased assets/operating leases (lessee)

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.

(17) Intangible assets

A. Computer software is stated at cost and amortised on a straight-line basis over its estimated useful life of 1 to 3 years.

B. Internally generated intangible assets—research and development expenditures

(a) Research expenditures are recognised as an expense as incurred.

(b) Development expenditures that do not meet the following criteria are recognised as expenses as incurred, but are recognised as intangible assets when the following criteria are met:

- i. It is technically feasible to complete the intangible asset so that it will be available for use or sale;
- ii. An entity intends to complete the intangible asset and use or sell it;
- iii. An entity has the ability to use or sell the intangible asset;
- iv. It can be demonstrated how the intangible asset will generate probable future economic benefits;
- v. Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- vi. The expenditure attributable to the intangible asset during its development can be reliably measured.

(c) Upon being available for use, internally generated intangible assets are amortised on a straight-line basis over their estimated useful life of 3 years.

C. Goodwill arises in a business combination accounted for by applying the acquisition method.

D. Core technology and licenses and franchises, are amortised on a straight-line basis over their estimated useful lives of 3~10 and 5 years, respectively.

(18) Impairment of non-financial assets

- A. The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Except for goodwill, when the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.
- B. The recoverable amounts of goodwill that have not yet been available for use are evaluated periodically. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment loss of goodwill previously recognised in profit or loss shall not be reversed in the following years.
- C. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units, or groups of cash-generating units, that is/are expected to benefit from the synergies of the business combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

(19) Borrowings

Borrowings comprise long-term and short-term bank borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

(20) Notes and accounts payable

- A. Accounts payable are liabilities for purchases of raw materials, goods or services and notes payable are those resulting from operating and non-operating activities.
- B. The short-term notes and accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(21) Financial liabilities at fair value through profit or loss

- A. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorised as financial liabilities held for trading unless they are designated as hedges.
- B. At initial recognition, the Group measures the financial liabilities at fair value. All related transaction costs are recognised in profit or loss. The Group subsequently measures these financial liabilities at fair value with any gain or loss recognised in profit or loss.

(22) Derecognition of financial liabilities

A financial liability is derecognised when the obligation specified in the contract is either discharged or cancelled or expires.

(23) Non-hedging derivatives

Non-hedging derivatives are initially recognised at fair value on the date a derivative contract is entered into and recorded as financial assets or financial liabilities at fair value through profit or loss. They are subsequently remeasured at fair value and the gains or losses are recognised in profit or loss.

(24) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognised as expense in that period when the employees render service.

B. Pensions

Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expense when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

C. Employees' compensation and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognised as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates.

(25) Income tax

A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.

B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

- C. Deferred tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.
- D. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.

(26) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.

(27) Revenue recognition

The Group identifies contracts with customers, allocates the transaction price to performance obligations, and recognizes revenue when performance obligations are satisfied.

Revenue from the sale of goods comes from the sale of polarizing film. Sales of polarizing film are recognized as revenue when the goods are delivered to the customer's specific location or the goods are shipped (according to the terms of trade), because it is the time when the customer has full discretion over the manner of distribution and the price to sell the goods, has the primary responsibility for sales to future customers, and bears the risks of obsolescence. Trade receivables are recognized concurrently.

The Group does not recognize revenue on materials delivered to subcontractors because this delivery does not involve a transfer of control.

(28) Government grants

Government grants are recognised at their fair value only when there is reasonable assurance that the Group will comply with any conditions attached to the grants and the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises expenses for the related costs for which the grants are intended to compensate.

(29) Business combinations

A. The Group uses the acquisition method to account for business combinations. The consideration transferred for an acquisition is measured as the fair value of the assets transferred, liabilities incurred or assumed and equity instruments issued at the acquisition date, plus the fair value of any assets and liabilities resulting from a contingent consideration arrangement. All acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. For each business combination, the Group measures at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to the proportionate share of the entity's net assets in the event of liquidation at either fair value or the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other non-controlling interests should be measured at the acquisition-date fair value.

B. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any previous equity interest in the acquiree over the fair value of the identifiable assets acquired and the liabilities assumed is recorded as goodwill at the acquisition date.

(30) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker. The Group's Chief Operating Decision-Maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

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

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

(1) Critical judgements in applying the Group's accounting policies

A. Revenue recognition on a net/gross basis

The Group determines whether the nature of its performance obligation is to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for the other party to provide those goods or services (i.e. the Group is an agent) based on the transaction model and its economic substance. The Group is a principal if it controls a promised good or service before it transfers the good or service to a customer. The Group recognises revenue at gross amount of consideration to which it expects to be entitled in exchange for those goods or services transferred. The Group is an agent if its performance obligation is to arrange for the provision of goods or services by another party. The Group recognises revenue at the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the other party to provide its goods or services. Indicators that the Group controls the good or service before it is provided to a customer include the following:

- (a) The Group is primarily responsible for the provision of goods or services;
- (b) The Group assumes the inventory risk before transferring the specified goods or services to the customer or after transferring control of the goods or services to the customer; and
- (c) The Group has discretion in establishing prices for the goods or services.

B. Control over subsidiaries

Note 4(3) describes that Kunshan Chimei Materials Technology Corp. ("KSCMMT") is a subsidiary of the Group although the Group only holds less than half of the voting power of KSCMMT. After considering the Group's absolute size of holding in KSCMMT and the contractual arrangements between the Group and other investors, and other factors, management concluded that the Group has a sufficiently dominant voting interest to direct the relevant activities of KSCMMT, and therefore, the Group has control over KSCMMT.

(2) Critical accounting estimates and assumptions

A. Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Group must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Group evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realisable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation.

As of December 31, 2018, the carrying amount of inventories was \$3,883,297.

B. Financial assets-fair value measurement of unlisted stocks without active market

The fair value of unlisted stocks held by the Group that are not traded in an active market is determined considering those companies' recent funding raising activities and technical development status, fair value assessment of other companies of the same type, market conditions and other economic indicators existing on balance sheet date. Any changes in these judgements and estimates will impact the fair value measurement of these unlisted stocks. Please refer to Note 12(3) for the financial instruments fair value information.

As of December 31, 2018, the carrying amount of unlisted stocks without active market was \$215,727.

C. Impairment of property, plant and equipment

The Group assesses impairment based on its subjective judgement and determines the separate cash flows of a specific group of assets, useful lives of assets and the future possible income and expenses arising from the assets depending on how assets are utilised and industrial characteristics. Any changes of economic circumstances or estimates due to the change of Group strategy might cause material impairment on assets in the future.

As of December 31, 2018, the Group recognised property, plant and equipment, net of impairment loss, amounting to \$10,693,045.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Cash on hand and revolving funds	\$ 851	\$ 586
Checking accounts and demand deposits	2,865,537	4,182,130
Time deposits	239,038	314,580
	<u>\$ 3,105,426</u>	<u>\$ 4,497,296</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>December 31, 2018</u>
Current items:	
Financial assets mandatorily measured at fair value through profit or loss	
Listed stocks	\$ 84,127
Derivatives	11,897
Debt instruments	<u>2,500</u>
	98,524
Valuation adjustment	(13,999)
	<u>\$ 84,525</u>
	<u>December 31, 2018</u>
Current items:	
Financial liabilities held for trading	
Short selling	\$ 2,725
Valuation adjustment	(44)
	<u>\$ 2,681</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>Year ended December 31, 2018</u>
Financial assets and liabilities mandatorily measured at fair value through profit or loss	
Equity instruments	(\$ 12,438)
Derivatives	<u>17,989</u>
	<u>\$ 5,551</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>December 31, 2018</u>	<u>December 31, 2017</u>
	Contract Amount (notional principal)	Contract Amount (notional principal)
Derivative Financial Assets	Contract Period	Contract Period
Current items:		
Forward exchange agreement	USD 3,000 thousand 2018.12~2019.03	-

The Group entered into forward foreign exchange contracts to buy USD (sell RMB buy USD) 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).

D. Information on financial liabilities at fair value through profit or loss as of December 31, 2017 are provided in Note 12(4).

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

Items	December 31, 2018
Non-current items:	
Equity instruments	
Unlisted stocks	\$ 340,000
Valuation adjustment	(124,273)
	<u>\$ 215,727</u>

A. The Group has elected to classify unlisted stocks 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 \$215,727 as at December 31, 2018.

B. The Group recognised \$124,273 in other comprehensive loss for fair value change for the year ended December 31, 2018.

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

(4) Financial assets at amortised cost

Items	December 31, 2018
Current items:	
Pledged deposit	\$ 1,253,226
Investment in debt instrument without active market	50,000
Time deposits with original maturities of more than three months	10,600
	<u>\$ 1,313,826</u>

A. As at December 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 \$1,313,826.

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).

D. Information on held-to-maturity financial assets and investments in debt instruments without active market as of December 31, 2017 is provided in Note 12(4).

(5) Notes and accounts receivable

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Notes receivable (including related parties)	\$ 205,426	\$ 488,957
Less: Allowance for uncollectible accounts	-	-
	<u>\$ 205,426</u>	<u>\$ 488,957</u>
Accounts receivable (including related parties)	\$ 4,399,358	\$ 3,062,993
Less: Allowance for uncollectible accounts	(1,628)	-
	<u>\$ 4,397,730</u>	<u>\$ 3,062,993</u>

A. The ageing analysis of accounts receivable and notes receivable that were past due but not impaired is as follows:

	<u>December 31, 2018</u>		<u>December 31, 2017</u>	
	<u>Accounts receivable</u>	<u>Notes receivable</u>	<u>Accounts receivable</u>	<u>Notes receivable</u>
Not past due	\$ 4,394,899	\$ 205,426	\$ 3,062,933	\$ 488,957
Up to 30 days	4,459	-	-	-
	<u>\$ 4,399,358</u>	<u>\$ 205,426</u>	<u>\$ 3,062,933</u>	<u>\$ 488,957</u>

The above ageing analysis was based on past due date.

B. As of December 31, 2018 and 2017, the Group had outstanding discounted notes receivable amounting to \$164,177 and \$0, 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 December 31, 2018 and 2017, 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 \$205,426 and \$488,957, \$4,397,730 and \$3,062,933, respectively.

D. Information relating to credit risk of accounts receivable and notes receivable is provided in Note 12(2).

(6) Inventories

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Raw materials	\$ 2,049,824	\$ 1,208,402
Work in progress	1,233,190	633,761
Finished goods	594,947	429,139
Commodities	5,336	11,408
	<u>\$ 3,883,297</u>	<u>\$ 2,282,710</u>

The cost of inventories recognized as expense for the years ended December 31, 2018 and 2017, was \$12,205,208 and \$10,627,260, respectively, including the amounts of \$332,579 and \$2,182, respectively, that the Group reversed from a previous inventory write-down and accounted for as reduction of cost of goods sold because of the clearance of inventories that was already provisioned loss in market value decline.

(7) Other receivables

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Financing provided to others (Note)	\$ 68,681	\$ -
Others	<u>46,296</u>	<u>160,660</u>
	<u>\$ 114,977</u>	<u>\$ 160,660</u>

Note : This represents the accounts receivable and the advance payment of inventory 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	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	-	96,426	160,669	11,657	52,331	17,120	463,959	802,162
Disposals	-	(7,754)	(72,729)	(161)	(1,329)	(595)	-	(82,568)
Reclassifications	-	(14,143)	446,345	-	28,602	(1,606)	(425,580)	33,618
Depreciation charge	-	(333,431)	(415,589)	(9,356)	(300,010)	(37,841)	-	(1,096,227)
Net exchange differences	-	(71,979)	(37,964)	(178)	(18,396)	(1,548)	(3,570)	(133,635)
Closing net book amount as at December 31	<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>At December 31, 2018</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>

	Land	Buildings and structures	Machinery and equipment	Office equipment	Factory equipment	Miscellaneous equipment	Construction in progress	Total
<u>At January 1, 2017</u>								
Cost	\$ 1,428,543	\$ 3,623,114	\$ 5,369,247	\$ 64,869	\$ 3,555,780	\$ 235,103	\$ 4,179,165	\$ 18,455,821
Accumulated depreciation and impairment	-	(1,153,251)	(4,200,351)	(40,858)	(2,957,587)	(186,792)	(277,163)	(8,816,002)
	<u>\$ 1,428,543</u>	<u>\$ 2,469,863</u>	<u>\$ 1,168,896</u>	<u>\$ 24,011</u>	<u>\$ 598,193</u>	<u>\$ 48,311</u>	<u>\$ 3,902,002</u>	<u>\$ 9,639,819</u>
<u>2017</u>								
Opening net book amount as at January 1	\$ 1,428,543	\$ 2,469,863	\$ 1,168,896	\$ 24,011	\$ 598,193	\$ 48,311	\$ 3,902,002	\$ 9,639,819
Additions	-	872,167	187,994	2,184	199,522	50,101	1,011,815	2,323,783
Disposals	-	-	(356)	(1)	-	-	-	(357)
Reclassifications	-	2,682,008	1,235,033	3,997	868,178	52,487	(4,747,614)	94,089
Depreciation charge	-	(280,546)	(395,592)	(9,068)	(254,918)	(27,918)	-	(968,042)
Net exchange differences	-	86,087	9,624	(77)	14,555	1,039	(30,825)	80,403
Closing net book amount as at December 31	<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>At December 31, 2017</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>

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:

	Year ended December 31, 2018	Year ended December 31, 2017
Amount capitalised	\$ 8,799	\$ 21,896
Range of the interest rates for capitalisation	2.00%~2.69%	3.2%

B. As of December 31, 2018 and 2017, the accumulated impairment of property, plant and equipment was \$268,459 and \$274,041 and the reportable segment was in Mainland China.

(9) Intangible assets

	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	19,942	-	-	-	19,942
Additions-from internal development	-	21,028	-	-	21,028
Reclassifications	4,542	-	-	-	4,542
Amortisation charge	(39,416)	(7,036)	-	(1,840)	(48,292)
Net exchange differences	(645)	(361)	-	-	(1,006)
At December 31	<u>\$ 48,481</u>	<u>\$ 34,389</u>	<u>\$ 8,056</u>	<u>\$ 920</u>	<u>\$ 91,846</u>
<u>At December 31, 2018</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>

	Computer Software	Core Technology	Goodwill	Licenses and Franchises	Total
<u>At January 1, 2017</u>					
Cost	\$ 69,525	\$ 47,000	\$ 8,056	\$ 9,200	\$ 133,781
Accumulated amortisation and impairment	(49,031)	(21,542)	-	(4,600)	(75,173)
	<u>\$ 20,494</u>	<u>\$ 25,458</u>	<u>\$ 8,056</u>	<u>\$ 4,600</u>	<u>\$ 58,608</u>
<u>2017</u>					
At January 1	\$ 20,494	\$ 25,458	\$ 8,056	\$ 4,600	\$ 58,608
Additions-acquired separately	29,760	-	-	-	29,760
Additions-acquired through business	-	-	873	-	873
Disposals	-	-	(873)	-	(873)
Reclassifications	41,937	-	-	-	41,937
Amortisation charge	(27,986)	(4,700)	-	(1,840)	(34,526)
Net exchange differences	(147)	-	-	-	(147)
At December 31	<u>\$ 64,058</u>	<u>\$ 20,758</u>	<u>\$ 8,056</u>	<u>\$ 2,760</u>	<u>\$ 95,632</u>
<u>At December 31, 2017</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>

Details of amortisation on intangible assets are as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
Cost of sales	\$ 8,927	\$ 8,224
General and administrative expenses	32,825	19,709
Research and development expenses	6,540	6,593
	<u>\$ 48,292</u>	<u>\$ 34,526</u>

(10) Other assets

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Current		
Temporary payments	\$ 27,565	\$ 102,720
Pledged time deposits	-	265,739
Prepayments for leases	5,648	5,765
Payments on behalf of others	5,483	36
Other financial assets	-	7,800
Other	5,186	-
	<u>\$ 43,882</u>	<u>\$ 382,060</u>
	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Non-Current		
Prepayments for technical royalty	\$ 786,006	\$ 201,812
Prepayments for leases	246,408	257,297
Refundable deposits	11,368	14,202
Others	10,450	2,506
	<u>\$ 1,054,232</u>	<u>\$ 475,817</u>

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

(11) Short-term borrowings

<u>Type of borrowings</u>	<u>December 31, 2018</u>	<u>Interest rate range</u>	<u>Collateral</u>
Bank borrowings			
Bank secured borrowings			
- Transferred receivables	\$ 164,177	4.02%~4.62%	Notes receivable
Bank unsecured borrowings	5,277,148	0.59%~5.66%	-
	<u>\$ 5,441,325</u>		
<u>Type of borrowings</u>	<u>December 31, 2017</u>	<u>Interest rate range</u>	<u>Collateral</u>
Bank borrowings			
Bank unsecured borrowings	<u>\$ 3,813,259</u>	0.68%~5.25%	-

Information about interest expense recognised in profit or loss is provided in Note 6(21).

(12) Other payables

	December 31, 2018	December 31, 2017
Payables for purchase of equipment	\$ 375,950	\$ 933,040
Payables for salaries or bonuses	275,416	261,173
Payables for annual leave	38,304	38,395
Payables for insurance premiums	17,641	16,642
Payables for interest	22,225	13,297
Accrued taxes payable	23,574	16,505
Payables for purchases of land or buildings	12,709	3,831
Others	310,392	199,008
	<u>\$ 1,076,211</u>	<u>\$ 1,481,891</u>

(13) Long-term borrowings

Type of borrowings	December 31, 2018	December 31, 2017
<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.	\$ 3,161,300	\$ 2,639,833
<u>Borrowings</u>		
Repayable monthly on interest from December 17, 2018.	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	11,940	-
	3,373,240	2,639,833
Less: Current portion	(3,170,244)	(2,639,833)
	<u>\$ 202,996</u>	<u>\$ -</u>
Interest rate range	<u>1.5%~6.18%</u>	<u>3.81%</u>

A. Information on interest expense recognised in profit or loss is provided in Note 6(21).

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 December 31, 2018 and 2017, in the amounts of \$3,161,300 and \$2,639,833 respectively.

(14) 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 and XJHM 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 years ended December 31, 2018 and 2017, were \$78,038 and \$75,131, respectively.

(15) Share capital

- A. As of December 31, 2018, 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)	
	2018	2017
At January 1	665,729	515,729
Cash capital increase	-	150,000
At December 31	<u>665,729</u>	<u>665,729</u>

B. GDRS

- (a) On December 20, 2016, the Company’s Board of Directors approved to increase its capital by the issuance of 150,000 thousand shares of common shares by sponsoring the issuance of global depositary receipts (GDRs), which was approved by the FSC. Each GDR represents 40 common shares, which have been listed on the SGX since September 12, 2017, with a per-unit issue price of USD17.31 and a total amount of USD 64,913 thousand. As of December 31, 2018, 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.

(16) 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.

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
Changes in equity of subsidiaries	-	-	(8,793)	(8,793)
At December 31	<u>\$ 803,494</u>	<u>\$ 6,776</u>	<u>\$ 41,419</u>	<u>\$ 851,689</u>

2017

	Share premium	Difference between consideration and carrying amount of subsidiaries acquired or disposed	Changes in ownership interests in subsidiaries	Total
At January 1	\$ 400,487	\$ 3,062	\$ 50,212	\$ 453,761
Cash capital increase	403,007	-	-	403,007
At December 31	<u>\$ 803,494</u>	<u>\$ 3,062</u>	<u>\$ 50,212</u>	<u>\$ 856,768</u>

(17) 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 Group 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. The appropriation of earnings for 2018 was approved in the shareholders' meeting on March 28, 2019.

(18) 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>Year ended December 31, 2018</u>	<u>Taiwan</u>	<u>China</u>	<u>Total</u>
Total segment revenue	\$ 4,040,256	\$ 8,726,906	\$ 12,767,162
Inter-segment revenue	4,238,318	537,672	4,775,990
Elimination of internal transaction	(4,238,318)	(537,672)	(4,775,990)
Revenue from external customer	<u>\$ 4,040,256</u>	<u>\$ 8,726,906</u>	<u>\$ 12,767,162</u>

B. Contract liabilities

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

	<u>December 31, 2018</u>
Contract liabilities – sale of goods	<u>\$ 33,760</u>
Revenue recognised that was included in the contract liability balance at the beginning of the period	
	<u>Year ended</u>
	<u>December 31, 2018</u>
Revenue recognised that was included in the contract liability balance at the beginning of the period	
Sale of goods	<u>\$ 9,428</u>

C. The revenue and costs arising from triangular trade 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 year ended December 31, 2017, thereon the operating revenue and operating costs are as follows:

	<u>Year ended</u>
	<u>December 31, 2017</u>
Before restatement	
Net sales	\$ 11,440,772
Cost of sales	(12,189,884)
	<u>(\$ 749,112)</u>

After restatement	<u>December 31, 2017</u>
Net sales	\$ 9,878,148
Cost of sales	(10,627,260)
	<u>(\$ 749,112)</u>

(19) Other income

	<u>Year ended</u> <u>December 31, 2018</u>	<u>Year ended</u> <u>December 31, 2017</u>
Interest income	\$ 28,568	\$ 21,474
Rental income	596	810
Dividend income	430	-
Government grants	11,461	5,758
Others	58,461	19,848
	<u>\$ 99,516</u>	<u>\$ 47,890</u>

(20) Other gains and losses

	<u>Year ended</u> <u>December 31, 2018</u>	<u>Year ended</u> <u>December 31, 2017</u>
Gains on disposals of investments	\$ 787	\$ 1,348
(Losses) gains on disposals of property, plant and equipment	(7,315)	36
Foreign exchange losses	(252,553)	14,449
Gains on financial assets (liabilities) at fair value through profit or loss	4,334	51,478
Others	(20,181)	(168)
	<u>(\$ 274,928)</u>	<u>\$ 67,143</u>

(21) Finance costs

	<u>Year ended</u> <u>December 31, 2018</u>	<u>Year ended</u> <u>December 31, 2017</u>
Interest expense - bank borrowings	\$ 290,580	\$ 124,319
Others	-	2,508
	<u>\$ 290,580</u>	<u>\$ 126,827</u>

(22) Expenses by nature

	Year ended December 31, 2018	Year ended December 31, 2017
Employee benefit expense	\$ 1,604,720	\$ 1,712,310
Depreciation charges on property, plant and equipment	1,096,227	968,042
Amortisation charges on intangible assets	48,292	34,526
Amortisation charges on prepayment for leases	5,759	5,551

(23) Employee benefit expense

	Year ended December 31, 2018	Year ended December 31, 2017
Post-employment benefits	\$ 78,038	\$ 75,131
Short-term employee benefits	1,526,682	1,637,179
	<u>\$ 1,604,720</u>	<u>\$ 1,712,310</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 years ended December 31, 2018 and 2017; 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.

(24) Income tax

A. Income tax (expense) benefit

	Year ended December 31, 2018	Year ended December 31, 2017
Current tax:		
Current tax on (loss) profit in current period	\$ 9,464	\$ 4,560
Prior year income tax (over) underestimation	9	(985)
Total current tax	<u>9,473</u>	<u>3,575</u>
Deferred tax:		
Origination and reversal of temporary differences	(24,944)	(136,466)
Impact of change in tax rate	(9,243)	-
Total deferred tax	<u>(34,187)</u>	<u>(136,466)</u>
Income tax benefit	<u>(\$ 24,714)</u>	<u>(\$ 132,891)</u>

B. Reconciliation between income tax benefit and accounting loss:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Tax calculated based on loss before tax and statutory tax rate (note)	(\$ 311,785)	(\$ 426,117)
Expenses disallowed by tax regulation	53,701	872
Temporary differences not recognised as deferred tax assets	28,826	9,781
Taxable loss not recognised as deferred tax assets	204,535	283,558
Prior year income tax (over) underestimation	9	(985)
Income tax benefit	<u>(\$ 24,714)</u>	<u>(\$ 132,891)</u>

Note: The basis for computing the applicable tax rate are the rates applicable in the respective countries where the Group entities operate.

C. Amounts of deferred tax assets or liabilities as a result of temporary differences and tax losses are as follows:

	<u>2018</u>				
	<u>January 1</u>	<u>Recognised in profit or loss</u>	<u>Reclassification</u>	<u>Effect of foreign exchange</u>	<u>December 31</u>
Temporary differences:					
- Deferred tax assets:					
Allowance for obsolescence and decline in market value of inventories	\$ 68,731	\$ 36,979	\$ -	(\$ 714)	\$ 104,996
Unrealised gain on financial assets	59	-	-	-	59
Deferred revenue	4,160	-	-	-	4,160
Unrealized exchange gain	108	-	-	-	108
Provision	2,074	-	-	-	2,074
Others	(11,683)	(2,792)	15,727	(3)	1,249
	<u>63,449</u>	<u>34,187</u>	<u>15,727</u>	<u>(717)</u>	<u>112,646</u>
-Deferred tax liabilities:					
Gain on foreign investment accounted for under equity method	(6,768)	-	-	-	(6,768)
Others	(179)	-	(15,727)	-	(15,906)
	<u>(6,947)</u>	<u>-</u>	<u>(15,727)</u>	<u>-</u>	<u>(22,674)</u>
Total	<u>\$ 56,502</u>	<u>\$ 34,187</u>	<u>\$ -</u>	<u>(\$ 717)</u>	<u>\$ 89,972</u>

	2017		
	January 1	Recognised in profit or loss	December 31
Temporary differences:			
- Deferred tax assets:			
Allowance for obsolescence and decline in market value of inventories	\$ 70,800	(\$ 2,069)	\$ 68,731
Unrealised gain on financial assets	3,370	(3,311)	59
Deferred revenue	952	3,208	4,160
Unrealized exchange gain	(51,687)	51,795	108
Provision	575	1,499	2,074
Others	(13,557)	1,874	(11,683)
	<u>10,453</u>	<u>52,996</u>	<u>63,449</u>
-Deferred tax liabilities:			
Gain on foreign investment accounted for under equity method	(93,033)	86,265	(6,768)
Others	(179)	-	(179)
	<u>(93,212)</u>	<u>86,265</u>	<u>(6,947)</u>
Total	(\$ 82,759)	\$ 139,261	\$ 56,502

D. Expiration dates of unused tax losses and amounts of unrecognized deferred tax assets are as follows:
The company and its domestic subsidiaries:

December 31, 2018					
Year incurred	Amount filed/ assessed	Imputation credit amount	Unused amount	Unrecognised deferred tax assets	Expiry year
2010	Amount assessed	\$ 4,714	\$ 4,714	\$ 4,714	2020
2011	Amount assessed	38,616	38,616	38,616	2021
2012	Amount assessed	52,328	52,328	52,328	2022
2013	Amount assessed	35,846	35,846	35,846	2023
2014	Amount assessed	16,480	16,480	16,480	2024
2015	Amount assessed	4,767	4,767	4,767	2025
2016	Amount assessed	1,134,124	1,134,124	1,134,124	2026
2017	Amount filed	559,936	559,936	559,936	2027
2018	Expected filed amount	413,382	413,382	413,382	2028

Foreign subsidiaries:

December 31, 2018					
Year incurred	Amount filed/ assessed	Imputation credit amount	Unused amount	Unrecognised deferred tax assets	Expiry year
2016	Amount filed	\$ 204,336	\$ 204,336	\$ 204,336	2021
2017	Amount filed	837,906	837,906	837,906	2022
2018	Expected amount filed	181,260	181,260	181,260	2023

The company and its domestic subsidiaries:

December 31, 2017					
Year incurred	Amount filed/ assessed	Imputation credit amount	Unused amount	Unrecognised deferred tax assets	Expiry year
2010	Amount assessed	\$ 4,714	\$ 4,714	\$ 4,714	2020
2011	Amount assessed	38,616	38,616	38,616	2021
2012	Amount assessed	52,328	52,328	52,328	2022
2013	Amount assessed	35,846	35,846	35,846	2023
2014	Amount assessed	16,480	16,480	16,480	2024
2015	Amount assessed	4,767	4,767	4,767	2025
2016	Amount filed	1,166,927	1,166,927	1,166,927	2026
2017	Expected amount filed	559,251	559,251	559,251	2027

Foreign subsidiaries:

December 31, 2017					
Year incurred	Amount filed/ assessed	Imputation credit amount	Unused amount	Unrecognised deferred tax assets	Expiry year
2014	Amount filed	\$ 207	\$ 207	\$ 207	2019
2015	Amount filed	2,739	2,739	2,739	2020
2016	Amount filed	207,025	207,025	207,025	2021

E. The amounts of deductible temporary difference that are not recognized as deferred tax assets are as follows:

	December 31, 2018	December 31, 2017
Deductible temporary differences	<u>\$ 1,053,908</u>	<u>\$ 1,073,470</u>

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

G. 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.

(25) Loss per share

Year ended December 31, 2018		
	Weighted average number of ordinary shares outstanding	Loss per share
	(share in thousands)	(in dollars)
<u>Amount after tax</u>		
<u>Basic and diluted loss per share</u>		
Loss attributable to ordinary shareholders of the parent	(\$ 655,080) 665,729	(\$ 0.98)
Year ended December 31, 2017		
	Weighted average number of ordinary shares outstanding	Loss per share
	(share in thousands)	(in dollars)
<u>Amount after tax</u>		
<u>Basic and diluted loss per share</u>		
Loss attributable to ordinary shareholders of the parent	(\$ 1,226,260) 561,345	(\$ 2.18)

(26) Transactions with non-controlling interest

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

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

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

	CMVT
Cash consideration received	\$ 6,000
Proportionate share of the carrying amount of the net assets of the subsidiary transferred from non-controlling interests	(2,286)
Differences recognized from equity transactions	<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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B. The Group did not participate in the capital increase raised by a subsidiary proportionally to its interest to the subsidiary.

The Group and another shareholder of KSCMMT increased their equity capital of KSCMMT by US\$73 million respectively over the period of May to December, 2018. The transaction increased non-controlling interest by \$2,219,883 and decreased equity attributable to owners of parent by \$8,793.

The effect of changes in interest in KSCMMT on the equity attributable to owners of the parent for the year ended December 31, 2018 is shown below:

	<u>December 31, 2018</u>
Cash	\$ 2,211,090
Increase in the carrying amount of non-controlling interest	(2,219,883)
Capital surplus - recognition of changes in ownership interest in subsidiaries	(\$ 8,793)

(27) Business combinations

Subsidiaries acquired

A. Subsidiaries acquired

	Principal Activity	Date of Acquisition	Proportion of Voting Equity Interests Acquired (%)	Consideration Transferred
KK	Trade	March 3, 2017	67.14	\$ 12,878

KK was acquired in year 2017 in order to reduce the cost of purchasing materials.

B. Considerations transferred

	<u>KK</u>
Cash	\$ 12,878

C. Assets acquired and liabilities assumed at the dates of acquisition

	<u>KK</u>
Current assets	
Cash	\$ 18,221
Other receivables and other current assets	207
Non-current assets	
Other assets	137
Current liabilities	
Other payables and other current liabilities	(684)
	<u>\$ 17,881</u>

D. Goodwill recognized on acquisitions

	<u>KK</u>
Consideration transferred	\$ 12,878
Plus: Non-controlling interests (32.86% in KK)	5,876
Less: Fair value of identifiable net assets acquired	(17,881)
Goodwill recognized on acquisitions	<u>\$ 873</u>

The goodwill recognized in the acquisition of KK mainly belongs to the control premium. In addition, the consideration paid for the business combination includes expected combined synergies, revenues growth, future market development and the employee value of KK. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The total amount of acquisition goodwill was not deductible for tax purposes.

E. Net cash inflow on acquisitions of subsidiaries

	KK
Consideration paid in cash	\$ 12,878
Less: Cash balances acquired	(18,221)
	(\$ 5,343)

F. Impact of acquisitions on the results of the Group

Since the acquisition date, the operating results from the acquired company are as follows:

	KK
Revenue	\$ -
Net loss	(\$ 1,096)

Had these business combinations been in effect at the start date of fiscal year, the Group's revenue from continuing operations would have been \$9,878,148 (restated) and the loss from continuing operations would have been \$1,550,026 for the year ended December 31, 2017. This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and operating results of the Group that actually would have been achieved had the acquisition been completed on January 1, 2017 and sustained until December 31, 2017 nor is it intended to be a projection of future results.

Disposals of subsidiaries

On December 21, 2017, the Group entered into a sale agreement with its affiliate, Zhejiang Hengjie Co., Ltd., to dispose KK. The disposal was completed on December 25, 2017, on which date the control of KK passed to the acquirer.

A. Consideration received from disposals

	KK
Sales proceeds receivable (JPY 47,000 thousand)	\$ 12,436

B. Analysis of assets and liabilities on the date control was lost

	<u>KK</u>
Current assets	
Cash and cash equivalents	\$ 13,861
Accounts receivable	517
Other receivables	248
Non-current assets	
Goodwill	873
Refundable deposits	215
Other non-current assets	126
Current liabilities	
Advance receipts and other current liabilities	(249)
Net assets disposed of	<u>\$ 15,591</u>

C. Gain on disposals of subsidiaries

	<u>KK</u>
Consideration received	\$ 12,436
Net assets disposed of	(15,591)
Non-controlling interests	4,839
Reclassification of other comprehensive income in respect of KK	(381)
Gain on disposals	<u>\$ 1,303</u>

D. Net cash inflows on disposals of subsidiaries

	<u>KK</u>
Proceeds from disposals	\$ 12,436
Less: Remaining proceeds receivable	(12,436)
Consideration received in cash and cash equivalents	-
Less: Cash and cash equivalents balance disposed of	(13,861)
	<u>(\$ 13,861)</u>

(28) Supplemental cash flow information

1. Investing activities with partial cash payments

	Year ended <u>December 31, 2018</u>	Year ended <u>December 31, 2017</u>
Purchase of property, plant and equipment	\$ 802,162	\$ 2,323,783
Add: Opening balance of payable on equipment	933,040	295,784
Less: Ending balance of payable on equipment	(375,950)	(933,040)
Cash paid during year ended December 31, 2018	<u>\$ 1,359,252</u>	<u>\$ 1,686,527</u>

2. Investing activities with no cash flow effects

	Year ended December 31, 2018	Year ended December 31, 2017
Prepayments for equipment transferred to property, plant and equipment	\$ 48,042	\$ 136,026
Property, plant and equipment transferred to other intangible assets	\$ 209	\$ 41,937
Property, plant and equipment transferred to prepayments	\$ 5,994	\$ -
Property, plant and equipment transferred to expenses	\$ 8,221	\$ -
Other non-current assets transferred to other intangible assets	\$ 4,333	\$ -

(29) Changes in liabilities from financing activities

	Short-term borrowings	Short-term notes payable	Long-term borrowings	Liabilities from financing activities- gross
At January 1, 2018	\$ 3,813,259	\$ 100,000	\$ 2,639,833	\$ 6,553,092
Changes in cash flow from financing activities	1,564,674	(100,000)	630,889	2,095,563
Effect of foreign exchange	63,392	-	102,518	165,910
At December 31, 2018	\$ 5,441,325	\$ -	\$ 3,373,240	\$ 8,814,565

(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 December 31, 2018, the balance of this deferred revenue is \$205,116, which is shown as “other current liabilities” amounting to \$11,239 and “other non-current liabilities” amounting to \$193,877. For the year ended December 31, 2018, the revenue realized based on the service life of the factory was \$11,461.

In August 2016, the Company applied for a government grant of \$16,524 towards its project related to an industrial upgrading innovation platform from the Institute for Information Industry. The period of the grant is from January 1, 2016 to June 30, 2017. The Group complied with the conditions attached to such government grant, for the year ended December 31, 2017, the revenue recognized as other income was \$5,758.

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

<u>Names of related parties</u>	<u>Relationship with the Group</u>
Tree Valley Foundation	Affiliates
Hangzhou Jinjiang Group Co., Ltd ("HJ")	Affiliates (Note 1)
Zhejiang Hengjie Co., Ltd. ("ZH")	Affiliates (Note 2)
Zhejiang Piao Chen Environmental Co., Ltd. ("PC")	Affiliates
Zhejiang Zhengjie Commercial and Trading Co., Ltd. ("ZZ")	Affiliates
Lulin Optoelectronics (Kunshan) Co., Ltd. ("LL")	Affiliates
Ki Kin Corporation ("KK")	Affiliates (Note 3)
Shenzhen SAPO Photoelectric Co., Ltd. ("SAPO")	Affiliates (Note 4)
Jun Hong Optronics Corporation ("JH")	Affiliates (Note 5)
Bao Dui International Limited (BAO DUI)	Affiliates (Note 6)
Yeh Mei Li	The vice chairman of the group (Note 7)

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

Note 2: It is the subsidiary fully-owned by HJ.

Note 3: KK was acquired on March 3, 2017 and was disposed of on December 25, 2017. For the details of the acquisition and disposal of KK, refer to Note 6 (27).

Note 4: The vice chairman of KSCMMT, Huang Yuan, has served as general manager of SAPO since September 13, 2018.

Note 5: During the transaction, Mei-Li, Yeh served as the general manager and director of the company.

Note 6: The Company's representative is the first degree of kinship of Mei-Li, Yeh.

Note 7: She has served as the vice chairman of the Group since July 18, 2018.

(2) Significant related party transactions

A. Operating revenue:

	<u>Year ended</u> <u>December 31, 2018</u>	<u>Year ended</u> <u>December 31, 2017</u>
Sales of goods:		
Affiliates	\$ <u>181,572</u>	\$ <u>248,727</u>

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

B. Purchases:

	Year ended December 31, 2018	Year ended December 31, 2017
SAPO	\$ 257,620	\$ -
JH	76,854	-
	<u>\$ 334,474</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:

	December 31, 2018	December 31, 2017
Accounts receivable:		
Affiliates	<u>\$ 197,791</u>	<u>\$ -</u>
Notes receivable:		
Affiliates	<u>\$ 18,806</u>	<u>\$ 4,565</u>
Other receivables		
Bao Dui (Note 1)	\$ 88,256	\$ -
ZZ (Note 2)	91,495	-
Affiliates	-	12,422
	179,751	12,422
Less: Allowance for credit losses	<u>(91,495)</u>	<u>-</u>
	<u>\$ 88,256</u>	<u>\$ 12,422</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 28, 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

	December 31, 2018	December 31, 2017
Accounts payable		
SAPO	<u>\$ 375,639</u>	<u>\$ -</u>

E. Contract liabilities

	December 31, 2018	December 31, 2017
JH	<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 December 31, 2018 is \$27,060. 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 December 31, 2018, the advance payment has been returned in full.

H. Disposals of subsidiaries-KK

	December 31, 2018		December 31, 2017	
	Disposal proceeds	Gain on disposal	Disposal proceeds	Gain on disposal
ZH	\$ -	\$ -	\$ 12,436	\$ 1,303

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

	December 31, 2018	December 31, 2017
HJ	\$ 1,454,198	\$ 1,214,323

(3) Key management compensation

	Year ended December 31, 2018	Year ended December 31, 2017
Salaries and other short-term employee benefits	\$ 14,309	\$ 17,817
Post-employment benefits	296	352
	<u>\$ 14,605</u>	<u>\$ 18,169</u>

8. PLEDGED ASSETS

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

Pledged asset	Book value		Purpose
	December 31, 2018	December 31, 2017	
Pledged deposits (Note)	\$ 1,253,226	\$ 265,739	Provided as collateral for the letters of credit for purchases of raw materials
Notes receivable	164,177	-	Short term loan resulting from notes receivable factoring
	<u>\$ 1,417,403</u>	<u>\$ 265,739</u>	

Note: Pledged certificates of deposit is categorized as "financial assets at amortized cost" on December 31, 2018, and it is categorized as "other current assets" on December 31, 2017.

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 December 31, 2018 and 2017, were as follows:

A. As of December 31, 2018 and 2017, unused letters of credit for purchases of raw materials and equipment were as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
JPY	\$ 9,490,383	\$ 4,460,264
EUR	-	402
USD	15,744	3,587
TWD	20,454	-

B. As of December 31, 2018 and 2017, the amounts of guarantees provided by financial institutions for the purpose of importing goods were \$183,880 and \$11,424, respectively.

C. As of December 31, 2018 and 2017, the unpaid amounts of the construction contracts that the Group entered into for the expansion of factories and machinery equipment were \$1,984,517 and \$910,917, 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 December 31, 2018 and 2017, KSCMMT's unpaid amount was JPY 4.5 billion and JPY 6.75 billion, respectively.

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

(1) The Group brought a civil lawsuit against Chi Mei Corporation claiming for the disgorgement of gains from stock trading. On January 28, 2019, Taiwan High Court Tainan Branch Court has made its decision. On February 14, 2019, Chi Mei Corporation has remitted the gains of \$11,033 and interest of \$1,573 to the Company's specific account as the Court ruled.

(2) Under the resolution of the Board of Directors on March 11, 2019, the Group will increase its investments by US\$100,966 thousand in KSCMMT by acquiring shares with a percentage not less than the previous ownership. The Group will acquire the shares given up by other shareholders until it reaches the maximum consideration of US\$110 million. As of the reporting date, the Group has not made payments.

(3) The Group initiates debt negotiation as resolved by the Board of Directors on March 22, 2019. Please refer to Note 12(5) for details.

- (4) 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.
- (5) Due to the suspended bank credit line, the board approved the loan of \$390,000 from Mao Fong Trading Co. Ltd. on January 30, 2019. And for working capital requirements, our subsidiary, Mao Fong Trading Co. and Mao Yu Investing Co., conducted a capital reduction approved by the Board on March 18, 2019. Mao Fong Trading Co. repatriated \$300,000 and Mao Yu Investing Co. repatriated \$100,000. Mao Fong Trading Co.'s existing borrowing with the Company is \$390,000, which is part of the amount of this reduction. The original loan is extinguished.
- (6) 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 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.

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 capital structure of the Group consists of net debt (borrowings offset by cash and cash equivalents) and equity of the Group (comprising issued capital, reserves, retained earnings, other equity and non-controlling interests) and equity attributable to the owners of the Company (comprising issued capital, reserves, retained earnings and other equity).

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 December 31, 2018 and 2017, were as follows:

	December 31, 2018	December 31, 2017
Total liabilities	\$ 13,049,148	\$ 10,177,320
Total assets	\$ 27,233,917	\$ 23,458,591
Gearing ratio	48%	43%

(2) Financial instruments

A. Financial instruments by category

	December 31, 2018	December 31, 2017
<u>Financial assets</u>		
Financial assets at fair value through profit or loss		
Financial assets mandatorily measured at fair value through profit or loss	\$ 84,525	\$ -
Financial assets at fair value through other comprehensive income		
Designation of equity instrument	\$ 215,727	\$ -
Financial assets at amortised cost/Loans and receivables		
Cash and cash equivalents	\$ 3,105,426	\$ 4,497,296
Financial assets at amortised cost	1,313,826	-
Notes receivable	205,426	488,957
Accounts receivable	4,397,730	3,062,933
Other receivables	203,233	173,082
Refundable deposits	11,368	14,202
Other financial assets	-	273,539
	<u>\$ 9,237,009</u>	<u>\$ 8,510,009</u>

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Financial liabilities</u>		
Financial liabilities at fair value through profit or loss		
Financial liabilities held for trading	\$ 2,681	\$ 349
Financial liabilities at amortised cost		
Short-term borrowings	\$ 5,441,325	\$ 3,813,259
Short-term notes and bills payable	-	100,000
Notes payable	156,037	132,463
Accounts payable	2,725,787	1,974,351
Other payables	1,076,211	1,481,891
Long-term borrowings (including current portion)	3,373,240	2,639,833
Guarantee deposits received	49	171
	<u>\$ 12,772,649</u>	<u>\$ 10,141,968</u>

B. Financial risk management policies

- (a) The Group's Corporate Treasury function monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.
- (b) The Group sought to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives was governed by the Group's policies approved by the board of directors, which provided written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments and the investment of excess liquidity. Compliance with policies and exposure limitations was reviewed by the internal auditors on a continuous basis. The Group did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.
- (c) The Group Treasury function is an independent body that monitors risks and policies implemented to mitigate risk exposures.

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 forward exchange contracts. However, the Group does not adopt hedging accounting. Details of financial assets or liabilities at fair value through profit or loss are provided in Note 12(4).
- 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:

December 31, 2018			
	Foreign currency amount	Exchange rate	Book value
	(In thousands)		(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
EUR:NTD	29	35.20	1,021
RMB:NTD	131,436	4.47	587,519
December 31, 2017			
	Foreign currency amount	Exchange rate	Book value
	(In thousands)		(NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 145,700	29.76	\$ 4,336,032
JPY:NTD	4,061,391	0.2642	1,073,020
RMB:NTD	738	4.57	3,369
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	121,873	29.76	3,626,940
JPY:NTD	10,020,477	0.2642	2,647,410
EUR:NTD	193	35.57	6,865

- v. Total exchange (loss) gain, including realized and unrealized arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2018 and 2017, amounted to (\$252,553) and \$14,449, respectively.
- vi. Analysis of foreign currency market risk arising from significant foreign exchange variation:

Year ended December 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%	20,261	-
JPY:NTD	0.5%	382	-
RMB:NTD	0.5%	8,396	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	0.5%	24,162	-
JPY:NTD	0.5%	22,200	-
EUR:NTD	0.5%	5	-
RMB:NTD	0.5%	2,939	-

Year ended December 31, 2017			
Sensitivity analysis			
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	0.5%	21,680	-
JPY:NTD	0.5%	5,365	-
RMB:NTD	0.5%	17	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	0.5%	18,135	-
JPY:NTD	0.5%	13,237	-
EUR:NTD	0.5%	34	-

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, net profit of fair value through profit or loss would have increased/decreased by \$704, respectively; Other comprehensive income classified as equity investment at fair value through other comprehensive income would have increased/decreased by 2,157, 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 years ended December 31, 2018 and 2017 would have increased/decreased by \$60,830 and \$34,903, 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. Under the assumption of IFRS9, when the contract payment is overdue for more than 90 days in accordance with the agreed payment terms, 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 loss due to other receivables which were past due was \$93,298 in the year ended December 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 December 31, 2018	Not past due	Up to 30 days past due	Total
Expected loss rate	0%	0%	
Total book value	\$ 4,394,899	\$ 4,459	\$ 4,399,358

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

	December 31, 2018
January 1 (IAS 39 & IFRS 9)	\$ -
Provision for impairment	1,628
December 31	\$ 1,628

- viii. For provisioned loss in 2018, the impairment losses arising from customers' contracts amounts to \$1,628.
- ix. Refer to Note 12(4) for the credit risk information of 2017.

(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 March 28, 2019, those negotiations had not been concluded. Refer to Note 6(13) 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 December 31, 2018 and 2017 the Group held money market position of \$3,185,603 and \$4,504,510, 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>December 31, 2018</u>	<u>December 31, 2017</u>
Unsecured bank overdraft facility		
Amount unused	<u>\$ 12,284,861</u>	<u>\$ 18,116,771</u>

The Group is unable to use the bank credit line due to frozen account, refer to Note 12(5) 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.

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 payable	1,076,211	-	-
Long-term borrowings (including current portion)	3,316,864	206,073	-

December 31, 2017

	<u>Less than 1 year</u>	<u>1 year to 5 years</u>	<u>Over 5 years</u>
Short-term borrowings	\$ 3,850,099	\$ -	\$ -
Short-term notes and bills payable	100,000	-	-
Financial liabilities at fair value through profit or loss	349	-	-
Notes payable	132,463	-	-
Accounts payable	1,974,351	-	-
Other payable	1,481,891	-	-
Long-term borrowings (including current portion)	2,757,137	-	-

v. Liquidity and interest rate risk table for derivative financial liabilities

The following table details the Group's liquidity analysis for its derivative financial instruments. The table is based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis and on the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period.

December 31, 2018:

	<u>On demand or less than 6 months</u>	<u>6 months to 1 year</u>	<u>1-3 years</u>	<u>4-5 years</u>	<u>Over 5 years</u>
<u>Gross settled</u>					
Foreign exchange forward contracts					
Inflows	\$ 92,145	\$ -	\$ -	\$ -	\$ -
Outflows	80,496	-	-	-	-

December 31, 2017:

	On demand or less than 6 months	6 months to 1 year	1-3 years	4-5 years	Over 5 years
<u>Gross settled</u>					
Foreign exchange forward contracts					
Inflows	\$ 297,251	\$ -	\$ -	\$ -	\$ -
Outflows	297,600	-	-	-	-

(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

December 31, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Equity securities	\$ 70,428	\$ -	\$ -	\$ 70,428
Debt instruments	-	-	2,500	2,500
Derivative instrumentmts	-	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>

December 31, 2017

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial liabilities at FVTPL				
Derivative instruments	<u>\$ -</u>	<u>\$ 349</u>	<u>\$ -</u>	<u>\$ 349</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. Forward exchange contracts are usually valued based on the current forward 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 years ended December 31, 2018 and 2017, there was no transfer between level 1 and level 2.

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

	<u>Year ended</u>	<u>Year ended</u>
	<u>December 31, 2018</u>	<u>December 31, 2018</u>
	<u>Equity instrument</u>	<u>Equity instrument</u>
At January 1	\$ -	\$ -
Acquired in the period	340,000	2,500
Losses recognised in other comprehensive income (Recorded as unrealised gains (losses) on valuation of investments in equity instruments measured at fair value)	(124,273)	-
At December 31	<u>\$ 215,727</u>	<u>\$ 2,500</u>
Movement of unrealised gain or loss in profit or loss of assets and liabilities held as at December 31, 2018 (Note)	<u>\$ -</u>	<u>\$ 2,500</u>

Note: Recorded as non-operating income and expense.

F. For the years ended December 31, 2018 and 2017, there was no transfer into or out from Level 3.

G. Either the financial department segment or the external appraiser is in charge of valuation procedures for fair value measurements being categorised within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price.

H. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

	Fair value at December 31, 2018	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity instruments					
Unlisted shares	\$ 188,667	Market comparable companies	Multiple price-book ratio	1.02~2.61	The higher the price-book ratio, the higher the fair value
Unlisted shares	27,060	Market comparable companies	Multiple price-book ratio	0.40~1.26	The higher the price-book ratio, the higher the fair value

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:

		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)

(4) Effects on initial application of IFRS 9 and information on application of IAS 39 in 2017

A. Summaries of adopting significant accounting policies in 2017:

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

- They are financial assets held for trading. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets held for trading unless they are designated as hedges.
- On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using settlement date accounting.

iii. Financial assets at fair value through profit or loss are initially recognised at fair value. Related transaction costs are expensed in profit or loss. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in profit or loss.

(b) Loans and receivables

Accounts receivable, cash and cash equivalents are subsequently measured at amortised cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(c) Impairment of financial assets

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

For financial assets measured at amortized cost, such as accounts receivable and other receivables, such assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with defaults on receivables, and other situations.

For financial assets measured at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment (at the date the impairment is reversed) does not exceed what the amortized cost would have been had the impairment not been recognized.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of available-for-sale debt securities, the impairment loss is subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable and other receivables where the carrying amount is reduced through the use of an allowance account. When accounts receivable and other receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible accounts receivable and other receivables that are written off against the allowance account.

- B. The reconciliations of carrying amount of financial assets transferred from December 31, 2017, IAS 39, to January 1 2018, IFRS 9, were as follows:

	Measured at amortised cost	Debt instrument without active market	Total	Effects	
				Retained earnings	Other equity
IAS 39	\$ -	\$ 273,539	\$ 273,539	\$ -	\$ -
Transferred into and measured at amortised cost	273,539	(273,539)	-	-	-
IFRS 9	<u>\$ 273,539</u>	<u>\$ -</u>	<u>\$ 273,539</u>	<u>\$ -</u>	<u>\$ -</u>

Under IAS 39, because the cash flows of debt instruments, which were classified as: debt instruments without active market, amounting to \$273,539, met the condition that it is intended to settle the principal and interest on the outstanding principal balance, they were reclassified as "financial assets at amortised cost" amounting to \$273,539, on initial application of IFRS 9.

- C. The significant accounts as of December 31, 2017 and for the year ended December 31, 2017, are as follows:

- (a) Financial liabilities at fair value through profit or loss

Items	December 31, 2017
Current items:	
Financial assets held for trading	
Non-hedging derivatives	<u>\$ 349</u>

- i. The Group recognised net profit amounting to \$51,478 on financial assets and liabilities at fair value through profit or loss for the year ended December 31, 2017.

ii. The non-hedging derivative instruments transaction and contract information are as follows:

(in thousand dollars)			
<u>December 31, 2017</u>	<u>Currency</u>	<u>Expire date</u>	<u>Contract amounts</u>
Current items:			
Foreign exchange forward contracts	USD:JPY	2018.1.9	USD 10,000/JPY 1,125,100

The Group entered into foreign exchange forward contracts to manage exposures to exchange rate fluctuations of foreign currency denominated assets and liabilities.

D. Credit risk information as of December 31, 2017, and for the year ended December 31, 2017 are as follows:

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure to credit risk, which would cause a financial loss to the Group due to a failure of counterparties to discharge an obligation, could arise from the carrying amount of the respective recognized financial assets as stated in the balance sheets.

The Group adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The information that was evaluated by the Group about the credit ratings of the counterparties is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. 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 Group annually.

Ongoing credit evaluation is performed on the financial condition of the accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

The Group's concentration of credit risk of 69% in total accounts receivable as of and December 31, 2017, was related to the Group's five largest customers.

The average credit period of sales of goods was between 90 and 120 days. In determining the recoverability of an accounts receivable, the Group considered any change in the credit quality of the accounts receivable since the date credit was initially granted to the end of the reporting period. The Group recognized an allowance for impairment loss of 100% against all receivables over 120 days because historical experience was that receivables that are beyond 120 days past due were not recoverable. An allowance for impairment loss was recognized against accounts receivable between 60 and 120 days based on estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial positions.

For the accounts receivable balances that were past due at the end of the reporting period, the Group did not recognize an allowance for impairment loss, because there was not a significant change in credit quality and the amounts were still considered recoverable. The Group did not hold any collateral or other credit enhancements for these balances.

The Group has no financial asset which is past due but not impaired on December 31, 2017.

Movements in the provision for impairment of accounts receivable for the year ended December 31, 2017 are as follow:

	<u>Individual provision</u>	<u>Group provision</u>	<u>Total</u>
At January 1	\$ 1,523	\$ -	\$ 1,523
Write-offs during the period	(1,523)	-	(1,523)
At December 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(5) 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.

The above strategies are based on the results of the debt negotiation which still remains a material uncertainty.

(6) Reasons and effects of restatement of consolidated financial statements

A. The inventories of the MFT amounted to \$76,750. The Group has engaged a professional valuation agency to evaluate those inventories. However, after the evaluation, the Group has determined the following:

- i. The trading condition of those inventories is non-returnable and non-refundable. Meanwhile, the Group has not found any customer since purchasing.
- ii. The status of the inventory is still under acceptance. The production date is between year 2014 and year 2018. After considering the characteristics of those inventories, the quality needs to be examined by precision instruments. The Group is unable to perform this job. Moreover, those inventories are located at a warehouse company of Hong Kong. Even if the Group finds a qualified company to carry out the inspection, it may incur a significant cost to transport the equipment. And it is unsure whether the warehouse company will agree or not. Furthermore, if the Group transports those inventories to Taiwan, aside from the transportation fee and tariff, the storage location and environment after inspection may present a future challenge for the Group.
- iii. The Group has no experience on selling this kind of inventory. It is difficult to sell effectively using existing business channels. If the Group builds another sales team, the Group need to pay external selling cost.

After considering the above reasons, if the Group intends to sell those inventories, the cost is likely to be greater than its current fair value. So the Group recognized inventory valuation losses amounting to \$76,750, and restated the consolidated financial statements for the year ended December 31, 2018.

B. Related changes in each account is as follows:

<u>Affected account</u>	<u>Before restatement</u>	<u>Adjustment</u>	<u>After restatement</u>
December 31, 2018			
Inventories	\$ 3,960,047	(\$ 76,750)	\$ 3,883,297
Unappropriated retained earnings	2,168,223	(76,750)	2,091,473
Cost of sales	(12,128,458)	(76,750)	(12,205,208)
Loss before income tax	(996,110)	(76,750)	(1,072,860)
Loss for the year	(971,396)	(76,750)	(1,048,146)
Other comprehensive loss	(1,236,842)	(76,750)	(1,313,592)

The impact to loss per share is as follows:

<u>Year ended December 31, 2018</u>	<u>Before restatement</u>	<u>After restatement</u>
Basic and diluted loss per share (in dollars)	(\$ 0.87)	(\$ 0.98)

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: Please refer to table 4.
- 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 5.
- H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 6.
- I. Trading in derivative instruments undertaken during the reporting periods: Please refer to Note 12(4).
- J. Significant inter-company transactions during the reporting periods: Please refer to table 7.

(2) Information on investees

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

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 9.

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

14. SEGMENT INFORMATION

(1) General information

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

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

(2) Measurement of segment information

The Group evaluates the performance based on operating profit (loss) in each operating segments. Segment profit represented the profit before tax earned by each segment without the allocation of central administrator costs and directors' salaries, interest income, exchange gains or losses, valuation gains or losses on financial instruments, finance costs and income tax expenses. This was the measure reported to the Chief Operating Decision-Maker for the purpose of resource allocation and the assessment of segment performance.

(3) Segment revenue and results

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

	Year ended December 31, 2018			
	Taiwan	Mainland China	Adjustment and write-off (Note)	Total
Revenue from external customers	\$ 4,040,256	\$ 8,726,906	\$ -	\$ 12,767,162
Inter-segment revenue	4,238,318	537,672	(4,775,990)	-
Total segment revenue	\$ 8,278,574	\$ 9,264,578	(\$ 4,775,990)	\$ 12,767,162
Segment income (loss)	(\$ 503,668)	(\$ 183,919)	\$ 80,719	(\$ 606,868)
Other income				99,516
Other gain and loss				(274,928)
Financial cost				(290,580)
Income before income tax from continuing operations				(\$ 1,072,860)
Segment assets	\$ 4,241,866	\$ 6,451,179	\$ -	\$ 10,693,045
Other assets				16,540,872
Total assets				\$ 27,233,917
Depreciation and amortisation	\$ 555,795	\$ 594,483	\$ -	\$ 1,150,278
Capital Expenditure	\$ 143,123	\$ 662,737	(\$ 3,698)	\$ 802,162
Segment liabilities	\$ 5,329,262	\$ 9,483,383	(\$ 1,763,497)	\$ 13,049,148

Note: Refer to the internal revenue write-offs.

	Year ended December 31, 2107 (Restated)				
	Taiwan	Mainland China	Others	Adjustment and write-off (Note)	Total
Revenue from external customers	\$ 3,006,234	\$ 6,871,380	\$ 534	\$ -	\$ 9,878,148
Inter-segment revenue	5,518,232	78,258	-	(5,596,490)	-
Total segment revenue	\$ 8,524,466	\$ 6,949,638	\$ 534	(\$ 5,596,490)	\$ 9,878,148
Segment income (loss)	(\$ 824,612)	(\$ 1,004,941)	(\$ 2,730)	\$ 161,160	(\$ 1,671,123)
Other income					47,890
Financial cost					(126,827)
Other gain and loss					67,143
Income before income tax from continuing operations					(\$ 1,682,917)
Segment assets	\$ 4,648,228	\$ 6,521,467	\$ -	\$ -	\$ 11,169,695
Other assets					12,288,896
Total assets					\$ 23,458,591
Depreciation and amortisation	\$ 611,719	\$ 396,400	\$ -	\$ -	\$ 1,008,119
Capital Expenditure	\$ 48,424	\$ 2,275,359	\$ -	\$ -	\$ 2,323,783
Segment liabilities	\$ 3,769,322	\$ 8,549,385	\$ -	(\$ 2,141,387)	\$ 10,177,320

Note: Refer to the internal revenue write-offs.

(4) Reconciliation for segment income (loss)

The total amounts and other significant disclosures in relation to the reportable segments mentioned in (3) 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.

(5) Information on products and services

Revenue from external customers is mainly from the sales of polarizing films and relative raw materials. Details of revenue is as follows:

	Year ended December 31, 2018	Year ended December 31, 2017 (Restated)
Polarizing films	\$ 12,404,609	\$ 9,779,560
Others	362,553	98,588
	<u>\$ 12,767,162</u>	<u>\$ 9,878,148</u>

(6) Geographical information

Geographical information for the years ended December 31, 2018 and 2017 is as follows:

	Year ended December 31, 2018		Year ended December 31, 2017	
	Revenue	Non-current assets	Revenue (Restated)	Non-current assets
Taiwan	\$ 3,046,250	\$ 4,341,379	\$ 3,313,760	\$ 4,751,059
Mainland China	9,720,465	9,065,622	6,564,388	7,155,791
Others	447	-	-	-
	<u>\$ 12,767,162</u>	<u>\$ 13,407,001</u>	<u>\$ 9,878,148</u>	<u>\$ 11,906,850</u>

Non-current assets excludes non-current financial assets measured at fair value through other comprehensive income and deferred tax assets.

(7) Major customer information

Major customer information of the Group for the years ended December 31, 2018 and 2017 is as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
	Revenue	Revenue
A	\$ 3,078,406	\$ 3,027,460
B	1,746,519	1,950,448
C	1,117,780	1,153,819
D	1,897,948	2,388

CHENG MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES

Loans to others
Year ended December 31, 2018

Expressed in thousands of NTD

Table 1

No. (Note 1)	Materials	Borrower	General ledger account	Is a related party	Maximum outstanding balance during the year ended		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
					December 31, 2018	December 31, 2018							Item	Value			
					\$	\$							-	-			
0	Cheng Mei Materials Technology Co., Ltd.	CM Visual Technology Corporation	Other receivables - related parties	Yes	108,387	108,387	108,387	1.82%-4.16%	Business relationship	150,470	Operating capital	-	None	-	150,470	\$ 6,290,559	Notes 2 - 8
1	Kunshan Chimei Materials Technology Co., Ltd.	Kunshan Chimei Materials Trading Corp.	Other receivables - related parties	Yes	223,600	223,600	-	4.35%	Short-term financing	-	Operating capital	-	None	-	2,905,991	\$ 4,358,986	Note 3
2	Kunshan Chimei Materials Trading Corp.	Kunshan Chimei Materials Technology Co., Ltd.	Other receivables - related parties	Yes	67,080	67,080	-	4.35%	Short-term financing	-	Operating capital	-	None	-	64,348	96,522	Note 4
2	Kunshan Chimei Materials Trading Corp.	Xian Jinyao Hongtai New Materials Technology Co., Ltd.	Other receivables - related parties	Yes	2,236	2,236	-	4.35%	Short-term financing	-	Operating capital	-	None	-	64,348	96,522	Note 4
2	Kunshan Chimei Materials Trading Corp.	Hangzhou Rong Jie Trading Co., Ltd.	Other receivables	No	118,347	68,681	68,681	-	Business relationship	296,025	-	-	None	-	-	-	Notes 4 - 5 - 7
2	Kunshan Chimei Materials Trading Corp.	Zhejiang Zhong Jie Trading Co., Ltd.	Other receivables - related parties	No	263,942	87,316	91,495	-	Business relationship	549,764	-	-	None	-	-	-	Notes 4 - 5 - 7
2	Kunshan Chimei Materials Trading Corp.	DFG (Kunshan) Co., Ltd.	Other receivables - related parties	No	164,927	-	-	-	Business relationship	385,980	-	-	None	-	-	-	Notes 4 - 5 - 7
2	Kunshan Chimei Materials Trading Corp.	Shanghai Rui Qiong Industrial Co., Ltd.	Other receivables	No	67,169	-	-	-	Business relationship	173,447	-	-	None	-	-	-	Notes 4 - 6 - 7
2	Kunshan Chimei Materials Trading Corp.	Shanghai MaoEn International Trade Co., Ltd.	Other receivables	No	48,767	-	-	-	Business relationship	154,150	-	-	None	-	-	-	Notes 4 - 6 - 7
2	Kunshan Chimei Materials Trading Corp.	Shandong Dao Xian Wei Energy Technology Co., Ltd.	Other receivables	No	37,118	-	-	-	Business relationship	38,555	-	-	None	-	-	-	Notes 4 - 6 - 7
2	Kunshan Chimei Materials Trading Corp.	DaFeng Enterprise Development Limited	Other receivables	No	22,462	-	-	-	Business relationship	19,364	-	-	None	-	-	-	Notes 4 - 6 - 7
2	Kunshan Chimei Materials Trading Corp.	Shanghai HongKun trading Limited	Other receivables	No	73,439	-	-	-	Business relationship	77,069	-	-	None	-	-	-	Notes 4 - 6 - 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: This is the summation of accounts receivable and the advance payment of inventory which resulted from the triangular trade conducted in Kunshan Chimei Materials Trading Corp. The group regarded it as a loan to the companies with business relationship.

Note 8: Other receivables on selling equipment to CMVT in 2018 is \$52,114 (including tax price of \$54,720) and account receivables to CMVT in 2018 is \$53,955, which were approved to transfer to loans by Board of Directors on November 6, 2018.

CHENG MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES

Provision of endorsements and guarantees to others
Year ended December 31, 2018

Expressed in thousands of NTD

Table 2

Number (Note 1)	Endorser/ guarantor	Party being endorsed/guaranteed		Relationship with the endorser/ guarantor (Note 2)	Limit on endorsements/ guarantees provided for a single party	Maximum outstanding endorsement/ guarantee amount as of December 31, 2018	Outstanding endorsement/ guarantee amount at December 31, 2018	Actual amount drawn down	Amount of endorsements/ guarantees secured with collateral	Ratio of accumulated endorsement/ 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	Provision of endorsements/ guarantees to the party in Mainland China	Footnote
		Company name													
0	Cheng Mei Materials Technology Corporation	Mao Feng Trading Co., Ltd.		4	5,242,133	1,228,600	1,228,600	-	-	11.72	\$ 10,484,265	Yes	No	No	Note 3,4
0	Cheng Mei Materials Technology Corporation	Kunshan Chimei Materials Technology Co., Ltd.		6	5,242,133	3,393,346	3,393,346	1,736,530	-	32.37	10,484,265	Yes	No	Yes	Note 3,4
1	Kunshan Chimei Materials Technology Co., Ltd.	Kunshan Chimei Materials Trading Corp.		4	4,358,986	1,788,800	1,788,800	113,674	-	24.62	7,264,977	Yes	No	Yes	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)

Year ended December 31, 2018

Expressed in thousands of NTD

Table 3

Securities held by Cheng Mei Materials Technology Corporation	Marketable securities Shinlien Fine Chemicals Co., Ltd.(Stock)	Relationship with the securities issuer	General ledger account	As of December 31, 2018				Footnote
				Number of shares	Book value	Ownership (%)	Fair value	
		None	Non-current financial assets at fair value through other comprehensive income	16,667	\$ 188,667	7.10%	\$ 188,667	-
Mao Yu Investment Co., Ltd.	Sihuan Pharmaceutical Holdings Group Ltd.	None	Current financial assets at fair value through profit or loss	6,350	34,240	Note	34,240	-
Mao Yu Investment Co., Ltd.	Wiwynn Corporation	None	Current financial assets at fair value through profit or loss	81	22,420	Note	22,420	-
Mao Yu Investment Co., Ltd.	Sen Tien Printing Factory Co., Ltd.	None	Current financial assets at fair value through profit or loss	326	8,332	Note	8,332	-
Mao Yu Investment Co., Ltd.	Synnex Technology International Corporation	None	Current financial assets at fair value through profit or loss	150	5,436	Note	5,436	-
Mao Yu Investment Co., Ltd.	Jun Hong Opttronics Corporation	Related parties	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 Opttronics Corporation	Related parties	Non-current financial assets at fair value through other comprehensive income	3,500	15,785	Note	15,785	-

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

Cheng Mei Materials Technology Corporation

Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital
Year ended December 31, 2018

Table 4

Expressed in thousands of NTD

Investor	Marketable securities	General ledger account	Counterparty	Relationship with the investor	January 1, 2018		Addition		Disposal			Balance as at December 31, 2018		
					Number of shares	Amount	Number of shares	Amount	Number of shares	Selling price	Book value	Gain (loss) on disposal	Number of shares	Amount
Cheng Mei Materials Technology Co., Ltd.	Proceeds from issuing shares	Investments accounted for using equity method	Chi Mei Materials Technology Investment Co., Ltd.	Subsidiary	73,500	\$ 2,230,328	73,000	\$ 2,217,436	-	-	-	-	146,500	\$ 4,447,764
Cheng Mei Materials Technology Co., Ltd.	Proceeds from issuing shares	Investments accounted for using equity method	Mao Fong Trading Co., Ltd.	Subsidiary	100	1,000	100,000	1,000,000	-	-	-	-	100,100	1,001,000
Cheng Mei Materials Technology Co., Ltd.	Proceeds from issuing shares	Investments accounted for using equity method	Mao Yu Investment Co., Ltd.	Subsidiary	5,000	50,000	30,000	300,000	-	-	-	-	35,000	350,000
Chi Mei Materials Technology Investment Co., Ltd.	Proceeds from issuing shares	Investments accounted for using equity method	Kunshan Chimei Materials Technology Co., Ltd.	Subsidiary	-	2,230,328	-	2,217,436	-	-	-	-	-	4,447,764

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

Year ended December 31, 2018

Table 5

Expressed in thousands of NTD

Differences in transaction terms compared to third party transactions										
Transaction			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	Percentage of total notes/accounts receivable (payable)	
										Balance
Cheng Mei Materials Technology Co., Ltd.	Ningbo Cheng Mei Materials Technology Co., Ltd.	Subsidiary	Sales	(\$ 3,590,038)	44%	-	-	- \$	1,238,673	48%
Cheng Mei Materials Technology Co., Ltd.	Kunshan Chimei Materials Technology Co., Ltd.	Subsidiary	Sales	(576,345)	7%	-	-	-	234,338	9%
Ningbo Cheng Mei Materials Technology Co., Ltd.	Kunshan Chimei Materials Technology Co., Ltd.	Brother-Sister	Sales	(183,774)	4%	-	-	-	53,217	4%

Cheng Mei Materials Technology Corporation

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

Year ended December 31, 2018

Table 6

Expressed in thousands of NTD

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2018	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 \$1,238,673	2.56	\$ -	-	\$ 744,058	\$ -
Cheng Mei Materials Technology Corporation	Kunshan Chimei Materials Technology Co., Ltd.	Subsidiary	Accounts receivable 234,338	6.92	-	-	-	-
Cheng Mei Materials Technology Corporation	CM Visual Technology Corporation	Subsidiary	Other receivables 107,315	-	-	-	-	-

Cheng Mei Materials Technology Corporation

Significant inter-company transactions during the reporting periods

Year ended December 31, 2018

Table 7
Expressed in thousands of NTD

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets (Note 4)
				General ledger account	Amount	Transaction terms (Note 3)	
0	Cheng Mei Materials Technology Corporation	Ningbo Cheng Mei Materials Technology Co., Ltd.	1	Sales	\$ 3,590,038	-	28%
0	Cheng Mei Materials Technology Corporation	Ningbo Cheng Mei Materials Technology Co., Ltd.	1	Accounts receivable	1,238,673	-	5%
0	Cheng Mei Materials Technology Corporation	CM Visual Technology Corporation	1	Sales	94,414	-	1%
0	Cheng Mei Materials Technology Corporation	CM Visual Technology Corporation	1	Accounts receivable	20,513	-	0%
0	Cheng Mei Materials Technology Corporation	CM Visual Technology Corporation	1	Other receivable	107,315	-	0%
0	Cheng Mei Materials Technology Corporation	Kunshan Chimie Materials Trading Co., Ltd.	1	Sales	36,058	-	0%
0	Cheng Mei Materials Technology Corporation	Kunshan Chimie Materials Technology Co., Ltd.	1	Sales	576,345	-	5%
0	Cheng Mei Materials Technology Corporation	Kunshan Chimie Materials Technology Co., Ltd.	1	Other revenue	73,997	-	1%
0	Cheng Mei Materials Technology Corporation	Kunshan Chimie Materials Technology Co., Ltd.	1	Accounts receivable	234,338	-	1%
0	Cheng Mei Materials Technology Corporation	Kunshan Chimie Materials Technology Co., Ltd.	1	Other receivable	18,912	-	0%
0	Cheng Mei Materials Technology Corporation	Kunshan Chimie Materials Technology Co., Ltd.	1	Endorsement / Guarantee	3,393,346	-	12%
0	Cheng Mei Materials Technology Corporation	Mao Fong Trading Co., Ltd.	1	Endorsement / Guarantee	1,228,600	-	4%
1	Ningbo Cheng Mei Materials Technology Co., Ltd.	Cheng Mei Materials Technology Corporation	2	Accounts receivable	34,025	-	0%
1	Ningbo Cheng Mei Materials Technology Co., Ltd.	Kunshan Chimie Materials Technology Co., Ltd.	3	Sales	183,774	-	1%
1	Ningbo Cheng Mei Materials Technology Co., Ltd.	Kunshan Chimie Materials Technology Co., Ltd.	3	Accounts receivable	53,217	-	0%
2	Kunshan Chimie Materials Technology Co., Ltd.	Kunshan Chimie Materials Trading Co., Ltd.	3	Endorsement / Guarantee	1,788,800	-	7%
3	Kunshan Chimie Materials Trading Corp.	Kunshan Chimie Materials Technology Co., Ltd.	3	Sales	84,905	-	1%

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

(1)Parent company is '0'.

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

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

(1)Parent company to subsidiary.

(2)Subsidiary to parent company.

(3)Subsidiary to subsidiary.

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

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

Cheng Mei Materials Technology Corporation

Information on investees (not including investees in Mainland China)

Year ended December 31, 2018

Table 8

Expressed in thousands of NTD

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2018		Book value	Net profit (loss) of the investee for the year ended December 31, 2018 (Note 1)	Investment income(loss) recognised by the Company for the year ended December 31, 2018	Footnote
				Balance as at December 31, 2018	Balance as at December 31, 2017	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%	\$ 777,253	\$ 51,902	\$ 51,902	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%	69,903	(28,971)	(24,496)	Note 1
Cheng Mei Materials Technology Corporation	Chi Mei Materials Technology Investment Co., Ltd.	Samoa	Investment company	4,447,763	2,230,328	146,500	100%	3,595,918	(378,851)	(378,851)	Note 1
Cheng Mei Materials Technology Corporation	Mao Yu Investment Co., Ltd.	Taiwan	Investment company	350,000	50,000	35,000	100%	284,256	(19,256)	(19,256)	Note 1
Cheng Mei Materials Technology Corporation	Mao Fong Trading Co., Ltd.	Taiwan	Trading company	1,001,000	1,000	100,100	100%	873,405	(90,856)	(90,856)	Note 1
Mao Yu Investment Co., Ltd.	CM Visual Technology Corporation	Taiwan	Electronic component manufacture and sale	33,000	39,000	3,300	11%	9,576	(28,971)		Note 2
Mao Fong Trading Co., Ltd.	Mao Fong Group Co., Ltd.	Samoa	Investment company	-	-	-	-	-	-	-	Note 3

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

Note 2: According to the regulations, the amount recognised of investment profit or loss of the Company could exempt from disclosing.

Note 3: The Group set up the company in August 2018, as of December 31, 2018, it has not paid the capital for shares.

Cheng Mei Materials Technology Corporation
Information on investments in Mainland China
Year ended December 31, 2018

Table 9

Expressed in thousands of NTD

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Amount remitted from Taiwan to Mainland China (Amount remitted back to Taiwan for the year ended December 31, 2018 Remitted to Mainland China to Taiwan	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Net income of investee as of December 31, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2018 (Note 2)	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Footnote
Ningbo Cheng Mei Materials Technology Co., Ltd.	Electronic component manufacture and sale	\$ 590,061	2	\$ 408,510	\$ -	\$ 408,510	\$ 51,702	100.00	\$ 51,702	\$ 785,099	\$ -	Note 2
Kunshan Chimei Materials Technology Co., Ltd.	Electronic component manufacture and sale	8,607,722	2	2,257,553	2,242,195	4,499,748	(765,974)	49.50	(378,861)	3,596,164	-	Note 2
Kunshan Chimei Materials Trading Corp.	Trading	223,600	2	-	-	-	(78,418)	49.50	(38,817)	79,631	-	Note 2
Xi'an Jinyao Hongtai New Materials Technology Co., Ltd.	Electronic component manufacture and sale	7,155	2	-	-	-	(3,663)	49.50	(1,813)	1,764	-	Note 2
Kunshan Shin Mao Fong Internation Trading Co., Ltd.	Trading	-	2	-	-	-	-	-	-	-	-	Note 3
Company name				2018								
Cheng Mei Materials Technology Corporation				\$4,908,258	\$4,908,258							

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

- (1) Directly invest in a company in Mainland China.
- (2) Through investing in Cheng Mei Materials Technology (Samoa) Corporation, Chi Mei Materials Technology Investment Co., Ltd and Mao Fong Group Co., Ltd. in the third area, which then invested in the investee in Mainland China.
- (3) Others

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

Note 3: The Group set up the company in August 2018, as of December 31, 2018, it has not paid the capital for shares.

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 30.15 to US\$1 from January 1, 2018 to December 31, 2018, otherwise are re-translated at the exchange rates of NTD 30.72 to US\$1 prevailing at the end of the financial reporting period.

Cheng Mei Materials Technology Corporation

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

Year ended December 31, 2018

Table 10

Expressed in thousands of NTD

Investee in Mainland China	Sale (purchase)		Property transaction		Maximum outstanding Accounts receivable (payable)		Provision of endorsements/guarantees or collaterals		Financing				
	Amount	%	Amount	%	Balance at December 31, 2018	%	Balance at December 31, 2018	Purpose	Maximum balance during the year ended December 31, 2018	Balance at December 31, 2018	Interest rate	Interest during the year ended December 31, 2018	Others
Ningbo Cheng Mei Materials Technology Co., Ltd.	\$ 3,590,038	44%	\$ -	-	\$ 1,238,673	48%	\$ -	-	\$ -	-	-	\$ -	-
Ningbo Cheng Mei Materials Technology Co., Ltd.	-	0%	-	-	(34,025)	2%	-	-	-	-	-	-	-
Kunshan Chimei Materials Technology Co., Ltd.	576,345	7%	-	-	234,338	9%	3,393,346	Endorsement / Guarantee	-	-	-	-	Other revenue \$ 73,997
Kunshan Chimei Materials Trading Corp.	36,058	1%	-	-	-	0%	-	-	-	-	-	-	Other receivables 18,912