

**CHENG MEI MATERIALS TECHNOLOGY
CORPORATION
(FORMER NAME: CHI MEI MATERIALS
TECHNOLOGY CORPORATION AND
SUBSIDIARIES) AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REVIEW REPORT OF INDEPENDENT
ACCOUNTANTS
JUNE 30, 2018 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.

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

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

Introduction

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

Scope of Review

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

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as at June 30, 2018, and of its consolidated financial performance for the three months and six months then ended and its consolidated cash flows for the six months then ended in accordance with “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission.

Other matter – Scope of the Review

The consolidated financial statements of the Group for the six months ended June 30, 2017, were reviewed by other auditors, whose report dated August 11, 2017, expressed an unmodified conclusion on those statements.

Lin, Yi-Chang

Liu, Tzu-Meng

For and on behalf of PricewaterhouseCoopers, Taiwan

August 14, 2018

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
(FORMER NAME: CHI MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES)
CONSOLIDATED BALANCE SHEETS

(Expressed in thousands of New Taiwan dollars)

(The Consolidated balance sheets as of June 30, 2018 and 2017 are reviewed, not audited)

Assets		Notes	June 30, 2018		December 31, 2017		June 30, 2017	
			AMOUNT	%	AMOUNT	%	AMOUNT	%
Current assets								
1100	Cash and cash equivalents	6(1)	\$ 4,022,927	15	\$ 4,497,296	19	\$ 2,712,267	13
1136	Current financial assets at amortised cost	6(4) and 8	249,349	1	-	-	-	-
1150	Notes receivable, net	6(5) and 8	124,011	-	484,392	2	-	-
1160	Notes receivable, net - related parties	6(5) and 7	-	-	4,565	-	-	-
1170	Accounts receivable, net	6(5)	2,997,338	12	3,062,933	13	3,240,224	15
1180	Accounts receivable, net - related parties	6(5) and 7	263	-	-	-	253,042	1
1200	Other receivable	6(7)	931,630	4	160,660	1	24,692	-
1210	Other receivables - related parties	7	30,000	-	12,422	-	5	-
1220	Current tax assets		876	-	-	-	-	-
130X	Inventories	5 and 6(6)	2,511,728	10	2,282,710	10	2,414,026	11
1479	Other current assets	6(10) and 8	793,333	3	990,261	4	955,071	5
11XX	Total current assets		11,661,455	45	11,495,239	49	9,599,327	45
Non-current assets								
1517	Financial assets at fair value through other comprehensive income	6(3)	250,000	1	-	-	-	-
1600	Property, plant and equipment	5 and 6(8)	11,245,937	43	11,169,695	48	11,279,088	53
1780	Other intangible assets	6(9)	91,593	-	95,632	-	114,790	-
1840	Deferred tax assets		113,778	1	56,502	-	41,957	-
1915	Prepayments for equipment	7	1,569,081	6	165,706	1	136,092	1
1990	Other non-current assets	6(10)	1,081,407	4	475,817	2	271,750	1
15XX	Total non-current assets		14,351,796	55	11,963,352	51	11,843,677	55
1XXX	Total assets		\$ 26,013,251	100	\$ 23,458,591	100	\$ 21,443,004	100

(Continued)

CHENG MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES
(FORMER NAME: CHI MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES)
CONSOLIDATED BALANCE SHEETS

(Expressed in thousands of New Taiwan dollars)

(The Consolidated balance sheets as of June 30, 2018 and 2017 are reviewed, not audited)

	Liabilities and Equity	Notes	June 30, 2018		December 31, 2017		June 30, 2017	
			AMOUNT	%	AMOUNT	%	AMOUNT	%
	Current liabilities							
2100	Short-term bank loans	6(11)	\$ 5,416,834	21	\$ 3,813,259	16	\$ 3,331,331	16
2110	Short-term bills payable		-	-	100,000	1	100,000	-
2120	Financial liabilities at fair value through profit or loss	6(2) and 12(4)	544	-	349	-	5,022	-
2130	Contract liabilities	6(18)	859	-	-	-	-	-
2150	Notes payable		601,696	2	132,463	1	251,219	1
2170	Accounts payable		1,531,197	6	1,974,351	8	1,409,048	7
2200	Other payables	6(12)	976,192	4	1,481,891	6	1,602,291	7
2230	Current tax liabilities		2,417	-	435	-	383	-
2250	Provisions for liabilities - current		-	-	9,564	-	-	-
2320	Current portion of long-term bank loans	6(13)	3,768,366	14	2,639,833	11	2,537,562	12
2399	Other current liabilities	6(30)	48,120	-	25,004	-	136,798	1
21XX	Total current liabilities		<u>12,346,225</u>	<u>47</u>	<u>10,177,149</u>	<u>43</u>	<u>9,373,654</u>	<u>44</u>
	Non-current liabilities							
2570	Deferred tax liabilities		22,826	-	-	-	-	-
2645	Guarantee deposits		75	-	171	-	169	-
2670	Other non-current liabilities	6(14)(30)	204,899	1	-	-	-	-
25XX	Total non-current liabilities		<u>227,800</u>	<u>1</u>	<u>171</u>	<u>-</u>	<u>169</u>	<u>-</u>
2XXX	Total liabilities		<u>12,574,025</u>	<u>48</u>	<u>10,177,320</u>	<u>43</u>	<u>9,373,823</u>	<u>44</u>
	Equity attributable to the owners of the company							
	Share capital							
3110	Common shares	6(15)	6,657,285	26	6,657,285	28	5,157,285	24
	Capital surplus							
3200	Capital surplus	6(16)	871,665	3	856,768	4	453,761	2
	Retained earnings	6(17)						
3310	Legal reserve		1,085,124	4	1,085,124	5	1,085,124	5
3320	Special reserve		246,224	1	202,973	1	202,973	1
3350	Unappropriated retained earnings		2,189,374	9	2,789,804	12	3,318,518	15
3400	Other equity interest		(239,813)	(1)	(246,224)	(1)	(294,726)	(1)
31XX	Total equity attributable to owners of the Company		<u>10,809,859</u>	<u>42</u>	<u>11,345,730</u>	<u>49</u>	<u>9,922,935</u>	<u>46</u>
36XX	Non-controlling interest	6(26)	<u>2,629,367</u>	<u>10</u>	<u>1,935,541</u>	<u>8</u>	<u>2,146,246</u>	<u>10</u>
3XXX	Total equity		<u>13,439,226</u>	<u>52</u>	<u>13,281,271</u>	<u>57</u>	<u>12,069,181</u>	<u>56</u>
	Commitments and contingent liabilities	9						
	Significant events after the balance sheet date	11						
3X2X	Total liabilities and equity		<u>\$ 26,013,251</u>	<u>100</u>	<u>\$ 23,458,591</u>	<u>100</u>	<u>\$ 21,443,004</u>	<u>100</u>

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

CHENG MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES
(FORMER NAME: CHI MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars, except for loss per share amounts)
(UNAUDITED)

	Items	Notes	Three months ended June 30				Six months ended June 30			
			2018		2017		2018		2017	
			AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
4000	Net sales	6(18) and 7	\$ 2,758,734	100	\$ 2,770,193	100	\$ 5,258,377	100	\$ 5,504,982	100
5000	Cost of sales	6(6)(9)(22)(23)	(2,808,703)	(102)	(2,980,281)	(108)	(5,422,336)	(103)	(5,891,602)	(107)
5900	Gross loss		(49,969)	(2)	(210,088)	(8)	(163,959)	(3)	(386,620)	(7)
	Operating expenses	6(9)(22)(23)								
6100	Selling and marketing expenses		(65,056)	(2)	(53,137)	(2)	(127,375)	(3)	(97,835)	(2)
6200	General and administrative expenses		(75,605)	(3)	(69,983)	(2)	(142,328)	(3)	(123,605)	(2)
6300	Research and development expenses		(118,266)	(4)	(107,628)	(4)	(226,103)	(4)	(205,042)	(4)
6000	Total operating expenses		(258,927)	(9)	(230,748)	(8)	(495,806)	(10)	(426,482)	(8)
6900	Loss from operations		(308,896)	(11)	(440,836)	(16)	(659,765)	(13)	(813,102)	(15)
	Non-operating income and expenses									
7010	Other income	6(2)(19)	23,741	1	17,944	1	30,951	1	32,644	1
7020	Other gains and losses	6(20)	(41,950)	(2)	105,853	4	(22,805)	-	(77,688)	(1)
7050	Finance costs	6(8)(21)	(64,768)	(2)	(31,317)	(1)	(128,219)	(3)	(41,423)	(1)
7000	Total non-operating income and expenses		(82,977)	(3)	92,480	4	(120,073)	(2)	(86,467)	(1)
7900	Loss before income tax		(391,873)	(14)	(348,356)	(12)	(779,838)	(15)	(899,569)	(16)
7950	Income tax benefit	6(24)	30,743	1	28,624	1	28,456	1	119,947	2
8200	Loss for the period		(\$ 361,130)	(13)	(\$ 319,732)	(11)	(\$ 751,382)	(14)	(\$ 779,622)	(14)
	Other comprehensive income (loss) items that may be reclassified subsequently to profit or loss									
	Items that may be reclassified subsequently to profit or loss									
8361	Exchange differences on translating foreign operations		(\$ 70,944)	(3)	\$ 86,573	3	\$ 10,126	-	(\$ 156,577)	(3)
8362	Unrealized loss on available-for-sale financial assets		-	-	(38)	-	-	-	(28)	-
8300	Other comprehensive income, net		(\$ 70,944)	(3)	\$ 86,535	3	\$ 10,126	-	(\$ 156,605)	(3)
8500	Total comprehensive loss for the period		(\$ 432,074)	(16)	(\$ 233,197)	(8)	(\$ 741,256)	(14)	(\$ 936,227)	(17)
	Net loss attributable to									
8610	Owners of the Company		(\$ 218,285)	(8)	(\$ 249,245)	(8)	(\$ 557,179)	(10)	(\$ 697,546)	(13)
8620	Non-controlling interests		(142,845)	(5)	(70,487)	(3)	(194,203)	(4)	(82,076)	(1)
	Net loss		(\$ 361,130)	(13)	(\$ 319,732)	(11)	(\$ 751,382)	(14)	(\$ 779,622)	(14)
	Total comprehensive loss attributable to									
8710	Owners of the Company		(\$ 259,182)	(10)	(\$ 199,818)	(7)	(\$ 550,768)	(10)	(\$ 789,299)	(14)
8720	Non-controlling interests		(172,892)	(6)	(33,379)	(1)	(190,488)	(4)	(146,928)	(3)
	Net loss		(\$ 432,074)	(16)	(\$ 233,197)	(8)	(\$ 741,256)	(14)	(\$ 936,227)	(17)
	Loss per share	6(25)								
9750	Basic loss per share		(\$ 0.33)		(\$ 0.48)		(\$ 0.84)		(\$ 1.35)	
9850	Diluted loss per share		(\$ 0.33)		(\$ 0.48)		(\$ 0.84)		(\$ 1.35)	

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

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

Notes	Equity attributable to owners of the parent							Total	Non-controlling interest	Total equity
	Share capital - common shares	Capital surplus, additional paid-in capital	Retained Earnings			Other equity interest				
			Legal reserve	Special reserve	Total unappropriated retained earnings (accumulated deficit)	Exchange differences on translation of foreign financial statements	Unrealized gain or loss on available-for-sale financial assets			
For the six months ended June 30, 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
Balance at January 1, 2017										
Net loss for the period	-	-	-	-	(697,546)	-	-	(697,546)	(82,076)	(779,622)
Other comprehensive loss for the period, net of income tax	-	-	-	-	-	(91,730)	23	(91,753)	(64,852)	(156,605)
Total comprehensive loss for the period	-	-	-	-	(697,546)	(91,730)	23	(789,299)	(146,928)	(936,227)
Appropriation of prior year's earnings										
Special reserve	-	-	-	166,124	(166,124)	-	-	-	-	-
Changes in ownership interests in subsidiaries	-	-	-	-	-	-	-	-	5,876	5,876
Balance at June 30, 2017	\$ 5,157,285	\$ 453,761	\$ 1,085,124	\$ 202,973	\$ 3,318,518	(\$ 294,726)	\$ -	\$ 9,922,935	\$ 2,146,246	\$ 12,069,181
For the six months ended June 30, 2018										
	\$ 6,657,285	\$ 856,768	\$ 1,085,124	\$ 202,973	\$ 2,789,804	(\$ 246,224)	\$ -	\$ 11,345,730	\$ 1,935,541	\$ 13,281,271
Balance at January 1, 2018										
Net loss for the period	-	-	-	-	(557,179)	-	-	(557,179)	(194,203)	(751,382)
Other comprehensive income for the period, net of income tax	-	-	-	-	-	6,411	-	6,411	3,715	10,126
Total comprehensive income (loss) for the period	-	-	-	-	(557,179)	6,411	-	(550,768)	(190,488)	(741,256)
Appropriation of prior year's earnings										
Special reserve	-	-	-	43,251	(43,251)	-	-	-	-	-
Difference between consideration received or paid and the carrying amount of the subsidiaries' net assets during disposal or acquisition	-	3,714	-	-	-	-	-	3,714	2,286	6,000
Changes in ownership interests in subsidiaries	-	11,183	-	-	-	-	-	11,183	882,028	893,211
Balance at June 30, 2018	\$ 6,657,285	\$ 871,665	\$ 1,085,124	\$ 246,224	\$ 2,189,374	(\$ 239,813)	\$ -	\$ 10,809,859	\$ 2,629,367	\$ 13,439,226

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

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

	Notes	For the six months ended June 30, 2018	For the six months ended June 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(\$ 779,838)	(\$ 899,569)
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation expense	6(8)(22)	549,248	428,642
Amortization expense	6(9)(22)	25,484	15,697
Reversal for provisions for liabilities		-	(64)
Finance costs	6(21)	128,219	40,332
Interest income	6(19)	(9,125)	(18,154)
Net gain on financial assets or liabilities at fair value through profit or loss	6(20)	(21,562)	(24,462)
Gain on disposal of available-for-sale financial assets	6(20)	-	(45)
Loss on disposal of property, plant and equipment	6(20)	4	-
Net loss on foreign currency exchange		-	244,797
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		360,381	-
Notes receivable - related parties		4,565	-
Accounts receivable		65,595	(323,150)
Accounts receivable - related parties		(263)	(253,042)
Other receivables		30,785	77,487
Other receivables - related parties		(30,000)	-
Inventories		(229,018)	(355,501)
Other current assets		(76,611)	(117,358)
Changes in operating liabilities			
Decrease in financial liabilities at fair value through profit or loss		21,757	-
Contract liabilities - current		(8,620)	-
Notes payable		469,233	251,219
Accounts payable		(443,154)	(543,062)
Other payables		(112,396)	(58,820)
Provisions for liabilities - current		-	(1,583)
Other current liabilities		23,031	104,528
Cash outflow generated from operations		(32,285)	(1,432,108)
Interest received		9,087	22,452
Interest paid		(123,588)	(42,642)
Income tax paid		(5,207)	(1,924)
Net cash flows used in operating activities		(151,993)	(1,454,222)

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

	Notes	For the six months ended June 30, 2018	For the six months ended June 30, 2017
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of financial assets at fair value through profit or loss, designated as upon initial recognition		\$ -	(\$ 1,884,120)
Proceeds from disposal of financial assets at fair value through profit or loss, designated upon initial recognition		-	2,056,359
Proceeds from disposal of available-for-sale financial assets		-	12,045
Decrease in current financial assets at amortised cost		24,190	-
Increase in financial receivables	6(7)	(801,755)	-
Increase in other receivable - related parties		12,422	-
Increase in other financial assets		-	(10,310)
Acquisition of non - current financial assets at fair value through other comprehensive income	6(3)	(250,000)	-
Net cash paid to acquire subsidiaries	6(27)	-	5,343
Acquisition of property, plant and equipment	6(28)	(1,098,260)	(1,322,217)
Proceeds from disposal of property, plant and equipment		97,437	-
Acquisition of intangible assets	6(9)	(13,863)	(27,715)
Increase in equipment prepayments		(1,428,406)	(65,839)
Increase in other non-current assets		(606,363)	(7,606)
Net cash flows used in investing activities		(4,064,598)	(1,244,060)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term loans	6(29)	8,768,585	-
Repayments of short-term loans	6(29)	(7,165,010)	(227,919)
(Decrease) Increase in short-term notes and bills payable	6(29)	(100,000)	100,000
Proceeds from long-term debt	6(29)	1,128,533	1,192,381
(Decrease) increase in guarantee deposits received		(96)	84
Increase in other non-current liabilities		204,899	-
Disposal of ownership interests in subsidiaries (without losing control)	6(26)	6,000	-
Change in non-controlling interests	6(26)	893,211	-
Net cash flows from financing activities		3,736,122	1,064,546
Effect of exchange rate changes on cash and cash equivalents		6,100	4,483
Net decrease in cash and cash equivalents		(474,369)	(1,629,253)
Cash and cash equivalents at beginning of period	6(1)	4,497,296	4,341,520
Cash and cash equivalents at end of period	6(1)	\$ 4,022,927	\$ 2,712,267

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

CHENG MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES
(FORMER NAME: CHI MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2018 AND 2017

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

(Reviewed, not audited)

1. HISTORY AND ORGANISATION

- (1) Cheng Mei Materials Technology Corporation (the “Company”) was incorporated under the provisions of the Company Act of the Republic of China (R.O.C.) on May 17, 2005. The Company and its subsidiaries (collectively referred herein as the “Group”) are primarily engaged in manufacturing and selling optoelectronic material and components (polarizing film).
- (2) On October 24, 2011, the Company’s shares were listed on the Taiwan Stock Exchange (TWSE). Since September 2017, the Company’s common shares have been traded on the Singapore Exchange Limited (SGX) under the symbol “US16935L1098” in the form of global depositary shares.
- (3) The shareholders’ meeting approved the change of name of the Company from Chi Mei Materials Technology Corporation to Cheng Mei Materials Technology Corporation on June 22, 2018.

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

These consolidated financial statements were reported to the Board of Directors on August 13, 2018.

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 2018 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. The quantitative impact will be disclosed when the assessment is complete.

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.

In the first quarter of 2018, the Group reported to the Board of Directors that IFRS 16 has no material impact to the Group.

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”), and the effects will be adjusted on January 1, 2019.

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

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 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” and the International Accounting Standard 34, ‘Interim financial reporting’ as endorsed by the FSC.

(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 financial liabilities (including derivative instruments) at fair value through profit or loss.
 - (b) Financial assets and liabilities at fair value through other comprehensive income/Available for-sale financial assets measured at fair value.
- B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”) requires the use of certain critical accounting estimates. It also requires management exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

- 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 and the second quarter was not restated. The financial statements for the year ended December 31, 2017 and the second quarter 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
			June 30, 2018	December 31, 2017	June 30, 2017	
Cheng Mei Materials Technology Corporation ("CMMT")	Cheng Mei Materials Technology (SAMOA) Corp. ("CMMTS") (Former name: Chi Mei Materials Technology (SAMOA) Corp.) ("CMMTS")	Investment Company	100%	100%	100%	
	CM Visual Technology Corporation ("CMVT") (Former name: Chi Mei Visual Technology Corporation) ("CMVT")	Electronic component manufacturing and selling	68.33%	68.33%	68.33%	
	Chi Mei Materials Technology Investment Co., Ltd. ("CMMTI")	Investment Company	100%	100%	100%	
	Mao Yu Investment Co., Ltd. ("MYI") (Former name: Chi Tsai Investment Co., Ltd.) ("CTI")	Investment Company	100%	100%	100%	
	Mao Fong Trading Co., Ltd. ("MFT") (Former name: Chi Tsai Trading Co., Ltd.) ("CTT")	Trading business	100%	100%	100%	
	Ki Kin Corporation ("KK")	Trading business	-	-	67.14%	Note 3
	Ningbo Chi Mei Materials Technology Co., Ltd. ("NBCMMT")	Electronic component manufacturing and selling	100%	100%	100%	
CMMTS						
CMMTI	Kunshan Chimei Materials Technology Co., Ltd. ("KSCMMTI")	Electronic component manufacturing and selling	49.5%	49%	49%	Notes 1、2
KSCMMT	Kunshan Chimei Materials Trading Corp. ("KSCMS")	Trading business	100%	100%	100%	
	Xi'an Jinyahongtai New Materials Technology Co., Ltd. ("XJHM")	Electronic component manufacturing and selling	100%	-	-	Note 4
MYI	CMVT	Electronic component manufacturing and selling	11%	13%	13%	Note 5

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

Note 2 : The Group participated in the capital increase and invested to the amount of 30 million US dollar, 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 Corporation injected JPY 47,000 thousand into JJ, which raised the Corporation'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 Corporation sold all of its shares in KK to ZH at 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).

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 June 30, 2018, December 31, 2017 and June 30, 2017, the non-controlling interest amounted to \$2,629,367, \$1,935,541 and \$2,146,246, respectively. The information of non-controlling interest and respective subsidiaries is as follows:

Name of subsidiary	Principal place of business	Non-controlling interest					
		June 30, 2018		December 31, 2017		June 30, 2017	
		Amount	Ownership (%)	Amount	Ownership (%)	Amount	Ownership (%)
KSCMMT	China	\$ 2,596,142	50.5	\$ 1,900,183	51	\$ 2,102,855	51

Summarised financial information of the subsidiaries:

Balance sheets

	Kunshan Chimei Materials Technology Co., Ltd.		
	June 30, 2018	December 31, 2017	June 30, 2017
Current assets	\$ 2,973,386	\$ 3,073,618	\$ 2,653,459
Non-current assets	9,146,519	6,526,196	6,320,368
Current liabilities	(6,774,130)	(5,873,870)	(4,850,488)
Non-current liabilities	(204,899)	(96)	(94)
Total net assets	\$ 5,140,876	\$ 3,725,848	\$ 4,123,245

Statements of comprehensive income

	Kunshan Chimei Materials Technology Co., Ltd.	
	Three months ended June 30,	
	2018	2017
Revenue	\$ 902,996	\$ 350,154
Loss for the period	(\$ 282,094)	(\$ 134,716)
Total comprehensive loss for the period	(\$ 282,094)	(\$ 134,716)
Comprehensive loss attributable to non-controlling interest	(\$ 142,293)	(\$ 68,705)
	Kunshan Chimei Materials Technology Co., Ltd.	
	Six months ended June 30,	
	2018	2017
Revenue	\$ 1,541,118	\$ 414,674
Loss for the period	(\$ 375,214)	(\$ 154,378)
Total comprehensive loss for the period	(\$ 375,214)	(\$ 154,378)
Comprehensive loss attributable to non-controlling interest	(\$ 189,784)	(\$ 78,733)

Statements of cash flows

	Kunshan Chimei Materials Technology Co., Ltd.	
	Six months ended June 30,	
	2018	2017
Net cash used in operating activities	(\$ 189,770)	(\$ 611,846)
Net cash used in investing activities	(2,717,536)	(1,285,338)
Net cash provided by financing activities	2,644,255	1,307,648
Decrease in cash and cash equivalents	(\$ 263,051)	(\$ 589,536)

(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 an associate or joint arrangement, exchange differences that were recorded in other comprehensive income are proportionately reclassified to profit or loss as part of the gain or loss on sale. In addition, even when the Group retains partial interest in the former foreign associate or joint arrangement after losing significant influence over the former foreign associate, or losing joint control of the former joint arrangement, such transactions should be accounted for as disposal of all interest in these foreign operations.
 - (c) 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.
 - (d) 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) 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.

(14) 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	15 ~ 25 years
Machinery and equipment	5 ~ 10 years
Office equipment	3 ~ 5 years
Factory equipment	8 ~ 10 years
Other equipment	2 ~ 10 years

(15) Intangible assets

A. Computer software

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

B. Goodwill

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

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

(16) 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, intangible assets with an indefinite useful life and intangible assets 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.

(17) 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.

(18) 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.

(19) 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.

(20) Derecognition of financial liabilities

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

(21) Offsetting financial instruments

Financial assets and liabilities are offset and reported in the net amount 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.

(22) 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.

(23) 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.

(24) 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 10% 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.

- F. The interim period income tax expense is recognised based on the estimated average annual effective income tax rate expected for the full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.
- G. If a change in tax rate is enacted or substantively enacted in an interim period, the Group recognises the effect of the change immediately in the interim period in which the change occurs. The effect of the change on items recognised outside profit or loss is recognised in other comprehensive income or equity while the effect of the change on items recognised in profit or loss is recognised in profit or loss.

(25) 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.

(26) Revenue recognition

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

(27) 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.

(28) 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. If the total of consideration transferred, non-controlling interest in the acquiree recognised and the fair value of previously held equity interest in the acquiree is less than the fair value of the identifiable assets acquired and the liabilities assumed, the difference is recognised directly in profit or loss on the acquisition date.

(29) 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

(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.
- (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. 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 June 30, 2018, the Group recognised equipment, net of impairment loss, amounting to \$11,245,937.

B. 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 June 30, 2018, the carrying amount of inventories was \$2,511,728.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Cash on hand and revolving funds	\$ 591	\$ 586	\$ 134,521
Checking accounts and demand deposits	3,709,667	4,182,130	1,748,247
Repurchase agreements collateralized bonds	243,774		
Time deposits	68,895	314,580	829,499
	<u>\$ 4,022,927</u>	<u>\$ 4,497,296</u>	<u>\$ 2,712,267</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 assets at fair value through profit or loss

Effective 2018

	<u>June 30, 2018</u>
Current items:	
Financial assets mandatorily measured at fair value through profit or loss	
Derivatives	\$ 544

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

	<u>Three months ended June 30, 2018</u>	<u>Six months ended June 30, 2018</u>
Financial assets mandatorily measured at fair value through profit or loss		
Derivatives	\$ 2,772	\$ 21,562

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>Derivative instruments</u>	<u>June 30, 2018</u>	
	Contract amount	
	(notional principal)	
	<u>(in thousands)</u>	<u>Contract period</u>
Current items:		
Forward foreign exchange contracts	<u>USD 3,000</u>	107.06~107.07

The Group entered into forward foreign exchange contracts to manage exposures to exchange rate fluctuations of foreign currency denominated assets and liabilities. However, these forward foreign exchange contracts are not accounted for under hedge accounting.

C. Information on financial assets at fair value through profit or loss as of December 31, 2017 and June 30, 2017 are provided in Note 12(4).

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

Effective 2018

<u>Items</u>	<u>June 30, 2018</u>
Non-current items:	
Equity instruments	
Unlisted stocks	\$ 250,000
Valuation adjustment	-
	<u>\$ 250,000</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 \$250,000 at June 30, 2018.

B. The equity instruments were held at June, 2018, therefore, there were no amounts recognised in profit or loss and other comprehensive income in relation to the financial assets at fair value through other comprehensive income.

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

(4) Financial assets at amortised cost

Effective 2018

<u>Items</u>	<u>June 30, 2018</u>
Current items:	
Pledged deposit	\$ 233,949
Time deposits with original maturities of more than three months	15,400
	<u>\$ 249,349</u>

- A. As at June 30, 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the financial assets at amortised cost held by the Group was \$249,349.
- 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 and June 30, 2017 is provided in Note 12(4).

(5) Notes and accounts receivable

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Notes receivable (including related parties)	\$ 124,011	\$ 488,957	\$ -
Less: Allowance for uncollectible accounts	-	-	-
	<u>\$ 124,011</u>	<u>\$ 488,957</u>	<u>\$ -</u>
Accounts receivable (including related parties)	\$ 2,997,601	\$ 3,062,993	\$ 3,493,266
Less: Allowance for uncollectible accounts	-	-	-
	<u>\$ 2,997,601</u>	<u>\$ 3,062,993</u>	<u>\$ 3,493,266</u>

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

	<u>June 30, 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	\$ 2,989,460	\$ 124,011	\$ 3,062,993	\$ 488,957
Up to 30 days	8,141	-	-	-
	<u>\$ 2,997,601</u>	<u>\$ 124,011</u>	<u>\$ 3,062,993</u>	<u>\$ 488,957</u>

	<u>June 30, 2017</u>	
	<u>Accounts receivable</u>	<u>Notes receivable</u>
Not past due	\$ 3,493,266	\$ -

The above ageing analysis was based on past due date.

- B. As of June 30, 2018, December 31, 2017 and June 30, 2017, the Group had outstanding discounted notes receivable amounting to \$91,860, \$0, 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 June 30, 2018, December 31, 2017 and June 30, 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 \$124,011, \$488,957 and \$0, \$3,010,743, \$3,062,993 and \$3,493,266, respectively.

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

(6) Inventories

	June 30, 2018	December 31, 2017	June 30, 2017
Raw materials	\$ 1,239,923	\$ 1,208,402	\$ 1,356,251
Work in progress	696,545	633,761	668,504
Finished goods	570,934	429,139	389,267
Commodities	4,326	11,408	4
	<u>\$ 2,511,728</u>	<u>\$ 2,282,710</u>	<u>\$ 2,414,026</u>

The cost of inventories recognized as expense for the three months ended June 30, 2018 and 2017, and six months ended June 30, 2018 and 2017, was \$2,823,236, \$2,980,281, \$5,436,869 and \$5,891,602, respectively, including the amount of \$26,926 and \$196,135, respectively, that the Group reversed from a previous inventory write-down and accounted for as reduction of cost of good sold of the disposal of slow-moving inventory which resulted in the increase in the net realizable value. For the three months end June 30, 2017 and six months ended June 30, 2017, the Group wrote down \$227, 788 and \$280,795 from cost to net realizable value and accounted for as cost of good sold.

(7) Other receivables

	June 30, 2018	December 31, 2017	June 30, 2017
Financing provided to others (Note)	\$ 801,755	\$ -	\$ -
Other	129,875	160,660	24,692
	<u>\$ 931,630</u>	<u>\$ 160,660</u>	<u>\$ 24,692</u>

Note : This is the summation of 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	-	98,022	116,808	1,901	33,950	5,220	405,141	661,042
Disposals	-	(3,179)	(72,864)	(71)	(20,732)	(595)	-	(97,441)
Reclassifications	-	1,345	437,858	-	26,616	3,668	(450,493)	18,994
Depreciation charge	-	(168,473)	(206,612)	(4,621)	(150,201)	(19,341)	-	(549,248)
Net exchange differences	-	23,636	11,071	78	6,637	650	823	42,895
Closing net book amount as at June 30	<u>\$ 1,428,543</u>	<u>\$ 5,780,930</u>	<u>\$ 2,491,860</u>	<u>\$ 18,333</u>	<u>\$ 1,321,800</u>	<u>\$ 113,622</u>	<u>\$ 90,849</u>	<u>\$ 11,245,937</u>
<u>At June 30, 2018</u>								
Cost	\$ 1,428,543	\$ 7,384,312	\$ 7,233,252	\$ 63,402	\$ 4,672,700	\$ 345,904	\$ 366,571	\$ 21,494,684
Accumulated depreciation and impairment	-	(1,603,382)	(4,741,392)	(45,069)	(3,350,900)	(232,282)	(275,722)	(10,248,747)
	<u>\$ 1,428,543</u>	<u>\$ 5,780,930</u>	<u>\$ 2,491,860</u>	<u>\$ 18,333</u>	<u>\$ 1,321,800</u>	<u>\$ 113,622</u>	<u>\$ 90,849</u>	<u>\$ 11,245,937</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	-	3,132	22,549	524	24,797	4,038	2,126,327	2,181,367
Reclassifications	-	3,383,553	1,073,153	758	945,012	28,650	(5,388,456)	42,670
Depreciation charge	-	(115,608)	(190,466)	(4,482)	(107,437)	(10,649)	-	(428,642)
Net exchange differences	-	6,334	(9,713)	(247)	3,073	(27)	(155,546)	(156,126)
Closing net book amount as at June 30	<u>\$ 1,428,543</u>	<u>\$ 5,747,274</u>	<u>\$ 2,064,419</u>	<u>\$ 20,564</u>	<u>\$ 1,463,638</u>	<u>\$ 70,323</u>	<u>\$ 484,327</u>	<u>\$ 11,279,088</u>
<u>At June 30, 2017</u>								
Cost	\$ 1,428,543	\$ 7,012,434	\$ 6,447,313	\$ 65,267	\$ 4,526,652	\$ 266,346	\$ 753,626	\$ 20,500,181
Accumulated depreciation and impairment	-	(1,265,160)	(4,382,894)	(44,703)	(3,063,014)	(196,023)	(269,299)	(9,221,093)
	<u>\$ 1,428,543</u>	<u>\$ 5,747,274</u>	<u>\$ 2,064,419</u>	<u>\$ 20,564</u>	<u>\$ 1,463,638</u>	<u>\$ 70,323</u>	<u>\$ 484,327</u>	<u>\$ 11,279,088</u>

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

	Three months ended June 30, 2018	Three months ended June 30, 2017
Amount capitalised	\$ 704	\$ 16,064
Range of the interest rates for capitalisation	2.01%	3.20%
	Six months ended June 30, 2018	Six months ended June 30, 2017
Amount capitalised	\$ 1,988	\$ 21,896
Range of the interest rates for capitalisation	2%~2.69%	3.20%

According to the Contract for State – Owned Construction Land Use Right Assignment between NBCMMT and Ningbo Municipal Bureau of National Land and Resource, the Group's construction of industrial land should meet the requirements of production, tax revenue and import and export quotas. However, due to the changing business strategy for the production system in 2016, the Group might not meet all of the requirements. The Group assessed that the carrying amount of the construction in progress related to buildings and factories would not be recoverable, which led to the recognition of an impairment loss of \$291,090 in operating costs in the consolidated statements of comprehensive income for the year ended December 31, 2016.

(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	13,863	-	-	-	13,863
Reclassifications	4,364	-	-	-	4,364
Amortisation charge	(19,297)	(2,350)	-	(920)	(22,567)
Net exchange differences	301	-	-	-	301
At June 30	<u>\$ 63,289</u>	<u>\$ 18,408</u>	<u>\$ 8,056</u>	<u>\$ 1,840</u>	<u>\$ 91,593</u>
<u>At June 30, 2018</u>					
Cost	\$ 132,404	\$ 47,000	\$ 8,056	\$ 9,200	\$ 196,660
Accumulated amortisation and impairment	(69,115)	(28,592)	-	(7,360)	(105,067)
	<u>\$ 63,289</u>	<u>\$ 18,408</u>	<u>\$ 8,056</u>	<u>\$ 1,840</u>	<u>\$ 91,593</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	27,715	-	-	-	27,715
Additions-acquired through business	-	-	873	-	873
Reclassifications	40,679	-	-	-	40,679
Amortisation charge	(9,723)	(2,350)	-	(920)	(12,993)
Net exchange differences	(92)	-	-	-	(92)
At June 30	<u>\$ 79,073</u>	<u>\$ 23,108</u>	<u>\$ 8,929</u>	<u>\$ 3,680</u>	<u>\$ 114,790</u>
<u>At June 30, 2017</u>					
Cost	\$ 110,531	\$ 47,000	\$ 8,929	\$ 9,200	\$ 175,660
Accumulated amortisation and impairment	(31,458)	(23,892)	-	(5,520)	(60,870)
	<u>\$ 79,073</u>	<u>\$ 23,108</u>	<u>\$ 8,929</u>	<u>\$ 3,680</u>	<u>\$ 114,790</u>

Details of amortisation on intangible assets are as follows:

	Three months ended June 30, 2018	Three months ended June 30, 2017
Cost of sales	\$ 1,601	\$ 2,556
General and administrative expenses	8,407	3,776
Research and development expenses	1,635	1,649
	<u>\$ 11,643</u>	<u>\$ 7,981</u>
	Six months ended June 30, 2018	Six months ended June 30, 2017
Cost of sales	\$ 3,301	\$ 3,813
General and administrative expenses	15,996	5,883
Research and development expenses	3,270	3,297
	<u>\$ 22,567</u>	<u>\$ 12,993</u>

(10) Other assets

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Current			
Current offset against business tax payable	\$ 701,455	\$ 540,741	\$ 516,385
Prepayments	28,760	67,460	224,918
Temporary payments	56,694	102,720	55,333
Pledged time deposits	-	265,739	144,342
Prepayments for leases	5,801	5,765	5,665
Payments on behalf of others	623	36	3,628
Other financial assets	-	7,800	4,800
	<u>\$ 793,333</u>	<u>\$ 990,261</u>	<u>\$ 955,071</u>
	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Non-Current			
Long-term prepayments	\$ 810,383	\$ 201,812	\$ -
Prepayments for leases	255,975	257,297	255,678
Refundable deposits	10,760	14,202	12,878
Others	4,289	2,506	3,194
	<u>\$ 1,081,407</u>	<u>\$ 475,817</u>	<u>\$ 271,750</u>

(11) Short-term borrowings

<u>Type of borrowings</u>	<u>June 30, 2018</u>	<u>Interest rate range</u>	<u>Collateral</u>
Bank borrowings			
Bank secured borrowings			
- Transferred receivables	\$ 91,860	5.52%	Notes Receivable
Bank unsecured borrowings	5,324,974	0.72%~5.66%	-
	<u>\$ 5,416,834</u>		
<u>Type of borrowings</u>	<u>December 31, 2017</u>	<u>Interest rate range</u>	<u>Collateral</u>
Bank borrowings			
Bank unsecured borrowings	\$ 3,813,259	0.68%~5.25%	-
<u>Type of borrowings</u>	<u>June 30, 2017</u>	<u>Interest rate range</u>	<u>Collateral</u>
Bank borrowings			
Bank unsecured borrowings	\$ 3,331,331	0.60%~4.79%	-

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

B. Transferred receivables were secured by a charge over a certain amount of the Group's trade receivables. As of June 30, 2018, the weighted average effective interest rate was 5.52%.

(12) Other payables

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Payables for purchase of equipment	\$ 495,822	\$ 933,040	\$ 1,153,043
Payables for salaries or bonuses	196,185	261,173	153,159
Payables for annual leave	38,455	38,395	39,448
Payables for insurance premiums	22,440	16,642	18,350
Payables for interest	18,218	13,297	3,811
Accrued taxes payable	12,036	16,505	9,629
Payables for purchases of land or buildings	5,722	3,831	9,189
Payables for professional service fees	5,671	3,389	3,586
Others	181,643	195,619	212,076
	<u>\$ 976,192</u>	<u>\$ 1,481,891</u>	<u>\$ 1,602,291</u>

(13) Long-term borrowings

<u>Type of borrowings</u>	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
<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.	\$ 3,768,366	\$ 2,639,833	\$ 2,537,562
Less: Reclassified as current portion due to breaching certain terms of a long-term loan arrangement	(3,768,366)	(2,639,833)	(2,537,562)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Interest rate range	<u>4.37%</u>	<u>3.81%</u>	<u>3.20%</u>

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, JJ 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 \$10,000,000 thousand.

During 2017 and 2016, the Group breached certain terms of its long-term loan agreements, which are primarily related to the interest coverage ratio of the Group. However, 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 2016. However, for year 2017, 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 at June 30, 2018 and 2017 and December 31, 2017.

(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 make monthly contributions at certain percentages of the basic salaries of their employee.
- C. The pension costs under defined contribution pension plans of the Group for the three months ended June 30, 2018 and 2017, and six months ended June 30, 2018 and 2017, were \$9,732, \$11,562, \$19,636 and \$22,631, respectively.

(15) Share capital

- A. As of June 30, 2018, the Company’s authorised capital was \$7,000,000, consisting of 700,000 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:

	2018	2017
At January 1 (At June 30)	<u>665,729</u>	<u>515,729</u>

B. GDRS

- (a) On December 20, 2016, the Company’s board of directors approved to increase its capital by and 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 June 30, 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 acquisition or disposal of subsidiaries	-	3,714	-	3,714
Changes in equity of subsidiaries	-	-	11,183	11,183
At June 30	<u>\$ 803,494</u>	<u>\$ 6,776</u>	<u>\$ 61,395</u>	<u>\$ 871,665</u>

	Difference between consideration and carrying			Total
	Share premium	amount of subsidiaries acquired or disposed	Changes in ownership interests in subsidiaries	
At January 1 (At June 30)	\$ 400,487	\$ 3,062	\$ 50,212	\$ 453,761

(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
- (a) 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.
- (b) The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently. Such amounts are reversed upon disposal or reclassified if the assets are investment property of land, and reversed over the use period if the assets are investment property other than land.
- E. The appropriation of earnings for 2017 was approved in the shareholders' meeting on June 22, 2018.

(18) Operating revenue

	Three months ended June 30, 2018	Six months ended June 30, 2018
Revenue from contracts with customers	\$ 2,758,734	\$ 5,258,377

	Three months ended June 30, 2017	Six months ended June 30, 2017
Revenue from contracts with customers	\$ 2,770,193	\$ 5,404,982

A. Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods and services at a point in time in the following geographical regions:

Three months ended June 30, 2018	Taiwan	China	Total
Total segment revenue	\$ 1,031,756	\$ 1,726,978	\$ 2,758,734
Inter-segment revenue	800,380	185,239	985,619
Elimination of internal transaction	(800,380)	(185,239)	(985,619)
Revenue from external customer	\$ 1,031,756	\$ 1,726,978	\$ 2,758,734

Three months ended June 30, 2017	Taiwan	China	Total
Total segment revenue	\$ 867,660	\$ 1,902,533	\$ 2,770,193
Inter-segment revenue	118,499	437,459	555,958
Elimination of internal transaction	(118,499)	(437,459)	(555,958)
Revenue from external customer	\$ 867,660	\$ 1,902,533	\$ 2,770,193

Six months ended June 30, 2018	Taiwan	China	Total
Total segment revenue	\$ 1,894,692	\$ 3,363,685	\$ 5,258,377
Inter-segment revenue	1,733,723	216,543	1,950,266
Elimination of internal transaction	(1,733,723)	(216,543)	(1,950,266)
Revenue from external customer	\$ 1,894,692	\$ 3,363,685	\$ 5,258,377

Six months ended June 30, 2017	Taiwan	China	Total
Total segment revenue	\$ 2,016,185	\$ 3,488,797	\$ 5,504,982
Inter-segment revenue	2,395,561	478,506	2,874,067
Elimination of internal transaction	(2,395,561)	(478,506)	(2,874,067)
Revenue from external customer	\$ 2,016,185	\$ 3,488,797	\$ 5,504,982

B. Contract liabilities

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

	June 30, 2018
Contract liabilities – sale of goods	\$ 859

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

	Three months ended June 30, 2018	Six months ended June 30, 2018
Revenue recognised that was included in the contract liability balance at the beginning of the period		
Sale of goods	\$ 650	\$ 9,479

C. The revenue and costs arising from triangular trade by the Company's subsidiary, KSCMS, for the reporting period are presented in net amounts and recognised as commission revenue given the economic substance of the transactions.

(19) Other income

	Three months ended June 30, 2018	Three months ended June 30, 2017
Interest income	\$ 6,254	\$ 9,545
Rental income	242	205
Others	17,245	8,194
	<u>\$ 23,741</u>	<u>\$ 17,944</u>
	Six months ended June 30, 2018	Six months ended June 30, 2017
Interest income	\$ 9,125	\$ 18,154
Rental income	452	409
Others	21,374	14,081
	<u>\$ 30,951</u>	<u>\$ 32,644</u>

(20) Other gains and losses

	Three months ended June 30, 2018	Three months ended June 30, 2017
Gains on disposals of investments	\$ -	\$ 45
Losses on disposals of property, plant and equipment	(4)	-
Foreign exchange gains (losses)	(42,926)	99,440
Gains on financial assets (liabilities) at fair value through profit or loss	2,772	6,392
Others	(1,792)	(24)
	<u>(\$ 41,950)</u>	<u>\$ 105,853</u>

	Six months ended June 30, 2018	Six months ended June 30, 2017
Gains on disposals of investments	\$ -	\$ 45
Losses on disposals of property, plant and equipment	(4)	-
Foreign exchange gains (losses)	(42,560)	(112,205)
Gains on financial assets (liabilities) at fair value through profit or loss	21,562	34,503
Others	(1,803)	(31)
	<u>(\$ 22,805)</u>	<u>(\$ 77,688)</u>

(21) Finance costs

	Three months ended June 30, 2018	Three months ended June 30, 2017
Interest expense - bank borrowings	\$ 64,768	\$ 30,763
Others	-	554
	<u>\$ 64,768</u>	<u>\$ 31,317</u>

	Six months ended June 30, 2018	Six months ended June 30, 2017
Interest expense - bank borrowings	\$ 128,219	\$ 40,332
Others	-	1,091
	<u>\$ 128,219</u>	<u>\$ 41,423</u>

(22) Expenses by nature

	Three months ended June 30, 2018	Three months ended June 30, 2017
Employee benefit expense	\$ 400,006	\$ 437,802
Depreciation charges on property, plant and equipment	278,055	235,421
Amortisation charges on intangible assets	11,643	7,981
Amortisation charges on prepayment for leases	1,461	1,396
	<u>\$ 691,165</u>	<u>\$ 682,600</u>
	Six months ended June 30, 2018	Six months ended June 30, 2017
Employee benefit expense	\$ 793,615	\$ 868,507
Depreciation charges on property, plant and equipment	549,248	428,642
Amortisation charges on intangible assets	22,567	9,377
Amortisation charges on prepayment for leases	2,917	2,704
	<u>\$ 1,368,347</u>	<u>\$ 1,309,230</u>

(23) Employee benefit expense

	Three months ended June 30, 2018	Three months ended June 30, 2017
Pension costs	\$ 9,732	\$ 11,562
Other personnel expenses	390,274	426,240
	<u>\$ 400,006</u>	<u>\$ 437,802</u>
	Six months ended June 30, 2018	Six months ended June 30, 2017
Pension costs	\$ 19,636	\$ 22,631
Other personnel expenses	773,979	845,876
	<u>\$ 793,615</u>	<u>\$ 868,507</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 a deficit for the six months ended June 30, 2018 and 2017; thus, neither employees' compensation nor remuneration of directors and supervisors was estimated.

Information about employees' compensation and directors' and supervisors' remuneration of the Company as resolved 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

Components of income tax (expense) benefit

	Three months ended June 30, 2018	Three months ended June 30, 2017
Current tax:		
Current tax on (loss) profit in current period	(\$ 3,986)	\$ 644
Prior year income tax (over) underestimation	(9)	-
Total current tax	<u>(3,995)</u>	<u>644</u>
Deferred tax:		
Origination and reversal of temporary differences	25,495	27,980
Impact of change in tax rate	9,243	-
Total deferred tax	<u>34,738</u>	<u>27,980</u>
Income tax benefit	<u>\$ 30,743</u>	<u>\$ 28,624</u>

	Six months ended June 30, 2018	Six months ended June 30, 2017
Current tax:		
Current tax on (loss) profit in current period	(\$ 6,323)	(\$ 1,895)
Prior year income tax (over) underestimation	(9)	(127)
Total current tax	(6,332)	(2,022)
Deferred tax:		
Origination and reversal of temporary differences	25,545	121,969
Impact of change in tax rate	9,243	-
Total deferred tax	34,788	121,969
Income tax benefit	\$ 28,456	\$ 119,947

B. The Company's income tax returns through 2015 have been assessed and approved by the Tax Authority.

C. Under the amendments to the Income Tax Act which was promulgated in February, 7, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Group has assessed the impact of the change in income tax rate.

(25) Loss per share

	Three months ended June 30, 2018		
	Weighted average number of ordinary shares outstanding		
	Amount after tax	(share in thousands)	Loss per share (in dollars)
<u>Basic and diluted loss per share</u> shareholders of the parent	(\$ 218,285)	665,729	(\$ 0.33)
	Three months ended June 30, 2017		
	Weighted average number of ordinary shares outstanding		
	Amount after tax	(share in thousands)	Loss per share (in dollars)
<u>Basic and diluted loss per share</u> shareholders of the parent	(\$ 249,245)	515,729	(\$ 0.48)

Six months ended June 30, 2018			
		Weighted average number of ordinary shares outstanding	Loss per share
	Amount after tax	(share in thousands)	(in dollars)
<u>Basic and diluted loss per share</u> shareholders of the parent	(\$ 557,179)	665,729	(\$ 0.84)
Six months ended June 30, 2017			
		Weighted average number of ordinary shares outstanding	Loss per share
	Amount after tax	(share in thousands)	(in dollars)
<u>Basic and diluted loss per share</u> shareholders of the parent	(\$ 697,546)	515,729	(\$ 1.35)

(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	\$ 3,714

Line items adjusted for equity transactions

Capital surplus - purchase price and carrying amount differences from acquisitions or disposals of subsidiaries	\$ 3,714
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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\$30 million respectively in May and June, 2018. The transaction increased non-controlling interest by \$882,028 and equity attributable to owners of parent by \$11,183.

The effect of changes in interest in KSCMMT on the equity attributable to owners of the parent for the six months ended June 30, 2017 is shown below:

	Six months ended June 30, 2018
Cash	\$ 893,211
Increase in the carrying amount of non-controlling interest	(882,028)
Capital surplus	
- recognition of changes in ownership interest in subsidiaries	\$ 11,183

(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

	KK
Cash	\$ 12,878

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

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

D. Goodwill recognized on acquisitions

	KK
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	\$ 873

The goodwill recognized in the acquisition of KK mainly represents the control premium included in the cost of the combination. In addition, the consideration paid for the combination effectively included amounts attributed to the benefits of the expected synergies, revenues growth, future market development and the assembled workforce 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

The results of the acquiree since the acquisition date included in the consolidated statements of comprehensive income were as follows:

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

Had these business combinations been in effect for the entire annual reporting period, the Group's revenue from continuing operations would have been \$11,440,772 and the loss from continuing operations would have been \$1,550,026. This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operating 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 of KK. The disposal was completed on December 25, 2017, on which date 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 dates control was lost

	KK
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	\$ 15,591

C. Gain on disposals of subsidiaries

	KK
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

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

(28) Supplemental cash flow information

Investing activities with partial cash payments

	Six months ended June 30, 2018	Six months ended June 30, 2017
Purchase of property, plant and equipment	\$ 661,042	\$ 2,181,367
Add: Opening balance of payable on equipment	933,040	157,927
Less: Ending balance of payable on equipment	(495,822)	(1,153,043)
Cash paid during the six months ended June 30, 2018	<u>\$ 1,098,260</u>	<u>\$ 1,186,251</u>

(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	<u>1,603,575</u>	<u>(100,000)</u>	<u>1,128,533</u>	<u>2,632,108</u>
At June 30, 2018	<u>\$ 5,416,834</u>	<u>\$ -</u>	<u>\$ 3,768,366</u>	<u>\$ 9,185,200</u>

(30) Government grants

KSCMMT acquired government subsidy for the amount of RMB 48,380 thousand dollars in January 2018. The government grant is from the Kunshan government to encourage enterprises to set up factories in the Kunshan development zone. After the establishment of a factory is completed, grants are granted. It is an asset-related government grant, which is listed in deferred revenue. As of June

30, 2018, the balance of this deferred revenue is \$216,437, which is shown as “other current liabilities” amounting to \$11,543 and “other non-current liability-others” amounting to \$204,894. For the three months and six months ended June 30, 2018, the revenue realized based on the service life of the factory was \$2,911 and \$5,831, respectively.

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

<u>Names of related parties</u>	<u>Relationship with the Group</u>
Chi Mei Corporation	Investors with significant influence over the Corporation (Note 1)
Tree Valley Foundation	Affiliates
Zhejiang Hengjie Co., Ltd. ("ZH")	Affiliates
K Laser Technology Inc.	Affiliates
Ki Kin Corporation ("KK")	Affiliates (Note 2)
Zhejiang Jinhui Optoelectronic Material Co., Ltd. ("ZJ")	Affiliates
Young Jet Investment Company Limited	Affiliates
Hangzhou Jinijang Group	Affiliates

Note 1: The chairman of Chi Mei Corporation, who was a corporate director of the Group, resigned on November 9, 2017. Since then, Chi Mei Corporation no longer has had a significant influence over the Group.

Note 2: 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 Notes 27.

(2) Significant related party transactions

A. Operating revenue:

	<u>Three months ended June 30, 2018</u>	<u>Three months ended June 30, 2017</u>
Sales of goods:		
Affiliates	<u>\$ -</u>	<u>\$ 211,891</u>
	<u>Six months ended June 30, 2018</u>	<u>Six months ended June 30, 2017</u>
Sales of goods:		
Affiliates	<u>\$ -</u>	<u>\$ 211,891</u>

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

B. Receivables from related parties:

	June 30, 2018	December 31, 2017	June 30, 2017
Accounts receivable:			
Affiliates	\$ 263	\$ -	\$ 253,042
Notes receivable:			
Affiliates	-	4,565	-
Other receivables			
Young Jet Investment Company Limited (Note 1)	30,000	-	-
ZH(Notes 2)	-	12,417	-
Affiliates	-	5	-
	<u>\$ 30,263</u>	<u>\$ 16,987</u>	<u>\$ 253,042</u>

Note 1: MYI signed a financial consultant agreement with Young Jet Investment Company Limited on May 29, 2018. MYI provided Young Jet Investment Company Limited the amount of \$30,000 and Young Jet Investment Company Limited would invest the said amount according to instructions from MYI. MYI would pay Young Jet Investment Company Limited the amount of \$600 plus 20% of the gain on investment as consulting fee annually.

Note 2: It is receivables resulted from KK sold ZH.

C. Prepayment for equipment

KSCMMT signed an equipment purchasing agreement with Ki Kin Corporation on March 15, 2018, and paid RMB 135,985 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. KK had already repaid the amount of JPY 520,000 on August 9, 2018, and the remaining balance is repaid in the way of guarantee deposit by KK's parent company, ZH on August 10, 2018. After the balance is fully repaid by KK, KSCMMT would remit the guarantee deposit back to ZH.

D. Endorsements and guarantees provided to related parties:

	June 30, 2018	December 31, 2017	June 30, 2017
ZH	<u>\$ 1,733,448</u>	<u>\$ 1,214,323</u>	<u>\$ 1,167,279</u>

(3) Key management compensation

	Three months ended June 30, 2018	Three months ended June 30, 2017
Salaries and other short-term employee benefits	\$ 2,823	\$ 5,385
Post-employment benefits	58	114
	<u>\$ 2,881</u>	<u>\$ 5,499</u>

	Six months ended June 30, 2018	Six months ended June 30, 2017
Salaries and other short-term employee benefits	\$ 7,586	\$ 13,119
Post-employment benefits	117	234
	<u>\$ 7,703</u>	<u>\$ 13,353</u>

8. PLEDGED ASSETS

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

Pledged asset	Book value			Purpose
	June 30, 2018	December 31, 2017	June 30, 2017	
Pledged deposits (Note)	\$ 233,949	\$ 265,739	\$ 144,342	Provided as collateral for the letters of credit for purchases of raw materials
Notes receivable	91,860	-	-	Short term loan resulting from notes receivables factoring
	<u>\$ 325,809</u>	<u>\$ 265,739</u>	<u>\$ 144,342</u>	

Note: Pledged certificate of deposit is categorized as "financial asset at amortized cost" on June 30, 2017, and it is categorized as "other current asset- other" on December 31, 2017 and June 30, 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 June 30, 2018, December 31, 2017 and June 30, 2017 were as follows:

A. As of June 30, 2018, December 31, 2017 and June 30, 2017, unused letters of credit for purchases of raw materials were as follows:

	June 30, 2018	December 31, 2017	June 30, 2017
JPY	\$ 2,474,905	\$ 4,460,264	\$ 3,545,886
RMB	8,000	-	9,610
EUR	-	402	1,860
USD	3,054	3,587	709

B. As of June 30, 2018, December 31, 2017 and June 30, 2017, the amounts of guarantees provided by financial institutions for the purpose of importing goods were \$44,744, \$11,424 and \$58,044, respectively.

C. As of June 30, 2018, December 31, 2017 and June 30, 2017, the unpaid amounts of the construction contracts that the Group entered into for the expansion of factories and machinery equipment were \$472,842, \$910,917 and \$1,312,104, respectively.

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 Shenzhen Sheng Bo Optoelectronics Technology Co., Ltd., 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 June 30, 2018 and December 31, 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

Refer to 7(2)C.

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).

Key management personnel of the Group review the capital structure on a periodic basis. As part of this review, the key management personnel consider 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 June 30, 2018, December 31, 2017, June 30, 2017 were as follows:

	June 30, 2018	December 31, 2017	June 30, 2017
Total liabilities	\$ 12,574,024	\$ 10,177,320	\$ 9,373,823
Total assets	\$ 26,013,251	\$ 23,458,591	\$ 21,443,004
Gearing ratio	48	43	44

(2) Financial instruments

A. Financial instruments by category

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
<u>Financial assets</u>			
Financial assets at fair value through other comprehensive income			
Designation of equity instrument	\$ 250,000	\$ -	\$ -
Financial assets at amortised cost/Loans and receivables			
Cash and cash equivalents	\$ 4,022,927	\$ 4,497,296	\$ 2,712,267
Financial assets at amortised cost	249,349	-	-
Notes receivable	124,011	488,957	-
Accounts receivable	2,997,601	3,062,933	3,493,266
Other receivables	961,630	173,082	24,697
Refundable deposits	10,760	14,202	12,878
Other financial assets	-	273,539	149,142
	<u>\$ 8,366,278</u>	<u>\$ 8,510,009</u>	<u>\$ 6,392,250</u>
	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2017</u>
<u>Financial liabilities</u>			
Financial liabilities at fair value through profit or loss			
Financial liabilities held for trading	\$ -	\$ 349	\$ 5,022
Financial liabilities designated as at fair value through profit or loss	544	-	-
	<u>\$ 544</u>	<u>\$ 349</u>	<u>\$ 5,022</u>
Financial liabilities at amortised cost			
Short-term borrowings	\$ 5,416,834	\$ 3,813,259	\$ 3,331,331
Short-term notes and bills payable	-	100,000	100,000
Notes payable	601,696	132,463	251,219
Accounts payable	1,531,197	1,974,351	1,409,048
Other accounts payable	976,192	1,481,891	1,602,291
Long-term borrowings (including current portion)	3,768,366	2,639,833	2,537,562
Guarantee deposits received	75	171	169
	<u>\$ 12,294,360</u>	<u>\$ 10,141,968</u>	<u>\$ 9,231,620</u>

B. Financial risk management policies

- (a) The Group's major financial instruments include equity, accounts receivable, accounts payable and loans. 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 asset generated by sales and Japanese yen-denominated liabilities generated by the import 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 6(2).
- iv. The Group's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: NTD; other certain subsidiaries' functional currency: 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:

June 30, 2018			
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 109,374	30.46	3,331,532
JPY:NTD	2,553,308	0.2754	703,181
RMB:NTD	9,361	4.5930	42,995
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	\$ 165,892	30.46	5,053,070
JPY:NTD	11,118,063	0.2754	3,061,915
EUR:NTD	29	35.4000	1,027

December 31, 2017			
	Foreign currency amount (In thousands)	Exchange rate	Book value (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	4.5650	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

June 30, 2017			
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 105,376	30.42	\$ 3,205,538
JPY:NTD	1,352,720	0.2716	367,399
RMB:NTD	2,153	4.4860	9,658
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	116,884	30.42	3,555,611
JPY:NTD	8,735,394	0.2716	2,372,533
EUR:NTD	589	34.72	20,450

- v. Total exchange gain (loss), including realized and unrealized arising from significant foreign exchange variation on the monetary items held by the Group for the three months ended June 30, 2018 and 2017, and six months ended June 30, 2018 and 2017, amounted to (\$42,926), \$99,440, (\$42,560) and \$112,205, respectively.
- vi. Analysis of foreign currency market risk arising from significant foreign exchange variation:

Six months ended June 30, 2018			
	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%	16,658	-
JPY:NTD	0.5%	3,516	-
RMB:NTD	0.5%	215	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	0.5%	25,265	-
JPY:NTD	0.5%	15,310	-
EUR:NTD	0.5%	5	-

Six months ended June 30, 2017			
	<u>Degree of</u>	<u>Effect on</u>	<u>Effect on other</u>
	<u>variation</u>	<u>profit or loss</u>	<u>comprehensive income</u>
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	0.5%	9,792	-
JPY:NTD	0.5%	7,142	-
RMB:NTD	0.5%	48	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	0.5%	17,778	-
JPY:NTD	0.5%	11,863	-
EUR:NTD	0.5%	102	-

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's investments in equity securities comprise shares. The price of equity securities would change due to the change of the future value of investee companies. However, the Group has set up stop-loss point for those instruments. Therefore, the Group does not expect to be exposed to material market risk.

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 six months ended June 30, 2018 and 2017 would have increased/decreased by \$45,748 and \$31,159, respectively.

(b)Credit risk

Effective 2018

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 consolidated balance sheets.

The Group's concentration of credit risk, was related to the Corporation's five largest customers. The average credit period of sales 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.

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

At June 30, 2018	Not past due	Up to 30 days past due	Total
Expected loss rate	0%	0%	
Total book value	\$ 2,989,460	\$ 8,141	\$ 2,997,601
Loss allowance	\$ -	\$ -	\$ -

As of June 30, 2018 and January 1, 2018, the Group's accounts receivable that were both impaired amounted to \$0.

(c) Liquidity risk

- i. The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank loans and ensures compliance with loan covenants. However, the Group breached certain terms of its long-term loan agreement during 2017. On discovery of the breach, management informed the lender and commenced renegotiation of the terms of the loan with the relevant bank. As of August 14, 2018, those negotiations had not concluded. Refer to Note 6(13) for details.

- ii. 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>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Unsecured bank overdraft facility, reviewed annually and payable at call:			
Amount used	\$ 11,141,607	\$ 8,376,982	\$ 14,331,109
Amount unused	<u>13,774,261</u>	<u>18,116,771</u>	<u>20,795,192</u>
	<u>\$ 24,915,868</u>	<u>\$ 26,493,753</u>	<u>\$ 35,126,301</u>

- iii. 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.

June 30, 2018

	<u>On demand or less than 6 months</u>	<u>6 months to 1 year</u>	<u>1-5 years</u>
Non-interest bearing liabilities	\$ 2,626,482	\$ 687	\$ 1,546
Variable interest rate liabilities	753,020	3,821,736	-
Fixed interest rate liabilities	<u>3,916,384</u>	<u>694,060</u>	<u>-</u>
	<u>\$ 7,295,886</u>	<u>\$ 4,516,483</u>	<u>\$ 1,546</u>

December 31, 2017

	<u>On demand or less than 6 months</u>	<u>6 months to 1 Year</u>	<u>1-5 years</u>
Non-interest bearing liabilities	\$ 3,023,816	\$ 10,344	\$ 9,525
Variable interest rate liabilities	704,978	2,785,274	-
Fixed interest rate liabilities	<u>2,654,080</u>	<u>408,760</u>	<u>-</u>
	<u>\$ 6,382,874</u>	<u>\$ 3,204,378</u>	<u>\$ 9,525</u>

Juner 30, 2017

	On demand or less than 6 months	6 months to 1 year	1-5 years
Non-interest bearing liabilities	\$ 2,812,459	\$ 8,954	\$ 1,086
Variable interest rate liabilities	538,857	2,577,068	-
Fixed interest rate liabilities	2,332,334	525,656	-
	<u>\$ 5,683,650</u>	<u>\$ 3,111,678</u>	<u>\$ 1,086</u>

iv. 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.

June 30, 2018

	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	\$ 90,836	\$ -	\$ -	\$ -	\$ -
Outflows	91,380	-	-	-	-

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	-	-	-	-

June 30, 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	\$ 1,242,198	\$ -	\$ -	\$ -	\$ -
Outflows	1,247,220	-	-	-	-

(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.

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

June 30, 2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at FVOCI				
Equity instruments	\$ -	\$ -	\$ 250,000	\$ 250,000
Financial liabilities at FVTPL				
Derivative financial assets	\$ -	\$ 544	\$ -	\$ 544

December 31, 2017

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial liabilities at FVTPL				
Derivative financial assets	\$ -	\$ 349	\$ -	\$ 349

June 30, 2017

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial liabilities at FVTPL				
Derivative financial assets	\$ -	\$ 5,022	\$ -	\$ 5,022

For the six months ended June 30, 2018 and June 30, 2017, there was no transfer between level 1 and level 2.

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

<u>Financial Instruments</u>	<u>Valuation Techniques and Inputs</u>
Derivatives-foreign exchange forward contracts	Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates.

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

	Six months ended June 30, 2018	Six months ended June 30, 2017
	Equity instrument	Equity instrument
At January 1	\$ -	\$ -
Acquired in the period	250,000	-
At June 30	<u>\$ 250,000</u>	<u>\$ -</u>
Movement of unrealised gain or loss in profit or loss of assets and liabilities held as at June 30, 2018 (Note)	<u>\$ -</u>	<u>\$ -</u>

Note: Recorded as non-operating income and expense.

E. The financial department segment 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, and frequently calibrating valuation model, performing back-testing, updating inputs used to the valuation model and making any other necessary adjustments to the fair value.

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

A. Summary of significant accounting policies adopted in the second quarter of 2017:

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

- i. 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.
- ii. 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, IFRS 9, were as follows:

	Measured at cost	Debt instrument without active market	Total	Effects	
				Retained earnings	Other equity
IAS 39					
Transferred into and measured at fair value through profit or loss	\$ -	\$ 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 June 30, 2017 and the 2nd quarter of 2017, are as follows:

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

Items	June 30, 2018
Current items:	
Financial assets held for trading	
Non-hedging derivatives	<u>\$ 5,022</u>
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 \$9,662 on financial liability held for the six-month period ended June 30, 2017.
- ii. The non-hedging derivative instruments transaction and contract information are as follows:

June 30, 2017	Currency	Maturity	Notional Amount (In thousands)
Current items:			
Foreign exchange forward contracts	USD:JPY	2017.7.7~ 2017.8.25	USD 35,000/JPY 3,906,120
	USD:TWD	2017.7.21	USD 6,000/JPY 181,296
<u>December 31, 2017</u>			
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 for the six months ended June 30, 2017 and the second quarter of 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 65% and 69% in total accounts receivable as of June 30, 2017 and December 31, 2017, respectively, 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 account receivable, the Group considered any change in the credit quality of the account 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 June 30, 2017 and December 31, 2017.

Movements in the provision for impairment of accounts receivable for the six-month period ended June 30, 2017 are as follow:

	<u>Individual provision</u>	<u>Group provision</u>	<u>Total</u>
At January 1	\$ 1,523	\$ -	\$ -
Write-offs during the period	(1,523)	-	-
At June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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 Notes 6(2), and 12(2).
- 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

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided.

The reportable segments of the Group are as follows:

(1) Segment revenue and results

The following was an analysis of the Group's revenue and results from continuing operations by reportable segment.

	Segment Revenue			Segment Profit or Loss					
	Three Months Ended	Three Months Ended	Six Months Ended	Three Months Ended	Three Months Ended	Six Months Ended	Six Months Ended	Six Months Ended	Six Months Ended
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Taiwan-based operating entities	\$ 1,031,756	\$ 867,660	\$ 1,894,692	\$ 146,423	\$ 150,812	\$ 311,152	\$ 345,070	\$ 311,152	\$ 345,070
China-based operating entities	1,726,978	1,902,533	3,363,685	162,473	289,041	348,613	466,936	348,613	466,936
Other	-	-	-	-	983	-	1,096	-	1,096
Total from continuing operations	\$ 2,758,734	\$ 2,770,193	\$ 5,258,377	\$ 308,896	\$ 440,856	\$ 659,765	\$ 813,102	\$ 659,765	\$ 813,102
Net foreign exchange gain (loss)	-	-	-	(	42,926	99,440	(	42,560	(
Interest income	-	-	-	6,254	9,545	9,125	18,154	9,125	18,154
Gain (loss) on disposals of investments	-	-	-	-	45	-	45	-	45
Loss on disposals of property, plant and equipment	-	-	-	(	4	-	4	-	-
Gain on financial assets designated as at fair value through profit or loss	-	-	-	-	5,644	-	9,662	-	9,662
Net gain on financial assets held for trading	-	-	-	-	748	-	24,841	-	24,841
Gain on financial assets mandatorily measured at fair value through profit or loss	-	-	-	-	-	-	-	-	-
Financial costs	-	-	-	2,772	-	21,562	-	21,562	-
Others	-	-	-	(	64,768	(	31,317	(	41,423
Loss before income tax (continuing operations)	\$ 15,695	\$ 8,375	\$ 20,023	\$ 15,695	\$ 8,375	\$ 20,023	\$ 14,459	\$ 20,023	\$ 14,459
	\$ 391,873	\$ 348,356	\$ 779,838	\$ 391,873	\$ 348,356	\$ 779,838	\$ 899,569	\$ 779,838	\$ 899,569

Segment profit represented the profit before tax earned by each segment without the allocation of central administration costs and directors' salaries, rental revenue, interest income, gains or losses on disposals of property, plant and equipment, gains or losses on disposals of available-for-sale financial instruments, 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.

(2) Segment assets

The Group does not regularly provide information on assets to the Group's chief operating decision maker.

CHENG MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES

Loans to others
Six months ended June 30, 2018

Table 1

Expressed in thousands of NTD

No. (Note 1)	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding balance during six months ended June 30, 2018		Balance at June 30, 2018	Actual amount drawn down	Interest rate	Nature of loan	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral		Limit on loans granted to a single party (Note 2)	Ceiling on total loans granted (Note 3)	Footnote
					Item	Value												
1	Kunshan Chimei Materials Technology Co., Ltd.	Kunshan Chimei Materials Trading Corp.	Other receivables - related parties	Yes	\$ 229,650	\$ 229,650	\$ -	\$ -	4.35%	Short-term financing	\$ -	Operating capital	\$ -	None	\$ -	2,056,350	\$ 3,084,526	Note 2
2	Kunshan Chimei Materials Trading Corp.	Kunshan Chimei Materials Technology Co., Ltd.	Other receivables - related parties	Yes	68,895	68,895	-	-	4.35%	Short-term financing	-	Operating capital	-	None	-	104,005	156,008	-
2	Kunshan Chimei Materials Trading Corp.	Xian JinyaoHongtai New Materials Technology Co., Ltd.	Other receivables - related parties	Yes	2,297	2,297	-	-	4.35%	Short-term financing	-	Operating capital	-	None	-	104,005	156,008	-
2	Kunshan Chimei Materials Trading Corp.	Hangzhou Rong Jie Trading Co., Ltd.	Other receivables	No	-	-	\$ 143,136	-	-	Business relationship	\$ 245,728	-	-	None	-	-	-	Notes 3, 4, 6
2	Kunshan Chimei Materials Trading Corp.	Zhejiang Zheng Jie Trading Co., Ltd	Other receivables	No	-	-	162,055	-	-	Business relationship	387,920	-	-	None	-	-	-	Notes 3, 4, 6
2	Kunshan Chimei Materials Trading Corp.	DFG(Kunshan) Co., Ltd	Other receivables	No	-	-	244,128	-	-	Business relationship	267,922	-	-	None	-	-	-	Notes 3, 4, 6
2	Kunshan Chimei Materials Trading Corp.	Shanghai Rui Qiong Industrial Co., Ltd.	Other receivables	No	-	-	89,637	-	-	Business relationship	41,823	-	-	None	-	-	-	Notes 3, 5, 6
2	Kunshan Chimei Materials Trading Corp.	Shanghai MaoEn International Trade Co., Ltd	Other receivables	No	-	-	116,869	-	-	Business relationship	58,164	-	-	None	-	-	-	Notes 3, 5, 6
2	Kunshan Chimei Materials Trading Corp.	Shandong Dao Xian Wei Energy Technology Co., Ltd.	Other receivables	No	-	-	45,930	-	-	Business relationship	-	-	-	None	-	-	-	Notes 3, 5, 6

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: In accordance with Kunshan Chimei Materials Technology Co., Ltd. "Procedures for Provision of Loans", limit on loans to a single party ceiling on total loans is 40% of the Kunshan Chimei Materials Trading Corp. net assets. Ceiling on total loans is 60% of the kunshan Chi Mei Material Trading Corp net asset.

Note 3: In accordance with Kunshan Chimei Materials Trading Corp. "Procedures for Provision of Loans", ceiling on total loans is 60% of the Kunshan Chimei Materials Trading Corp. net assets.

Note 3 : In accordance with Kunshan Chimei Material Trading Corp.'s "Procedures for Provision of Loans", limit on loans to a single party ceiling on total loans is 40% of the Kunshan Chimei Material Trading Corp.'s net assets, ceiling on total loan is 60% of the Kunshan Chimei Material Trading Corp.'s net assets.

Note 4: Kunshan Chimei Material Trading Corp and the companies are traded by triangle trade, and the amount of business transactions is calculated based on the total revenue.

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

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

CHENG MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES

Provision of endorsements and guarantees to others

Six months ended June 30, 2018

Table 2

Expressed in thousands of NTD

Number (Note 1)	Endorser/ guarantor	Relationship with the endorser/ guarantor	Party being endorsed/guaranteed		Limit on guarantees provided for a single party	Maximum outstanding endorsement/ guarantee amount as of June 30, 2018	Outstanding endorsement/ guarantee amount at June 30, 2018	Actual amount drawn down	Amount of endorsements/ guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company	Ceiling on total amount of endorsements/ guarantees provided	Provision of endorsements/ guarantees by parent company to subsidiary			Footnote
			Company name									Yes	No	Yes	
0	Cheng Mei Materials Technology Corporation		Kunshan Chimei Materials Technology Co., Ltd.	6	5,404,930	2,863,506	2,863,506	-	-	26.49	\$ 10,809,859	Yes	No	Yes	Note 3,4
1	Kunshan Chimei Materials Technology Co., Ltd.		Kunshan Chimei Materials Trading Corp.	4	3,084,526	1,837,200	1,837,200	-	-	35.74	5,140,876	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 'y'

(2) The subsidiaries are

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 more than 50% voting shares of the endorsed/guaranteed subsidiary.

(3) The endorser/guarantor parent company and its subsidiaries jointly own more than 50% voting shares of the endorsed/guaranteed company.

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

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

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

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

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

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

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

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

CHENG MEI MATERIALS TECHNOLOGY CORPORATION AND SUBSIDIARIES

Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)

Six months ended June 30, 2018

Table 3

Expressed in thousands of NTD

Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	As of June 30, 2018				Footnote
				Number of shares	Book value	Ownership (%)	Fair value	
Cheng Mei Materials Technology Corporation	CHANG WAH ELECTROMATERIALS INC.(Stock)	None	Non-current financial assets at fair value through other comprehensive income	16,667	\$ 250,000	7.10%	\$ 250,000	-
Cheng Mei Materials Technology Corporation	Repurchase agreement collateralized bonds	None	Cash and cash equivalents	-	243,774	-	243,774	-

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

For the six months ended June 30, 2018

Table 4

Expressed in thousands of NTD

Investor	Marketable securities	General ledger account	Counterparty	Relationship with the investor	Maximum outstanding balance during six months ended June 30, 2018						Disposal				Balance as at June 30, 2018	
					January 1, 2018		Addition		Number of shares		Selling price		Book value		Number of shares	
					Number of shares	Amount	Number of shares	Amount	Number of shares	Amount						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	30,000	\$ 893,550	-	-	-	-	-	-	103,500	\$ 3,123,878
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	-	-	-	913,800	-	-	-	-	-	-	-	913,800

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

Six months ended June 30, 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)	Differences in transaction terms compared to third party transactions			Notes/accounts receivable (payable)		
						Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	Footnote
Cheng Mei Materials Technology Co., Ltd.	Ningbo Chi Mei Materials Technology Co., Ltd.	Subsidiary	Sales	(\$ 1,581,660)	44%	-	-	-	\$ 989,186	49%	
Cheng Mei Materials Technology Co., Ltd.	Ningbo Chi Mei Materials Technology Co., Ltd.	Subsidiary	Purchases	162,687	5%	-	-	-	(74,756)	5%	

Cheng Mei Materials Technology Corporation

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

Six months ended June 30, 2018

Table 6

Expressed in thousands of NTD

Creditor	Counterparty	Relationship with the counterparty	Balance as at June 30, 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 Chi Mei Materials Technology Co., Ltd.	Subsidiary	Accounts Receivable \$989,186	2.48	\$ -	-	\$ 253,954	\$ -
Cheng Mei Materials Technology Corporation	Kunshan Chi Mei Materials Technology Co., Ltd.	Subsidiary	Others Receivable \$443,018	-	-	-	-	-

Cheng Mei Materials Technology Corporation
Significant inter-company transactions during the reporting periods
For the six months ended June 30, 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 Chi Mei Materials Technology Co., Ltd.	1	Sales	\$ 1,581,660	-	30%
0	Cheng Mei Materials Technology Corporation	Ningbo Chi Mei Materials Technology Co., Ltd.	1	Accounts receivable	989,186	-	4%
0	Cheng Mei Materials Technology Corporation	CM Visual Technology Corporation	1	Sales	23,106	-	1%
0	Cheng Mei Materials Technology Corporation	CM Visual Technology Corporation	1	Accounts receivable	18,132	-	-
0	Cheng Mei Materials Technology Corporation	CM Visual Technology Corporation	1	Other receivable	54,080	-	-
0	Cheng Mei Materials Technology Corporation	Kunshan Chimei Materials Trading Co., Ltd.	1	Sales	29,005	-	1%
0	Cheng Mei Materials Technology Corporation	Kunshan Chimei Materials Technology Co., Ltd.	1	Sales	92,029	-	2%
0	Cheng Mei Materials Technology Corporation	Kunshan Chimei Materials Technology Co., Ltd.	1	Other revenue	36,044	-	1%
0	Cheng Mei Materials Technology Corporation	Kunshan Chimei Materials Technology Co., Ltd.	1	Accounts receivable	63,433	-	-
0	Cheng Mei Materials Technology Corporation	Kunshan Chimei Materials Technology Co., Ltd.	1	Other receivable	443,018	-	2%
1	Ningbo Chi Mei Materials Technology Co., Ltd.	Cheng Mei Materials Technology Corporation	2	Sales	162,687	-	3%
1	Ningbo Chi Mei Materials Technology Co., Ltd.	Cheng Mei Materials Technology Corporation	2	Accounts receivable	74,756	-	-
1	Ningbo Chi Mei Materials Technology Co., Ltd.	Kunshan Chimei Materials Technology Co., Ltd.	3	Sales	44,603	-	1%
1	Ningbo Chi Mei Materials Technology Co., Ltd.	Kunshan Chimei Materials Technology Co., Ltd.	3	Accounts receivable	24,679	-	-
3	Kunshan Chimei Materials Trading Corp.	Kunshan Chimei Materials Technology Co., Ltd.	3	Sales	86,400	-	2%

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

For the six months ended June 30, 2018

Table 8

Expressed in thousands of NTD

Investor	Investee	Location	Main business activities	outstanding			Shares held as at June 30, 2018			Net profit (loss) of the investee for the six months ended June 30, 2018		Investment income(loss) recognised by the Company for the six months ended June 30, 2018	Footnote
				Initial investment amount		Balance as at Dec 31, 2017	Number of shares	Ownership (%)	Book value	(Note 1)			
				Balance as at June 30, 2018	Balance								
Cheng Mei Materials Technology Corporation	Cheng Mei Materials Technology (SAMOA) Corporation	Samoa	Investment company	\$ 431,482	\$ 431,482	431,482	13,300	100%	\$ 704,489	\$ 142,603	\$ 142,603		
Cheng Mei Materials Technology Corporation	CM Visual Technology Corporation	Taiwan	Electronic component manufacture and sale	205,000	205,000	205,000	20,500	68.33%	77,325	(21,548)	(14,724)		
Cheng Mei Materials Technology Corporation	Chi Mei Materials Technology Investment Co., Ltd.	Samoa	Investment company	3,123,878	2,230,328	2,230,328	103,500	100%	2,544,470	(185,431)	(185,431)		
Cheng Mei Materials Technology Corporation	Mao Yu Investment Co., Ltd.	Taiwan	Investment company	350,000	50,000	50,000	35,000	100%	326,920	(2,817)	(2,817)		
Cheng Mei Materials Technology Corporation	Mao Fong Trading Co., Ltd.	Taiwan	Investment company	1,001,000	1,000	1,000	100,100	100%	1,000,355	(620)	(620)		
Mao Yu Investment Co., Ltd.	CM Visual Technology Corporation	Taiwan	Electronic component manufacture and sale	33,000	39,000	39,000	3,300	11%	10,393	(21,548)		Note 2	

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

Note 2: According to the related regulations, it is not required to disclose income (loss) recognized by the Company.

Cheng Mei Materials Technology Corporation
Information on investments in Mainland China
For the six months ended June 30, 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 balance during six months ended June Amount remitted back to Taiwan for the six months ended June 30, 2018	Remitted back to Taiwan	Accumulated amount of remittance from Taiwan to Mainland China as of June 30, 2018	Net income of investee as of June 30, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the six months ended June 30, 2018 (Note 2)	Book value of investments in Mainland China as of June 30, 2018	Accumulated amount of investment income remitted back to Taiwan as of June 30, 2018	Footnote
Ningbo Chi Mei Materials Technology Co., Ltd.	Electronic component manufacture and sale	\$ 606,026	2	\$ 405,118	\$ -	\$ -	\$ 405,118	\$ 142,603	\$ 100.00	\$ 132,428	\$ 710,978	\$ -	
Kunshan Chimei Materials Technology Co., Ltd.	Electronic component manufacture and sale	6,119,841	2	2,238,810	913,800	-	3,152,610	(375,214)	49.50	(185,095)	2,544,733	-	
Kunshan Chimei Materials Trading Corp.	Electronic component manufacture and sale	229,650	2	-	-	-	-	15,970	49.50	7,905	128,707	-	
X'ian JinyaoHongtai New Materials Technology Co., Ltd.	Electronic component manufacture and sale	6,890	2	-	-	-	-	(2,392)	49.50	(1,184)	2,238	-	
Company name				Accumulated amount of remittance from Taiwan to Mainland China as of June 30, 2018	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA							
Cheng Mei Materials Technology Corporation		\$3,557,728		\$4,867,508	\$8,063,536								

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 and Mao Fong Trading Co., Ltd. in the third area, which then invested in the investee in Mainland China.
- (3) Others

Note 2: The financial statements that are reviewed and attested by R.O.C. parent company's CPA.

Note 3: 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 29.54 to US\$1 from January 1, 2018 to June 30, 2018, otherwise are re-translated at the exchange rates of NTD 30.46 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

For the six months ended June 30, 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		Interest during the six months ended June 30, 2018	
	Amount	%	Amount	%	Balance at June 30, 2018	%	Balance at June 30, 2018	Purpose	Balance at June 30, 2018	Interest rate		
Ningbo Chi Mei Materials Technology Co., Ltd.	\$ 1,581,660	30%	\$ -	-	\$ 989,186	4%	\$ -	-	\$ -	-	\$ -	-
Ningbo Chi Mei Materials Technology Co., Ltd.	(162,687)	(3%)	-	-	(74,756)	(1%)	-	-	-	-	-	-
Kunshan Chimci Materials Technology Co., Ltd.	92,029	2%	-	-	63,433	-	-	-	-	-	-	-
Kunshan Chimci Materials Trading Corp.	29,005	1%	-	-	8,133	-	-	-	-	-	-	-