

**TONG HSING ELECTRONIC INDUSTRIES, LTD.
AND SUBSIDIARIES**

Consolidated Financial Statements

**With Independent Auditors' Report
For the Years Ended December 31, 2018 and 2017**

Address: 6F, No.83, Yanping S.Rd., Zhongzheng Dist., Taipei City.
Telephone: (02)2389-0432

The independent auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' report and consolidated financial statements, the Chinese version shall prevail.

Table of contents

Contents	Page
1. Cover Page	1
2. Table of Contents	2
3. Representation Letter	3
4. Independent Auditors' Report	4
5. Consolidated Balance Sheets	5
6. Consolidated Statements of Comprehensive Income	6
7. Consolidated Statements of Changes in Equity	7
8. Consolidated Statements of Cash Flows	8
9. Notes to the Consolidated Financial Statements	
(1) Company history	9
(2) Approval date and procedures of the consolidated financial statements	9
(3) New standards, amendments and interpretations adopted	9~17
(4) Summary of significant accounting policies	17~36
(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty	36~37
(6) Explanation of significant accounts	37~67
(7) Related-party transactions	67~68
(8) Pledged assets	68
(9) Commitments and contingencies	68~69
(10) Losses Due to Major Disasters	69
(11) Subsequent Events	69
(12) Other	69
(13) Other disclosures	
(a) Information on significant transactions	69~71
(b) Information on investees	71
(c) Information on investment in mainland China	71
(14) Segment information	72~74

Representation Letter

The entities that are required to be included in the combined financial statements of Tong Hsing Electronic Industries, Ltd. as of and for the year ended December 31, 2018 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Tong Hsing Electronic Industries, Ltd. and subsidiaries do not prepare a separate set of combined financial statements.

Company name: Tong Hsing Electronic Industries, Ltd.

Chairman: Xi-Hu, Lai

Date: March 15, 2019



安侯建業聯合會計師事務所
KPMG

台北市11049信義路5段7號68樓(台北101大樓)
68F., TAIPEI 101 TOWER, No. 7, Sec. 5,
Xinyi Road, Taipei City 11049, Taiwan (R.O.C.)

Telephone 電話 + 886 (2) 8101 6666
Fax 傳真 + 886 (2) 8101 6667
Internet 網址 kpmg.com/tw

Independent Auditors' Report

To the Board of Directors of Tong Hsing Electronic Industries, Ltd.:

Opinion

We have audited the consolidated financial statements of Tong Hsing Electronic Industries, Ltd. and its subsidiaries which comprise the consolidated balance sheets as of December 31, 2018 and 2017, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Tong Hsing Electronic Industries, Ltd. and its subsidiaries as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), Interpretations developed by the International Financial Reporting Interpretations Committee ("IFRIC") or the former Standing Interpretations Committee ("SIC") endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audit in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of Tong Hsing Electronic Industries, Ltd. and its subsidiaries in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters we judged shall be presented in the financial report as follows:

1. Valuation of inventories

Please refer to Note (4)(h) and Note (5)(a) of the consolidated financial statements for inventories accounting policy, and accounting assumptions and estimation uncertainty of inventory valuation, respectively. Information regarding inventory and related expenses are shown in Note (6)(d) of the consolidated financial statements.

Explanation to key audit matter:

Due to the impact of product life cycle and industrial competition in electronics industry, the price variability for the inventory of Tong Hsing Electronic Industries, Ltd. and its subsidiaries is expected. Therefore, the inventory valuation is one of the key audit matters in our audit.

How the matter was addressed in our audit:

Our principal audit procedures included: testing control of inventory usage and storage management; inspecting the inventory aging statement, and analyzing the change of aging for different periods; performing sampling procedures and inspecting the rationality in order to verify the correctness of inventories aging statement; performing a retrospective review of historical accuracy of inventory valuation, and reviewing the adequacy of the accounting policies.

2. Impairment of goodwill

Please refer to Note (4)(l) intangible assets and Note (5)(b) of the consolidated financial statements for goodwill accounting policy and accounting assumptions and estimation uncertainty of impairment of goodwill, respectively. Information regarding the impairment of goodwill are shown in Note (6)(g) of the consolidated financial statements.

Explanation to key audit matter:

The goodwill of Tong Hsing Electronic Industries, Ltd. was arose on a business combination in the past. Since the estimation of recoverable amount of goodwill is based on the forecast for the future operation of Tong Hsing Electronic Industries, Ltd, there is uncertainty in estimating the recoverable amount with discounted value of future cash flows. Therefore, the test of impairment of goodwill is one of the key audit matters in our audit.

How the matter was addressed in our audit:

Our principal audit procedures included: evaluating internal and external objective evidence of impairment identified by the management of Tong Hsing Electronic Industries, Ltd, and assessing the rationality of evaluation method used to estimate recoverable amount; evaluating the accuracy of forecast result in the past, and inspecting the calculations and the records for the recoverable amount of cash-generating units measured by management; evaluating the rationality of all the assumptions for estimating the future cash flows forecast and for calculating the recoverable amount.

Other Matter

Tong Hsing Electronic Industries, Ltd. has prepared its parent company only financial statements as of and for the years ended December 31, 2018 and 2017, on which we have issued an unqualified opinion.

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

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

In preparing the consolidated financial statements, the management is responsible for assessing Tong Hsing Electronic Industries, Ltd. and its subsidiaries' ability to continue as a going concern disclosing, as applicable, matters related to going concern and using the going concern basis of accounting. Unless the management either intends to liquidate Tong Hsing Electronic Industries, Ltd. and its subsidiaries or to cease its operations, there is no realistic alternative but to do so.

Those charged with governance (including members of the supervisors) are responsible for overseeing Tong Hsing Electronic Industries, Ltd. and its subsidiaries' financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within Tong Hsing Electronic Industries, Ltd. and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Szu-Chuan Chien and Hsin-Fu Yen.

KPMG

Taipei, Taiwan (Republic of China)
March 15, 2019

Notes to Readers

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

The independent auditors' audit report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' audit report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese.)
TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2018		December 31, 2017							
		Amount	%	Amount	%	Amount	%				
Assets						Liabilities and Equity					
Current assets:						Current liabilities:					
1100	Cash and cash equivalents (note 6(a))	\$ 5,168,430	42	5,883,990	46	2100	Short-term borrowings (note 6(h))	\$ 249,859	2	271,436	2
1110	Current financial assets at fair value through profit or loss (notes 6(b))	100,394	1	-	-	2170	Notes and accounts payable	498,267	4	450,310	4
1170	Notes and accounts receivable, net (note 6(c))	1,267,822	10	1,329,596	10	2200	Other payables (note 6(k))	772,118	6	742,120	6
1200	Other receivables	44,325	-	36,800	-	2230	Current tax liabilities	150,142	1	181,222	1
1476	Other financial assets—current (note 8)	70,628	1	67,629	1	2300	Other current liabilities (note 6(q))	48,296	1	22,898	-
1310	Inventories (note 6(d))	1,341,567	11	948,380	7	2322	Long-term borrowings, current portion (note 6(i))	-	-	562,887	4
1410	Prepayments	28,408	-	31,135	-			-	-	2,230,873	17
1470	Other current assets (notes 6(c) and (q))	31,212	-	13,120	-			1,718,682	14		
		8,052,786	65	8,310,650	64						
Non-current assets:											
1600	Property, plant and equipment (notes 6(f), 7 and 8)	4,197,116	33	4,400,965	34	2540	Long-term borrowings (note 6(i))	-	-	65,000	1
1780	Intangible assets (note 6(g))	65,240	1	56,149	1	2570	Deferred tax liabilities (note 6(n))	118,686	1	103,212	1
1840	Deferred tax assets (note 6(n))	129,624	1	173,952	1	2640	Net defined benefit liability—non-current (note 6(m))	177,288	1	151,164	1
1980	Other financial assets—non-current (note 8)	5,000	-	5,000	-			295,974	2	319,376	3
1900	Other non-current assets	1,781	-	1,792	-			2,014,656	16	2,550,249	20
1920	Refundable deposits	11,794	-	15,679	-						
		4,410,555	35	4,653,537	36						
Equity:											
Equity attributable to owners of parent: (note 6(o))											
	Ordinary shares		3100		3100			1,653,575	13	1,653,575	13
	Capital surplus		3200		3200			5,063,801	41	5,233,426	40
	Legal reserve		3310		3310			1,234,484	10	1,137,095	9
	Special reserve		3320		3320			105,549	1	33,700	-
	Unappropriated retained earnings		3350		3350			2,432,168	19	2,427,991	19
	Exchange differences on translation of foreign financial statements		3410		3410			(40,892)	-	(71,849)	(1)
	Total equity							10,448,685	84	10,413,938	80
Total liabilities and equity		\$ 12,463,341	100	12,964,187	100			12,463,341	100	12,964,187	100

(English Translation of Consolidated Financial Statements Originally Issued in Chinese.)
TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Share)

		2018		2017	
		Amount	%	Amount	%
4000	Sales revenue	\$ 7,488,000	101	7,821,687	101
4170	Less: sales returns and allowances	<u>74,488</u>	<u>1</u>	<u>76,085</u>	<u>1</u>
4100	Net sales revenue (notes 6(q) and 14)	7,413,512	100	7,745,602	100
5110	Cost of sales (notes 6(d), (m) and 12)	<u>5,511,828</u>	<u>74</u>	<u>5,847,890</u>	<u>75</u>
5900	Gross profit	<u>1,901,684</u>	<u>26</u>	<u>1,897,712</u>	<u>25</u>
6000	Operating expenses: (notes 6(m) and 12)				
6100	Selling expenses	191,981	3	189,125	3
6200	Administrative expenses	443,503	6	448,418	6
6300	Research and development expenses	114,120	2	98,353	1
6450	Expected credit losses (gains)	<u>13,519</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>763,123</u>	<u>11</u>	<u>735,896</u>	<u>10</u>
6900	Net operating income	<u>1,138,561</u>	<u>15</u>	<u>1,161,816</u>	<u>15</u>
	Non-operating income and expenses:				
7100	Interest income	34,303	1	37,255	-
7190	Other income (note 6(e))	25,682	-	17,070	-
7230	Foreign exchange gains (note 6(s))	59,077	1	-	-
7235	Gains on current financial assets (liabilities) at fair value through profit or loss (note 6(b))	394	-	4,243	-
7510	Finance cost - interest expense (note 6(j))	(8,440)	-	(27,403)	-
7590	Miscellaneous disbursements	(4,294)	-	(17,022)	-
7630	Foreign exchange losses (note 6(s))	<u>-</u>	<u>-</u>	<u>(76,190)</u>	<u>(1)</u>
		<u>106,722</u>	<u>2</u>	<u>(62,047)</u>	<u>(1)</u>
7900	Profit before tax	1,245,283	17	1,099,769	14
7950	Less: tax expense (note 6(n))	<u>231,680</u>	<u>3</u>	<u>125,880</u>	<u>1</u>
	Profit	<u>1,013,603</u>	<u>14</u>	<u>973,889</u>	<u>13</u>
	Other comprehensive income: (notes 6(m) and (n))				
	Items that may not be reclassified to profit or loss				
8311	Remeasurements of defined benefit plans	(35,646)	(1)	21,528	-
8349	Income tax on items that may not be reclassified to profit or loss	<u>8,185</u>	<u>-</u>	<u>(3,659)</u>	<u>-</u>
		<u>(27,461)</u>	<u>(1)</u>	<u>17,869</u>	<u>-</u>
	Items that may be reclassified subsequently to profit or loss				
8361	Exchange differences on translation of foreign financial statements	41,539	1	(105,611)	(1)
8399	Income tax on items that may be reclassified to profit or loss	<u>(10,582)</u>	<u>-</u>	<u>26,813</u>	<u>-</u>
		<u>30,957</u>	<u>1</u>	<u>(78,798)</u>	<u>(1)</u>
	Other comprehensive income	<u>3,496</u>	<u>-</u>	<u>(60,929)</u>	<u>(1)</u>
8500	Comprehensive income	<u>\$ 1,017,099</u>	<u>14</u>	<u>912,960</u>	<u>12</u>
	Earnings per share (note 6(p))				
9750	Basic earnings per share	<u>\$ 6.13</u>		<u>5.91</u>	
9850	Diluted earnings per share	<u>\$ 6.09</u>		<u>5.78</u>	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese.)
TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	2018	2017
Cash flows from (used in) operating activities:		
Profit before tax	\$ 1,245,283	1,099,769
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	875,959	1,008,962
Amortization expense	4,121	3,120
Expected credit losses / Provision for bad debt expense	13,519	7,320
Net gain on financial assets or liabilities at fair value through profit or loss	(394)	(4,243)
Interest expense	8,440	27,403
Interest income	(34,303)	(37,255)
Loss (gain) on disposal of property, plant and equipment	(13,294)	16,993
Other	224	1,173
Total adjustments to reconcile profit (loss)	<u>854,272</u>	<u>1,023,473</u>
Changes in operating assets and liabilities:		
Decrease (increase) in current financial assets at fair value through profit or loss	(100,000)	1,021,819
Increase in contract assets	(2,057)	-
Decrease in notes and accounts receivable	60,758	86,276
Increase in other receivables	(6,459)	(2,033)
Decrease (increase) in inventories	(409,533)	17,347
Decrease (increase) in prepayments	2,727	(11,569)
Decrease (increase) in other current assets	(652)	101
Increase in other financial assets – current	(2,384)	(26,722)
Decrease in current financial liabilities at fair value through profit or loss	-	(104)
Increase in notes and accounts payable	47,957	19,878
Increase in other payables	31,437	20,193
Increase in other current liabilities	3,312	7,212
Decrease in net defined benefit liabilities	(9,522)	(13,157)
	<u>(384,416)</u>	<u>1,119,241</u>
Cash inflow generated from operations	1,715,139	3,242,483
Interest received	33,240	38,073
Interest paid	(9,296)	(21,331)
Income taxes paid	(207,149)	(197,980)
Net cash flows from operating activities	<u>1,531,934</u>	<u>3,061,245</u>
Cash flows from (used in) investing activities:		
Acquisition of property, plant and equipment	(648,266)	(611,420)
Proceeds from disposal of property, plant and equipment	31,942	341
Decrease in refundable deposits	3,885	3,187
Acquisition of intangible assets	(13,212)	(3,909)
Other	(615)	51
Net cash flows used in investing activities	<u>(626,266)</u>	<u>(611,750)</u>
Cash flows from (used in) financing activities:		
Decrease in short-term borrowings	(29,619)	(193,411)
Decrease in short-term notes and bills payable	-	(20,000)
Repayments of bonds	-	(1,668,200)
Repayments of long-term borrowings	(627,925)	(287,676)
Cash dividends paid	(992,145)	(977,442)
Net cash flows used in financing activities	<u>(1,649,689)</u>	<u>(3,146,729)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>28,461</u>	<u>(70,095)</u>
Net decrease in cash and cash equivalents	(715,560)	(767,329)
Cash and cash equivalents at beginning of period	5,883,990	6,651,319
Cash and cash equivalents at end of period	<u>\$ 5,168,430</u>	<u>5,883,990</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese.)
TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

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

(1) Company history

Tong Hsing Electronic Industries, Ltd. (“the Company”) was incorporated as a company limited by shares in August 11, 1974 and registered under the Ministry of Economic Affairs, R.O.C. The address of the Company’s registered office is 6F, No.83, Yanping S. Rd., Zhongzheng Dist., Taipei City. The consolidated financial statements of the Company as at and for the year ended December 31, 2018 comprised the Company and subsidiaries (together referred to as the “Group”). The Group primarily is involved in the manufacture and sale of RF modules, metalized ceramic substrates, hybrid integrated circuits and image sensors.

(2) Approval date and procedures of the consolidated financial statements:

These consolidated financial statements were authorized for issuance by the board of directors on March 15, 2019.

(3) New standards, amendments and interpretations adopted:

- (a) The impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”) which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendment to IFRS 2 “Clarifications 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
Amendment to IAS 7 “Statement of Cash Flows – Disclosure Initiative”	January 1, 2017
Amendment to IAS 12 “Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of Investment Property”	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Except for the following items, the Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of significant changes are as follows:

(i) IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces the existing revenue recognition guidance, including IAS 18 “Revenue” and IAS 11 “Construction Contracts”.

The Group applies this standard retrospectively with the cumulative effect, it need not restate those contracts, but instead, continues to apply IAS 11, IAS 18 and the related Interpretations for comparative reporting period. The Group recognizes the cumulative effect upon the initially application of this Standard as an adjustment to the opening balance of retained earnings on January 1, 2018. The Group uses the practical expedients for completed contracts, which means it need not restate those contracts that have been completed on January 1, 2018.

The following are the nature and impacts on changing of accounting policies:

1) Sales of goods

For the sale of products, revenue is currently recognized when the goods are delivered to the customers’ premises, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods. Under IFRS 15, revenue will be recognized when a customer obtains control of the goods. For certain image sensors product contracts, the customer controls all of the work in progress as the products are being manufactured. In such case, revenue will be recognized as the products are being manufactured.

The Group offers trade discounts to its customers. For certain contracts that provide discount to customers, the reduction of revenue and accounts receivable will have to be recognized when the discount is probably to occur and the amount can be estimated reliably. Under IFRS 15, revenue is recognized on the basis of the net of contract price, minus, the estimated discount. The amount of the discount is estimated by using the past accumulated experience, and revenue is recognized for these contracts to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Refund liability is currently recognized when relevant sales are expected to be paid to the customer due to the discount.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Impacts on financial statements

The following tables summarize the impacts of adopting IFRS 15 on the Group's consolidated financial statements:

Impacted line items on the consolidated balance sheets	December 31, 2018			January 1, 2018		
	Balances prior to the adoption of IFRS 15	Impact of changes in accounting policies	Balance upon adoption of IFRS 15	Balances prior to the adoption of IFRS 15	Impact of changes in accounting policies	Balance upon adoption of IFRS 15
Notes and accounts receivable, net	\$ 1,244,525	23,297	1,267,822	1,329,596	12,517	1,342,113
Inventories	1,362,183	(20,616)	1,341,567	948,380	(16,160)	932,220
Current contract assets	-	30,016	30,016	-	27,959	27,959
Impact on assets		\$ 32,697			24,316	
Other payables	\$ 772,118	-	772,118	742,120	(9,569)	732,551
Current tax liabilities	148,262	1,880	150,142	181,222	-	181,222
Other current liabilities	24,999	23,297	48,296	22,898	22,086	44,984
Deferred tax liabilities	118,686	-	118,686	103,212	2,006	105,218
Impact on liabilities		\$ 25,177			14,523	
Retained earnings	\$ 2,424,648	7,520	2,432,168	2,427,991	9,793	2,437,784
Impact on equity		\$ 7,520			9,793	

For the year ended December 31, 2018

Impacted line items on the consolidated statements of comprehensive income	Balances prior to the adoption of IFRS 15	Impact of changes in accounting policies	Balances upon adoption of IFRS 15
Sales revenue	\$ 7,411,455	2,057	7,413,512
Cost of sales	5,507,372	4,456	5,511,828
Impact on profit before tax		(2,399)	
Tax expense	232,160	(480)	231,680
Impact on Profit		\$ (1,919)	
Basic earnings per share	\$ 6.14	(0.01)	6.13
Diluted earnings per share	\$ 6.10	(0.01)	6.09

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Impacted line items on the consolidated statements of cash flows	For the year ended December 31, 2018		
	Balances prior to the adoption of IFRS 15	Impact of changes in accounting policies	Balances upon adoption of IFRS 15
Cash flows from (used in) operating activities:			
Profit before tax	\$ 1,247,682	(2,399)	1,245,283
Adjustments:			
Increase in contract assets	-	(2,057)	(2,057)
Decrease (increase) in notes and accounts receivable	71,538	(10,780)	60,758
Decrease (increase) in inventories	(413,989)	4,456	(409,533)
Increase in other payables	21,868	9,569	31,437
Increase in other current liabilities	2,101	<u>1,211</u>	3,312
Impact on cash flows from (used in) operating activities		<u>\$ -</u>	

(ii) IFRS 9 “Financial Instruments”

IFRS 9 replaces IAS 39 “Financial Instruments: Recognition and Measurement” which contains classification and measurement of financial instruments, impairment and hedge accounting.

As a result of the adoption of IFRS 9, the Group adopted the consequential amendments to IAS 1 “Presentation of Financial Statements” which requires impairment of financial assets to be presented in a separate line item in the statement of comprehensive income. Previously, the Group’s approach was to include the impairment of trade receivables in administrative expenses. Additionally, the Group adopted the consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but generally have not been applied to comparative information.

The detail of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below:

1) Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. For an explanation of how the Group classifies and measures financial assets and accounts for related gains and losses under IFRS 9, please see note 4(g).

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The adoption of IFRS 9 did not have any a significant impact on its accounting policies on financial liabilities.

2) Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with the ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than they are under IAS 39 – please see note 4(g).

3) Transition

The adoption of IFRS 9 have been applied retrospectively, except as described below,

· Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as on January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

· The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

· If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Group assumed that the credit risk on its asset will not increase significantly since its initial recognition.

4) Classification of financial assets on the date of initial application of IFRS 9

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group’s financial assets as of January 1, 2018.

	IAS 39		IFRS 9	
	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
Financial Assets				
Cash and cash equivalents	Loans and receivables	\$ 5,883,990	Amortized cost	\$ 5,883,990
Notes and accounts receivable, net	Loans and receivables (note)	1,329,596	Amortized cost	1,329,596

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	IAS 39		IFRS 9	
	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
Other receivables	Loans and receivables (note)	\$ 36,800	Amortized cost	36,800
Other financial assets – current – time deposits	Loans and receivables (note)	67,629	Amortized cost	67,629
Other financial assets – non-current – time deposits	Loans and receivables (note)	5,000	Amortized cost	5,000
Refundable deposits	Loans and receivables (note)	15,679	Amortized cost	15,679

Note: Notes receivable, accounts receivable, other receivables, other financial assets-current – time deposits, other financial assets non-current – time deposits and refundable deposits that were classified as loans and receivables under IAS 39 are now classified at amortized cost.

(iii) Amendments to IAS 7 “Disclosure Initiative”

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

To satisfy the new disclosure requirements, the Group presents a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities as note 6(v).

(iv) Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Loss”

The amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value.

(b) The impact of IFRS endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019 in accordance with Ruling No. 1070324857 issued by the FSC on July 17, 2018:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
IFRS 16 “Leases”	January 1, 2019
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019
Amendments to IFRS 9 “Prepayment features with negative compensation”	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
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Except for the following items, the Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 16“Leases”

IFRS 16 replaces the existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 introduces a single and an on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will now be changed since IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. There are recognition exemptions for short-term leases and leases of low-value items. The lessor accounting remains similar to the current standard – i.e. the lessors will continue to classify leases as finance or operating leases.

1) Determining whether an arrangement contains a lease

On transition to IFRS 16, the Group can choose to apply either of the following:

- IFRS 16 definition of a lease to all its contracts; or
- a practical expedient that does not need any reassessment whether a contract is, or contains, a lease.

The Group plans to apply the practical expedient to grandfather the definition of a lease upon transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

2) Transition

As a lessee, the Group can apply the standard using the following:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

On January 1, 2019, the Group plans to initially apply IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group chooses to elect the following practical expedients:

- apply a single discount rate to a portfolio of leases with similar characteristics.
 - apply the exemption not to recognize the right-of-use assets and liabilities to leases with lease term that ends within 12 months of the date of initial application.
 - use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.
- 3) So far, the most significant impact identified is that the Group will have to recognize the new assets and liabilities for the operating leases of land, staff dormitories and office equipments. The Group estimated that the right-of-use assets and the lease liabilities to both increase by \$127,756. No significant impact is expected for the Group's financial leases. Besides, the Group does not expect the adoption of IFRS 16 to have any impact on its ability to comply with the revised maximum leverage threshold loan covenant.

(ii) IFRIC 23 Uncertainty over Income Tax Treatments

In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates, an entity shall assume that a taxation authority will examine the amounts it has the right to examine and have a full knowledge on all related information when making those examinations.

If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.

So far, the Group estimated that would not have any material impact on the application of the amendments resulting in deferred tax liabilities and the retained earnings on January 1, 2019.

(iii) IAS 19 "Plan Amendment, Curtailment or Settlement"

The amendments clarify that:

- 1) on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the remainder of the reporting period after the change to the plan; and
- 2) the effect of the asset ceiling is disregarded when calculating past service cost and the gain or loss on settlement. Any change in that effect is recognized in other comprehensive income.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The actual impacts of adopting the standards may change depending on the economic conditions and events which may occur in the future.

- (c) The impact of IFRS issued by IASB but not yet endorsed by the FSC

As of the date, the following IFRSs that have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

Those which may be relevant to the Group are set out below:

Issuance / Release Dates	Standards or Interpretations	Content of amendment
October 31, 2018	Amendments to IAS 1 and IAS 8 "Definition of Material"	The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards.

The Group is evaluating the impact on its consolidated financial position and consolidated financial performance upon the initial adoption of the abovementioned standards or interpretations. The results thereof will be disclosed when the Group completes its evaluation.

(4) Summary of significant accounting policies

The significant accounting policies presented in the consolidated financial statements are summarized below. Except for those specifically indicated, the following accounting policies were applied consistently throughout the periods presented in the consolidated financial statements.

- (a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as "the Regulations") and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed by the Financial Supervisory Commission, ROC (hereinafter referred to as "IFRS endorsed by the FSC").

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Basis of preparation

(i) Basis of measurement

Except for the following significant accounts, the consolidated financial statements have been prepared on a historical cost basis:

- 1) Financial instruments (including derivative financial instruments) measured at fair value through profit or loss are measured at fair value;
- 2) The defined benefit liability is recognized as the present value of the defined benefit obligation, less, the fair value of plan assets and the effect of the asset ceiling (please refer to note 4(o)).

(ii) Functional and presentation currency

The functional currency of each Group entity is determined based on the primary economic environment in which the entity operates. The consolidated financial statements are presented in New Taiwan Dollars, which is the Company's functional currency. All financial information presented in New Taiwan Dollars has been rounded to the nearest thousand.

(c) Basis of consolidation

(i) Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity, and has the ability to affect those returns through its control over the entity.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Losses applicable to non-controlling interests in a subsidiary are allocated to non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Accounting policies of subsidiaries have been adjusted to ensure consistency with the policies adopted by the Group.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any differences between the Group's share of net assets before and after the change, and any considerations received or paid, are adjusted to, or against, the Group's reserves.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) List of subsidiaries in the consolidated financial statements

Name of investor	Name of subsidiary	Nature of operation	Shareholding		Note
			December 31, 2018	December 31, 2017	
The Company	Tong Hsing Electronics Phils. Inc. (THEPI)	Sales and manufacturing of RF modules, metalized ceramic substrates, hybrid integrated circuits and image sensors	100 %	100 %	-

(d) Foreign currencies

(i) Foreign currency transaction

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the period, adjusted for the effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for those differences relating to the following, which are recognized in other comprehensive income:

- 1) Fair value through other comprehensive income (Available-for-sale) equity investment;
- 2) A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- 3) Qualifying cash flow hedges to the extent the hedge is effective.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to New Taiwan Dollar at exchange rates at the reporting date. The income and expenses of foreign operations are translated to New Taiwan Dollar at average rate. Translation differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve in equity.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

When a foreign operation is disposed of such that control, significant influence¹ or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange currency gains and losses arising from such a monetary item that are considered to form part of the net investment in the foreign operation are recognized in other comprehensive income.

(e) Classification of current and non-current assets and liabilities

An asset is classified as current under one of the following criteria, and all other assets are classified as non-current.

- (i) It is expected to be realized, or intended to be sold or consumed, in its normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is expected to be realized within twelve months after the reporting period; or
- (iv) The asset is cash or cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A liability is classified as current under one of the following criteria, and all other liabilities are classified as non-current.

- (i) It is expected to be settled in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is due to be settled within twelve months after the reporting period; or
- (iv) It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by issuing equity instruments do not affect its classification.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash, cash in bank, and short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Time deposits which meet the above definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes should be recognized as cash equivalents.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(g) Financial instruments

(i) Financial assets (policy applicable from January 1, 2018)

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

The Group shall reclassify all affected financial assets only when it changes its business model for managing its financial assets.

1) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

·it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

·its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment loss, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade – date accounting.

2) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI are measured at FVTPL, including derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent changes that are measured at fair value, which take into account any dividend and interest income, are recognized in profit or loss. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade – date accounting.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

3) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, financial assets measured at amortized costs, notes and accounts receivable, other receivables, refundable deposits and other financial assets), and contract assets.

The Group measures loss allowances at an amount equal to lifetime expected credit loss (ECL), except for the following which are measured as 12-month ECL:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 month after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience and informed credit assessment as well as forward-looking information.

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade which is considered to be BBB- or higher per Standard & Poor's, Baa3 or higher per Moody's or twA or higher per Taiwan Ratings'.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when the financial asset is more than 90 days past due or the borrower is unlikely to pay its credit obligations to the Group in full.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial assets.

At each reporting date, the Group assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial assets have occurred. Evidence that financial assets is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. The Group recognizes the amount of expected credit losses (or reversal) in profit or loss, as an impairment gain or loss.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

4) Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the assets expire, or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a debt instrument in its entirety, the Group recognizes the difference between its carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in "other equity – unrealized gains or losses on fair value through other comprehensive income", in profit or loss, and presented it in the line item of non-operating income and expenses in the statement of comprehensive income.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss, and presented in the line item of non-operating income and expenses. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

(ii) Financial assets (policy applicable before January 1, 2018)

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

1) Financial assets measured at fair value through profit or loss

A financial asset is classified in this category if it is classified as held-for-trading or is designated as such on initial recognition.

Financial assets are classified as held-for-trading if they are acquired principally for the purpose of selling in the short term. The Group designates financial assets, other than those classified as held-for-trading, as at fair value through profit or loss at initial recognition under one of the following situations:

- a) Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- b) Performance of the financial asset is evaluated on a fair value basis;
- c) A hybrid instrument contains one or more embedded derivatives.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein, which take into account any dividend and interest income, are recognized in profit or loss, and included in non-operating income and expenses. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade-date accounting.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise account receivables, other receivables, and refundable deposits. Such assets are recognized initially at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less, any impairment losses other than insignificant interest on short-term receivables. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade-date accounting.

Interest income is recognized in profit or loss, and it is included in non-operating income and expenses.

3) Impairment of financial assets

Except for financial assets at fair value through profit or loss, financial assets are assessed for impairment at each reporting date. A financial asset is impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults, or the disappearance of an active market for a security.

All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries, and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than those suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

An impairment loss in respect of a financial asset measured at cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversible in subsequent periods.

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

An impairment loss in respect of a financial asset is deducted from the carrying amount, except for account receivables, for which an impairment loss is reflected in an allowance account against the receivables. When it is determined a receivable is uncollectible, it is written off from the allowance account. Any subsequent recovery of receivable written off is recorded in the allowance account. Changes in the amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss on a financial asset measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss to the extent that the carrying value of the asset does not exceed its amortized cost before impairment was recognized at the reversal date.

Impairment losses and recoveries are recognized in profit or loss. Recovery and loss on doubtful debts of account receivables is included in administrative expense, others are included in non-operating income and expense.

4) Derecognition of financial assets

The Group derecognizes financial assets when the contractual rights of the cash inflow from the asset are terminated, or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in profit or loss, and it is included in non-operating income and expenses.

The Group separates the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income shall be recognized in profit or loss.

(iii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt or equity instruments issued by the Group are classified as financial liabilities or equity in accordance with the substance of the contractual agreement.

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognized as the amount of consideration received, less, the direct cost of issuing.

Compound financial instruments issued by the Group comprise convertible bonds that can be converted to share capital at the option of the holder when the number of shares to be issued is fixed.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Interest related to the financial liability is recognized in profit or loss, and included in non-operating income or expenses.

On conversion, the financial liability is reclassified to equity, and no gain or loss is recognized.

2) Financial liabilities at fair value through profit or loss

A financial liability is classified in this category if it is classified as held-for-trading or is designated as such on initial recognition. A financial liability is classified as held-for-trading if it is acquired principally for the purpose of selling in the short term. The Group designates financial liabilities, other than the ones classified as held-for-trading, as at fair value through profit or loss at initial recognition under one of the following situations:

- a) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses thereon a different basis;
- b) Performance of the financial liabilities is evaluated on a fair value basis or;
- c) A hybrid instrument contains one or more embedded derivatives.

Attributable transaction costs are recognized in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value, and changes therein, which take into account any interest expense, are recognized in profit or loss, and are included in non-operating income or expenses.

3) Other financial liabilities

Financial liabilities not classified as held-for-trading or designated as at fair value through profit or loss, which comprise loans and borrowings, and trade and other payables, are measured at fair value, plus, any directly attributable transaction cost at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method. Interest expense not capitalized as capital cost is recognized in profit or loss, and included in non-operating income or expenses.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

4) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or has expired. The difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss, and is included in non-operating income or expenses.

5) Offsetting of financial assets and liabilities

The Group presents financial assets and liabilities on a net basis when the Group has the legally enforceable right to offset and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

(iv) Derivative financial instruments and hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Derivatives are recognized initially at fair value and attributable transaction costs there of are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss, and are included in non-operating income and expenses. When a derivative is designated as a hedging instrument, its timing of recognition in profit or loss is determined based on the nature of the hedging relationship. When the fair value of a derivative instrument is positive, it is classified as a financial asset, and when the fair value is negative, it is classified as a financial liability.

Embedded derivatives are separated from the host contract and accounted for separately when the economic characteristics and risks of the host contract and the embedded derivatives are not closely related, and the host contract is not measured as at fair value through profit or loss.

The Group applies the same accounting policies as applicable before January 1, 2018.

(h) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on weighted-average method and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Non-current assets held for sale

Non-current assets or disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale or distribution rather than through continuing use, are reclassified as held for sale or held for distribution to owners. Immediately before classification as held for sale or held for distribution to owners, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter, generally, the assets or disposal groups are measured at the lower of their carrying amount and fair value less costs to sell.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Any impairment loss on a disposal group will first be allocated to goodwill, and then to remaining assets and liabilities will be apportioned on a pro rata basis, except that no loss is allocated to assets not within the scope of IAS 36 – Impairment of Assets. Such assets will continue to be measured in accordance with the Group's accounting policies.

Impairment losses on assets initially classified as held for sale or held for distribution to owners and any subsequent gains or losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

When the assets classified as held for sale or held for distribution to owners are intangible assets or property, plant and equipment, they are no longer amortized or depreciated.

(j) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset. The cost of software under for operating property, plant and equipment is capitalized as part of property, plant and equipment.

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 shall be depreciated separately, unless, the useful life and the depreciation method of that significant part are the same as those of another significant part of that same item.

The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized in profit or loss, under net other income and expenses.

(ii) Subsequent cost

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. The carrying amount of those parts of fixed assets that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Depreciation is calculated on the cost of an asset, less, its residual value, and is recognized in profit or loss on a straight line basis over the estimated useful lives of each component of an item of property, plant and equipment. Items of property, plant and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately.

The depreciation charge for each period shall be recognized in profit or loss.

Land has an unlimited useful life and therefore is not depreciated.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

- 1) Buildings and structures: 2 ~ 50 years
- 2) Machinery and equipment: 2 ~10 years
- 3) Office equipment: 3 ~10 years
- 4) Leasehold improvements: 5 ~ 25 years
- 5) Building and equipment constitutes mainly building, air conditioning equipment and elevator engineering equipment and its related facilities. Each such part depreciates based on its useful life, respectively.

The depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from the previous estimates, the change is accounted for as a change in accounting estimate.

(k) Lease

Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease.

(l) Intangible assets

(i) Goodwill

1) Initial recognition

Goodwill arising on the acquisition of subsidiaries is included in intangible assets. For the measurement of initial recognition, please refer to note 6(g).

2) Subsequent measurement

Goodwill is measured at cost less any accumulated impairment losses.

(ii) Research & development

During the research phase, activities are carried out to obtain and understand new scientific or technical knowledge. Expenditures during this phase are recognized in profit or loss as incurred.

Expenditures arising from the development phase shall be recognized as an intangible asset if all the conditions described below can be demonstrated; otherwise, they will be recognized in profit or loss as incurred.

- 1) The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- 2) The intention to complete the intangible asset and use or sell it.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 3) The ability to use or sell the intangible asset.
- 4) How the intangible asset will generate probable future economic benefits.
- 5) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- 6) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Capitalized development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

(iii) Other intangible assets

Other intangible assets that are acquired by the Group are measured at cost less accumulated amortization and any accumulated impairment losses.

(iv) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(v) Amortization

The amortizable amount is the cost of an asset less its residual value.

Except for goodwill and intangible assets with indefinite useful lives, amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

- 1) Computer software: 3 years
- 2) Patents: 5 years
- 3) Customer relationship: 7 years

The residual value, amortization period, and amortization method for an intangible asset with a finite useful life shall be reviewed at least annually at each fiscal year-end. Any change shall be accounted for as changes in accounting estimates.

(m) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than assets arising from inventory, deferred tax assets, and assets arising from employee benefits, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. If it is not possible to determine the recoverable amount (the higher of its fair value, less, costs of disposal and its value in use) for the individual asset, then the Group will have to determine the recoverable amount for the asset's cash-generating unit (CGU).

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Notwithstanding whether indicators exist, recoverability of goodwill and intangible assets with indefinite useful lives or those not yet in use are tested at least annually. Impairment loss is recognized if the recoverable amount is less than the carrying amount.

The recoverable amount for an individual asset or a cash-generating unit is the higher of its fair value, less, costs to sell and its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss shall be recognized immediately in profit or loss.

For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units or group of units. If the carrying amount of the cash-generating units exceeds the recoverable amount of the unit, the entity shall recognize the impairment loss, and the impairment loss shall be allocated to reduce the carrying amount of each asset in the unit. Reversal of an impairment loss for goodwill is prohibited.

An assessment is made at the end of each reporting period as to whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amount of that asset is estimated. An impairment loss recognized in prior periods for an asset other than goodwill is reversed if, and only if, there has been an improvement in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized.

(n) Revenue

(i) Revenue from contracts with customers (policy applicable from January 1, 2018)

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer. The Group recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The accounting policies for the Group's main types of revenue are explained below.

1) Sale of goods

The Group manufactures and sells electronic components to electronic manufacturers. The Group recognizes revenue when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. For certain image sensors product contracts, the customer controls all of the work in progress as the products are being manufactured. In such case, revenue will be recognized as the products are being manufactured.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Group often offers trade discounts to its customers. Revenue will be recognized for these contracts to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. As a consequence, for those contracts for which the Group is unable to make a reasonable estimate of discount, revenue is expected to be recognized earlier than when the return period lapses or a reasonable estimate can be made. A refund liability and an asset recognized as right to recover products from customers will be recognized for these contracts and presented separately in the statement of financial position.

No element of financing is deemed present as the sales of electronic components are made with a credit term of 30 to 90 days, which is consistent with the market practice.

A receivable is recognized when the goods are delivered as this is the point in time that the Group has a right to an amount of consideration that is unconditional.

2) Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

(ii) Revenue (policy applicable before January 1, 2018)

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement.

(o) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, based on the discounted present value of the said defined benefit obligation. Any unrecognized past service costs and the fair value of any plan assets are deducted for purposes of determining the Group's net defined benefit obligation. The discount rate used in calculating the present value is the market yield at the reporting date of government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. If the calculation results in a benefit to the Group, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In calculating the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realizable during the life of the plan, or on settlement of the plan liabilities.

If the benefits of a plan are improved, the pension cost incurred from the portion of the increased benefit relating to past service by employees, is recognized immediately in profit or loss.

Remeasurements of the net defined benefit liability (asset), which comprise (1) actuarial gains and losses, (2) the return on plan assets (excluding interest) and (3) the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group can reclassify the amounts recognized in other comprehensive income to retained earnings or other equity. If the amounts recognized in other comprehensive income are transferred to other equity, they shall not be reclassified to profit or loss or recognized in retained earnings in a subsequent period. The Group reclassifies the amounts recognized in other comprehensive income to retained earnings.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognized when the curtailment or settlement occurs. The gain or loss on curtailment arises from any change in the fair value of plan assets and any change in the present value of the defined benefit obligation.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(p) Income taxes

Income tax expenses include both current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes shall be recognized in profit or loss.

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes are recognized except for the following:

- (i) Assets and liabilities that are initially recognized but are not related to the business combination and have no effect on net income or taxable gains (losses) arising from the transaction.
- (ii) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.
- (iii) Initial recognition of goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to the period when the asset is realized or the liability is settled, which are normally the tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

- (i) the entity has the legal right to settle tax assets and liabilities on a net basis; and
- (ii) the taxing of deferred tax assets and liabilities fulfill one of the below scenarios:
 - 1) levied by the same taxing authority; or
 - 2) levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

A deferred tax asset is recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits, and deductible temporary differences are also re-evaluated every year on the financial reporting date, and adjusted based on the probability that future taxable profit that will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized.

The surtax on undistributed earnings is recorded as current income tax expense after the resolution to appropriate retained earnings is approved in a stockholders' meeting.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(q) Earnings per share

The Group discloses the Company's basic and diluted earnings per share attributable to ordinary shareholders of the Company. Basic earnings per share are calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted-average number of ordinary shares outstanding. Diluted earnings per share are calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted – average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares. Dilutive potential ordinary shares comprise convertible bonds.

(r) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Each operating segment consists of standalone financial information.

(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty

The preparation of the consolidated financial statements in conformity with the Regulations and the IFRSs endorsed by the FSC requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the next period.

There are no critical judgments in applying the accounting policies that have significant effects on the amounts recognized in the consolidated financial statements.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is as follows:

(a) Valuation of inventories

Inventories are stated at the lower of cost or net realizable value. Due to the impact of product life cycle and industrial competition in electronic industry, which tends to devalue the inventories, the Group evaluates the costs of inventories using the net realizable value. The net realizable value of the inventory is mainly determined based on assumptions of future demand within a specific period, therefore, the value of inventories may be variable due to the nature of fast-paced industry. Please refer to note (6)(d) of the consolidated financial statement for inventory valuation.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Impairment of goodwill

The assessment of impairment of goodwill requires the Group to make subjective judgment to identify cash-generating units, allocate the goodwill to relevant cash-generating units and estimate the recoverable amount of relevant cash-generating units. Please refer to note (6)(g) for further description of the impairment of goodwill.

(6) Explanation of significant accounts

(a) Cash and Cash Equivalents

	December 31, 2018	December 31, 2017
Petty cash and foreign currency on hand	\$ 383	394
Checking accounts and demand deposits	1,268,717	1,412,415
Time deposits	<u>3,899,330</u>	<u>4,471,181</u>
	<u>\$ 5,168,430</u>	<u>5,883,990</u>

Refer to note (6)(s) for the exchange rate risk and the fair value sensitivity analysis of the financial assets and liabilities of the Group.

(b) Financial assets and liabilities at fair value through profit or loss

	December 31, 2018
Mandatorily measured at fair value through profit or loss:	
Non-derivative financial assets	
Open-end mutual funds	<u>\$ 100,394</u>

(c) Notes and accounts receivables

	December 31, 2018	December 31, 2017
Notes receivables from operating activities	\$ -	1,784
Accounts receivable-measured at amortized cost	1,347,286	1,393,829
Less: loss allowance	<u>(79,464)</u>	<u>(66,017)</u>
	<u>\$ 1,267,822</u>	<u>1,329,596</u>

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Group applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables on December 31, 2018. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics of the customer's ability to pay all due amounts in accordance with contract terms, as well as incorporated forward looking information, including overall economic environment and related industrial information. The loss allowance provision as of December 31, 2018 was determined as follows:

(i) Credit rate A

<u>Aging interval</u>	<u>Carrying amount of notes and accounts receivables</u>	<u>Weighted- average expected loss rate</u>	<u>Loss allowance provision</u>
1 to 30 days	\$ 59,189	-	-
31 to 60 days	85,325	0.50%	427
61 to 90 days	15,381	1.50%	231
91 to 120 days	816	5.00%	41
121 to 180 days	3,566	10.00%	356
181 to 360 days	8	50.00%	4
	<u>\$ 164,285</u>		<u>1,059</u>

(ii) Credit rate B

<u>Aging interval</u>	<u>Carrying amount of notes and accounts receivables</u>	<u>Weighted- average expected loss rate</u>	<u>Loss allowance provision</u>
1 to 30 days	\$ 488,837	1.5%	7,475
31 to 60 days	439,535	5.00%	21,977
61 to 90 days	160,969	10.00%	16,097
91 to 120 days	67,604	20.00%	13,521
121 to 180 days	13,441	50.00%	6,720
181 to 360 days	12,615	100.00%	12,615
	<u>\$ 1,183,001</u>		<u>78,405</u>

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2017, the Group applies the incurred loss model to consider its loss allowance provision for notes and trade receivable, and the aging analysis on notes and trade receivable, which were past due but not impaired, was as follows:

<u>Aging interval</u>	<u>December 31, 2017</u>
1 to 30 days	\$ 529,648
31 to 60 days	531,522
61 to 90 days	201,955
91 to 120 days	62,783
121 to 180 days	3,688
	<u>\$ 1,329,596</u>

The movement in the allowance for notes and account receivable was as follows:

	<u>2018</u>	<u>2017</u> <u>Collectively assessed impairment</u>
Balance on January 1, 2018 and 2017 per IAS 39	\$ 66,017	58,908
Adjustment on initial application of IFRS 9	-	
Balance on January 1, 2018 per IFRS 9	66,017	
Impairment loss recognized	13,533	7,236
Amounts written off	(86)	-
Effect of movements in exchange rates	-	(127)
Balance on December 31, 2018 and 2017	<u>\$ 79,464</u>	<u>66,017</u>

As of the reporting date, the Group did not provide any notes and accounts receivable as collateral for its loans.

(d) Inventories

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Finished goods	\$ 226,728	137,026
Semi-finished goods	213,550	169,965
Work in progress	194,674	213,620
Raw materials	548,766	314,977
Indirect materials	157,849	112,792
	<u>\$ 1,341,567</u>	<u>948,380</u>

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (i) The details of costs of sales for the years ended December 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Cost of sales and expense	\$ 5,476,429	5,809,483
Costs for write-downs on inventory valuation and obsolescence	<u>35,399</u>	<u>38,407</u>
	<u><u>\$ 5,511,828</u></u>	<u><u>5,847,890</u></u>

- (ii) As of December 31, 2018 and 2017, the Group did not provide any inventories as collateral for its loans.

- (e) Non-current assets held for sale (recorded under other current assets)

In November 2017, the Group signed a contract with KNC Co., Ltd. to sell a unit of factory in Taoyuan Zhongyu at the price of \$32,000. The property was recorded under non-current assets held for sale on December 31, 2017. In January 2018, the legal procedures of the transaction has been completed and all payments has been received. After deducting the agency commission and transfer registration fee, the profit of this transaction amounted to \$17,772 (recognized under other income). The land value increment tax is recognized as income tax expenses at the amount of \$427.

The detail of non-current assets held for sale was as follows:

	<u>December 31, 2017</u>
The net amount of land and building	<u><u>\$ 12,576</u></u>

- (f) Property, plant and equipment

The cost and depreciation of the property, plant and equipment of the Group were as follows:

	<u>Land</u>	<u>Buildings and structures</u>	<u>Machinery and equipment</u>	<u>Office equipment</u>	<u>Leaschold improvements</u>	<u>Unfinished construction and equipment under acceptance</u>	<u>Total</u>
Cost or deemed cost:							
Balance on January 1, 2018	\$ 402,071	2,525,192	5,084,626	377,896	6,495	112,280	8,508,560
Additions	11,648	55,574	444,620	16,810	-	128,600	657,252
Transferred in (out)	-	14,355	78,847	3,224	-	(96,639)	(213)
Disposals	-	(5,301)	(1,305,643)	(31,933)	-	-	(1,342,877)
Effects of movements in exchange rates	<u>-</u>	<u>16,227</u>	<u>56,433</u>	<u>7,413</u>	<u>209</u>	<u>377</u>	<u>80,659</u>
Balance on December 31, 2018	<u><u>\$ 413,719</u></u>	<u><u>2,606,047</u></u>	<u><u>4,358,883</u></u>	<u><u>373,410</u></u>	<u><u>6,704</u></u>	<u><u>144,618</u></u>	<u><u>7,903,381</u></u>

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	Land	Buildings and structures	Machinery and equipment	Office equipment	Leasehold improvements	Unfinished construction and equipment under acceptance	Total
Balance on January 1, 2017	\$ 404,066	1,944,704	6,420,737	356,642	19,690	662,042	9,807,881
Additions	-	161,496	333,491	40,171	-	82,795	617,953
Transferred in (out)	(1,995)	524,773	77,428	14,540	(2,747)	(629,276)	(17,277)
Disposals	-	(63,830)	(1,600,644)	(15,434)	(9,904)	-	(1,689,812)
Effects of movements in exchange rates	-	(41,951)	(146,386)	(18,023)	(544)	(3,281)	(210,185)
Balance on December 31, 2017	<u>\$ 402,071</u>	<u>2,525,192</u>	<u>5,084,626</u>	<u>377,896</u>	<u>6,495</u>	<u>112,280</u>	<u>8,508,560</u>
Depreciation and impairment loss:							
Balance on January 1, 2018	\$ -	393,927	3,444,762	265,500	3,406	-	4,107,595
Depreciation for the year	-	126,971	702,964	45,813	211	-	875,959
Disposals	-	(5,301)	(1,299,138)	(32,366)	-	-	(1,336,805)
Effects of movements in exchange rates	-	6,663	46,028	6,711	114	-	59,516
Balance on December 31, 2018	<u>\$ -</u>	<u>522,260</u>	<u>2,894,616</u>	<u>285,658</u>	<u>3,731</u>	<u>-</u>	<u>3,706,265</u>
Balance on January 1, 2017	\$ -	378,216	4,271,845	251,664	12,081	-	4,913,806
Depreciation for the year	-	96,075	866,865	45,173	849	-	1,008,962
Transferred in (out)	-	(1,898)	-	-	(1,852)	-	(3,750)
Disposals	-	(63,327)	(1,586,652)	(15,100)	(7,399)	-	(1,672,478)
Effects of movements in exchange rates	-	(15,139)	(107,296)	(16,237)	(273)	-	(138,945)
Balance on December 31, 2017	<u>\$ -</u>	<u>393,927</u>	<u>3,444,762</u>	<u>265,500</u>	<u>3,406</u>	<u>-</u>	<u>4,107,595</u>
Book value:							
Balance on December 31, 2018	<u>\$ 413,719</u>	<u>2,083,787</u>	<u>1,464,267</u>	<u>87,752</u>	<u>2,973</u>	<u>144,618</u>	<u>4,197,116</u>
Balance on January 1, 2017	<u>\$ 404,066</u>	<u>1,566,488</u>	<u>2,148,892</u>	<u>104,978</u>	<u>7,609</u>	<u>662,042</u>	<u>4,894,075</u>
Balance on December 31, 2017	<u>\$ 402,071</u>	<u>2,131,265</u>	<u>1,639,864</u>	<u>112,396</u>	<u>3,089</u>	<u>112,280</u>	<u>4,400,965</u>

In November 2017, the Company signed a contract with KNC Co., Ltd. on selling its property, which the Group classified as non-current assets held for sale. The legal procedures of the transaction has been completed and all payments has been received in January 2018. Please refer to note(6)(e).

As of the reporting dates, the Group had provided property, plant and equipment as collateral for its loans. Please refer to note (8) for details.

(g) Intangible Assets

(i) Goodwill from a business combination

The Group merged with Impac Technology Co., Ltd. in 2009 in accordance with ROC Statement of Financial Accounting Standards (SFAS) No. 25 "Business Combinations", and the cost of acquisition was allocated to the fair value of the assets acquired and the liabilities assumed within one year of acquisition date. The cost of investment exceeds the fair value of identifiable net assets is recognized as goodwill.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The aforementioned acquisition price was assessed by the independent experts, and the allocations of the cost of acquisition were as follows:

Acquisition price	\$ <u>209,880</u>
Less: the fair value of identifiable net assets	
Net working capital	26,809
Fixed assets	56,382
Net other assets	11,510
Intangible assets	<u>63,243</u>
Total	<u>157,944</u>
Goodwill	<u>\$ <u>51,936</u></u>

The goodwill both amounted to \$51,936 as of December 31, 2018 and 2017.

(ii) The cost and amortization of intangible assets of the Group were as follows:

	<u>Goodwill</u>	<u>Patents</u>	<u>Cost of computer software</u>	<u>Customer relationship</u>	<u>Total</u>
Cost:					
Balance on January 1, 2018	\$ 51,936	25,462	7,427	41,776	126,601
Additions	-	-	13,212	-	13,212
Disposals	-	-	(2,999)	-	(2,999)
Balance on December 31, 2018	<u>\$ 51,936</u>	<u>25,462</u>	<u>17,640</u>	<u>41,776</u>	<u>136,814</u>
Balance on January 1, 2017	\$ 51,936	25,462	8,230	41,776	127,404
Additions	-	-	3,909	-	3,909
Disposals	-	-	(4,712)	-	(4,712)
Balance on December 31, 2017	<u>\$ 51,936</u>	<u>25,462</u>	<u>7,427</u>	<u>41,776</u>	<u>126,601</u>
Amortization:					
Balance on January 1, 2018	\$ -	25,462	3,214	41,776	70,452
Amortization for the year	-	-	4,121	-	4,121
Disposals	-	-	(2,999)	-	(2,999)
Balance on December 31, 2018	<u>\$ -</u>	<u>25,462</u>	<u>4,336</u>	<u>41,776</u>	<u>71,574</u>
Balance on January 1, 2017	\$ -	25,129	5,139	41,776	72,044
Amortization for the year	-	333	2,787	-	3,120
Disposals	-	-	(4,712)	-	(4,712)
Balance on December 31, 2017	<u>\$ -</u>	<u>25,462</u>	<u>3,214</u>	<u>41,776</u>	<u>70,452</u>
Book value:					
Balance on December 31, 2018	<u>\$ 51,936</u>	<u>-</u>	<u>13,304</u>	<u>-</u>	<u>65,240</u>
Balance on January 1, 2017	<u>\$ 51,936</u>	<u>333</u>	<u>3,091</u>	<u>-</u>	<u>55,360</u>
Balance on December 31, 2017	<u>\$ 51,936</u>	<u>-</u>	<u>4,213</u>	<u>-</u>	<u>56,149</u>

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Amortization recognized

The amortization expenses of intangible assets in the statement of comprehensive income were as follows:

	<u>2018</u>	<u>2017</u>
Operating costs	\$ <u>852</u>	<u>1,955</u>
Operating expenses	\$ <u>3,269</u>	<u>1,165</u>

(iv) Test of goodwill impairment

For the purpose of impairment test, goodwill was mainly allocated to the cash-generating units – BU3.

The recoverable amount of cash-generating unit – BU3 is determined based on the value in use, which was calculated based on the cash flow forecast from the financial budgets covering the future one-year period, and the Group used the annual discount rates of 14.54% and of 8.88%, respectively, in its impairment test for the years ended December 31, 2018 and 2017. The estimation of discount rate was based on the weighted-average capital cost.

Based on the result of impairment test, the recoverable amounts determined by the value in use were both higher than the carrying amounts as of December 31, 2018 and 2017. Therefore, the Group did not recognize any impairment loss on goodwill.

(v) Collateral

As of December 31, 2018 and 2017, the Group did not provide intangible assets as collateral for its loans.

(h) Short-term borrowings

Details of short-term borrowings were as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Credit loans	\$ 4,730	-
Secured loans	<u>245,129</u>	<u>271,436</u>
Total	\$ <u>249,859</u>	<u>271,436</u>
Unused short-term credit lines	\$ <u>1,433,796</u>	<u>1,401,314</u>
Range of interest rates	<u>0.55%~3.804%</u>	<u>1.86%~2.71%</u>

- (i) Part of the Group's short-term borrowings and credit lines was guaranteed by key management personnel. Please refer to note (7).
- (ii) Please refer to note (8) for the information about the Group providing assets as collateral for part of its borrowings and credit lines.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Long-term borrowings

Details of long-term borrowings were as follows:

	December 31, 2018	December 31, 2017
Credit loans	\$ -	625,000
Secured loans	-	2,887
Less: portion of loans due within one year	-	562,887
	<u>\$ -</u>	<u>65,000</u>
Unused long-term credit lines	<u>\$ 65,000</u>	<u>-</u>
Range of interest rates	<u>-</u>	<u>1.25%~3.04%</u>
Expiration	<u>-</u>	<u>2019</u>

(i) Collateral for loans

- 1) Part of the Group's long-term borrowings and the credit lines were guaranteed by the key management personnel. Please refer to note (7).
- 2) Please refer to note (8) for the information about the Group providing assets as collateral for part of its long-term borrowings.

(ii) Compliance with loans contract

The Group signed a five-year syndicated loan agreement with E.Sun Bank and eight other financial institutions in April 2013. The total credit line amounted to \$2,000,000. Based on the syndicated loan contract, the current ratio (current assets/current liabilities) of the Group should be maintained at 100% or more, the debt ratio (liabilities/tangible net worth) should be 100% or less, and the tangible net worth (net worth – intangible assets) should be maintained at NT\$6 billion or more. The ratios and the standards mentioned above should be audited at least annually, with the consolidated financial statements audited by a CPA approved by the bank. Once the relevant terms are violated, the borrower shall improve within nine months, and if the financial ratios reviewed by the CPA meet the requirements after adjustment, it is not deemed a breach. During the period of improvement, the unused credit line will be suspended until the required ratios are met. The borrower shall pay the amount of outstanding principal with an extra annual interest rate of 0.125% from the default date to the date the improvement is completed, and then the syndicate banks may take recovery action. The Company complied with the requirements of the loan contract during the contract period.

(iii) Repayment of loan contract

The Group signed a five-year syndicated loan agreement with E.Sun Bank and eight other financial institutions in April 2013. Based on the contract, the first repayment of the used outstanding principal balance shall be made 24 full months after the first date of use. After the first repayment, the repayment shall be made every 6 months, and there are 7 repayments to be made. 10% of the principal shall be repaid in each of the first to the sixth repayments, and the last 40% of the principal shall be repaid in the seventh repayment. In any case, the outstanding principal balance and the interest shall be fully repaid within the credit period. The above borrowing had been repaid in March 2018.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(j) Unsecured convertible bonds

The Company issued the domestic unsecured convertible bonds on April 24, 2014 with a par value of \$2,000,000. As of the reporting dates, the details of the bonds were as follows:

	December 31, 2017
Total convertible bonds issued	\$ 2,000,000
Accumulated redeemed amount	(1,668,200)
Accumulated converted amount	<u>(331,800)</u>
	-
Balance of unamortized bonds payable's cost	<u>-</u>
	\$ <u>-</u>
	2017
Interest expense	\$ <u>6,472</u>

The significant terms of the convertible bonds were as follows:

- (i) Duration: three years (April 24, 2014 to April 24, 2017).
- (ii) Interest rate: The coupon interest rate and effective interest rate were 0% and 1.15%, respectively.
- (iii) Settlement: Except for those bonds redeemed by the Company or those that were converted into stocks though the request of the bondholders, all bonds will be settled at par value on their maturity date.
- (iv) Terms of conversion:
 - 1) Bondholders may opt to have the bonds converted into common stocks of the Company within the period between one month after the issuance date and 10 days before the maturity date.
 - 2) Conversion price:

The original conversion price of the bonds was \$160 (dollars) per share. A resolution was approved during the Board of Director's meeting on July 31, 2016 to adjust the conversion price of \$135.4 per share due to the distribution of cash and stock dividends in 2015.
- (v) As of the maturity date of the convertible bonds, which had the book value of \$331,800, were converted to common shares of \$24,504, with a capital surplus amounting to \$318,256 (including the capital surplus— conversion options transferred to the capital surplus— additional paid-in capital amounting to \$11,181).

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(vi) The above-mentioned convertible bonds which had matured on April 24, 2017, had been redeemed by the Company, at a par value amounting to \$1,668,200. The Company had also transferred its equity components—conversion options to capital surplus—other amounting to \$56,219.

(k) Other payables

Details of other payables were as follows:

	December 31, 2018	December 31, 2017
Salaries, employees' compensation and directors' and supervisors' remuneration	\$ 332,287	287,316
Payable on machinery and equipment	69,385	60,399
Accrued employee benefit liabilities	41,123	39,451
Accrued expenses	<u>329,323</u>	<u>354,954</u>
	<u><u>\$ 772,118</u></u>	<u><u>742,120</u></u>

The accrued expenses included professional service fees, commission, labor insurance and health insurance, etc.

(l) Operating lease

(i) Non-cancellable operating lease rentals payable were as follows:

	December 31, 2018	December 31, 2017
Less than one year	\$ 13,229	14,253
Between two and five years	<u>23,956</u>	<u>23,623</u>
	<u><u>\$ 37,185</u></u>	<u><u>37,876</u></u>

The Group leased office space and cars under operating leases with lease terms of 1 to 5 years and had an option to renew the leases. Lease payments are adjusted periodically to reflect market rentals.

(ii) For the years ended December 31, 2018 and 2017, expenses recognized in profit or loss under operating leases amounted to \$89,845 and \$38,804, respectively.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(m) Employee benefits

(i) Defined benefit plans

- 1) Reconciliation of the defined benefit obligation at present value and plan assets at fair value of the Company were as follows:

	December 31, 2018	December 31, 2017
Present value of defined benefit obligations	\$ (452,999)	(418,639)
Fair value of plan assets	<u>316,083</u>	<u>317,716</u>
Net defined benefit liabilities	<u>\$ (136,916)</u>	<u>(100,923)</u>

The Company makes defined benefit plan contributions to the pension fund account at Bank of Taiwan that provides pensions for its employees upon retirement. The plans (covered by the Labor Standards Law) entitle a retired employee to receive retirement benefits based on years of service and average monthly salary for the six months prior to retirement.

- 2) Reconciliation of defined benefit obligations at present value and plan assets at fair value of THEPI were as follows:

	December 31, 2018	December 31, 2017
Present value of defined benefit obligations	\$ (44,821)	(53,734)
Fair value of plan assets	<u>4,449</u>	<u>3,493</u>
Net defined benefit liabilities	<u>\$ (40,372)</u>	<u>(50,241)</u>

THEPI makes defined benefit plan contributions to the pension fund account at local bank in Philippines. The plans entitle a retired employee to receive retirement benefits based on years of service and average salary prior to retirement.

- 3) Composition of plan assets

The Company allocates its pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds. With regard to the utilization of the funds, minimum earnings shall be no less than the earnings attainable from two-year time deposits with interest rates offered by local banks.

The Company's Bank of Taiwan labor pension reserve account balance amounted to \$316,083 at the end of the reporting period. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of labor.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The plan assets of THEPI is composed of cash, and is managed by local bank in Philippines. Defined benefit obligations balance amounted to \$4,456 at the end of the reporting period.

4) Movements in present value of the defined benefit obligations

The movements in present value of the defined benefit obligations for the Group were as follows:

	2018	2017
Defined benefit obligation at January 1	\$ (472,373)	(489,905)
Current service costs and interest	(19,399)	(17,549)
Benefits paid by the plan	32,877	8,088
Re-measurement of the net defined benefit liability		
-Return on plan assets (excluding current interest income)	(11,162)	28,754
-Actuarial gains (losses) arose from changes in financial assumptions	(28,624)	(5,367)
Exchange difference on foreign plan	861	3,606
Defined benefit obligation at December 31	<u>\$ (497,820)</u>	<u>(472,373)</u>

5) Movements of defined benefit plan assets

The movements in the present value of the defined benefit plan assets for the Group were as follows:

	2018	2017
Fair value of plan assets at January 1	\$ 321,209	304,056
Interest income	5,140	4,151
Benefits paid by the plan	(32,877)	(8,088)
Re-measurements of the net defined benefit asset		
-Return on plan assets (excluding current interest income)	4,140	(1,859)
Contributions paid by the employer	22,963	23,199
Exchange difference on foreign plan	(43)	(250)
Fair value of plan assets at December 31	<u>\$ 320,532</u>	<u>321,209</u>

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

6) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the Group were as follows:

	<u>2018</u>	<u>2017</u>
Net interest on the net defined benefit liabilities	\$ 4,449	4,070
Current service cost and settlement losses (gains)	<u>9,810</u>	<u>9,328</u>
	<u><u>\$ 14,259</u></u>	<u><u>13,398</u></u>
Cost of sales	\$ 9,469	8,391
Selling expense	109	114
Administration expense	4,555	4,743
Research and development expense	<u>126</u>	<u>150</u>
	<u><u>\$ 14,259</u></u>	<u><u>13,398</u></u>

7) Re-measurement of the net defined benefit liabilities recognized in other comprehensive income

The Group's re-measurement of the net defined benefit liabilities recognized in other comprehensive income for the years ended December 31, 2018 and 2017, were as follows:

	<u>2018</u>	<u>2017</u>
Accumulated amount at January 1	\$ 82,097	103,625
Recognized during the period	<u>35,646</u>	<u>(21,528)</u>
Accumulated amount at December 31	<u><u>\$ 117,743</u></u>	<u><u>82,097</u></u>

8) Actuarial assumptions

The principal actuarial assumptions at the reporting date were as follows:

	<u>2018</u>		<u>2017</u>	
	<u>The Company</u>	<u>THEPI</u>	<u>The Company</u>	<u>THEPI</u>
Discount rate	1.375 %	7.800 %	1.625 %	6.200 %
Future salary increasing rate	3.000 %	7.000 %	2.500 %	7.000 %

The expected allocation payment to be made by the Group to the defined benefit plans for the one year period after the reporting date is \$22,038.

The weighted-average lifetime of the defined benefit plan is 18.23 years.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

9) Sensitivity analysis

As of December 31, 2018 and 2017, if the actuarial assumptions had changed, the impact on the present value of the defined benefit obligation shall be as follows:

		Influences of defined benefit obligations	
		Increased 0.25%	Decreased 0.25%
A. The Company			
Actuarial assumption			
December 31, 2018			
Discount rate	\$	(14,845)	15,555
Future salary increasing rate		15,059	(14,465)
December 31, 2017			
Discount rate		(13,438)	14,091
Future salary increasing rate		13,740	(13,179)
B. THEPI			
Actuarial assumption			
December 31, 2018			
Discount rate	\$	(6,632)	8,175
Future salary increasing rate		7,861	(6,515)
		Influences of defined benefit obligations	
		Increased 0.5%	Decreased 0.5%
December 31, 2017			
Discount rate		(4,657)	5,213
Future salary increasing rate		4,979	(4,503)

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown above. The method used in the sensitivity analysis is consistent with the calculation of pension liabilities in the balance sheets.

There is no change in the method and assumptions used in the preparation of sensitivity analysis for 2018 and 2017.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Defined contribution plan

The Company allocates 6% of each employee's monthly wages to the labor pension personal account at Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Company allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligations.

The pension costs under the defined contribution method amounted to \$41,343 and \$42,158 for the years ended December 31, 2018 and 2017, respectively.

(n) Income Taxes

According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the corporate income tax return commencing fiscal year 2018.

(i) Income tax expenses

- 1) The components of income tax expense in the years 2018 and 2017 were as follows:

	2018	2017
Current tax expense		
Current period	\$ 176,281	213,226
Adjustment for prior periods	-	(84,478)
	<u>176,281</u>	<u>128,748</u>
Deferred tax expense		
Origination and reversal of temporary differences	78,536	(2,868)
Adjustment in tax rate	(23,137)	-
	<u>55,399</u>	<u>(2,868)</u>
Income tax expense	<u>\$ 231,680</u>	<u>125,880</u>

- 2) The amount of income tax expense (benefit) recognized in other comprehensive income for 2018 and 2017 was as follows:

	2018	2017
Items that may not be reclassified to profit or loss:		
Re-measurement of the defined benefit plans	\$ (8,185)	3,659
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign financial statements	10,582	(26,813)
	<u>\$ 2,397</u>	<u>(23,154)</u>

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) Reconciliation of income tax and profit before tax for 2018 and 2017 was as follows:

	2018	2017
Profit before income tax	\$ <u>1,245,283</u>	<u>1,099,769</u>
Income tax using the Company's domestic tax rate	249,057	186,961
Effect of tax rates in foreign jurisdiction	13,891	13,623
Tax-exempt income	(4,088)	(208)
Under (over) provision in prior periods	-	(84,478)
Adjustment in tax rate	(23,137)	-
Others	<u>(4,043)</u>	<u>9,982</u>
	<u>\$ 231,680</u>	<u>125,880</u>

(ii) Deferred tax assets and liabilities

The Group has no unrecognized deferred tax assets and liabilities. Changes in the amount of recognized deferred tax assets and liabilities for 2018 and 2017 were as follows:

	Foreign currency translation adjustment	Defined benefit plans	Provision for the land value increment tax	Others	Total
Deferred tax liabilities:					
Balance at January 1, 2018 (including adjustments on initial application of new standards)	\$ -	1,095	80,950	23,173	105,218
Recognized in profit or loss	-	-	-	10,133	10,133
Recognized in other comprehensive income	-	3,335	-	-	3,335
Balance at December 31, 2018	<u>\$ -</u>	<u>4,430</u>	<u>80,950</u>	<u>33,306</u>	<u>118,686</u>
Balance at January 1, 2017	\$ 14,225	2,282	80,950	25,567	123,024
Recognized in profit or loss	-	-	-	(4,400)	(4,400)
Recognized in other comprehensive income	(14,225)	(1,187)	-	-	(15,412)
Balance at December 31, 2017	<u>\$ -</u>	<u>1,095</u>	<u>80,950</u>	<u>21,167</u>	<u>103,212</u>
	Foreign currency translation adjustment	Defined benefit plans	Loss in investments	Others	Total
Deferred tax assets:					
Balance at January 1, 2018	\$ 12,588	25,631	111,302	24,431	173,952
Recognized in profit or loss	-	1,515	(54,983)	8,202	(45,266)
Recognized in other comprehensive income	(10,582)	11,520	-	-	938
Balance at December 31, 2018	<u>\$ 2,006</u>	<u>38,666</u>	<u>56,319</u>	<u>32,633</u>	<u>129,624</u>

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	Foreign currency translation adjustment	Defined benefit plans	Loss in investments	Others	Total
Balance at January 1, 2017	\$ -	32,096	115,052	20,594	167,742
Recognized in profit or loss	-	(1,619)	(3,750)	3,837	(1,532)
Recognized in other comprehensive income	12,588	(4,846)	-	-	7,742
Balance at December 31, 2017	<u>\$ 12,588</u>	<u>25,631</u>	<u>111,302</u>	<u>24,431</u>	<u>173,952</u>

- (iii) The Group's income tax returns are calculated and filed based on the local tax law of the Company and THEPI.
- (iv) THEPI's products that met the prescribed criteria for tax exemption under the local tax laws were as follows:

<u>Tax exemption products</u>	<u>Tax exemption</u>	<u>Tax exemption period</u>
LED lighting module assembly project	Tax exemption on THEPI's corporate income taxes for five years	January 2015 to December 2019

- (v) Examination and approval

The ROC tax authorities have examined the Company's income tax returns through 2014.

- (o) Capital and other equity

As of December 31, 2018 and 2017, the number of authorized ordinary shares were 200,000 thousand shares, with par value of \$10 per share. The total value of authorized ordinary shares amounted to \$2,000,000, of which \$100,000 were reserved for the issuance of employee stock options. All issued shares were paid up upon issuance. As of December 31, 2018 and 2017, the issued shares were as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Issued shares on January 1 (in thousands of shares)	165,357	162,907
Conversion of convertible bonds (in thousands of shares)	\$ -	2,450
Issued shares on December 31 (in thousands of shares)	<u>165,357</u>	<u>165,357</u>

- (i) Common stock

For the year ended December 31, 2017, 2,450 thousand new common shares, with a par value of \$10, amounting to \$24,504, were issued due to the conversion of convertible bonds. The related registration procedures had been completed.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Capital surplus

The balances of capital surplus were as follows:

	December 31, 2018	December 31, 2017
Capital surplus—additional paid-in capital	\$ 5,007,582	5,177,207
Other	56,219	56,219
	<u>\$ 5,063,801</u>	<u>5,233,426</u>

According to the ROC Company Act, capital surplus can only be used to offset a deficit, and only the realized capital surplus can be used to increase the common stock or be distributed as cash dividends. The aforementioned realized capital surplus includes capital surplus resulting from premium on issuance of capital stock and earnings from donated assets received. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, capital increases by transferring paid-in capital in excess of par value should not exceed 10% of the total common stock outstanding.

For the year ended December 31, 2017, the capital surplus deriving from those convertible bonds, which were converted to common stock, amounted to \$318,256 (including the capital surplus—conversion options transferred to the capital surplus—additional paid-in capital of \$11,181). Since the convertible bonds had matured on April 24, 2017, the Group has transferred all of its equity components—conversion options to capital surplus—other amounting to \$56,219.

Cash dividend from capital surplus amounting to \$169,625, representing \$1.02581032 per share, was approved during the annual meeting of the shareholders held on June 15, 2018.

(iii) Retained earnings

In accordance with the Company's articles of incorporation, the Company's net earnings shall first defray tax due, and offset the prior years' deficit. Of the remaining balance, 10% is to be appropriated as legal reserve. The appropriation for legal reserve is discontinued when the balance of the legal reserve equals the total authorized capital, and an amount equal to a net debit balance of stockholders' equity is appropriated as a special reserve. The remaining balance and the accumulated unappropriated earnings of prior years, if any, may be appropriated according to the proposal presented in the annual stockholders' meeting by the board of directors, and be distributed as dividends to stockholders after the approval of the annual stockholders' meeting. Based on the policy on stock dividends and in accordance with such factors as the development plan, investment environment, capital requirements, competitive environment, and benefits to stockholders, the cash dividends shall not be less than 30% of the total amount of dividends. After considering the actual profit and capital situation, the amount of dividends is determined by the board of directors and approved by the stockholders at their annual meeting.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

1) Legal reserve

According to the amendment of the ROC Company Act, the Company must retain 10% of its after-tax annual earnings as legal reserve until such retention equals the amount of total capital. When a company incurs no loss, it may, pursuant to a resolution by a shareholders' meeting, distribute its legal reserve by issuing new shares or by distributing cash, and only the portion of legal reserve which exceeds 25% of capital may be distributed.

2) Special reserve

By choosing to apply exemptions granted under IFRS 1 "First-time Adoption of International Financial Reporting Standards", the Company shall reclassified its unrealized revaluation gains amounting to \$161,156 as retained earnings. According to the Ruling No. 1010012865 issued by FSC on April 6, 2012, the company is able to reclassified its net increasing retained earnings as special earnings reserve which resulted from the first-time adoption of the IFRS after the adoption date. When the relevant asset were used, disposed of, reclassified, this special earnings reserve shall be reversed as distributable earnings proportionately. The carrying amount of special earnings reserve both amounted to \$33,700 on December 31, 2018 and 2017.

In accordance with the guidelines of the above Ruling, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as a special earnings reserve during earnings distribution. The amount to be reclassified should be equal to the difference between the total net current-period reduction of special earnings reserve resulting from the first-time adoption of IFRSs and the carrying amount of other shareholders' equity as stated above. Similarly, a portion of undistributed prior-period earnings shall be reclassified as a special earnings reserve (which does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods due to the first-time adoption of IFRSs. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

(i) Earnings distribution

Earnings distribution for 2017 and 2016 was approved via the annual meeting of shareholders held on June 15, 2018 and June 16, 2017, respectively. The relevant dividend distributions to shareholders were as follows:

	2017		2016	
	Amount per share	Total amount	Amount per share	Total amount
Dividends distributed to ordinary shareholders				
Cash	\$ 4.97418968	<u>822,520</u>	6	<u>977,442</u>

The related information about earnings distribution can be accessed from the Market Observation Post System website.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(p) Earnings per share

(i) Basic earnings per share

The calculation of basic earnings per share at December 31, 2018 and 2017 were based on the profit attributable to ordinary shareholders of the Company and the weighted-average number of ordinary shares outstanding, calculated as follows:

1) Profit attributable to ordinary shareholders of the Company

	<u>2018</u>	<u>2017</u>
Profit attributable to ordinary shareholders of the Company	\$ <u>1,013,603</u>	<u>973,889</u>

2) Weighted-average number of ordinary shares (thousands)

	<u>2018</u>	<u>2017</u>
Issued ordinary shares at January 1	165,357	162,907
Effect of convertible bonds	-	1,838
Weighted-average number of ordinary shares December 31	<u>165,357</u>	<u>164,745</u>

3) Basic earnings per share (TWD)

	<u>2018</u>	<u>2017</u>
Basic earnings per share	\$ <u>6.13</u>	<u>5.91</u>

(ii) Diluted earnings per share

The calculation of diluted earnings per share at December 31, 2018 and 2017 were based on profit attributable to ordinary shareholders of the Company and the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, calculated as follows:

1) Profit attributable to ordinary shareholders of the Company (diluted)

	<u>2018</u>	<u>2017</u>
Profit attributable to ordinary shareholders of the Company (basic)	\$ 1,013,603	973,889
Effect after tax of interest expense from convertible bonds	-	6,472
Profit attributable to ordinary shareholders of the Company (diluted)	<u>\$ 1,013,603</u>	<u>980,361</u>

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Weighted-average number of ordinary shares (diluted) (thousands)

	<u>2018</u>	<u>2017</u>
Weighted-average number of ordinary shares (basic) (thousands)	165,357	164,745
Effect of employee remuneration (thousands)	959	692
Effect of convertible bonds (thousands)	-	4,115
Weighted-average number of ordinary shares (diluted) at December 31	<u><u>166,316</u></u>	<u><u>169,552</u></u>

3) Diluted earnings per share (TWD)

	<u>2018</u>	<u>2017</u>
Diluted earnings per share	<u>\$ 6.09</u>	<u>5.78</u>

(q) Revenue from contracts with customers

(i) Disaggregation of revenue

	<u>2018</u>				
	<u>BU1</u>	<u>BU2</u>	<u>BU3</u>	<u>Others</u>	<u>Total</u>
Primary geographical markets:					
Singapore	\$ 488,218	18,058	1,757,833	15,054	2,279,163
Malaysia	821,553	409,968	62,058	201	1,293,780
United States	300,192	178,528	516,339	60,479	1,055,538
Hong Kong	115,130	1,755	937,181	1,019	1,055,085
China	347,805	5,081	168,852	1,952	523,690
Others	<u>324,367</u>	<u>159,251</u>	<u>629,962</u>	<u>92,676</u>	<u>1,206,256</u>
	<u>\$ 2,397,265</u>	<u>772,641</u>	<u>4,072,225</u>	<u>171,381</u>	<u>7,413,512</u>
Major products/services lines:					
Metalized ceramic substrates	\$ 2,396,821	-	938,177	-	3,334,998
Image sensors	-	142,280	2,055,523	-	2,197,803
Hybrid integrated circuits	444	514,854	889,462	-	1,404,760
RF modules	-	115,507	189,063	-	304,570
Others	<u>-</u>	<u>-</u>	<u>-</u>	<u>171,381</u>	<u>171,381</u>
	<u>\$ 2,397,265</u>	<u>772,641</u>	<u>4,072,225</u>	<u>171,381</u>	<u>7,413,512</u>

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Contract balances

	December 31, 2018	January 1, 2018
Notes receivable	\$ -	1,784
Accounts receivable	1,347,286	1,406,346
Contract assets – image sensors product (recorded under other current assets)	30,016	27,959
Less: allowance for impairment	<u>(79,464)</u>	<u>(66,017)</u>
Total	<u>\$ 1,297,838</u>	<u>1,370,072</u>
Contract liabilities – advance sales receipts (recorded under other current liabilities)	<u>\$ 1,165</u>	<u>1,304</u>

For details on accounts receivable and allowance for impairment, please refer to note (6) (c).

The amount of revenue recognized for the year ended December 31, 2018 that was included in the contract liability balance at the beginning of the period was \$142.

The major change in the balance of contract assets and contract liabilities is the difference between the time frame in the performance obligation to be satisfied and the payment to be received.

(r) Employee compensation and directors' and supervisors' remuneration

Based on the Company's articles of incorporation, once the Company has an annual profit, it should appropriate 5% or more of the profit to its employees and 2% or less as directors' and supervisors' remuneration. The Company should offset the prior years' accumulated deficit before any appropriation of profit then appropriate employee compensation and remuneration of directors and supervisors at the above rate. Employee compensation shall be paid in cash or stock, and the remuneration of directors and supervisors shall be paid in cash.

For the years ended December 31, 2018 and 2017, the Company estimated its employee remuneration amounting to \$88,970 and \$78,300, and directors' and supervisors' remuneration amounting to \$7,600 and \$7,200, respectively. The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the remuneration to employees, directors and supervisors of each period, multiplied by the percentage of remuneration to employees, directors and supervisors as determined by the management. These remunerations were expensed under operating costs or operating expenses during 2018 and 2017. The differences between the amounts approved in the Board of Directors' meeting and those recognized in the financial statement, if any, are accounted for as changes in accounting estimates and recognized as profit or loss in the following year. The numbers of shares to be distributed were calculated based on the closing price of the Company's ordinary shares one day before the date of the meeting of the board of directors.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The amounts, as stated in the consolidated financial statements, are identical to those of the actual distributions in 2018 and 2017. Related information would be available on the Market Observation Post System Website.

(s) Financial Instruments

(i) Credit risk

1) Exposure to credit risk

The carrying amount of financial assets represents the maximum amount exposed to credit risk.

2) The concentration of credit risk

The Group caters to a wide variety of customers and has a diverse market distribution, therefore, the Group do not have a significant credit risk concentration. In order to reduce the credit risk, the Group monitors the financial conditions of customers regularly. However, the Group usually does not require customers to provide any collateral.

3) Receivables credit risk

For credit risk exposure of note and trade receivables, please refer to note (6) (c). Other financial assets at amortized cost, including other receivables, are considered to have low risk, and thus, the impairment provision recognized during the period was limited to 12 months expected losses. Regarding how the financial instruments are considered to have low credit risk, please refer to note (4) (g).

The loss allowance provision as of December 31, 2018 was determined as follows:

	Other receivables
Balance on January 1 per IAS39	\$ 315
Adjustment on initial application of IFRS 9	-
Balance on January 1 per IFRS 9	315
Impairment loss reversed	(14)
Effects of movements in exchange rates	11
Balance on December 31	<u><u>\$ 312</u></u>

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Liquidity risk

The following table shows the contractual maturities of financial liabilities, excluding estimated interest payments:

	<u>Carrying Amount</u>	<u>Contractual cash flows</u>	<u>Within a year</u>	<u>Over a year</u>
December 31, 2018				
Non-derivative financial liabilities:				
Short-term borrowings	\$ 249,859	(249,859)	(249,859)	-
Notes and accounts payable	498,267	(498,267)	(498,267)	-
Other payables	<u>398,708</u>	<u>(398,708)</u>	<u>(398,708)</u>	<u>-</u>
	<u><u>\$ 1,146,834</u></u>	<u><u>(1,146,834)</u></u>	<u><u>(1,146,834)</u></u>	<u><u>-</u></u>
December 31, 2017				
Non-derivative financial liabilities:				
Short-term borrowings	\$ 271,436	(271,436)	(271,436)	-
Notes and accounts payable	450,310	(450,310)	(450,310)	-
Other payables	415,353	(415,353)	(415,353)	-
Long-term borrowings, current portion	562,887	(562,887)	(562,887)	-
Long-term borrowings	<u>65,000</u>	<u>(65,000)</u>	<u>-</u>	<u>(65,000)</u>
	<u><u>\$ 1,764,986</u></u>	<u><u>(1,764,986)</u></u>	<u><u>(1,699,986)</u></u>	<u><u>(65,000)</u></u>

The Group does not expect that the cash flows included in the maturity analysis to occur significantly earlier or at significantly different amounts.

(iii) Currency risk

1) Exposure to currency risk

The Group's significant exposure to foreign currency risk were those from its foreign currency denominated financial assets and liabilities as follows:

	<u>December 31, 2018</u>			<u>December 31, 2017</u>		
	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>
<u>Financial assets</u>						
Monetary items						
USD	\$ 53,453	USD/TWD =30.715	1,641,809	61,143	USD/TWD =29.760	1,819,616

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	December 31, 2018			December 31, 2017		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial liabilities						
Monetary items						
USD	\$	13,667 USD/TWD =30.715	419,782	12,637 USD/TWD =29.760		376,077
JPY		605,212 JPY/TWD =0.2782	168,370	706,809 JPY/TWD =0.2642		186,739

2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, notes and accounts receivable, other receivables, loans and borrowings, accounts payable and other payables that are denominated in foreign currency. A weakening (strengthening) of 5% of the TWD against USD and JPY as on December 31, 2018 and 2017 would have increased or decreased the net profit after tax as follows:

	2018	2017
USD (against the TWD)		
Strengthening 5%	\$ 61,101	72,177
Weakening 5%	(61,101)	(72,177)
JPY (against the TWD)		
Strengthening 5%	(8,419)	(9,337)
Weakening 5%	8,419	9,337

(iv) Foreign exchange gains or losses on monetary items

Gains or losses on foreign exchange of the Group's monetary items from the translation of functional currency, including realized and unrealized portion, and the information about the exchange rate of the translation to TWD, which is the presentation currency of the Company, were as follows:

	2018		2017	
	Foreign exchange gain or loss	Average rate	Foreign exchange gain or loss	Average rate
TWD	\$ 56,935	-	(75,702)	-
USD	2,142	USD/TWD 30.149	(488)	USD/TWD 30.432

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(v) Interest rate analysis

The details of financial assets and liabilities exposed to interest rate risk were as follows:

	Carrying amount	
	December 31, 2018	December 31, 2017
Fixed-rate instruments:		
Financial assets	\$ 3,974,958	4,543,810
Financial liabilities	<u>(175,978)</u>	<u>(735,947)</u>
	<u>\$ 3,798,980</u>	<u>3,807,863</u>
Variable-rate instruments:		
Financial assets	\$ 1,263,693	1,407,267
Financial liabilities	<u>(73,881)</u>	<u>(163,376)</u>
	<u>\$ 1,189,812</u>	<u>1,243,891</u>

The exposure to interest rate risk for financial assets and liabilities refers to the management of liquidity risk in this note.

The following sensitivity analysis is based on the exposure to interest rate risk of the non-derivative financial instruments on the reporting date. Regarding the assets and liabilities with variable interest rates, the analysis is based on the assumption that the amount of liabilities outstanding at the reporting date was outstanding throughout the year. The rate of change is expressed as the interest rate increases or decreases by 0.25% when reporting to management internally, which also represents the Group's management assessment of the reasonably possible interest rate change.

If the interest rate had increased or decreased by 0.25%, the net profit before tax would have increased or decreased by \$2,975 and \$3,110 for the years ended December 31, 2018 and 2017, respectively, which would have mainly resulted from the bank savings and borrowings with variable interest rates.

(vi) Fair value

1) The categories and the fair values of financial instruments

The fair value of financial assets and liabilities at fair value through profit or loss is measured on a recurring basis. The carrying amount and fair value of the Group's financial assets and liabilities, including the information on fair value hierarchy were as follows; however, except as described in the following paragraphs, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and for equity investments that has no quoted prices in the active markets and whose fair value cannot be reliably measured, disclosure of fair value information is not required:

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2018					
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets					
mandatorily measured at					
fair value through profit					
or loss					
Open-end mutual funds	\$ 100,394	100,394	-	-	100,394
Financial assets measured					
at amortized cost					
Cash and cash					
equivalents	5,168,430	-	-	-	-
Notes and accounts					
receivable, net	1,267,822	-	-	-	-
Other receivables	44,325	-	-	-	-
Other financial assets –					
current	70,628	-	-	-	-
Other financial assets –					
non-current	5,000	-	-	-	-
Refundable deposits	11,794	-	-	-	-
Subtotal	6,567,999	-	-	-	-
Total	\$ 6,668,393	100,394	-	-	100,394
Financial liabilities					
measured at amortized					
cost					
Bank loans	\$ 249,859	-	-	-	-
Notes and accounts					
payable	498,267	-	-	-	-
Other payables	398,708	-	-	-	-
Total	\$ 1,146,834	-	-	-	-
December 31, 2017					
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Loans and receivables					
Cash and cash					
equivalents	\$ 5,883,990	-	-	-	-
Notes and accounts					
receivable, net	1,329,596	-	-	-	-
Other receivables	36,800	-	-	-	-
Other financial assets –					
current	67,629	-	-	-	-
Other financial assets –					
non-current	5,000	-	-	-	-
Refundable deposits	15,679	-	-	-	-
Total	\$ 7,338,694	-	-	-	-

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

		December 31, 2017			
		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial liabilities measured at amortized cost					
Bank loans	\$ 899,323	-	-	-	-
Notes and accounts payable	450,310	-	-	-	-
Other payables	415,353	-	-	-	-
Total	<u>\$ 1,764,986</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

There were no transfers of financial instruments between any levels for the years ended December 31, 2018 and 2017.

- 2) Valuation techniques for financial instruments measured at fair value –Non-derivative financial instruments.

The fair value of financial instruments traded in active markets is based on quoted market prices. The market prices from the main exchanges and government bond exchanges are the basis of the fair value of the listed company's equity instruments and debt instruments.

A financial instrument is regarded as being quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's-length basis. Whether transactions are taking place 'regularly' is a matter of judgment and depends on the facts and circumstances of the market for the instrument.

Quoted market prices may not be indicative of the fair value of an instrument if the activity in the market is infrequent, the market is not well-established, only small volumes are traded, or bid-ask spreads are very wide. Determining whether a market is active involves judgment.

The fair values of the Group's financial instruments in an active market for each category and attribute were as follows:

The fair values of financial assets and financial liabilities with standard terms and conditions traded in active liquid markets are determined with reference to the quoted market prices, including convertible bonds of listed companies and open-end mutual funds.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(t) Financial risk management

(i) Overview

The Group have exposures to the following risks from its financial instruments :

- 1) Credit risk
- 2) Liquidity risk
- 3) Market risk

The following, likewise discusses the Group's objectives, policies and processes for measuring and managing the above mentioned risks. For more disclosures about the quantitative effects of these risk exposures, please refer to the respective notes in the accompanying consolidated financial statements.

(ii) Structure of risk management

The Group minimizes the risk exposure by purchasing derivative financial instruments. The Board of Directors regulated the transaction of derivative and non-derivative financial instruments in accordance with the Group's procedures for acquisition and disposal of assets. The internal auditors of the Group continually review the amount of the risk exposure in accordance with the Group's policy and the risk management policies and procedures. The Group has no transactions in the financial instruments (including derivative financial instruments) for the purpose of speculation.

(iii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

1) Trade and other receivables

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group offers standard payment term and shipment term. New customers may transact with the Group only on a prepayment basis.

In order to mitigate account receivable credit risk, the Group constantly assesses the financial status of the customers, and requests the customers to provide guarantee or security if necessary. The Group regularly accesses the collectability of accounts receivable and recognizes allowance for accounts receivable. The impairment losses are always within management's expectation.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including listed company and unlisted company. In order to avoid the excess of credit limitation of the customer, the Group constantly monitors the status of the customers. The Group will stop trading with the customer who has no credit limits, unless, the payment has been paid or approved. Furthermore, credit limits of the customers will be assessed quarterly.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Group set the allowance for bad debt account to reflect the estimated losses for trade, other receivables, and investment.

2) Investment

The credit risk exposure in the bank deposits, fixed income investments and other financial instruments are measured and monitored by the Group's finance department. Since the Group's transaction counterparties and contractually obligated counterparties are banks, financial institutes and corporate organizations with good credits, there are no compliance issues, and therefore no significant credit risk.

3) Guarantees

Pursuant to the Group's policies, it is only permissible to provide financial guarantees to subsidiaries. As of December 31, 2018 and 2017, the Group did not provide any financial guarantees.

(iv) Liquidity risk

The Group manages sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows. The Group's management supervises the banking facilities and ensures in compliance with the terms of the loan agreements.

The loans and borrowings from the bank form an important source of liquidity for the Group. Please refer to note 6(h) and 6(i) for unused short-term and long-term bank facilities as of December 31, 2018 and 2017.

(v) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

1) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group's entities, primarily TWD and USD. The currencies used in these transactions are denominated in TWD, EUR, JPY, USD, and PHP.

2) Interest rate risk

Entities in the Group borrow funds with floating interest rates which results to risks of cash flows.

3) Other market price risk

The Group is exposed to equity price risk due to the quoted open-end fund at fair value.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(u) Capital management

The Group maintain the capital based on the current operating characteristics of the industry, future development, and changes in external environment, to assure there is financial resource and operating plan to support working capital, capital expenditures, research & development expense, debt redemption and dividend payment and so on. The management decides the optimized capital by using appropriate debt-to-equity ratio. To maintain a strong capital base, the Group enhances the return on equity by optimizing debt-to-equity ratio. The Group's debt-to-equity ratio at the end of the reporting date was as follows:

	December 31, 2018	December 31, 2017
Total liabilities	\$ 2,014,656	2,550,249
Total equity	10,448,685	10,413,938
Debt-to-equity ratio	19 %	24 %

(v) Investing and financing activities not affecting current cash flow

The Group's investing and financing activities which did not affect the current cash flow in the years ended December 31, 2018 and 2017 were the conversion of convertible bonds to ordinary shares, please refer to note (6) (j).

Reconciliation of liabilities arising from financing activities were as follows:

	January 1, 2018	Cash flows	Non-cash changes Foreign exchange movement	December 31, 2018
Long-term borrowings	\$ 627,887	(627,925)	38	-
Short-term borrowings	271,436	(29,619)	8,042	249,859
Total liabilities from financing activities	<u>\$ 899,323</u>	<u>(657,544)</u>	<u>8,080</u>	<u>249,859</u>

(7) Related-party transactions

(a) Parent company and ultimate controlling company

The Company is the ultimate controlling party of the Group.

(b) Name and relationship with related parties

The followings are entities that have had transactions with the Group during the periods covered in the consolidated financial statements.

Name of related party	Relationship with the Group
Multi-field	Other related party
Hwi-Jie, Yang	The former chairman of the Company, who was discharged on December 17, 2018

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(c) Other transaction with related party

For operational needs, THEPI acquired land for \$57,713 (91,110 thousand Philippine pesos) beginning in 2004, which was recorded as property, plant and equipment. Because the Philippine regulations prohibit foreigners from owning land, the Group paid for the land and owned it in the name of Multi-field. To assure the right to the land, THEPI provided the land as collateral for a credit line from a local bank.

(d) Transactions with key management personnel

(i) Key management personnel compensation comprised:

	2018	2017
Short-term employee benefits	\$ 79,270	71,569
Post-employment benefits	10,244	10,248
	<u>\$ 89,514</u>	<u>81,817</u>

(ii) Provide guarantees

Part of the Group's long-term and short-term borrowings and credit lines were guaranteed by the chairman, Hwi-Jie, Yang, as of December 31, 2018 and 2017.

(8) Pledged assets

Pledged assets	Subject	December 31, 2018	December 31, 2017
Other financial assets – current – time deposits	THEPI's credit lines for letters of credit	\$ 68,179	65,795
Other financial assets – non current – time deposits	Rental guarantee for the plant in the Hsinchu Science Park, Longtan Dist.	5,000	5,000
Property, plant and equipment – land, buildings, machinery and equipment	Long-term and short-term borrowings and credit lines	<u>777,623</u>	<u>808,087</u>
		<u>\$ 850,802</u>	<u>878,882</u>

(9) Commitments and contingencies

- (a) The Group signed operating lease contracts for office space and cars. Please refer to note (6)(1) for the detail of rent payables' details in the future.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Significant unrecognized contractual commitments

(i) The Group's unrecognized contractual commitments were as follows:

	December 31, 2018	December 31, 2017
Future payments for the purchase of equipment and construction in progress	\$ <u>79,131</u>	<u>101,579</u>

(ii) The Group's unused and outstanding letters of credit and the deposit for the Group's customs duties were as follows:

	December 31, 2018	December 31, 2017
Unused and outstanding letters of credit and the deposit for customs duties	\$ <u>28,245</u>	<u>48,131</u>

(10) Losses Due to Major Disasters:None.

(11) Subsequent Events:None.

(12) Other

A summary of employee benefits, depreciation and amortization, categorized by function, is as follows:

By function By item	2018			2017		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefits						
Salaries	1,149,927	303,794	1,453,721	1,116,573	271,530	1,388,103
Labor and health insurance	90,544	15,371	105,915	90,971	14,659	105,630
Pension	42,228	13,374	55,602	42,398	13,158	55,556
Other employee benefits	68,950	21,109	90,059	75,024	24,520	99,544
Depreciation	835,298	40,661	875,959	969,921	39,041	1,008,962
Amortization	852	3,269	4,121	1,955	1,165	3,120

(13) Other disclosure items

(a) Information on significant transactions:

The following is the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the Group:

(i) Loans to other parties: None.

(ii) Guarantees and endorsements for other parties: None.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (iii) Securities held as of December 31, 2018 (excluding investment in subsidiaries, associates and joint ventures):

Unit: thousand units/ thousand shares

Name of holder	Category and name of security	Relationship with Company	Account title	Ending balance				Highest balance during the year		Note
				Shares /Units	Carrying amount	Percentage of ownership (%)	Fair value	Shares /Units	Percentage of ownership (%)	
The Company	Paradigm Pion Money Market Fund	None	Financial assets at fair value through profit or loss-current	8,702	\$ 100,394	-	100,394	8,702	-	

- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of TWD\$300 million or 20% of the capital stock: None.
- (v) Acquisition of individual real estate with amount exceeding the lower of TWD\$300 million or 20% of the capital stock: None.
- (vi) Disposal of individual real estate with amount exceeding the lower of TWD\$300 million or 20% of the capital stock: None.
- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of TWD\$100 million or 20% of the capital stock:

Units: In Thousands of New Taiwan Dollars

Name of Company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase/ (Sale)	Amount	Percentage of total purchases/ (sales)	Payment terms	Unit price	Payment Terms	Ending Balance	Percentage of total notes/ accounts receivable (payable)	
The Company	THEPI	100% owned subsidiary by the Company	Purchase	726,607	22 %	monthly closing and paid by cash	-	-	(97,702)	(19)%	Note
"	"	"	Manufacturing fee	703,707	21 %	"	-	-	(92,662)	- %	"
THEPI	The Company	Parent Company	Sale	(726,607)	(49)%	monthly closing and received by cash	-	-	97,702	48 %	"
"	"	"	Manufacturing revenue	(703,707)	(48)%	"	-	-	92,662	45 %	"

Note: The transactions have been eliminated in the consolidated financial statements.

- (viii) Receivables from related parties with amounts exceeding the lower of TWD\$100 million or 20% of the capital stock:

Units: In Thousands of New Taiwan Dollars

Name of company	Related party	Nature of relationship	Ending balance	Turnover rate	Overdue		Amounts received in subsequent period (Note 1)	Allowance for bad debts	Note
					Amount	Action taken			
THEPI	The Company	Parent company	97,702	7.29 %	-	-	97,702	-	Note 2
"	"	"	92,662	6.56 %	-	-	92,662	-	"

Note 1 : Information as of March 15, 2019.

Note 2 : The transactions have been eliminated in the consolidated financial statements.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(ix) Trading in derivative instruments: None

(x) Business relationships and significant intercompany transactions:

No. (Note 1)	Name of company	Name of counter-party	Nature of relationship (Note 2)	Intercompany transactions			Percentage of the consolidated net revenue or total assets
				Accounts name	Amount	Trading terms	
1	THEPI	The Company	2	Sale	726,607	The sales prices of inter company sales are not significantly different from those of the third parties. The payment term is monthly closing, and the payment is received by cash.	9.80 %
1	"	"	2	Manufacturing Revenue	703,707	"	9.49 %
1	"	"	2	Accounts Receivable	97,702	"	0.78 %
1	"	"	2	Other receivables	92,662	"	0.74 %

Note 1: The numbers filled in as follows:

1. 0 represents the Company.

2. Subsidiaries are sorted in a numerical order starting from 1.

Note 2: Relationship with the transactions labeled as follows:

1 represents the transactions from the parent company to its subsidiaries.

2 represents the transactions between the subsidiaries and the parent company.

3 represents the transactions between subsidiaries.

(b) Information on investees:

The following is the information on investees for the year ended December 31, 2018 (excluding information on investees in Mainland China):

Unit: thousand dollars/ thousand units

Name of investor	Name of investee	Location	Main Businesses and Products	Original Investment Amount		Ending Balance			Highest balance during the year		Net income (losses) of the investee	Share of profit (losses) of investee	Note
				December 31, 2018	December 31, 2017	Shares (thousands)	Percentage of Ownership	Carrying amount	Shares/ Units	Percentage of Ownership			
The Company	THEPI	Lot 15, Road 3, Carmelray Industrial Park, PEZA Canlubang, Calamba, Laguna, Philippines	Sales and manufacturing of RF modules, hybrid integrated circuits, metalized ceramic substrates and image sensors	2,016,853	2,016,853	23,322	100 %	1,365,145	28,793	100 %	22,922	12,400 (Note 1)	Note 2

Note 1 : The investment income (losses) recognized is based on the financial statements audited by the independent auditor of the Company.

Note 2 : The transactions have been eliminated in the consolidated financial statements.

(c) Information on investment in mainland China: None.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(14) Segment information

(a) General Information

The Group has three reportable segments: segment BU1, segment BU2, and segment BU3. Segment BU1 is responsible for the process of plating SF with gold. Segment BU2 is responsible for the THEPI's process. Segment BU3 is responsible for the process of CO2, non-plating SF with gold, SMT, AS, RW and CP.

The reportable segments are the Group's strategic divisions. Different technology and marketing strategies are required for three segments to offer different products and services. Therefore, the above segments are managed separately.

The Group's operating segment information and reconciliation are as follows:

2018						
	BU1 Segment	BU2 Segment	BU3 Segment	Other Segment	Reconciliation & elimination	Total
Revenue						
Revenue from external customers	\$ 2,397,265	772,641	4,072,225	171,381	-	7,413,512
Inter – segment revenues	-	1,430,314	-	-	(1,430,314)	-
Total revenue	<u>\$ 2,397,265</u>	<u>2,202,955</u>	<u>4,072,225</u>	<u>171,381</u>	<u>(1,430,314)</u>	<u>7,413,512</u>
Reportable segment profit(loss)	<u>\$ 524,627</u>	<u>(64,001)</u>	<u>592,978</u>	<u>84,957</u>	<u>106,722</u>	<u>1,245,283</u>
Assets						
Reportable segment assets	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
2017						
	BU1 Segment	BU2 Segment	BU3 Segment	Other Segment	Reconciliation & elimination	Total
Revenue						
Revenue from external customers	\$ 2,373,156	1,058,402	4,127,593	186,451	-	7,745,602
Inter – segment revenues	-	1,696,224	-	-	(1,696,224)	-
Total revenue	<u>\$ 2,373,156</u>	<u>2,754,626</u>	<u>4,127,593</u>	<u>186,451</u>	<u>(1,696,224)</u>	<u>7,745,602</u>
Reportable segment profit (loss)	<u>\$ 485,619</u>	<u>(40,936)</u>	<u>579,141</u>	<u>137,992</u>	<u>(62,047)</u>	<u>1,099,769</u>
Assets						
Reportable segment assets	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The material reconciling items of the above reportable segments were as below:

Total reportable segments' revenue after deducting the inte – rsegments revenue were \$1,430,314 and \$1,696,224 for 2018 and for 2017, respectively.

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Product information

Revenue from the external customers of the Group was as follows:

<u>Products</u>	<u>2018</u>	<u>2017</u>
Metalized ceramic substrates	\$ 3,334,998	3,440,040
Image sensors	2,197,803	2,215,412
RF modules	304,570	420,328
Hybrid integrated circuits	1,404,760	1,483,413
Others	171,381	186,409
Total	<u>\$ 7,413,512</u>	<u>7,745,602</u>

(c) Geographic information

Information on the geographical location of customers and segment assets are based on the geographical location of the assets.

(i) Revenue from external customers:

<u>Country</u>	<u>2018</u>	<u>2017</u>
Singapore	\$ 2,279,163	2,438,175
United States	1,055,538	1,249,788
Malaysia	1,293,780	1,352,946
Hongkong	1,055,085	1,004,439
China	523,690	456,349
Others	1,206,256	1,243,905
Total	<u>\$ 7,413,512</u>	<u>7,745,602</u>

(ii) Non-current Assets:

<u>Country</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Taiwan	\$ 3,545,947	3,680,076
Philippines	734,984	799,509
Total	<u>\$ 4,280,931</u>	<u>4,479,585</u>

Non-current assets include property, plant and equipment, intangible assets, refundable deposits and other non-current assets (excluding deferred tax assets).

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(d) Major customers

Sales to individual customers constituting over 10% of the total revenue in the consolidated statements of income are summarized as follows:

	<u>2018</u>	<u>2017</u>
C1444	\$ 1,428,784	1,406,283
C0803	876,673	987,087
C0897	<u>690,807</u>	<u>753,559</u>
	<u>\$ 2,996,264</u>	<u>3,146,929</u>