Stock Code:6271

TONG HSING ELECTRONIC INDUSTRIES, LTD.
同欣電子工業股份有限公司

2018
Annual Report

<u>Notice to readers</u>

This English-version annual report is a summary translation of the Chinese version and is not an official document of the shareholders' meeting. If there is any discrepancy between the English and Chinese versions, the Chinese version shall prevail.

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Taiwan Stock Exchange Market Observation Post System:
http://newmops.twse.com.tw

Spokesperson
Name: Shao-Pin Ru
Title: President, and CEO
Tel: 886-2-2679-0122
E-mail: info@mail.theil.com.tw

Deputy Spokesperson
Name: Jia-Shuai Chang
Title: COO
Tel: 886-2-2679-0122
E-mail: info@mail.theil.com.tw

Headquarters, Branches and Plant
Headquarters
Address: 6F., No. 83, Yanping S. Rd., Taipei City
Tel: 886-2-2389-0432
Taipei Plant
Address: No. 55, Ln. 365, Yingtao Rd., New Taipei City
Tel: 886-2-2679-0122
Longtan Plant
Address: No. 21, Longyuan 5th Rd., Taoyuan City
Tel: 886-3-489-3700

Stock Transfer Agent
Name: Registrar and Transfer Agency Department of KGI Securities Co. LTD.
Address: 5F., No. 2, Sec. 1, Chung-Ching S. Rd., Taipei City
Website: http://www.kgieworld.com.tw
Tel: 886-2-2389-2999

Auditors
CPA Firm: KPMG
Name of CPA: Shi-Chuan Jian, Shin-Fu Yen
Address: 68F, TAIPEI 101 TOWER, No. 7, Sec. 5, Xinyi Road, Taipei City
Website: http://www.kpmg.com.tw
Tel: 886-2-8101-6666

Overseas Securities Exchange: None.

Corporate Website: http://www.theil.com.tw

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6. Overview of the Financial Status

7. Financial Status and Operating Results

8. Subsidiary Information and Other Special Notes

1. Letter to Shareholders

Dear Shareholders:

Tong Hsing Electronics (hereinafter referred to as Tong Hsing or the Company) have devoted years of efforts to advancement and innovation of ceramic substrate manufacturing and packaging. Entering our fourth decade, we are expanding our footprint to new applications and new markets, and will continue to provide a turnkey solution to our customers. Here is the recap of 2018 for the whole year.

I. 2018 Business Summary

(1) Consolidated Net Income

The net revenue was NT$7.42billion in 2018, a decrease of 4%, i.e., NT$332million compared to NT$7.75billion from last year. By application, RF modules decreased 27.5%, while hybrid -5.3%, ceramic substrates -3.1% and image sensor -0.8%, respectively.

(2) Consolidated Net Income from Operations

Our total revenue was NT$1.14 billion, a decrease of 2.0% of the previous year due to reduced revenue and a decrease in price due to meeting the market and competitive circumstances.

(3) Consolidated Non-Operating Income and Expenses

Consolidated Non-operating expense increased by NT$168.769 million due to an unfavorable appreciation of New Taiwan Dollars.

(4) Consolidated Income before Tax

Consolidated Income befor Tax increased by 13% sequentially to NT$1.25 billion, i.e., NT$146 million comapred to NT$1.10 billion from last year, reflecting the unfavorable factors stated above.

(5) CapEx

No financial guidance is available.

(6) R&D Accomplishments

Year	Technologies	Product Applications
2018	Cavity substrates	3D Sensing
	High resolution image sensing module assembly	Image Sensor Packages
	Fine line circuit on glass substrates	LED
	Micro tip matrix saw on silicon wafer	Biomedical
	WLCSP plating	High Frequency RF Modules
	IR AVI for IC inspection	Image Sensors
	6S die sorters evaluation	Image Sensors
	12" Wafer proving development	Image Sensors
	Integration of IR camera to wafer laser grooving system for enhancing image recognition depth of thick Si layer(6um)	Image Sensors

II 2019 Business Plan

(1) Operating Guidelines

1.Enhance product and service quality for better customer satisfaction.

2.Improve manufacturing processes, yield rate and phase in automation to lower production costs.

3.Invest in R&D advancement and technology innovation, and closely work with leading edge suppliers to build up long-term partnerships.

4.Strengthen cooperation with key suppliers to develop new materials, new equipment and new production technologies to differentiate product and service from competitors.

5.Provide a turnkey solution by integrating technologies of substrate, packaging and testing.

(2) Sales Forecast and Projection Basis

Ceramic substrates and image sensor are two business contributors to Tong Hsing's revenue. Ceramic substrates are mainly used in outdoor general lighting, flash lamps, and automotive high brightness LEDs. In addition, the replacement of LEDs with edge-emitting and surface-emitting laser diodes has the potential to be the next megatrend of our growth. Meanwhile, the steep demand for clean energy and eletric vehicles will also be a major growth for ceramic substrates in the coming years.

Though the revenue of image sensors was dampened by the overall weakening of the smartphone market last year, we believe the revenue grew outpacing a relatively flat global smartphone industry, with the inclusion of increasing multi-sensors, pixel counts, addition of 3D sensing and optical fingerprints.

(3) Operating strategy

1.Sales

(a) Our products are comprised of four segments: RF modules, hybrid and specialty packaging, ceramic metalized substrates and image products. Moving into 2019, we expect metalized ceramic substrates will still dominate the growth of our revenue, while image products, hybrid modules and specialty packaging, and RF modules the rest.

(b) Ceramic Substrates: Thin Film DPC substrates are the megatrends of high brightness LEDs. The LED market and technology are already on the mature stage. Our strategy is that we will work with customers to develop specialty technologies that create differentiating value to them. In addition to general lighting, we also provide substrates for automotive lights, which have become ubiquitous in the global car light makers. In the meantime, the replacement of the white light LED with the UVC LED in sterilizers which are environmentally friendly and energy efficient will be the next potential market for Tong Hsing.

For high-power modules, we also anticipate an increasing growth of our DBC substrates driven by the demand of power modules and inverters for renewable energy, energy-saving appliances and HV or HEV.

(c) Image Products: Tong Hsing provides a turnkey solution for CP, RW, ASSY and FT services to our customers by offering a wide variety of packaging solutions for mobile/handheld devices.

Other than general image sensors for snapping photos, muti-sensors for a variable focus lens, adjusted DOF (Depth of Field), lasers, 3D sensing for facial recognition system, AR, fingerprint identification covering IR LED and image sensor technologies will be megatrends of the next generation of mobile devices.

For automotive applications, the increasing adoption of cameras for various ADAS and self-driving technologies has created demand for image sensors. We will continue to strenghen our capacity to the automotive market demand in the coming years.

(d) Hybrid Modules and Specialty Packaging: In addition to retaining the existing technologies, we strive to develop substrates and module packaging for special lighting, laser module packaging, UV LED module packaging and biomedical chip module packaging.

(e) RF Modules: We launched volume production of modules for high speed fiber optic networks used in smart phones and data centers last year. The development of SAW filters and 5G modules are also on track.

2.Production Facilities

To adapt to product complexity and diversity, we make non-stop efforts in IoT-based automation and smart manufacturing. Through installing automatic loaders, unloaders and robots to existing equipment, all the manufacturing data is connected via IoT, and are 24/7 accessible. By analyzing and visualizing the big data analytics, the real-time operational reporting is a strong tool to improve product quality, capabilities in time, optimize material and capacity usage for higher quality production and agility with less cost, leading to a digital factory.

The key investments for this year include:

(a) Pico laser system.

(b) Optimization of sputtering, electrolytic plating, inspection processes and data integration.

(c) High-speed inspection equipment for DPC substrates, CP and FT automation.

(d) Chip mounters, wire bonders, 6S chip sorters, solder printer, and AOI system.

(e) AVI system for wafer inspection system.

(f) Upgraded advanced packaging equipment, installation of robots for pick & place, programmable graphic-controlled monitoring system.

(g) Streamlining the production line of image sensors in one workplace to integrate manpower and production resources.

(h) Green laser system and SPC analyzer.

(i) New-generation ceramic grinders to enhance capabilities.

(j) Additon of more laser cutting machines to meet the need of 3D sensors and singulated substrates.

(k) Enhanced capacity of ERP system, implementation of APS, backup of host tracking system, core switch, and individual security systems.

(l) Expansion of 12" wafer probers capability.

(m) Optimization of energy-saving facilities including waste water recycling, AC recovery and circulation systems.

(n) Production of 12" wafer probers.

(o) 6S die sorters to meet the need of automotive IC.

3.R&D Investment

(a)Power module packaging and testing.

(b)3D sensor module packages.

(c)MEMS for commodity products.

(d)Fingerprint identification packaging.

(e)Opto-electric semiconductor packaging.

(f)SAW Filter packaging.

(g)Substrates for crystal oscillators packaging.

(h)Process development of Bio chips packages.

(i)Innovation and development of high frequency RF modules.

(j)6S die sorters.

(k)Development of multi-function ceramic substrates.

(l)Establishment of RF testing technology.

(m)Development of anti-corrosive ceramic substrates for automotive applications.

(n)Development of SIP packages for multi-layered chips covering both image sensors and image processing chips for automotive applications.

4.People Development

(a)Strengthen internal and external on-the-job training and project management for different job functions to cultivate and deepen individual knowledge on the nature of the individual’s job, work performance and career development path.

(b)Encourage employees to pursue external short-term courses for both credit courses and degrees to build up different expertise..

(c)Cooperate with colleges and universities to recruit advanced talents to backfill the mainstream of R&D.

(d)Innvation, care for people and mutual commitment.

5.Outlook

(a)Ceramic Substrates: Tong Hsing's DPC substrates are ideal for high-brightness LEDs, laser diodes, thermoelectric generators, etc. As the traditional co-fired ceramic substrates can no longer satisfy the need of crystal oscillators and saw filters which require downsizing of substrates for mobile and wearable devices, we developed DPC technology to adapt to the changing market conditions. For the application of power modules, we keep refining our DBC technology and AMB technology to meet the rapid growth of high-power modules applications driven by the demand for clean energy and electric vehicles.

(b)Image Products: The growth of image sensors will be likely to surpass the relatively flat demand of the mobile market given the emergence of new features such as multi-sensors, 3D sensing and fingerprint identification. Beyond the existing demand in image sensors for parking aid and surround view monitoring systems, additional growth will come from the applications of advanced driver assistance system, including self-driving, lane-change monitoring, LiDAR, etc. In addition, biometrics, 3D sensing, infrared thermal imaging cameras and other new applications arising from Artificial Intelligence technology are expected to take off in demand this year. We will continue to approach these niche markets through continuous improvement and integration of image sensor packaging services.

(c)In the field of biomedical products, thanks to the the transition of DNA sequencing inspection and testing from traditional dye-terminator method to biometrics chips, we are able to provide customized services covering ceramic substrates manufacturing, wafer surface treatment, module packaging, testing, etc. to help customers facilitate product development and volume production.

(d)Hybrid Modules, Specialty Packaging and RF modules: We work with customers to develop leading-edge 5G RF modules and high-speed fiber optic networks for the next generation products by providing differentiated services through integrating ceramic substrate and packaging technologies.

Finally, we would like to take this opportunity to express our gratitude to our shareholders for your participation in the shareholders' meeting today and your continuous support over the past years. Tong Hsing will continue to advance our new process development and production capabilities, and lead our way in staying at the forefront of innovations and exploring new applications and markets. Looking to the future, we will continue to strive in creating value, generating strong return to our shareholders and fulfilling the social responsibility. Thank you.

Best wishes,

Hsi-Hu Lai, Chairman

2. Corporate Profile

I. Company profile

(1) Date of Incorporation: August 11, 1974

(2) Milestones

Aug. 1974	Tong Hsing Electronic Industries Limited (Tong Hsing or the Company) was established with a paid-in capital of NT$30 million.
Aug. 1976	Started production of ceramic substrates.
Sep. 1977	Started production of thick-film substrates.
Sep. 1979	Started production of hybrid modules.
May 1982	Started production of thick film printed substrates for capacitors.
Jan. 1986	Shipped 500K Modules of Electronic Fuse.
Aug. 1989	Received IECQ certification.
Dec. 1991	Transferred technology from SMART RELAY TECHNOLOGY INC, (SRT) and produced solid state relays.
May 1993	Started large scale production of thick film copper process.
Jul. 1993	Received ISO-9002 certification.
Jun. 1994	Established Tong Hsing Electronics Phils. Inc..
Feb. 1996	Established CIM System to track the WIP through LAN.
Jan. 1997	Provided RF modules packaging service for Conexant.
Jul. 1997	Received CSP patent approval.
Sep. 1997	Started volume production of CDMA power amplifier modules.
Oct. 1997	Started volume production of substrates by applying exposure and etching technologies.
Dec. 1998	Received QS-9000 and ISO-9001 certification.
Jul. 1999	Increased cash capital of NT$160.35 million and applied for OTC listing.
Dec. 1999	Started volume production of GSM power amplifier modules.
Mar. 2002	Received ISO-14001 certification.
Dec. 2002	OTC listing was approved.
May 2003	Acquired 23.38% of equity shares from Impac Technology Ltd. Corp..
Jun. 2005	Received patented production for high-frequency and power modules.
Jul. 2005	The Philippines Plant received QS-9000 and ISO-9001 certification.
Sep. 2005	Started production of thin film DPC substrate fabrication.
Nov. 2005	Started volume production of AlN substrates.
Jan. 2006	Startsed DPC volume production for high-brightness LED substrates.
Feb. 2006	Received certification from world-leading automotive electronic component makers.
May 2006	Developed digital mirror devices (DMD) packaging and started volume production.
Aug. 2006	Received TS16949 certification.
Nov. 2006	Received OHSAS18001 certification.

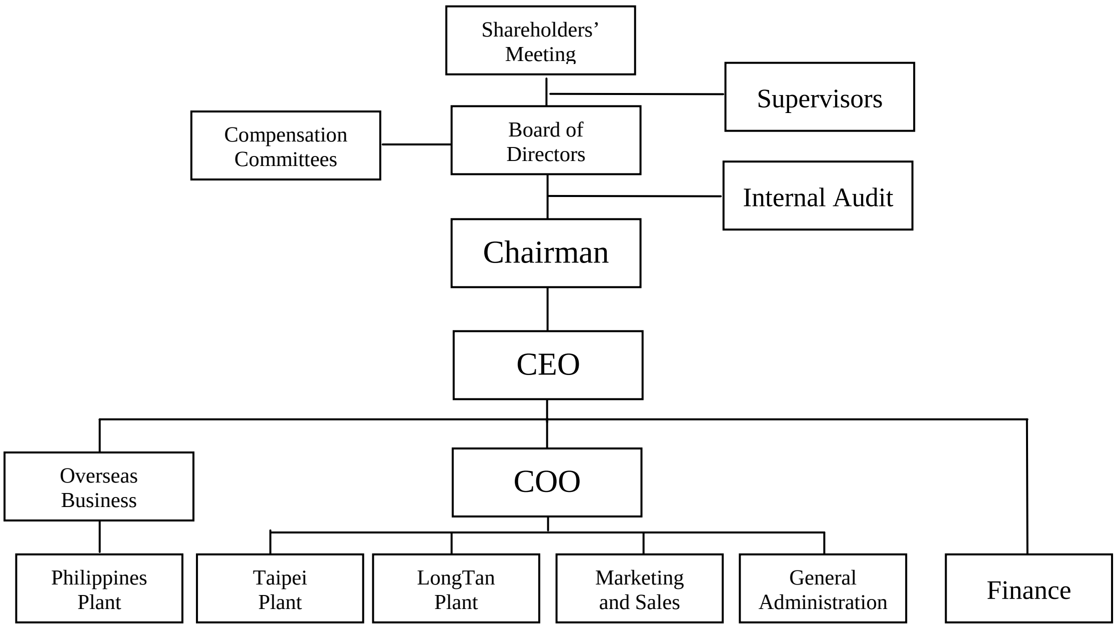
Jan. 2007	The Philippines Plant received TS16949 certification.
May 2007	Ranked as one of the Top-1000 manufacturers by CommonWealth Magazine.
Aug. 2007	Issued employee warrants of 4,000 units with 5-year duration.
Nov. 2007	Increased cash capital of NT$120 million and IPO.
Dec. 2007	The Philippines Plant constructed the PII.
Oct. 2008	Awarded as “Excellent Innovation” by Ministry of Economic Affairs.
Oct. 2008	Increased cash capital of NT$100 million.
Nov. 2008	The Philippines Plant received OHSAS18001 certification.
Feb. 2009	Stock buyback of NT$7.91 million.
Dec. 2009	Increased cash capital of NT$30 million to fully acquire and merged with Impac Technology Ltd. Corp..
Dec. 2009	The Philippines Plant completed the construction of the PII.
Feb. 2010	Received AS9100 certification.
Jul. 2010	Increased cash capital of NT$160 million.
May 2011	Ranked as Top 500 manufacturers by CommonWealth Magazine.
Aug. 2011	Increased cash capital of NT$200 million.
Sep. 2011	Received Sony Green Partners certification.
Jun. 2012	Awarded as excellent photoelectric products by Photonics Industry and Technology Development Association (PIDA).
Aug. 2012	Acquires DBC production assets, process, know-how, and IP from HCS.
Dec. 2012	Received ISO13485 certification.
Jul. 2013	Joined Electronic Industry Citizenship Coalition(EICC) to implement corporate social responsibility.
Oct. 2013	Received China RoHs certification.
Apr. 2014	Issued domestic convertible bonds of NT$2,000 million.
Nov. 2014	Participated in campaign run by the Economic Department in New Taipei City to promote energy saving.
Dec. 2014	Started production of RW products in Longtan work site.
Apr. 2015	Established a new subsidiary of Longtan Plant for the manufacturing of CP and wafer reconstruction.
Jan. 2016	Started production of RW products in Longtan work site.
Jul. 2016	Awarded as Top-500 Excellent Exporters / Importers.
Aug. 2018	Awarded as Excellent Management of National Quality Award by Ministry of Economic Affairs.
Oct. 2018	Received IATF16949 certification.

3. Corporate Governance Report

3.1 Corporate Organization

3.1.1. Corporate Organizational Structure

Tong Hsing Electronics Organizational Chart



3.1.2. Organizational Functions:

Department	Major Functions
(1)Finance	a. Manage cash flow, financial analysis and reporting, taxations, accounting and shareholder service. b. Cost accounting and production cost analysis.
(2)Marketing and Sales	a. Order management, customer service, production scheduling and shipping. b. Domestic and international sales activities and new customer development.
(3)General Administration	a.Information system management. b.Personnel planning, and general administration. c.Raw materials and equipment buying and acquisition.
(4)Taipei Plant and LongTan Plant	a. All matters related to production administration. b. Outsourcing planning, production process improvement, and product development. c. Raw materials, inventories and assets management.
(5)Overseas Business	Planning and conducting operating of Philippines Plant.
(6)Internal Audit	Planning and conducting auditing to all internal operations, and following the remedial progress and offering improvement advice to the top-management.

3.2. Information Regarding Directors and Management Team

3.2.1 Board Members

3.2.1.1. Information Regarding Board Members

As of 04/23/2019

Title	Nationality/ Place of Incorporation	Name	Gender	Date Elected	Term (Years)	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse & Minor Shareholding		Specific Person Shareholding		Education and Selected Past Positions	Selected Current Positions at Other Companies	Other Directors &Supervisors being spouse or immediate relation with Directors & Supervisors		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Chairman	R.O.C	Hsi-Hu Lai	Male	06/16/2016	3	06/03/2000	176,637	0.11%	186,637	0.11%	-	-	-	-	Bachelor degree in Economics, Soochow University. Financial Department, The Far Eastern Group. Vice President, Tong Hsing Electronic Ind., Ltd. Chief of Staff, Tong Hsing Electronic Ind., Ltd.	Chairman, Tong Hsing Electronic Ind., Ltd.	-	-	-
Director, President, and CEO	R.O.C	Shao-Pin Ru	Male	06/16/2016	3	06/19/2013	542.192	0.33%	688,192	0.42%	7,615	0.00%	-	-	Bachelor degree in Electrical Engineering, National Taiwan University. Master degree in Business and Management, National Chiao Tung University. President, Tong Hsing Electronic Ind., Ltd	President/CEO, Tong Hsing Electronic Ind., Ltd	-	-	-
Director	R.O.C	Shaing-Shaing Wu	Female	06/16/2016	3	06/16/2016	-	-	-	-	-	-	-	-	Master degree in Business Administration, University of St. Thomas. Bachelor degree in International Trade, Providence University. Vice Chairman, OFCO Industrial Corp. Manager of Investment Department, CDIB. President, CDIB Capital Management Corp.	Vice President, Pegatron Corp. Director, Kinsus Interconnect Technology Corp. Director, Tong Hsing Electronic Ind., Ltd.	-	-	-

Title	Nationality/ Place of Incorporation	Name	Gender	Date Elected	Term (Years)	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse & Minor Shareholding		Specific Person Shareholding		Education and Selected Past Positions	Selected Current Positions at Other Companies	Other Directors &Supervisors being spouse or immediate relation with Directors & Supervisors		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Corporate Director,	R.O.C	MYW Investment Limited	-	06/15/2018	1	06/15/2018	5,000,000	3.02%	5,000,000	3.02%	-	-	-	-	-	-	-	-	-
Independent Director	R.O.C	Chao-Te Wu	Male	06/16/2016	3	06/07/2002	-	-	-	-	-	-	-	-	Bachelor degree in Accounting, National Chengchi University. Master degree in Accounting, National Chengchi University. Vice President, Kelti International Co., Ltd.	Chairman & President, Sense Consulting Co., Ltd. Independent Director/ Member of Compensation Committee, Tong Hsing Electronic Ind., Ltd	-	-	-
Independent Director	R.O.C	Jin-Tsai Chen	Male	06/16/2016	3	05/15/2007	-	-	-	-	-	-	-	-	Master degree in Public Administration, University of San Francisco, USA. Master degree in Accounting, Tamkang University, Taiwan. Director, Namchow Chemical Industrial Co., Ltd. General Manager, Namchow Chemical Industrial Co., Ltd.	Vice Chairman, HIWIN Technologies Corp. Chairman, WIN Semiconductors Corp. Independent Director/ Member of Compensation Committee, Kinsus Interconnect Technology Corp. Corporate Supervisor Representative, Infotel INC. Independent Director/ Member of Compensation Committee, Tong Hsing Electronic Ind., Ltd. Corporate Director Representative, Taipei Financial Center Corp. Supervisor, Inventec Solar Energy Corporation. Chairman, WIN SEMI.USA, INC. Chairman, WIN Semiconductors Cayman Islands Co., Ltd. Director, ITEQ Corporation. Corporate Independent Director Representative, Mercuries Life Insurance.	-	-	-

Title	Nationality/ Place of Incorporation	Name	Gender	Date Elected	Term (Years)	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse & Minor Shareholding		Specific Person Shareholding		Education and Selected Past Positions	Selected Current Positions at Other Companies	Other Directors &Supervisors being spouse or immediate relation with Directors & Supervisors		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Supervisor	R.O.C	Yu-Chin Tsai	Female	06/16/2016	3	05/15/2007	-	-	-	-	-	-	-	-	Doctor degree in Accounting, Shanghai University of Finance and Economics. Master degree in Accounting, National Chengchi University. Director of Audit Dept., KPMG. Assistant Professor of Dept. of Accounting, China University of Technology. Passing High Level CPA Civil Test.	Supervisor, Nichidenbo Corporation. Independent Director/ Member of Compensation Committee/ Member of Audit Committee, ITEQ Corporation. Supervisor, Tong Hsing Electronic Ind., Ltd. Independent Director/ Member of Compensation Committee/ Chairman of Audit Committee, Chlitina Holding Limited. Independent Director/ Member of Compensation Committee, Taiyen Biotech Co., Ltd.	-	-	-
Supervisor	R.O.C	Chun-Yi Hsu	Male	06/16/2016	3	07/09/2007	-	-	-	-	-	-	-	-	EMBA Programs, China Europe International Business School Master degree in Business Administration, University of Texas. AVP, CDIB.	Chairman, Cedar Capital Inc. Chairman, QE Capital Co., Ltd. Supervisor, Tong Hsing Electronic Ind., Ltd.	-	-	-

Major Shareholders of the Institutional Shareholders

As of 04/23/2019

Name of Institutional Shareholders	Major Shareholders of the Institutional Shareholders
MYW Investment Limited	Kaimei Electronic Corp.(100.00%)

Major shareholders of the Company's major institutional shareholders

As of 04/23/2019

Name of Institutional Shareholders	Major Shareholders of the Institutional Shareholders
Kaimei Electronic Corp.	Teapo Electronic Corporation (42.69%) Li-Ju Huang (1.77%) Shoei-Chin Lai (1.27%) Chen-Hsi Chang (1.14%) Tripartite Therapeutics INC. (1.10%) Bothhand Enterprise INC. (1.09%) Shao Chiao Co., Ltd. (0.88%) San Tai Investment Ltd. (0.72%) Ming-Tsue Chiu (0.64%) Chou-Tien Lin (0.57%)

3.2.1.2. Directors' and Supervisors' Professional Qualifications and Independence Information

As of 04/23/2019

Criteria / Name	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria (Note)										Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialists Who Has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Area of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
Hsi-Hu Lai			✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Shao-Pin Ru			✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Shaing-Shaing Wu			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Jia-Li Huang (Representative of MYW Investment Limited)			✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Chao-Te Wu		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Jin-Tsai Chen	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Yu-Chin Tsai	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	3
Chun-Yi Hsu			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0

Note: Please tick the corresponding boxes that apply to the directors or supervisors during the two years prior to being elected or during the term of office.

1. Not an employee of the Company or any of its affiliates;
2. Not a director or supervisor of the Company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the Company, its parent company, or any subsidiary, as appointed in accordance with the laws of Taiwan or with the laws of the country of the parent or subsidiary;
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the Company or ranks as one of its top ten shareholders;
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the above persons in the preceding three subparagraphs;
5. Not a director, supervisor, or employee of a corporate/institutional shareholder that directly holds five percent or more of the total number of issued shares of the Company or ranks as of its top five shareholders;
6. Not a director, supervisor, officer, or shareholder holding five percent or more of the shares of a specified company or institution that has a financial or business relationship with the Company;
7. Not a professional individual who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof. These restrictions do not apply to any member of the compensation committee who exercises powers pursuant to Article 7 of the "Regulations Governing the Establishment and Exercise of Powers of Compensation Committees of Companies whose Stock is Listed on the TWSE or Traded on the TPEx";
8. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company;
9. Not been a person of any conditions defined in Article 30 of the Company Law;
10. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

3.2.2 Management Team Information Regarding Management Team

As of 04/23/2019

Title	Nationality	Name	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Specific Person Shareholding		Education and Selected Past Positions	Other Positions	Managers Who are Spouses or Within Second-degree of Kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
President, and CEO	R.O.C	Shao-Pin Ru	Male	06/19/2013	688,192	0.42%	7,615	0.00%	-	-	Bachelor degree in Electrical Engineering, National Taiwan University. Master degree in Business and Management, National Chiao Tung University. President, Tong Hsing Electronic Ind., Ltd.	-	-	-	-
COO	R.O.C	Chia-Shuai Chang	Male	09/16/2013	60,000	0.04%	5,000	0.00%	-	-	Vice President, Impac Technology Co., Ltd. Manager of R&D Department, Walsin Thz Technology Corp. Manager of Electronic and Optoelectronic System Research Laboratories, ITRI. Doctor degree in Physics, National Tsing Hua University. Vice President, Tong Hsing Electronic Ind., Ltd.	-	-	-	-
Vice President	R.O.C	Shin-Yeh Huang	Male	03/18/2010	5,000	0.00%	-	-	-	-	Bachelor degree in Mechanical Engineering, National Cheng Kung University. Vice President, Impac Technology Co., Ltd. Vice President, Tong Hsing Electronic Ind., Ltd.	-	-	-	-
Vice President	R.O.C	Ching-Hsing Lin	Male	10/01/2005	121,672	0.07%	4,620	0.00%	-	-	Bachelor degree in Electronics, National Taipei University of Technology. Master degree in Entrepreneurship, Asian Institute of Management. Vice President, Tong Hsing Electronics Phils. Inc.	-	-	-	-
Director	R.O.C	Wen-Chung Chiang	Male	07/31/2012	-	-	-	-	-	-	President, HCS High Conduction Scientific Co., Ltd. Vice President, Union Soltek Inc. Bachelor degree in Chemical Engineering, Tatung University.	-	-	-	-

Title	Nationality	Name	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Specific Person Shareholding		Education and Selected Past Positions	Other Positions	Managers Who are Spouses or Within Second-degree of Kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
Director	R.O.C	Jia-Li Huang	Female	03/10/2017	41	0.00%	-	-	-	-	Bachelor degree in Public Finance, National Chung Hsing University. Junior Manager, Advance Engineering (B.V.I.) Co., Ltd., Taiwan Branch. Department of Finance, TUNTEX INCORPORATION.	-	-	-	-
Director	R.O.C	Bao-Yuan Chen	Male	10/01/2017	-	-	-	-	-	-	Master degree in Industrial Engineering and Management, National Chiao Tung University. Bachelor degree in Industrial and Systems Engineering, Chung Yuan Christian University. Bachelor degree in Electrical Engineering, National United University. Director of Eng’g Dept, Tong Hsing Electronic Ind., Ltd. Manager of Eng’g Dept & QRA Dept, Impac Technology Co., Ltd. Director of Biz Support & Operation Div., AnexTEK Global Inc. Plant manager of MACASE INDUSTRIAL CORP.	-	-	-	-

3.3. The Compensation of Directors, Supervisors and Managers

3.3.1 Compensation of Directors

Unit: NTD thousands/ Shares in thousands/ %

<table>
<tr><th rowspan="4">Title</th><th rowspan="4">Name</th><th colspan="8">Remuneration</th><th colspan="2" rowspan="2">Total A,B,C, D as % of EAIT</th><th colspan="8">Employment-related Remuneration</th><th colspan="2" rowspan="2">Total A,B,C,D,E,F,Gas % of EAIT</th><th rowspan="4">Compensation Paid to Directors from an Invested Company Other than the Company's Subsidiary</th></tr>
<tr><th colspan="2">Base Compensation (A) (Note 1)</th><th colspan="2">Retirement pension (B)</th><th colspan="2">Directors Compensation (C) (Note 2)</th><th colspan="2">Business implementation expenses (D) (Note 3)</th><th colspan="2">Salary, bonuses and special expenses (E) (Note 4)</th><th colspan="2">Retirement pension (F)</th><th colspan="4">Employee compensation (G) (Note 5)</th></tr>
<tr><th rowspan="2">From TH</th><th rowspan="2">From All Consolidated Entities</th><th rowspan="2">From TH</th><th rowspan="2">From All Consolidated Entities</th><th rowspan="2">From TH</th><th rowspan="2">From All Consolidated Entities</th><th rowspan="2">From TH</th><th rowspan="2">From All Consolidated Entities</th><th rowspan="2">From TH</th><th rowspan="2">From All Consolidated Entities</th><th rowspan="2">From TH</th><th rowspan="2">From All Consolidated Entities</th><th rowspan="2">From TH</th><th rowspan="2">From All Consolidated Entities</th><th colspan="2">From TH</th><th colspan="2">From All Consolidated Entities</th><th rowspan="2">From TH</th><th rowspan="2">From All Consolidated Entities</th></tr>
<tr><th>Cash</th><th>Stock</th><th>Cash</th><th>Stock</th></tr>
<tr><td>Former Chairman</td><td>Hui-Jie Yang</td><td rowspan="7">14,869</td><td rowspan="7">14,869</td><td rowspan="7">0</td><td rowspan="7">0</td><td rowspan="7">5,200</td><td rowspan="7">5,200</td><td rowspan="7">1,800</td><td rowspan="7">1,800</td><td rowspan="7">2.16%</td><td rowspan="7">2.16%</td><td rowspan="7">15,173</td><td rowspan="7">15,173</td><td rowspan="7">212</td><td rowspan="7">212</td><td rowspan="7">5,590</td><td rowspan="7">0</td><td rowspan="7">5,590</td><td rowspan="7">0</td><td rowspan="7">4.23%</td><td rowspan="7">4.23%</td><td rowspan="7">0</td></tr>
<tr><td>Chairman</td><td>Hsi-Hu Lai</td></tr>
<tr><td>Director</td><td>Shao-Pin Ru</td></tr>
<tr><td>Director</td><td>Shaing-Shaing Wu</td></tr>
<tr><td>Director</td><td>MYW Investment Limited</td></tr>
<tr><td>Independent Director</td><td>Chao-Te Wu</td></tr>
<tr><td>Independent Director</td><td>Jin-Tsai Chen</td></tr>
</table>

Levels of Amounts of Compensation

Range of Remuneration	Name of Directors			
	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)	
	From TH	From All Consolidated Entities	From TH	From All Consolidated Entities
Under NT$ 2,000,000	Hsi-Hu Lai, Shao-Pin Ru, Shaing-Shaing Wu, Jin-Tsai Chen, Chao-Te Wu, MYW Investment Limited	Hsi-Hu Lai, Shao-Pin Ru, Shaing-Shaing Wu, Jin-Tsai Chen, Chao-Te Wu, MYW Investment Limited	Shaing-Shaing Wu, Jin-Tsai Chen, Chao-Te Wu, MYW Investment Limited	Shaing-Shaing Wu, Jin-Tsai Chen, Chao-Te Wu, MYW Investment Limited
NT$2,000,001 ~ NT$5,000,000	-	-	-	-
NT$5,000,001 ~ NT$10,000,000	-	-	-	-
NT$10,000,001 ~ NT$15,000,000	-	-	Hsi-Hu Lai, Shao-Pin Ru	Hsi-Hu Lai, Shao-Pin Ru
NT$15,000,001 ~ NT$30,000,000	Hui-Jie Yang	Hui-Jie Yang	Hui-Jie Yang	Hui-Jie Yang
NT$30,000,001~ NT$50,000,000	-	-	-	-
NT$50,000,001 ~ NT$100,000,000	-	-	-	-
Over NT$100,000,000	-	-	-	-
Total	7	7	7	7

Note 1: Remunerations to the directors in the current year include director's salary, directors' allowances, severance pay, various bonuses, incentive payments, etc.

Note 2: These are 2018 director remunerations proportionally divided among the directors and supervisors. The compensation of NT$7.6 million has been resolved by the Board Meeting and is pending for approval by the shareholders' meeting.

Note 3: Professional service fees paid to the director (including traveling expense, special allowances, subsidies, dormitory, company cars, in kind payments, etc.), in which car rental fee and driver salaries for the year was NT$ 1.367 million.

Note 4: The figures show payments that include salaries, supervisors' allowances, severance pay, bonuses, incentive payment, traveling expense, special allowances, subsidies, dormitory, company cars, in kind payments, etc. paid to the directors who were also the Company's employees (include the president, vice presidents, other managers and employees).

Note 5: This is the total 2018 employee compensation paid to the directors who are also the Company's employees (include the president, vice presidents, other managers and employees), NT$ 88.97 million. The item is pending for the approval by the shareholders' meeting, and the figures shown here are calculated based on the actual distribution percentage from last year. An appendix listed "Manager Compensation Distribution" is attached here for the details.

3.3.2 Compensation of Supervisors

Unit: NTD thousands/ %

Title	Name	Remuneration						Total A,B,C as % of EAIT		Compensation Paid to Supervisors from an Invested Company Other than the Company's Subsidiary
		Base Compensation (A) (Note 1)		Bonus to Supervisors (B) (Note 2)		Business implementation expenses (C) (Note 3)				
		From TH	From All Consolidated Entities	From TH	From All Consolidated Entities	From TH	From All Consolidated Entities	From TH	From All Consolidated Entities	
Former Supervisor	Kai-Chan Yang (Representative of CDIB Capital Group)	0	0	2,400	2,400	360	360	0.27%	0.27%	0
Supervisor	Yu-Chin Tsai									
Supervisor	Chun-Yi Hsu									

Levels of Amounts of Compensation

Range of Remuneration	Name of Supervisors	
	Total Remuneration (A+B+C)	
	From TH	From All Consolidated Entities
Under NT$ 2,000,000	Kai-Chan Yang (Representative of CDIB Capital Group), Yu-Chin Tsai, Chun-Yi Hsu	Kai-Chan Yang (Representative of CDIB Capital Group), Yu-Chin Tsai, Chun-Yi Hsu
NT$2,000,001 ~ NT$5,000,000	-	-
NT$5,000,001 ~ NT$10,000,000	-	-
NT$10,000,001 ~ NT$15,000,000	-	-
NT$15,000,001 ~ NT$30,000,000	-	-
NT$30,000,001~ NT$50,000,000	-	-
NT$50,000,001 ~ NT$100,000,000	-	-
Over NT$100,000,000	-	-
Total	3	3

Note 1: Remunerations to the supervisors in the current year include supervisor's salary, supervisors' allowances, severance pay, various bonuses, incentive payments, etc.

Note 2: These are 2018 supervisor remunerations proportionally divided among the directors and supervisors. The compensation of NT$7.6 million has been resolved by the Board Meeting and is pending for approval by the shareholders' meeting.

Note 3: Professional service fees paid to the supervisor (including traveling expense, special allowances, subsidies, dormitory, company cars, in kind payments, etc.).

3.3.3 Managers' Compensation

Unit: NTD thousands/ Shares in thousands/ %

Title	Name	Salary (A) (Note 1)		Retirement pension (B)		Bonus and special expense (C) (Note 2)		Employee compensation (D) (Note 3)				Total A,B,C,D as % of EAIT		Compensation Paid to Managers from an Invested Company Other than the Company's Subsidiary
		From TH	From All Consolidated Entities	From TH	From All Consolidated Entities	From TH	From All Consolidated Entities	From TH		From All Consolidated Entities		From TH	From All Consolidated Entities	
								Cash	Stock	Cash	Stock			
President	Shao-Pin Ru	26,159	26,448	644	644	15,746	16,565	14,388	0	14,388	0	5.62%	5.73%	0
Former Vice President	Ming-Kun Chiu													
Vice President	Ching-Hsing Lin													
Former Vice President	Hsi-Hu Lai													
Vice President	Chia-Shuai Chang													
Vice President	Shin-Yeh Huang													

Levels of Amounts of Compensation

Range of Remuneration	Name of Managers	
	From TH	From All Consolidated Entities
Under NT$ 2,000,000	-	-
NT$2,000,001 ~ NT$5,000,000	-	-
NT$5,000,001 ~ NT$10,000,000	Hsi-Hu Lai, Ming-Kun Chiu, Ching-Hsing Lin, Chia-Shuai Chang, Shin-Yeh Huang	Hsi-Hu Lai, Ming-Kun Chiu, Ching-Hsing Lin, Chia-Shuai Chang, Shin-Yeh Huang
NT$10,000,001 ~ NT$15,000,000	Shao-Pin Ru	Shao-Pin Ru
NT$15,000,001 ~ NT$30,000,000	-	-
NT$30,000,001~ NT$50,000,000	-	-
NT$50,000,001 ~ NT$100,000,000	-	-
Over NT$100,000,000	-	-
Total	6	6

Note 1: Remunerations to the managers in the current year include manager's salary, managers' allowances, severance pay.
Note 2: The figures show payments that include bonuses, incentive payment, traveling expense, special allowances, subsidies, dormitory, company cars, in kind payments, etc..
Note 3: This is the total 2018 employee compensation, NT$ 88.97 million. The item is pending for the approval by the shareholders' meeting, and the figures shown here are calculated based on the actual distribution percentage from last year. An appendix listed "Manager Compensation Distribution" is attached here for the details.

3.3.4 Managers' Compensation

Unit: NTD thousands/ %
As of 12/31/2018

Title		Name	Employee Compensation - in Stock (Fair Market Value)	Employee Compensation - in Cash	Total	Ratio of Total Amount to Net Income (%)
Executive Officers	President	Shao-Pin Ru	0	18,172	18,172	1.79%
	Former Vice President	Ming-Kun Chiu				
	Vice President	Ching-Hsing Lin				
	Former Vice President	Hsi-Hu Lai				
	Vice President	Chia-Shuai Chang				
	Vice President	Shin-Yeh Huang				
	Former Director	Shi-Wen Wang				
	Director	Wen-Chung Chiang				
	Director	Bao-Yuan Chen				
	Director	Jia-Li Huang				

Note 1: This is the total 2018 employee compensation, NT$ 88.97 million. The item is pending for the approval by the shareholders' meeting, and the figures shown here are calculated based on the actual distribution percentage from last year.

3.3.5 Comparison of Compensation of Directors, Supervisors and Managers in the Past Two Years

3.3.5.1. Analysis of remuneration as a percentage of income after tax for directors and managers.

Title	2017	2018(Note 1)
	Ratio of total remuneration paid to directors, supervisors, and managers from all consolidated entities to net income (%)	Ratio of total remuneration paid to directors, supervisors, and managers from all consolidated entities to net income (%)
Directors	7.70%	8.16%
Supervisors		
Managers		

Note 1: Compensation of managers in 2018 is estimated.

3.3.5.2. The policies, standards, and portfolios for the payment of remuneration, the procedures for determining remuneration, and the correlation with risks and business performance.

(1) The base compensation for the directors and supervisors are determined in accordance with the procedures set forth in the Company's Articles of Incorporation and the proposal from the Board Meeting made according to the contribution and participation from each member and references to industry standards. The earnings allocation is also determined in accordance with the Company's Articles of Incorporation and the one proposed by the Board Meeting for the final approval from the shareholders' meeting.

(2) Remunerations to the managers, including salary, bonus and employee compensation, are determined according to the position held, the

responsibilities and the contribution of the Company with reference to the industry standards.

(3) Remuneration determination procedures is set in accordance with the Company’s Articles of Incorporation and the authorization hierarchy.

(4) Remuneration to directors, supervisors, and managers has taken into account the linkage and balance to the Company's future operating risks and its operating performance.

3.4. Implementation of Corporate Governance

3.4.1 Board of Director

A total of 7 (A) meetings of the Board of Directors were held in the previous period. The attendance of director and supervisor were as follows:

Title	Name	Attendance in Person (B)	Proxy Attendance	Attendance Rate (%) (B)/(A)	Remarks
Chairman	Hsi-Hu Lai	7	0	100%	
Director	Shao-Pin Ru	7	0	100%	
Director	Shaing-Shaing Wu	5	2	71%	
Corporate Director	MYW Investment Limited (Representative: Jia-Li Huang) (Note)	4	0	57%	
Independent Director	Chao-Te Wu	7	0	100%	
Independent Director	Jin-Tsai Chen	7	0	100%	
Supervisor	Yu-Chin Tsai	7	0	100%	
Supervisor	Chun-Yi Hsu	7	0	100%	

(Note)The Corporate Director was by-elected as director of the 16th session on June 15, 2018. The actual attendance rate is 100%.

Other mentionable items:

1.If any of the following circumstances occur, the dates of the meetings, sessions, contents of motion, all independent directors’ opinions and the Company’s response should be specified:

(1)Matters referred to in Article 14-3 of the Securities and Exchange Act: None.

(2)Other matters involving objections or expressed reservations by independent directors that were recorded or stated in writing that require a resolution by the board of directors: None.

2.If there are directors’ avoidance of motions in conflict of interest, the directors’ names, contents of motion, causes for avoidance and voting should be specified: None.

3.Measures taken to strengthen the functionality of the board (such as setting up an Audit Committee and improving information transparency): None.

3.4.2 Audit Committee or Attendance of Supervisors at Board Meetings

1. The Company has not set up an Audit Committee.
2. A total of 7 (A) meetings of the Board of Directors were held in the previous period. The attendance of supervisors was as follows:

Title	Name	Attendance in Person (B)	Attendance Rate (%) (B)/(A)	Remarks
Supervisor	Yu-Chin Tsai	7	100%	
Supervisor	Chun-Yi Hsu	7	100%	

Other mentionable items:

1.Composition and responsibilities of supervisors:

(1)Communications between supervisors and the Company's employees and shareholders: When deemed necessary, the supervisors shall communicate directly with the employees or shareholders.

(2)Communications between supervisors and the Company's internal auditing manager and CPA:

a.Supervisor gives no dissenting opinion to the monthly audit report or the follow-up report completed by the internal auditing manager at the end of the following month.

b.The internal auditing manager sits on the Board Meeting regularly to report the audit results.

c.The supervisors are free to communicate with CPA or law professionals who are invited for consultation from time to time.

2.If a supervisor expresses an opinion during Board Meeting, the dates of the meetings, sessions, contents of motion, resolutions of the directors’ meetings and the Company’s response to the supervisor’s opinion should be specified: None.

3.4.3 Corporate Governance Practices

Evaluation Item	Implementation Status			Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
1. Does the company establish and disclose the Corporate Governance Best-Practice Principles based on "Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies"?	✓		The Company has set up "Corporate Governance Best-Practice Principles" to implement corporate governance and to ensure shareholders' benefits.	None
2. Shareholding structure and shareholders' rights 2.1 Does the company establish an internal operating procedure to deal with shareholders' suggestions, doubts, disputes and litigations, and implement them based on the procedure? 2.2 Does the company have the list of its major shareholders as well as the ultimate owners of those shares? 2.3 Does the company established and executed the risk management and firewall systems within its conglomerate structure? 2.4 Does the company established internal rules against insiders trading with undisclosed information?	✓ ✓ ✓ ✓		2.1 The Company has operated according to "Corporate Governance Best-Practice Principles" and commissioned KGI Securities to handle stock affairs and related matters. 2.2 The list of shareholders can only be obtained when the ownership is stopped transferring before dividend payments under the depository system. 2.3 All business matters between the affiliated companies shall be dealt with fairly and independently according to the bilateral contract agreed to as transactions with third parties. 2.4 The Company has established "Code of Business Conducts" for promote related policies from time to time and have practices in accordance with "Guidance for Handling Material Information and Preventing Insider Trading."	None
3. Composition and Responsibilities of the Board of Directors 3.1 Does the Board developed and implemented a diversified policy for the composition of its members?	✓		3.1 All Board members are experienced professionals from the fields of commerce, compliance and finance, which is qualified under Corporate Governance.	None

Evaluation Item	Implementation Status			Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
3.2 Does the company voluntarily establish other functional committees in addition to the Remuneration Committee and the Audit Committee? 3.3Does the company establish a standard to measure the performance of the Board, and implement it annually? 3.4Does the Company regularly evaluate the independence of CPAs?	✓ ✓	 ✓	3.2 The Company has set up two independent board members and the Compensation Committee in accordance with the laws. The Company is yet to reach the criteria to establish the audit committee. 3.3 No methodology for evaluating the performance of the Board has been set up, but all matters are practiced according to the"Corporate Governance Best-Practice Principles". 3.4 The Company has engaged an evaluation of independence and qualification of the CPA and approved by Board of Director meeting.	
4. Does the company set up a corporate governance unit or appoint personnel responsible for corporate governance matters (including but not limited to providing information for directors and supervisors to perform their functions, handling work related to meetings of the board of directors and the shareholders' meetings, filing company registration and changes to company registration, and producing minutes of board meetings and shareholders' meetings)?	✓		The Company has appointed dedicated personnel from the Finance Department to handle the associated affairs to ensure shareholders' benefits, as well as to take care of matters related to the Board and the shareholders' meeting.	None
5. Does the company establish a communication channel and build a designated section on its website for stakeholders (including but not limited to shareholders, employees, customers, and suppliers), as well as handle all the issues they care for in terms of corporate social responsibilities?	✓		The Company has set up a stakeholder section on the corporate website. And also have publicly disclosed the contact information of the corporate spokesperson and relevant departments.	None

Evaluation Item	Implementation Status			Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
6. Does the company appoint a professional shareholder service agency to deal with shareholder affairs?	✓		The Company has appointed KGI Securities to deal with shareholder affairs.	None
7.Information Disclosure 7.1 Does the company have a corporate website to disclose both financial standings and the status of corporate governance? 7.2Does the company have other information disclosure channels (*e.g.* building an English website, appointing designated people to handle information collection and disclosure, creating a spokesman system, webcasting investor conferences)?	 ✓ ✓		7.1 The Company discloses the financials business and corporate governance status on the website (www.theil.com.tw). 7.2 The Company has set up a shareholder section on the corporate website to release information regarding financial reports, meeting schedules for institutional investor and corporate governance. And also setting up a stakeholder section on the corporate website to respond to related inquiries.	None
8. Is there any other important information to facilitate a better understanding of the Company's corporate governance practices (*e.g.*, including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors)?	✓		8.1 The Company is committed to providing employees with a healthy and safe working environment with smooth communication channels. The Company has set up a staff welfare committee to provide various welfares to facilitate labor relations. 8.2 The Company signs purchase agreements with all its suppliers to clarify the rights and obligations from both parties. 8.3 The Company has set up waste gas and sewage treatment facility, and has passed ISO-14001 for environmental management system certification and OHSAS-18001 for safety and health system certification. 8.4 The Company strives for financial transparency and corporate governance to protect the rights of	None

<table>
<tr><th rowspan="2">Evaluation Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons</th></tr>
<tr><th>Yes</th><th>No</th><th>Abstract Illustration</th></tr>
<tr><td></td><td></td><td></td><td>stakeholders
8.5 The Company regularly arranges professional training and courses for the directors and supervisors to ensure continuing learning and education.
8.6 The Company holds quarterly discussions on risk management and measurement to ensure effective risk control.
8.7 The Company has a professional customer service team, to provide good services and resolve customer problems.
8.8 The Company has purchasd insurance for directors and supervisors in the year of 2019.</td><td></td></tr>
<tr><td colspan="5">9. The improvement status for the results of Corporate Governance Evaluation released by the Corporate Governance Center, Taiwan Stock Exchange:
The following improvement item is listed by the Corporate Governance Center, Taiwan Stock Exchange after 2018 Corporate Governance Evaluation.
(1) The Company shall strengthen corporate governance information to ensure shareholders’ benefit, strengthen the powers of the Board of directors and enhance information transparency.</td></tr>
</table>

Continuing Education/Training of Directors in 2018

Title	Name	Date	Host by	Training/Speech Title	Training hours
Director	Hsi-Hu Lai	11/20/2018	Securities and Futures Institute	Discussion on Legal Issues Related to Insider Trading Cases	3.0 H
		11/20/2018	Securities and Futures Institute	How to replace the supervisor system with an audit committee	3.0 H
Director	Shao-Pin Ru	08/15/2018	Corporate Governance Professionals Association	Corporate Governance Professionals and Directors' Functions and Legal Responsibility	3.0 H
		05/08/2018	The Taiwan Stock Exchange	New corporate governance of listed company	3.0 H
Director	Shaing-Shaing Wu	08/02/2018	Taiwan Corporate Governance Association	How to do business secret protection, fraud prevention, and strengthen corporate governance	3.0 H
		04/27/2018	Taiwan Corporate Governance Association	Responsibilities of Board of Directors for Corporate Mergers and Acquisitions - Talking from Unconspirable M&A Cases	3.0 H
Corporate Director Representative	Jia-Li Huang	09/13/2018	Accounting Research and Development Foundation	Professional Development of Accounting Officers of Issuers, Securities Firms, and Securities Exchanges	12.0 H
Independent Director	Chao-Te Wu	09/26/2018	The Taiwan Stock Exchange	2018 ESG Investment Forum	3.1 H
		04/11/2018	Taiwan Academy of Banking and Finance	Corporate Governance Forum - Family Business Heritage	3.0 H
Independent Director	Jin-Tsai Chen	03/05/2018	Taipei Exchange	Electronic voting 100% company value promotion forum	6.0 H
		01/08/2018	Taiwan Institute of Directors	Digital Transformation - Starting from Strengthening the Digital Capability of the Board of Directors	3.0 H
Supervisor	Yu-Chin Tsai	08/09/2018	Securities and Futures Institute	Introduction of company law and influence	3.0 H
		07/20/2018	Taiwan Corporate Governance Association	Enterprise Internal Control and Risk Management-2018 Global Top 10 Risk Analysis	3.0 H
Supervisor	Chun-Yi Hsu	12/20/2018	Securities and Futures Institute	Money laundering prevention and legal compliance	3.0 H
		12/12/2018	Securities and Futures Institute	The impact of the latest tax law reform on business operations and the response	3.0 H

3.4.4 Composition, Responsibilities and Operations of the Compensation Committee

3.4.4.1. Professional Qualifications and Independence Analysis of the Remuneration Committee Members

Title	Criteria / Name	Meets One of the Following Professional Qualification Requirements, Together with at Least Five Years' Work Experience			Independence Criteria (Note)								Number of Other Public Companies in Which the Individual is Concurrently Serving as a Remuneration Committee Member	Remarks
		An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the Company in a public or private junior college, college or university	A judge, public prosecutor, attorney, Certified Public Accountant, or other professional or technical specialist who has passed a national examination and been awarded a certificate in a profession necessary for the business of the Company	Has work experience in the areas of commerce, law, finance, or accounting, or otherwise necessary for the business of the Company	1	2	3	4	5	6	7	8		
Independent Director	Jin-Tsai Chen	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	1	
Independent Director	Chao-Te Wu		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Member	Shu-Shan Lin			✓	✓	✓	✓	✓	✓	✓	✓	✓	0	

Note: Please tick the corresponding boxes that apply to a member during the two years prior to being elected or during the term(s) of office.

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of affiliated companies. Not applicable in cases where the person is an independent director of the parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company, or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three sub-paragraphs.
5. Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company, or who holds shares ranking in the top five holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the shares of a specified company or institution which has a financial or business relationship with the Company.
7. Not a professional individual, who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.
8. Not a person of any conditions defined in Article 30 of the Company Law.

3.4.4.2. The state of Compensation Committee's participation to the board meetings

1. There are 3 members in the Compensation Committee.
2. Tenure of the session of Compensation committee is from June 16, 2016 to June 15, 2019.
   A total of 2(A) meetings of Compensation Committee were held in the previous period. The attendance record of the Compensation Committee members was as follows:

Title	Name	Attendance in person (B)	Attendance by proxy	Attendance rate (%) (B)/(A)	Remark
Convenor	Jin-Tsai Chen	2	0	100%	
Member	Chao-Te Wu	2	0	100%	
Member	Shu-Shan Lin	2	0	100%	

Other mentionable items:

1.If the board of directors declines to adopt or modifies a recommendation of the Compensation committee, it should specify the date of the meeting, session, content of the motion, resolution by the board of directors and the Company's response to the Compensation committee's opinion:

There was no recommendation of the Compensation Committee which was not adopted or was modified by the Board of Directors in 2018.

2.Resolutions of the Compensation committee objected to by members or expressed reservations and recorded or declared in writing, the date of the meeting, session, content of the motion, all members' opinions and the response to members' opinion should be specified:

There were no written or otherwise recorded resolutions on which a member of the Compensation Committee had a dissenting opinion or qualified opinion.

3.4.5 Corporate Social Responsibility

Assessment Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons.
	Yes	No	Explanation	
1. Corporate Governance Implementation 1.1 Does the company declare its corporate social responsibility policy and examine the results of the implementation?	✓		1.1 The Company has formulated its corporate social responsibility policy and held regular meetings to review the implementation effect.	None
1.2 Does the company provide educational training on corporate social responsibility on a regular basis?	✓		1.2 The Company has been advocating ethics, labor rights, environmental and occupational safety and health related contents during the training courses for new employees to all existing employees from time to time.	
1.3 Does the company establish exclusively (or concurrently) dedicated first-line managers authorized by the board to be in charge of proposing the corporate social responsibility policies and reporting to the board?		✓	1.3 The authorized first-line managers will, in the name of the Company, hold the reviewing meetings to promote corporate social responsibilities.	
1.4 Does the company declared a reasonable salary remuneration policy, and integrate the employee performance appraisal system with its corporate social responsibility policy, as well as establish an effective reward and disciplinary system?	✓		1.4 The Company has an on-going system to adjust employee salaries based on operating profitabilities, industry standards, performance review to reward and discipline employees.	
2. Sustainable Environment Development 2.1 Does the company endeavor to utilize all resources more efficiently and use renewable materials which have low impact on the environment?	✓		2.1 The Company has appointed qualified contractors to dispose or recycle industrial waste or scrap. We have a dedicated operating unit responsible for air and water pollution prevention and waste management to ensure compliance with the law and to cut down impacts on the environment.	None

Assessment Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons.
	Yes	No	Explanation	
2.2 Does the company establish proper environmental management systems based on the characteristics of their industries? 2.3 Does the company monitor the impact of climate change on its operations and conduct greenhouse gas inspections, as well as establish company strategies for energy conservation and carbon reduction?	✓ ✓		2.2 The Company has created measures for environmental safety and health management and obtained ISO14001 certificate for environment management system category. 2.3 The Company has formulated an energy saving and carbon reduction strategy to advocate the concept and reduce environmental impacts from our operations.	
3. Preserving Public Welfare 3.1 Does the company formulate appropriate management policies and procedures according to the relevant regulations and the International Bill of Human Rights? 3.2 Has the company set up an employee hotline or grievance mechanism to handle complaints with appropriate solutions? 3.3 Does the company provide a healthy and safe working environment and organize training on health and safety for its employees on a regular basis? 3.4 Does the Company setup a communication channel with employees on a regular basis, as well as reasonably inform employees of any significant changes in operations that may have an impact on them?	✓ ✓ ✓ ✓		3.1 The Company has followed the "Labor Standards Act" and formulated and established "Work Rules". 3.2 The Company holds regular meetings with staff and creates an exclusive mailbox, CSR@mail.theil.com.tw, to receive employee comments and opinions. 3.3 The Company provides and conducts regular health checks for employees, and holds fire drills from time to time to familiarize employees with emergency reaction procedures and minimize the impact on employees. OHSAS18001 certification received for occupational safety and health management system. 3.4 The Company holds quarterly forums with our employee to facilitate mutual communication and update the operating status.	None

Assessment Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons.
	Yes	No	Explanation	
3.5 Does the company provide its employees with career development and training sessions?	✓		3.5 The Company provides annual training and education programs to employees according to yearly operating directions, new policy, laws and needed professional skills.	
3.6 Does the company establish any consumer protection mechanisms and appealing procedures regarding research development, purchasing, producing, operating and services?	✓		3.6 The Company has established a standard procedure to handle customer complaints to understand their needs for further product improvement.	
3.7 Does the company advertise and label its goods and services according to the relevant regulations and international standards?	✓		3.7 The Company's production services follow customers' specifications and international standards.	
3.8 Does the company evaluate the records of suppliers' impact on the environment and society before taking on business partnerships?	✓		3.8 The Company has established a supplier management procedures with a reviewing mechanism to understand impacts to the environment and society brought by our business with the suppliers	
3.9 Do the contracts between the company and its major suppliers include termination clauses which come into force once the suppliers breach the corporate social responsibility policy and cause appreciable impact on the environment and society?	✓		3.9 According to the Company's supplier management procedures, violation of social responsibilities will cause business termination if no immediate correction is made.	

<table>
<tr><th rowspan="2">Assessment Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons.</th></tr>
<tr><th>Yes</th><th>No</th><th>Explanation</th></tr>
<tr><td>4. Enhancing Information Disclosure
4.1 Does the company disclose relevant and reliable information regarding its corporate social responsibility on its website and the Market Observation Post System (MOPS)?</td><td>✓</td><td></td><td>4.1 The Company has disclosed the corporate social responsible policy and a corresponding mailbox to implement such a policy. The corporate website is www.theil.com.tw.
The Company has not yet prepared the CSR report, but is promoting the corporate governance, maintaining the sustainable environment and public interests with full force.</td><td>None</td></tr>
<tr><td colspan="5">5. If the Company has established the corporate social responsibility principles based on “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies”, please describe any discrepancy between the Principles and their implementation:
The Company has established the “Procedures of Social Responsibility Management”, which is in line with “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies”.</td></tr>
<tr><td colspan="5">6. Other important information to facilitate better understanding of the company’s corporate social responsibility practices
(1)Environment protection: The Company has made facilities investments for air and water pollution prevention and waste management and qualified contractors to dispose of or re-cycle industrial waste or scrap to ensure compliance with the law and to cut down impacts to the society
The Company has a dedicated operating unit responsible for air and water pollution prevention and waste management to ensure compliance with the law and to cut down impact to the environment.
(2)Public Welfare: The Company participates in charitable events to take on our parts in social responsibilities.</td></tr>
<tr><td colspan="5">7. A clear statement shall be made below if the corporate social responsibility reports were verified by external certification institutions:
Our efforts in environmental protection and safety and health system have ensured domestic law compliance and qualified international standards. The Company has obtained ISO14001 certificate for the environmental management system category and OHSAS18001 certification for occupational safety and health management systems. We will continue the improvement process to lower the possible risks in the working environment.</td></tr>
</table>

3.4.6 Ethical Corporate Management:

Evaluation Item	Implementation Status			Deviations from "the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
1. Establishment of ethical corporate management 1.1 Does the company declare its ethical corporate management policies and procedures in its guidelines and external documents, as well as the commitment from its board to implement the policies? 1.2 Does the company establish policies to prevent unethical conduct with clear statements regarding relevant procedures, guidelines of conduct, punishment for violation, rules of appeal, and the commitment to implement the policies? 1.3 Does the company establish appropriate precautions against high-potential unethical conducts or listed activities stated in Article 2, Paragraph 7 of the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies?	✓ ✓ ✓		1.1 The Company has established a "Code of Business Conduct" and operates based on the "Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies". 1.2 The Company has listed unethical conducts and the related disciplinary and reward system. A reporting mailbox is set with dedicated personnel to handle complaints. 1.3 The following conducts are clearly prohibited: offering and accepting bribes, illegal political or improper charitable donations, giving and accepting unreasonable presents, hospitality, or other improper benefits, infringement of intellectual property rights, engaging in unfair competitive practices, and damaging interested parties through products or services offered.	None
2. Fulfill operations integrity policy 2.1 Does the company evaluate business partners' ethical records and include ethics-related clauses in business contracts? 2.2 Does the company establish an exclusively (or concurrently) dedicated unit supervised by the Board to be in charge of corporate integrity?	✓	 ✓	2.1 The Company operates under the integrity policy and monitors its trading partners to avoid any dealings with persons involved in unethical conduct. All terms signed are kept confidentially 2.2 The authorized first-line managers will, under the name of the Company, hold the reviewing meetings to promote corporate social responsibilities and corporate integrity.	None

Evaluation Item	Implementation Status			Deviations from "the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
2.3 Does the company establish policies to prevent conflicts of interest and provide appropriate communication channels, and implement it?	✓		2.3 The Company has created an independent mailbox or hotline for reporting or communicating any conflicts of interest or unethical conduct to the upper managers for timely management.	
2.4 Has the company established effective systems for both accounting and internal control to facilitate ethical corporate management, and are they audited by either internal auditors or CPAs on a regular basis?	✓		2.4 The Company has set up an auditing office to cover all operations in the parent and subsidiary entities, which conducts the audit work based on the plans formulated by the Board and make reporting accordingly.	
2.5 Does the company regularly hold internal and external educational trainings on operational integrity?		✓	2.5 The Company gives presentations on topics about operational integrity and provides related training irregularly.	
3. Operations of the integrity channel 3.1 Does the company establish both a reward/punishment system and an integrity hotline? Can the accused be reached by an appropriate person for follow-up?	✓		3.1 The Company has set up a reporting channel and mailbox to handle employee appeals and disciplinary matters. The Company has set up a stakeholder section on the corporate website for related reporting.	None
3.2 Does the company establish standard operating procedures for confidential reporting on investigating accusation cases?	✓		3.2 The Company has created a "Code of Business Conduct" and clearly set procedures for the confidential reporting.	
3.3 Does the company provide proper whistleblower protection?	✓		3.3 The Company has created "Code of Business Conduct" and set clear procedures for the confidential reporting procedures to protect the whistle blower.	

Evaluation Item	Implementation Status			Deviations from "the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
4. Strengthening information disclosure 4.1 Does the company disclose its ethical corporate management policies and the results of its implementation on the company's website and MOPS?		✓	4.1 The Company has yet disclosed the ethical corporate management policies or the results of its implementation. It will continue to improve information disclosure to comply with the required laws. The corporate website is www.theil.com.tw.	None
5. If the Company has established the ethical corporate management policies based on the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies, please describe any discrepancy between the policies and their implementation. The Company has established a "Code of Business Conduct" based on the "Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and aim to implement the policy gradually.				
6. Other important information to facilitate a better understanding of the company's ethical corporate management policies. (*e.g.*, review and amend its policies): None.				

3.4.7 How the Information of the Company's Corporate Governance Policy can be Obtained in Public:

The Company has set up "Corporate Governance Best-Practice Principles" and disclosed informations about stakeholders and corporate governance on the company's website and MOPS. The corporate website is www.theil.com.tw.

3.4.8 Other Information Provides a Better Understanding of the Company's Corporate Governance Status: None.

3.4.9 Internal Control System Execution Status

3.4.9.1 Statement of Internal Control System

TONG HSING ELECTRONIC INDUSTRIES, LTD.
Statement of Internal Control System

Date: March 15, 2019

Based on the self-assessment findings, Tong Hsing Electronic Industries, Ltd. (TH) states the following with regard to its internal control system during the year 2018.

1. TH's board of directors and management are responsible for establishing, implementing, and maintaining an adequate internal control system. Our internal control system is a process designed to provide reasonable assurance over the effectiveness and efficiency of operations (including profitability, performance and safeguarding of assets), reliability, timeliness, transparency of our reporting, and compliance with applicable rulings, laws and regulations.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can only provide reasonable assurance of accomplishing its stated objectives. Moreover, the effectiveness of an internal control system may be subject to changes of environmental or circumstances. Nevertheless, our internal control system contains self-monitoring mechanisms, and TH takes immediate remedial actions in response to any identified deficiencies.
3. TH evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control Systems by Public Companies (hereinafter referred to as the "Regulations").
   The criteria adopted by the Regulations identify five key components of managerial internal control: (1)control environment, (2)risk assessment, (3)control activities, (4)information and communication, and (5)monitoring activities.
4. TH has evaluated the design and operating effectiveness of its internal control system according to the aforesaid Regulations
5. Based on the findings of such evaluation, TH believes that, on December 31, 2018, it has maintained, in all material respects, an effective internal control system (that includes the supervision and management of our subsidiaries), to provide reasonable assurance over our operating effectiveness and efficiency, reliability, timeliness, transparency of reporting, and compliance with applicable rulings, laws and regulations.
6. This Statement is an integral part of TH's annual report for the year 2018 and prospectus, and will be made public. Any falsehood, concealment, or other illegalities in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Law.
7. This statement was passed by the board of directors in their meeting held on March, 15, 2019, with none of the six attending directors expressing dissenting opinions, and the remainder all affirming the contents of this Statement.

Tong Hsing Electronic Industries, Ltd.

Hsi-Hu Lai
Chairman

Shao-Pin Ru
President and Co-Chief Executive Officer

3.4.9.2 CPA Audit Report for Internal Control System of the Company: None.

3.4.10 Description of Violations/Infringement of Regulations and the Company's Response: None.

3.4.11 Major Resolutions of Shareholders' Meeting and Board Meetings

3.4.11.1. Major Resolutions of Shareholders' Meeting and Implementation Status:

The Company's 2018 Annual General Shareholder Meeting was held in No. 398, Ying-Tao Road, Taoyuan, Taiwan (Chuto Plaza Hotel) on June 15, 2018. Major resolutions and implementation status were as followed:

Major Resolutions	Implementation Status
∗Approved the adoption of the 2017 business report and financial statements.	Approved by voting.
∗Approved the adoption of the proposal for distribution of 2017 earnings.	Approved by voting. Ex-dividend record date was on August 3, 2018, and distributed on August 31, 2018. Dividends per share was NT$4.97418968.
∗Approval of the cash distribution from Capital Surplus.	Approved by voting. Ex-dividend record date was on August 3, 2018, and distributed on August 31, 2018. Dividends per share was NT$1.02581032.
∗Approval of the Amendment to the Company's Articles of Incorporations.	Approved by voting. Been handled in accordance with the revised one.
∗By-election of one Director.	Approved by voting. MYW Investment Limited was by-elected as director.

3.4.11.2. Major Resolutions of Board Meetings

Date	Item	Major Resolutions
03/16/2018 The 10^{th} meeting of the 16^{th} session	Board meeting	∗Approved the Company's Internal Control System Statement of year 2017. ∗Approved the replacement of CPA due to internal adjustment of Accounting Firm ∗Approved evaluation of independence and qualification of the CPA to be engaged by the Company. ∗Approved the impact of preliminary assessment of IFRS 16-Leases. ∗Approved the distribution of employees' profit sharing bonus and directors' compensations for the year 2017. ∗Approved 2017 business report and financial statements. ∗Approved earnings distribution of year 2017. ∗Approved the cash distribution from Capital Surplus. ∗Approved business plan of year 2018. ∗By-election of one director. ∗Approved nomination of director candidates.

Date	Item	Major Resolutions
		＊Approved the scheduling of 2018 Annual Shareholders' Meeting. ＊Approved the scheduling of shareholders' proposal and nomination of director candidates at 2018 Annual Shareholders' Meeting.
05/03/2018 The 11th meeting of the 16th session	Board meeting	＊Approved review the qualifications to the director candidate. ＊Approved the amendment to the Company's Articles of Incorporations. ＊Approved to add the reason for convening of 2018 Annual Shareholders' Meeting.
05/11/2018 The 12th meeting of the 16th session	Board meeting	＊No discussions and major resolutions.
06/15/2018 The 13th meeting of the 16th session	Board meeting	＊Apporved the scheduling of cash distribution from Retained Earnings and Capital Surplus of 2017.
08/10/2018 The 14th meeting of the 16th session	Board meeting	＊No discussions and major resolutions.
11/09/2018 The 15th meeting of the 16th session	Board meeting	＊Approved the plan of internal auditing in year 2019. ＊Approved reviewing the Compensation for the Board of Directors and the remuneration of staff employees of 2017, which is appropriated in 2018.
12/18/2018 The 16th meeting of the 16th session	Board meeting	＊Elected director Hsi-Hu Lai as successor Chairman.
01/17/2019 The 17th meeting of the 16th session	Board meeting	＊Approved the changement of branch manager.
02/22/2019 The 18th meeting of the 16th session	Board meeting	＊Approved the appointment of the Company's CEO and COO.

Date	Item	Major Resolutions
03/15/2019 The 19th meeting of the 16th session	Board meeting	＊Approved the Company’s Internal Control System Statement of year 2018. ＊Approved amendments to the Company’s “Internal Control System” and “Internal Audit Implementation Rules”. ＊Approved evaluation of independence and qualification of the CPA to be engaged by the Company. ＊Approved the distribution of employees’ profit sharing bonus and directors’ compensations for the year 2018. ＊Approved 2018 business report and financial statements. ＊Approved earnings distribution of year 2018. ＊Approved the cash distribution from Capital Surplus. ＊Approved the amendment to the Company's Article of Incorporations. ＊Approved business plan of year 2019. ＊Approved the amendment to the Rules and Procedures of Board of Director meeting. ＊Approved the amendment to the Procedures for Acquisition and Disposal of Assets. ＊Approved the amendment to the Procedures for Lending Funds to Other Parties and Endorsement and Guarantee. ＊Approved to eliminate the Rules of election of Directors and Supervisors, and establish the Procedure of Directors Nomination. ＊Approved to elect nine Directors (including three Independent Directors). ＊Approved nomination of director candidates. ＊Approved to grant waiver to the Directors’ and Independent Directors’ engaging in any business within the scope of the Company’s business. ＊Approved the scheduling of 2019 Annual Shareholders’ Meeting. ＊Approved the scheduling of shareholders' proposal and nomination of director candidates at 2019 Annual Shareholders’ Meeting.
05/15/2019 The 20th meeting of the 16th session	Board meeting	＊Approved to setup “Standard Operation Procedures for Handling Dircetors’ Requirements”

3.4.12 Directors' or Supervisors' Objections on the Major Resolutions of Board Meetings: None.

3.4.13 Resignation or Dismissal of the Company's Key Individuals, Including the Chairman, CEO, and Heads of Accounting, Finance, Internal Audit and R&D.

As of 04/23/2019

Title	Name	Date of Appointment	Date of Termination	Reasons for Resignation or Dismissal
Chairman	Hui-Jie Yang	06/03/2000	12/17/2018	Nature dismissal.

3.5. Information on Audit Fees

Accounting Firm	Name of CPA		Period Covered by CPA's Audit	Remark
KPMG	Szu-Chuan Chien	Hsin-Fu Yen	01/01/2018~12/31/2018	

Unit: NTD thousands

Fee Range \ Fee Items		Audit Fee	Non-audit Fee	Total
1	Under NT$ 2,000	-	-	-
2	NT$2,000 ~ NT$4,000	-	-	-
3	NT$4,000 ~ NT$6,000	3,750	1,543	5,293
4	NT$6,000 ~ NT$8,000	-	-	-
5	NT$8,000 ~ NT$10,000	-	-	-
6	Over NT$100,000	-	-	-

Unit: NTD thousands

Accounting Firm	Name of CPA	Audit Fee	Non-audit Fee					Period Covered by CPA's Audit	Remarks
			System of Design	Company Registration	Human Resource	Others (Note)	Subtotal		
KPMG	Szu-Chuan Chien Hsin-Fu Yen	3,750	-	-	-	1,543	1,543	01/01/2018 ~12/31/2018	

(Note) Non-audit Fee include: (1) R&D investment tax consulting fee 132 thousand, (2) Transfer pricing tax service fee 180 thousand, (3) Fee of administrative remedies 1,071 thousand, and (4) Master File service fee 160 thousand.

3.6. Replacement of CPA: None.

3.7. The Company's Chairman, Presidents, or Accounting Officers hold any positions in the Company's independent auditing firm or its affiliates during 2018: None.

3.8. Change in shareholding of Directors, Supervisors, Managers, and Major Shareholders

3.8.1. Change in Equity Interest

Title	Name	2018		01/01/2019 ~ 04/23/2019	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Chairman	Hsi-Hu Lai	-	-	10,000	-
Director, President and CEO	Shao-Pin Ru	116,000	-		(150,000)
Director	Shaing-Shaing Wu	-	-	-	-
Corporate Director	MYW Investment Limited.	-	-	-	-
Independent Director	Chao-Te Wu	-	-	-	-
Independent Director	Jin-Tsai Chen	-	-	-	-
Supervisor	Yu-Chin Tsai	-	-	-	-
Supervisor	Chun-Yi Hsu	-	-	-	-
COO	Chia-Shuai Chang	-	-	60,000	-
Vice President	Ching-Hsing Lin	(50,000)	-	(80,000)	-
Vice President	Shin-Yeh Huang	15,000	-	(10,000)	-
Director	Wen-Chung Chiang	-	-	-	-
Director	Jia-Li Huang	-	-	-	-
Director	Bao-Yuan Chen	-	-	-	-

3.8.2 Shares Trading with Related Parties: None.

3.8.3 Shares Pledge with Related Parties: None.

3.9. Information Disclosing the Relationship Between any of the Company's Top Ten Shareholders

Name	Current Shareholdings		Spouse and Minor Shareholdings		TH Shareholdings by Nominee Arrangement		Name and Relationship between TH's Shareholders		Noted
	Shares	%	Shares	%	Shares	%	Name	Relationship	
Cathay Life Insurance Co., Ltd.	13,807,375	8.35%	N/A	N/A	N/A	N/A	N/A	N/A	
Fidelity	12,525,116	7.57%	N/A	N/A	N/A	N/A	N/A	N/A	
Kaimei Electronic Corp.	12,444,882	7.53%	N/A	N/A	5,000,000	3.02%	N/A	N/A	
Tie-Min Chen	10,813,982	6.54%	N/A	N/A	N/A	N/A	N/A	N/A	
Nan Shan Life Insurance Co., Ltd.	8,441,000	5.10%	N/A	N/A	N/A	N/A	N/A	N/A	
MYW Investment Limited	5,000,000	3.02%	N/A	N/A	N/A	N/A	N/A	N/A	
Fubon Life Insurance Co., Ltd.	3,974,000	2.40%	N/A	N/A	N/A	N/A	N/A	N/A	
Pei-Chen Yang	3,760,592	2.27%	N/A	N/A	N/A	N/A	N/A	N/A	
New Labor Pension Fund	3,655,941	2.21%	N/A	N/A	N/A	N/A	N/A	N/A	
Delta Electronics Capital Company.	2,660,000	1.61%	N/A	N/A	N/A	N/A	N/A	N/A	

3.10. Ownership of Shares in Affiliated Enterprises

As of 04/23/2019; Unit: Shares/ %

Affiliated Enterprises	Ownership by the Company		Direct or Indirect Ownership by Directors/Supervisors/Managers		Total Ownership	
	Shares	%	Shares	%	Shares	%
TONG HSING ELECTRONICS PHILS. INC.	23,322,390	99.99998%	3	0.00001%	23,322,393	99.99999%

4. Capital and Shares

4.1 Capital and Shares

4.1.1 Source of Capital

4.1.1.1. Historical Information of Capitalization

As of 04/23/2019
Unit: Shares

Month/ Year	Par Value (NT$)	Authorized Capital		Paid-in Capital		Remarks		
		Shares	Amount	Shares	Amount	Sources of Capital	Capital Increase by Assets Other than Cash	Other
Aug. 1975	10	3,000,000	30,000,000	3,000,000	30,000,000	Initial establishment.	None	None
Oct. 1978	10	6,000,000	60,000,000	6,000,000	60,000,000	Capital increase by cash NTD 30,000,000.	None	None
Aug. 1986	10	8,000,000	80,000,000	8,000,000	80,000,000	Capital increase by cash NTD 6,000,000. Capital increase by retained earnings NTD 14,000,000.	None	None
Sep. 1988	10	10,000,000	100,000,000	10,000,000	100,000,000	Capital increase by cash NTD 2,000,000. Capital increase by retained earnings NTD 18,000,000.	None	None
Dec. 1989	10	12,000,000	120,000,000	12,000,000	120,000,000	Capital increase by retained earnings NTD 20,000,000.	None	None
Dec. 1990	10	13,500,000	135,000,000	13,500,000	135,000,000	Capital increase by retained earnings NTD 15,000,000.	None	None
Dec. 1991	10	16,065,000	160,650,000	16,065,000	160,650,000	Capital increase by retained earnings NTD 10,800,000. Capital increase by capital surplus NTD 14,850,000.	None	None
Nov. 1997	10	19,965,000	199,650,000	19,965,000	199,650,000	Capital increase by cash NTD 39,000,000.	None	None
Jul. 1999 (Note 1)	10	80,000,000	800,000,000	36,000,000	360,000,000	Capital increase by cash NTD 160,350,000.	None	None
Jul. 2000 (Note 2)	10	80,000,000	800,000,000	54,800,000	548,000,000	Capital increase by retained earnings NTD 180,000,000. Capital increase by employee bonus NTD 8,000,000.	None	None
Jul. 2001 (Note 3)	10	80,000,000	800,000,000	67,110,000	671,100,000	Capital increase by retained earnings NTD 109,600,000. Capital increase by employee bonus NTD 13,500,000.	None	None
Jul. 2002 (Note 4)	10	93,000,000	930,000,000	73,821,000	738,210,000	Capital increase by retained earnings NTD 67,110,000.	None	None
Jul. 2003 (Note 5)	10	93,000,000	930,000,000	77,912,050	779,120,500	Capital increase by retained earnings NTD 36,910,500. Capital increase by employee bonus NTD 4,000,000.	None	None
Sep. 2006 (Note 6)	10	93,000,000	930,000,000	81,807,652	818,076,520	Capital increase by retained earnings NTD 38,956,020.	None	None
Aug. 2007 (Note 7)	10	150,000,000	1,500,000,000	86,698,034	866,980,340	Capital increase by retained earnings NTD 40,903,820. Capital increase by employee bonus NTD 8,000,000.	None	None
Nov. 2007 (Note 8)	10	150,000,000	1,500,000,000	98,698,034	986,980,340	Capital increase by cash NTD 120,000,000.	None	None
Sep. 2008 (Note 9)	10	150,000,000	1,500,000,000	105,132,935	1,051,329,350	Capital increase by retained earnings NTD 49,349,010. Capital increase by employee bonus NTD 15,000,000.	None	None
Oct. 2008 (Note 10)	10	150,000,000	1,500,000,000	115,132,935	1,151,329,350	Capital increase by cash NTD 100,000,000.	None	None
Feb. 2009 (Note 11)	10	150,000,000	1,500,000,000	114,341,935	1,143,419,350	Capital reduction by treasury stock NTD 7,910,000.	None	None
Aug. 2009 (Note 12)	10	150,000,000	1,500,000,000	120,059,031	1,200,590,310	Capital increase by retained earnings NTD 57,170,960.	None	None
Nov. 2009 (Note 13)	10	150,000,000	1,500,000,000	122,017,531	1,220,175,310	Executive employee warrants in the third quarter of 2009, NTD 19,585,000.	None	None

Month/ Year	Par Value (NT$)	Authorized Capital		Paid-in Capital		Remarks		
		Shares	Amount	Shares	Amount	Sources of Capital	Capital Increase by Assets Other than Cash	Other
Dec. 2009 (Note 14)	10	150,000,000	1,500,000,000	125,017,531	1,250,175,310	Issuance of common stock through merger, NTD 30,000,000.	None	None
Dec. 2009 (Note 15)	10	150,000,000	1,500,000,000	125,086,531	1,250,865,310	Executive employee warrants in the fourth quarter of 2009, NTD 690,000.	None	None
Jul. 2010 (Note 16)	10	200,000,000	2,000,000,000	141,086,531	1,410,865,310	Capital increase by cash NTD 160,000,000.	None	None
Nov. 2010 (Note 17)	10	200,000,000	2,000,000,000	141,790,531	1,417,905,310	Executive employee warrants in the third quarter of 2010, NTD 7,040,000.	None	None
Apr. 2011 (Note 18)	10	200,000,000	2,000,000,000	141,810,531	1,418,105,310	Executive employee warrants in the fourth quarter of 2010, NTD 200,000.	None	None
Aug. 2011 (Note 19)	10	200,000,000	2,000,000,000	161,810,531	1,618,105,310	Capital increase by cash NTD 200,000,000.	None	None
Nov. 2011 (Note 20)	10	200,000,000	2,000,000,000	162,535,031	1,625,350,310	Executive employee warrants in the third quarter of 2011, NTD 7,245,000.	None	None
Mar. 2012 (Note 21)	10	200,000,000	2,000,000,000	162,708,031	1,627,080,310	Executive employee warrants in the fourth quarter of 2011, NTD 1,730,000.	None	None
May 2012 (Note 22)	10	200,000,000	2,000,000,000	162,878,031	1,628,780,310	Executive employee warrants in the first quarter of 2012, NTD 1,700,000.	None	None
Sep. 2012 (Note 23)	10	200,000,000	2,000,000,000	162,886,031	1,628,860,310	Executive employee warrants in the second quarter of 2012, NTD 80,000.	None	None
Nov. 2012 (Note 24)	10	200,000,000	2,000,000,000	162,907,031	1,629,070,310	Executive employee warrants in the third quarter of 2012, NTD 210,000.	None	None
Mar. 2017 (Note 25)	10	200,000,000	2,000,000,000	165,357,520	1,653,575,200	Convertible bond transferred to common stock, 2,450,489 shares.	None	None

Note 1: Approved No. (88) Tai Cai Zheng Zi (1) 63696, 07/16/1999.
Note 2: Approved No. (89) Tai Cai Zheng Zi (1) 58483, 07/06/2000.
Note 3: Approved No. (90) Tai Cai Zheng Zi (1) 148167, 07/25/2001.
Note 4: Approved No. Tai Cai Zheng Zi (1) 0910137224, 07/09/2002.
Note 5: Approved No. Tai Cai Zheng Zi (1) 0920129941, 07/09/2003.
Note 6: Approved No. Jin Guan Zheng Zi (1) 0950129596, 07/11/2006.
Note 7: Approved No. Jin Guan Zheng Zi (1) 0960028615, 06/05/2007.
Note 8: Approved No. Jin Guan Zheng Zi (1) 0960057360, 10/17/2007.
Note 9: Approved No. Jin Guan Zheng Zi (1) 0970032788, 07/01/2008.
Note 10: Approved No. Jin Guan Zheng Zi (1) 0970032789, 07/08/2008.
Note 11: Approved No. Jin Guan Zheng Zi (3) 0980003332, 01/23/2009.
Note 12: Approved No. Jin Guan Zheng Fa Zi 0980034440, 07/10/2009.
Note 13: Approved No. Tai Zheng Shang Zi 09800300531, 11/25/2009.
Note 14: Approved No. Jin Guan Zheng Fa Zi 0980063108, 12/02/2009.
Note 15: Approved No. Tai Zheng Shang Zi 09900090711, 04/09/2010.
Note 16: Approved No. Jin Guan Zheng Fa Zi 0990022159, 05/18/2010.
Note 17: Approved No. Tai Zheng Shang Zi 09900359141, 11/26/2010.
Note 18: Approved No. Tai Zheng Shang Zi (1) 10000118511, 04/20/2011.
Note 19: Approved No. Jin Guan Zheng Fa Zi 1000022470, 06/07/2011.
Note 20: Approved No. Tai Zheng Shang Zi (1) 10000366751, 11/18/2011.
Note 21: Approved No. Tai Zheng Shang Zi (1) 10100061041, 03/23/2012.
Note 22: Approved No. Tai Zheng Shang Zi (1) 10100113671, 05/24/2012.
Note 23: Approved No. Tai Zheng Shang Zi (1) 10100217031, 09/25/2012.
Note 24: Approved No. Tai Zheng Shang Zi (1) 10100264601, 11/22/2012.
Note 25: Approved No. Jing Shou Shang Zi 10601080420, 06/20/2017.

4.1.1.2 Type of Stock

As of 04/23/2019
Unit: Shares

Share Type	Authorized Capital			Remarks
	Issued Shares	Un-issued Shares	Total Shares	
Common Stocks	165,357,520	34,642,480	200,000,000	Listed on TWSE.

4.1.1.3. Information for Shelf Registration: None.

4.1.2 Status of Shareholders

As of 04/23/2019
Unit: Shares

Item	Government Agencies	Financial Institutions	Other Juridical Persons	Domestic Natural Persons	Foreign Institutions and Natural Persons	Total
Number of Shareholders	0	8	101	9,135	156	9,400
Shareholding	0	29,730,375	39,502,089	56,244,578	39,880,478	165,357,520
Percentage (%)	0%	17.98%	23.89%	34.01%	24.12%	100.00%

4.1.3 Distribution of Shares

4.1.3.1. Common Shares

As of 04/23/2019
Unit: Shares

Class of Shareholding	Number of Shareholders	Shareholding	Percentage (%)
1 ~ 999	930	156,139	0.09
1,000 ~ 5,000	7,051	13,023,276	7.88
5,001 ~ 10,000	696	5,643,431	3.41
10,001 ~ 15,000	187	2,467,543	1.49
15,001 ~ 20,000	126	2,297,312	1.39
20,001 ~ 30,000	124	3,196,640	1.93
30,001 ~ 50,000	88	3,469,190	2.10
50,001 ~ 100,000	78	5,552,316	3.36
100,001 ~ 200,000	37	5,262,067	3.18
200,001 ~ 400,000	32	9,471,188	5.73
400,001 ~ 600,000	15	7,202,938	4.36
600,001 ~ 800,000	9	6,109,618	3.69
800,001~ 1,000,000	6	5,535,176	3.35
1,000,001 or over	21	95,970,686	58.04
Total	9,400	165,357,520	100.00

4.1.3.2. Preferred Share: None.

4.1.4 Major Shareholders

As of 04/23/2019

Shareholder's Name	Total Shares Owned	Ownership (%)
Cathay Life Insurance Co., Ltd.	13,807,375	8.35%
Fidelity	12,525,116	7.57%
Kaimei Electronic Corp.	12,444,882	7.53%
Tie-Min Chen	10,813,982	6.54%
Nan Shan Life Insurance Co., Ltd.	8,441,000	5.10%
MYW Investment Limited	5,000,000	3.02%
Fubon Life Insurance Co., Ltd.	3,974,000	2.40%
Pei-Chen Yang	3,760,592	2.27%
New Labor Pension Fund	3,655,941	2.21%
Delta Electronics Capital Company	2,660,000	1.61%

4.1.5 Market Price, Net Worth, Earnings and Dividends Per Share

Unit: NTD thousands; Shares

Item			2017	2018	As of 03/31/2019 (Note 4)
Market Price Per Share	Highest Market Price		160.50	140.50	114.50
	Lowest Market Price		105.50	77.00	100.00
	Average Market Price		127.51	105.82	105.99
Net Worth Per Share	Before Distribution		62.98	63.19	63.91
	After Distribution (Note 1)		-	-	
Earnings Per Share (Note 3)	Weighted Average Shares		164,744,898 shares	165,357,520 shares	165,357,520 shares
	Diluted Earnings Per Share		5.91	6.13	0.70
Dividends Per Share (Note 2)	Cash Dividends		6.00	6.00 (Note 5)	-
	Stock Dividends	from Retained Earnings	-	-	
		from Capital Surplus	-	-	
	Accumulated Undistributed Dividends		-	-	-
Returns on Investment (Note 3)	Price/Earnings Ratio		21.58	17.26	-
	Price/Dividend Ratio		21.25	-	-
	Cash Dividends Yield		4.71	-	-

Note 1: The appropriation of earnings shall be determined by the next Annual General Shareholders' Meeting.

Note 2: Distributed earnings of 2018 have not yet been approved by the shareholders' meeting as at printing date. The related information will be available on the Market Observation Post System after the meeting.

Note 3: It shall be determined by the Annual General Shareholders' Meeting.

Note 4: Net worth per share and earnings per share are calculated based on the financial information reviewed by independent auditors in the most recent quarter of the printing date.

Note 5: The Board approved distribution earnings of 2018 on March 15, 2019. The Board of Directors proposed to set aside NT$5.59715707 per share by retained earnings and NT$0.40284293 by capital surplus as cash dividends. Distributed earnings of 2018 have not yet been approved by the shareholders' meeting as at printing date.

4.1.6 Dividends policy and Implementation Status:

4.1.6.1. Dividends Policy in the Company's Articles of Incorporation

Any after-tax net income shall first be used to offset the accumulated losses, if there's any, and then to appropriate 10% of the earnings as legal reserve until its amount reaches the actual paid-in capital. The remaining earnings, together with accumulated retained earnings, can be distributed as shareholders' dividends according to the Board of Directors' proposal and after the approval from the shareholders' meeting.

We intend to distribute dividends no less than 60% of the distributable earnings in current year and composed of no less than 30% of cash dividends, after considering various factors including future development plans, capital market status, funding needs, earning prospects, industry competition and shareholders' benefits. The actual distribution will be proposed by the Board for the shareholders' meeting approval.

Our dividends paid in the past five years have all been in cash with a distribution of no less than 60%. Please refer to the investor section in our website for details.

4.1.6.2. Proposed Distribution of Dividends

Shareholder distribution from the 2018 earnings was in the form of cash and totaled NT$925,532,012, or NT$5.59715707 per share. In addition, a distribution out of the additional paid-in capital of NT$66,613,108, or NT$0.40284293 per share, was made. Total distribution made was NT$992,145,120.

When there's a revision of the cash distribution ratio due to subsequent shares buyback, share transfers, share conversion, share cancellation, change of laws, requirement of the authorities or changes of total shares outstanding, the chairman shall be authorized to handle the matter with full power after the approval from the shareholders' meeting.

4.1.6.3. Material Change in Dividend Policy Is Expected: None.

4.1.7 Impact of Stock Dividends on the Operating Results, EPS, and ROE:

Not applicable (the Company did not disclose the financial forcast for 2019).

4.1.8 Compensation of Employees, Directors and Supervisors:

4.1.8.1. Information Relating to Compensation of Employees, Directors and Supervisors in the Articles of Incorporation

The Company shall appropriate no less than 5% and no more than 2% of the earnings, respectively, as employee compensation and directors and supervisors remunerations when the operation is profitable for the year (meaning the pre-tax net income is positive before making distribution to employees, directors and supervisors.

The distribution can be made in the form of cash or stocks for employees, but only in the form of cash for the directors and supervisors.

Proposals of distributions to employees, directors and supervisors shall be taken to the shareholders' meeting for approval after the resolution is reached by a majority of the Board with two thirds in attendance.

4.1.8.2. Accounting Treatments when Differences Occur between Estimated and Actual Distributed Amount of Employee, Director, and Supervisor Compensation.

(1) Estimation basis for employee, director and supercisor compensations for the current period: The estimation ratio will be taken from the range set forth in the Articles of Incorporation.

(2) Estimation basis for employee stock compensation: None.
(3) Discrepancy between the estimation and actual distribution will be treated as profit or loss in 2019.

4.1.8.3. Employee Compensation Distribution Proposals adopted in Board of Directors Meeting:

(1) IF the amount of employee compensation distributed in cash or stocks and compensation for directors and supervisors differs from the recognized expenses, the discrepancy, its cause and the status of treatment shall be disclosed:
2018 employee, director and supervisor compensation was approved by the Board Meeting on March 15, 2019 for a proposal of NT$89.0 million for the employees and NT$7.6 million for the directors and supervisors, which was in line with the estimates.
(2) The amount of any employee compensation distributed in stocks, and the size of that amount as a percentage of the sum of the after-tax net income stated in the parent company only financial reports or individual financial reports for the current period and total employee compensation: N/A.

4.1.8.4. Earning Distribution of the 2017 Employee Bonus and Directors' and Supervisors' Remuneration

Actual 2017 employee and director remuneration paid included NT$78.3 million for the employees and NT$7.2 million for the directors, which was in line with the expense recognized in 2017 financial statements.

4.1.9 Buyback of Treasury Stock: None.

4.2 Corporate Bonds: None.

4.3 Preferred Shares: None.

4.4 Global Depository Receipts (GDRs): None.

4.5 Employee Stock Options: None**.**

4.6 Employee Restricted Stock: None.

4.7 Status of New Shares Issuance in Connection with Mergers and Acquisitions: None.

4.8 The Execution Status of Capital Plan: None.

5. Overview of the Business

5.1. Description of the Business

5.1.1 Major Business

5.1.1.1 Major Products and Weights

Unit: NTD thousands; %

Major Products	2018	
	Amount	%
RF Module	304,570	4.11
Hybrid Modules & Specialty Packaging	1,404,760	18.95
Ceramic Metalized Substrate	3,334,998	44.98
Image Products	2,197,803	29.65
Others	171,381	2.31
Total	7,413,512	100.00

5.1.1.2 Current Products and Services:

(1)Power Amplifier module.
(2)RF Front-End Module.
(3)System in Package (SiP).
(4)High-brightness ventilated LED substrates.
(5)High-power IC module ventilated LED substrates.
(6)Edge Emission Laser/EEL module ventilated LED substrates.
(7)Thin-film substrate and hybrid IC for car use.
(8) Hybrid IC for aerospace.
(9)Hybrid IC for healthcare.
(10)Vertical Catty Surface Emission Laser (VCSEL) packaging.
(11)Image Sensor packaging and Final Testing.
(12)Reconstruct Wafer (RW).
(13)Circuit Probing (CP).
(14)Micro Display packaging and testing.
(15)High-brightness LED module packaging and testing.
(16)Direct bonding copper substrate.
(17)Bio chip packaging and testing.

5.1.1.3 Products Develpoment:

In addition to the basic research and development of new production processes and materials, our application will concentrate on areas covering communication, high-frequency package , high-power ackage, various detectors, image sensors, automotive and bio-med field. The new products planned for future development are as followings:
(1)Power module packaging and testing.
(2)3D sensor module packages.
(3)MEMS for commodity products.
(4)Fingerprint identification packaging.
(5)Opto-electric semiconductor packaging.
(6)SAW Filter packaging.
(7)Substrates for crystal oscillators packaging.
(8)Process development of Bio chips packages.
(9)Innovation and development of high frequency RF modules.
(10)6S die sorters.

(11)Development of multi-function ceramic substrates.
(12)Establishment of RF testing technology.
(13)Development of anti-corrosive ceramic substrates for automotive applications.
(14)Development of SIP packages for multi-layered chips covering both image sensors and image processing chips for automotive applications.

5.1.2 Industry Scope

5.1.2.1 Current Industry Products and Development:

Our business scope consists of the service for RF module packaging and hybrid IC module, and the backend process for image sensors, and ceramic substrate. Ceramic substrate is also a key material for our packaging services.

(1) RF Module

RF modules are used mainly in mobile phones, WLAN in the radio frequency field, including SiP packge (combine transceiver and baseband chips) andRF front-end module (covering power amplifier, antenna switch).

Due to the prevalence of smartphones and tablet computers, the global growth of 4G phones was slow down in 2018, compared to the 20% growth in 2014. 4G Network service revenue worldwide was also confronted diminishing growth.

With the establishment of 5G communication standards, new types of network applications and business models growing up, which are pushing the new developments from the wireless communication industry, including the opening of 5G high-frequency spectrum and 3GPP focusing on LTE workshop communication service between automotive and other devices (LTE V2x) standard.

For the Internet of Things (IoT), with the establishment and implementation of new standards covering LPWAN, wi-fi Halow, NB - IOT, LTE - M1, etc., we can expect additional business opportunities will emerge to meet the needs of the new and advanced functions, such as location positioning, mobilizing, multicasting and advanced power saving from all level of users from all fields and sectors.

The wireless technology will be gradually applied in smart transportation and smart vehicle sectors to enable Vehicle to Vehicle (V2V), Vehicle to Roadside /Vehicle to Infrastructure (V2R/V2I), Vehicle to Home (V2H) and Vehicle to People (V2P).

There’s no doubt that there will be new investments on basic infrastructures to build new data centers and communication network facilities to cater to the data traffic.

(2) Hybrid ICs

Hybrid IC packaging is to do packagingon ceramic circuit boards, mainly thick-film and thin-film based technologies. Compared with the general PCB board, the ceramic board is more stable and more suitable for high power and high frequency applications. They are widely used in automotive, telecom, high end consumer products, industrial control, machine, aerospace and PC peripherals. Thick-film hybrid IC makers are mostly from North America, Europe and Japan who fill the needs of the automotive and aerospace industries.

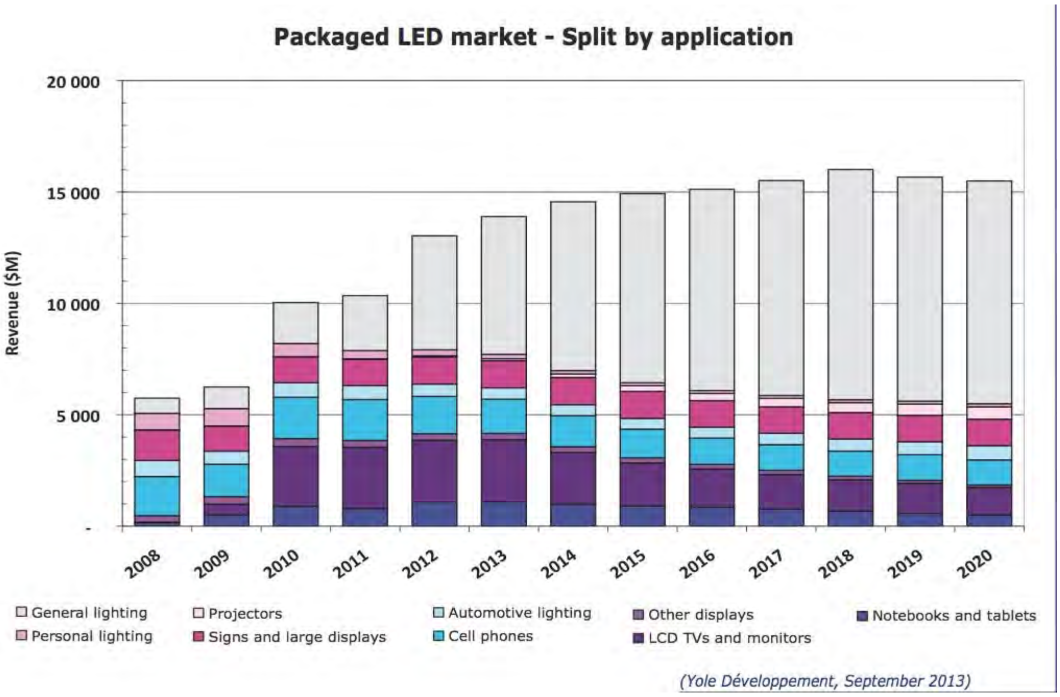
Microelectromechanical system (MEMS) is a semiconductor precision processing technology that miniaturizes and integrates the optical, mechanical and electronic components on the same chips to achieve the purpose of thin and small dimension. The technology covers a wide range of applications, including fields like machinery, optics, biology and electronics. In addition, it

is increasingly applied in automotive components, such as accelerometer, pressure meter, gyrometer and mass flow meter. Its application in the consumer electronic field is rising as well, under the current prevalence of high-end smartphones, tablet, computers and handheld gadgets.
With the development of arrayed microelectromechanical (MEMS) and sensing components, the biomedical testing technology is also implemented on such semiconductor chips, which has greatly increased the testing speed and lowered the cost. Through Internet connections and artificial intelligence, the application of this technology will be greatly expanded.
With the Advanced Driver Assistance Systems (ADAS) technology becoming an important technology for the automobile industry, especially for smart cars, the high-power semiconductor laser is receiving more attention for its enabling of laser distance measuring through LiDAR to build the real time surrounding objects for either driving assistance or automatic drive.

(3) Ceramic PCB

(a) DPC Ceramic Substrates

As the applications of ceramic PCB are mainly used in the aerospace, automotive, healthcare sector, there are only a few professional manufactures in Taiwan, and we are the one who also comes with mass production experience and scales.
Apart from our long-history and experience in thick film printing technology, we are also in the process of developing direct plated copper process (DPC) which can provide the fine circuit layoutwhich are not possible under thick film or co-fired ceramic circuit board. Currently DPC is mainly used in high-brightness LED substrates.
According to Yole’s high brightness LED market research report, the growth continuses from 2008 till 2020. General lighting is the main drive force for such application.



(b) Direct Bonded Copper Ceramic Substrates

DBC technology is the technique of bonding copper foil directly onto ceramic materials under high temperature, and creates circuit pattern through the photolithography process.

Currently DBC substrates are widely used in:

1.Semiconductor power modules (IGBT).

2.Thermoelectric Cooler (TEC).

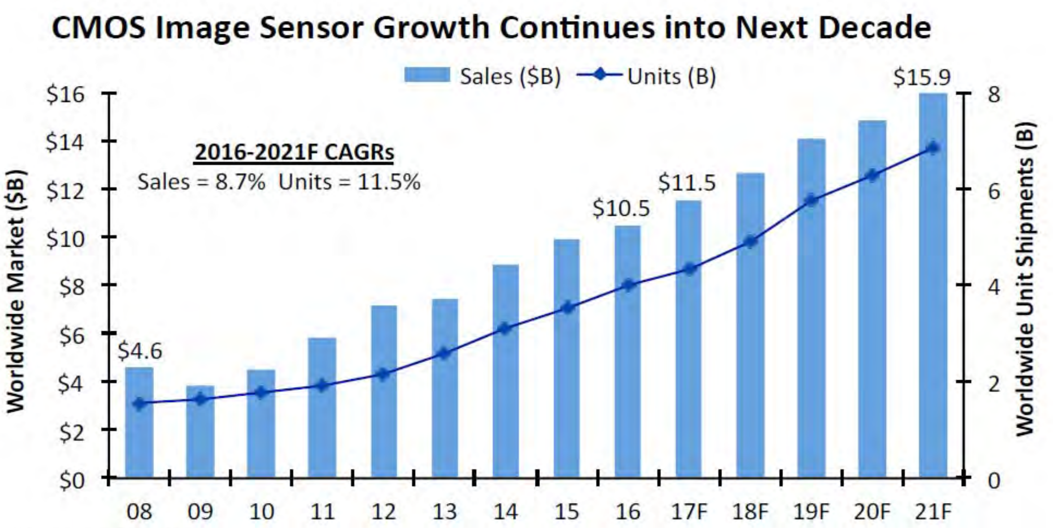
3.High-Concentration Photovoltaic System (HCPV).

4.Automotive and aerospace electronic components.

(4) Image product

Image products are divided into two categories: image sensing and display. Image sensors are mainly used in digital cameras, mobile phones, tablet, AR/VR, notebook computers, surveillance cameras, vehicle images, medical images, toys and industrial control, etc.

According to IC Insights, the CMOS image sensor will grow each year, at least to 2021, as illustrated below:



Source: IC Insights

Major usage of image sensors come from cellphones, trailing by tablets and notebook computers, as driven by the demands on higher image resolution and quality and backed by advanced development designssuch as Backside Illumination and Stack Sensor technologies. In addition, the use of the 3D sensing technology for capturing 3D features of the human face for biometric purposes has become the future of the high-end phone model. The needs for additional image sensors will also come from structural light technology and flying distance gauging, aside from cell phones, tablet and new AR/VR applications.

For car application, beyond the traditional demands, the 3D image sensor will be applied on automatic distance measuring, lane departure warnings and automatic parking, especially in high-end models.

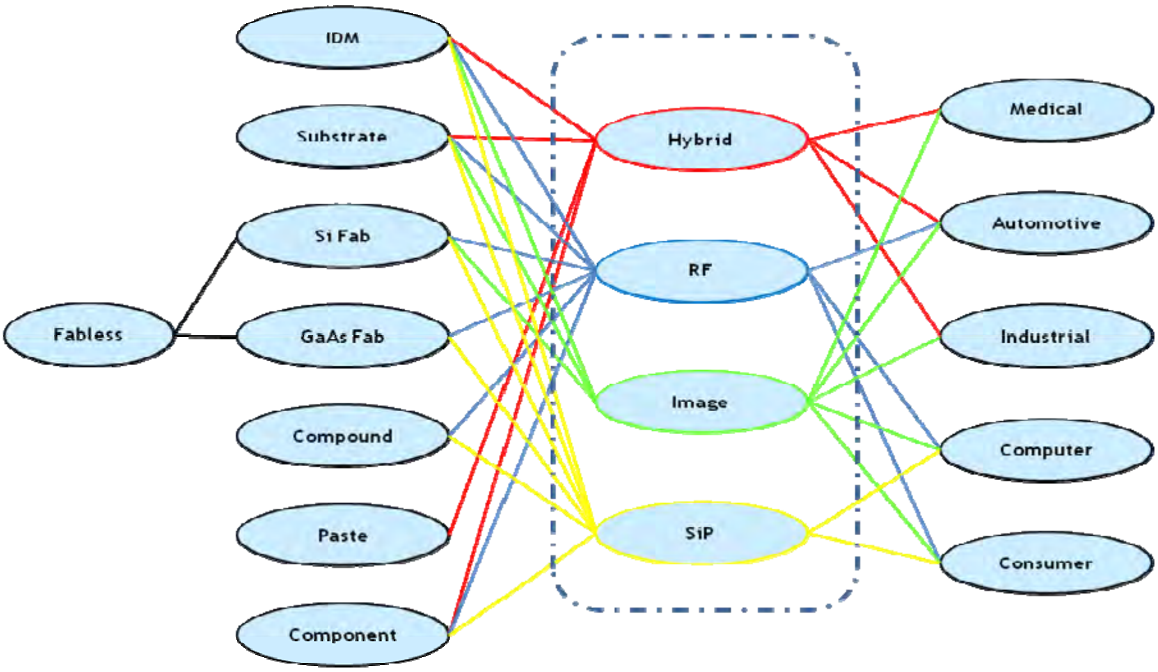
We provide chip probing, wafer reconstruction, various packaging and , testing and module manufacturing for CMOS image sensors that cover most of the mainstream application markets.

Apart from the traditional 2D image sensors, the demand for 3D ranging and 3D image are rising rapidly due to new fast auto focus in cell phone, face recognition for security and gesture recognition control. For cars, robots and drones, the sensors are needed to establish real-time 3D external environmental depth information for automatic navigation and obstacle avoidance.

In terms of image displays, with the emergence of wearable devices, demands for small projection and direct-view display chips are booming, for the rise among Virtual Reality (VR), Augmented Reality (AR) and Mixed Reality (MR) technologies. The display is either Head-Mounted Display (HMD) or Head-Up Display (HUD), all based on micro-displaying technology. Also to cope with the potential distraction risk driven by additional road information available in smart vehicles, display solutions (apart from HMD) that can provide better safety features are also in demand.

5.1.2.2 The Relationship Between Up-, Mid-, and Down-stream Supply Chain Services

The relationship between the Company’s products and the overall industry can be summarized as follows:



5.1.2.3 Future Product Trends

Electronic products will become thinner and smaller with more functions by higher integration of chipsand higher working signal frequency. The future requires broader bandwidth and greater variety of channels selections to provide seamless mobile communication.

In energy-related industries, solar energy and high-efficiency, low-pollution, ultra-bright LED light sources will become more common in daily life. New production procedures in Tong Hsing for modules are listed as follows:

(1) Copper, gold and silver plating used on aluminum nitride and aluminum oxide ceramics with photosensitive and etching technologies to manufacture

high-density circuits and high-thermal conductivity substrates been used to enhance the high-frequency circuit performance.

(2) Applying flip chip packaging to minimize the size to enhance the high-frequency feature

(3) Combining CSP and BGA technologies to seal the components in air cavity to improve the reliability and high-frequency feature.

(4) Applying wafer reconstruction to supply thin and high-resolution camera modules used in smartphones.

(5) Employing high-reliable sensor packaging to provide products in the surveillance and automotive industries.

(6) Wafer dicing technology for 12” CMOS image sensors wafer made by BSI and stack technology.

(7) Miniature image display packaging and testing technologies.

(8) VCSEL modules packaging.

5.1.2.4 Competition Status

We position ourselves as a professional service provider for niche semiconductor modules and ceramic substrates with RF modules and hybrid semiconductor modules, individually, accounting for 4% and 19% of our revenue. For years, we’ve operated with the concept of a customer-oriented and dedicated to progress our R&D, especially in the areas of production and technologies, to bring up our competitiveness. With years of experience, we are now a key global player in the industry.

Through continuous efforts, Tong Hsing has not only become a dominant thick-film substrate supplier in Taiwan but also possesses the capability to independently develop thin-film production procedures by applying experience accumulated from aerospace products to meet the special needs of auto parts and grasp the opportunity from the leading Asian automotive makers. In the meantime, we are stepping into packaging process for healthcare related MEMS modules.

In the image sensor field, we were the first one to come out with the wafer reconstruction service that is necessary for BSI based image sensors and have started to ship sensors with 8-million and 13 million pixels for key cellphone and tablet computer makers. Currently our 12” wafer stacking and reconstruction processes are leading the industry and already in mass production.

5.1.3 Research and Development Achievements and Plans

5.1.3.1 Research and Development Expenditures:

Unit: NTD thousands; %

Year	2018	2019(As of March 31)
R&D Expense	114,120	27,585
As % of net revenue	1.54%	1.71%

5.1.3.2 Successful Development in Technologies and Products:

Year	Technologies	Product Applications
2018	Cavity substrates	3D Sensing
	High resolution image sensing module assembly	Image Sensor Packages
	Fine line circuit on glass substrates	LED
	Micro tip matrix saw on silicon wafer	Biomedical
	WLCSP plating	High Frequency RF Modules
	IR AVI for IC inspection	Image Sensors
	6S die sorters evaluation	Image Sensors
	12" Wafer proving development	Image Sensors
	Integration of IR camera to wafer laser grooving system for enhancing image recognition depth of thick Si layer(6um)	Image Sensors

5.1.4 Long-term and Short-term Business Development Plan:

1. Short-term Business Plan
   (1) Develop next-generation module technologies by following market trends and production roadmap from the customer to strengthen and expand relationships with current business.
   (2) Enhance market share by applying strategies that covers pricing and technology.
   (3) Acquire new business relationships by leveraging the current sales network.
   (4) Further implement the product management mechanism to set the clear directions for each product line and utilize in-house resources with better efficiency.
2. Long -term Business Plan
   (1) Look for strategic partners, especially from components, materials and intellectual property aspects to ensure a leading position in the production technology.
   (2) Expand investment in next-generation products and necessary technologies.
   (3) Optimize teamwork between production sites in Taiwan and Philippine to maximize scale of economy.
   (4) Promote turnkey solutions (including chip probing, wafer reconstruction, packaging, final testing and module making) to create further price advantage.

5.2 Market and Sales Conditions

5.2.1 Market Analysis:

5.2.1.1 Major Sales Regions:

2018 Sales Regions and Weights

Unit: NTD thousands

Regions	Net Revenue	%
Americas	2,840,326	38.32%
Europe	2,129,392	28.72%
Other Area	2,443,794	32.96%
Total	7,413,512	100.00%

5.2.1.2. Market Share:

(1) High-Brightness LED

According to global research institution LEDInside, we had a market share of more than 70% in 2018 based on >3W high-brightness LED ceramic substrates.

(2) Image Sensors

According to IC Insight from Japan, our total shipments of CMOS image sensors accounted for 13% of the total worldwide demand, 5 billion units in 2018. The research company also forecast the shipment growth with a steady increase in the future and reach 8 billion units in 2021.

5.2.1.3 Future Market Supply, Demand, and Growth Potential

(1) RF Module

Our RF module is one of the key components in cell phone. The mobile network is on its track to the higher bandwidth service, 5th generation (5G) technology, not mention the on-going traffic on the current platform. The rapid progress of the mobile network is attributed to development of semiconductor and display technology which greatly upgrade CPU in mobile phones and enable the calculation capacity that can match notebook computers, and push neck-breaking growth of bandwidth demands and the technology development of construction of small ground cells. At the same time, along with the readiness of various sensor components and micro sensors, which together will collect daily data and transmit through IoT to the other devices or cloud, we will soon be able achieve an effective and smarter life style.

(2) Hybrid IC Module

According to Yole Development, the global MEMS application market will increase to US$25 billion in 2022 from US$13 billion in 2017. The growth momentum will largely concentrate on the new applications from mobile hand-held devices and consumer electronics, with the steady growth coming from existing applications in the automotive, information and industrial equipment and healthcare facilities. Owing to its miniaturization feature, we believe that the outlook for the MEMS sector has great potential. Moreover, through the progress of semiconductor technology and MEMS technology, various biomedical tests on a single-chip are becoming available to the commercial market.

Semiconductor lasers were mainly used for optical storage. Over the past decade, optical storage has been gradually replaced by flash memory due to its advantages in capacity and speed. Fortunately, along with the rapid development of various 3D sensing technologies and high-efficiency and high-power semiconductor laser, , we will see more demands coming from AR/VR wearable devices, aside from the current applications in smartphones, tablets and other handheld gadgets. In addition, the 3D sensors come with LiDAR is a must have for autonomous driving in the future.

(3) Ceramic Substrates

(a) DPC Ceramic Substrates

Ceramic substrates use stable materials and are resistant to corrosion and high-temperature conditions. They are suitable for automotive electronic components, which demand stricter standards. In addition, we see that the applications in the car industry will further speed up, due to the emergence of hybrid electric vehicles (HEV) and electric vehicles (EV), which requires power modules using DPC ceramic substrates.

Another growth driver will come from high-brightness LED. DPC ceramic substrates will help in bringing costs down during mass production while LED will gain more shares in the lighting market.

(b) DBC Ceramic Substrates

This type of substrate is suitable for making semiconductor power modules that tackle the storage issues from clean energies, such as AC/DC conversion, power factor correction and output management. The applications in power electronics are listed below:

1.Power semiconductor device, such as IGBT.

2.Frequency converter, electronic speed control and AC contactless switch.

3.Hybrid power line and new power structure unit.

4.Solid state relay (SCR) and High-frequency switching charge.

5.Temperature control unit for electronic heating devices.

6.Structure unit for automotive electronics and aerospace technologies.

The direction for the technology progress is to produce integrated modules out of DBC substrates that are smaller and high-temperature resistant and generate higher power and efficiency. Other than traditional Al2O3 DBC, AlN and SiN DBC are gaining attention for capable of better heat conduction and mechanical strength, together with hybrid substrates that can bear high voltage and currency and high-density circuit.

(4) Image products

Currently, the smartphone is the largest driver for image sensors. However the smartphone shipments are slowing down. Owing to the preference for smartphone thickness and impacts picture quality brought about by smaller censoring pixel, the trend of adding higher pixels has been discontinued. The market has turned to the pursuit of better photo quality and additional new functions, so modules that offer better photo quality, zooming functions, depth of field adjustment and stereoscopic image are gaining attention. Smartphones that come with these features demand more image sensors; therefore, we believe that shipment growth for image sensors will outpace smartphones.

Meanwhile biometrics that utilize time-of-flight ranging and structured light for 3D image technology and pupil recognition to distinguish faces are picking up, as it offers an extra option for identifying physical characteristics other than fingerprints in the era of on-line banking.

Other important applications and market potential for 3D image technology also come from gesture control, real-time road and obstacle model construction using LiDAR.

With the increase in bandwidth and the development of wireless broadband, the need of digital surveillance is increasingly moving from public uses to homes and personal uses.

For image displaying technology, micro display chips are becoming a critical component due to smart glasses and car-use head-up display.

5.2.1.4. Competitive Advantages

We are a professional manufacture for ceramic substrates, RF modules, hybrid IC modules and SiP modules, and a packaging service provider for image sensors. Hybrid IC modules are mainly used for healthcare, aerospace, industrials and automotive purposes. To lead in technology advancement, we have worked closely with our customers to synchronize our R&D with their product development.

To cater to the mass customization characteristic of the products we are making, the ability to keep the production flexible to meet the market launch time is the key to win orders, especially for cellphone products.

Our company has been engaged in module packaging service over 20 years and has accumulated deep knowledge and experiences in the industry. In the wireless communications industry, the mobile phone market continues to grow due to new technologies and functions. We closly watch the market movements and possess the newest production know-how and other related competitive advantages to satisfy the customer's needs in terms of quality and the quantity.

We are upgrading the high-end packaging technologies to enable services for flip chip, 3D package, MEMS and SiP. We have made good progress for the development, in which in we’ve successfully produced smaller modules with more functions integrated and helped our customer to launch in good market timing.

Under the special clean environmental requirements of image sensors, we’ve dedicated years of production technology R&D to cater to applications in various fields including cellphones, digital cameras, healthcare, surveillance, automotive, etc. by providing packaging and wafer reconstruction procedures for image sensors ranging from VGA to 20 million even up to 40 million pixels. In addition, we have begun to offer chip probing, wafer reconstruction and final testing to enable turnkey solution for our customers for better logistic and cost management.

5.2.1.5 Positive and Negative Factors Relating to Future Development

5.2.1.5.1. Favorable Factors

(1) Production Aspect:

As the automatic electroplating line and production traceability record are close to completion, we expect that our competitiveness will be better positioned further for greater cost savings coming from lower breakage and higher yields, as well as streamlined manpower. We’ve also acquired SMT, COB and backend AOI to enlarge labor saving with better quality control. In the meantime, there will be new equipments for solder ball mounters and air-tight sealing machines for additional production advantages.

(2) R&D Aspect:

(a) Technology progresses in copper conducting, nickel, gold and silver will help to upgrade high-brightness LED packaging process, RF modules, high-power modules and miniaturized IC packaging, which bring in more business. The success in copper-free DPC production and picking-up mass production will contribute to automotive electronics related product.

(b) We continue to recruit new engineers from top ranking schools and co-work with world-class technology team to keep our lead in the industry.

5.2.1.5.2 Negative Factors

(1) Maturing product cycle and shifting market segmentations
With the LED technology maturing, the numbers of players from many Asian countries are rising to invest in related sectors to compete; this turns the competition to become highly price sensitive with great unpredictability. Market segmentations for image sensors are experiencing adjustment due to the crowding effect brought by Sony and Samsung entering to image sensor industry.

(2) Labor shortage and resign wages
Due to change in values and life style, manufacturers in Taiwan, we are suffering to hire enough labor force to meet production demand. Many companies have no option but to move overseas, as hiring foreign workers is highly restricted by government labor laws.

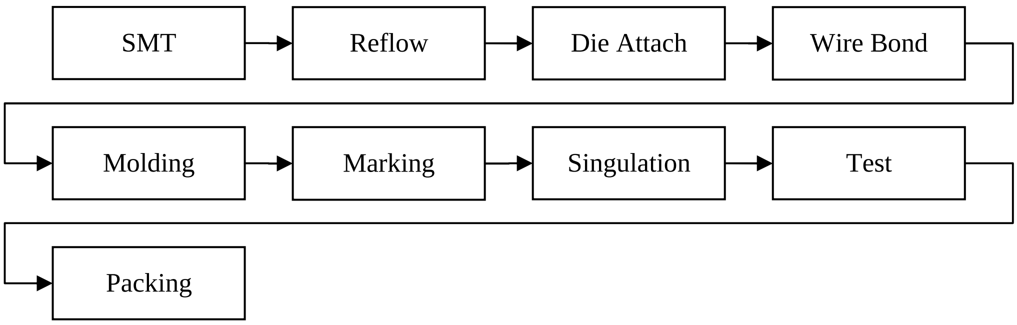
(3) We are in an emerging electronic component business that is capital and technology intensive. We might face operation risks if we are not catching up with technology and market changes.

5.2.1.5.3 Action Plans

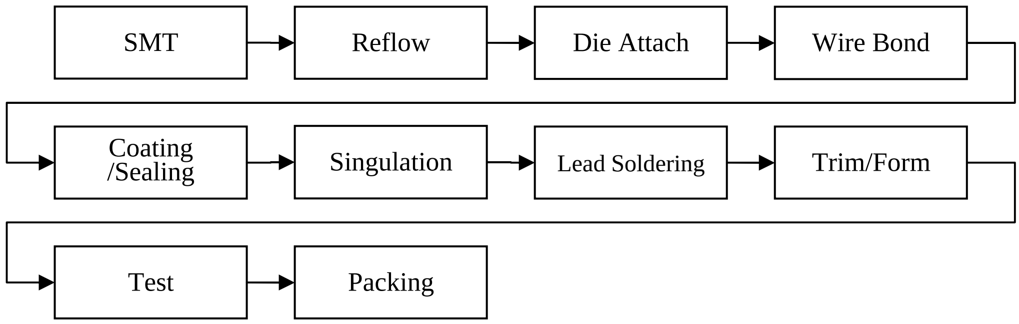
(1) Diversify customer base to avoid over-concentration risk.
(2) Implement automation production and actively look for purchase orders to achieve economies of scale operations, save on manpower, reduces production costs.
(3) Improve bargaining power to lower down material costs by leveraging with a bigger production capacity.
(4) Continuously R&D in new products and technologies to strengthen the entry barriers and leading ahead the competitors.
(5) Invest in machinery and equipment to crease automation production, and move labor-intensive production overseas to save costs.
(6) Employ dispatched workers and outsource when necessary to manage production flexibility.

5.2.2 Usage and Manufacture Processing of Main Products

1. RF Module: Used in RF Power Amplifier for mobile phones, front-end module and broadband digital communication module.

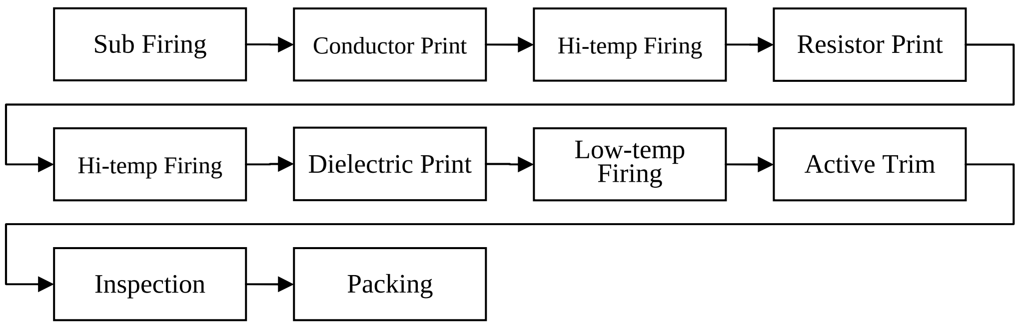


2. Thick film Hybrid integrated Circuits: Used in high-reliable electronic products, such as automotive, aerospace equipment, communication equipment, medical sensors, etc.

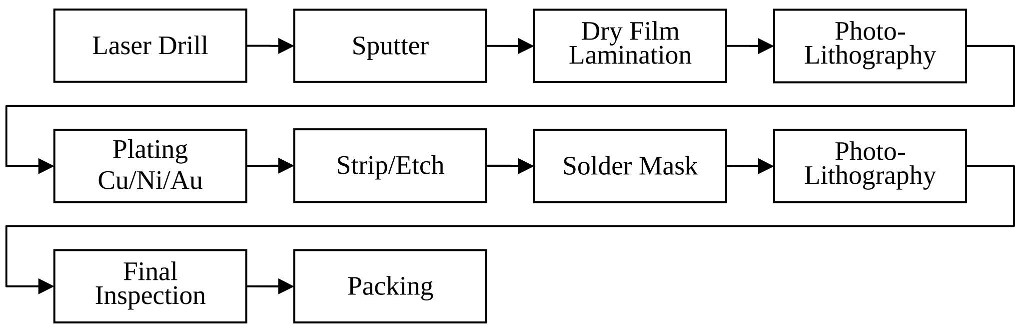


3. Ceramic substrates: Used in high-reliable electronic products, such as high-brightness LED, general lighting, high speed memory, industrial automation, RF switches, semiconductor devices, etc.

A. Thin-film printing substrate

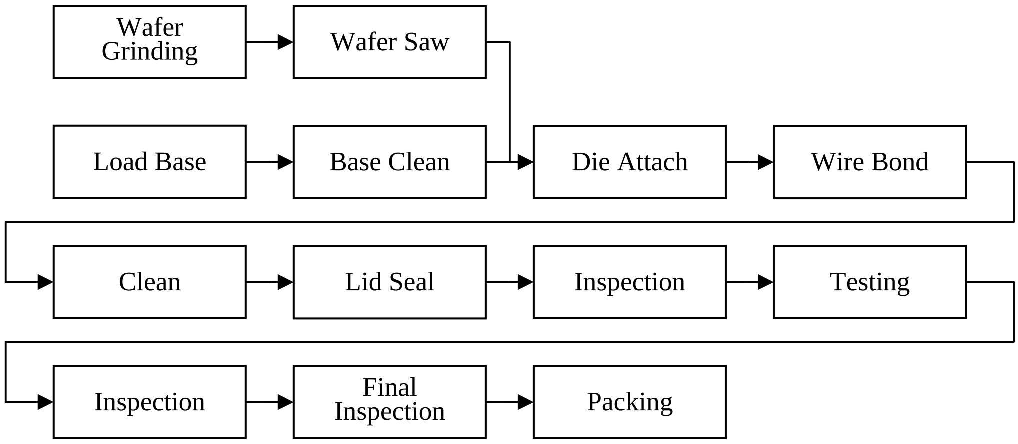


B. Plated substrate

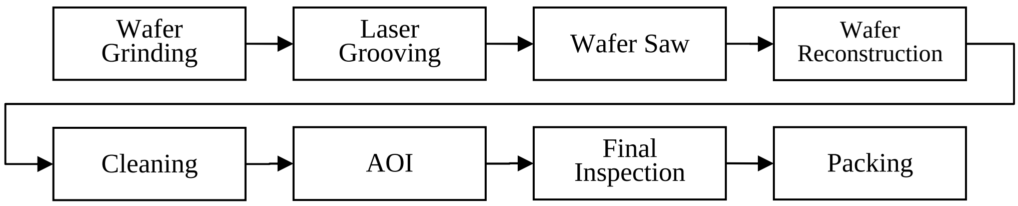


4. Image sensor: Major uses include consumer electronics – digital cameras/video recorders and mobile phones, information electronics – notebook computers, surveillance, automotive electronics – backup camera, lane tracing, multi-angle vision, front and rear wheel monitoring, remote obstacle monitoring and dashboard camera, and industry control applications.

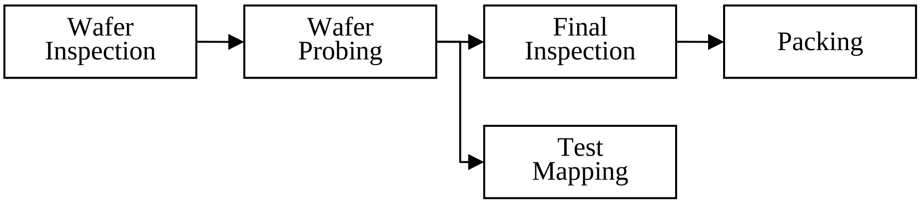
A. Image sensor packaging



B. Image sensor reconstructed wafer



C. Image sensor chip probing



5.2.3 Supply situation for the major raw materials

Major Raw Materials	Source of Supply	Supply Situation
Substrate	the United States, Japan, Taiwan, Malaysia	Stable
Paste	the United States, Japan, Taiwan, the United Kingdom	Stable
Capacitor	Japan, Taiwan, the United States, Mainland China	Stable
Inductor	Japan, Taiwan, the United States, Mainland China	Stable
IC	Belgium, Netherlands, Germany, the United States	Stable
Epoxy	the United States, Japan, Taiwan, Mainland China	Stable
PKPGC	Taiwan	Stable

5.2.4 Major Vendors and Customers that Accounted for at Least 10% of the Annual Consolidated Net Revenue

5.2.4.1 Major Vendors

Unit: NTD thousands

Item	2017				2018				2019 (As of March 31)			
	Company Name	Amount	Percent	Relation with Issuer	Company Name	Amount	Percent	Relation with Issuer	Company Name	Amount	Percent	Relation with Issuer
1	G Compnay	669,881	27.19	None	G Compnay	701,818	23.49	None	G Compnay	129,099	20.87	None
2	I Compnay	(Note)	(Note)	None	I Compnay	384,032	12.85	None	I Compnay	76,291	12.33	None
3	H Compnay	366,029	14.86	None	H Compnay	316,575	10.59	None	H Compnay	(Note)	(Note)	None
	Others	1,427,613	57.95	—	Others	1,585,663	53.07	—	Others	413,296	66.80	—
	Net Total Purchases	2,463,523	100.00	—	Net Total Purchases	2,988,088	100.00	—	Net Total Purchases	618,686	100.00	—

Note: The amount of purchase from the supplier did not reach 10% of the net purchase amount of the period.

Reason for the change:

Due to changes in sales volume and product mix, the total purchase amount increasd by 21.3% in 2018, compared with that in the last year.

5.2.4.2 Major Customers

Unit: NTD thousands

Item	2017				2018				2019 (As of March 31)			
	Company Name	Amount	Percent	Relation with Issuer	Company Name	Amount	Percent	Relation with Issuer	Company Name	Amount	Percent	Relation with Issuer
1	F Company	1,406,283	18.16	None	F Company	1,428,784	19.27	None	F Company	294,850	18.44	None
2	E Company	987,087	12.74	None	E Company	876,673	11.83	None	E Company	240,601	15.05	None
	Others	5,352,232	69.10	—	Others	5,108,055	68.90	—	Others	1,063,485	66.51	—
	Net Total Sales	7,745,602	100.00	—	Net Total Sales	7,413,512	100.00	—	Net Total Sales	1,598,936	100.00	—

Reason for the change:

Due to changes in market demands, sales went down by 3.88% in 2018, compared with that in the last year.

5.2.5 Production Figures

Unit: Set in thousands; NTD thousands

Year / Output / Major Products	2017			2018		
	Capacity (Note 1)	Quantity	Amount	Capacity (Note 1)	Quantity	Amount
RF Module Hybrid Modules & Specialty Packaging Ceramic Metalized Substrate Image Products	7,073,982	4,315,193	6,024,687	6,470,465	4,020,880	5,656,610

Note 1: Production capacity for substitute products among product lines should be combined.

5.2.6 Sales Figures

Unit: Set in thousands; NTD thousands

Year / Shipments & Sales / Major Products	2017				2018			
	Domestic		Export		Domestic		Export	
	QTY	Amounts	QTY	Amounts	QTY	Amounts	QTY	Amounts
RF Module Hybrid Modules & Specialty Packaging Ceramic Metalized Substrate Image Products	50,372	241,790	4,113,983	7,503,812	73,433	203,954	3,906,039	7,209,558

Note: Information on other products is not comparable and not provided.

5.3 Employee Analysis

Item / Year		2017	2018	2019 (As of March 31)
Number of Employees	Direct Employees	2,111	2,132	2,048
	Indirect Employees	879	858	803
	Executive Officers	111	112	111
	Total	3,101	3,102	2,962
Average Age		32.35	32.89	33.19
Average Years of Service (Years)		5.66	5.84	5.93
Education Background	Ph.D.	4	5	5
	Masters	154	179	175
	Bachelor's Degree	1,618	1,649	1,558
	Senior High School	1,242	1,195	1,151
	Below Senior High School	83	74	73

5.4 Environmental Protection Expenditure

5.4.1 The loss or penalty caused by environmental pollution during the latest year and up to the printing date of this annual report:

(1)Pollution Status (classification and degree of pollution):

The Company did not form up a kanban board in the handling site of Dibutyl phthalate (DBP) on June 1, 2018, which violated the Regulation under Article 17 of Toxic and Concerned Chemical Substances Control Act, which stipulates"the handler shall post procedure on the proper handling and storage of all toxic and other government-controlled materials, such as chemical substance, including its containers and other packaging materials, stored within the company premises. Safety data Sheet must always be readily-available when needed".

Fixed Penality Notice issued by: Environmental Protection Department, New Taipei City Government, EPD.

Fixed Penalty: NT$60,000

Resolutions: The Company will form up a kanban board in the handling site of DBP. Audit in the factory will also be conducted to ensure safety and compliance in the Government Regulation on proper storage of toxic and chemical substances. This is to prevent occurrence of any issue related to safety.

5.4.2 Explanation of the measures to be taken and possible disbursements to be made in the future:

(1)We've built the waste emission and sewage treatment equipment, which is operated under the municipal license, and have personnel dedicated to matters relating to the environmental issues. We've obtained ISO-14001(environment management system and certification) and OHSAS-18001 (environmental safety and health system certification). In response to the official revision of OHSAS-18001 to ISO-45001, the Company plan to pass the ISO-45001(occupational safety and health management system and certification) in 2018. We will continue to improve current potentials to ensure a safety working environment in the Company.

(2)To reduce environmental pollution, save energy and reduce carbon emission, the company will continue to make assessment on the waste water recycling plans. Investments on the necessary equipment will be made according to the assessment results to achieve power saving and echo the government's energy saving and carbon reduction policies.

(3)All our products are ROHS-compliant and the production waste is disposed of according to the business waste disposal plan and related laws and regulations.

5.5 Labor Relations

5.5.1 Employee benefit plans, continuing education, training, retirement systems, and the status of their implementation, and the status of labor-management agreements and measures for preserving employees' rights and interest:

1. Employee Benefits.
   (1) Employee Benefit Plan: To ensure that our employees are devoted to work when working and relieve their family from financial burdens, apart from the relevant laws and regulations, we also provide extra insurance to give extra protection in case of casualties or hospitalization. Employees also receive special subsidies for weddings and funerals, according to the Company's regulations for the matter.
   (2) Employee welfare committee regularly holds communication meetings, employee outings and recreational activities, etc., to enhance mutual communication and physical and mental relaxation of employees.
2. Retirement System
   The company's retirement system is governed by the "Labor Act" and provides preferential benefits to the retirees
3. Learning and Training
   (1) On-the-Job Learning: To implement the concept that "Employee growth drives company progress," the Company provides domestic and international courses for related training from time to time to enhance professional knowledge of our employees and cultivate talents.
   (2) Family Education Subsidies: we highly value our employees' and their children's education. We provide scholarships when qualifications are met.
   (3) Company Celebration and Sports Events: To relieve the daily work pressure of employees, the Company holds various recreational events and gatherings from time to time
4. Employee Communication or Dispute:
   Since our establishment, we've been committed to establishing a trustworthy, cooperative working atmosphere and environment to form a harmonious relationship with the employees and to discuss and resolve problems as they arise.
   All provisions concerning employee benefits are implemented in accordance with the relevant laws and regulations. Any new or revised provisions will be finalized after a thorough discussion by both parties.
   The following measures are taken to prevent future labor disputes:
   (1) Implement an employee benefit program that is superior to the "Labor Act" requirements.
   (2) Hold labor meetings on a regular basis
   (3) Provide extra channels to facilitate communication between management and eomployee.

(4) Reinforce Labor-Management Ethics

5. Working environment and employee safety protection measures
   All related systems shall be implementation based on rules stipulated under the "Enforcement Rules of the Occupational Safety and Health Act" and other relevant provisions
   (1) We provide health checkups and training regarding occupational safety and health management before new-hires are on board.
   (2) Carry out regular employee health checkups, provide necessary protective equipment and give specific checkups for the workers who are engaged in tasks exposed to health hazards, as well as hold safety and health education courses and regular fire drill.

5.5.2 Loss sustained as a result of labor disputes in the most recent fiscal year, and during the current fiscal year up to the date of printing of the annual report, disclose an estimate of losses incurred to date and indicate mitigation measures being or to be taken: None.

5.6 Major Agreements

Agreement	Counterparty	Period	Major Contents	Restrictions
Long-term Loan Contract	Taishin International Bank	May 2017~May 2019	Medium and long-term working capital	None
Long-term Loan Contract	Mega Bank	May 2019~May 2020	Medium and long-term working capital	None

6. Overview of the Financial Status

6.1 Financial Highlights

6.1.1 Abbreviated Balance Sheets and Income Statements-IFRS

6.1.1.1 Abbreviated Consolidated Balance Sheet-IFRS

Unit: NTD thousands

Item \ Year		Financial Information For The Past 5 Years: 2014	2015	2016	2017	2018	As of 2019/03/31 (Note 1)
Current Assets		10,505,563	9,852,265	10,156,154	8,310,650	8,052,786	7,963,105
Property, Plant and Equipment		4,857,507	5,238,538	4,894,075	4,400,965	4,197,116	4,149,761
Intangible Assets		85,692	68,834	55,360	56,149	65,240	65,456
Other Assets		144,225	166,486	193,622	196,423	148,199	145,462
Total Assets		15,592,987	15,326,123	15,299,211	12,964,187	12,463,341	12,450,454
Current Liabilities	Before Distribution	1,824,163	1,999,360	4,215,368	2,230,873	1,718,682	1,471,556
	After Distribution	2,801,605	2,976,802	5,192,810	3,223,018	Note 2	Note 2
Noncurrent Liabilities		3,741,697	3,189,979	937,002	319,376	295,974	411,541
Total Liabilities	Before Distribution	5,565,860	5,189,339	5,152,370	2,550,249	2,014,656	1,883,097
	After Distribution	6,543,302	6,166,781	6,129,812	3,542,394	Note 2	Note 2
Equity Attributable to Shareholders of the Parent		-	-	-	-	-	-
Capital Stock		1,629,071	1,629,071	1,629,071	1,653,575	1,653,575	1,653,575
Capital Surplus	Before Distribution	4,926,351	4,926,351	4,926,351	5,233,426	5,063,801	5,063,801
	After Distribution	4,926,351	4,926,351	4,926,351	5,063,801	Note 2	Note 2
Retained Earnings	Before Distribution	3,485,888	3,553,250	3,584,470	3,598,786	3,772,201	3,887,436
	After Distribution	2,508,446	2,575,808	2,607,028	2,776,266	Note 2	Note 2
Others equity		(14,183)	28,112	6,949	(71,849)	(40,892)	(37,455)
Treasury stock		-	-	-	-	-	-
Minority equity		-	-	-	-	-	-
Total Equity	Before Distribution	10,027,127	10,136,784	10,146,841	10,413,938	10,448,685	10,567,357
	After Distribution	9,049,685	9,159,342	9,169,399	9,421,793	Note 2	Note 20

Note 1: The financial information of Q1/2019 has been reviewed by independent auditors.

Note 2: The appropriation of cash distribution from Retined Earnings and Capital Surplus of year 2018 shall be determined by the 2019 annual regular shareholders' meeting.

6.1.1.2 Abbreviated Parent-Company-Only Balance Sheet-IFRS

Unit: NTD thousands

Item \ Year		Financial Information For The Past 5 Years (Note 1)				
		2014	2015	2016	2017	2018
Current Assets		9,741,963	9,051,461	9,303,613	7,593,398	7,201,928
Property, Plant and Equipment		3,574,823	4,052,156	3,865,506	3,608,387	3,469,211
Intangible Assets		85,692	68,834	55,360	56,149	65,240
Other Assets		1,779,266	1,750,586	1,623,238	1,484,023	1,506,265
Total Assets		15,181,744	14,923,037	14,847,717	12,741,957	12,242,644
Current Liabilities	Before Distribution	1,492,669	1,658,639	3,807,654	2,058,884	1,538,357
	After Distribution	2,470,111	2,636,081	4,785,096	3,051,029	Note 2
Noncurrent Liabilities		3,661,948	3,127,614	893,222	269,135	255,602
Total Liabilities	Before Distribution	5,154,617	4,786,253	4,700,876	2,328,019	1,793,959
	After Distribution	6,132,059	5,763,695	5,678,318	3,320,164	Note 2
Equity Attributable to Shareholders of the Parent		-	-	-	-	-
Capital Stock		1,629,071	1,629,071	1,629,071	1,653,575	1,653,575
Capital Surplus	Before Distribution	4,926,351	4,926,351	4,926,351	5,233,426	5,063,801
	After Distribution	4,926,351	4,926,351	4,926,351	5,063,801	Note 2
Retained Earnings	Before Distribution	3,485,888	3,553,250	3,584,470	3,598,786	3,772,201
	After Distribution	2,508,446	2,575,808	2,607,028	2,776,266	Note 2
Others Equity		(14,183)	28,112	6,949	(71,849)	(40,892)
Treasury Stock		-	-	-	-	-
Minority Equity		-	-	-	-	-
Total Equity	Before Distribution	10,027,127	10,136,784	10,146,841	10,413,938	10,448,685
	After Distribution	9,049,685	9,159,342	9,169,399	9,421,793	Note 2

Note 1: The financial information over the past 5 fiscal years has been audited by independent auditors.

Note 2: The appropriation of cash distribution from Retined Earnings and Capital Surplus of year 2018 shall be determined by the 2019 annual regular shareholders' meeting.

6.1.2 Income Statement

6.1.2.1. Abbreviated Consolidated Income Statement -IFRS

Unit: NTD thousands (EPS: NTD)

Item \ Year	Financial Information For The Past 5 Years					As of 2019/03/31 (Note 1)
	2014	2015	2016	2017	2018	
Net Revenue	8,337,547	7,771,904	8,057,845	7,745,602	7,413,512	1,615,326
Gross Profit	2,488,995	1,914,193	1,995,184	1,897,712	1,901,684	290,245
Net Operating Income	1,714,851	1,211,985	1,233,754	1,161,816	1,138,561	130,064
Non-operating Income and Expenses	85,110	71,056	(10,640)	(62,047)	106,722	15,734
Income before Income Tax	1,799,961	1,283,041	1,223,114	1,099,769	1,245,283	145,798
Income from Continuing Operations	1,510,642	1,041,411	1,025,006	973,889	1,013,603	115,235
Loss from Discontinuing Operations	-	-	-	-	-	-
Net Income	1,510,642	1,041,411	1,025,006	973,889	1,013,603	115,235
Other Comprehensive Income (Loss), After Tax	71,192	45,688	(37,507)	(60,929)	3,496	3,437
Comprehensive Income	1,581,834	1,087,099	987,499	912,960	1,017,099	118,672
Net Income Attributable to Shareholders of the Parent	1,510,642	1,041,411	1,025,006	973,889	1,013,603	115,235
Net Income, Attributable to Minority Equity	-	-	-	-	-	-
Comprehensive Income Attributable to Shareholders of the Parent	1,581,834	1,087,099	987,499	912,960	1,017,099	118,672
Comprehensive Income Attributable to Minority Equity	-	-	-	-	-	-
Earnings Per Share	9.27	6.39	6.29	5.91	6.13	0.70

Note 1: The financial information of Q1/2019 has been reviewed by independent auditors.

6.1.2.2. Abbreviated Parent-Company-Only Income Statement-IFRS

Unit: NTD thousands (EPS: NTD)

Item \ Year	Financial Information For The Past 5 Years (Note 1)				
	2014	2015	2016	2017	2018
Net Revenue	8,294,505	7,710,609	7,988,711	7,683,997	7,358,728
Gross Profit	2,439,857	1,780,613	1,896,473	1,670,519	1,642,659
Net Operating Income	1,907,607	1,309,577	1,359,607	1,158,853	1,086,108
Non-operating Income and Expenses	(116,837)	(36,276)	(148,122)	(75,498)	141,811
Income before Income Tax	1,790,770	1,273,301	1,211,485	1,083,355	1,227,919
Income from Continuing Operations	1,510,642	1,041,411	1,025,006	973,889	1,013,603
Loss from Discontinuing Operations	-	-	-	-	-
Net Income	1,510,642	1,041,411	1,025,006	973,889	1,013,603
Other Comprehensive Income (Loss), After Tax	71,192	45,688	(37,507)	(60,929)	3,496
Comprehensive Income	1,581,834	1,087,099	987,499	912,960	1,017,099
Net Income Attributable to Shareholders of the Parent	1,510,642	1,041,411	1,025,006	973,889	1,013,603
Net Income Attributable to Minority Equity	-	-	-	-	-
Comprehensive Income Attributable to Shareholders of the Parent	1,581,834	1,087,099	987,499	912,960	1,017,099
Comprehensive Income Attributable to Minority Equity	-	-	-	-	-
Earnings Per Share	9.27	6.39	6.29	5.91	6.13

Note 1: The financial information over the past 5 fiscal years has been audited by independent auditors.

6.1.3 Names of the Auditors and their Opinions

Year	CPA Firm	CPA	Auditors' Opinion
2014	KPMG	Yi-Wun Wang, Yao-Jyun Cyu	Unqualified opinion
2015	KPMG	Yi-Wun Wang, Hsin-Fu Yen	Unqualified opinion
2016	KPMG	Yi-Wun Wang, Hsin-Fu Yen	Unqualified opinion
2017	KPMG	Szu-Chuan Chien, Hsin-Fu Yen	Unqualified opinion
2018	KPMG	Szu-Chuan Chien, Hsin-Fu Yen	Unqualified opinion

6.2 Financial Analysis

6.2.1 Consolidated Financial Analysis -IFRS

Analysis items (Note 3) \ Year		Financial Information For The Past 5 Years					As of 2019/03/31 (Note 1)
		2014	2015	2016	2017	2018	
Capital Structure	Debt Ratio (%)	35.69	33.86	33.68	19.67	16.16	15.12
	Long-term Funds to Property, Plant and Equipment (%)	283.45	254.40	226.47	243.89	256.00	256.73
Liquidity	Current Ratio (%)	575.91	492.77	240.93	372.53	468.54	541.14
	Quick Ratio (%)	524.67	446.60	217.58	328.62	388.83	452.29
	Times Interest Earned (Times)	48.74	25.85	26.50	41.13	148.55	59.91
Operating Performance	Average Collection Turnover (Times)	8.02	6.76	6.07	5.63	5.71	5.40
	Average Collection Days	46	54	60	65	64	68
	Average Inventory Turnover (Times)	6.63	6.43	6.50	6.11	4.81	4.04
	Average Payable Turnover (Times)	14.05	15.05	14.55	13.28	11.62	12.32
	Inventory Turnover Days	55	57	56	60	76	90
	Property, Plant and Equipment Turnover (Times)	1.72	1.54	1.59	1.67	1.72	1.53
	Total Assets Turnover (Times)	0.53	0.51	0.53	0.60	0.59	0.52
Profitability	Return on Total Assets (%)	11.22	7.01	6.95	7.05	8.03	3.76
	Return on Equity (%)	15.46	10.33	10.11	9.47	9.72	4.39
	Income before Income Tax to Issued Capital (%)	110.49	78.76	75.08	66.51	75.31	35.27
	Net Income to Sales (%)	18.12	13.40	12.72	12.57	13.67	7.13
	Earnings Per Share (NT$)	9.27	6.39	6.29	5.91	6.13	0.70
Cash Flow	Cash Flow Ratio (%)	103.00	78.09	51.64	137.22	89.13	74.57
	Cash Flow Adequacy Ratio (%)	Note 2	Note 2	96.77	114.96	101.11	99.30
	Cash Flow Re-investment Ratio (%)	4.25	3.28	7.50	14.04	3.74	0.72
Leverage	Operating Leverage	1.60	1.91	1.91	1.87	1.77	2.45
	Financial Leverage	1.02	1.04	1.04	1.02	1.01	1.02

Explanations for Significant Changes (over 20%)

(1) Liquidity:

1. Increases in Current Ratio: due to Long-term Loan repayment.
2. Increases in Times Interest Earned: due to a lower interest expense after Long-term Loan repayment.

(2) Operating Performance

1. Increases in Average Inventory Turnover and Inventory Turnover Days: due to riased demands form customer and effect by conbined products and increasing in inventories.

(3) Cash Flow:

1. Decreases in Cash Flow Ratio: due to a dncrease in the net operating cash flow and current liabilities.
2. Decreases in Cash Flow Re-investment Ratio: due to a dncrease in the net operating cash flow.

Note 1: The financial information of Q1/2019 has been reviewed by independent auditors.
Note 2: The Cash Flow Adequacy Ratio can't provide due to insufficient data.
Note 3: **Formula for Financial Analysis**:

A. Capital Structure

①Debt ratio = Total liabilities/Total assets
②Long-term funds to property, plant and equipment =（Stockholders’ equity＋Noncurrent Liabilities）/ Net Property, Plant and Equipment

B. Liquidity

①Current ratio = Current assets/Current liability
②Quick ratio =（Current asset-Inventories-Pre-paid Expense -Current Deferred Income Tax）/Current Liability
③Times interest earned = Earnings before interest and Taxes/Interest Expense

C. Operating Performance

①Average collection turnover (times)（including accounts receivable and notes receivable from operating）= Net Sales / Average Trade Receivable（including accounts receivable and notes receivable from operating）
②Average collection days = 365 / Average Collection Turnover (Times)
③Average inventory turnover (times) = Cost of Goods Sold / Average Inventory
④Average payable turnover (times)（including accounts payable and notes payable from operating）= Cost of Goods Sold /Average Trade Payables（including accounts payable and notes payable from operating）
⑤Inventory turnover days = 365 / Average Inventory Turnover (times)
⑥Property, plant and equipment turnover (times) = Net Sales / Average Property, Plant and Equipment
⑦Total assets turnover (times) = Net sales / Average Total Assets

D. Profitability

①Return on total assets =[Net Income after Tax+ Interest Expense× (1-Tax Rate)] / Average Total Assets
②Return on Equity = Net Income after Tax / Average Stockholders’ Equity.
③Net income to sales = Net Income after Tax / Net Sales.
④EPS =（Net Income after Tax-Preferred Stock Dividend）/ Weighted Average Number of Shares Outstanding

E. Cash Flow

①Cash flow ratio = Net operating cash flow/Current liability.
②Cash flow adequacy ratio = Net operating cash flow over the last 5 years/over the last 5 years(capital expense + inventory+ cash dividend）
③Cash flow re-investment ratio =（Net operating cash flow-cash dividends）/（Gross property, plant and equipment + long-term investment+other assets + working capital）

F. Leverage

①Operating leverage = (Net Sales-Variable Cost and expense) / Income from Operations
②Financial leverage = Income from Operations/(Income from Operations-Interest Expenses)

6.2.2 Parent Company Financial Analysis -IFRS

Analysis items (Note 3) \ Year		2014	2015	2016	2017	2018
		Financial Information For The Past 5 Years (Note 2)				
Capital Structure	Debt Ratio (%)	33.95	32.07	31.66	18.27	14.65
	Long-term Funds to Property, Plant and Equipment (%)	321.47	272.49	278.67	290.41	301.18
Liquidity	Current Ratio (%)	652.65	545.72	244.34	368.81	468.16
	Quick Ratio (%)	604.63	507.35	227.61	331.38	403.67
	Times Interest Earned (Times)	60.20	29.99	31.84	56.81	395.58
Operating Performance	Average Collection Turnover (Times)	8.02	6.76	6.11	5.66	5.73
	Average Collection Days	45	53.97	59.78	64.49	63.69
	Average Inventory Turnover (Times)	8.81	8.92	9.80	8.80	6.66
	Average Payable Turnover (Times)	12.30	13.43	12.92	12.10	11.38
	Inventory Turnover Days	41	41	37.25	41.49	54.80
	Property, Plant and Equipment Turnover (Times)	2.32	2.02	2.02	2.06	2.08
	Total Assets Turnover (Times)	0.55	0.52	0.54	0.60	0.60
Profitability	Return on Total Assets (%)	11.52	7.16	7.11	7.18	8.13
	Return on Equity (%)	15.46	10.33	10.11	9.47	9.72
	Income before Income Tax to Issued Capital (%)	109.93	78.16	74.37	65.52	74.26
	Net Income to Sales (%)	18.21	13.51	12.83	12.67	13.77
	Earnings Per Share (NT$)	9.27	6.39	6.29	5.91	6.13
Cash Flow	Cash Flow Ratio (%)	127.48	90.44	58.18	135.06	96.33
	Cash Flow Adequacy Ratio (%)	(Note 2)	(Note 2)	(Note 2)	117.06	102.06
	Cash Flow Re-investment Ratio (%)	4.79	3.24	8.72	13.83	3.92
Leverage	Operating Leverage	1.42	1.67	1.68	1.71	1.65
	Financial Leverage	1.02	1.03	1.03	1.02	1.00

Note1: The financial information over the past 5 years has been audited by independent auditors.
Note2: The Cash Flow Adequacy Ratio can't provide due to insufficient data.
Note 3: **Formula for Financial Analysis**:

A. Capital Structure

①Debt ratio = Total liabilities/Total assets

②Long-term funds to property, plant and equipment =（Stockholders’ equity＋Noncurrent Liabilities）/ Net Property, Plant and Equipment

B. Liquidity

①Current ratio = Current assets/Current liability
②Quick ratio =（Current asset-Inventories-Pre-paid Expense -Current Deferred Income Tax）/Current Liability
③Times interest earned = Earnings before interest and Taxes/Interest Expense

C. Operating Performance

①Average collection turnover (times)（including accounts receivable and notes receivable from operating）= Net Sales / Average Trade Receivable（including accounts receivable and notes receivable from operating）
②Average collection days = 365 / Average Collection Turnover (Times)
③Average inventory turnover (times) = Cost of Goods Sold / Average Inventory
④Average payable turnover (times)（including accounts payable and notes payable from operating）= Cost of Goods Sold /Average Trade Payables（including accounts payable and notes payable from operating）
⑤Inventory turnover days = 365 / Average Inventory Turnover (times)
⑥Property, plant and equipment turnover (times) = Net Sales / Average Property, Plant and Equipment
⑦Total assets turnover (times) = Net sales / Average Total Assets

D. Profitability

①Return on total assets =[Net Income after Tax+ Interest Expense× (1-Tax Rate)] / Average Total Assets
②Return on Equity = Net Income after Tax / Average Stockholders' Equity.
③Net income to sales = Net Income after Tax / Net Sales.
④EPS =（Net Income after Tax-Preferred Stock Dividend）/ Weighted Average Number of Shares Outstanding

E. Cash Flow

①Cash flow ratio = Net operating cash flow/Current liability.
②Cash flow adequacy ratio = Net operating cash flow over the last 5 years/over the last 5 years（capital expense + inventory+ cash dividend）
③Cash flow reinvestment ratio =（Net operating cash flow-cash dividends）/（Gross property, plant and equipment + long-term investment+other assets + working capital）

F. Leverage

①Operating leverage = (Net Sales-Variable Cost & expense) / Income from Operations
②Financial leverage = Income from Operations/(Income from Operations-Interest Expenses)

6.3 Supervisor’s Review Report

Supervisors' Review Report

The Board of Directors has prepared the Company's 2018 Business Report, Consolidated and Separate Financial Statements, and proposal for allocation of earnings. Ms. Szu-Chuan Chien and Mr. Hsin-Fu Yen, the engagement partners from KPMG was retained to audit Tong Hsing's Financial Statements and have issued an audit report relating to the Financial Statements. The Business Report, Financial Statements, and earnings allocation proposal have been reviewed and determined to be correct and accurate by the Supervisors of Tong Hsing. According to Article 219 of Company Act, whereby submit this report.

Tong Hsing Electronic Industries, Ltd.

Supervisors:

Chun-Yi Hsu

Yu-Chin Tsai

Date: March 15, 2019

6.4 Consolidated Financial statement for the Most Recent Year

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 uncertainry 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.

KPMG

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.

KPMG

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)

	Assets	December 31, 2018 Amount	%	December 31, 2017 Amount	%
	Current assets:				
1100	Cash and cash equivalents (note 6(a))	$ 5,168,430	42	5,883,990	46
1110	Current financial assets at fair value through profit or loss (notes 6(b))	100,394	1	-	-
1170	Notes and accounts receivable, net (note 6(c))	1,267,822	10	1,329,596	10
1200	Other receivables	44,325	-	36,800	-
1476	Other financial assets－current (note 8)	70,628	1	67,629	1
1310	Inventories (note 6(d))	1,341,567	11	948,380	7
1410	Prepayments	28,408	-	31,135	-
1470	Other current assets (notes 6(c) and (q))	31,212	-	13,120	-
		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
1780	Intangible assets (note 6(g))	65,240	1	56,149	1
1840	Deferred tax assets (note 6(n))	129,624	1	173,952	1
1980	Other financial assets－non-current (note 8)	5,000	-	5,000	-
1900	Other non-current assets	1,781	-	1,792	-
1920	Refundable deposits	11,794	-	15,679	-
		4,410,555	35	4,653,537	36
	Total assets	$ 12,463,341	100	12,964,187	100

	Liabilities and Equity	December 31, 2018 Amount	%	December 31, 2017 Amount	%
	Current liabilities:				
2100	Short-term borrowings (note 6(h))	$ 249,859	2	271,436	2
2170	Notes and accounts payable	498,267	4	450,310	4
2200	Other payables (note 6(k))	772,118	6	742,120	6
2230	Current tax liabilities	150,142	1	181,222	1
2300	Other current liabilities (note 6(q))	48,296	1	22,898	-
2322	Long-term borrowings, current portion (note 6(i))	-	-	562,887	4
		1,718,682	14	2,230,873	17
	Non-Current liabilities:				
2540	Long-term borrowings (note 6(i))	-	-	65,000	1
2570	Deferred tax liabilities (note 6(n))	118,686	1	103,212	1
2640	Net defined benefit liability－non-current (note 6(m))	177,288	1	151,164	1
		295,974	2	319,376	3
	Total liabilities	2,014,656	16	2,550,249	20
	Equity:				
	Equity attributable to owners of parent: (note 6(o))				
3100	Ordinary shares	1,653,575	13	1,653,575	13
3200	Capital surplus	5,063,801	41	5,233,426	40
3310	Legal reserve	1,234,484	10	1,137,095	9
3320	Special reserve	105,549	1	33,700	-
3350	Unappropriated retained earnings	2,432,168	19	2,427,991	19
3410	Exchange differences on translation of foreign financial statements	(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

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 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	74,488	1	76,085	1
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)	5,511,828	74	5,847,890	75
5900	**Gross profit**	1,901,684	26	1,897,712	25
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)	13,519	-	-	-
		763,123	11	735,896	10
6900	**Net operating income**	1,138,561	15	1,161,816	15
	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))	-	-	(76,190)	(1)
		106,722	2	(62,047)	(1)
7900	**Profit before tax**	1,245,283	17	1,099,769	14
7950	**Less: tax expense (note 6(n))**	231,680	3	125,880	1
	Profit	1,013,603	14	973,889	13
	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	8,185	-	(3,659)	-
		(27,461)	(1)	17,869	-
	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	(10,582)	-	26,813	-
		30,957	1	(78,798)	(1)
	Other comprehensive income	3,496	-	(60,929)	(1)
8500	**Comprehensive income**	$ 1,017,099	14	912,960	12
	Earnings per share (note 6(p))				
9750	Basic earnings per share	$	6.13		5.91
9850	Diluted earnings per share	$	6.09		5.78

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 Changes in Equity

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

			Retained earnings				Other equity interest	
	Ordinary shares	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total retained earnings	Exchange differences on translation of foreign financial statements	Total equity
Balance on January 1, 2017	$ 1,629,071	4,926,351	1,034,594	33,700	2,516,176	3,584,470	6,949	10,146,841
Consolidated net income for the year ended December 31, 2017	-	-	-	-	973,889	973,889	-	973,889
Other comprehensive income for the year ended December 31, 2017	-	-	-	-	17,869	17,869	(78,798)	(60,929)
Total comprehensive income for the year ended December 31, 2017	-	-	-	-	991,758	991,758	(78,798)	912,960
Appropriation and distribution of retained earnings:								
Legal reserve appropriated	-	-	102,501	-	(102,501)	-	-	-
Cash dividends of ordinary share	-	-	-	-	(977,442)	(977,442)	-	(977,442)
Conversion of convertible bonds	24,504	307,075	-	-	-	-	-	331,579
Balance at December 31, 2017	1,653,575	5,233,426	1,137,095	33,700	2,427,991	3,598,786	(71,849)	10,413,938
Effects of retrospective application	-	-	-	-	9,793	9,793	-	9,793
Balance on January 1, 2018 after adjustments	1,653,575	5,233,426	1,137,095	33,700	2,437,784	3,608,579	(71,849)	10,423,731
Consolidated net income for the year ended December 31, 2018	-	-	-	-	1,013,603	1,013,603	-	1,013,603
Other comprehensive income for the year ended December 31, 2018	-	-	-	-	(27,461)	(27,461)	30,957	3,496
Total comprehensive income for the year ended December 31, 2018	-	-	-	-	986,142	986,142	30,957	1,017,099
Appropriation and distribution of retained earnings:								
Legal reserve appropriated	-	-	97,389	-	(97,389)	-	-	-
Special reserve appropriated	-	-	-	71,849	(71,849)	-	-	-
Cash dividends of ordinary share	-	-	-	-	(822,520)	(822,520)	-	(822,520)
Cash dividends from capital surplus	-	(169,625)	-	-	-	-	-	(169,625)
Balance on December 31, 2018	**$ 1,653,575**	**5,063,801**	**1,234,484**	**105,549**	**2,432,168**	**3,772,201**	**(40,892)**	**10,448,685**

(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)		854,272	1,023,473
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 though 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)
		(384,416)	1,119,241
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		1,531,934	3,061,245
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		(626,266)	(611,750)
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		(1,649,689)	(3,146,729)
Effect of exchange rate changes on cash and cash equivalents		28,461	(70,095)
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	$	5,168,430	5,883,990

See accompanying notes to consolidated financial statements.

(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)

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.

2) Impacts on financial statements

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

	December 31, 2018			January 1, 2018		
Impacted line items on the consolidated balance sheets	**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 polices**	**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)

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 polices	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	1,211	3,312
Impact on cash flows from (used in) operating activities		$ -	

(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)

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)

	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:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
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)

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)

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)

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").

(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)

(ii) List of subsidiaries in the consolidated financial statements

			Shareholding		
Name of investor	**Name of subsidiary**	**Nature of operation**	**December 31, 2018**	**December 31, 2017**	**Note**
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)

When a foreign operation is disposed of such that control, significant influence' 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 planed nor likely in the foreseeable future, foreign exchange currency gains and losses arising form 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)

(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.

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)

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)

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)

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.

(Continued)

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.

A equity instruments 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.

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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)

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 colsely 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.

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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)

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)

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)

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.

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)

(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)

(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)

(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)

(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	3,899,330	4,471,181
	$ 5,168,430	5,883,990

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 founds	$ 100,394

(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	(79,464)	(66,017)
	$ 1,267,822	1,329,596

(Continued)

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

Aging interval	Carrying amount of notes and accounts receivables	Weighted-average expected loss rate	Loss allowance provision
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
	$ 164,285		1,059

(ii) Credit rate B

Aging interval	Carrying amount of notes and accounts receivables	Weighted-average expected loss rate	Loss allowance provision
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
	$ 1,183,001		78,405

(Continued)

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:

Aging interval	December 31, 2017
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
	$ 1,329,596

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

	2018	2017 Collectively assessed impairment
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	$ 79,464	66,017

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

(d) Inventories

	December 31, 2018	December 31, 2017
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
	$ 1,341,567	948,380

(Continued)

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

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

(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:

	December 31, 2017
The net amount of land and building	$ 12,576

(f) Property, plant and equipment

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

	Land	Buildings and structures	Machinery and equipment	Office equipment	Leasehold improvements	Unfinished construction and equipment under acceptance	Total
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	-	16,227	56,433	7,413	209	377	80,659
Balance on December 31, 2018	$ 413,719	2,606,047	4,358,883	373,410	6,704	144,618	7,903,381

(Continued)

		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	$	402,071	2,525,192	5,084,626	377,896	6,495	112,280	8,508,560
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	$	-	522,260	2,894,616	285,658	3,731	-	3,706,265
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	$	-	393,927	3,444,762	265,500	3,406	-	4,107,595
Book value:								
Balance on December 31, 2018	$	413,719	2,083,787	1,464,267	87,752	2,973	144,618	4,197,116
Balance on January 1, 2017	$	404,066	1,566,488	2,148,892	104,978	7,609	662,042	4,894,075
Balance on December 31, 2017	$	402,071	2,131,265	1,639,864	112,396	3,089	112,280	4,400,965

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)

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

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

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:

		Goodwill	Patents	Cost of computer software	Customer relationship	Total
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	$	51,936	25,462	17,640	41,776	136,814
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	$	51,936	25,462	7,427	41,776	126,601
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	$	-	25,462	4,336	41,776	71,574
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	$	-	25,462	3,214	41,776	70,452
Book value:						
Balance on December 31, 2018	$	51,936	-	13,304	-	65,240
Balance on January 1, 2017	$	51,936	333	3,091	-	55,360
Balance on December 31, 2017	$	51,936	-	4,213	-	56,149

(Continued)

(iii) Amortization recognized

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

		2018	2017
Operating costs	$	852	1,955
Operating expenses	$	3,269	1,165

(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:

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

(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)

(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
	$ -	65,000
Unused long-term credit lines	$ 65,000	-
Range of interest rates	-	1.25%~3.04%
Expiration	-	2019

(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)

(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	(331,800)
	-
Balance of unamortized bonds payable's cost	-
	$ -

	2017
Interest expense	$ 6,472

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)

(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		329,323	354,954
	$	772,118	742,120

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		23,956	23,623
	$	37,185	37,876

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)

(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	316,083	317,716
Net defined benefit liabilities	$ **(136,916)**	**(100,923)**

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	4,449	3,493
Net defined benefit liabilities	$ **(40,372)**	**(50,241)**

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)

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	$	(497,820)	(472,373)

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	$	320,532	321,209

(Continued)

6) Expenses recognized in profit or loss

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

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

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:

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

8) Actuarial assumptions

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

	2018		2017	
	The Company	THEPI	The Company	THEPI
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)

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:

A. The Company

Actuarial assumption	Influences of defined benefit obligations	
	Increased 0.25%	**Decreased 0.25%**
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	Influences of defined benefit obligations	
	Increased 1%	**Decreased 1%**
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)

(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)
		176,281	128,748
Deferred tax expense			
Origination and reversal of temporary differences		78,536	(2,868)
Adjustment in tax rate		(23,137)	-
		55,399	(2,868)
Income tax expense	$	**231,680**	**125,880**

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)
	$	**2,397**	**(23,154)**

(Continued)

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

	2018	2017
Profit before income tax	$ 1,245,283	1,099,769
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	(4,043)	9,982
	$ 231,680	125,880

(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	$ -	4,430	80,950	33,306	118,686
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	$ -	1,095	80,950	21,167	103,212

	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	$ 2,006	38,666	56,319	32,633	129,624

(Continued)

	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	$ 12,588	25,631	111,302	24,431	173,952

(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:

Tax exemption products	Tax exemption	Tax exemption period
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:

	December 31, 2018	December 31, 2017
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)	165,357	165,357

(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)

(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
	$ 5,063,801	5,233,426

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)

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	822,520	6	977,442

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

(Continued)

(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

	2018	2017
Profit attributable to ordinary shareholders of the Company	$ 1,013,603	973,889

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

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

3) Basic earnings per share (TWD)

	2018	2017
Basic earnings per share	$ 6.13	5.91

(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)

	2018	2017
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)	$ 1,013,603	980,361

(Continued)

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

	2018	2017
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	166,316	169,552

3) Diluted earnings per share (TWD)

	2018	2017
Diluted earnings per share	$ 6.09	5.78

(q) Revenue from contracts with customers

(i) Disaggregation of revenue

	2018				
	BU1	BU2	BU3	Others	Total
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	324,367	159,251	629,962	92,676	1,206,256
	$ 2,397,265	772,641	4,072,225	171,381	7,413,512
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	-	-	-	171,381	171,381
	$ 2,397,265	772,641	4,072,225	171,381	7,413,512

(Continued)

(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	(79,464)	(66,017)
Total	$ 1,297,838	1,370,072
Contract liabilities – advance sales receipts (recorded under other current liabilities)	$ 1,165	1,304

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)

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	$ **312**

(Continued)

(ii) Liquidity risk

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

		Carrying Amount	Contractual cash flows	Within a year	Over a year
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		398,708	(398,708)	(398,708)	-
	$	1,146,834	(1,146,834)	(1,146,834)	-
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		65,000	(65,000)	-	(65,000)
	$	1,764,986	(1,764,986)	(1,699,986)	(65,000)

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:

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

(Continued)

	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)

(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	(175,978)	(735,947)
	$ 3,798,980	3,807,863
Variable-rate instruments:		
Financial assets	$ 1,263,693	1,407,267
Financial liabilities	(73,881)	(163,376)
	$ 1,189,812	1,243,891

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:

	December 31, 2018				
		Fair value			
	Carrying amount	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				
		Fair value			
	Carrying amount	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)

	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	$ 1,764,986	-	-	-	-

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.

(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)

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.

(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	$ 899,323	(657,544)	8,080	249,859

(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)

(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
	$ 89,514	81,817

(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	777,623	808,087
		$ 850,802	878,882

(9) Commitments and contingencies

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

(Continued)

(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	$ 79,131	101,579

(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	$ 28,245	48,131

(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	2018			2017		
By item	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.

(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 tittle	Ending balance: Shares /Units	Ending balance: Carrying amount	Ending balance: Percentage of ownership (%)	Ending balance: Fair value	Highest balance during the year: Shares /Units	Highest balance during the year: Percentage of ownership (%)	Note
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: Purchase/ (Sale)	Transaction details: Amount	Transaction details: Percentage of total purchases/ (sales)	Transaction details: Payment terms	Transactions with terms different from others: Unit price	Transactions with terms different from others: Payment Terms	Notes/Accounts receivable (payable): Ending Balance	Notes/Accounts receivable (payable): Percentage of total notes/ accounts receivable (payable)	Note
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: Amount	Overdue: Action taken	Amounts received in subsequent period (Note 1)	Allowance for bad debts	Note
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)

(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			
				Accounts name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
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)

(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	$ 2,397,265	2,202,955	4,072,225	171,381	(1,430,314)	7,413,512
Reportable segment profit(loss)	$ 524,627	(64,001)	592,978	84,957	106,722	1,245,283
Assets						
Reportable segment assets	$ -	-	-	-	-	-

	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	$ 2,373,156	2,754,626	4,127,593	186,451	(1,696,224)	7,745,602
Reportable segment profit (loss)	$ 485,619	(40,936)	579,141	137,992	(62,047)	1,099,769
Assets						
Reportable segment assets	$ -	-	-	-	-	-

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.

(b) Product information

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

Products		2018	2017
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	$	**7,413,512**	**7,745,602**

(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:

Country		2018	2017
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	$	**7,413,512**	**7,745,602**

(ii) Non-current Assets:

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

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

(d) Major customers

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

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

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 parent company only financial statements of Tong Hsing Electronic Industries, Ltd. which comprise the parent company only balance sheets as of December 31, 2018 and 2017, the parent company only statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2018 and 2017, and notes to the parent company only financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Tong Hsing Electronic Industries, Ltd. as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities.

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 parent company only Financial Statements section of our report. We are independent of Tong Hsing Electronic Industries, Ltd. 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 parent company only financial statements of the current period. These matters were addressed in the context of our audit of the parent company only 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:

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1. **Valuation of inventories**

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

Responsibilities of Management and Those Charged with Governance for the Parent Company Only Financial Statements

Management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and for such internal control as management determines is necessary to enable the preparation of the parent company only financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company only financial statements, management is responsible for assessing Tong Hsing Electronic Industries, Ltd.'s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting. Unless management either intends to liquidate Tong Hsing Electronic Industries, Ltd. or to cease its operations, or has 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.'s financial reporting process.

Auditors' Responsibilities for the Audit of the Parent Company Only Financial Statements

Our objectives are to obtain reasonable assurance about whether the parent company only 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 parent company only 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 parent company only 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.'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.'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 parent company only 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. to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the disclosures, and whether the 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 investment in other entities accounted for using the equity method to express an opinion on this financial statements. We are responsible for the direction, supervision and performance of the 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 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 parent company only financial statements are intended only to present the financial position, financial performance and its 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 parent company only financial statements are those generally accepted and applied in the Republic of China.

The independent auditors'audit report and the accompanying parent company only 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 parent company only financial statements, the Chinese version shall prevail.

(English Translation of Financial Statements and Report Originally Issued in Chinese.)

TONG HSING ELECTRONIC INDUSTRIES, LTD.

Balance Sheets

December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	Assets	December 31, 2018 Amount	%	December 31, 2017 Amount	%
	Current assets:				
1100	Cash and cash equivalents (note 6(a))	$ 4,785,418	39	5,456,908	43
1110	Current financial assets at fair value through profit or loss (note 6(b))	100,394	1	-	-
1170	Notes and accounts receivable, net (note 6(c))	1,250,911	10	1,317,146	11
1200	Other receivables (note 7)	41,874	1	35,458	-
1310	Inventories (note 6(d))	970,607	8	745,699	6
1410	Prepayments	21,512	-	25,067	-
1470	Other current assets (notes 6(c) and 6(r))	31,212	-	13,120	-
		7,201,928	59	7,593,398	60
	Non-current assets:				
1550	Investments accounted for using equity method (note 6(f))	1,365,145	11	1,294,531	10
1600	Property, plant and equipment (notes 6(g), 7 and 8)	3,469,211	28	3,608,387	29
1780	Intangible assets (note 6(h))	65,240	1	56,149	-
1840	Deferred tax assets (note 6(o))	129,624	1	173,952	1
1980	Other financial assets — non-current (note 8)	5,000	-	5,000	-
1920	Refundable deposits	6,496	-	10,540	-
		5,040,716	41	5,148,559	40
	Total assets	$ 12,242,644	100	12,741,957	100

	Liabilities and Equity	December 31, 2018 Amount	%	December 31, 2017 Amount	%
	Current liabilities:				
2100	Short-term borrowings (note 6(i))	$ 4,730	-	-	-
2170	Notes and accounts payable	421,112	4	384,221	3
2180	Accounts payable to related parties (note 7)	97,702	1	101,608	1
2200	Other payables (notes 6(l) and 7)	823,230	7	813,820	6
2230	Current tax liabilities	143,287	1	176,337	1
2300	Other current liabilities (note 6(r))	48,296	-	22,898	-
2322	Long-term borrowings, current portion (note 6(j))	-	-	560,000	5
		1,538,357	13	2,058,884	16
	Non-Current liabilities:				
2540	Long-term borrowings (note 6(j))	-	-	65,000	-
2570	Deferred tax liabilities (note 6(o))	118,686	1	103,212	1
2640	Net defined benefit liability — non-current (note 6(n))	136,916	1	100,923	1
		255,602	2	269,135	2
	Total liabilities	1,793,959	15	2,328,019	18
	Equity (note 6(p)):				
3100	Ordinary shares	1,653,575	13	1,653,575	13
3200	Capital surplus	5,063,801	41	5,233,426	41
3310	Legal reserve	1,234,484	10	1,137,095	9
3320	Special reserve	105,549	1	33,700	-
3350	Unappropriated retained earnings	2,432,168	20	2,427,991	19
3410	Exchange differences on translation of foreign financial statements	(40,892)	-	(71,849)	-
	Total equity	10,448,685	85	10,413,938	82
	Total liabilities and equity	$ 12,242,644	100	12,741,957	100

See accompanying notes to parent company only financial statements.

(English Translation of Financial Statements and Report Originally Issued in Chinese.)

TONG HSING ELECTRONIC INDUSTRIES, LTD.

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**	$ 7,421,968	101	7,752,991	101
4170	Less: sales returns and allowances	63,240	1	68,994	1
4100	**Net sales revenue (note 6(r))**	7,358,728	100	7,683,997	100
5110	Cost of sales (notes 6(d), 6(n), 7 and 12)	5,716,069	78	6,013,478	78
5900	**Gross profit**	1,642,659	22	1,670,519	22
6000	**Operating expenses:** (notes 6(n) and 12)				
6100	Selling expenses	191,981	3	189,125	3
6200	Administrative expenses	237,535	3	224,188	3
6300	Research and development expenses	114,120	1	98,353	1
6450	Expected credit losses	12,915	-	-	-
		556,551	7	511,666	7
6900	**Net operating income**	1,086,108	15	1,158,853	15
	Non-operating income and expenses:				
7100	Interest income	29,325	1	33,274	-
7190	Other income (note 6(e))	31,217	-	14,368	-
7230	Foreign exchange gains (note 6(t))	71,587	1	-	-
7235	Gains on current financial assets (liabilities) at fair value through profit or loss (note 6(b))	394	-	4,243	-
7070	Share of profit (loss) of associates and joint ventures accounted for using equity method	12,400	-	(30,055)	-
7510	Finance cost－interest expense (note 6(k))	(3,112)	-	(19,411)	-
7590	Miscellaneous disbursements	-	-	(10,327)	-
7630	Foreign exchange losses (note 6(t))	-	-	(67,590)	(1)
		141,811	2	(75,498)	(1)
7900	**Profit before tax**	1,227,919	17	1,083,355	14
7950	**Less: tax expense (note 6(o))**	214,316	3	109,466	1
	Profit	1,013,603	14	973,889	13
	Other comprehensive income: (notes 6(n) and (o))				
	Items that may not be reclassified to profit or loss				
8311	Remeasurements of defined benefit plans	(52,321)	(1)	28,505	-
8330	Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss	13,340	-	(5,790)	-
8349	Income tax on items that may not be reclassified to profit or loss	11,520	-	(4,846)	-
		(27,461)	(1)	17,869	-
	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	(10,582)	-	26,813	-
		30,957	1	(78,798)	(1)
	Other comprehensive income	3,496	-	(60,929)	(1)
8500	**Comprehensive income**	$ 1,017,099	14	912,960	12
	Earnings per share (note 6(q))				
9750	Basic earnings per share	$	6.13		5.91
9850	Diluted earnings per share	$	6.09		5.78

See accompanying notes to parent company only financial statements.

(English Translation of Parent Company Only Financial Statements and Report Originally Issued in Chinese.)

TONG HSING ELECTRONIC INDUSTRIES, LTD.

Statements of Changes in Equity

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

			Retained earnings				Other equity interest	
	Ordinary shares	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total retained earnings	Exchange differences on translation of foreign financial statements	Total equity
Balance on January 1, 2017	$ 1,629,071	4,926,351	1,034,594	33,700	2,516,176	3,584,470	6,949	10,146,841
Net income for the year ended December 31, 2017	-	-	-	-	973,889	973,889	-	973,889
Other comprehensive income for the year ended December 31, 2017	-	-	-	-	17,869	17,869	(78,798)	(60,929)
Total comprehensive income for the year ended December 31, 2017	-	-	-	-	991,758	991,758	(78,798)	912,960
Appropriation and distribution of retained earnings:								
Legal reserve appropriated	-	-	102,501	-	(102,501)	-	-	-
Cash dividends of ordinary share	-	-	-	-	(977,442)	(977,442)	-	(977,442)
Conversion of convertible bonds	24,504	307,075	-	-	-	-	-	331,579
Balance at December 31, 2017	1,653,575	5,233,426	1,137,095	33,700	2,427,991	3,598,786	(71,849)	10,413,938
Effects of retrospective application	-	-	-	-	9,793	9,793	-	9,793
Balance on January 1, 2018 after adjustments	1,653,575	5,233,426	1,137,095	33,700	2,437,784	3,608,579	(71,849)	10,423,731
Net income for the year ended December 31, 2018	-	-	-	-	1,013,603	1,013,603	-	1,013,603
Other comprehensive income for the year ended December 31, 2018	-	-	-	-	(27,461)	(27,461)	30,957	3,496
Total comprehensive income for the year ended December 31, 2018	-	-	-	-	986,142	986,142	30,957	1,017,099
Appropriation and distribution of retained earnings:								
Legal reserve appropriated	-	-	97,389	-	(97,389)	-	-	-
Special reserve appropriated	-	-	-	71,849	(71,849)	-	-	-
Cash dividends of ordinary share	-	-	-	-	(822,520)	(822,520)	-	(822,520)
Cash dividends from capital surplus	-	(169,625)	-	-	-	-	-	(169,625)
Balance on December 31, 2018	$ 1,653,575	5,063,801	1,234,484	105,549	2,432,168	3,772,201	(40,892)	10,448,685

See accompanying notes to parent company only financial statements.

(English Translation of Financial Statements and Report Originally Issued in Chinese.)

TONG HSING ELECTRONIC INDUSTRIES, LTD.

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	$	1,227,919	1,083,355
Adjustments:			
Adjustments to reconcile profit (loss):			
Depreciation expense		706,426	824,569
Amortization expense		4,121	3,120
Expected credit losses/ Provision for bad debt expense		12,915	5,496
Net gain on financial assets or liabilities at fair value through profit or loss		(394)	(4,243)
Interest expense		3,112	19,411
Interest income		(29,325)	(33,274)
Share of loss (profit) of subsidiaries,associates and joint ventures accounted for using equity method		(12,400)	30,055
Loss (gain) on disposal of property, plant and equipment		(16,584)	10,305
Other		213	878
Total adjustments to reconcile profit (loss)		668,084	856,317
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		65,837	75,600
Decrease (increase) in other receivables		(5,546)	520
Increase in inventories		(241,068)	(124,357)
Decrease (increase) prepayments		3,555	(8,932)
Decrease (increase) in other current assets		(652)	101
Decrease in current financial liabilities at fair value though profit or loss		-	(104)
Increase (decrease) in notes and accounts payable		32,985	(21,910)
Increase in other payables		13,327	69,492
Increase in other current liabilities		3,312	7,212
Decrease in net defined benefit liabilities		(16,328)	(15,770)
		(246,635)	1,003,671
Cash inflow generated from operations		1,649,368	2,943,343
Interest received		28,455	34,162
Interest paid		(3,968)	(13,339)
Income taxes paid		(191,967)	(183,492)
Net cash flows from operating activities		1,481,888	2,780,674
Cash flows from (used in) investing activities:			
Acquisition of property, plant and equipment		(567,590)	(590,724)
Proceeds from disposal of property, plant and equipment		35,795	7,519
Decrease in refundable deposits		4,044	2,782
Acquisition of intangible assets		(13,212)	(3,909)
Net cash flows used in investing activities		(540,963)	(584,332)
Cash flows from (used in) financing activities:			
Increase (decrease) in short-term loans		4,730	(3,982)
Decrease in short-term notes and bills payable		-	(20,000)
Repayments of bonds		-	(1,668,200)
Repayments of long-term borrowings		(625,000)	(280,000)
Cash dividends paid		(992,145)	(977,442)
Net cash flows used in financing activities		(1,612,415)	(2,949,624)
Net decrease in cash and cash equivalents		(671,490)	(753,282)
Cash and cash equivalents at beginning of period		5,456,908	6,210,190
Cash and cash equivalents at end of period	$	4,785,418	5,456,908

See accompanying notes to parent company only financial statements.

(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 Company is primarily 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 financial statements

The parent company only 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)

Except for the following items, the Company believes that the adoption of the above IFRSs would not have any material impact on its parent company only 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 Company 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 Company 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 Company 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 Company 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)

2) Impacts on financial statements

The following tables summarize the impacts of adopting IFRS 15 on the Company's parent company only financial statements:

	December 31, 2018			January 1, 2018		
Impacted line items on the balance sheets	**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	$ 1,227,614	23,297	1,250,911	1,317,146	12,517	1,329,663
Inventories	991,223	(20,616)	970,607	745,699	(16,160)	729,539
Current contract assets	-	30,016	30,016	-	27,959	27,959
Impact on assets		$ 32,697			24,316	
Other payables	$ 823,230	-	823,230	813,820	(9,569)	804,251
Current tax liabilities	141,407	1,880	143,287	-	-	-
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 statements of comprehensive income	**Balances prior to the adoption of IFRS 15**	**Impact of changes in accounting polices**	**Balances upon adoption of IFRS 15**
Sales revenue	$ 7,356,671	2,057	7,358,728
Cost of sales	5,711,613	4,456	5,716,069
Impact on profit before tax		(2,399)	
Tax expense	214,796	(480)	214,316
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)

Impacted line items on the statements of cash flows	For the year ended December 31, 2018 Balances prior to the adoption of IFRS 15	Impact of changes in accounting polices	Balances upon adoption of IFRS 15
Cash flows from (used in) operating activities:			
Profit before tax	$ 1,230,318	(2,399)	1,227,919
Adjustments:			
Increase in contract assets	-	(2,057)	(2,057)
Decrease (increase) in notes and accounts receivable	76,617	(10,780)	65,837
Decrease (increase) in inventories	(245,524)	4,456	(241,068)
Increase in other payables	3,758	9,569	13,327
Increase in other current liabilities	2,101	1,211	3,312
Impact on net cash flows from (used in) operating activities		$ -	

(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 Company 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 Company’s approach was to include the impairment of trade receivables in administrative expenses. Additionally, the Company 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 Company classifies and measures financial assets and accounts for related gains and losses under IFRS 9, please see note 4(f).

(Continued)

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(f).

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 Company 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 Company'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	$ 5,456,908	Amortized cost	$ 5,456,908
Notes and accounts receivable, net	Loans and receivables (note)	1,317,146	Amortized cost	1,317,146

(Continued)

	IAS 39		IFRS 9	
	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
Other receivables	Loans and receivables (note)	$ 35,458	Amortized cost	35,458
Other financial assets – non-current – time deposits	Loans and receivables (note)	5,000	Amortized cost	5,000
Refundable deposits	Loans and receivables (note)	10,540	Amortized cost	10,540

Note: Notes receivable, accounts receivable, other receivables, 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 Company presents a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities as note 6(w).

(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:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
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

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

(Continued)

(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 Company 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 Company 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 Company can apply the standard using the following:

— retrospective approach; or

— modified retrospective approach with optional practical expedients.

On January 1, 2019, the Company 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.

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 Company 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.

(Continued)

- 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 Company will have to recognize the new assets and liabilities for the operating leases of Land, staff dormitories and office equipments. The Company estimated that the right-of-use assets and the lease liabilities to both increase by $127,756. Besides, the Company 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 Company 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.

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

(Continued)

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

(4) Summary of significant accounting policies

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

(a) Statement of compliance

These parent company only 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").

(b) Basis of preparation

(i) Basis of measurement

Except for the following significant accounts, the parent company only 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 the Company is determined based on the primary economic environment in which the entity operates. The parent company only 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) Foreign currencies

(i) Foreign currency transaction

Transactions in foreign currencies are translated to the respective functional currencies of the Company 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.

(Continued)

(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.

When a foreign operation is disposed of such that control, significant influence' 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 Company 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 Company 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 planed nor likely in the foreseeable future, foreign exchange currency gains and losses arising form such a monetary item that are considered to form part of the net investment in the foreign operation are recognized in other comprehensive income.

(d) 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 the 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.

(Continued)

(e) 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.

(f) 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 Company 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 Company 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)

3) Impairment of financial assets

The Company 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 Company 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 Company 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 Company 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 Company' s historical experience and informed credit assessment as well as forward-looking information.

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

(Continued)

The Company 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 Company in full.

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 Company in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial assets.

At each reporting date, the Company 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 Company 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 Company 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 Company' 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 Company transfers substantially all the risks and rewards of ownership of the financial assets.

(Continued)

On derecognition of a debt instrument in its entirety, the Company 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.

On derecognition of a financial asset other than in its entirety, the Company 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 Company 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)

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 Company on terms that the Company 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 Company 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.

(Continued)

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 Company derecognizes financial assets when the contractual rights of the cash inflow from the asset are terminated, or when the Company 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 Company 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 Company are classified as financial liabilities or equity in accordance with the substance of the contractual agreement.

A equity instruments 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.

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Compound financial instruments issued by the Company 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.

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 Company 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.

(Continued)

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.

4) Derecognition of financial liabilities

The Company 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 Company presents financial assets and liabilities on a net basis when the Company 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 Company holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Derivatives are initially measured at fair value. Any attributable transaction costs thereof 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 the line item of non-operating income and expenses. When a derivative is designated as, and effective for, 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, whereas 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 colsely related, and the host contract is not measured as at fair value through profit or loss.

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

(g) 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.

(Continued)

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

(h) 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 being classified as held for sale or held for distribution to owners, the assets, or components of a disposal group, are remeasured in accordance with the Company's accounting policies. Thereafter, the assets or disposal group are generally measured at the lower of their carrying amount and fair value less costs to sell.

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 Company'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.

(i) Investment in subsidiaries

When preparing the parent company only financial statements, investment in subsidiaries which are controlled by the Company is accounted for using the equity method. Under the equity method, the amounts of net income, other comprehensive income and equity attributable to shareholders of the Company in the parent company only financial statement are equal to those in the consolidated financial statements.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions

(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 Company. 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.

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) 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(h).

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.

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 Company 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 Company' 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 Company will have to determine the recoverable amount for the asset' s cash-generating unit (CGU).

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 Company expects to be entitled in exchange for transferring goods or services to a customer. The Company 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 Company' s main types of revenue are explained below.

1) Sale of goods

The Company manufactures and sells electronic components to electronic manufacturers. The Company 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 Company 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.

The Company 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 Company 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.

(Continued)

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 Company has a right to an amount of consideration that is unconditional.

2) Financing components

The Company 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 Company 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.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company'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 Company'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 Company'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 Company, 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 Company. An economic benefit is available to the Company 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 Company 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 Company reclassifies the amount 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 Company 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.

(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.

(Continued)

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.

(q) Earnings per share

The Company 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.

(Continued)

(r) Operating segments

The Company discloses the operating segments information in the consolidated financial statements. Therefore, the Company does not disclose the operating segments information in the parent company only financial statements.

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

The preparation of the financial statements in Regulations Governing the Preparation of Financial Reports by Securities Issuers 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 parent company only 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 Company 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 parent company only financial statement for inventory valuation.

(b) Impairment of goodwill

The assessment of impairment of goodwill requires the Company 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)(h) 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	$ 300	300
Checking accounts and demand deposits	1,195,118	1,281,608
Time deposits	3,590,000	4,175,000
	$ 4,785,418	5,456,908

(Continued)

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

(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 founds	$ 100,394

(c) Notes and accounts receivables

	December 31, 2018	December 31, 2017
Notes receivables from operating activities	$ -	1,784
Accounts receivable-measured at amortized cost	1,327,611	1,379,233
Less: loss allowance	(76,700)	(63,871)
	$ 1,250,911	1,317,146

The Company 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

Aging interval	Carrying amount of notes and accounts receivables	Weighted-average expected loss rate	Loss allowance provision
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
	$ 164,285		1,059

(Continued)

(ii) Credit rate B

Aging interval	Carrying amount of notes and accounts receivables	Weighted-average expected loss rate	Loss allowance provision
1 to 30 days	$ 484,005	1.5%	7,403
31 to 60 days	432,581	5.00%	21,629
61 to 90 days	159,656	10.00%	15,965
91 to 120 days	64,018	20.00%	12,803
121 to 180 days	10,451	50.00%	5,226
181 to 360 days	12,615	100.00%	12,615
	$ 1,163,326		75,641

As of December 31, 2017, the Company 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:

Aging interval	December 31, 2017
1 to 30 days	$ 524,082
31 to 60 days	526,996
61 to 90 days	200,683
91 to 120 days	62,274
121 to 180 days	3,111
	$ 1,317,146

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

	2018	2017 Collectively assessed impairment
Balance on January 1, 2018 and 2017 per IAS 39	$ 63,871	58,375
Adjustment on initial application of IFRS 9	-	
Balance on January 1, 2018 per IFRS 9	63,871	
Impairment loss recognized	12,915	5,496
Amounts written off	(86)	-
Balance on December 31, 2018 and 2017	$ 76,700	63,871

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

(Continued)

(d) Inventories

	December 31, 2018	December 31, 2017
Finished goods	$ 138,361	105,645
Semi-finished goods	214,072	163,923
Work in progress	138,274	166,944
Raw materials	364,368	216,691
Indirect materials	115,532	92,496
	$ 970,607	745,699

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

	2017	2017
Cost of sales and expense	$ 5,683,217	5,972,107
Cost for write-downs on inventory valuation and obsolescence	32,852	41,371
	$ 5,716,069	6,013,478

(ii) As of December 31, 2018 and 2017, the Company 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 Company 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:

	December 31, 2017
The net amount of land and building	$ 12,576

(f) Investments accounted for using equity method

	December 31, 2018	December 31, 2017
Subsidiaries	$ 1,365,145	1,294,531

(Continued)

(i) Please refer to the consolidated financial statement for the year ended December 31, 2018.

(ii) As of December 31, 2018 and 2017, the Company did not provide any investments accounted for using equity method as collaterals for its loans.

(g) Property, plant and equipment

The cost and depreciation of the property, plant and equipment of the Company for the years ended December 31, 2018 and 2017, were as follows:

		Land	Buildings and structures	Machinery and equipment	Office equipment	Leasehold improvements	Unfinished construction and equipment under acceptance	Total
Cost or deemed cost:								
Balance on January 1, 2018	$	344,357	2,018,765	3,344,951	150,495	-	104,680	5,963,248
Additions		11,648	39,263	413,483	13,731	-	95,973	574,098
Transferred in (out)		-	13,638	77,140	-	-	(90,991)	(213)
Disposals		-	(5,301)	(1,252,782)	(30,947)	-	-	(1,289,030)
Balance on December 31, 2018	$	356,005	2,066,365	2,582,792	133,279	-	109,662	5,248,103
Balance on January 1, 2017	$	346,352	1,403,374	4,528,965	127,915	12,651	606,312	7,025,569
Additions		-	161,378	317,731	37,834	-	81,802	598,745
Transferred in (out)		(1,995)	517,843	52,932	180	(2,747)	(583,434)	(17,221)
Disposals		-	(63,830)	(1,554,677)	(15,434)	(9,904)	-	(1,643,845)
Balance on December 31, 2017	$	344,357	2,018,765	3,344,951	150,495	-	104,680	5,963,248
Depreciation and impairment loss:								
Balance on January 1, 2018	$	-	198,766	2,093,044	63,051	-	-	2,354,861
Depreciation for the year		-	106,934	564,608	34,884	-	-	706,426
Disposals		-	(5,301)	(1,246,147)	(30,947)	-	-	(1,282,395)
Balance on December 31, 2018	$	-	300,399	1,411,505	66,988	-	-	1,778,892
Balance on January 1, 2017	$	-	187,929	2,918,735	44,784	8,615	-	3,160,063
Depreciation for the year		-	76,062	714,504	33,367	636	-	824,569
Transferred in (out)		-	(1,898)	-	-	(1,852)	-	(3,750)
Disposals		-	(63,327)	(1,540,195)	(15,100)	(7,399)	-	(1,626,021)
Balance on December 31, 2017	$	-	198,766	2,093,044	63,051	-	-	2,354,861
Book value:								
Balance on December 31, 2018	$	356,005	1,765,966	1,171,287	66,291	-	109,662	3,469,211
Balance on January 1, 2017	$	346,352	1,215,445	1,610,230	83,131	4,036	606,312	3,865,506
Balance on December 31, 2017	$	344,357	1,819,999	1,251,907	87,444	-	104,680	3,608,387

In November 2017, the Company signed a contract with KNC Co., Ltd. on selling its property, which the Company 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).

(Continued)

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

(h) Intangible Assets

(i) Goodwill from a business combination

The Company 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.

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

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

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

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

		Goodwill	Patents	Cost of computer software	Customer relationship	Total
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	$	**51,936**	**25,462**	**17,640**	**41,776**	**136,814**
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	$	**51,936**	25,462	7,427	**41,776**	126,601

(Continued)

	Goodwill	Patents	Cost of computer software	Customer relationship	Total
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	$ -	25,462	4,336	41,776	71,574
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	$ -	25,462	3,214	41,776	70,452
Book value:					
Balance on December 31, 2018	$ 51,936	-	13,304	-	65,240
Balance on January 1, 2017	$ 51,936	333	3,091	-	55,360
Balance on December 31, 2017	$ 51,936	-	4,213	-	56,149

(iii) Amortization recognized

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

	2018	2017
Operating costs	$ 852	1,955
Operating expenses	$ 3,269	1,165

(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 Company 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 Company did not recognize any impairment loss on goodwill.

(Continued)

(v) Collateral

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

(i) Short-term borrowings

Details of short-term borrowings were as follows:

	December 31, 2018	December 31, 2017
Credit loans	$ 4,730	-
Unused short-term credit lines	$ 1,003,195	1,018,029
Range of interest rate	0.55%	1.88%

(i) Part of the Company' s short-term borrowings and the credit lines were guaranteed by key management personnel. Please refer to note (7).

(ii) Please refer to note (8) for the information about the Company providing assets as collateral for part of its borrowings and credit lines.

(j) Long-term borrowings

Details of long-term borrowings were as follows:

	December 31, 2018	December 31, 2017
Credit loans	$ -	625,000
Less: portion of loans due within one year	-	560,000
	$ -	65,000
Unused long-term credit lines	$ 65,000	-
Range of interest rates	-	1.25%~1.69%
Expiration	-	2019

(i) Collateral for loans

1) Part of the Company'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 Company providing assets as collateral for part of its long-term borrowings.

(Continued)

(ii) Compliance with loans contract

The Company 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 Company 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 compliced with the requirements of the loan contract during the contract period.

(iii) Repayment of loan contract

The Company 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.

(k) 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	(331,800)
	-
Balance of unamortized bonds payable's cost	-
	$ -

	2017
Interest expense	$ 6,472

(Continued)

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).

(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.

(l) Other payables

Details of other payables were as follows:

		December 31, 2018	December 31, 2017
Salaries, employees' compensation and directors' and supervisors' remuneration	$	332,280	287,316
Payable on Manufacturing		92,662	121,906
Payable on machinery and equipment		68,395	61,887
Accrued employee benefit liabilities		41,123	39,451
Payable on return		-	9,569
Accrued expenses		288,770	293,691
	$	823,230	813,820

(Continued)

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

(m) 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	23,956	23,623
	$ 37,185	37,876

The Company 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 $89,218 and $33,324, respectively.

(n) Employee benefits

(i) Defined benefit plans

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	316,083	317,716
Net defined benefit liabilities	$ (136,916)	(100,923)

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.

1) 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.

(Continued)

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.

2) Movements in present value of the defined benefit obligations

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

		2018	2017
Defined benefit obligation at January 1	$	(418,639)	(446,327)
Current service costs and interest		(10,520)	(10,604)
Benefit paid by the plan		32,877	8,068
Re-measurement of the net defined benefit liability			
-Return on plan assets (excluding current interest income)		(14,077)	30,371
-Actuarial gains (losses) arose from changes in financial assumptions		(42,640)	(147)
Defined benefit obligation at December 31	$	**(452,999)**	**(418,639)**

3) Movements of defined benefit plan assets

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

		2018	2017
Fair value of plan assets at January 1	$	317,716	301,129
Interest income		4,932	4,029
Benefits paid by the plan		(32,877)	(8,068)
Re-measurements of the net defined benefit asset			
-Return on plan assets (excluding current interest income)		4,396	(1,719)
Contributions paid by the employer		21,916	22,345
Fair value of plan assets at December 31	$	**316,083**	**317,716**

(Continued)

4) Expenses recognized in profit or loss

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

	2018	2017
Service cost	$ 4,130	4,736
Net interest on the net defined benefit liabilities	1,458	1,839
	$ 5,588	6,575
Cost of sales	$ 2,132	2,558
Selling expense	109	114
Administration expense	3,221	3,753
Research and development expense	126	150
	$ 5,588	6,575

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

The Company'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:

	2018	2017
Accumulated amount at January 1	$ 79,658	108,163
Recognized during the period	52,321	(28,505)
Accumulated amount at December 31	$ 131,979	79,658

6) Actuarial assumptions

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

	December 31, 2018	December 31, 2017
Discount rate	1.375 %	1.625 %
Future salary increasing rate	3.000 %	2.500 %

The expected allocation payment to be made by the Company 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)

7) 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	
Actuarial assumption		**Increased 0.25%**	**Decreased 0.25%**
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)

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.

(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.

(o) 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.

(Continued)

(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	$	158,917	196,812
Adjustment for prior periods		-	(84,478)
		158,917	112,334
Deferred tax expense			
Origination and reversal of temporary differences		78,536	(2,868)
Adjustment in tax rate		(23,137)	-
		55,399	(2,868)
Income tax expense	$	214,316	109,466

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	$	(11,520)	4,846
Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income		3,335	(1,187)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign financial statements		10,582	(26,813)
	$	2,397	(23,154)

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

		2018	2017
Profit before income tax	$	1,227,919	1,083,355
Income tax using the Company's domestic tax rate		245,584	184,170
Tax-exempt income		(4,088)	(208)
Under (over) provision in prior periods		-	(84,478)
Adjustment in tax rate		(23,137)	-
Others		(4,043)	9,982
	$	214,316	109,466

(Continued)

(ii) Deferred tax assets and liabilities

The Company 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	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)	$ -	80,950	24,268	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	$ -	80,950	37,736	118,686
Balance at January 1, 2017	$ 14,225	80,950	27,849	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	$ -	80,950	22,262	103,212

	Foreign currency translation adjustment	Defined benefit plans	Loss in investments for using equity method	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	$ 2,006	38,666	56,319	32,633	129,624
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	$ 12,588	25,631	111,302	24,431	173,952

(Continued)

(iii) Examination and approval

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

(p) 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:

	December 31, 2018	December 31, 2017
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)	**165,357**	**165,357**

(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.

(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
	$ 5,063,801	**5,233,426**

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 Company has transferred all of its equity components — onversion 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.

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.

(Continued)

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	822,520	6	977,442

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

(q) 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

	2018	2017
Profit attributable to ordinary shareholders of the Company	$ 1,013,603	973,889

(Continued)

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

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

3) Basic earnings per share (TWD)

	2018	2017
Basic earnings per share	$ 6.13	5.91

(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)

	2018	2017
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)	$ 1,013,603	980,361

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

	2018	2017
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	166,316	169,552

3) Diluted earnings per share (TWD)

	2018	2017
Diluted earnings per share	$ 6.09	5.78

(Continued)

(r) Revenue from contracts with customers

(i) Disaggregation of revenue

	2018				
	BU1	**BU2**	**BU3**	**Others**	**Total**
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	324,367	159,251	629,962	37,892	1,151,472
	$ 2,397,265	772,641	4,072,225	116,597	7,358,728
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	-	-	-	116,597	116,597
	$ 2,397,265	772,641	4,072,225	116,597	7,358,728

(ii) Contract balances

	December 31, 2018	**January 1, 2018**
Notes receivable	$ -	1,784
Accounts receivable	1,327,611	1,391,750
Contract assets — image sensors product (recorded under other current assets)	30,016	27,959
Less: allowance for impairment	(76,700)	(63,871)
Total	$ 1,280,927	1,357,622
Contract liabilities — advance sales receipts (recorded under other current liabilities)	$ 1,165	1,304

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.

(s) 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.

The amounts, as stated in the parent company only 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.

(t) 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 Company caters to a wide variety of customers and has a diverse market distribution, therefore, the Company do not have a significant credit risk concentration. In order to reduce the credit risk, the Company monitors the financial conditions of customers regularly. However, the Company 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) (f).

There was no change on the loss allowance provision for the year ended December 31, 2018.

(ii) Liquidity risk

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

	Carrying Amount	Contractual cash flows	Within a year	Over a year
December 31, 2018				
Non-derivative financial liabilities:				
Short-term borrowings	$ 4,730	(4,730)	(4,730)	-
Notes and accounts payable	421,112	(421,112)	(421,112)	-
Account payable to related parties	97,702	(97,702)	(97,702)	-
Other payables	449,827	(449,827)	(449,827)	-
	$ 973,371	(973,371)	(973,371)	-
December 31, 2017				
Non-derivative financial liabilities:				
Notes and accounts payable	$ 384,221	(384,221)	(384,221)	-
Account payable to related parties	101,608	(101,608)	(101,608)	-
Other payables	487,053	(487,053)	(487,053)	-
Long-term borrowings, current portion	560,000	(560,000)	(560,000)	-
Long-term borrowings	65,000	(65,000)	-	(65,000)
	$ 1,597,882	(1,597,882)	(1,532,882)	(65,000)

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

(Continued)

(iii) Currency risk

1) Exposure to foreign currency risk

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

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

As the Company deals with diverse foreign currencies, gains or losses on foreign exchange were summarized as a single amount. In 2018 and 2017, the foreign exchange gain (loss), including both realized and unrealized, amounted to $71,587 and $(67,590), respectively.

(Continued)

(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	$	3,595,000	4,180,000
Financial liabilities		-	(625,000)
	$	3,595,000	3,555,000
Variable-rate instruments:			
Financial assets	$	1,190,094	1,276,460
Financial liabilities		(4,730)	-
	$	1,185,364	1,276,460

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 Company'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 $2,963 and $3,191 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 Company'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:

	December 31, 2018				
		Fair value			
	Carrying amount	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	4,785,418	-	-	-	-
Notes and accounts receivable, net	1,250,911	-	-	-	-
Other receivables	41,874	-	-	-	-
Other financial assets—non-current	5,000	-	-	-	-
Refundable deposits	6,496	-	-	-	-
Subtotal	6,089,699	-	-	-	-
Total	$ 6,190,093	100,394	-	-	100,394
Financial liabilities measured at amortized cost					
Bank loans	$ 4,730	-	-	-	-
Notes and accounts payable	421,112	-	-	-	-
Accounts payable to related parties	97,702	-	-	-	-
Other payables	449,827	-	-	-	-
Total	$ 973,371	-	-	-	-

	December 31, 2017				
		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Loans and receivables					
Cash and cash equivalents	$ 5,456,908	-	-	-	-
Notes and accounts receivable, net	1,317,146	-	-	-	-
Other receivables	35,458	-	-	-	-
Other financial assets—non-current	5,000	-	-	-	-
Refundable deposits	10,540	-	-	-	-
Total	$ 6,825,052	-	-	-	-

(Continued)

	December 31, 2017				
		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial liabilities measured at amortized cost					
Bank loans	$ 625,000	-	-	-	-
Notes and accounts payable	384,221	-	-	-	-
Accounts payable to related parties	101,608	-	-	-	-
Other payables	487,053	-	-	-	-
Total	$ 1,597,882	-	-	-	-

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 Company' 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)

(u) Financial risk management

(i) Overview

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

1) Credit risk

2) Liquidity risk

3) Market risk

The following, likewise discusses the Company'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 parent company only financial statements.

(ii) Structure of risk management

The Company 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 Company' s procedures for acquisition and disposal of assets. The internal auditors of the Company continually review the amount of the risk exposure in accordance with the Company' s policy and the risk management policies and procedures. The Company 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 Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities.

1) Trade and other receivables

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

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

(Continued)

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 Company constantly monitors the status of the customers. The Company 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.

The Company 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 Company's finance department. Since the Company' 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 Company's policies, it is only permissible to provide financial guarantees to subsidiaries. As of December 31, 2018 and 2017, the Company did not provide any financial guarantees.

(iv) Liquidity risk

The Company manages sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows. The Company'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 Company. Please refer to note 6(i) and 6(j) 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 Company' 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 Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currencies of the Company's entities, TWD. The currencies used in these transactions are denominated in TWD, EUR, USD, and JPY.

2) Interest rate risk

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

3) Other market price risk

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

(v) Capital management

The Company 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 Company enhances the return on equity by optimizing debt-to-equity ratio. The Company's debt-to-equity ratio at the end of the reporting date was as follows:

		December 31, 2018	December 31, 2017
Total liabilities	$	1,793,959	2,328,019
Total equity		10,448,685	10,413,938
Debt-to-equity ratio		17 %	22 %

(w) 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)(k).

Reconciliation of liabilities arising from financing activities were as follows:

		January 1, 2018	Cash flows	December 31, 2018
Long-term borrowings	$	625,000	(625,000)	-
Short-term borrowings		-	4,730	4,730
Total liabilities from financing activities	$	625,000	(620,270)	4,730

(Continued)

(7) Related-party transactions

(a) Name and relationship with related parties

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

Name of related party	Relationship with the Company
Hwi-Jie, Yang	The former chairman of the Company, who was discharged on December 17, 2018
Tong Hsing Electronics Phils. Inc. (THEPI)	Subsidiary

(b) Other transaction with related party

(i) Manufacturing fee

After the Company sold raw materials to the subsidiary for manufacturing, the subsidiary will directly transport the products to the customers of the Company. During 2018 and 2017, the manufacturing fee amounted to \$703,707 and \$687,676, respectively. The term is a monthly payment by cash.

(ii) Purchase of goods from related parties

The amounts of significant purchase transactions between the Company and related parties were as follows:

	2018	2017
Subsidiaries	\$ 726,607	1,008,548

The purchase prices from related parties were not significantly different from those offered by other vendors. The payment terms is monthly closing, which were not significantly different from the payment terms given by other vendors.

(iii) Payable to related parties

Account	Related party categories	December 31, 2018	December 31, 2017
Accounts payable	Subsidiaries	\$ 97,702	101,608
Payable on manufacturing (under other payables)	〃	\$ 92,662	121,906

(Continued)

(iv) Property transactions

The disposals of property, plant and equipment to related parties are summarized as follows:

	2018		2017	
Related party categories	**Disposal price**	**Gain (loss) from disposal**	**Disposal price**	**Gain (loss) from disposal**
Subsidiaries	$ 4,670	-	7,481	-

The term is monthly closing and received by cash.

(v) Other receivables

The receivables due from related parties were as follows:

	December 31, 2018	December 31, 2017
Other receivables	$ 2,677	58

(c) Transactions with key management personnel

(i) Key management personnel compensation comprised:

	2018	2017
Short-term employee benefits	$ 78,162	70,437
Post-employment benefits	10,244	10,248
	$ 88,406	80,685

(ii) Provide guarantees

Part of the Company'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

The carrying amounts of pledged assets were as follows:

Pledged assets	Subject	December 31, 2018	December 31, 2017
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 and buildings	Long-term and short-term borrowings and credit lines	402,343	409,563
		$ 407,343	414,563

(Continued)

(9) Commitments and contingencies

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

(b) Significant unrecognized contractual commitments

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

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

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

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

(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	2018			2017		
By item	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefits						
Salaries	985,325	251,740	1,237,065	939,657	219,015	1,158,672
Labor and health insurance	90,544	15,371	105,915	90,971	14,659	105,630
Pension	34,891	12,040	46,931	36,565	12,168	48,733
Remuneration of directors	-	18,226	18,226	-	20,014	20,014
Other employee benefits	46,749	6,361	53,110	47,269	6,161	53,430
Depreciation	687,932	18,494	706,426	808,215	16,354	824,569
Amortization	852	3,269	4,121	1,955	1,165	3,120

The Company had 1,748 and 1,706 employees as of December 31, 2018 and 2017, respectively. The number of directors who have not served as employees is 5 and 4, respectively.

(Continued)

(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 Company:

(i) Loans to other parties: None.

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

(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 tittle	Ending balance				Note
				Shares/Units	Carrying amount	Percentage of ownership (%)	Fair value	
The Company	Paradigm Pion Money Market Fund	None	Financial assets at fair value through profit or loss-current	8,702	$ 100,394	-	100,394	

(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:

(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)%	
〃	〃	〃	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 %	

(Continued)

(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	-	
〃	〃	〃	92,662	6.56 %	-		92,662	-	

Note 1: Information as of March 15, 2019.

(ix) Trading in derivative instruments:None

(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			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			
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	22,922	12,400	-

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

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

(14) Segment information

Please refer to the consolidated financial report of 2018.

6.6 Experienced financial difficulties information in the most recent fiscal year or during the current fiscal year up to the date of publication of the annual report:None.

7.Financial Status and Operating Results

7.1 Financial Status

Unit: NTD thousands

Item \ Year	2018	2017	Difference	
			Amount	%
Current Assets	8,052,786	8,310,650	(257,864)	(3.10%)
Property, Plant and Equipment	4,197,116	4,400,965	(203,849)	(4.63%)
Intangible Assets	65,240	56,149	9,091	16.19%
Other Assets	148,199	196,423	(48,224)	(24.55%)
Total Assets	12,463,341	12,964,187	(500,846)	(3.86%)
Current Liabilities	1,718,682	2,230,873	(512,191)	(22.96%)
Non-current Liabilities	295,974	319,376	(23,402)	(7.33%)
Total Liabilities	2,014,656	2,550,249	(535,593)	(21.00%)
Capital Stock	1,653,575	1,653,575	0	0.00%
Capital Surplus	5,063,801	5,233,426	(169,625)	(3.24%)
Retained Earnings	3,772,201	3,598,786	173,415	4.82%
Other Adjustments	(40,892)	(71,849)	30,957	(43.09%)
Treasury Stock	0	0	0	0
Total Equity	10,448,685	10,413,938	34,747	0.33%

Explanations for Significant Changes (over 20%):

1. Decrease in Other Assets: Due to the decrease of deferred tax assets.
2. Decrease in Current Liabilities and Total Liabilities: Due to repayment of bank loans.
3. Increase in Other Adjustments: Due to increase of exchange differences on translation of foreign financial statements.

7.2 Financial Performance

7.2.1 Financial Performance

Unit: NTD thousands

Item \ Year	2018	2017	Increase (Decrease) Amount	% of change
Net Revenue	7,413,512	7,745,602	(332,090)	(4.29%)
Gross Profit	1,901,684	1,897,712	3,972	0.21%
Net Operating Income	1,138,561	1,161,816	(23,255)	(2.00%)
Non-operating Income and Expenses	106,722	(62,047)	168,769	(272.00%)
Income before Income Tax	1,245,283	1,099,769	145,514	13.23%
Income from Continuing Operations	1,013,603	973,889	39,714	4.08%
Loss from Discontinuing Operations	-	-	-	-
Net Income	1,013,603	973,889	39,714	4.08%
Other Comprehensive Income (Loss), After Tax	3,496	(60,929)	64,425	(105.74%)
Comprehensive Income	1,017,099	912,960	104,139	11.41%
Net Income Attributable to Shareholders of the Parent	1,013,603	973,889	39,714	4.08%
Net Income Attributable to Minority Equity	-	-	-	-
Comprehensive Income Attributable to Shareholders of the Parent	1,017,099	912,960	104,139	11.41%
Comprehensive Income Attributable to Minority Equity	-	-	-	-

Explanations for Significant Changes (over 20%):

1. Decrease in Non-operating Income and Expenses: due to an increase exchange loss from currency difference.
2. Decrease in Other Comprehensive Income: Mainly from the impact of exchange difference on the translation of financial reports of foreign operating agencies.

7.3 Analysis on Cash Flow

7.3.1 Analysis Cash Flow Changes during the Most Recent Fiscal Year

Unit: NTD thousands

Cash Balance at the beginning of the year 12/31/2017	Net Cash Provided from Operating Activities 2018	Net Cash Provided from Investing and Financing Activities 2018	Impact from changes in Foreign Currency Exchange Rate	Balance of Net Cash 12/31/2018	Remedy for Cash Shortfall	
					Investment Plan	Financing Plan
5,883,990	1,531,934	(2,275,955)	28,461	5,168,430	-	-

7.3.1.1. Net Cash flow in 2018 decreases NTD 51,769 thousands compared with last year is due to below items:

Analysis Cash Flow Changes during the Most Recent Fiscal Year

	2018	2017	Variance
Operating Activities	1,531,934	3,061,245	(1,529,311)
Investing Activities	(626,266)	(611,750)	(14,516)
Financing Activities	(1,649,689)	(3,146,729)	1,497,040
Foreign Currency Exchange Rate	28,461	(70,095)	98,556
Net Cash Flow	(715,560)	(767,329)	51,769

(1)Operating Activities: Mainly due to a decrease of current financial assets at fair value through profit or loss in 2017 while an increase of inventories in 2018 and caused a decrease of cash inflow.

(2) Investing Activities: Mainly due to raised amounts of acquiring property, plant and equipment compared with last year and caused an increase of cash outflow.

(3) Financing Activities: Mainly due to convertible bond repayment and caused a decrease of cash outflow.

(4) Foreign Currency Exchange Rate: Mainly from the impact of exchange difference on the translation of financial reports of foreign operating agencies.

7.3.2 Action Plans to Improve the Cash Flow: Not Applicable.

7.3.3 Cash Liquidity Analysis for the Upcoming Year

We plan to take bank loans to finance the future operations and other investment plans.

7.4 Impact on the Company's Financial Operations and Contingency Action Regarding Major Capital Expenditures

7.4.1 Major Capital Expenditures

Unit: NTD thousands

Plan	Actual or Planned Source of Capital	Actual Use of Capital
Property, plant and equipment	-Self-generated capital. -Issuance of unsecured convertible bonds.	657,252

7.4.2 Expected Benefits

1. Expand ceramic substrate capacity and enhance product quality to satisfy customer demands.
2. Expand image sensor capacity and enhance production technology to satisfy customer demands.
3. Lower costs further and increase operating profit abilities.

7.5 Investment Policy, Causes of Profit/Loss and Future Investment Plans

7.5.1 Causes of Profit / Loss as of 12/31/2018

Unit: Shares in thousands; NTD thousands

Name of Corporation	Investment shares	Investment %	Net Worth	Recognization	Investment Gains in 2018
TONG HSING ELECTRONICS PHILS. INC.	23,322	100.00%	1,365,145	Equity Method	12,400

7.5.2 Future Investment Plans

Unit: NTD thousands

Name of Corporation	Investment (Note 1)	Policy	Description of Gain or Loss	Inprovement Plan	Others Plan
TONG HSING ELECTRONICS PHILS. INC.	0	100% owned - a low-cost production hub	Tong Hsing Electronics Phils. Inc. executed 19% Capital reduction for cover accumulated deficits and approved by Board of Directors on 10/17/2018.	Continue to make production improvement for customer approval in Tong Hsing Electronics Phils. Inc.	None

Note 1: There was no increase or decrease in the amount of investment in fiscal year 2018.

7.6 Risk Management and Evaluation

7.6.1 Impact on Corporate Profitability from Fluctuating Interest Rates, Exchange Rates, and Inflation

We focus on security management of funds, and regularly evaluate the reasonable return on funds. As for the exchange rate, there is a clear foreign exchange operation strategy and strict procedures to monitor the changes of foreign exchange.

7.6.2 Profit or Loss from Activities in High Risk and Highly Leveraged Investments, Loans Provided to Others, Endorsements and Guarantees, and Derivatives

We did not make high-risk or high-leveraged financial investments. All investments were carried out with prudent reviews. No loan or financial guarantee was made to others in 2018.

7.6.3Future R&D Plans and Expected R&D Spending

Apart from the basic research and development on new production processes/ materials, we will continue to focus on the technology developments in the application areas of communication, high frequency, high power, detector, image sensor and vehicle, etc. Total capital put in for R&D is estimated at NT$150 million.

7.6.4 Impact on the Company's Financial Operations and Contingency Action Regarding Recent Changes in Domestic and International Policies and Regulations: None.

7.6.5 Impact on the Company's Financial Operations and Contingency Action Regarding Recent Changes in Technology

Our business is closely linked to mobile communication, energy saving, clean energy and automotive industries.

4G wireless platform has prevailed for many years; however, it cannot accommodate the bandwidth required for the emerging applications, such as IoT and self-driving. Thus we will soon be entering the next generation of mobile broadband, 5G, replacing 4G. Facing the transition, the Company is fully dedicating to developing SAW Filter packaging used in wireless communications and new ceramic substrate production technology for quartz oscillators.

After the boom in the past few years, market demands for smartphones, tablet and wearable devices have slowed down. Key growth drivers for the mobile communication are now coming from highly differentiated and integrated applications and slim designs with power-saving features, such as high-resolution image sensors, dual lenses, high-speed laser autofocus, etc. To cater to the trend, we will keep polishing our packaging technologies and expand the capacity for image sensors, in addition to the on-going developments on 3D-image and autofocus sensors and on VCSEL products.

For energy saving applications, amid the heating-up competition in LED market, we will continue to improve the cost structure to stay competitive; in the meantime, we will expand towards new applications, such as substrates used for TEC and semiconductor laser module packaging.

In the clean energy field, several sectors, including high-power AC/DC converting IC and the associated module and packaging service, are rising, as they are needed in solar and wind power generation, as well as in electronic vehicles. One of the important components is the power module, which has high requirements for heat dissipation and insulation. For the next-generation components, SiC will be in high demand, calling for DBC solution on substrates for its high operating temperature, high thermal conductivity, high insulation and low thermal expansion coefficient.

We are in the midst of coming up with high-stable LED ceramic substrates, as lighting is taking up halogen and high-voltage lights. In addition, our packaging and testing solutions for 3D image sensors and laser application are on the way to fit the needs of gesture control and LiDAR for smart cars and the self-driving platforms.

We will strive to meet the customers' needs in terms of capacity and future applications.

7.6.6 Impact on the Company's Risk Management and Contingency Action Regarding Recent Changes in Corporate Image: None.

7.6.7 Risk from the Company's Mergers and Acquisitions: None.

7.6.8 Risk of Excess Capacity from Fluctuating Economics Conditions

The Company uses its own capital to expand plant capacity, up to the printing date of the annual report; the benefit obtained from the expansion is still in line with expectations.

7.6.9 Risk of Profit/Loss if Sales/Material are Concentrated on a Single or Few Customers/ Suppliers, and a Major Customers / Supplier Reduces its Orders / Supplies

The Company will continue to develop new products and customer accounts to avoid the over concentration risk.

7.6.10 Risk of Change of Control and Stock Price Fluctuation from Large Scale Transfer of Shares

The former Director, Mr. Hui-Jie Yang, was dismissed as Chairman and Director of the Board on Dec. 14, 2018, due to transferring shares of Tong Hsing Electronic Ind., Ltd. over 1/2 total shares as of June 16, 2016 while elected as Director. Meanwhile, the Company elected a new Chairman to replace him on Dec. 18, 2018. This event didn't affect the Company's operation.

7.6.11 Risk of the Company Losing One or More Key Personnel without Adequate replacement Due to Any Change of Company Control

As of April 23, 2019, the accumulated shares of Mr. Tie-Min Chen, Kaimei Electronic Corp., and MYW Investment Limited were 28,258,864 shares, possessing 17.09% of Tong Hsing Electronic Ind., Ltd. All of them are entitled to the election of Directors nomination, at the shareholders' meeting on June 21, 2019. They promised to keep on supporting the existing management team of Tong Hsing at the Board of Directors. This event won't affect the Company's operation.

7.6.12 Litigation and Non-litigated Incidents: None.

7.6.13 Other Significant Risks: None.

7.7 Other Necessary Supplements: None.

8. Subsidiary Information and Other Special Notes

8.1 Subsidiaries

8.1.1 The Consolidated Operating Report

8.1.1.1.1 Organizational Chart

As of 12/31/2018

Tong Hsing Electronic Industries, Ltd. —— 100% —— TONG HSING ELECTRONICS PHILS. INC.

8.1.1.1.2 Basic Information of the Company's Affiliated Enterprises:

As of 12/31/2018; Unit: NTD thousands

Name of Corporation	Date of incorporation	Address	Capital	Major Business
TONG HSING ELECTRONICS PHILS. INC.	Sep. 1994	103 Prosperity, Ave., Carmelray Ind'l Park Canlubang, Calamba City Philippines.	1,633,651	Sale and Production for RF modules, hybrid, ceramic substrates and image sensor products.

8.1.1.1.3 Informationfor Common Shareholders of Treated-as Controlled Companies and Affiliates: None.

8.1.1.1.4 Business of Catcher's Affiliates and their relationship

Mutual dealings and division of work among affiliates:
Since March 2000, we have been supplying materials to TONG HSING ELECTRONICS PHILS. INC. for production processing and direct shipment to our customers.

8.1.1.1.5 Directors, Supervisors and General Manager of Affiliated Enterprises

As of 12/31/2018; Unit: Shares; %

Name of Corporation	Title	Name or Representative	Shareholding	
			Shares	%
TONG HSING ELECTRONICS PHILS. INC.	Chairman and President	Hui-Jie Yang	3	0.000015%
	Vice President	Ching-Hsing Lin		
	Director	Hsi-Hu Lai		

8.1.2 Summarized Operation Results of Affiliated Enterprises

As of 12/31/2018; Unit: NTD thousands

Name of Corporation	Capital	Total Assets	Total Liabilities	Net Worth	Operating Revenues	Operating Income (Loss)	Net Income (Loss)	Earnings Per Share ($)
TONG HSING ELECTRONICS PHILS. INC.	1,633,651	1,829,526	453,859	1,375,667	1,478,581	42,863	22,922	0.98

Note: Exchange rate as of 12/31/2018: US$ / NT$ = 30.715
The average exchange rate in 2018: US$ / NT$ = 30.149

8.1.3 Consolidated Financial Statements Covering Affiliated Enterprises

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: Hsi-Hu Lai
Date: March 15, 2019

8.1.4 Report on Affiliations: None.

8.2 Where the Company has carried out a private placement of securities during the most recent fiscal year or during the current fiscal year up to the date of publication of the annual report, the following information shall be disclosed: the date on which the placement was approved by the Board of Directors or by a shareholders meeting, the amount thus approved, the basis for and reasonableness of the pricing, the manner in which the specified persons were selected, the reasons why the private placement method was necessary, the targets of the private placement, their qualifications, subscription amounts, subscription price, relationship with the company, participation in the operations of the company, actual subscription (or conversion) price, the difference between the actual subscription (or conversion) price and the reference price, the effect of the private placement on shareholders' equity, and, for the period from receipt of payment in full to the completion of the related capital allocation plan, the status of use of the capital raised through the private placement of securities, the implementation progress of the plan, and the realization of the benefits of the plan: None.

8.3 Acquisition or Disposal of Catcher's Shares by Subsidiaries: None.

8.4 Other Necessary Supplements: None.

9. Any Events in 2018 and as of the Date of this Annual Report that Had Significant Impacts on Shareholders' Right or Security Prices as Stated in Item 2 Paragraph 2 of Article 36 of Securities and Exchange Law of Taiwan:

None.

TONG HSING ELECTRONIC INDUSTRIES, LTD.

Chairman: Hsi-Hu Lai