Stock Code :2329

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Orient Semiconductor Electronics, Ltd.

Annual Report 2018

The annual report is available at: http://mops.twse.com.tw/mops/web/t57sb01_q5
Company website: http://www.ose.com.tw

I. Company spokesperson and deputy spokesperson
Company spokesperson: Chun-Kuan Lee
Title: CFO
Tel: (07) 361-3131
Deputy spokesperson: Simon Hung
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II. Company and factory address
Company
Address: No. 9, Central 3rd St., N.E.P.Z., Kaohsiung City
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Factory
Semiconductor Group
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Electronics Manufacturing Services Group
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III. Stock transfer agency
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IV. CPA of the financial statement of the most recent fiscal year
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CPA firm: Ernst and Young Global Limited
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Tel: (07) 238-0011
Website: http://www.ey.com/Taiwan

V. Name of any exchanges where the company's securities are listed overseas and the method by which to access information about the overseas securities: none

VI. Company website: http://www.ose.com.tw

Catalogue

Six. Financial Information

Seven. Review and Analysis of Financial Status and Financial Performance and Risk Matters

Eight. Special Disclosure

【Corporate Vision】

"Sincerity and honesty at all times" is Orient Semiconductor Electronics' (OSE) entrepreneurial spirit and business philosophy. OSE has dedicated itself to serving customers, caring for employees, managing enterprise, taking responsibilities for shareholders and fulfilling CSR for decades.

Since its founding in 1971, OSE provides IC packaging and testing services as well as electronics manufacturing services (EMS/CEM) for world-class customers and niche-oriented, high-growth customers via its core advantages in innovation of manufacturing process, information technology and business process, OSE has built long-term cooperation relationship with customers by OSE's superior quality, diversified cost structure, production capacity, rapid order fulfillment, and global logistics support.

By holding the consistent spirit as before, and under the new core value of "sincerity, honesty, active innovation, team work and responsibility," OSE is constantly committed to R&D, information technologies, production capacity, talents cultivation, global logistics, strengthening the ability of internal management, building its knowledge base, formulation and design of the operation procedure, cost control and management, and internal coordination and communication. OSE acquires world-class satisfaction from the customers via customer-oriented, service-oriented quality and performance.

One. Message to shareholders

2018 Annual Report

The business of OSE's Semiconductor Group focuses on all the products related to the packaging and testing of flash memory, we play an important role in the market of flash memory packaging. In the future, we will not only strengthen the development of CSP/ BGA market, improve the production efficiency, continue the further development of memory market, but also expand the development of IoT and automotive electronics-related markets to boost OSE's business.

For these 45 years, EMS Group has provided advanced PCB, product assembly and other comprehensive services for the customers via its mature techniques, experience and process. We satisfy the customer's requirements by high mixture with small lots and HVM, we are the recognized leader in Taiwan. In addition to existing server, high-end OEM/ODM (petroleum, satellite) and IPC, we introduced the customers in the field of Netcom, information security, ITS, high-end graphics card, FPGA in 2018, whose industries include AI, 5G, Machine Learning, Big Data, self-driving cars, electric vehicle and e-sports markets. Furthermore, the petroleum techniques that we have long developed is in an irreplaceable position. In 2018, in response to the increasing order of SSD, we utilized our mature automation ability and cooperated with the customers and suppliers to introduce the specialized automatic machines to enhance the efficiency and expand the production capacity.

Operating Results

Unit: NTD thousand

Year	2018	2017	Difference	%
Net Revenue	15,188,192	13,886,312	1,301,880	9.38%
Cost of goods sold	14,656,055	13,704,676	951,379	6.94%
Gross Profit	532,137	181,636	350,501	192.97%
Operating Expenses	938,200	906,009	32,191	3.55%
Operating Income (Loss)	(406,063)	(724,373)	318,310	43.94%
Non-operating Income and (Expenses)	43,527	(27,152)	70,679	260.31%
Other Income	74,246	122,843	(48,597)	(39.56%)
Other Gains and Losses	26,770	(56,432)	83,202	147.44%
Finance Costs	125,986	139,087	(13,101)	(9.42%)
Share of Profit or Loss of Associate under the Equity Method	68,497	45,524	22,973	50.46%
Profit (Loss) before Tax	(362,536)	(751,525)	388,989	51.76%
Income Tax Benefit (Expenses)	250,988	36,721	214,267	583.50%
Net Income (Loss)	(111,548)	(714,804)	603,256	84.39%

The operating margin, net operating loss, non-operating income and expenses in 2018, net income are explained as follows:

I. Operating margin, net operating (loss):

Semiconductor Group benefited from the stable supply of upstream raw materials, the price of upstream raw materials constantly declined, and the demand of the terminal market was driven by that, which led to the sales growth in the memory product packaging. In addition, the demand from the existing customers of EMS Group was increasing and the products of new customers entered the mass production stage, all these caused the increase in the revenue. The revenue of the company grew by 9.38%.

For operating costs, the sales growth and new holiday policy had an effect on the increase of labor costs but the manufacturing expense is under appropriate control, so the operating costs for 2018 grew by only 6.94% compared with 2017, and the gross margin of 2018 grew by 192.97% compared with 2017.

II. Non-operating income and (expenses):

Grew by 260.31% compared with the same period last year mainly because the property, plant and equipment of subsidiary was stated at impairment for the same period last year, no such situation in this period, so it grew by 50.76% according to the share of profits of associates accounting for using the equity method.

III. The business strategy in the future will be focusing on lean production, increasing the operating income and reducing the operating expenses in hope to create profit and improve the structure.

Financial Income/Expenses and Profitability Analysis

Analysis item / Year		Financial analysis for the most recent two years	
		2018	2017
Financial structure	Debt Ratio (%)	67.14	66.13
	Long-term Fund to Property, Plant and Equipment Ratio (%)	102.15	102.41
Profitability	Return on Total Assets (%)	(0.06)	(3.44)
	Return on Equity (%)	(2.00)	(11.75)
	Net Income to Sales (%)	(0.73)	(5.14)
	Earnings per Share (NT$)(Note)	(0.20)	(1.29)

(Note) The capital reduction for making up for the losses in 2018 has been retrospectively adjusted.

R&D status

The R&D expenditure of 2018 was NT$ 270,528 thousand.

For IC: In addition to assisting the biggest Japanese game console manufacturer with the mass production which was applied to memory cards for the newest game console of the manufacturer, and the 3D NAND flash entered mass production, as well. Furthermore, to fulfill the environmental protection constantly, the Company will continue focusing on the amendment and addition of the environmental protection regulation all around the world and verify new materials to comply with new environmental protection regulations.

For EMS: Continued developing the newest PCB assembly techniques and manufacturing process of Surface Mount Technology (SMT) including 01005 ultrafine component, BGA with smaller pitch and high pin count (> 4000), selective wave soldering. In the aspect of inspection, we used the newest SPI, AOI and X-ray equipment to conduct the inspection. In the aspect of testing, we developed boundary scan to find the problems earlier and we used to the robotic arms to execute a large number of tests. In the aspect of function test and burn-in test, we introduced the newest software and hardware to lower the cost and increase the test coverage rate.

In terms of supply chain management, we have turned the narrow function management into the key differentiated supervision. In 2018, Our MIS successfully established the most effective supply chain system of the industry by industrial knowledge and practical operating experiences: 5-System can be directed to different supply chains according to different customers to satisfy their rush order and inventory adjustment resulting from the market's effect and seasonal demand and, and it can respond quickly to the price fluctuation of the market to make the customers more competitive.

Summary of the Business Plan for the Current Fiscal Year

The Company's business strategy will continue the development of flash memory market and select advantageous domestic/foreign proprietors for strategic cooperation. In addition to constant research and development for packaging of IoT and automotive electronics-related products, we will conduct the assessment and development of AI-related products this year. The company has certain advantages in the packaging of semiconductors, the assembly of electronics and manufacturing services. We looked forward to 2019, the production yield rate of 3D NAND Flash increased constantly and the production capacity of all the NAND Flash companies was enhanced, a large quantity of NAND Flash will continue being supplied to the market as the second half of 2018.

Consequently, the Semiconductor Group (IC packaging and testing) will be devoted to the following operating direction to boost the revenue:

I. Reduce the material costs constantly.

II. Adjust product portfolio (for Logic IC), eliminate low profit and low demand products to lower the operating cost.

III. Continue the further development of memory market and assist the customers to develop new products.

IV. Develop LPDDR and standard DDR-related products.

V. Adopt intelligent production management system.

Both SSD and products with quality requirement higher than IPC-610 class 3 in EMS Group has entered the mass production stage.

I. The expansion of SSD production capacity and automation is ready, by utilizing the capacity and the automation equipment, we will challenge the dramatic growth in the future.

II. In consideration of the infinite opportunities in data, the assembly foundry for server products is still the business that we mainly develop. In addition to the existing customers, we will continue looking for the cooperation opportunities with the top 10 server companies all over the world. Along with issue of internet information security brought by server, apart from ensuring the successful mass production of the existing pilot run product, we have to continue fighting for the pilot run of the new products and mass production.

III. After our efforts in 2018, we have entered the e-sports market successfully, we have also finished planning the production capacity of high-end graphics cards and started the mass production stage. Our main focus this year is to enhance the production efficiency to keep up with lead time.

IV. In view of the order transfer effect resulting from the China-United States Trade War, the demand of IPC is increasing, we will focus on niche-oriented customers and products to avoid the capacity overriding.

V. To maintain the existing customers in the field of electric vehicle and electric motorcycle and serve world-class customers, the current main focus is to conduct certification and pilot run. When the customers start to stock up on the products, it is expected to have a stable growth.

VI. FPGA card is widely used in AI, computing and self-driving cars, because the customer has entered the Chinese market, it is expected to have a dramatic growth.

Company's Future Development Strategy

Semiconductor Group has put a lot of effort into the further development for the niche market of flash memory packaging, In addition to satisfying the quality, production capacity and cost requested by the packaging market of flash memory via current advantages in the future, we will also be devoted to the market of IoT-related products.

I. Technique integration and quality yield rate: It is necessary not only to apply FEOL of packaging to flash memory module and IoT product module, but also to apply SMT manufacturing process to it. The Company has the technique and production capacity of the packaging of semiconductor and the assembly of electronics, we have the absolute advantages in manufacturing services compared with the domestic companies that have the same manufacturing process and scale as us.

II. Complete supply chain lowers the material cost constantly: After the transformation for many years, we have made up a complete supply chain with the related material suppliers, we continue looking for the cost-effective materials and manufacturing process via bilateral cooperation.

III. Complete product development team: Continue strengthening the investment on the software and hardware for developing the products. Currently, in addition to assisting the flash memory-related customers to conduct the electrical and thermal analysis, we continue helping the customers develop the relevant customized products.

IV. Development of the emerging markets: Apart from developing the emerging markets in China and India, we have expanded the development to ASEAN countries recently.

V. Expand memory product line: Aside from continuing expanding packaging capacity of flash memory, the LPDDR has also entered the mass production stage, and we are going to develop the standard DDR products.

After constant improvement of EMS Group in many years, the product positioning, capacity planning and equipment are all in place gradually. In addition to looking for the potential customers, we have to make good use of the current advantages and new-built system to lower the cost, enhance the efficiency so that the timeliness and delivery punctuality of new products can be ensured. In the same time, we have to provide our customers with professional knowledge regarding supply chain and essential resources to make them have more competitiveness in the market.

I. In view of the smooth supply for Flash materials, SSD products reach the reasonable prices favored by the users. It is expected that the demand of SSD products in 2019 will go up constantly, which grows obviously compared with 2018.

II. In petroleum exploration market, the manufacturing technique of EMS has become more mature. In the future, we will expand the capacity, strengthen the education training, the order is expected to have a dramatic growth in 2019.

III. In e-sports market, EMS has expanded new factories and product lines. it is expected to introduce more high-end game consoles in 2019 and we anticipate that there will be a breakthrough in the growth.

IV. In response to the trend of Big Data, Cloud Computing- related industries thrive. In addition to stabilizing the growth of existing customers, EMS Group also actively contacts world-class companies in the field of internet information security to acquire more orders from the market.

The Effect of External Competition, the Legal Environment, and the Overall Business Environment

A recent research of TRI indicates that under the demand for the packaging and testing markets of the communication field, automotive electronics and memory, the revenue of global IC packaging and testing market in 2018 is $53.92 billion USD, which grows slightly by 1.4% compared with 2017 The research of TRI also indicates that the reduction of mobile sales and constant decline of memory price have an effect on the production value of packaging and testing in 2019. However, under the demand of automotive electronics, AI and IoT, TRI estimates that the production value of packaging and testing in 2019 will reach $ 54.46 billion USD, which grows by 1.0% approximately.

To follow the development trend of electronic products, the Company will focus on niche-oriented products to avoid price competition and affecting the profit. With the popularity of smartphone devices and the demand increase of AI Big Data management, eMMC and Flash BGA are estimated to be the main products for Flash memory application in the future. The Company will collaborate with the main memory industry chain and channel firms all over the world to continue developing the manufacturing services of all the Flash memory applications via the current advantages in the manufacturing platform.

In the external risks, although EMS Group benefits from the China-United States Trade War this year, how long will the order transfer effect last is still a variable. There still are many big enterprises coveting the market, so we have to observe with caution and keep in close touch with the customers so that we can take preventive measures in time. The EMS Group of our company has built a deep cooperation foundation and close partnership with the customers in the market. We provide high-quality and comprehensive services that are very difficult for common competitors to achieve.

In the past, the company was affected by the shortage of materials, the adaption period of generation alternation and the revision of the Labor Standards Act and so on, which caused the inability to make profits constantly. But the company still steps forward to the goal of making profit in the hard and difficult environment, and makes every effort to fight for the result of profit this year. In the future, the company will continue focusing on lean production to expand operating income foundation, enhance the capacity utilization, controlling operating expenses and so on, and actively adopt more efficient and friendly method to create a win-win situation for both operation results and legal compliance.

Two. Company Profile

I. Date of establishment
Incorporation date of company: Jun. 12, 1971

II. Company history
OSE was established by raising capital from Dr. Chun Yuan Tu and other prestigious domestic industrial individuals. As of the end of 2018, total assets were NT$16.7 billon.

Positioning

OSE is composed of two business departments “EMS Group” and “Semiconductor Group,” it provides professional electronics manufacturing services and IC packaging, testing and manufacturing services. OSE concentrates on providing various electronics manufacturing services with high added value to build long-term partnership with the customers.

Company history

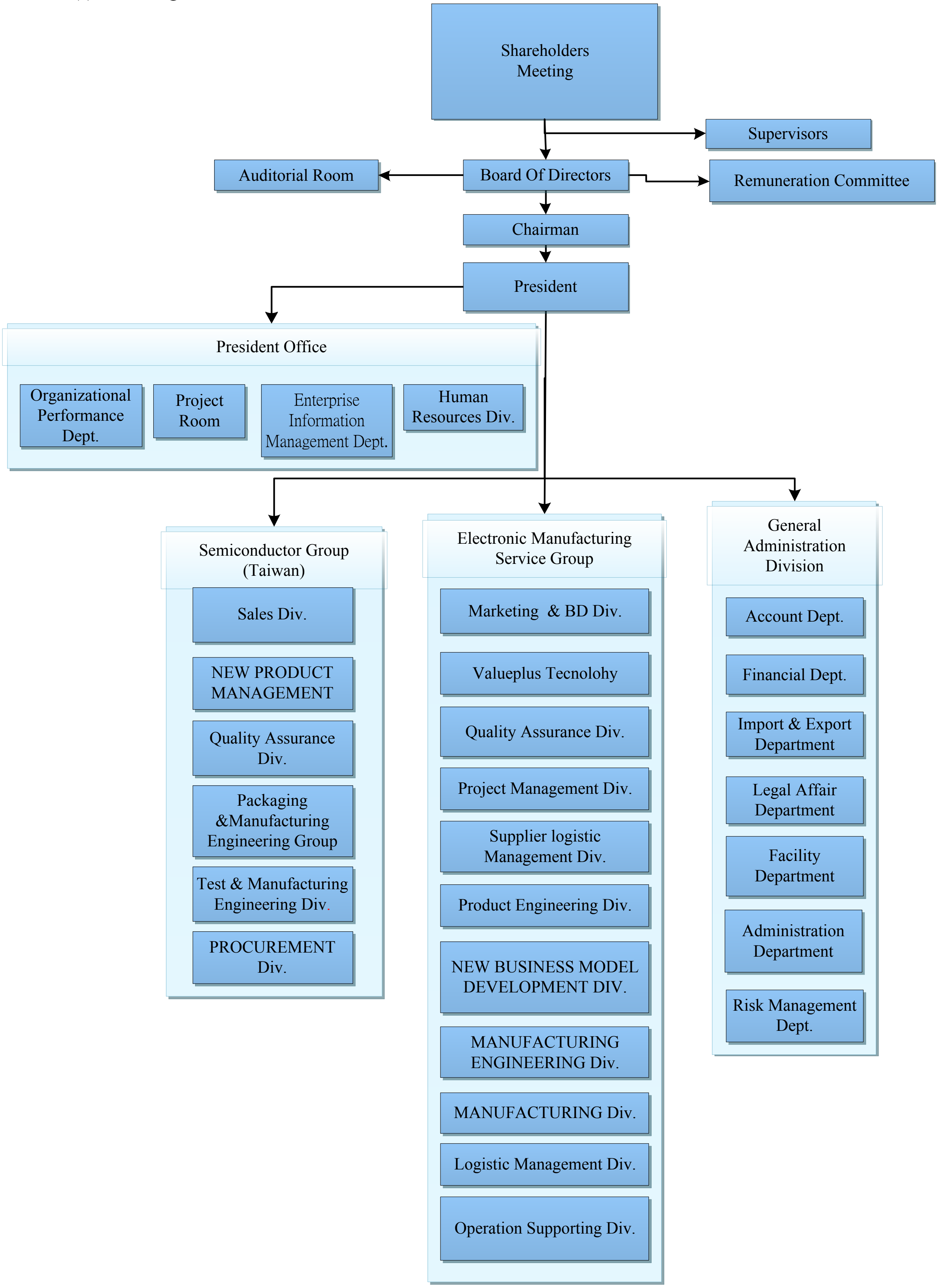
06/1971	OSE was officially established with the paid-in capital of NT$11,000,000.
03/1990	The new production facility of the Finished Products Group was completed and began the production.
04/1994	OSE issued the common stock and it was listed on the Taiwan Stock Exchange on Apr. 20 under Category 1.
04/1999	The Enterprise Resource Planning (ERP: SAP/R3) and MES(Manufacturing Execution System) was implemented
06/1999	New Corporate Identity System was officially launched.
06/2000	Construction of the corporate headquarter building was completed The employees of the Semiconductor Group and the Finished Products Group and the equipment were all ready to start the production.
01/2002	The Finished Products Group won “Highest Overall Customer Rating” of Service Excellence Award among middle size EMS providers sponsored by the professional EMS periodical, Circuits Assembly Magazine and the market research company, Technology Forecasters, Inc.
07/2002	The President Mr. Chien Liang Li handed in his resignation and Mr. Edward Shao-Yao Du was appointed as new President.
02/2003	The Chairman Ms. Mei Tso Yang handed in her resignation and Mr. Chun Yuan Tu was appointed as new Chairman.
12/2005	OSE passed ISO14001:2004 transition verification of Environment Management System.
12/2007	The Semiconductor Group passed TS16949 certification.
12/2008	Construction of the packaging/testing building was completed, the employees of the Semiconductor Group and the equipment were all ready to start the production.
09/2010	OSE passed verification of OHSAS 18001 and TOSHMS Taiwan Occupational Safety & Health Management System.
12/2010	OSE passed the “Healthy Workplace Accreditation” by Heath Promotion Administration, Ministry of Health and Welfare
07/2011	OSE passed the audit of Taiwan Training Quality System (TTQS), and was awarded the silver medal and nominated for the National TrainQuali Prize.

09/2013	OSE passed CNS15506:2011 transition verification of Taiwan Occupational Safety and Health Management System.
09/2013	The Finished Products Group passed ISO13485 quality assurance certification.
04/ 2015	The Finished Products Group established the facility specialized for SSD, and set up the production line specialized for automatic testing and automatic assembly.
08/2016	The President Mr. Chun Yuan Tu handed in his resignation and Mr. Yue-Ming Dong was appointed as new President. The Chairman Mr. Chun Yuan Tu transferred all of his shareholdings and he was discharged from the position of the Director.
11/2016	The company called a special shareholders' meeting to hold the by-election, Mr. Edward Shao-Yao Du and Mr. Yue-Ming Dong were elected as new Directors, and Mr. Shao Yao Tu was elected as new Chairman by the Board of Directors
09/2017	OSE passed ISO14001: 2015 transition verification of Environment Management System.
10/2018	The Finished Products Group established production line specialized for computer peripherals assembly
01/2019	The Finished Products Group was renamed as Electronics Manufacturing Services (EMS) Group.
01/2019	EMS Group established a new facility for e-sports graphics cards.

Three. Corporate Governance Report

I. Organization

(I) Organization structure



(II) The responsibilities of all the major departments

Department	Main responsibilities
Auditorial Room	In charge of design and implementation of the management system of the company, follow-up and audit of the results of system and special projects.
Human Resources Div.	In charge of recruit, training, compensation and so on.
Organizational Performance Dept.	In charge of performance follow-up, planning and execution of the special projects
Project Room	In charge of establishment and implementation of the semiconductor manufacturing system in the factory.
Electronic Manufacturing Service Group	In charge of electronics manufacturing services and so on.
Semiconductor Group	In charge of foundry and testing of the semiconductor packaging and so on.
Accounting Dept.	In charge of accounting, cost, stock affairs of the company and so on.
Admin. Management Dept.,	In charge of general affairs, transportation of the company and so on.
Financial Dept.	In charge of financial investment and management of the company and so on.
Facility Department	In charge of management and maintenance of plant, machine and other hardware equipment of the company and so on.
Import & Export Department	In charge of import and export affairs, bonding operation of the company and so on.
Risk Management Dept.	In charge of environmental protection, safety, sanitation, labor laws of the company and so on.
Legal Affair Department	In charge of all of the legal affairs of the company.
Enterprise Information Management Dept.	In charge of computer software and hardware, internet maintenance of the company and so on.

II. Profile of Directors, Supervisors, Presidents, Vice Presidents, Assistant Managers, Department Heads and Branch Heads

(I) Profile of Directors and Supervisors

Apr. 20, 2019

Title	Nationality or place of incorporation	Name	Gender	Date of assumption of office	Term	The commencement date of the first term	Shareholdings in commencement date of the term		Current shareholdings		Current shareholdings of spouse and minor children		Shareholdings by nominee arrangement		Major education (experience)	Other concurrent position in the Company or other companies	Executives, Directors, or Supervisors who are spouses or relatives within the second degree of kinship		
							Share	Shareholding percentage	Share	Shareholding percentage	Share	Shareholding percentage	Share	Shareholding percentage			Title	Name	Relationship
Chairman	America	Edward Shaw-Yau Duh	Male	Nov. 8, 2016 (Note 2)	3	Jan. 18, 1995 (Note 1)	700,000	0.09%	479,680	0.09%	5,083	0.00%	0	0.00%	Master Degree of Industrial Management of Carnegie Mellon University Master Degree of Computer Science of University of Southern California President of Orient Semiconductor Electronics, Ltd.	Chairman of InfoFab, Inc. Chairman of OSE PHILIPPINES, Inc. Director of OSE USA, Inc. Independent Director of Merry Electronics Co., Ltd. Chairman of COREPLUS(HK) Ltd.	Administration Supervisor	Shu Ling Kung	Spouse
Director	The Republic of China	Yueh-Ming Tung	Male	Nov. 8, 2016 (Note 2)	3	Nov. 8, 2016	50,695	0.01%	34,739	0.01%	57	0.00%	0	0.00%	Master Degree of EMBA of National Sun Yat-sen University Vice President of Orient Semiconductor Electronics, Ltd.	President of Orient Semiconductor Electronics, Ltd. COREPLUS(HK) LTD. Institutional director representative VALUE-PLUS TECHNOLOGY(SuZhou) CO. Director	None	None	None
Director	The Republic of China	Xi-Ren Tseng	Male	Jun. 22, 2016	3	Jun. 11, 2013	13,147	0.00%	9,009	0.00%	0	0.00%	0	0.00%	National Chung Hsing University Department of Accounting and Statistics	Director of Jen Hsiang CPA Firm	None	None	None

Title	Nationality or place of incorporation	Name	Gender	Date of assumption of office	Term	The commencement date of the first term	Shareholdings in commencement date of the term		Current shareholdings		Current shareholdings of spouse and minor children		Shareholdings by nominee arrangement		Major education (experience)	Other concurrent position in the Company or other companies	Executives, Directors, or Supervisors who are spouses or relatives within the second degree of kinship		
							Share	Shareholding percentage	Share	Shareholding percentage	Share	Shareholding percentage	Share	Shareholding percentage			Title	Name	Relationship
Director	The Republic of China	Phison Electronics Corporation (Note 3)	1	Jun. 22, 2016	3	May 6, 2015	6,600,000	0.82%	7,336,369	1.33%	0	0.00%	0	0.00%	None	None	None	None	None
	Malaysia	Representative Khein-Seng Pua	Male	Jun. 22, 2016	3	May 6, 2015	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Master Degree of Institute of Electrical and Control Engineering of National Chiao Tung University	Chairman and CEO of Phison Electronics Corporation Representative of Director of Kingston Technology Company, Inc.	None	None	None
Director	The Republic of China	Longsys Electronics (Taiwan) Co., Ltd. (Note 3)	1	Jun. 22, 2016	3	May 6, 2015	1,000	0.00%	685	0.00%	0	0.00%	0	0.00%	None	None	None	None	None
	The Republic of China	Representative Dai-Gang Zhang	Male	Jun. 22, 2016	3	May 6, 2015	20,000	0.00%	13,705	0.00%	0	0.00%	0	0.00%	College of Engineering and Computing Sciences of New York Institute of Technology Department of Electrical and Computer Engineering of Tamkang University	President of Longsys Electronics (Taiwan) Co., Ltd.	None	None	None
Independent Director	The Republic of China	Ching-Tien Tsai	Male	Jun. 22, 2016	3	Jun. 22, 2016	0	0.00%	0	0.00%	0	0.00%	0	0.00%	CPA of Ernst and Young Global Limited(renamed from Diwan and Company)	O-TA Precision Industry Co., Ltd. Independent Director	None	None	None

Title	Nationality or place of incorporation	Name	Gender	Date of assumption of office	Term	The commencement date of the first term	Shareholdings in commencement date of the term		Current shareholdings		Current shareholdings of spouse and minor children		Shareholdings by nominee arrangement		Major education (experience)	Other concurrent position in the Company or other companies	Executives, Directors, or Supervisors who are spouses or relatives within the second degree of kinship		
							Share	Shareholding percentage	Share	Shareholding percentage	Share	Shareholding percentage	Share	Shareholding percentage			Title	Name	Relationship
Independent Director	The Republic of China	Jerry Chiu	Male	Jun. 22, 2016	3	Jun. 22, 2016	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Professor of Department of Accounting of National Cheng Kung University CEO of the NCKU Endowment Fund Management Committee	Independent Director of Enterex International Limited JUNG SHING WIRE Independent Director Independent Director of StrongLED Lighting Systems (Suzhou) Co., Ltd. Yung Chi Paint and Varnish Mfg., (Taiwan) Co., Ltd. Representative of institutional supervisor Supervisor of WAH HONG INDUSTRIAL CORP.	None	None	None
Supervisors	America	DS Fund LLC (Note 3)	1	Jun. 22, 2016	3	May 6, 2015	11,477,420	1.42%	7,864,990	1.42%	0	0.00%	0	0.00%	None	None	None	None	None
	The Republic of China	Representative Daphane Wu	Female	Jun. 22, 2016	3	May 6, 2015	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Department of Accounting of National Chengchi University	CFO of Kingston Technology Company, Inc. Supervisor of Kingston Technology Company, Inc Supervisor of PANRAM INTERNATIONAL CORP. Director of institutional representative of Powertech Technology Inc.	None	None	None

(Note 1): Not elected as Director or Supervisor during the period from Jun. 21, 2007 to Nov. 7, 2016.
(Note 2): By-election of 2 directors on Nov. 8, 2016

(Note 3): For directors and supervisors acting as the representatives of institutional shareholders, specify the names of the institutional shareholders as the following table 1

Table 1: Major shareholders of the institutional shareholders

Name of institutional shareholders	Major shareholders of the institutional shareholders
Phison Electronics Corporation	First Bank in custody for investment account of Toshiba Memory Corporation (10.06%), CTBC Bank in custody for investment account of Kingston Technology Inc. (5.71%), HSBC Bank (Taiwan) Limited in custody for Aberdeen Asset Management MDF Account (3.94%), Chien Cheng Pan(2.31%), Chun Yung Yang(2.31%), CITI Bank in custody for investment account of NOREGS BANK (1.70%), Chih Kuang Ou Yang(1.70%), Han Wei Wu(1.68%), JPMorgan Chase Bank in custody for investment account of Robeco Capital Growth Funds (1.40%), JPMorgan Chase Bank in custody for Vanguard Total International Stock Index Fund (1.32%)
Longsys Electronics (Taiwan) Co., Ltd.	LONGSYS INVESTMENT CO., LIMITED(100%)
DS Fund LLC	David & Diana Sun, As trustees of the Declaration of Trust of David Sun and Diana Sun (1999 Restatement) (100%)

(Note 1): When a director or supervisor is the representative of an institutional shareholder, specify the name of such institutional shareholder.

(Note 2): Specify the name and the percentage of the shareholding of the major shareholders of the institutional shareholders (their percentage of the shareholding is among top 10). When the major shareholders of an institutional shareholder are institutional investors, continue with Table 2 below.

Table 2: Major shareholders of institutional investors in Table 1

Name of institutional investor	Major shareholders of institutional shareholder
Toshiba Memory Corporation	Toshiba Memory Holdings Corporation (100%)

Professional qualifications and independence status of Directors and Supervisors

Criteria / Name	Meet one of the following professional qualification requirements and at least five years' work experience			Independence status										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, CPA, or other professional or technical specialist necessary for the business of the company who has passed the national examination and been awarded the certificate	Have work experience in the fields of commerce, law, finance, or accounting, or other work experience necessary for the business of the company	1	2	3	4	5	6	7	8	9	10	
Edward Shao-Yao Du			✓			✓	✓	✓	✓	✓	✓	✓	✓	1
Yue-Ming Dong			✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Hsi Jen Tseng		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Phison Electronics Corporation Representative: Chien Cheng Pan			✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	0
Longsys Electronics (Taiwan) Co., Ltd. Representative: Tai Kang Chang			✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	0
Ching Tien Tsai		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Zheng-Ren Qiu	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	3
DS Fund LLC Representative: Li Ching Wu			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0

Note: Please check "✓" in the corresponding boxes if the qualification applies 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's affiliates. (Except for Independent Directors of the company or its parent company or a subsidiary established in accordance with this Act or the local laws.).
(3) Not holding 1% or more than 1% of the total outstanding shares issued by the company or among the top 10 natural person shareholders by the person or his spouse or minor children, or in the name of a third party.
(4) Not a spouse, relatives within the second degree of kinship, or lineal relatives within the third degree of kinship of any of the persons in the preceding three subparagraphs.
(5) Not a Director, Supervisor or employee of an institutional shareholder holding 5% or more than 5% of the total outstanding shares issued by the Company, or a Director, Supervisor or employee of an institutional shareholder who is among the top 5 shareholders.
(6) Not a Director, Supervisor, Managerial Officer of a specified company or institution which has a financial or operational relationship with the Company or a shareholder holding 5% or more than 5% of the total outstanding shares issued by the Company.
(7) Not a professional individual, owner, partner, director, supervisor, manager of proprietorship, partnership, company or institution that provides commercial, legal, financial and accounting services to the company or its affiliates, or a spouse to the aforementioned persons. Except for members of the Compensation Committee exercising their duties in accordance with 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 GTSM."
(8) Not having a marital relationship, or not 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 Act.
(10) Not a governmental, institutional investor or its representative as defined in Article 27 of the Company Act.

(II) Profile of Presidents, Vice Presidents, Assistant Managers, Department Heads and Branches Heads

Apr. 20, 2019

Title	Nationality	Name	Gender	Date of assumption of office	Shareholding		Current shareholdings of spouse and minor children		Shareholdings by nominee arrangement		Major education (experience)	Other concurrent position in the Company or other companies	Executives, Directors, or Supervisors who are spouses or relatives within the second degree of kinship		
					Share	Shareholding percentage	Share	Shareholding percentage	Share	Shareholding percentage			Title	Name	Relationship
President	The Republic of China	Yueh-Ming Tung	Male	Aug. 26, 2016	34,739	0.01%	57	0.00%	0	0.00%	Master Degree of EMBA of National Sun Yat-sen University Vice President of Orient Semiconductor Electronics, Ltd.	President of Orient Semiconductor Electronics, Ltd. COREPLUS(HK) LTD. Representative of institutional director Director of VALUE-PLUS TECHNOLOGY(SuZhou) CO.	None	None	None
CFO	The Republic of China	Chun-Kuan Lee	Male	Mar, 14, 2002	53,997	0.01%	0	0.00%	0	0.00%	Master Degree of Department of Business Administration of National Chung Hsing University	Chairman of OSE International Limited COREPLUS(HK)LTD. Representative of institutional director InfoFab, Inc. Supervisors	None	None	None
Senior Vice President	The Republic of China	Tzu Ming Liu	Male	Feb. 28, 2003	56,304	0.01%	11,720	0.00%	0	0.00%	Department of Electronic Engineering of National Chin-Yi University of Technology(renamed from National Chin-Yi Institute of Technology)	Director of VALUE-PLUS TECHNOLOGY(SuZhou) CO.	None	None	None
Vice President	The Republic of China	Liang Chung Wu	Male	Jul. 20, 2015	112,381	0.02%	0	0.00%	0	0.00%	Institute of Electronics of National Chiao Tung University President of TM Technology, Inc. (renamed from TAIWAN MEMORY TECHNOLOGY INC.) Section Director of Hualong Microelectronics	None	None	None	None
Vice President	The Republic of China	Chun Chieh Wang	Male	Mar. 1, 2017	0	0.00%	0	0.00%	0	0.00%	Department of Mechanical Engineering of Feng Chia University VeriFone Systems Pte Ltd Taiwan Brach Philips Electronic Building Elements Industries, Taiwan Ltd. CTS Components Taiwan	None	None	None	None

Title	Nationality	Name	Gender	Date of assumption of office	Shareholding		Current shareholdings of spouse and minor children		Shareholdings by nominee arrangement		Major education (experience)	Other concurrent position in the Company or other companies	Executives, Directors, or Supervisors who are spouses or relatives within the second degree of kinship		
					Share	Shareholding percentage	Share	Shareholding percentage	Share	Shareholding percentage			Title	Name	Relationship
Vice President	The Republic of China	Kuan Tien Shen	Male	Nov. 19, 2018	96	0.00%	0	0.00%	0	0.00%	Master Degree of Business Administration of I-SHOU University Vice President of SMIKE International President and COO of Taiwan IC Packaging Corporation Vice President of SIGURD MICROELECTRONICS CO.	None	None	None	None
Vice President	The Republic of China	Shih Chuan Chen	Male	Mar. 5, 2019	0	0.00%	0	0.00%	0	0.00%	Department of Electrical Engineering of Tatung University Foreign Affairs Supervisor of Quick Test Corporation Sandlacus Technology Director of Intelligent Equipment and Product Vice President of Department of automotive electronics R&D of Wieson Technologies MICRO-STAR INTERNATIONAL CO., LTD.	None	None	None	None
Assistant Manager	The Republic of China	Shih Chung Hsiang	Male	Feb. 1, 2006	0	0.00%	0	0.00%	0	0.00%	Master Degree of Graduate Institute of Management of National Taiwan University of Science and Technology	None	None	None	None
Assistant Manager	The Republic of China	Tse Wen Li	Male	May 1, 2008	0	0.00%	0	0.00%	0	0.00%	Department of Materials Science and Engineering of National Cheng Kung University	None	None	None	None
Assistant Manager	The Republic of China	Wen Pin Yang	Male	Sep. 7, 2016	20,594	0.00%	99	0.00%	0	0.00%	Department of Electronic Engineering of Kun Shan University Department of Plant Industry of National Pingtung University of Science and technology	None	None	None	None
Assistant Manager	The Republic of China	Che Kuang Liu	Male	Sep. 7, 2016	10,278	0.00%	10,302	0.00%	0	0.00%	Department of Industrial and Systems Engineering of Chung Yuan University	None	None	None	None

Title	Nationality	Name	Gender	Date of assumption of office	Shareholding		Current shareholdings of spouse and minor children		Shareholdings by nominee arrangement		Major education (experience)	Other concurrent position in the Company or other companies	Executives, Directors, or Supervisors who are spouses or relatives within the second degree of kinship		
					Share	Shareholding percentage	Share	Shareholding percentage	Share	Shareholding percentage			Title	Name	Relationship
Assistant Manager	The Republic of China	Min Lang Tsai	Male	Jul. 19, 2017	6,852	0.00%	0	0.00%	0	0.00%	Master Degree of Industrial Engineering and Management of National Kaohsiung University of Science and Technology(renamed from National Kaohsiung University of Applied Sciences) Assistant Manager of Dept. of RD and Manufacturing Process Engineering of Taiwan IC Packaging Corporation Senior Manager of Dept. of Flash packaging/testing R&D of ADATA Technology Co., Ltd.	None	None	None	None
Assistant Manager	The Republic of China	Chen Chung Sun	Male	Aug. 10, 2017	636	0.00%	0	0.00%	0	0.00%	Department of Business Administration of Tunghai University	None	None	None	None
Assistant Manager	The Republic of China	Tseng Chih Chi	Male	Aug. 20, 2018	3,426	0.00%	0	0.00%	0	0.00%	Master Degree of Institute of Applied Mechanics of National Taiwan University Director of ADATA Technology Co., Ltd.	None	None	None	None
CHRO	The Republic of China	Chen Ling Lai	Female	Mar. 6, 2018	102,788	0.02%	0	0.00%	0	0.00%	National Kaohsiung University of Science and Technology(renamed from National Kaohsiung University of Applied Sciences) Master Degree of Graduate Institute of Human Resource Management	None	None	None	None
Administration Supervisor	The Republic of China	Shu Ling Kung	Female	Nov. 19, 2018	5,083	0.00%	479,680	0.00%	0	0.00%	Master Degree of Science in Telecommunications of University of Pittsburgh System Engineer of Wang Laboratories Project Manager of IBM	None	Chairman	Edward Shaw-Yau Duh	Spouse

Title	Nationality	Name	Gender	Date of assumption of office	Shareholding		Current shareholdings of spouse and minor children		Shareholdings by nominee arrangement		Major education (experience)	Other concurrent position in the Company or other companies	Executives, Directors, or Supervisors who are spouses or relatives within the second degree of kinship		
					Share	Shareholding percentage	Share	Shareholding percentage	Share	Shareholding percentage			Title	Name	Relationship
Accounting Supervisor	The Republic of China	Shu Yung Chu	Female	Dec. 1, 2018	9,758	0.00%	0	0.00%	0	0.00%	Master Degree of Graduate Institute of Finance of National Sun Yat-sen University	None	None	None	None

III. Remuneration for Directors, Supervisors, Presidents and Vice Presidents in the most recent fiscal year

(I) Remuneration of Directors(including Independent Directors)

Dec. 31, 2018 Unit: NTD thousand

Title	Name	Directors remuneration								Ratio of total remuneration A+B+C+D to net income after tax		Relevant remuneration received by Directors who are also employees								Ratio of total remuneration A+B+C+D+E+F+G to net income after tax		Remuneration paid to Directors from an invested company other than the company's subsidiary
		Remuneration (A)		Severance pay and pensions (B)		Directors compensation (C)		Allowances (D)				Salary, bonuses, and allowances (E)		Severance pay and pensions (F)		Employee compensation (G)						
																The company		Companies in the consolidated financial statements				
		The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	Cash	Stock	Cash	Stock	The company	Companies in the consolidated financial statements	
Chairman	Edward Shaw-Yau Duh	0	0	0	0	0	0	3,360	3,360	(3.01)	(3.01)	9,075	9,075	108	108	0	0	0	0	(11.24)	(11.24)	None
Director	Yueh-Ming Tung																					
Director	Xi-Ren Tseng																					
Director	Phison Electronics Corporation																					
Director	Longsys Electronics (Taiwan) Co., Ltd.																					
Independent Director	Ching-Tien Tsai																					
Independent Director	Jerry Chiu																					

Note 1: The net (loss) after tax of 2018 of the company is (NT$111,548) thousand.

Note 2: The net (loss) after tax of 2018 consolidated financial statement is (NT$111,548) thousand.

Note 3: Severance pay and pensions are the company's contribution to employee's pension account, not actual amount paid.

(II) Supervisors remuneration

Dec. 31, 2018 Unit: NTD thousand

Title	Name	Supervisors remuneration						Ratio of total remuneration A+B+C to net income after tax (%)		Remuneration paid to Directors from an invested company other than the company's subsidiary
		remuneration (A)		Compensation (B)		Allowances (C)				
		The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	
Supervisors	DS Fund LLC	0	0	0	0	360	360	(0.32%)	(0.32%)	None

(III) Remuneration of President and Vice President

Dec. 31, 2018 Unit: NTD thousand

Title	Name	Salary (A)		Severance pay and pensions (B)		Bonus and allowances (C)		Employee compensation (D)				Ratio of total remuneration A + B + C + D to net income after tax (%)		Remuneration paid to Directors from an invested company other than the company's subsidiary
		The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company		Companies in the consolidated financial statements		The company	Companies in the consolidate d financial statements	
								Cash	Stock	Cash	Stock			
President	Yueh-Ming Tung	21,926	21,926	553	553	3,683	3,683	0	0	0	0	(23.45%)	(23.45%)	None
CFO	Chun-Kuan Lee													
Senior Vice President	Tzu Ming Liu													
Vice President	Liang Chung Wu													
Vice President	Chun Chieh Wang													
Vice President (note 1)	Kuan Tien Shen													

Note 1: The Vice President Mr. Kuan Tien Shen takes office on Nov. 19, 2018.

Note 2: Severance pay and pensions are the company's contribution to employee's pension account, not actual amount paid.

Table of remuneration range

Range of remuneration paid to Presidents and Vice Presidents	Name of Presidents and Vice Presidents	
	The company	Companies in the consolidated financial statements
Under NT$ 2,000,000	Kuan Tien Shen	Kuan Tien Shen
NT$2,000,000(included) ~ NT$5,000,000 (excluded)	Chun-Kuan Lee, Liang Chung Wu, Chun Chieh Wang	Chun-Kuan Lee, Liang Chung Wu, Chun Chieh Wang
NT$5,000,000(included) ~ NT$10,000,000 (excluded)	Yue-Ming Dong, Tzu Ming Liu	Yue-Ming Dong, Tzu Ming Liu
NT$10,000,000(included) ~ NT$15,000,000 (excluded)	0	0
NT$15,000,000(included) ~ NT$30,000,000 (excluded)	0	0
NT$30,000,000(included) ~ NT$50,000,000 (excluded)	0	0
NT$50,000,000(included) ~ NT$100,000,000 (excluded)	0	0
Over NT$100,000,000	0	0
Total	6	6

(IV) Name of Managerial Officer in charge of bonus distribution and distribution status:
The Company do not distribute bonus in 2018.

(V) Respective comparison and illustration of the ratio of remuneration for Directors, Supervisors, Presidents and Vice Presidents paid by the Company and all the companies in the consolidated financial statement in the most recent two fiscal years to net income after tax of individual financial statements and illustration of remuneration policy, standard and combination, remuneration resolution process, the relevance between operation performance and future risks.

1. Analysis of total remuneration for Directors, Supervisors, Presidents and Vice Presidents paid by the Company in the most recent two fiscal years to net income(loss) after tax:

Year	2017		2018	
Title	The ratio of total remuneration for Directors, Supervisors, Presidents and Vice Presidents paid by the Company to net income(loss) after tax	The ratio of total remuneration for Directors, Supervisors, Presidents and Vice Presidents paid by all the companies in the consolidated financial statement to net income(loss) after tax of individual financial statements	The ratio of total remuneration for Directors, Supervisors, Presidents and Vice Presidents paid by the Company to net income(loss) after tax	The ratio of total remuneration for Directors, Supervisors, Presidents and Vice Presidents paid by all the companies in the consolidated financial statement to net income(loss) after tax of individual financial statements
Director	(1.68%)	(1.68%)	(11.23%)	(11.23%)
Supervisors	(0.05%)	(0.05%)	(0.32%)	(0.32%)
President and Vice President	(3.80%)	(3.79%)	(23.45%)	(23.45%)

2. Remuneration policy, standard and combination, remuneration resolution process, the relevance between operation performance and future risks of the Company.
   (1) Remuneration for Directors, Supervisors paid by the Company is in accordance with their contribution to the Company's operation, and reference to domestic/foreign companies' standard and their remuneration will be decided by the Board of Directors.
   (2) Remuneration for Managerial Officers paid by the Company is composed of base salary, duty allowance and bonus, which will be decided by the Chairman authorized by the Board of Directors according to their job responsibilities, education, experience, skill and potential.
   (3) The amount of employee compensation is resolved in the Shareholders' Meeting and the distribution amount is according to their performance, seniority, grade and special contribution.

IV. Implementation status of Corporate Governance

(I) Practices of the Board of Directors: From 2018 to May 31, 2019, a total of 7 meetings of the 16th Board of Directors were held. The attendance status of Directors are as follows:

Title	Name	Attendance in person	By proxy	Rate of attendance in person	Note
Chairman	Edward Shaw-Yau Duh	7	0	100%	Attendance time is 7
Director	Yueh-Ming Tung	7	0	100%	Attendance time is 7
Director	Xi-Ren Tseng	7	0	100%	Attendance time is 7
Director	Phison Electronics Corporation (Representative: Khein-Seng Pua)	1	6	14%	Attendance time is 7
Director	Longsys Electronics (Taiwan) Co., Ltd. (Representative: Dai-Gang Zhang)	4	3	57%	Attendance time is 7
Independent Director (note)	Ching-Tien Tsai	6	1	86%	Attendance time is 7
Independent Director (note)	Jerry Chiu	6	1	86%	Attendance time is 7

(Note): The Independent Directors attendance status of each meeting of the Board of Director from 2018 to May 31, 2019:

◎: Attendance in person, ☆: By proxy, ∗: Absence

2018/2019	Mar. 28	May 8	May 15	Aug. 13	Nov. 13	Mar. 29, 2019	May 8, 2019
Ching Tien Tsai	◎	◎	☆	◎	◎	◎	◎
Zheng-Ren Qiu	◎	☆	◎	◎	◎	◎	◎

Other matters that require reporting:

I. If any of the following situations occur, please expressly state the dates and sessions of the Board Meetings, contents of motions, all independent directors' opinions and the company's response to independent directors' opinions

(I) Matters referred to the Article 14-3 of the Securities and Exchange Act:

(II) In addition to previous matters, other resolutions of the Board Meetings for which the independent directors express adverse opinions or qualified opinion with records or with written statements.

Board of Directors	Contents of motions and further handling	Matters referred to the Article§14-3 of the Securities and Exchange Act	The Independent Directors express adverse opinion or qualified opinion
The 12th meeting of the 16th term (Mar. 28, 2018)	1. Loaning to OSE Phil.	V	
	2. Re-confirmation of performance bonus for the Company's Executive Officers in 2017	V	
	Opinions of the Independent Directors: None		
	Company's response to opinions of the Independent Directors: none.		
	Resolution result: In addition to the Director, Mr. Yue-Ming Dong's avoidance of the motion according to the law, the other attending Directors had no opinions and the resolutions were adopted unanimously.		
The 13th meeting of the 16th term(May 8, 2018)	1. Loaning to OSE Phil.	V	
	Opinions of the Independent Directors: None		
	Company's response to opinions of the Independent Directors: none.		
	Resolution results: adopted unanimously by all the attending Directors.		
The 14th meeting of the 16th term(May 15, 2018)	1. Discussion of execution of "Capital Reduction for Making up the Losses."	V	
	Opinions of the Independent Directors: None		
	Company's response to opinions of the Independent Directors: none.		
	Resolution results: adopted unanimously by all the attending Directors.		
The 15th meeting of the 16th term (Aug. 13, 2018)	1. Loaning to OSE Phil.	V	
	Opinions of the Independent Directors: None		
	Company's response to opinions of the Independent Directors: none.		
	Resolution results: adopted unanimously by all the attending Directors.		
The 16th meeting of the 16th term (Nov. 13, 2018)	1. Loaning to OSE Phil.	V	
	2. CPA Replacement.	V	
	3. Accounting Executive Change.	V	

	Opinions of the Independent Directors: None		
	Company's response to opinions of the Independent Directors: none.		
	Resolution results: adopted unanimously by all the attending Directors.		
The 17th meeting of the 16th term (Mar. 29, 2019)	1. Loaning to OSE Phil.	V	
	2. Revision of some provisions of the “Operating Procedure for Assets Acquisition and Disposal.”	V	
	3. Revision of some provisions of the “Operating Procedure for Endorsements and Guarantees.”	V	
	4. Revision of some provisions of the “Operational Procedure for Loaning to Others.”	V	
	Opinions of the Independent Directors: None		
	Company's response to opinions of the Independent Directors: none.		
	Resolution results: adopted unanimously by all the attending Directors.		
The 18th meeting of the 16th term (May 8, 2019)	1. Loaning to OSE Phil.	V	
	2. Revision of the “Operational Procedure for the Internal Control System” and “Auditing Procedure for the Internal Audit.”	V	
	Opinions of the Independent Directors: None		
	Company's response to opinions of the Independent Directors: none.		
	Resolution results: adopted unanimously by all the attending Directors.		

II. For implementation status of Directors' avoidance of motions in conflict of interest, the Director's name, the contents of motion, the reasons for avoidance and the voting status should be specified:

(I) When the Company discussed “Performance Bonus for the Company's Executive Officers” in the 12th Board Meeting of the 16th term, the Director, Mr. Yue-Ming Dong was concurrently serving as President, so he avoided the motion because of conflict of interest and didn't participate in the discussion and voting.

III. Goals of the current and the recent years to improve the functions of the Board of Directors (such as establishing the Audit Committee, improving the information disclosure) and evaluation of the implementation status: The Company has elected the members of the 3rd term of the Compensation Committee in the 2nd Board Meeting of the 16th term on Aug. 9, 2016. Except for the Independent Directors Mr. Ching Tien Tsai and Mr. Zheng-Ren Qiu's avoidance of motion in conflict of interest and didn't participate in the voting, the other attending Directors (including by proxy) had no opinions and adopted unanimously the appointment of the CPA, Mr. Ching Tien Tsai, the professor Mr. Zheng-Ren Qiu, the consultant Mr. Chung Shan Kao as the members of the Compensation Committee who were responsible for regular review of annual and

long-term performance, compensation policy, system, standard and structure for Directors, Supervisors and Managerial Officers. For implementation status, please refer to “Operation status of the Compensation Committee” in the page No. 39.

Note 1: For institutional directors, disclose institutional shareholders' names and the name of their representatives.

Note 2: (1) If a Director resigns before the end of a fiscal year, state the service termination date in the remarks section, and the rate of attendance in person (%) is calculated with the number of the Board Meetings and his attendance in person during his service period.

(2) If the re-election of the Board of Directors is held before the end of the fiscal year, the name of former and newly-elected Directors should all be listed, and also state the status of the Director: former, newly-elected or re-elected, and the re-election date in the remarks section. The rate of attendance in person (%) is calculated with the number of the Board Meetings and the attendance in person during his service period.

(II) Operations of the Audit Committee or participation of Supervisors in the Board of Directors:

1. Operations of the Audit Committee: The Company didn't establish the Audit Committee, N/A.
2. Participation of Supervisors in the Board of Directors: From 2018 to May 31, 2019, a total of 7 meetings of the 16th Board of Directors were held. The attendance status of Supervisors are as follows:

Title	Name(note 1)	Attendance in person	Rate of attendance in person (%) (note 2)	Note
Supervisors	DS Fund LLC (Representative: Daphane Wu)	6	86%	Attendance time is 7

Other matters that require reporting:

I. Composition and responsibilities of Supervisors:

(I) Communications between Supervisors and the Company's employees and shareholders:
The Supervisor can understand the actual operations of the company through monthly and irregular audit reports, project audit reports to achieve corporate governance. Meanwhile, the employees can express their opinions to the Supervisor directly. Consequently, the Supervisor can perform the function of supervision and guidance.

(II) Communications between Supervisors and the Internal Chief Auditor and CPA:
The Internal Chief Auditor not only attends every Board Meeting and submits the audit reports in time, but also appoints other auditors to attend the Company's review meeting between CPA, accounting dept. and financial dept.
To ensure the operation of accounting dept. and financial dept. complies with the requirement of internal control system.

II. The Company's management team and chief auditor report the important matters regarding finance and operation to Supervisor often, and they explain and report to the Supervisor before holding a Board Meeting so that he can well understand the content of motion for the Board Meeting. Consequently, when the Company's Supervisor attends the Board Meeting, he just makes a slight reminder rather than expressing any adverse opinions. The management dept. places considerable value on the instructions from the Supervisor and take it into consideration for planning and implementation of all the operations.

III. The Company has not established the Audit Committee, so no independent director attends the Audit Committee.

Note 1: For institutional supervisors, disclose institutional shareholders' names and the name of their representatives.

Note 2: (1) If a Supervisor resigns before the end of a fiscal year, state the service termination date in the remark section, and the rate of attendance in person (%) is calculated with the number of the Board Meetings and his attendance in person during his service period.

(2) If the re-election of the Board of Directors is held before the end of the fiscal year, the name of former and newly-elected Supervisors should all be listed, and also state the status of the Supervisor: former, newly-elected, or re-elected, and the re-election date in the remarks section. The rate of attendance in person (%) is calculated with the number of the Board Meetings and the attendance in person during his service period.

(III) Implementation status of corporate governance and the variations and causes of variations from the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies.

Evaluation item	Operation status			The variations and causes of variations from the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies
	Yes	No	Summary description	
I. Has the Company defined and disclosed its corporate governance best practice principles in accordance with the "Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies?"		V	The Company has not established "Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies." But it has defined Rules of Procedure for Shareholders Meeting, Rules of Procedure for Board Meeting and internal control system, the corporate governance spirit is included in the internal control system and related management regulation to achieve the operation of corporate governance.	Compliance with Corporate Governance Best Practice Principles.
II. Structure of shareholdings and shareholder's equity				
(I) Has the company established the internal procedures for handling shareholder suggestions, questions, disputes and litigation and implement according to the procedures?	V		(I) The Company has established a spokesperson system and we provide service personnel for shareholders' affairs in the accounting dept. to deal with shareholders' suggestions and related affairs. In addition to providing the investors with contact windows, we have also appointed a professional stock transfer agency to provide professional consulting services.	Compliance with Corporate Governance Best Practice Principles.
(II) Has the company kept an up-to-date list of its dominant shareholders and the parties with ultimate control over its dominant shareholders?	V		(II) We can understand and control the major structure of shareholders from the regular report of changes in shareholding of Directors, Supervisors and Managerial Officers by the stock transfer agency and insiders	
(III) Has the company established and implemented a risk control and firewall mechanism among its affiliates?	V		(III) The management responsibilities between the Company and its affiliates are divided clearly, "management regulation of stakeholders transaction" and "supervision and management regulations for	

Evaluation item	Operation status			The variations and causes of variations from the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies
	Yes	No	Summary description	
(IV) Has the Company established internal rules to prevent the insiders from trading marketable securities through undisclosed information in the market?	V		subsidiary" are also defined and the finance, business, accounting of affiliates operates independently under the control and audit of the Company. (IV) The Company has defined "Code of Ethics" and "Internal Material Information Processing Operating Procedure" which is applicable to Directors, Supervisors, Managerial Officers, employees of the Company and the update and promotion of the relevant information is implemented on an irregular basis.	
III. Composition and duties of the Board of Directors (I) Hass the Board of Directors established and implemented a defined policy to diversify board membership?	V		(I) The Board of Directors of the Company has 7 Directors including 2 Independent Directors who specialize in different professional qualifications, skills and literacy. They are prestigious individuals in the academic field and the industry with rich experience of the industry and academic background, and they are greatly beneficial to increase of business performance and management efficiency for the Company.	Compliance with Corporate Governance Best Practice Principles.
(II) In addition to the Compensation Committee and the Audit Committee required by law, has the company voluntarily established other functional committees?		V	(II) The Company has established the Compensation Committee according to law, and other corporate governance operation is responsible by each department based on its duties. The Company has not established other functional committees and it will be established in the future according to the requirement.	Under planning

Evaluation item	Operation status			The variations and causes of variations from the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies
	Yes	No	Summary description	
(III) Has the company established a Board performance evaluation regulation to evaluate the Board's performance every year?		V	(III) The members of the Board of Directors of the Company are all loyal to execution of operation and fulfill the care of good administrators, exercise the authority with high self-discipline and caution, review the effect of the Board of Directors regularly. But the Board performance evaluation regulation has not been defined yet, and it will be defined in the future according to the requirement.	Under planning
(IV) Does the company regularly evaluate the independence of certified public accountants?	V		(IV) The Company's CPA doesn't serve as the Company's Director and Supervisor and is not the Company's shareholder, and abides by Certified Public Accountant Act and the Bulletin of Norm of Professional Ethics for Certified Public Accountant of the Republic of China No. 10 The Company evaluates the CPA's independence and appropriateness at least once a year, last time is on May 8, 2019, the motion of evaluation for the CPA's independence was proposed in the Board Meeting, and the statement of CPA independence was adopted.	Compliance with Corporate Governance Best Practice Principles.

Evaluation item	Operation status			The variations and causes of variations from the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies
	Yes	No	Summary description	
IV. Have the listed and OTC companies established a dedicated (concurrent) governance unit or individual to take charge of the company's governance affairs (including but not limited to providing Directors and Supervisors with the materials required for business operations, handling affairs relating to holding the Board Meetings or Shareholders Meetings according to the laws, processing company registration and change registration, and producing minutes for the Board Meetings and Shareholders' Meetings)?	V		The service personnel for shareholder affairs of the Company's accounting dept. takes charge of corporate governance-related affairs.	Compliance with Corporate Governance Best Practice Principles.
V. Has the company established the channels for communication with the stakeholders (including but not limited to the shareholders, employees, customers and suppliers), set up the stakeholder section in the company website, and respond appropriately to important CSR issues concerned by the stakeholders?	V		(I) The Company has a spokesperson and deputy spokesperson, the related contact information is disclosed on Market Observation Post System website according to the regulation. Meanwhile, we also disclose financial and shareholders affairs-related information on Market Observation Post System and our company's website to establish great communication channels with investors. (II) The Company has established the stakeholder section under CSR on the Company's website, and specified the contact channels with stakeholders to make the Company understand the issues concerned by stakeholders and respond to them appropriately.	Compliance with Corporate Governance Best Practice Principles.

Evaluation item	Operation status			The variations and causes of variations from the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies
	Yes	No	Summary description	
VI. Has the company appointed a professional stock transfer agency to deal with Shareholders' Meetings affairs?	V		The Company has appointed a professional stock transfer agency- stock transfer agency of CTBC Bank Co., Ltd to deal with Shareholders' Meetings affairs for the Company.	Compliance with Corporate Governance Best Practice Principles.
VII. Information disclosure (I) Has the company set up a website to disclose its financial and corporate governance information? (II) Has the company adopted other methods to disclose information (such as setting up an English website, designating dedicated personnel to gather and disclose company information, implementing the spokesperson system, and posting investor conferences on video in the company website)?	 V V		(I) The Company has set up a website(www.ose.com.tw) to introduce company situation and relevant operations, and also disclosed and reported all the financial, business operations and corporate governance information on Market Observation Post System according to the regulations of the competent authority. (II) The Company has set up a Chinese/English website, established the spokesperson system to take charge of the external communication, and designated the dedicated personnel to disclose the company information on Market Observation Post System website according to the regulation. Company spokesperson: Mr. Chun-Kuan Lee Deputy spokesperson: Mr. Simon Hung	 Compliance with Corporate Governance Best Practice Principles.
VIII. Is there any other material information that will help the stakeholders understand the implementation status of corporate governance in the company (including but not limited to employee rights, employee care,	V		(I) Employee rights, employee care: The Company has established the dedicated unit for all the stakeholders such as HR Dept. is the dedicated unit for handling employee rights. In addition, the Company has also set up the Employee Welfare Committee to take care of the employees, and all of them work smoothly. (II) Investor relations: The Company has established	Compliance with Corporate Governance Best Practice Principles.

Evaluation item	Operation status			The variations and causes of variations from the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies
	Yes	No	Summary description	
investor relations, supplier relations, stakeholder rights, further study status of Directors and Supervisors, the implementation status of the risk management policy and risk measurement standard, the implementation status of the customer policy, and the company's purchase of liability insurance for Directors and Supervisors)?			communication channels like spokesperson and deputy spokesperson system to answer the relevant questions asked by the shareholders. (III) Supplier relations: The Company has kept a good relationship with the suppliers and also set up the contact window under the stakeholder section on the Company's website. (IV) Stakeholders' rights: The Company respects and protects stakeholders' legal rights, keeps good communication channels with customers, employees and suppliers, and discloses the related information and provides all the real-time company information according to the regulation of competent authority (V) Further study status of Directors and Supervisors: All of the Directors and Supervisors have relevant operational experiences and professions, please refer to annex 1 for further education status of 2018. (VI) The implementation status of the risk management policy and risk measurement standard: The Company's material motions such as material operation policies, investments, endorsements and guarantees, loaning and bank loans are evaluated and analyzed by the appropriate competent authority and executed according to the resolution of the Board Meeting, the Auditing Office also establishes and effectively implements its annual audit plan according to the risk evaluation result to fulfill supervision mechanism and control all the risks. (VII) The implementation status of the customer policy:	

Evaluation item	Operation status			The variations and causes of variations from the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies
	Yes	No	Summary description	
			The Company has established dedicated unit to handle the implementation of the customer policy, and the implementation status goes smoothly. (VIII) The company's purchase of liability insurance for Directors and Supervisors: The Company has purchased liability insurance of Directors, Supervisors and Managerial Officers for Directors and Supervisors in 2018, and the report has been submitted to the most recent Board Meeting after the renewal.	

IX. Please specify the status of improvements which have been made and propose the prioritized improvements for other matters which have not been improved yet according to the Corporate Governance Evaluation results announced by the Corporate Governance Center of Taiwan Stock Exchange Corporation in the most recent year.

Number	Evaluation indicator	Improvements which have been made/ proposal of the prioritized improvements for other matters which have not been improved yet
4.4	Does the Company compile CSR reports and other reports according to guidelines on international report compilation to disclose non-financial information of the Company?	The Company has voluntarily submitted its CSR report of the most recent 1 fiscal year and disclosed it on the Market Observation Post System and the company website for stakeholders to check CSR-related information. (http://www.ose.com.tw/zht/investor-relations/others)

Annex 1

Title	Name	Date of assumption of office	Date of further study		Organizer	Name of course	Hours
			From	To			
Chairman	Edward Shaw-Yau Duh	Nov. 8, 2016	Sep. 27, 2018	Sep. 27, 2018	Taiwan Academy of Banking and Finance	Corporate governance and sustainable development of enterprise workshop	3
			Oct. 25, 2018	Oct. 25, 2018	Taiwan Corporate Governance Association	Strategy of employee reward and exploration of tool application	3
Institutional director Representative	Khein-Seng Pua	Jun. 22, 2016	Nov. 13, 2018	Nov. 13, 2018	Taiwan Corporate Governance Association	The newest revision and analysis of the Company Act	3
						The obligation and responsibilities of Directors and Supervisors on corporate governance	3
Director	Xi-Ren Tseng	Jun. 22, 2016	Sep. 26, 2018	Sep. 26, 2018	The National Federation of CPA Associations of the R.O.C.	How does the CPA respond to the Money Laundering Control Act	3
			Dec. 6, 2018	Dec. 6, 2018		The Company Act of 2018 and company registration practices	6
Independent Director	Ching-Tien Tsai	Jun. 22, 2016	Jul. 5, 2018	Jul. 5, 2018	The National Federation of CPA Associations of the R.O.C.	Discussion of simulated evaluation in response to anti-money laundering	3
			Sep. 13, 2018	Sep. 13, 2018		The newest revision trend and analysis of the Company Act	3
			Oct. 25, 2018	Oct. 25, 2018		New rules of audit by the CPA for non-listed, non-OTC companies	3

Title	Name	Date of assumption of office	Date of further study		Organizer	Name of course	Hours
			From	To			
Independent Director	Jerry Chiu	Jun. 22, 2016	Jan. 23, 2018	Jan. 23, 2018	Taiwan Corporate Governance Association	Major enterprise economic crime-brief introduction of insider trading	1
			Jun. 26, 2018	Jun. 26, 2018		Introduction of new corporate governance blueprint	1
			Dec. 11, 2018	Dec. 11, 2018		The strategy of enterprise operation and news crisis management	3
			Dec. 11, 2018	Dec. 11, 2018		Exploration of Intellectual property protection strategy from case study on international enterprises	1
Chief auditor	Shu Yen, Chang	July, 1991	Apr. 17, 2018	Apr. 17, 2018	Securities and Futures Institute	Internal audit and internal control practices under new lease guideline of IFRS 16	6
			Aug. 28, 2018	Aug. 28, 2018		Practices analysis of legal compliance and corruption avoidance of information security and personal privacy for Internal auditor	6

(IV) If the company has established the Compensation Committee, the composition, duties and operation status should be disclosed:

1. Information of members of the Compensation Committee

Identity category (note 1)	Criteria / Name	With more than 5 years of work experience and the following professional qualifications			Status of independence (note 2)								Number of other public companies in which the individual is concurrently serving as a member of the Compensation Committee	Note
		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, CPA or Other professional or technical specialist necessary for the business of the company who has passed a national examination and been awarded a certificate.	Have work experience in the fields of commerce, law, finance, accounting, or other work experience necessary for the business of the company.	1	2	3	4	5	6	7	8		
Independent Director	Ching Tien Tsai		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2	None
Independent Director	Zheng-Ren Qiu	✓			✓	✓	✓	✓	✓	✓	✓	✓	2	None
Others	Chung Shan Kao		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	None

Note 1: Please fill in Director, Independent Director or others in the identity category column.

Note 2: Please check "✓" in the corresponding boxes if the qualification applies to each member 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. Except for Independent Directors of the company or its parent company or a subsidiary established in accordance with this Act or the local laws.

(3) Not holding 1% or more than 1% of the total outstanding shares issued by the company or among the top 10 natural person shareholders by the person or his spouse or minor children, or in the name of a third party.

(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 subparagraphs.
(5) Not a Director, Supervisor or employee of an institutional shareholder holding 5% or more than 5% of the total outstanding shares issued by the Company, or Director, Supervisor or employee of an institutional shareholder who is among the top 5 shareholders.
(6) Not a Director, Supervisor, Managerial Officer of a specified company or institution which has a financial or operational relationship with the Company or a shareholder holding 5% or more than 5% of the total outstanding shares issued by the Company.
(7) Not a professional individual, owner, partner, Director, Supervisor, Manager of proprietorship, partnership, company or institution that provides commercial, legal, financial and accounting services to the company or its affiliates, or a spouse to the aforementioned persons.
(8) Not under any of the categories stated in Article 30 of the Company Act.

2. Operating status of the Compensation Committee
   (1) The Company's Compensation Committee consists of three members.
   (2) The length of this term: Aug. 9, 2016 to Jun. 21, 2019. The Compensation Committee held three meetings (A) in the most recent year, the membership and attendance status of members is as follows:

<table>
<tr><th>Title</th><th>Name</th><th>Attendance in person (B)</th><th>By proxy</th><th>Rate of attendance in person (%) (B/A) (Note)</th><th>Note</th></tr>
<tr><td>Convener</td><td>Ching Tien Tsai</td><td>3</td><td>0</td><td>100%</td><td>Attendance time is 3</td></tr>
<tr><td>Member of the Committee</td><td>Zheng-Ren Qiu</td><td>3</td><td>0</td><td>100%</td><td>Attendance time is 3</td></tr>
<tr><td>Member of the Committee</td><td>Chung Shan Kao</td><td>3</td><td>0</td><td>100%</td><td>Attendance time is 3</td></tr>
<tr><td colspan="6">Other matters that require reporting:
I. When the Board of Directors rejects or modifies the recommendations made by the Compensation Committee, please expressly state the date and session of the Board Meeting, the content of motions, the resolutions results by the Board of Directors, and settlement on the opinions of the Compensation Committee: none.
II. When there are any of members expressing adverse opinion or qualified opinion with records or with written statements for resolutions by the Compensation Committee, state the date and session of the Compensation Committee meeting, the contents of motion, all the members' opinions and the settlement on their opinions: none.</td></tr>
</table>

Note:
(1) If a member of the Compensation Committee resigns before the end of a fiscal year, state the service termination date in the remarks section, and the rate of attendance in person is calculated by the number of the Compensation Committee meetings and his attendance in person during his service period.
(2) If a Compensation Committee re-election is held before the end of a fiscal year, the name of former and newly-elected members should all be listed, and also state the status of the members: former, newly-elected or re-elected, and the re-election date in the remarks section. The rate of attendance in person (%) is calculated by the number of the Compensation Committee meetings and the attendance in person during his service period.

(V) CSR performance:

Evaluation item	Operation status			The variations and the causes of variations from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies
	Yes	No	Summary description	
I. Implementation of the corporate governance				
(I) Has the company established a CSR policy or system, and reviewed the effectiveness of the implementation?	V		(I) The company's top management has signed social responsibility declaration in combination with the existing ESH policy to clearly declare his dedication to following CSR-related regulation, and the implementation effectiveness is submitted to the top management regularly.	No variation.
(II) Has the Company organized a CSR education training regularly?	V		(II) The Company regularly holds CSR policy-related education training courses for the newcomers and current employees according to “annual education training program” to cultivate employees' related knowledge and regulation regarding social responsibility Please refer to the annex for the education training results of social responsibility of 2018.	No variation.
(III) Has the company established a dedicated (concurrent) unit to implement corporate social responsibility? Has the Board of Directors delegated a senior management team to handle CSR affairs and report its implementation status back to the Board?	V		(III) The Security Management Dept. of the General Admin. Group serves as contact window in combination with Admin. Management Dept., Human Resources, Legal Affairs Office and all the manufacturing Departments to implement CSR-related operations.	No variation.
(IV) Has the company established a fair salary and compensation policy, combined employee performance evaluation system with the CSR	V		(IV) The Company will evaluate the cost of operation, profitability, price index, salary fairness, performance management and social responsibility to establish a fair salary and compensation policy, formulate and	No variation.

Evaluation item	Operation status			The variations and the causes of variations from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies
	Yes	No	Summary description	
policy, and established a clear and effective reward and punishment system?			implement the rewards and the punishments in the company work rules and related management regulation Besides, the Company has formulated the related regulation of the rewards and the punishments for the immediate supervisors or the competent authority to follow when they submit the rewards and the punishments for the employees.	
II. The development of sustainable environment (I) Is the company dedicated to improving the utilization efficiency of all the resources and using the recycled materials with low impact on the environment?	V		(I) We have established energy management standard operating procedure to regularly review the utilization status of water, electricity and other energy, implement the projects of energy conservation and carbon reduction in the factories to improve the utilization efficiency of energy.	We manufacture the products in accordance with the requirement of our customers, so we have to acquire the permission from the customers before using the recycled materials.
(II) Has the company established an appropriate environmental management system based on the characteristics of its industry?	V		(II) We have established management system of environment, safety and health and acquired ISO 14001, OHSAS 18001 and CNS15506 certificate. Formulate measurable goals and management programs, regularly review the goals and the effectiveness of the management programs.	Compliance with and better than the requirement of this Best Practice Principles.
(III) Has the company paid attention to the influence of climate change on organizational operations, conduct GHG inventories, and establish a policy for energy conservation, carbon reduction, and GHG reduction?	V		(III) We have established GHG inventories-related operation standard according to ISO 14064-1 standard, and implemented all the projects of energy conservation and carbon reduction according to ISO 14001 standard.	No variation.

Evaluation item	Operation status			The variations and the causes of variations from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies
	Yes	No	Summary description	
III. Protection of the social welfare (I) Has the company established related management policies and procedures in accordance with relevant laws and international conventions on human rights?	V		(I) The formulation of all the management regulations of the company follows and conforms with the related laws of the government, clearly declares its dedication to following international CSR-related regulation to ensure employee's rights and interests.	No variation.
(II) Has the company established the employee grievance mechanisms and channels and handled the grievances properly?	V		(II) We have established multiple, two-way reflection and communication channels: employee suggestion box, grievance e-mail (580@ose.com.tw), grievance hotline (extension: 68885) to facilitate the communication for both labor and management, deeply understand the employees' satisfaction for management and welfare system, implement the communication and opinions reflection for employees to effectively handle and respond to their opinions, the great labor relations are developed by handling and solving the employees' confusion in the fair, confidential, rapid processing procedure. Whether or not we have named a grievance or an anonymous grievance structure, we will protect the employees with the principles of confidentiality and fairness, so that the employees can communicate in a friendly environment without being concerned about the revenge. We listen to employees' voice and acquire all the suggestions and feedback from them by the caring and counseling mechanism for the employees so that the labor and the management can build a friendly work environment and establish the value for OSE	No variation.

Evaluation item	Operation status			The variations and the causes of variations from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies
	Yes	No	Summary description	
			together.	
(III) Has the company provided the employees with a safe and healthy work environment and arranged regular safety and health education for employees?	V		(III) Our work environment conforms with the laws related to the occupational safety and health, since 2010, we have been awarded the certificate of "Healthy Workplace Accreditation" by Heath Promotion Administration, Ministry of Health and Welfare. We also participated in the series activities in the occupational safety and health week and implemented all the education training for safety and health according to the laws related to the education training for occupational safety and health.	No variation.
(IV) Has the company established the mechanism of regular communications for employees and notified employees of changes that may have a major impact on operations in a reasonable manner?	V		(IV) We provided a variety of channels for the employees to instantly understand all the important information: We formulated the communication management procedure, established systematized communication mechanism, regularly held the employee symposium and the supervisors will regularly interview with the employees to maintain good communication with them. We also established the digital discussion group and bulletin board, employee grievance channels, enterprise labor union, Coffee Session and so on.	No variation.
(V) Has the company established an effective career development plan for employees?	V		(V) Our employees enter the training development system from the first day they work in our company. The system includes the newcomer guidance training, and three major parts containing the offline training, the online training and the self-development training according to the Learning Map (engineering technique staff, administration staff). And review the employees' weaknesses from the aspect of	No variation.

Evaluation item	Operation status			The variations and the causes of variations from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies
	Yes	No	Summary description	
			organizational, departmental, and personal needs to arrange for the training programs for cultivating the talents or improving the weakness of the employees.	
(VI) Has the company established the related policy to protect customer rights and interests and the grievance mechanism based on its R&D, purchasing, production, operating and service processes?		V	(VI) All the manufacturing contracts signed with the customers state expressly the rights and obligations of the two parties, allow the customer to audit our company's manufacturing activities and improving manufacturing efficiency according to the customers' suggestions.	We mainly specialize in OEM and we have to keep confidential the manufacturing secret according to the customers' requests.
(VII) Has the company conformed with relevant international laws and standards on the marketing and labeling of products and services?		V	(VII) We mainly specialize in OEM and don't have our own brand, so we don't conduct the related marketing and labeling.	We mainly specialize in OEM and don't have our own brand. Mainly comply with the current related laws, if there is any violation for relevant laws, we will terminate the related cooperation.
(VIII) Has the company evaluated past environmental and social records of suppliers before conducting business with them?		V	(VIII) We don't request the suppliers to provide the previous social records.	
(IX) Has the company included the clauses for immediate termination or rescission in contracts when the supplier violates the CSR policy and causes significant impacts on the environment and society?	V		(IX) We include the clauses for immediate termination or rescission in contracts when the supplier violates the CSR policy. Besides, we request the suppliers to abide by related environmental laws, issue the related letter of guarantee and conduct on-site inspection at any time, if the suppliers violate the laws, we can terminate or rescind the contracts immediately.	The contracts we sign with the suppliers state that we can terminate or rescind the contracts immediately when the supplier violates related regulations, and not to have significant impacts on the environment and society, and should be better than the regulation of the Practice Principles.

<table>
<tr><th rowspan="2">Evaluation item</th><th colspan="3">Operation status</th><th rowspan="2">The variations and the causes of variations from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies</th></tr>
<tr><th>Yes</th><th>No</th><th>Summary description</th></tr>
<tr><td>IV. Reinforcing the information disclosure
(I) Has the company disclosed critical and reliable CSR-related information on its website and the Market Observation Post System website?</td><td>V</td><td></td><td>(I) The Company has voluntarily submitted its CSR report of the most recent 1 fiscal year and disclosed it on the Market Observation Post System and the company website for stakeholders to check CSR-related information.</td><td>No variation.</td></tr>
<tr><td colspan="5">V. If the company has established its own CSR guidelines according to the “Corporate Social Responsibility Best Practice Principles for TWSE/TPEx-Listed Companies,” please specify the operating status and the variations between them.
We have formulated the CSR-related regulations in all the operation standards of human resources, environmental protection, safe and health to comply with the laws.</td></tr>
<tr><td colspan="5">VI. Other important information that helps understand CSR operations:
Environmental protection, safety and health:
1. We have established the air pollution control and wastewater treatment equipment according to the laws, we assigned the qualified companies to dispose of or recycle the industrial waste, we have set up the wastewater recycling system. In response to the government's policy, we launched activities such as the energy conservation and carbon reduction, the garbage classification and recycling and the green procurement, we have been awarded “the First Place of the 2008 Building Renovation and Maintenance Rating,” “2013 Excellent Water-Saving/Energy-Saving Company,” “2016 Resources Recycling Quality Award” by the Export Processing Zone of the Ministry of Economic Affairs and awarded“2011 Kaohsiung City Enterprise Energy-saving Rating Competition Excellent Award,” “Green Restaurant” by the Kaohsiung City Government.
2. We have launched healthy workplace activity, promoted to quit smoking, encouraged the employees to participate in the hiking activities held by the government that can improve the health, and we have been awarded “Healthy Workplace Accreditation” by the Heath Promotion Administration, Ministry of Health and Welfare in 2010, 2012,2016 and 2019, respectively.
3. We participated in the evaluation of the series activities in the occupational safety and health week and were awarded “Judges' list award,” “participation certificate” in 2012/2013/2014/2015/2016, respectively, by the Ministry of Labor of the Executive Yuan.

The community participation, social contribution, social services and so on:
1. We assisted and provided the police with materials recorded by monitoring equipment around our factories to conduct the investigation of</td></tr>
</table>

Evaluation item	Operation status			The variations and the causes of variations from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies
	Yes	No	Summary description	

the cases, participated in the Zone Defense Organization of the Kaohsiung Export Processing Zone to actively maintain the community order and was awarded "2015/2017 Accident Prevention Measures Quality Award" by the Export Processing Zone.

2. We have regularly launched the internship opportunities during the school year and the summer vacation to make the students who are going to enter the workforce adapt to the life in the work place in advance and know about the company, job responsibilities for the preparation for the future.
3. Our company has diverse clubs, so the employees can participate in the community activities or take part in the activities in the official nonprofit organization to relieve the stress for them.

Social welfare:

We buy the Shareholders' Meeting souvenir from the public welfare groups and underprivileged groups every year.

We invite the public welfare groups and underprivileged groups to put on performances in our year-end banquet and take their seats every year.

We are a member of the Alliance Association of the Export Processing Zone Administration, periodically hold public welfare activities for the blood donation in the company, invite the underprivileged groups to set up booths and procure the relevant souvenirs from them.

Human rights:

1. We recruit the employees and certain number of handicapped people according to the laws.
2. In response to the government's policy on the employment promotion in combination with the manpower requirement and the recruit mode of our company, we recruited the local labors and the underprivileged groups
3. In response to the government's policy on strengthening the employability of the graduates, we cooperated with Cheng Shiu University to implement the Dual System of Vocational Training Project, Industry-Academe Collaboration Program for Overseas Chinese, Industry College Program to provide the internship opportunities for the students.
4. We provided the corporate visit and internship opportunities for the universities and institutes in the Southern Taiwan.

VII. If the company's CSR report has been verified by the relevant certification authority, please specify: none

Annex 1: the results of 2018 CSR education training is as follows:

Course category	Name of course	Numbers of students
Enterprise operation laws program	Personal Information Protection Act (confidentiality obligation)	3,244
	Trade Secrets Act (non-competition obligation, confidentiality obligation)	3,244
	Code of Business Conduct and Ethics (ethical practice)	3,244
	General Education Training for the Newcomers (Confidentiality Obligations)	3,244
Human Rights Program	RBA introduction	2,927
	Operating program of the labor-management laws, information security and Personal Information Protection Act	140
	General Education Training for the Newcomers (RBA code of conduct, personal ethical practice of the employees, the sexual harassment prevention guidance)	3,244

(VI) Implementation status of the ethical corporate management and the adoption of related measures

Implementation status of the ethical corporate management

Evaluation item	Operation status			The variations and causes of variations from the Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies
	Yes	No	Summary description	
I. The establishment of the ethical management policies and plans (I) Has the company demonstrated its ethical management policies in its regulations and external documents? Do the Board of Directors and management team actively fulfill their commitments in the operating policy?	V		(I) We haven't formulated Ethical Corporate Management Best Practice Principles for TWSE/TPEx-Listed Companies yet, but all the regulations and systems we established have included the ethical principles that comply with the operation of the Ethical Corporate Management Best Practice Principles. And we also formulated the "Code of Ethics" to fulfill the promise of operating policies by the Board of Directors and the management team.	No disparity.
(II) Does the company establish the plans to prevent unethical behaviors and specify and implement the operating procedures, code of conduct, punishment for violations and grievance mechanisms in the plans?	V		(II) We held the education training and guidance for the employees to make them completely understand our resolution, policies, prevention measures of the ethical management, and the consequence of the unethical conduct.	
(III) Does the company take the preventive actions for the business activities identified with higher risks of unethical behaviors as specified in paragraph 2, Article 7 of the "Ethical Corporate Management Best Practice Principles for TWSE/TPEx-Listed Companies" or in other scope of business?	V		(III) The "work rules" of our company expressly state: 1. Be honest in the words and deeds, don't engage in the illegal activities that will hurt the company's prestige. 2. Keep confidential the business and technique secrets of the company, don't leak and steal the secrets.	

Evaluation item	Operation status			The variations and causes of variations from the Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies
	Yes	No	Summary description	
II. The implementation of the ethical management				
(I) Does the company evaluate the ethical records of its transaction parties and explicitly include clauses on ethical conduct in contracts signed with its transaction parties?	V		(I) We have expressly stated the prevention measures for violating the ethical principles and the punishment clauses in our commercial contracts.	No disparity.
(II) Has the company established a dedicated (concurrent) corporate ethics unit supervised by the Board of Directors and regularly reports the implementation status to the Board of Directors?		V	(II) We haven't established the dedicated (concurrent) unit yet.	
(III) Has the company established and implemented the policy to prevent the conflicts of interest and provide the suitable channels for reporting such conflicts?	V		(III) Our rules of procedure for the Board Meeting expressly state the recusal system for the Directors. If the motions proposed by the Board of Directors have conflict of interest with the Directors or the institutional investors they represent, where there is a likelihood that the interests of the company would be prejudiced, they may state their opinions and answer the questions, but they may not participate in the discussion or vote on those motions and shall recuse themselves from any discussion and voting, and may not exercise voting rights as proxy on behalf of another Director.	
(IV) Has the company established an effective accounting system and internal control system to ensure ethical management is regularly	V		(IV) To ensure the fulfillment of the ethical management, we have established effective accounting system and internal control system, the internal auditors also have audited the legal compliance status of these	

Evaluation item	Operation status			The variations and causes of variations from the Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies
	Yes	No	Summary description	
audited by an internal audit unit or a certified public auditor? (V) Does the company regularly organize the internal and external education training activities for the ethical management?	V		systems. (V) We guide the employees via the irregular education training or meetings.	
III. The operating status of the corporate whistleblower system (I) Has the company established the explicit whistleblower system, the incentive scheme and the convenient whistleblowing channels, and assign the appropriate personnel to investigate the target of the whistleblower complaint? (II) Has the company establish a standard operating procedure to investigate the whistleblower complaints and related mechanisms to ensure the confidentiality? (III) Has the company establish the measures to protect the whistleblowers against the retaliation?		V V V	(I) We have formulated employee grievance processing procedure, if the employees want to submit the grievance or communicate, they can reflect with their direct supervisors, Human Resources or other relevant units. We have also established the oral notification, the staff suggestions box , the grievance hotline and email. (II) We have formulated an employee grievance processing procedure, expressly stated handling the cases with confidentiality and without leaking the aggrieved's name and other aggrieved's information that can be used to identify the aggrieved, handling whistleblowing matters with confidentiality, and verifying the authenticity with caution. We handled the relevant affairs very carefully. (III) We have formulated employee grievance processing procedure, expressly stated any retaliation against the grievant, the whistleblower or who assists with the investigation, the violator will be punished according to the situation.	No disparity.

<table>
<tr><th rowspan="2">Evaluation item</th><th colspan="3">Operation status</th><th rowspan="2">The variations and causes of variations from the Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies</th></tr>
<tr><th>Yes</th><th>No</th><th><u>Summary description</u></th></tr>
<tr><td>IV. Reinforcing the information disclosure
(I) Has the company disclosed its ethical management principles and effectiveness on its website and the Market Observation Post System website?</td><td>V</td><td></td><td>(I) We have disclosed our ethical management-related information including “Code of Ethics” on the Market Observation Post System website and under investor relations on our website.(<u>www.ose.com.tw</u>)
(II) We have designated dedicated personnel to gather and disclose company information, implement the spokesperson system.</td><td>No disparity.</td></tr>
<tr><td colspan="5">V. If the company has established its own ethical management principles in accordance with the “Ethical Corporate Management Best Practice Principles for TWSE/TPEx-Listed Companies,” please specify the operation status and the variations between them: “Sincerity and honesty at all times” is Orient Semiconductor Electronics’ (OSE) entrepreneurial spirit and business philosophy. OSE has dedicated itself to serving customers, caring for employees, managing enterprise, taking responsibilities for shareholders and fulfilling CSR for decades.</td></tr>
<tr><td colspan="5">VI. Other material information that helps understand the operation of the company’s ethical management (such as the review and revision of the company's ethical management principles and other situation): We abide by the Company Act, the Securities and Exchange Act, Business Entity Accounting Act and other relevant laws that the listed companies should follow to fulfill the ethical management.</td></tr>
</table>

(VII) If the company has established corporate governance guidelines and related regulations, please disclose the methods to access them:
We have formulated “Rules of Procedure for Shareholders’ Meeting,” “Rules of Procedure for the Board Meeting,” “Procedures for Election of Directors and Supervisors,” “Code of Ethics” and so on.
Please Check our company website (www.ose.com.tw) → investor relations → corporate governance → important company internal regulation.

(VIII) Other material information that helps increase the understanding of the implementation status of corporate governance:
Please refer to “implementation status of corporate governance and the variations and causes of variations from the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies- page No. 31.”

(IX) Implementation status of the internal control system

1. Internal control system statement

Orient Semiconductor Electronics, Ltd.

Internal control system statement

Date: Mar. 29, 2019

According to the results of the 2018 self-evaluation of the internal control system, we hereby declare as follows:

I. We acknowledge and understand that it is the responsibility of our Board of Directors and Managerial Officers to establish, implement and maintain the internal control system and we have established such system. The purpose of such system is to reasonably ensure that the following objectives are achieved: the effectiveness and efficiency of operations (including profits, performance and safeguard of asset security), the reliability, timeliness and transparency of reporting and the compliance with applicable laws, regulations.

II. There are inherent limitations to the internal control system, no matter how it is perfectly designed. An effective internal control system can only reasonably ensure the achievement of the aforementioned 3 objectives. Moreover, the effectiveness of the internal control system may differ according to the different environments and situation. Our internal control system contains self-monitoring mechanisms, we can take immediate corrective actions against any defects once identified.

III. We assess the effectiveness of design and implementation of the internal control system based on the criteria specified in the "Regulations Governing Establishment of Internal Control Systems by Public Companies" (hereinafter referred to below as "the Regulations"). The criteria adopted by "the Regulations" divide the internal control system into five elements according to the process of control management: 1. environment control, 2. risk assessment, 3. control operation, 4. information and communication, and 5. monitoring operation. Each element is composed of several other items. Please refer to "the Regulations" for the aforementioned items

IV. We have assessed the effectiveness of design and implementation of the internal control system according to the aforementioned criteria.

V. Based on the results of the aforementioned assessment, we believe that, on 31 December 2018, the design and implementation of the internal control system (that includes the supervision and management of subsidiaries) were reasonably ensured the objectives were achieved: the effectiveness and efficiency of operations, the reliability, timeliness, and transparency of reporting, and the compliance with applicable laws, regulations, and bylaws.

VI. This statement is an integral part of the annual report and the prospectus, and will be made public. If there is any fraud, concealment, or other illegality in the aforementioned content made public will entail legal liability under Articles 20, 32, 171 and 174 of the Securities and Exchange Act.

VII. This statement was approved unanimously by the Board Meeting of the Company held on Mar, 29 2019, where 0 of the 7 attending Directors expressed dissenting opinions, and the remainder all affirmed the content of this statement.

Orient Semiconductor Electronics, Ltd.

Signature of Chairman: Edward Shaw-Yau Duh

Signature of President: Yueh-Ming Tung

2. If the company assign a CPA to audit its internal control system it shall disclose the CPA audit report: none.

(X) The punishments for the company and its internal employees by the laws, the punishments for its internal employees violating the internal control system by the company, the major defects, and the improvements in the most recent year and by the date of the annual report publication: none.

(XI) Material resolutions made by the Shareholders' Meeting and the Board Meeting in the most recent year and by the date of the annual report publication:

1. The general meeting of the shareholders was held on Jun. 29, 2018, the material resolutions and the implementation status in the meeting:

Category	The resolutions of the general meeting of the shareholders'	Implementation status
General meeting of the shareholders	Adoption 1. Business report and financial statements for 2017. 2. Appropriation of Net Profits or Making up Losses for 2017 Discussion: 1. Implementation of Capital reduction for making up losses. 2. Issuance of new restricted employee shares	Adoption 1. Approval by voting 2. Approval by voting Discussion: 1. The motion was approved by voting. Adoption of the report by the Financial Supervisory Commission on Aug. 8, 2018, adoption of the change registration by the Ministry of Finance on Oct. 8, 2018, the record date of issuing the new shares in scrip less form for the capital reduction on Nov. 30, 2018, the listing of the new shares after the capital reduction on Dec. 3, 2018. 2. The motion was approved by voting.

2. Material resolutions in the Board Meeting

Meeting Time	Category	Material resolutions
Mar. 28, 2018	Board of Directors	Discussion: 1. Approval of the 2017 "Internal Control System Statement." 2. "2017 Individual and Consolidated Financial Statement." 3. "2017 Appropriation of Making up Losses" 4. Formulation of IFRS 16 "Lease" Implementation Plan. 5. "2018 Business Plan." 6. Date of 2018 general meeting of the shareholders. 7. Revision of some provisions of the "Rules of Procedure for the Board Meeting." 8. Revision of some provisions of the "Rules Governing the Scope of Powers of Independent Directors."

Meeting Time	Category	Material resolutions
		9. Revision of some provisions of the "Compensation Committee Charter." 10. Loaning to OSE Phil. 11. Bank loan amount. 12. Reassignment of the representative of institutional directors for OSE USA INC. 13. Personnel. 14. Reconfirmation of the performance bonus for the company's Executive Officers in 2017 15. Reconfirmation of the compensation for the company's Managerial Officers in 2018 16. Reconfirmation of the pension for the Senior Vice President.
May 8, 2018	Board of Directors	Discussion: 1. Bank loan amount. 2. Loaning to OSE Phil. 3. "Evaluation of the CPA's independence and appropriateness of 2018".
May 15, 2018	Board of Directors	Discussion: 1. Implementation of the capital reduction for making up the losses. 2. "Issuance of new restricted employee shares".
Aug. 13, 2018	Board of Directors	Discussion: 1. Bank loan amount. 2. Loaning to OSE Phil. 3. Discussion of "the record date of the capital reduction" of the Company. 4. Personnel.
Nov. 13, 2018	Board of Directors	Discussion: 1. Discussion of the "2019 audit plan of Auditing Office." 2. Bank loan amount. 3. Loaning to OSE Phil. 4. Discussion of "CPA Replacement." 5. Discussion of "Accounting Executive Change." 6. Personnel.
Mar. 29, 2019	Board of Directors	Discussion: 1. Approval of the 2018 "Internal Control System Statement." 2. "2018 Individual and Consolidated Financial Statement." 3. "2018 Appropriation of Making up Losses." 4. "2019 Business Plan." 5. Date of 2019 general meeting of the shareholders. 6. "Re-election of the Directors (Including the Independent Directors)." 7. Discussion of "Waiver of the New Director's Non-competition Obligation." 8. Revision of some provisions of the "Articles of Incorporation." 9. Revision of some provisions of the "Operating

Meeting Time	Category	Material resolutions
		Procedure for Assets Acquisition and Disposal.” 10. Revision of some provisions of the “Operating Procedure for Endorsements and Guarantees.” 11. Revision of some provisions of the “Operating Procedure for Loaning to Others.” 12. Revision of some provisions of the “Procedure for Election of Directors and Supervisors.” 13. Formulation of the Company's “Audit Committee Charter.” 14. Loaning to OSE Phil. 15. Bank loan amount. 16. Personnel. 17. Reconfirmation of the performance bonus for the Company's Executive Officers in 2018. 18. Reconfirmation of the compensation for the company's Managerial Officers in 2018.
May 8, 2019	Board of Directors	Discussion: 1. Review of the "List of Candidates for Independent Directors Nominated for the 17th Session" 2. Revision of the “Operational Procedure for the Internal Control System” and “Auditing Procedure for the Internal Audit.” 3. Revision of the accounting system. 4. Loaning to OSE Phil. 5. Bank loan amount. 6. “Evaluation of the CPA's independence and appropriateness of 2019.” 7. Personnel.

(XII) In the most recent year and by the date of the annual report publication, the material resolutions approved by the Board Meetings for which the Directors or Supervisors expressed the adverse opinion or qualified opinion with records or with written statements, and its main content: none.

(XIII) In the most recent year and by the date of the annual report publication, the resignation or dismissal of the company’s key individuals including the Chairman, President, and Accounting Supervisor, Financial Supervisor, Chief Internal Auditor and R&D Supervisor

Title	Name	Date of assumption	Date of dismissal	Reasons for the resignation or dismissal
Accounting Supervisor	Jing Fen Chiang	Nov. 29, 2016	Nov. 30, 2018	Retirement

V. Information of CPA fee

Unit: NTD thousand

Name of CPA firm	Name of CPA		Audit period	Remarks
Ernst and Young Global Limited	Lee, Fang-Wen	Chen, Cheng-Chu	Jan. 1, 2018 ~ Dec. 31, 2018	–

Note 1: If the Company replaces the CPA or CPA firm, state the audit period and specify the reason for the replacement in the remarks section.

Unit: NTD thousand

Increment \ Item		Audit fee	Non-audit fee	Total
1	Below2,000		V	
2	2,000 thousand (included) ~ 4,000 thousand			
3	4,000 thousand (included) ~ 6,000 thousand			
4	6,000 thousand (included) ~ 8,000 thousand	V		
5	7,000 thousand (included) ~ 10,000 thousand			V
6	Above 10,000 thousand (included)			

(I) Amount of non-audit fee paid to a CPA, a CPA firm, and its affiliates is one quarter or more of the audit fee: none.

(II) Replacement of the CPA firm, and the audit fee is lesser than that of the previous year after the replacement: none.

(III) The audit fee is less than that of the previous year by 15% or more: none.

VI. Replacement of CPAs: In response to internal adjustment of the CPA firm and to maintain the independence of the CPA, we had resolved in the Board Meeting on Nov. 13, 2018 on replacing the CPA starting from the 1st quarter of 2019. The original CPA, Mr. Lee, Fang-Wen and CPA, Mr. Chen, Cheng-Chu of Ernst and Young Global Limited were replaced by the CPA, Mr. Chen,Chih-Chung and the CPA, Mr. Chen, Cheng-Chu.

VII. The Chairman, President or Managerial Officers in charge of finance or accounting served at the firms or affiliates of CPAs in the most recent 1 year: none

VIII. Changes in the transfer or pledge of shares by Directors, Supervisors, Managerial Officers, and shareholders holding over 10% of the stakes:

Title	Name	Category of stock	2018		As of Apr. 22 of the current year	
			Increase (decrease) in shareholdings	Increase (decrease) in pledged shares	Increase (decrease) in shareholdings	Increase (decrease) in pledged shares
Chairman	Edward Shaw-Yau Duh	Common stock	(220,320)	0	0	0
Director and concurrently serves as President	Yueh-Ming Tung	Common stock	(15,956)	0	0	0
Director	Xi-Ren Tseng	Common stock	(4,138)	0	0	0
Director	Phison Electronics Corp. Representative: Khein-Seng Pua J	Common stock	3,606,000 (3,369,631)	0	0	0
Director	Taiwan Longsys Electronics Co., Ltd. Representative: Dai-Gang Zhang	Common stock	(315)	0	0	0
Independent Director	Ching-Tien Tsai	Common stock	0	0	0	0
Independent Director	Jerry Chiu	Common stock	0	0	0	0
Supervisors	DS Fund LLC Representative: Daphane Wu	Common stock	(3,612,430)	0	0	0
Supervisor of financial department	Chun-Kuan Lee	Common stock	(24,802)	0	0	0
Vice President	Tzu Ming Liu	Common stock	(25,862)	0	0	0
Vice President	Liang Chung Wu	Common stock	(51,618)	0	0	0
Vice President	Chun Chieh Wang	Common stock	0	0	0	0
Vice President	Kuan Tien Shen (Date of assumption of office: Nov. 19, 2018)	Common stock	(45)	0	0	0
Vice President	Shih Chuan Chen (Date of assumption of office: Mar. 5, 2019)	Common stock	0	0	0	0
Assistant Manager	Wen Pin Yang	Common stock	(9,460)	0	0	0
Assistant Manager	Che Kuang Liu	Common stock	(4,722)	0	0	0
Assistant Manager	Shih Chung Hsiang	Common stock	0	0	0	0
Assistant Manager	Tse Wen Li	Common stock	0	0	0	0
Assistant Manager	Min Lang Tsai	Common stock	10,000 (3,148)	0	0	0

Title	Name	Category of stock	2018		As of Apr. 22 of the current year	
			Increase (decrease) in shareholdings	Increase (decrease) in pledged shares	Increase (decrease) in shareholdings	Increase (decrease) in pledged shares
Assistant Manager	Chen Chung Sun	Common stock	(293)	0	0	0
Assistant Manager	Feng Cheng Su (Date of assumption of office: Mar. 1, 2018) (Date of dismissal: Jul. 1, 2018)	Common stock	0	0	0	0
Assistant Manager (CHRO)	Chen Ling Lai (Date of assumption of office: Mar. 6, 2018)	Common stock	(47,212)	0	0	0
Assistant Manager	Tseng Chih Chi (Date of assumption of office: Aug. 20, 2018)	Common stock	(1,574)	0	0	0
Assistant Manager (Administration Supervisor)	Shu Ling Kung (Date of assumption of office: Nov. 19, 2018)	Common stock	(2,335)	0	0	0
Supervisor of accounting department	Shu Yung Chu (Date of assumption of office: Dec. 1, 2018)	Common stock	(4,482)	0	0	0
Assistant Manager	Yao Kuang Yang (Date of dismissal: Mar. 1, 2018)	Common stock	0	0	0	0
Supervisor of accounting department	Jing Fen Chiang (Date of dismissal: Nov. 30, 2018)	Common stock	(4,362)	0	0	0

IX. Information of relationship between the company's top 10 shareholders who are mutually stakeholders, spouses or relatives within the second degree of kinship:

<table>
<tr><th rowspan="2">Name</th><th colspan="2">Personal shareholdings</th><th colspan="2">Shareholdings of spouse, minor children</th><th colspan="2">Shareholdings by nominee arrangement</th><th colspan="2">Name and relationship between the company's top 10 shareholders who are mutually stakeholders, spouses or relatives within the second degree of kinship</th></tr>
<tr><th>Share</th><th>Proportion of shareholdings</th><th>Share</th><th>Proportion of shareholdings</th><th>Share</th><th>Proportion of shareholdings</th><th>Name</th><th>Relationship</th></tr>
<tr><td rowspan="2">CTBC Bank in custody for investment account of Kingston Technology Company, Inc.</td><td rowspan="2">39,511,831</td><td rowspan="2">7.15%</td><td rowspan="2">0</td><td rowspan="2">0%</td><td rowspan="2">0</td><td rowspan="2">0%</td><td>Mega Bank in custody for investment account of KTC-SUN CORPORATION
CTBC Bank in custody for investment account of KTC-TU CORPORATION</td><td>The representative of these 2 companies and the Chairman, the Vice Chairman of the shareholder is the same person.</td></tr>
<tr><td>DS Fund LLC</td><td>The representative of the company and the Vice Chairman of the shareholder is the same person.</td></tr>
<tr><td>CTBC Bank in custody for investment account of KTC-TU CORPORATION
Representative: Chi Chuang Tu (John Tu)</td><td>29,152,459</td><td>5.28%</td><td>0</td><td>0</td><td>0</td><td>0</td><td>CTBC Bank in custody for investment account of Kingston Technology Company, Inc.</td><td>The Chairman of the company and the representative of the shareholder is the same person</td></tr>
<tr><td rowspan="2">Mega Bank in custody for investment account of KTC-SUN CORPORATION
Representative: Ta Wei Sun (David Sun)</td><td rowspan="2">29,136,321</td><td rowspan="2">5.28%</td><td rowspan="2">0</td><td rowspan="2">0%</td><td rowspan="2">0</td><td rowspan="2">0%</td><td>CTBC Bank in custody for investment account of Kingston Technology Company, Inc.</td><td>The Vice Chairman of the company and the representative of the shareholder is the same person.</td></tr>
<tr><td>DS Fund LLC</td><td>The representative of the company and the shareholder is the same person.</td></tr>
<tr><td>The 2nd-tier new labor pension plan</td><td>12,321,790</td><td>2.23%</td><td>0</td><td>0</td><td>0</td><td>0</td><td>None</td><td>None</td></tr>
<tr><td>Chang Chun Investment Co. Ltd.</td><td>11,956,597</td><td>2.16%</td><td>0</td><td>0</td><td>0</td><td>0</td><td>None</td><td>None</td></tr>
</table>

Name	Personal shareholdings		Shareholdings of spouse, minor children		Shareholdings by nominee arrangement		Name and relationship between the company's top 10 shareholders who are mutually stakeholders, spouses or relatives within the second degree of kinship	
	Share	Proportion of shareholdings	Share	Proportion of shareholdings	Share	Proportion of shareholdings	Name	Relationship
CTBC Bank in custody for investment account of Ho Ying Tsui	10,711,948	1.94%	0	0	0	0	None	None
JPMorgan Chase Bank in custody for investment account of NOREGS BANK	9,322,931	1.69%	0	0	0	0	None	None
Chun Yuan Tu	8,865,000	1.61%	0	0	0	0	None	None
DS Fund LLC Representative: Ta Wei Sun (David Sun)	7,864,990	1.42%	0	0	0	0	Mega Bank in custody for investment account of KTC-SUN CORPORATION	The representative of the company and the shareholder is the same person.
							CTBC Bank in custody for investment account of Kingston Technology Company, Inc.	The Vice Chairman of the company and the representative of the shareholder is the same person.
Phison Electronics Corporation	7,336,369	1.33%	0	0	0	0	None	None

X. The shareholdings of the same investee held by the Company, Directors, Supervisors, Managerial Officers, and the business entities directly or indirectly controlled by the company, and calculation of the consolidated proportion of shareholdings of the above categories:

Unit: shares, %

Investee (Note)	Shareholdings of the company (1)			Shareholdings of Directors, Supervisors, Managerial Officers, and business entities directly or indirectly controlled by the company (2)			Syndicated shareholdings (1)+(2)		
	Share		Proportion of shareholdings	Share		Proportion of shareholdings	Share		Proportion of shareholdings
OSE PHILIPPINES	Common	3,680,365	93.67%	Common	248,760	6.33%	Common	3,929,125	99.99%
OSE PROPERTIES, INC.	Common	7,998	39.99%	Common	0	0	Common	7,998	39.99%
OSE USA, INC.	Common	8,024	100.00%	Common	0	0	Common	8,024	100.00%
OSE INTERNATIONAL LTD.	Common	16,000,000	100.00%	Common	0	0	Common	16,000,000	100.00%
ATP Electronics Taiwan Inc.	Common	7,518,750	9.57%	Common	7,074,335	9.00%	Common	14,593,085	18.57%
InfoFab, Inc.	Common	632,899	12.66%	Common	829,857	16.60%	Common	1,462,756	29.26%
COREPLUS (HK) LTD.	Common	7,500,000	100.00%	Common	0	0	Common	7,500,000	100.00%

(Note): Investments accounted for using the equity method

Four. Fund raising overview

I. Capital and shares

(I) Sources of capital

Apr. 22, 2019

Year / month	Issuance price	Authorized capital		Paid-in capital		Note		
		Share (Thousand shares)	Amount (NTD thousand)	Share (Thousand shares)	Amount (NTD thousand)	Sources of capital	Subscription of capital stock with assets other than cash	Others
1996/Apr.	10	200,000	2,000,000	200,000	2,000,000	Capital increase by the cash NTD$ 353,213 thousand.	None	None
1996/Jun.	10	420,000	4,200,000	261,325	2,613,250	Capital increase by the retained earnings NTD$ 376,000 thousand, capital increase by the capital reserve NTD$ 224,000 thousand, capital increase by the employee bonus NTD$ 13,250 thousand.	None	None
1997/Apr.	10	420,000	4,200,000	270,949	2,709,487	Transfer of the convertible bonds to the common stock NTD$96,237 thousand.	None	None
1997/Jun.	10	526,000	5,260,000	375,899	3,758,987	Capital increase by the retained earnings NTD$ 593,378 thousand, capital increase by the capital reserve NTD$ 436,227 thousand, capital increase by the employee bonus NTD$ 19,895 thousand.	None	None
1997/Jul.	10	526,000	5,260,000	407,987	4,079,867	Transfer of the convertible bonds to the common stock NTD$320,880 thousand.	None	None
1998/Jun.	10	1,000,000	10,000,000	586,876	5,868,671	Capital increase by the retained earnings NTD$ 943,387 thousand, capital increase by the employee bonus NTD$ 25,618 thousand, capital increase by the capital reserve NTD$ 650,172 thousand, transfer of the convertible bonds to the common stock NTD$169,626 thousand.	None	None

Year / month	Issuance price	Authorized capital		Paid-in capital		Note		
		Share (Thousand shares)	Amount (NTD thousand)	Share (Thousand shares)	Amount (NTD thousand)	Sources of capital	Subscription of capital stock with assets other than cash	Others
1999/Jul.	10	1,000,000	10,000,000	710,532	7,105,324	Capital increase by the retained earnings NTD$ 586,867 thousand, capital increase by the capital reserve NTD$ 586,867 thousand, transfer of the convertible bonds to the common stock NTD$10,104 thousand, capital increase by the employee bonus NTD$ 52,815 thousand.	None	None
1999/Oct.	10	1,000,000	10,000,000	810,532	8,105,324	Capital increase by cash NTD$ 1,000,000 thousand	None	None
2000/Aug.	10	1,400,000	14,000,000	993,143	9,931,428	Capital increase by the retained earnings NTD$ 777,828 thousand, capital increase by the capital reserve NTD$ 818,767 thousand, transfer of the convertible bonds to the common stock NTD$160,684 thousand, capital increase by the employee bonus NTD$ 68,825 thousand.	None	None
2001/Jun.	10	1,400,000	14,000,000	1,091,383	10,913,826	Capital increase by the capital reserve NTD$ 982,398 thousand	None	None
2001/Sep.	10	1,400,000	14,000,000	1,241,383	12,413,826	Issuance of the preferred stock for capital increase totaled NTD$ 1,500,000 thousand.	None	None
2003/Jan.	10	2,000,000	20,000,000	1,391,383	13,913,826	Issuance of the common stock for capital increase totaled NTD$ 1,500,000 thousand at a discount.	None	None
2003/Mar.	10	2,000,000	20,000,000	1,458,259	14,582,589	Transfer of the convertible bonds to the common stock NTD$668,763 thousand at a discount.	None	None
2003/Sep.	10	2,000,000	20,000,000	1,601,043	16,010,425	Transfer of the convertible bonds to the common stock NTD$1,427,836 thousand at a discount.	None	None
2003/Dec.	10	2,000,000	20,000,000	1,590,298	15,902,975	Retirement of the treasury stock NTD$107,450 thousand.	None	None

Year / month	Issuance price	Authorized capital		Paid-in capital		Note		
		Share (Thousand shares)	Amount (NTD thousand)	Share (Thousand shares)	Amount (NTD thousand)	Sources of capital	Subscription of capital stock with assets other than cash	Others
2003/Dec.	10	2,000,000	20,000,000	1,704,902	17,049,017	Transfer of the convertible bonds to the common stock NTD$1,146,042 thousand at a discount.	None	None
2004/Feb.	10	2,000,000	20,000,000	1,734,625	17,346,245	Transfer of the convertible bonds to the common stock NTD$297,228 thousand at a discount.	None	None
2004/Aug.	10	2,000,000	20,000,000	861,714	8,617,141	Capital reduction NTD$8,729,104 thousand for making up the losses	None	None
2005/Dec.	10	2,000,000	20,000,000	876,016	8,760,158	Transfer of the convertible bonds to the common stock NTD$143,017 thousand at a discount.	None	None
2007/May.	10	2,000,000	20,000,000	1,056,016	10,560,158	Issuance of the common stock by the private placement for capital increase totaled NTD$ 1,800,000 thousand at a discount.	None	None
2008/Jun.	10	2,000,000	20,000,000	606,016	6,060,158	Capital reduction NTD$4,500,000 thousand for making up the losses	None	None
2011/Sep.	10	2,000,000	20,000,000	806,016	8,060,158	Issuance of the common stock for capital increase totaled NTD$ 2,000,000 thousand at a discount.	None	None
2018/Sep.	10	2,000,000	20,000,000	552,329	5,523,285	Capital reduction NTD$2,536,872 thousand for making up the losses	None	None

Apr. 22, 2019, Unit: shares

Type of shares	Authorized capital (including the convertible shares of the convertible bonds)					Note
	Outstanding shares			Unissued shares	Total	
	Listed	Unlisted	Total			
Common stock	481,543,618	70,784,915	552,328,533	1,447,671,467	2,000,000,000	None
Total	481,543,618	70,784,915	552,328,533	1,447,671,467	2,000,000,000	None

Relevant information of shelf registration: none

(II) Structure of shareholders

Structure of shareholders / Quantity	Government agencies	Financial institutions	Other institutional investors	Individuals	Foreign institutions and individuals	Total
Number of shareholders	0	17	139	62,779	83	63,018
Quantity of shareholdings	0	6,277,282	79,844,957	300,928,214	165,278,080	552,328,533
Proportion of shareholdings	0.00%	1.14%	14.46%	54.48%	29.92%	100.00%

(III) The diversification of shareholdings

Ranking of shareholding	Number of shareholders	Shareholding	Proportion of shareholdings%
1-999	41,021	11,547,037	2.09%
1,000-5,000	14,786	33,654,554	6.09%
5,001-10,000	3,252	23,968,886	4.34%
10,001-15,000	1,234	15,492,287	2.80%
15,001-20,000	544	9,831,724	1.78%
20,001-30,000	674	16,272,324	2.95%
30,001-40,000	332	11,657,766	2.11%
40,001-50,000	215	9,697,958	1.76%
50,001-100,000	451	32,011,205	5.80%
100,001-200,000	264	36,527,197	6.61%
200,001-400,000	122	33,537,552	6.07%
400,001-600,000	36	17,296,791	3.13%
600,001-800,000	25	17,967,162	3.25%
800,001-1,000,000	15	13,286,219	2.41%
1,000,001 and more	47	269,579,871	48.81%
Total	63,018	552,328,533	100.00%

The diversification of shareholdings of the preferred stock

(IV) List of major shareholders

Shares / Name of major shareholders	Shareholding	Proportion of shareholdings
CTBC Bank in custody for investment account of Kingston Technology Company, Inc.	39,511,831	7.15%
CTBC Bank in custody for investment account of KTC-TU CORPORATION	29,152,459	5.28%
Mega Bank in custody for investment account of KTC-SUN CORPORATION	29,136,321	5.28%
The 2nd-tier new labor pension plan	12,321,790	2.23%
Chang Chun Investment Co. Ltd.	11,956,597	2.16%
CTBC Bank in custody for investment account of Ho Ying Tsui	10,711,948	1.94%
JPMorgan Chase Bank in custody for investment account of NOREGS BANK	9,322,931	1.69%
Chun Yuan Tu	8,865,000	1.61%
DS Fund LLC	7,864,990	1.42%
Phison Electronics Corporation	7,336,369	1.33%

(V) The market price, net value, earning, dividends and relevant information in the two most recent years

Item / Year			2017	2018	Jan. to Mar., 2019
Market price per share	Highest		11.80	12.90	16.65
	Lowest		7.84	6.68	11.65
	Average		9.64	9.53	13.75
Net value per share	Before distribution		7.02	9.96	
	After distribution (Note 1)		Not distributed yet	Not distributed yet	(Note3)
EPS	Weighted average of shares	Before retroactive adjustment	806,015,782	552,328,533	552,328,533
		After retroactive adjustment	552,328,533	(Note 2)	(Note 3)
	EPS	Before retroactive adjustment	(0.89)	(0.20)	0.12
		After retroactive adjustment	(1.29)	(Note 2)	(Note 3)
Dividends per share	Cash dividends		0	0	0
	Stock grant	From retained earnings	0	0	0
		From capital reserve	0	0	0
	Accumulated unpaid dividends for the preferred stock		0	0	0
Analysis on ROI (Note 4)	Price to earnings ratio		(10.83)	(47.65)	N/A
	Price to dividends ratio		0	0	0
	Cash dividends yield		0	0	0

Note 1: Fill in according to the distribution status in the Shareholders' Meeting of the next year, the earnings have not been distributed yet in the fiscal year 2017.

Note 2: The earnings have not been distributed yet in the general meeting of the shareholders for fiscal year 2018.

Note 3: The general meeting of the shareholders for fiscal year 2018 has not been held yet.

Note 4: Calculation formula

(1) Price to earnings ratio = Average share price / EPS

(2) Price to dividend ratio = Average share price / Cash dividend per share

(3) Cash dividends yield = Cash dividends per share / Average share price

(VI) Dividends policy and implementation status

1. Dividends policy

After the Company deducts the compensation of the employees, the Director and the Supervisors from its income before tax, and also offsets the accumulated deficits , it should set aside the employees bonus at 8%~12% and the Directors and Supervisors bonus not more than 3% from the remaining income before tax.

The proportion of the remuneration distribution for the employees, the Director and the Supervisors or the bonus distribution by cash or stock should both be decided in the Board Meeting where at least 2/3 of all the members of the Board of Directors should attend and 1/2 of the attending members should approve the motion and the resolution should be reported in the Shareholders' Meeting as well.

The employees of parent or subsidiaries who receive the remuneration in the form of cash or stock should meet certain requirements.

If there are any retained earnings upon the general final accounts at the end of the year, they will be used for the payment of all payable taxes and offsetting the accumulated deficits in the previous years and 10% of the remainder will be contributed as a legal reserve and a special reserve should be provided or reversed according to the laws or as requested by the competent authority, the balance and the undistributed accumulated earnings for the previous years, which are identified as the allocataable earnings, and the motion for the distribution should be proposed by the Board of Director and submitted to the Shareholders' Meeting for the resolution.

As the Company operates in a volatile business environment, the enterprise life cycle is in the growth stage, and to take into consideration the Company's capital demand in the future, long-term financial plan and to satisfy the shareholders' cash flow. The distribution for current annual earnings should be more than 10% of the accumulated allocable earnings, but if the accumulated allocable earnings are less than 1% of the paid-in capital, the company can choose not to distribute the earnings, and the cash dividends can't be less than 10% of the total dividends.

2. The dividends distribution policy proposed to the current general meeting of the shareholders: none.
3. Any expected material changes in the dividends policy: none

(VII) Impacts of the stock grants proposed by the current Shareholders Meeting on the company’s operations and EPS: none.

(VIII) Remuneration for employees, Directors and Supervisors:

1. The percentage or range of remuneration for employees, Directors and Supervisors in the articles of incorporation:
   Please refer to the dividends policy in the page No.70.
2. Bases for estimating the remuneration for the employees, Directors and Supervisors of the period, bases for calculating the compensation in stock for the employees, and accounting solution for variation between actually distributed amount and estimated amount: none.
3. Information on the adoption of the remuneration distribution by the Board of Directors:

(1) The amount of the remuneration distributed in cash or stock for the employees, Directors and Supervisors. If there is variation between that amount and the estimated amount for the fiscal year, disclose the variation amount, causes, and settlement of variation: none.
(2) The proportion of the amount of the remuneration distributed in stock for the employees in the net income after tax in the individual financial statement of the period and the total amount of the remuneration for the employees: none.

4. If there is variation in the actual status of remuneration (including number of shares, amount, and stock price) distributed to the employees, Directors, and Supervisors in the previous year, state the variation amount, causes, and settlement of variation.
   (1) Remuneration for the employees: none.
   (2) Remuneration for the Directors and Supervisors: none.

(IX) Status of shares buyback: none.

II. Status of corporate bonds: none.

III. Status of preferred stock: none.

IV. Status of global depositary receipts: none

V. Status of employee stock option: none.

VI. Status of new share issuance relating to the merger, acquisition, and transfer of shares: none

VII. Status of capital utilization plan: N/A.

Five. Operation Overview

I. Business content

(I) Business scope

1. Business scope of the company includes:
    (1) Integrated circuit and semiconductor parts
    (2) Electronic, computer, communication circuit boards
    (3) Hardware, software, system, and peripheral equipment of computer and communication products.
    (4) R&D, design, manufacturing, assembly, processing, testing and after-sale services for all the aforementioned products.
    (5) Import and export business (except special approval business)
2. Proportion of operations

Product item	proportion of operations (%)
	2018
Plastic integrated circuit	59.36
EMS	40.64
Others	0.00
Total	100.00

3. The current products(services) of the Company and the new products(services) we plan to develop:
    (1) IC packaging and testing services
    The items of services include: Packaging and testing services for IC and semiconductor parts.
    (2) Electronics manufacturing services (EMS/CEM)
    The items of services include: PCB assembly, box build and system integration, and we also provide the customers with the services of prototype and pilot run to make their products introduced in the market earlier.

(II) Current status of the industry

1. Current status and development of the industry

Semiconductor Group

(1) For NAND Flash:

The production yield rate of 3D NAND Flash in the original manufacturer increased constantly in 2018, which caused the supply for 3D NAND Flash in 2018 to increase about 40% compared with 2017. Furthermore, the sales performance for smartphone of Samsung and Apple was below expectations. Moreover, Intel PC processor faced the shortage in supply in the 3rd quarter and the orders of the data centers in the North America decreased, which resulted in the oversupply for NAND Flash and the price continued declining since the end of 2017, the overall price dropped about 65% compared with 2017.

来源：中国闪存市场网 www.chinaflashmarket.com

Figure 1 (Flash price index trend)
(Source of the data: http://www.chinaflashmarket.com/)

The price of NAND Flash continued dropping since the end of 2017 and the drop has been over the price of the products, which attracted the customers to place some orders, but the price of the end products also dropped with the drop of the NAND Flash price and the customers continued adopting a wait-and-see attitude on the NAND Flash price, which resulted in an explosive growth for the overall demand.

There is a golden cross between the price of NANA Flash and traditional hard drive. Besides, NAND Flash enjoys the advantages of small volume, light weight and low power consumption, which causes some products such as notebooks to adopt SSD as the storage device. According to the statistical results of IEK (as figure 2), SSD accounts for 40.71% in the overall proportion despite of dropping 2.5% compared with 2017. It still accounts for the highest proportion among all the applications for NAND Flash. The supply for NAND Flash in 2017 was not smooth, but manufacturing SSD with high market value is the top priority for the customers after they got the Flash. Which caused the proportion of SSD to rise from 41.13% in 2016 to 43.28%. With the constant increase of the production capacity for 3D NAND in 2018, the change of the mainstream capacity from 128GB into 240GB and the change of SSD from SATA interface into PCIE interface, which boosted the demand of Flash BGA and caused the growth to double in 2018 compared with 2017. In 2019, SATA will be replaced by PCIE to become the mainstream interface for SSD, the demand for AI system and Big Data management highly increases, which will result in the demand growth for Flash BGA again.

For cell phone memory(eMMC/eMCP/ eUFS), the total sales for smartphone is 14.5 units which dropped 2.7% compared with

2017, and also had an effect on the decrease in the demand for eMMC/eMCP, relatively. But the demand for other related applications also went down. We can find in the statistical data of IEK that the proportion of the cell phone memory rose from 32.43% in 2017 to 34.94% in 2018 among all the NAND Flash applications. The constant introduction of new cell phones by the major cell phone suppliers and the one belt, one road initiative of China results in a constant dramatic growth in the demand for the cell phones in the African countries, so we can anticipate that there will be a growing demand for eMMC and eMCP.

For the memory cards, in 2018, we finally got rid of the unsmooth supply for Flash die in 2017 when the customer didn't have Flash die to produce the memory cards. Although the supply is adequate, the market price is dropping constantly with the price drop of NAND Flash, which caused the proportion of memory cards to fall from 7.56% in 2017 to 7.0% in 2018 among all the NAND Flash applications. We anticipate that the memory cards won't grow constantly in 2019.

Self-driving is the key point for the automobile development. The sensor, radar, AI, navigation, traffic performance analysis, multimedia entertainment and computing platform have transformed the automobile into a mobile data center. The NAND Flash enjoys the advantages of high efficiency, reliability, stability and durability, it will become the best choice for the storage in the automobile industry. Although the proportion of this application only accounts for 1.03%, we anticipate that it will become the top 3 applications among the NAND Flash applications in the coming 10 years.

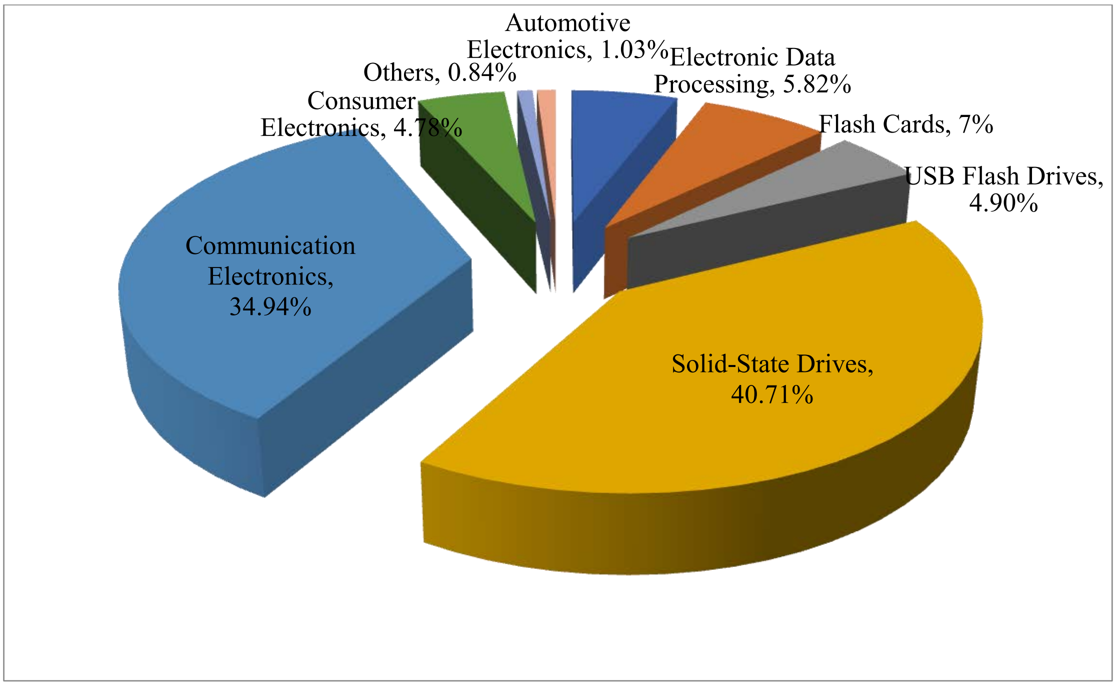


Figure 2 (proportion of Flash applications)

(2) For other IC:

Despite the fact that the semiconductor industry grew constantly in 2018; however, the sales of the cell phones was below expectation in addition to the effect of the China-United States Trade War, which contributed to the continuous downturn in the semiconductor market.

According to the analysis of TRI, global packaging and testing industry will grow constantly in 2019 under the demand in AI, 5G and IoT. We anticipate that the global operations of packaging and testing in 2019 will grow by 1.0%, about $54.46 billion USD. The Company will not only focus on IoT-related, memory products, and provide the resources and manpower to develop them, but also will devote itself to the development and evaluation of AI and 5G-related products this year.

EMS Group

(1) For SSD cards:

With the increase of the supply for NAND Flash, the shipment applied to SSD in 2018 grew by 40% compared with 2017, we anticipate that the sales performance in 2019 will grow more compared with 2018.

(2) For petroleum exploration:

The increase of the petroleum price results in the increase of the petroleum exploration activities in America, the petroleum and the natural gas market revive gradually, which causes the demand for the petroleum exploration to expand from America to the international market. International Energy Agency, IEA also predicts that the American shale oil producers will adopt an "explosive" capacity expansion plan. IEA also indicates in its monthly report that the oil production activities in America will reach record high. After the development for so many years, we acquired the excellent results in 2018, the sales performance grew by 300% compared with 2017. In the future, we will maintain the performance in the market and enter the core technologies of the customers, we anticipate that the sales performance will have a breakthrough compared with 2018. .

(3) For servers:

The digitalization is one of the indispensable components for the enterprise to enhance its competitiveness, AIoT and 5G contribute to expanding the demand for processing the data, which results in the growing demand for computing servers year by year, the demand by the existing customers are also growing constantly.

Although China will lead the EMS market; however, many niche-oriented customers transfer the orders to Taiwan to conduct the production here because of the RMB appreciation, the revision of the Labor Standards Act, the increase of the salary and the workforce shortage in the coastal cities, the cost structure difference and so on.

(4) For Internet security:

With the considerable value being placed on the Internet security gradually, especially the adoption of 5G, we cooperated with 2 top 10 companies(British, American) specialized in Internet information security in 2018 to upgrade our technologies and industry.

(5) E-sports graphics cards

We cooperated with 2 leading companies (NVIDIA and AMD) in the graphics cards in 2018, we anticipate that we can enter the e-sports industry in the future, conduct the multidimensional deployment in the market to compete in the e-sports market.

2. Relationship of upstream, midstream and downstream in the Industry

The key parts of flash memory cards include flash memory and memory controller. The Company can support all the products produced by the top 5 global flash memory suppliers currently, we also have built the direct communication channels with some flash memory suppliers, we can understand the current situation of the flash memory in the market and its technology development in the future by communicating with them directly. And in terms of the memory controller, the Company have cooperated closely with the domestic/foreign memory controller companies with cost advantage and strong functionalities, so we enjoy certain advantages in the quality, cost and customer support.

3. Trends and competition situation of products

We constantly adjusted our position in the industry and actively reform our internal organization structure since 2003, we also utilized the company's core value (the ability of management and manufacturing process) to enter the niche market for flash memory packaging and devoted ourselves to the management and manufacturing. Starting from the shipment of 800,000~1,000,000 pcs per month in 2005, we have grown to the shipment of 40~60 million pcs per month currently. For future prospect, the company will continue utilizing the following competitive advantages to satisfy the quality, capacity, and cost necessary for the packaging market of flash memory.

(1) Technique integration and quality yield rate:

It is necessary not only to apply FEOL of packaging to memory cards, but also to apply SMT manufacturing process to them. The Company has the technique and production capacity of the packaging for semiconductor and the assembly for the electronics, we can finish manufacturing the products rapidly. Furthermore, our company adopts one-stop production, so we enjoy advantage on controlling of the quality yield rate relatively.

(2) Complete supply chain lowers the material cost constantly:

After the transformation in these years, we have made up a complete supply chain with the related material suppliers. We continue looking for the cost-effective materials and manufacturing process via bilateral cooperation.

(3) Complete flash memory supply chain:

For flash memory cards, in addition to the relevant packaging materials, the key parts of flash memory cards include flash memory and memory controller. The Company irregularly discusses with the top 5 global flash memory suppliers and memory controller suppliers about the future trends of the products, and we also regularly discuss with the related memory controller suppliers about the relevant techniques.

(4) Complete products development team:

Since the transformation in 2004, the Company continue strengthening the investment on the software and hardware for developing the products. The Company currently can assist flash memory-related customers to conduct the electrical and thermal analysis and help them develop the relevant customized products.

(III) Current status of technology and R&D

1. R&D expenditures

   The amount of expenditures in 2018: NT$ 270,528 thousand

   The amount of expenditures in Jan.to Mar., 2019: NT$ 68,345 thousand

2. Technologies or products developed successfully

   ◆ Semiconductor Group

   (1) The customized cell phone memory card (NM Card) entered the mass production stage.

   (2) Slim-type eMMC entered the mass production stage.

   ◆ EMS Group

   (1) Introduction of the high-end Netcom, the yield rate of BGA (> 5000 pins) can achieve the demand successfully.

   (2) The technique of manufacturing process over IPC class 3 for manufacturing standard regulation enters the mass production stage, and is applied to the petroleum exploration, aerospace and military industries and so on.

   (3) Automation for SSD production line, the development of the robot technology and its application to testing.

(IV) Long-term and short-term business plans

1. Short-term business plan:

   The short-term business plan will mainly focus on constant further development for the customer relationship, creating strategic partners, utilizing the current resources completely, strengthening the reduction of cost and select the niche market with caution. Our main competitive products are lead frame products (QFN), CSP products, Flash and LPDDR-related products.

   For EMS Group, we mainly further develop 3 parts. SSD cards, special electronic products whose manufacturing standard regulation is over IPC-610 Class 3, which is applied to the medical, aerospace and other special fields, servers and instruments and other niche-oriented products or future star products like Netcom, AIoT and e-sports.

2. Long-term business plan:

   Our long-term business plan will focus on continuing developing the niche-oriented products (like photoelectric and wireless communication products) in combination with the technique of the semiconductor packaging, testing and electronic assembly, and strengthening the relationship with the customers to bring more profits.

II. Market, production and sales overview

(I) Market analysis

1. Sales regions of major products (services)

Unit: NTD thousand

Area \ Year		2017 Sales amount	2017 %	2018 Sales amount	2018 %
Foreign sales	America	4,113,054	29.62	4,186,016	27.56
	China	1,730,753	12.46	1,676,305	11.04
	Others	2,850,283	20.53	4,258,396	28.04
Sub-total		8,694,090	62.61	10,120,717	66.64
Domestic sales		5,192,222	37.39	5,067,475	33.36
Total		13,886,312	100.00	15,188,192	100.00

2. Market share

Unit: NTD 100 million

Industry category	Year	OSE packaging revenue	Output value of packaging industry in Taiwan	Market share
IC packaging	2016	100.42	3,238	3.10%
	2017	73.18	3,330	2.20%
	2018	77.48	3,445	2.25%

Source of the data: The Company's financial statements in the past 3 fiscal years, TSIA: IEK of ITRI(Feb., 2019).

3. Demand, supply and growth status in the future

◆ Semiconductor Group

The future growth of the semiconductor will still be driven by the mobile communication. In addition, the automotive electronics, 5G and AI will also blow up continually. OSE began to adjust its market and products a few years ago in addition to the active development for IoT-related products and markets in 2016, which resulted in the successful transformation and constant growth for OSE. We also introduced LPDDR-related products in 2018 successfully, and we will continue the further development in IoT and LPDDR-related products and markets. Aside from the constant development in China and ASEAN emerging countries, we will expand our business scope to the photoelectric, AI, wireless communication industries via OSE's ability of rapid integration and R&D.

◆ Electronics Manufacturing ServicesGroup

The major growth in the future for the Company's Electronics Manufacturing ServicesGroup mainly comes from 3 major product lines:

(1) The supply issue for the SSD cards and the major parts for USB, NAND Flash has been solved gradually.

(2) The petroleum industry has recovered step by step since the second half of 2017, and even the petroleum production activities in America will reach record high.

(3) Due to the China-United States Trade War, some production capacity transfers from China to Taiwan.

(4) The enterprise digitalization causes the increase of data or materials. In addition, the increase of data is also driven by IoT, 5G mobile broadband services, improvement of AI technique and application, the accumulated data will become bigger and bigger, which results in the growing demand for computing servers year by year.

4. Niche for competition:
(1) Rapid integration and complete R&D team.
(2) Combine with packaging, testing and SMT technology to create the synergy.
(3) Construct the highly integrated MIS to become the customer's "virtual factory."
(4) The excellent NPI services optimize the design complying with the production to lower the cost for the customers in the early stage of the product development.
(5) The strict and careful management for the materials and work-in-process inventory lowers the inventory risk for the customers.

5. Advantages, disadvantages and responsive strategy in the long-term development

◆ Advantages

(1) The big companies of device integration will increase the proportion of outsourcing constantly to drive the demand for the packaging and testing.
(2) The international packaging companies conduct the merger continually, so the customers look for other packaging companies for the cooperation.
(3) The global original equipment manufacturers focus on the core abilities like the brand and R&D, and outsource the manufacturing for the products.
(4) The demand for mobile communication products continue increasing, which cause the demand for the related key parts to also grow.
(5) The strong demand for the server motherboard, SIP module, PDA, smartphone assembly board and the products for the leading companies in the niche market will drive the demand for packaging, testing and EMS in the market.
(6) The introduction of OLPC will drive the demand for flash memory.
(7) The development of IoT and smart home causes the related products to become the mainstream in the coming 5 years. And also drives the growth of all the semiconductor.
(8) The construction of 5G communication is about to be finished, so there will be a machine-replacing current and the demand for semiconductor will increase day by day.

◆ Disadvantages

(1) The products life cycle becomes shorter and the functions get more complicated day by day, it is not easy to get back the return on investment on the machines and equipment.

(2) The competition of the price and the increase of the materials cost cause the margin pressure.

(3) In response to the rapid drop for the price of the electronic products, many customers find the low manufacturing cost solutions in China, so many Taiwanese products in the mid and low price range are no longer competitive because of the manufacturing cost

◆ Responsive strategy

(1) Controlling the cost strictly and decreasing the expenditures.

(2) Taking advantage of R&D ability to enter the niche market and build the threshold for the new technologies.

(3) Making good use of the decision-making for the investments in manufacturing equipment and fixed assets to maximize the marginal effect.

(4) Utilizing the effect of flextime to provide the accurate real-time production information, services for products technologies and knowledge.

(5) Using the technology for multiple layer stacking, so the customers can acquire the memory cards with low cost and high price.

(6) Bringing out the functionality and the flexibility of the logistics management for the supply chain and strengthen the partnership with the suppliers.

(7) The strict and careful management for the material inventory to lower the materials inventory risk.

(8) Using the local materials in Taiwan or look for the alternative materials for spreading the risks.

(9) For the parts in short supply in the market, forecasting the production quantity in advance, and we are devoted to maintaining our relationship with the suppliers as well.

(II) Important uses and production process of major products

1. Important uses of major products

◆ Semiconductor Group

The major product is IC device packaging which is applied to the computer, communication, network, consumer electronics, telecommunication internet, industrial controller, digital camera and so on.

◆ EMS Group

It provides the professional electronics manufacturing services(EMS), the OEM products is mainly applied to the servers, SIP modules, instruments and large industrial equipment, storage systems, petroleum exploration and satellite-related uses.

2. Production process of major products

(1) Production process of packaging products

Die sawing → Die bonding → Wire bonding → Molding → Marking → Trimming → Testing → Packaging

(2) Production process of electronic products

Parts processing → SMT assembly → Parts insertion → Auto-soldering → Auto-cleaning and drying → Testing → Case assembly → Testing → Packaging → Shipping

(III) Supply status of major materials

Major material's details	Supply source
PCB	Taiwan
Connector	China
AU wire	Korea
Compound	China, Japan
Lead frame	Taiwan
Substrate	Taiwan

(IV) Major purchases and sales customer lists in the most recent two years

1. The supplier code, sales amount and proportion of sales which accounted for at least 10% of the total sales amount in any of the past two years and the reasons for the increase or decrease:

Unit: NTD thousand

2017				2018				The 1st quarter of 2019			
Name	Amount	Proportion in annual net sales [%]	Relationship with the issuer	Name	Amount	Proportion in annual net sales [%]	Relationship with the issuer	Name	Amount	Proportion in current year's net sales up to the last quarter [%]	Relationship with the issuer
Company A	4,141,281	29.82	None	Company A	4,469,670	29.43	None	Company B	990,617	25.43	None
Company B	2,790,315	20.09	None	Company B	3,242,267	21.35	None	Company A	930,156	23.87	None
				Company C	1,521,905	10.02	Institutional director of the issuer	Company C	575,629	14.78	Institutional director of the issuer
Others	6,954,716	50.09		Others	5,954,350			Others	1,399,570	35.92	
Net sales	13,886,312	100.00		Net sales	15,188,192	100.00		Net sales	3,895,972	100.00	

According to the analysis of the sales materials for the major customer in the past 2 years, there is no significant change in the proportion of sales, which indicates that the relationship between the Company and the customers is very stable. Overall, the sales customers of the Company are scattered, so there is no risk for the sales concentration and other abnormal situations.

2. The vendor code, purchase amount and proportion of purchase which accounted for at least 10% of the total net purchase amount in any of the past two years and the reasons for the increase or decrease:

Unit: NTD thousand

2017				2018				The 1st quarter of 2019			
Name	Amount	Proportion in annual net purchase [%]	Relationship with the issuer	Name	Amount	Proportion in annual net purchase [%]	Relationship with the issuer	Name	Amount	Proportion in current year's net purchase up to the last quarter[%]	Relationship with the issuer
Company a	2,604,448	30.53	None	Company a			None	Company a	595,837	29.76	None
								Company b	219,653	10.97	None
Others	5,925,095	69.47	None	Others			None	Others	1,186,805	59.27	None
Net purchase	8,529,543	100.00		Net purchase	8,853,914	100.00		Net purchase	2,002,295	100.00	

Both of the Company's Semiconductor Group and EMS Group belong to the foundry without the own brands, the raw materials are mostly standardized products and we have many suppliers for the raw materials so we don't need to concern about the shortage. We will consider the quality and the price first when purchasing unless the customers designate the suppliers. According to the overall purchase proportion, there is no risk for the excessive concentration. Besides, we keep close relationship for the strategic cooperation with the major suppliers and the source of supply is more than 2 companies at any time. In general, the supply status is stable and there is no abnormal situation.

(V) Production volume and value in the past 2 years

Unit: thousand pieces / NTD thousand

Year	2017			2018		
Production volume and value / Major product	Capacity	Volume	Value	Capacity	Volume	Value
Plastic integrated circuit	1,734,720	1,071,809	7,373,996	1,557,594	1,145,665	7,609,945
EMS	76,100	224,908	5,662,048	109,725	79,908	6,150,492
Others	794,392	394,234	484,032	794,392	501,984	582,648
Total	2,605,212	1,690,951	13,520,076	2,440,563	1,727,557	14,343,085

(VI) Sales volume and value in the past 2 years

Unit: thousand pieces / NTD thousand

Year	2017				2018			
Sales volume and value / Major product	Domestic sales		Foreign sales		Domestic sales		Foreign sales	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Plastic integrated circuit	637,863	4,536,389	426,129	2,781,548	728,984	4,382,956	413,624	3,364,890
EMS	18,121	90,724	19,588	3,756,920	582	65,987	63,894	4,461,527
Others	234,568	593,955	156,705	2,126,776	319,149	678,673	181,084	2,234,159
Total	890,552	5,221,068	602,422	8,665,244	1,048,715	5,127,616	658,602	10,060,576

III. Profile of employees

Year / Employee		2017	2018	Up to Mar., 31 of the current year
Number of employee	Direct	4,314	4,944	5,018
	Indirect	2,182	2,307	2,274
	Total	6,496	7,251	7,292
Average age		33.26	33.35	33.48
Average seniority		7.28	8.00	8.18
Education distribution %	Doctor	0.00	0.00	0.00
	Master	3.19	3.54	3.33
	University / College	58.42	60.26	59.80
	Senior high school	29.58	28.50	29.33
	Senior high school below	8.81	7.70	7.54

IV. Environmental protection expenditure

(I) The losses (including compensation) and penalty due to the environment pollution in the most recent 2 years and by the date of the annual report publication: none, the Company didn't encounter any losses or penalties in these 2 years due to the environment pollution.

(II) Future countermeasures (including improvement actions) and possible expenditure: The investment on the maintenance and renewal for the pollution treatment equipment in each factory is about NT$5.5 million.

(III) Countermeasures for RoHS 2.0 of EU:
In response to the implementation for RoHS 2.0 of EU, the Company have actively conducted all the transformation works since several years. We currently have finished constructing the management system for RoHS 2.0 and gained the certification from the international famous enterprises, so we can fully provide the customers with the products complying with RoHS 2.0.

V. Labor relations

(I) The measures of employee welfare, retirement system and its implementation status, and labor-management agreements:

1. The measures of employee welfare:
OSE considers the talents to be the most valuable assets for the enterprises, we will review the supply/demand status for the talents market and compensation to provide the compensation appropriate to the value of the talents, and we will also distribute the incentive bonus and performance bonus based on company's operating performance to achieve the purpose of encouragement and talents retention.
(1) Establish the Employee Welfare Committee to implement all the welfare measures for the employees.
(2) If the employee is dead, disabled, injured or sick due to the occupational accidents, he will be compensated according to the regulation regarding the compensation for accidents in the Labor Standards Act.
(3) Establish the Occupational Safety and Health Committee and management unit to be in charge of the matters of the occupational safety, health and the employee medical checkup.
(4) Implement the employee education training to increase the professional knowledge for the employees so they can be devoted to their works.
(5) Provide all kinds of subsidies for the marriage, death, hospitalization, child birth.
(6) Employee restaurant provides the meals with convenience, health, nutrition and low price.
(7) Provide the work environment with safety, comfort and clean.
(8) The employees can apply for an unpaid military leave or an unpaid parental leave.
(9) The Company implements the group medical insurance and accident insurance for the whole employees.
(10) Establish the nursery room in the company to provide the postpartum employees with the excellent environment for nursing.
(11) Hold domestic and overseas travels, family days, speeches and year end banquets for the employees every year.
(12) Encourage and assist the employees to set up the clubs and hold relevant activities.

(13) Provide the vouchers for three important Chinese holidays, scholarships and vouchers for employee birthdays.
(14) Provide the leaves that are better than the regulations of the Labor Standards Act such as leaves for helping deal with wedding affairs.
(15) Give gifts to the senior employees for their hard work.
(16) Hold labor-management meetings regularly to harmonize labor relations.
(17) Hold Coffee Sessions and other activities to help the newcomers to become more involved in the company's atmosphere faster.

2. Further study and educational training for employees:
(1) The company plans the annual educational training program for the employees according to the organizational development and the annual targets.
(2) Establish standardized newcomer guidance training and orientation training to help the newcomers involve in the team quickly.
(3) Provide the current employees with the application for the external training courses and expense subsidy.
(4) Establish the internal trainer system to cultivate the employees to serve as the internal trainers for the company.
(5) Cooperate with the Trade Unions to irregularly implement the labor education training every year.
(6) Implement the dual-career project to provide technical training and multiple general education courses for the students who participate in Industry-Academe Collaboration Program.

3. Retirement system:
OSE has contributed monthly to the workers' retirement reserve fund since Nov., 1986 according to the Labor Standards Act and deposited the fund in the Central Trust of China and established the supervisory committee of workers' retirement reserve fund. In response to SFAS No.18 “Accounting for Pensions” which was implemented in 1995, the contribution proportion was increased to 4% after the submission to the competent authority for business objectives in Jul., 1993, and was adopted by the Export Processing Zone Administration of the Ministry of Economy on Aug. 9, 1993 and letter No. 006702 was issued. In Jul., 2005, the Labor Pension Act was announced and implemented, we conducted the opinion investigation to know the willingness of the employees for choosing the old pension system or the new one according to the “Labor Pension Act” and reported the list of the employees who chose the new pension system, and we also contributed 6% of monthly salary to the employee's personal account in the Bureau of Labor Insurance based on the regulation. In Aug., 2005, we submitted the proposal of decreasing the pension contribution proportion from 4% to 3% to the concerned authority, it was adopted on Aug. 26, 2005 and letter No. 09400072390 was issued. In Jan., 2016, we submitted the proposal to increase the pension contribution proportion from 3% to 6% to the concerned authority, it was adopted on Jan. 21, 2016 and letter No. 10500008670 was issued. In Mar., 2017, we submitted the proposal of increasing the pension contribution proportion from 6% to 10% to the concerned authority, it was adopted on Mar. 23, 2017 and letter No. 10600029540 was issued.

4. Other important agreements:
   (1) Announced the employee grievance system to provide the employees with the grievance channels.
   (2) The Company can communicate with the cadres of the industrial labor union at any time and it has established the employee suggestion box, grievance hot line, grievance e-mail, so the employees can express their opinions completely.
   (3) To encourage the outstanding employees, we regularly hold the election for the model employees and recognize them openly.
   (4) Provide the newcomers and the model employees with the opportunities of communication and interaction with the middle and top management in the Coffee Sessions.

(II) The losses due to the labor disputes in the most recent year and by the date of the annual report publication: none

(III) The estimated amount at present and possibly occurring in the future and countermeasures:
It is estimated that no losses occurred due to the labor disputes under the implementation of all the welfare measures by the Company in the future.

VI. Important contracts

Type of contract	Counterparty	Contract period	Major contents	Restriction
Distributor agreement	OSE INC.	Oct. 29, 2009 ~ Oct. 28, 2019	1. Contract period 2. The details for the responsible items of the agent	
Land lease	Export Processing Zone Administration of the Ministry of Economy	Jul. 1, 2008 ~ Apr. 30, 2025	1. 9 land lease in Export Processing Zone (based on the lease), the actual lease area is 70,122m^2 2. Rental and payment	
Long-term debt payable	First Bank	Jul. 28, 2016 ~ Jul. 28, 2021	Credit granting contract	Note 1

Note 1: We signed the long-term debt contract with First Bank totaled NT$1,000,000 thousand on Jul. 28, 2016, starting from Feb. 28, 2018, we will pay for the debt in monthly installment, 42 months in total, NT$24,000 thousand per month, NT$16,000 thousand for the last month.

Six. Financial Information

I. Condensed balance sheet and statement of comprehensive income in the past 5 years

(I) Condensed balance sheet and statement of comprehensive income—consolidated financial statements

1. Condensed balance sheet—consolidated financial statements

Unit: NTD thousand

Item \ Year		Financial information in the past 5 years(note 1)					
		2014	2015	2016	2017	2018	Financial information in the current year by Mar. 31, 2019
Current assets		5,724,152	6,384,662	5,819,947	6,027,501	6,276,273	5,959,606
Property, plant and equipment		6,912,842	8,092,570	9,174,961	7,646,666	7,063,908	6,836,337
Intangible assets		29,435	27,060	95,977	79,680	89,633	76,121
Other assets		3,750,511	3,204,256	2,981,745	2,957,461	3,316,629	3,508,332
Total assets		16,416,940	17,708,548	18,072,630	16,711,308	16,746,443	16,380,396
Current liabilities	Before distribution	8,984,907	9,913,263	8,115,378	8,339,294	9,031,180	8,189,306
	After distribution	8,984,907	9,913,263	8,115,378	8,339,294	9,031,180	8,189,306
Non-current liabilities		2,268,070	1,631,248	3,280,752	2,712,168	2,212,663	2,619,505
Total liabilities	Before distribution	11,252,977	11,544,511	11,396,130	11,051,462	11,243,843	10,808,811
	After distribution	11,252,977	11,544,511	11,396,130	11,051,462	11,243,843	10,808,811
Equity attributed to owners of the parent company		5,018,571	6,019,826	6,484,292	5,659,846	5,502,600	5,571,585
Capital		8,060,158	8,060,158	8,060,158	8,060,158	5,523,285	5,523,285
Capital reserve		0	2,137	21,868	21,420	20,104	20,114
Retained earnings	Before distribution	(3,317,941)	(2,285,922)	(1,796,040)	(2,536,872)	(44,832)	20,206
	After distribution	(3,317,941)	(2,285,922)	(1,796,040)	(2,536,872)	(44,832)	20,206
Other equity		276,354	243,453	198,306	115,140	4,043	7,980
Treasury stock		-	-	-	-	-	-
Non-controlling interest		145,392	144,211	192,208	-	-	-
Total equity	Before distribution	5,163,963	6,164,037	6,676,500	5,659,846	5,502,600	5,571,585
	After distribution	5,163,963	6,164,037	6,676,500	5,659,846	5,502,600	5,571,585

(Note1): The financial information in the aforementioned years (quarters) has been audited and certified by CPA.

2. Condensed statement of comprehensive income—consolidated financial statements

Unit: NTD thousand

Item \ Year	Financial information in the past 5 years (Note 1)					
	2014	2015	2016	2017	2018	Financial information in the current year by Mar. 31, 2019
Operating revenue	13,831,273	16,100,450	15,786,333	13,886,312	15,188,192	3,895,972
Operating margin	1,997,402	2,467,879	1,796,924	181,636	532,137	293,534
Operating profit (loss)	990,412	1,370,008	683,612	(724,373)	(406,063)	75,791
Non-operating income and expenses	32,711	(45,247)	(46,959)	(27,152)	43,527	2,389
Net income (loss) before tax	1,023,123	1,324,761	636,653	(751,525)	(362,536)	78,180
Net income (loss) from continuing operations	681,595	1,068,105	503,839	(714,804)	(111,548)	65,318
Loss of discontinued operations	-	-	-	-	-	-
Net income (loss)	681,595	1,068,105	503,839	(714,804)	(111,548)	65,318
Other comprehensive income/loss (net of tax)	94,135	(47,203)	(53,154)	(112,314)	(45,907)	3,657
Total comprehensive income (loss)	775,730	1,020,902	450,685	(827,118)	(157,455)	68,975
Net income attributed to the owner of parent company	660,706	1,051,499	504,371	(713,577)	(111,548)	65,318
Net income attributed to non-controlling interest	20,889	16,606	(532)	(1,227)	-	-
Total comprehensive income attributed to the owner of parent company	748,301	999,118	444,735	(823,998)	(157,455)	68,975
Total comprehensive income attributed to non-controlling interest	27,429	21,784	5,950	(3,120)	-	-
EPS	0.82	1.30	0.63	(0.89)	(0.20)	0.12

(Note1): The financial information in the aforementioned years (quarters) has been audited and certified by CPA.

(II) Condensed balance sheet and statement of comprehensive income—individual financial statements

1. Condensed balance sheet—individual financial statements

Unit: NTD thousand

Item \ Year		Financial information in the past 5 years (Note 1)					Financial information in the current year by Mar. 31, 2019
		2014	2015	2016	2017	2018	
Current assets		5,071,015	5,812,882	4,965,509	5,423,002	5,676,071	(N/A)
Property, plant and equipment		6,684,771	7,847,154	8,939,936	7,600,104	7,012,652	
Intangible assets		29,181	25,402	95,048	78,985	89,266	
Other assets		4,128,956	3,689,014	3,428,286	3,431,835	3,843,431	
Total assets		15,913,923	17,374,452	17,428,779	16,533,926	16,621,420	
Current liabilities	Before distribution	8,673,249	9,740,317	7,774,492	8,162,012	8,906,255	
	After distribution	8,673,249	9,740,317	7,774,492	8,162,012	8,906,255	
Non-current liabilities		2,222,103	1,614,309	3,169,995	2,712,068	2,212,565	
Total liabilities	Before distribution	10,895,352	11,354,626	10,944,487	10,874,080	11,118,820	
	After distribution	10,895,352	11,354,626	10,944,487	10,874,080	11,118,820	
Equity attributed to owners of the parent company		5,018,571	6,019,826	6,484,292	5,659,846	5,502,600	
Capital		8,060,158	8,060,158	8,060,158	8,060,158	5,523,285	
Capital reserve		0	2,137	21,868	21,420	20,104	
Retained earnings	Before distribution	(3,317,941)	(2,285,922)	(1,796,040)	(2,536,872)	(44,832)	
	After distribution	(3,317,941)	(2,285,922)	(1,796,040)	(2,536,872)	(44,832)	
Other equity		276,354	243,453	198,306	115,140	4,043	
Treasury stock		0	0	0	0	0	
Non-controlling interest		0	0	0	0	0	
Total equity	Before distribution	5,018,571	6,019,826	6,484,292	5,659,846	5,502,600	
	After distribution	5,018,571	6,019,826	6,484,292	5,659,846	5,502,600	

(Note1): The financial information in the aforementioned years has been audited and certified by CPA.

2. Condensed statement of comprehensive income—individual financial statements

Unit: NTD thousand

Year / Item	Financial information in the past 5 years(note 1)					
	2014	2015	2016	2017	2018	Financial information in the current year by Mar. 31, 2019
Operating revenue	12,872,258	15,171,746	15,130,357	13,468,695	14,924,371	(N/A)
Operating margin	1,765,716	2,153,458	1,511,833	5,811	443,813	
Operating profit(loss)	962,782	1,318,853	645,638	(776,154)	(397,969)	
Non-operating income and expenses	37,349	(20,168)	(14,463)	6,127	28,349	
Net income before tax	1,000,131	1,298,685	631,175	(770,027)	(369,620)	
Net income from continuing operations	660,706	1,051,499	504,371	(713,577)	(111,548)	
Loss of discontinued operations	0	0	0	0	0	
Net income(loss)	660,706	1,051,499	504,371	(713,577)	(111,548)	
Other comprehensive income /loss (net of tax)	87,595	(52,381)	(59,636)	(110,421)	(45,907)	
Total comprehensive income (loss)	748,301	999,118	444,735	(823,998)	(157,455)	
Net income attributed to the owner of parent company	660,706	1,051,499	504,371	(713,577)	(111,548)	
Net income attributed to non-controlling interest	0	0	0	0	0	
Total comprehensive income attributed to the owner of parent company	748,301	999,118	444,735	(823,998)	(157,455)	
Total comprehensive income attributed to non-controlling interest	0	0	0	0	0	
EPS	0.82	1.30	0.63	(0.89)	(0.20)	

(Note1): The financial information in the aforementioned years has been audited and certified by CPA.

(III) CPA's audited opinion in the past 5 years

Year	Name of CPA	Name of CPA	audited opinion
2014	Fang Wen Li	Shih Chieh Huang	Modified unqualified opinion
2015	Fang Wen Li	Shih Chieh Huang	Modified unqualified opinion
2016	Fang Wen Li	Shih Chieh Huang	Unqualified opinion
2017	Fang Wen Li	Cheng Chu Chen	Unqualified opinion
2018	Fang Wen Li	Cheng Chu Chen	Unqualified opinion

II. Financial analysis in the past 5 years

(I) Financial analysis in the past 5 years—consolidated financial statements:

Analysis item (Note 3)	Year (Note 1)	2014	2015	2016	2017	2018	In the current year by Mar. 31, 2019
		Financial analysis inthe past 5 years					
Financial structure (%)	Liabilities to assets ratio	68.54	65.19	63.06	66.13	67.14	65.99
	Long-term capital to property, plant and equipment ratio	94.57	85.05	99.90	102.41	102.15	112.88
Solvency %	Current ratio	63.71	64.41	71.72	72.28	69.50	72.77
	Quick ratio	46.19	47.68	51.99	54.48	51.57	53.44
	Interest coverage ratio	5.93	7.82	5.22	(4.39)	(1.88)	3.37
Operating performance	Account receivable turnover (time)	6.26	5.47	5.48	5.37	5.36	5.18
	Average collection days	58	67	67	68	68	70
	Inventory turnover (time)	9.55	9.24	9.38	9.40	9.79	9.33
	Account payable turnover (time)	4.60	4.06	4.09	4.23	4.43	4.41
	Average days for sales	38	40	39	39	37	39
	Property, plant and equipment turnover (time)	2.07	2.15	1.83	1.65	2.06	2.24
	Total assets turnover (time)	0.91	0.94	0.88	0.80	0.91	0.94
Profitability	Return on assets (%)	5.44	7.10	3.52	(3.44)	(0.06)	0.55
	Return on equity (%)	14.23	19.05	8.07	(11.75)	(2.00)	1.17
	Net income before tax to paid-in capital ratio (%)	12.69	16.44	7.90	(9.32)	(6.56)	1.42
	Net profit margin (%)	4.78	6.53	3.19	(5.14)	(0.73)	0.42
	EPS (NT$)	0.82	1.30	0.63	(0.89)	(0.20)	0.12
Cash flow	Cash flow ratio (%)	23.64	28.99	26.78	12.18	2.61	5.59
	Cash flow adequacy ratio (%)	67.47	87.71	82.10	92.02	83.56	69.62
	Cash re-investment ratio (%)	7.47	10.07	7.86	4.19	0.95	1.81
Leverage	Operation leverage	5.25	4.52	8.24	(5.61)	(11.59)	171.73
	Financial leverage	1.26	1.16	1.28	0.84	0.76	1.77

Profitability/ Cash flow:

Due to the stable supply of upstream raw material, the price of upstream raw material constantly declines, and the demand of terminal market is increasing, which leads to the sales growth in the memory product packaging. In addition, the demand from the existing customers is increasing and the products of new customers enter the mass production stage, all these cause the increase in the revenue. The new holiday policy and the related depreciation increase resulting from the procurement of the new equipment lead to the increase in all the costs and the ineffective allocation for the fixed cost, but In general, the lost amount after tax is lower compared with the last year.

Operating leverage:

The operating costs and expenses increased dramatically compared with the last year, which causes the operation leverage to change dramatically.

Note 1: The financial information in the aforementioned years (quarters) has been audited and certified by CPA.

Note 2: The calculation formula for the financial analysis:

1. Financial structure
   (1) Liabilities to assets ratio = total liabilities/ total assets.
   (2) Long-term capital to property, plant and equipment ratio = (total equity + non-current liabilities)/ net worth of property, plant and equipment.
2. Solvency
   (1) Current ratio = current assets/current liabilities.
   (2) Quick ratio = (current assets – inventory – pre-payments)/current liabilities
   (3) Interest coverage ratio= net income before income tax and interest expenses /interest expense for current period.
3. Operating performance
   (1) Receivables (including account receivable and note receivable from operation) turnover = net sales/balance of average receivables (including account receivable and note receivable from operation).
   (2) Average collection days = 365/ receivables turnover.
   (3) Inventory turnover = cost of sales /average inventory.
   (4) Payables (including account payable and note payable from operation) turnover = cost of sales /balance of average payables (including account payable and note payable from operation).
   (5) Average days for sales = 365/inventory turnover
   (6) Property, plant and equipment turnover = net sales /average net worth of property, plant and equipment.
   (7) Total assets turnover = net sales/average total assets.
4. Profitability
   (1) Return on assets = [profit/loss after tax + interest expenses x (1-tax rate)]/average total assets.
   (2) Return on equity = profit/loss after tax / average total equity.
   (3) Net profit ratio = profit, loss after tax /net sales
   (4) EPS = (Profit and loss attributable to owners of the parent company – dividends from preferred stocks)/weighted average number of outstanding shares
5. Cash flow
   (1) Cash flow ratio = net cash flow from operating activities/ current liabilities
   (2) Net cash flow adequacy ratio = net cash flow from operating activities in the past 5 years/(capital expenditures + inventory increase + cash dividends) in the past 5 years.
   (3) Cash re-investment ratio = (net cash flow from operation activities – cash dividends)/ (gross property, plant and equipment + long-term investment + other non-current assets + working capital)
6. Leverage:
   (1) Operation leverage = (net operating revenue – variable operating costs and expenses)/operating profit
   (2) Financial leverage = operating profit/(operating profit-interest expenses).

(II) Financial analysis in the past 5 years — individual financial statements:

Analysis item (Note 3) \ Year (Note 1)		Financial analysis inthe past 5 years					In the current year by Mar. 31, 2019
		2014	2015	2016	2017	2018	
Financial structure (%)	Liabilities to assets ratio	68.46	65.35	62.80	65.77	66.89	(N/A)
	Long-term capital to property, plant and equipment ratio	97.35	87.49	101.29	103.03	102.90	
Solvency %	Current ratio	58.47	59.68	63.87	66.44	63.73	
	Quick ratio	43.63	45.38	49.18	51.40	49.17	
	Interest coverage ratio	6.05	7.85	5.25	(4.58)	(1.93)	
Operating performance	Account receivable turnover (time)	6.16	5.37	5.38	5.31	5.34	
	Average collection days	59	68	68	69	68	
	Inventory turnover (time)	10.85	10.60	11.58	11.80	11.83	
	Account payable turnover (time)	4.51	4.02	4.19	4.41	4.54	
	Average days for sales	34	34	32	31	31	
	Property, plant and equipment turnover (time)	2.00	2.09	1.80	1.63	2.04	
	Total assets turnover (time)	0.87	0.91	0.87	0.79	0.90	
Profitability	Return on assets (%)	5.58	7.26	3.61	(3.53)	(0.04)	
	Return on equity (%)	13.98	19.05	8.07	(11.75)	(2.00)	
	Net income before tax to paid-in capital ratio(%)	12.41	16.11	7.83	(9.55)	(6.69)	
	Net profit margin (%)	5.13	6.93	3.33	(5.30)	(0.75)	
	EPS (NT$)	0.82	1.30	0.63	(0.89)	(0.20)	
Cash flow	Cash flow ratio (%)	24.48	28.11	29.15	11.47	2.93	
	Cash flow adequacy ratio (%)	88.02	103.41	94.46	78.68	84.05	
	Cash re-investment ratio (%)	7.73	9.93	8.53	3.92	1.07	
Leverage	Operation leverage	5.05	4.44	8.35	(5.02)	(11.62)	
	Financial leverage	1.26	1.17	1.30	0.85	0.76	

Profitability/ Cash flow:

Due to the stable supply of upstream raw material, the price of upstream raw material constantly declines, and the demand of terminal market is increasing, which leads to the sales growth in the memory product packaging. In addition, the demand from the existing customers is increasing and the products of new customers enter the mass production stage, all these cause the increase in the revenue. The new holiday policy and the related depreciation increase resulting from the procurement of the new equipment lead to the increase in all the costs and the ineffective allocation for the fixed cost, but In general, the lost amount after tax is lower compared with the last year.

Operating leverage:

The operating costs and expenses increased dramatically compared with the last year, which causes the operation leverage to change dramatically.

Note 1: The financial information in the aforementioned years has been audited and certified by CPA.

Note 2: The calculation formula for the financial analysis:

1. Financial structure
   (1) Liabilities to assets ratio = total liabilities/ total assets.
   (2) Long-term capital to property, plant and equipment ratio= (total equity + non-current liabilities)/ net worth of property, plant and equipment.
2. Solvency
   (1) Current ratio = current assets/current liabilities.
   (2) Quick ratio = (current assets – inventory – pre-payments)/current liabilities
   (3) Interest coverage ratio= net income before income tax and interest expenses /interest expense for current period.
3. Operating performance
   (1) Receivables (including account receivable and note receivable from operation) turnover = net sales/balance of average receivables (including account receivable and note receivable from operation).
   (2) Average collection days = 365/ receivables turnover.
   (3) Inventory turnover = cost of sales /average inventory.
   (4) Payables (including account payable and note payable from operation) turnover = cost of sales / balance of average payables (including account payable and note payable from operation).
   (5) Average days for sales = 365/inventory turnover
   (6) Property, plant and equipment turnover = net sales /average net worth of property, plant and equipment.
   (7) Total assets turnover = net sales/average total assets.
4. Profitability
   (1) Return on assets = [profit/loss after tax + interest expenses x (1-tax rate)]/average total assets.
   (2) Return on equity = profit/loss after tax / average total equity.
   (3) Net profit ratio = profit, loss after tax /net sales
   (4) EPS = (Profit and loss attributable to owners of the parent company – dividends from preferred stocks)/weighted average number of outstanding shares
5. Cash flow
   (1) Cash flow ratio = net cash flow from operating activities/ current liabilities
   (2) Net cash flow adequacy ratio = net cash flow from operating activities in the past 5 years/(capital expenditures + inventory increase + cash dividends) in the past 5 years.
   (3) Cash re-investment ratio = (net cash flow from operation activities – cash dividends)/ (gross property, plant and equipment + long-term investment + other non-current assets + working capital)
6. Leverage:
   (1) Operation leverage = (net operating revenue – variable operating costs and expenses)/operating profit
   (2) Financial leverage = operating profit/(operating profit-interest expenses).

III. Supervisors review report

Supervisors Review Report

The parent company only and the consolidated financial statements for the year of 2018 that were prepared by the board of director of the Company and were audited by the independent auditors, Fang-Wen Lee and Cheng-Chu Chen of Ernst & Young Global Limited with independent auditors' reports issued, as well as the business report and the deficit compensation statement have been reviewed by the supervisors and determined to be in compliance with the relevant regulations of the Company Act. According to Article 219 of the Company Act, we hereby submit this report.

Best Regards,
Orient Semiconductor Electronics, Ltd. 2019 Annual Meeting of Shareholders

Orient Semiconductor Electronics, Ltd.

Supervisor DS Fund LLC
Representative: Daphne Wu

Mar. 29, 2019

IV. The consolidated financial statements for the most recent year

Independent Auditors' Report

English Translation of a Report Originally Issued in Chinese

To Orient Semiconductor Electronics Limited

Opinion

We have audited the accompanying consolidated balance sheets of Orient Semiconductor Electronics Limited (the "Company") and its subsidiaries as of December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2018 and 2017, and notes to the consolidated financial statements, including the summary of significant accounting policies (collectively referred to as "the consolidated financial statements").

In our opinion, based on our audits and the reports of other auditors (please refer to the Other Matter – Making Reference to the Audits of Component Auditors section of our report), the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2018 and 2017, and their consolidated financial performance and cash flows for the years ended December 31, 2018 and 2017, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and 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 the Company and its subsidiaries in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China (the "Norm"), and we have fulfilled our other ethical responsibilities in accordance with the Norm. Based on our audits and the reports of other auditors, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of 2018 consolidated financial statements. 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 matter.

Revenue recognition

Net sales recognized by the Company amounted to $15,188,192 thousand for the year ended December 31, 2018, including assembly and testing service in the amount of $8,533,978 thousand which accounted for 56% of total revenue. The service process includes enhancing the work in process, and customers obtain control of the service when enhanced. Therefore, the revenue will be recognized over time. The management recognizes assembly and testing service revenue based on the progress of work at end of every month. As the aforementioned transaction involves estimation and manual control, the risk of revenue been recognized incorrectly exists. Therefore, we considered this a key audit matter.

Our audit procedures included, but not limited to, assessing the appropriateness of the accounting policy of revenue recognition, including the reassessment of revenue recognition and measurement upon first-time adoption of IFRS 15; evaluating and testing the design and operating effectiveness of internal controls around revenue recognition; performing cut-off tests by selecting samples of transactions from either side of the balance sheet date and vouching related certificates to verify correctness of the timing of recognizing transaction; selecting samples to perform test of details and reviewing significant contact terms and conditions; recalculating manual sales journal entries recognized over time to validate the correctness of the timing of recognizing sales revenue.

We also considered the appropriateness of the disclosures of sales. Please refer to Note 4 and Note 6 to the Company's consolidated financial statements.

Deferred tax assets

The Company recognized deferred tax assets and deferred tax liabilities in the amount of $1,654,524 thousand and $0 thousand, for the year ended December 31, 2018. The recognition of deferred tax assets for the related unused tax losses, unused tax credits, and deductible temporary differences arising from operating entities located in other areas was based on management estimates of its future available taxable profits and the probability that the related deferred tax assets will be realized. As a result, we determined the matter to be a key audit matter.

Our audit procedures include (but are not limited to) understanding and testing the controls surrounding the Company's assessment process for recognition of deferred tax assets; understanding the Company's significant operating entities for which deferred tax assets are recognized and assessing the management estimates for assumptions used in the future cash flow projection and future taxable profits calculation; retrospectively reviewing the accuracy of assumptions used in prior-period estimates of future cash flow projection and assessing whether there are any other matters that will affect the recognition of deferred tax assets; and assessing the adequacy of the Company's disclosures regarding its deferred tax asset recognition policy and other related disclosures.

We also considered the appropriateness of the income tax disclosures. Please refer to Note 5 and Note 6 to the Company's consolidated financial statements.

Other Matter – Making Reference to the Audits of Component Auditors

We did not audit the financial statements of certain consolidated subsidiaries, whose statements reflected total assets of $767,296 thousand and $768,667 thousand accounting for 4.58% and 4.60% of consolidated total assets as of December 31, 2018 and 2017, respectively; total operating revenues amounted to $53,080 thousand and $33,714 thousand, constituting 0.35% and 0.24% of consolidated operating revenues for the years ended December 31 2018 and 2017, respectively. Those financial statements were audited by other auditors, whose reports thereon have been furnished to us, and our opinions expressed herein are based solely on the audit reports of the other auditors. We did not audit the financial statements of certain associates and joint ventures accounted for under the equity method whose statements are based solely on the reports of other auditors. These associates and joint ventures under equity method amounted to $449,790 thousand and $414,213 thousand, representing 2.69% and 2.48% of consolidated total assets as of December 31, 2018 and 2017, respectively. The related shares of profits from the associates and joint ventures under the equity method amounted to $64,846 thousand and $43,225 thousand, representing (17.89%) and 5.75% of the consolidated net loss before tax for the years ended December 31 2018 and 2017, respectively, and the related shares of other comprehensive income from the associates and joint ventures under the equity method amounted to $0 thousand and $0 thousand, representing 0% and 0% of the consolidated other comprehensive income for the years ended December 31, 2018 and 2017, respectively.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by 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, management is responsible for assessing the ability to continue as a going concern of the Company and its subsidiaries, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including audit committee or supervisors, are responsible for overseeing the financial reporting process of the Company and its subsidiaries.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 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 the internal control of the Company and its subsidiaries.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern of the Company and its subsidiaries. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the accompanying notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company 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 2018 consolidated financial statements and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

We have audited and expressed an unqualified opinion on the parent company only financial statements of the Company as of and for the years ended December 31, 2018 and 2017.

Lee, Fang-Wen

Chen, Cheng-Chu

Ernst & Young, Taiwan

March 29, 2019

English Translation of Financial Statements Originally Issued in Chinese

ORIENT SEMICONDUCTOR ELECTRONICS LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of December 31, 2018 and 2017

(Amounts expressed in Thousands of New Taiwan Dollars)

Items	Notes	December 31, 2018		December 31, 2017	
		Amount	%	Amount	%
Current assets					
Cash and cash equivalents	4, 6.(1)	$762,311	5	$1,294,247	8
Financial assets at fair value through profit or loss-Current	4, 6.(2)	—	—	30,813	—
Contract assets-Current	4, 6.(21)	425,684	3	—	—
Notes receivable	4, 6.(3)	10,510	—	11,950	—
Accounts receivable-Non Affiliates	4, 6.(4), 8	2,385,100	14	2,326,128	14
Accounts receivable-Affiliates	4, 6.(4), 7	694,148	4	237,354	2
Other receivable-Non Affiliates		44,844	—	55,870	—
Other receivable-Affiliates	7	54,767	1	45,095	—
Inventories	4, 6.(5)	1,567,469	9	1,427,892	9
Prepayments	4, 6.(13)	51,448	—	56,390	—
Other current assets		36,377	—	30,802	—
Other financial assets-Current	8	243,615	1	510,960	3
Total current assets		6,276,273	37	6,027,501	36
Non-current assets					
Financial assets at fair value through other comprehensive income-Non current	4, 6.(6)	234,878	1	—	—
Available-for-sale financial assets-Non current	4, 6.(7)	—	—	215,537	2
Financial assets measured at cost-Non current	4, 6.(8)	—	—	37,246	—
Investments accounted for using the equity method	4, 6.(9), 8	458,078	3	419,287	3
Property, plant, and equipment	4, 6.(10), 8	7,063,908	42	7,646,666	46
Investment Property	4, 6.(11)	481,619	3	494,849	3
Intangible assets	4, 6.(12)	89,633	1	79,680	—
Deferred income tax assets	4, 6.(28)	1,654,524	10	1,394,979	8
Prepayment for equipment	4, 6.(13)	180,354	1	79,953	—
Refundable deposits	8	201,903	1	208,969	1
Long-term receivables-Affiliates	4, 6.(14), 7	95,300	1	92,384	1
Other non-current assets	4	9,973	—	14,257	—
Total non-current assets		10,470,170	63	10,683,807	64
Total assets		$16,746,443	100	$16,711,308	100

(The accompanying notes are an integral part of the financial statements.)

English Translation of Financial Statements Originally Issued in Chinese

ORIENT SEMICONDUCTOR ELECTRONICS LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of December 31, 2018 and 2017

(Amounts expressed in Thousands of New Taiwan Dollars)

		December 31, 2018		December 31, 2017	
Items	Notes	Amount	%	Amount	%
Current liabilities					
Short-term loans	6.(15), 7	$2,806,857	17	$2,192,678	13
Short-term notes payable	6.(16)	349,610	2	398,938	3
Contract Liabilities-Current	4, 6.(21)	15,821	1	—	—
Notes payable		49,126	—	25,116	—
Other notes payable		13,072	—	1,249	—
Accounts payable-Non Affiliates		3,295,988	20	3,177,352	19
Accounts payable-Affiliates	7	49,210	—	18,447	—
Accrued expenses		751,041	4	657,298	4
Payables on equipment		239,748	1	55,665	—
Current income tax liabilities	4, 6.(28)	2,175	—	5,704	—
Current portion of long-term loans	6.(17)	1,340,270	8	1,586,951	10
Lease payable-Current	4, 6.(18)	2,610	—	24,495	—
Other current liabilities		115,652	1	195,401	1
Total current liabilities		9,031,180	54	8,339,294	50
Non-current liabilities					
Long-term loans	6.(17)	1,713,245	10	2,170,755	13
Lease payable-Non current	4, 6.(18)	—	—	56	—
Net defined benefit liability-Non current	4, 6.(19)	495,896	3	537,783	3
Other non-current liabilities-Others	4	3,522	—	3,574	—
Total non-current liabilities		2,212,663	13	2,712,168	16
Total liabilities		11,243,843	67	11,051,462	66
Equity attributable to the parent company	4, 6.(20)				
Capital					
Common stock		5,523,285	33	8,060,158	48
Additional paid-in capital		20,104	—	21,420	—
Retained earnings					
Retained deficits		(44,832)	—	(2,536,872)	(15)
Other Components of Equity		4,043	—	115,140	1
Equity attributable to stockholders of the parent		5,502,600	33	5,659,846	34
Total stockholders' equity		5,502,600	33	5,659,846	34
Total liabilities and stockholders' equity		$16,746,443	100	$16,711,308	100

(The accompanying notes are an integral part of the financial statements.)

English Translation of Financial Statements Originally Issued in Chinese

ORIENT SEMICONDUCTOR ELECTRONICS LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2018 and 2017

(Amounts expressed in Thousands of New Taiwan Dollars)

Items	Notes	2018 Amount	2018 %	2017 Amount	2017 %
Net revenue	4, 6.(21), 7	$15,188,192	100	$13,886,312	100
Cost of goods sold	4, 6.(5), 6.(25)	(14,656,055)	(96)	(13,704,676)	(99)
Gross profit		532,137	4	181,636	11
Operating expenses	4, 6.(25)				
Selling and administration expenses		(652,527)	(4)	(666,725)	(5)
Research and development expenses		(270,528)	(2)	(239,284)	(1)
Expected credit losses	4, 6.(22)	(15,145)	–	–	–
Subtotal		(938,200)	(6)	(906,009)	(6)
Operating loss		(406,063)	(2)	(724,373)	(5)
Non-operating income and expenses	6.(26)				
Other income		74,246	–	122,843	1
Other gains and losses		26,770	–	(56,432)	–
Financial costs		(125,986)	(1)	(139,087)	(1)
Share of profit of associates under equity method	4, 6.(9)	68,497	–	45,524	–
Pretax loss		(362,536)	(3)	(751,525)	(5)
Income tax benefit	4, 6.(28)	250,988	2	36,721	–
Aftertax loss from continuing operations		(111,548)	(1)	(714,804)	(5)
Consolidated net loss		(111,548)	(1)	(714,804)	(5)
Other comprehensive loss	4, 6.(27)				
Items that will not be reclassified subsequently to profit or loss					
Remeasurements of defined benefit plans		(42,568)	–	(32,557)	–
Unrealized gains or losses on financial assets at fair value through other comprehensive income		(22,180)	–	–	–
Income tax related to items that will not be reclassified		8,780	–	5,535	–
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations		17,469	–	(51,640)	–
Unrealized (loss) gain from available-for-sale financial assets		–	–	(50,453)	–
Share of other comprehensive (loss) income of associates and joint ventures		–	–	(233)	–
Income tax relating to components of other comprehensive income		(7,408)	–	17,034	–
Total other comprehensive (loss) for the period, net of tax		(45,907)	–	(112,314)	–
Total comprehensive income		($157,455)	(1)	($827,118)	(5)
Consolidated net income attributable to:					
Common stockholders of the parent		($111,548)	(1)	($713,577)	(5)
Non controlling interests		–	–	(1,227)	–
		($111,548)	(1)	($714,804)	(5)
Consolidated comprehensive income attributable to:					
Common stockholders of the parent		($157,455)	(1)	($823,998)	(5)
Non-controlling interests		–	–	(3,120)	–
		($157,455)	(1)	($827,118)	(5)
Basic earnings per share (Expressed in NTD)	4, 6.(29)	($0.20)		($1.29)	

(The accompanying notes are an integral part of the financial statements.)

English Translation of Financial Statements Originally Issued in Chinese

ORIENT SEMICONDUCTOR ELECTRONICS LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2018 and 2017

(Amounts expressed in Thousands of New Taiwan Dollars)

Items	Equity attributable to stockholders of the parent							Non-Controlling Interests	Total Equity
			Retained earnings	Other equity					
	Common stock	Capital surplus	Retained deficits	Exchange differences on translation of foreign operations	Unrealized gains or losses on financial assets measured at fair value through other comprehensive income	Unrealized gains from available-for-sale financial assets	Total		
Balance as of January 1, 2017	$8,060,158	$21,868	($1,796,040)	$11,134	–	$187,172	$6,484,292	$192,208	$6,676,500
Share of changes in net assets of associates and joint ventures accounted for using equity method		(1,113)					(1,113)	–	(1,113)
Loss for the years ended December 31, 2017			(713,577)				(713,577)	(1,227)	(714,804)
Other comprehensive income for the years ended December 31, 2017			(27,255)	(41,290)		(41,876)	(110,421)	(1,893)	(112,314)
Total comprehensive income	–	–	(740,832)	(41,290)	–	(41,876)	(823,998)	(3,120)	(827,118)
Effect of deconsolidation of subsidiary							–	(192,208)	(192,208)
From shares of changes in equities of subsidiaries		665					665	–	665
Changes in non-controlling interests							–	3,120	3,120
Balance as of December 31, 2017	$8,060,158	$21,420	($2,536,872)	($30,156)	–	$145,296	$5,659,846	–	$5,659,846
Balance as of January 1, 2018	$8,060,158	$21,420	($2,536,872)	($30,156)	–	$145,296	$5,659,846	–	$5,659,846
Impact of retroactive applications			260,065		($113,244)	(145,296)	1,525		1,525
Adjusted balance as of January 1, 2018	8,060,158	21,420	(2,276,807)	(30,156)	(113,244)	–	5,661,371	–	5,661,371
Share of changes in net assets of associates and joint ventures accounted for using equity method		(1,316)					(1,316)		(1,316)
Loss for the years ended December 31, 2018			(111,548)				(111,548)		(111,548)
Other comprehensive income for the years ended December 31, 2018			(31,860)	10,061	(24,108)		(45,907)		(45,907)
Total comprehensive income	–	–	(143,408)	10,061	(24,108)	–	(157,455)	–	(157,455)
Captial reduction for cover accumulated deficits	(2,536,873)		2,536,873				–		–
Proceeds from disposal of equity instruments at fair value through other comprehensive income			(161,490)		161,490		–		–
Balance as of December 31, 2018	$5,523,285	$20,104	($44,832)	($20,095)	$24,138	–	$5,502,600	–	$5,502,600

(The accompanying notes are an integral part of the financial statements.)

English Translation of Financial Statements Originally Issued in Chinese

ORIENT SEMICONDUCTOR ELECTRONICS LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2018 and 2017

(Amounts expressed in Thousands of New Taiwan Dollars)

Items	2018 Amount	2017 Amount
Cash flows from operating activities:		
Pretax loss	($362,536)	($751,525)
Adjustments to reconcile net income (loss) before tax to net		
The profit or loss items which did not affect cash flows:		
Depreciation	1,414,983	1,483,370
Amortization	61,792	58,097
Expected credit loss (profit)	15,145	(996)
Net (gain) of financial assets and liabilities at fair value through profit or loss	(7,371)	(53,198)
Interest expense	125,986	139,087
Interest revenue	(8,754)	(6,794)
Dividend income	—	(3,677)
Share of (profit) of associates accounted for using the equity method	(68,497)	(45,524)
(Gain) on disposal of property, plant and equipment	(6,187)	(21,865)
Loss on disposal of investments	—	872
Loss of impairment of non-financial assets	—	75,591
Loss on inventory valuation	48,841	21,502
Changes in operating assets and liabilities:		
(Increase) in contract assets	(213,080)	—
Decrease in notes receivable-non affiliates	1,440	835
(Increase) in accounts receivable-non affiliates	(73,314)	(63,136)
(Increase) Decrease in accounts receivable-affiliates	(457,608)	55,933
Decrease in other receivable-non affiliates	7,483	45,026
Decrease in other receivable-affiliates	23,538	66,409
(Increase) in inventories	(404,134)	(3,248)
Decrease in prepayments	11,325	20,536
(Increase) Decrease in other current assets	(5,567)	25,139
Decrease (Increase) in other operating assets	2,426	(4,556)
(Decrease) in contract liabilities	(35,931)	—
Increase (Decrease) in notes payable-non affiliates	35,833	(30,310)
Increase in accounts payable-non affiliates	118,636	15,633
Increase in accounts payable-affiliates	30,763	4,831
(Decrease) Increase in other payable	(2,092)	12,693
Increase in other current liabilities	65,746	75,926
(Decrease) in accrued pension liabilities	(84,455)	(90,496)
Cash generated from operations	234,411	1,026,155
Interest received	8,761	6,723
Income tax (paid)	(7,185)	(16,781)
Net cash provided by operating activities	235,987	1,016,097

Items	2018 Amount	2017 Amount
Cash flows from investing activities:		
Disposal of financial assets at fair value through profit or loss	38,184	57,651
Cashflow of subsidiaries derecognition	—	(98,513)
Acqusition of property, plant and equipment	(772,963)	(677,436)
Disposal of property, plant and equipment	41,696	80,661
(Increase) in refundable deposits	—	(44,704)
Decrease in refundable deposits	7,066	—
Acqusition of intangible assets	(63,714)	(26,388)
(Increase) Decrease in long-term receivables	(2,916)	7,663
Dividend received	—	3,677
Other investing activities	(879)	1,569
Net cash (used in) investing activities	(753,526)	(695,820)
Cash flows from financing activities:		
Increase in short-term loans	614,356	741,178
Increase in short-term notes payable	349,610	398,938
(Decrease) in short-term notes payable	(398,938)	(249,131)
Increase in long-term loans	1,010,584	1,386,000
Repayment of long-term loans	(1,711,897)	(1,577,950)
(Decrease) in guarantee deposits received	(52)	(9)
(Decrease) in other payable-affiliates	—	(245,000)
Increase in lease payable	30,380	2,177
(Decrease) in lease payable	(52,321)	(159,513)
Interest paid	(123,894)	(151,780)
Changes in non-controlling interests	—	3,120
Other financing activities	267,345	(244,973)
Net cash (used in) financing activities	(14,827)	(96,943)
Effect of exchange rate changes on cash and cash equivalents	430	(2,808)
Net (Decrease) Increase in cash and cash equivalents	(531,936)	220,526
Cash and cash equivalents, beginning of period	1,294,247	1,073,721
Cash and cash equivalents, end of period	$762,311	$1,294,247

(The accompanying notes are an integral part of the financial statements.)

1. ORGANIZATION AND OPERATION

Orient Semiconductor Electronics Limited (the Company) was incorporated as a company limited by shares under the provisions of the Company Law of the Republic of China in June 1971. The Company was registered in Kaohsiung City and the registered address is 9 Central 3Rd St. N.E.P.Z., Kaohsiung, Taiwan, 11, R.O.C. The principal activity of the Company is to engage in the manufacture, assembly, processing and sale of integrated circuits, parts for semiconductors, computer motherboards and related products. The Company's shares commenced trading in the Taiwan stock exchange market in April 1994.
As of the years ended December 31, 2018, the Company and its subsidiaries current liabilities and current assets amounted to $9,031,180 thousand and $6,276,273 thousand, respectively. The current ratio was 69.50%. The Company has devoted to adjusting its product structure. The Company keeps making a profit and improving financial structure.

2. DATE AND PROCEDURES OF AUTHORIZATION OF FINANCIAL STATEMENTS FOR ISSUE

The consolidated financial statements of the Company and its subsidiaries ("the Group") for the years ended December 31, 2018 and 2017 were authorized for issue by the Board of Directors on March 29, 2019.

3. NEWLY ISSUED OR REVISED STANDARDS AND INTERPRETATIONS

(1) Changes in accounting policies resulting from applying for the first time certain standards and amendments.

The Group applied for the first time International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are recognized by Financial Supervisory Commission ("FSC") and become effective for annual periods beginning on or after January 1, 2018. The nature and the impact of each new standard and amendment that has a material effect on the Group is described below:

A. IFRS 15 "Revenue from Contracts with Customers" (including Amendments to IFRS 15 "Clarifications to IFRS 15 Revenue from Contracts with Customers")

IFRS 15 replaces IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations. In accordance with the transition provision in IFRS 15, the Group elected to recognize the cumulative effect of initially applying IFRS 15 at the date of initial application (January 1, 2018). The Group also elected to apply this standard retrospectively only to contracts that are not completed contracts at the date of initial application.

The Group's principal activities consist of the sale of goods and rendering of services. The impacts arising from the adoption of IFRS 15 on the Group are summarized as follows:

(a) Please refer to Note 4 for the accounting policies before or after January 1, 2018.

(b) In addition to electronic assembly service, the Group also conducts IC testing commissioned by customers as the main business. According to the contract, the ownership of the work in process belongs to suppliers. The Group enhances the work in process during the assembly and testing process, and customers obtain control of the work when it is enhanced. The aforementioned transaction complies with recognizing revenue over time under IFRS 15, therefore, the revenue from sale of goods will be recognized revenue over time instead of recognizing revenue when goods have been delivered to the buyer prior to January 1, 2018. However, for some contracts, if the Group has the right to transfer the goods to customers but does not has a right to an amount of consideration that is unconditional, these contacts should be presented as contract assets, which is different from the accounting treatment of recognizing trade receivables before the date of initial application. Additionally, loss allowance for contract assets was assessed in accordance with IFRS 9. For some contracts, part of the consideration was received from customers upon signing the contract, then the Group has the obligation to provide the goods and the services subsequently. Before January 1, 2018, the Group recognized the consideration received in advance from customers under other current liabilities. Starting from January 1, 2018, in accordance with IFRS 15, it should be recognized as contract liabilities. Compared with the requirements of IAS 18, contract asset will increase $212,604 thousand, inventory will decrease $215,358 thousand and retained earnings will decrease $2,754 thousand as at January 1, 2018.

(c) Please refer to Note 4, Note 5 and Note 6 for additional disclosure note required by IFRS 15.

B. IFRS 9"Financial Instruments"

IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement", In accordance with the transition provision in IFRS 9, the Group elected not to restate prior periods at the date of initial application (January 1, 2018). The adoption of IFRS 9 has the following impacts on the Group:

(a) The Group adopted IFRS 9 since January 1, 2018 and it adopted IAS 39 before January 1, 2018. Please refer to Note 4 for more details on accounting policies.

(b) In accordance with the transition provision in IFRS 9, the assessment of the business model and classification of financial assets into the appropriate categories are based on the facts and circumstances that existed as at January 1, 2018. The classifications of financial assets and its carrying amounts as at January 1, 2018 are as follows:

IAS 39		IFRS 9	
Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
Fair value through profit or loss	$30,813	Fair value through profit or loss	$30,813
Fair value through other comprehensive income		Fair value through other comprehensive income	257,063
Available-for-sale financial assets (including $37,246 thousand measured at cost)	252,783		
At amortized cost		Amortized cost (including cash and cash equivalents, notes receivables, accounts receivables, other financial assets and other receivables)	4,573,704
Loans and receivables (including cash and cash equivalents, notes receivables, accounts receivables, other financial assets and other receivables)	4,573,704		
Total	$4,857,300	Total	$4,861,580

(c) The transition adjustments from IAS 39 to IFRS 9 for the classifications of financial assets and financial liabilities as at January 1, 2018 are as follows:

IAS 39		IFRS 9				
Class of financial instruments	Carrying Amount	Class of financial instruments	Carrying Amount	Difference	Retained Earnings Adjustment	Other components of equity Adjustment
Financial assets at fair value through profit or loss						
Held-for-trading	$30,813	Measured at fair value through profit or loss	$30,813			
Available-for-sale financial assets (including investments measured at cost with initial investment cost of $37,246 thousand, reported as a separate line item) (Note 1)	$252,783	Measured at fair value through other comprehensive income (equity instruments)	257,063	$4,280	$262,820	($258,540)
Subtotal	283,596					

IAS 39		IFRS 9				
Class of financial instruments	Carrying Amount	Class of financial instruments	Carrying Amount	Difference	Retained Earnings Adjustment	Other components of equity Adjustment
Loan and receivable (Note 2)						
Cash and cash equivalents (exclude cash on hand)	$1,293,963	Cash and cash equivalents (exclude cash on hand)	1,293,963			
Other financial assets	510,960	Other financial assets	510,960			
Notes receivables	11,950	Notes receivables	11,950			
Accounts receivables	2,563,482	Accounts receivables	2,563,482			
Other receivables	100,965	Other receivables	100,965			
Long-term accounts receivable-affiliates	92,384	Long-term accounts receivable-affiliates	92,384			
Subtotal	4,573,704					
Total	$4,857,300	Total	$4,861,580		$262,820	($258,540)

Note :

(1) In accordance with of IAS 39, the Group's available-for-sale financial assets included investments in funds, stocks and bonds of listed companies and stocks of unlisted companies. Adjustment details are described as follows:

Stocks (including listed and unlisted companies)

The Group assessed the facts and circumstances existed as of January 1, 2018, and determined these stocks were not held-for-trading; therefore, the Group elected to designate them as financial assets measured at fair value through other comprehensive income. As of January 1, 2018, the Group reclassified available-for-sale financial assets (including measured at cost) to financial assets measured at fair value through other comprehensive income of $252,783 thousand. Other related adjustments are described as follows:

(a) The stocks of unlisted companies previously measured at cost in accordance with IAS 39 had an original cost of $300,066 thousand. In accordance with IFRS 9, stocks of unlisted companies must be measured at fair value. The fair value of the stocks of unlisted companies was $41,526 thousand as of January 1, 2018. Accordingly, the Group adjusted the carrying amount of financial assets measured at fair value through other comprehensive income of $41,526 thousand and also adjusted the retained earning and other equity by increasing $262,820 thousand and decreasing $258,540 thousand, respectively.

(b) As of January 1, 2018, the Group reclassified the stocks of unlisted companies of $215,537 thousand measured at fair value from available-for-sale financial assets to financial assets measured at fair value through other comprehensive income. This adjustment did not result in any differences in the carrying amounts of assets, but reclassified within equity accounts.

(2) In accordance with IAS 39, the cash flow characteristics for loans and receivables are solely payments of principal and interest on the principal amount outstanding. The assessment of the business model is based on the facts and circumstances that existed as of January 1, 2018. These financial assets were measured at amortized cost as they were held within a business model whose objective was to hold financial assets in order to collect contractual cash flows. Besides, in accordance with IFRS 9, there was no adjustment arised from the assessment of impairment losses for the aforementioned assets as of January 1, 2018. Therefore, there is no impact on the carrying amount as of January 1, 2018.

(d) Please refer to Note 4, Note 5, Note 6 and Note 12 for the related disclosures required by IFRS
7 and IFRS 9.

(2) Standards or interpretations issued, revised or amended, by International Accounting Standards Board "IASB" which are endorsed by FSC, but not yet adopted by the Group as at the end of the reporting period are listed below:

Items	New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB
a	IFRS 16 "Leases"	January 1, 2019
b	IFRIC 23 "Uncertainty Over Income Tax Treatments"	January 1, 2019
c	IAS 28 "Investment in Associates and Joint Ventures" — Amendments to IAS 28	January 1, 2019
d	Prepayment Features with Negative Compensation (Amendments to IFRS 9)	January 1, 2019
e	Improvements to International Financial Reporting Standards (2015-2017 cycle)	January 1, 2019
f	Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	January 1, 2019

(a) IFRS 16"Leases"

The new standard requires lessees to account for all leases under one single accounting model (except for short-term or low-value asset lease exemptions), which is for lessees to recognize right-of-use assets and lease liabilities on the balance sheet and the depreciation expense and interest expense associated with those leases in the consolidated statements of comprehensive income. Besides, lessors' classification remains unchanged as operating or finance leases, but additional disclosure information is required.

(b) IFRIC 23 "Uncertainty Over Income Tax Treatments"

The Interpretation clarifies application of recognition and measurement requirements in IAS 12 "Income Taxes" when there is uncertainty over income tax treatments.

(c) IAS 28"Investment in Associates and Joint Ventures" –Amendment to IAS 28

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture before it applies IAS 28, and in applying IFRS 9, does not take account of any adjustments that arise from applying IAS 28.

(d) Prepayment Features with Negative Compensation (Amendments to IFRS 9)

The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract, to be measured at amortized cost or at fair value through other comprehensive income.

(e) Improvements to International Financial Reporting Standards (2015-2017 cycle): IFRS 3 "Business Combinations"

The amendments clarify that an entity that has joint control of a joint operation shall remeasure its previously held interest in a joint operation when it obtains control of the business.

IFRS 11"Joint Arrangements"
The amendments clarify that an entity that participates in, but does not have joint control of, a joint operation does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

IAS 12 "Income Taxes"
The amendments clarify that an entity shall recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

IAS 23"Borrowing Costs"
The amendments clarify that an entity should treats as part of general borrowings any borrowing made specifically to obtain an asset when the asset is ready for its intended use or sale.

(f) Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

The amendments clarify that when a change in a defined benefit plan is made (such as amendment, curtailment or settlement, etc.), the entity should use the updated assumptions to remeasure its net defined benefit liability or asset.

The abovementioned standards and interpretations issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after January 1, 2019. Apart from item (a) explained below ,the remaining standards and interpretations have no material impact on the Group.

(1) IFRS 16 “Leases”

IFRS 16 “Leases” replaces 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”. The impact arising from the adoption of IFRS 16 on the Group are summarized as follows:

A. For the definition of a lease, the Group elects not to reassess whether a contract is, or contains, a lease at the date of initial application (January 1, 2019) in accordance with the transition provision in IFRS 16. Instead, the Group is permitted to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 but not to apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.
The Group is a lessee and elects not to restate comparative information in accordance with the transition provision in IFRS 16. Instead, the Group recognizes the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

(a) Leases classified as operating leases
For leases that were classified as operating leases applying IAS 17, the Group expects to measure and recognize those leases as lease liability on January 1, 2019 at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate on January 1, 2019 and; the Group chooses, on a lease-by-lease basis, to measure the right-of-use asset at an amount equal to the lease liability. The lease liability adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet immediately before January 1, 2019.
The Group expects the right-of-use asset will increase by $238,764 thousand and the lease liability will increase by $238,764 thousand on January 1, 2019.

(b) Leases classified as finance leases
For leases that were classified as finance leases applying IAS 17, the Group expects to reclassify the lease asset of $25,845 thousand and the lease payable of $2,610 thousand as measured by IAS 17 to the right-of-use asset of $25,845 thousand and the lease liability of $2,610 thousand, respectively, on January 1, 2019.

B. The additional disclosures of lessee and lessor required by IFRS 16 will be disclosed in the relevant notes.

(3)Standards or interpretations issued, revised or amended, by IASB but not yet endorsed by FSC at the date of issuance of the Group's financial statements are listed below:

Items	New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB
a	IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" — Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures	To be determined by IASB
b	IFRS 17 "Insurance Contracts"	January 1, 2021
c	Definition of a Business (Amendments to IFRS 3)	January 1, 2020
d	Definition of Material (Amendments to IAS 1 and 8)	January 1, 2020

(a) IFRS 10"Consolidated Financial Statements" and IAS 28"Investments in Associates and Joint Ventures" — Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures

The amendments address the inconsistency between the requirements in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full. IFRS 10 was also amended so that the gains or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors' interests in the associate or joint venture. The effective date of the amendments has been postponed indefinitely, but early adoption is allowed.

(b) IFRS 17 "Insurance Contracts"

IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects (including recognition, measurement, presentation and disclosure requirements). The core of IFRS 17 is the General (building block) Model, under this model, on initial recognition, an entity shall measure a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. The fulfilment cash flows comprise of the following:

(1) estimates of future cash flows;
(2) Discount rate: an adjustment to reflect the time value of money and the financial risks related to the future
cash flows, to the extent that the financial risks are not included in the estimates of the future cash flows; and a risk adjustment for non-financial risk.

The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims. Other than the General Model, the standard also provides a specific adaptation for contracts with direct participation features (the Variable Fee Approach) and a simplified approach (Premium Allocation Approach) mainly for short-duration contracts.

(c) Definition of a Business (Amendments to IFRS 3)

The amendments clarify the definition of a business in IFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.
IFRS 3 continues to adopt a market participant's perspective to determine whether an acquired set of activities and assets is a business. The amendments clarify the minimum requirements for a business; add guidance to help entities assess whether an acquired process is substantive; and narrow the definitions of a business and of outputs; etc.

(d) Definition of a Material (Amendments to IAS 1 and 8)

The main amendment is to clarify new definition of material. It states that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The abovementioned standards and interpretations issued by IASB have not yet endorsed by FSC at the date when the Group's financial statements were authorized for issue, the local effective dates are to be determined by FSC. All other standards and interpretations have no material impact on the Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance

The consolidated financial statements of the Group for the years ended December 31 2018 and 2017 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers ("the Regulations") and International Financial Reporting Standards (IFRS), International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee which are endorsed by Financial Supervisory Commission of the Republic of China.

(2) Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value. The consolidated financial statements are expressed in thousands of New Taiwan Dollars ("NT$") unless otherwise stated.

(3) Basis of consolidation

Preparation principle of consolidated financial statement

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

(a) power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)

(b) exposure, or rights, to variable returns from its involvement with the investee, and

(c) the ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee

(b) rights arising from other contractual arrangements

(c) the Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Subsidiaries are fully consolidated from the acquisition date, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using uniform accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Total comprehensive income of the subsidiaries is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

If the Group loses control of a subsidiary, it:

(a) derecognizes the assets (including goodwill) and liabilities of the subsidiary;
(b) derecognizes the carrying amount of any non-controlling interest;
(c) recognizes the fair value of the consideration received;
(d) recognizes the fair value of any investment retained;
(e) recognizes any surplus or deficit in profit or loss; and
(f) reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

A. <u>The consolidated entities are listed as follows:</u>

			Percentage of ownership		Remarks
Investor	Name of subsidiaries	Business nature	December 31, 2018	December 31, 2017	
The Company	Orient Semiconductor Electronics Philippines, Inc. (OSE PHILIPPINES , INC. ; OSEP)	Manufacture and export of integrated circuits and computers	99.99%	99.99%	1. As at December 31, 2018, the Company owned 93.67% and OSE B.V.I. owned 6.33% of the shares of OSEP, which represented the aggregate a 99.99% ownership of OSEP. 2. OSEP ceased its operation in fourth quarter of 2011.
The Company	OSE INTERNATIONAL, LTD. (OSE B.V.I.)	Investments of various manufacturing businesses	100.00%	100.00%	－
The Company	OSE USA, INC. (OSEU)	Investments of various manufacturing businesses	100.00%	100.00%	OSEA merged with OSEU on February 14, 2006 and assumed OSEU's assets, liabilities and preferred stocks. OSEA changed its name as OSE USA, Inc. after the merger.

Investor	Name of subsidiaries	Business nature	Percentage of ownership		Remarks
			December 31, 2018	December 31, 2017	
The Company	COREPLUS (HK) LIMITED (COREPLUS)	Manufacture of electronics product	100.00%	100.00%	—
COREPLUS (HK) LIMITED (COREPLUS)	VALUE–PLUS TECHNOLOGY (SUZHOU) CO. (VALUE–PLUS (SUZHOU))	Manufacture of electronics product	100.00%	100.00%	—

B. The financial statements of part of the consolidated subsidiaries listed above had not been reviewed by auditors. As of December 31, 2018 and 2017, the related assets of the subsidiaries which were unaudited by auditors amount to $767,296 thousand and $768,667 thousand respectively, and the related liabilities amount to $642,220 thousand and $611,225 thousand, respectively. The comprehensive income of these subsidiaries amount to ($36,611) thousand and ($113,804) thousand for the years ended December 31, 2018 and 2017, respectively.

(4) Foreign currency transactions

The Group's consolidated financial statements are presented in NT$, which is also the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

(a) Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.

(b) Foreign currency items within the scope of IAS 39 Financial Instruments: Recognition and Measurement are accounted for based on the accounting policy for financial instruments.

(c) Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

(5) Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into NT$ at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized.The following partial disposals are accounted for as disposals:
Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

(6) Current and non-current distinction

An asset is classified as current when:
(a) The Group expects to realize the asset, or intends to sell or consume it, in its normal operating cycle.
(b) The Group holds the asset primarily for the purpose of trading.
(c) The Group expects to realize the asset within twelve months after the reporting period.
(d) The asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:
(a) The Group expects to settle the liability in its normal operating cycle.
(b) The Group holds the liability primarily for the purpose of trading.
(c) The liability is due to be settled within twelve months after the reporting period.
(d) The Group 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 the issue of equity instruments do not affect its classification.

(7) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term, highly liquid time deposits (including ones that have maturity within three months) or investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(8) Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument.
Financial assets and financial liabilities within the scope of IFRS 9 Financial Instruments (Before January 1, 2018: IAS 39 Financial Instruments: Recognition and Measurement) are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

A. Financial instruments: Recognition and Measurement

<u>The accounting policy from January 1, 2018 as follow:</u>

The Group accounts for regular way purchase or sales of financial assets on the trade date.

The Group classified financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss considering both factors below:

(a) the Group’s business model for managing the financial assets and

(b) the contractual cash flow characteristics of the financial asset.

<u>Financial assets measured at amortized cost</u>

A financial asset is measured at amortized cost if both of the following conditions are met and presented as note receivables, trade receivables financial assets measured at amortized cost and other receivables etc., on balance sheet as at the reporting date:

(a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets are subsequently measured at amortized cost (the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and adjusted for any loss allowance) and is not part of a hedging relationship. A gain or loss is recognized in profit or loss when the financial asset is derecognized, through the amortization process or in order to recognize the impairment gains or losses.

Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

(a) purchased or originated credit-impaired financial assets. For those financial assets, the Groupapplies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.

(b) financial assets that are not purchased or originated credit-impaired financial assets butsubsequently have become credit-impaired financial assets. For those financial assets, the Group applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

<u>Financial asset measured at fair value through other comprehensive income</u>

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

(a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Recognition of gain or loss on a financial asset measured at fair value through other comprehensive income are described as below:

(a)A gain or loss on a financial asset measured at fair value through other comprehensive income recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.

(b)When the financial asset is derecognized the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.

(c)Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

i. Purchased or originated credit-impaired financial assets. For those financial assets, the Group applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.

ii. Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Group applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

Besides, at initial recognition, the Company makes an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss (when disposal of such equity instrument, its cumulated amount included in other components of equity is transferred directly to the retained earnings) and should be recorded as financial assets measured at fair value through other comprehensive income on balance sheet. Dividends on such investment are recognized in profit or loss unless the dividends clearly represents a recovery of part of the cost of investment.

Financial asset measured at fair value through profit or loss

Financial assets were measured at amortized cost or measured at fair value through other comprehensive income only if they met particular conditions. All other financial assets were measure at fair value through profit or loss and presented on the balance sheet as financial assets measured at fair value through profit or loss and trade receivables.

The accounting policy before January 1, 2018 as follow:

The Group accounts for regular way purchase or sales of financial assets on the trade date.

Financial assets of the Group are classified as financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables. The Group determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated as at fair value through profit or loss. A financial asset is classified as held for trading if:

(a) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;

(b) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
(c) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial asset at fair value through profit or loss; or a financial asset may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:
(a) it eliminates or significantly reduces a measurement or recognition inconsistency; or
(b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

Financial assets at fair value through profit or loss are measured at fair value with changes in fair value recognized in profit or loss. Dividends or interests on financial assets at fair value through profit or loss are recognized in profit or loss (including those received during the period of initial investment).

If financial assets do not have quoted prices in an active market and their far value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

Available-for-sale financial assets

Available-for-sale investments are non-derivative financial assets that are designated as available-for-sale or those not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, or loans and receivables.

Foreign exchange gains and losses and interest calculated using the effective interest method relating to monetary available-for-sale financial assets, or dividends on an available-for-sale equity instrument, are recognized in profit or loss. Subsequent measurement of available-for-sale financial assets at fair value is recognized in equity until the investment is derecognized, at which time the cumulative gain or loss is recognized in profit or loss.

If equity instrument investments do not have quoted prices in an active market and their far value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold it to maturity, other than those that are designated as available-for-sale, classified as financial assets at fair value through profit or loss, or meet the definition of loans and receivables.

After initial measurement held-to-maturity financial assets are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group upon initial recognition designates as available for sale, classified as at fair value through profit or loss, or those for which the holder may not recover substantially all of its initial investment.

Loans and receivables are separately presented on the balance sheet as receivables or debt instrument investments for which no active market exists. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

B. Impairment of financial assets

The accounting policy from January 1, 2018 as follow:

The Group recognizes a loss allowance for expected credit losses on debt instrument investments measured at fair value through other comprehensive income and financial asset measured at amortized cost. The loss allowance on debt instrument investments measured at fair value through other comprehensive income is recognized in other comprehensive income and not reduce the carrying amount in the statement of financial position.

The Group measures expected credit losses of a financial instrument in a way that reflects:

(a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

(b) the time value of money; and

(c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The loss allowance is measures as follow:

(a) At an amount equal to 12-month expected credit losses: the credit risk on a financial asset has not increased significantly since initial recognition or the financial asset is determined to have low credit risk at the reporting date. In addition, the Group measures the loss allowance at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that the credit risk on a financial asset has increased significantly since initial recognition is no longer met.

(b) At an amount equal to the lifetime expected credit losses: the credit risk on a financial asset has increased significantly since initial recognition or financial asset that is purchased or originated credit-impaired financial asset.

(c) For trade receivables or contract assets arising from transactions within the scope of IFRS 15, the Group measures the loss allowance at an amount equal to lifetime expected credit losses.

At each reporting date, the Group needs to assess whether the credit risk on a financial asset has increased significantly since initial recognition by comparing the risk of a default occurring at the reporting date and the risk of default occurring at initial recognition. Please refer to Note 12 for further details on credit risk.

The accounting policy before January 1, 2018 as follow:

The Group assesses at each reporting date whether there is any objective evidence that a financial asset other than the financial assets at fair value through profit or loss is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset. The carrying amount of the financial asset impaired, other than receivables impaired which are reduced through the use of an allowance account, is reduced directly and the amount of the loss is recognized in profit or loss.

A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is considered a loss event.

Other loss events include:

(a) significant financial difficulty of the issuer or obligor; or
(b) a breach of contract, such as a default or delinquency in interest or principal payments; or
(c) it becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
(d) the disappearance of an active market for that financial asset because of financial difficulties.

For held-to-maturity financial assets and loans and receivables measured at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial asset that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exits for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. Interest income is accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.
Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

In the case of equity investments classified as available-for-sale, where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss – is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recognized in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

C. Derecognition of financial assets

A financial asset is derecognized when:

(a) The rights to receive cash flows from the asset have expired.
(b) The Group has transferred the asset and substantially all the risks and rewards of the asset have been transferred.
(c) The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received or receivable including any cumulative gain or loss that had been recognized in other comprehensive income, is recognized in profit or loss.

D. Financial liabilities

Classification between liabilities or equity

The Group classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

Financial liabilities

Financial liabilities within the scope of IAS 39 Financial Instruments: Recognition and Measurement are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. A financial liability is classified as held for trading if:

(a) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;

(b) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
(c) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial liability at fair value through profit or loss; or a financial liability may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

(a) it eliminates or significantly reduces a measurement or recognition inconsistency; or
(b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

Gains or losses on the subsequent measurement of liabilities at fair value through profit or loss including interest paid are recognized in profit or loss.

Before January 1, 2018, if the financial liabilities at fair value through profit or loss do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial liabilities measured at cost on balance sheet and carried at cost as at the reporting date.

Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include interest bearing loans and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified (whether or not attributable to the financial difficulty of the debtor), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

D. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(9) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

(a) In the principal market for the asset or liability, or
(b) In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.
The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

(10) Inventories

Inventories are valued at the lower of cost and net realizable value item by item.

Cost incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials – Purchase cost on an average basis.

Finished goods and work in progress – Cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs, on a average basis.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Starting from January 1, 2018, rendering of services is accounted in accordance with IFRS 15 and not within the scope of inventories.

(11)Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction that is highly probable within one year from the date of classification and the asset or disposal group is available for immediate sale in its present condition. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

In the consolidated statement of comprehensive income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the statement of comprehensive income.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortized.

(12)Investment accounted for using the equity method

The Group's investment in its associate is accounted for using the equity method other than those that meet the criteria to be classified as held for sale. An associate is an entity over which the Group has significant influence. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture.

Under the equity method, the investment in the associate or an investment in a joint venture is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associate or joint venture. After the interest in the associate or joint venture is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the Group's related interest in the associate or joint venture.

When changes in the net assets of an associate or a joint venture occur and not those that are recognized in profit or loss or other comprehensive income and do not affects the Group's percentage of ownership interests in the associate or joint venture, the Group recognizes such changes in equity based on its percentage of ownership interests. The resulting capital surplus recognized will be reclassified to profit or loss at the time of disposing the associate or joint venture on a prorata basis.

When the associate or joint venture issues new stock, and the Group's interest in an associate or a joint venture is reduced or increased as the Group fails to acquire shares newly issued in the associate or joint venture proportionately to its original ownership interest, the increase or decrease in the interest in the associate or joint venture is recognized in Additional Paid in Capital and Investment accounted for using the equity method. When the interest in the associate or joint venture is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the Group disposes the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or an investment in a joint venture is impaired in accordance with IAS 28 Investments in Associates and Joint Ventures (before January 1, 2018: IAS 39 Financial Instruments: Recognition and Measurement). If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount in the 'share of profit or loss of an associate' in the statement of comprehensive income in accordance with IAS 36 Impairment of Assets. In determining the value in use of the investment, the Group estimates:

(a) Its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment; or
(b) The present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Because goodwill that forms part of the carrying amount of an investment in an associate or an investment in a joint venture is not separately recognized, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36 Impairment of Assets.

Upon loss of significant influence over the associate or joint venture, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss. Furthermore, if an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not remeasure the retained interest.

(13)Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. 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 is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognized such parts as individual assets with specific useful lives and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 Property, plant and equipment. When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Buildings	10～50 years
Machinery and equipment	7～15 years
Transportation equipment	5 years
Office equipment	5 years
Leased assets	7～15 years
Leasehold improvements	5～15 years
Other equipment	5 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in profit or loss.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

(14)Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are measured using the cost model in accordance with the requirements of IAS 16 for that model, other than those that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition.

Properties are transferred to or from investment properties when the properties meet, or cease to meet, the definition of investment property and there is evidence of the change in use.

(15)Leases

Group as a lessee

Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Sale and leaseback

The company sold and portion machinery and equipment and leased back. When sale and leaseback determined as finance lease, the company (the lessor and lessee) deferred the amount exceed book value in the leasehold period.

(16)Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognisedas an intangible asset when the Group can demonstrate:

(a) The technical feasibility of completing the intangible asset so that it will be available for use or sale
(b) Its intention to complete and its ability to use or sell the asset
(c) How the asset will generate future economic benefits
(d) The availability of resources to complete the asset
(e) The ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit.

A summary of the policies applied to the Group's intangible assets is as follows:

	Cost of computer software
Useful lives	1～3 years
Amortization method used	Amortized on a straight-line basis
Internally generated or acquired	Acquired

(17)Impairment of non-financial assets

The Group assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 Impairment of Assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.
An impairment loss of continuing operations or a reversal of such impairment loss is recognized in profit or loss.

(18) Revenue recognition

<u>The accounting policy from January 1, 2018 as follow:</u>

The Group's revenue arising from contracts with customers are primarily related to sale of goods and rendering of services. The accounting policies are explained as follow:

<u>Sale of goods</u>

The Group manufactures and sells machinery. Sales are recognized when control of the goods is transferred to the customer and the goods are delivered to the customers. The main products of the

Group are integrated circuits, semiconductor devices and computer motherboards, etc and revenue is recognized based on the consideration stated in the contract. For certain sales of goods transactions, they are usually accompanied by volume discounts (based on the accumulated total sales amount for a specified period). Therefore, revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts.

Products manufactured according to customer's agreed specifications if the customer controls the product at the time of creation or enhancement of the product, the Group will gradually recognize revenue over time.

The Group provides its customer with a warranty with the purchase of the products. The warranty provides assurance that the product will operate as expected by the customers. And the warranty is accounted in accordance with IAS 37.

The credit period of the Group 's sale of goods is from 30 to 150 days. For most of the contracts, when the Group transfers the goods to customers and has a right to an amount of consideration that is unconditional, these contracts are recognized as trade receivables. The Group usually collects the payments shortly after transfer of goods to customers; therefore, there is no significant financing component to the contract. For some of the contracts, the Group has transferred the goods to customers but does not has a right to an amount of consideration that is unconditional, these contacts should be presented as contract assets. Besides, in accordance with IFRS 9, the Group measures the loss allowance for a contract asset at an amount equal to the lifetime expected credit losses. However, for some contracts, part of the consideration was received from customers upon signing the contract, then the Group has the obligation to transfer the goods to customers subsequently; accordingly, these amounts are recognized as contract liabilities.

Rendering of services

Revenue is recognized when the Group finishes the processing services.

The accounting policy before January 1, 2018 as follow:

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods

Revenue from the sale of goods is recognized when all the following conditions have been satisfied:

(a) the significant risks and rewards of ownership of the goods have passed to the buyer;
(b) neither continuing managerial involvement nor effective control over the goods sold have been retained;

(c) the amount of revenue can be measured reliably;
(d) it is probable that the economic benefits associated with the transaction will flow to the entity; and
(e) the costs incurred in respect of the transaction can be measured reliably

Dividends

Revenue is recognized when the Group's right to receive the payment is established.

Rendering of services

Revenue is recognized when the Group finishes the processing services.

(19)Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(20)Post-employment benefits

All regular employees of the Company and its domestic subsidiaries are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account and hence, not associated with the Company and its domestic subsidiaries. Therefore fund assets are not included in the Group's consolidated financial statements. Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.
For the defined contribution plan, the Company and its domestic subsidiaries will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due. Overseas subsidiaries and branches make contribution to the plan based on the requirements of local regulations.

Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions. Re-measurements, comprising of the effect of the actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets, excluding net interest, are recognized as other comprehensive income with a corresponding debit or credit to retained earnings in the period in which they occur. Past service costs are recognized in profit or loss on the earlier of:

(a) the date of the plan amendment or curtailment, and

(b) the date that the Group recognizes restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payment.

(21)Income taxes

Income tax expense (income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

The income tax for undistributed earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved by the Shareholders' meeting.

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

(a) Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
(b) In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

(a) Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

(b) In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(22)Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred, the identifiable assets acquired and liabilities assumed are measured at acquisition date fair value. For each business combination, the acquirer measures any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are accounted for as expenses in the periods in which the costs are incurred and are classified under administrative expenses.

When the Group acquires a business, it assesses the assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at the acquisition-date fair value. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with IAS 39 Financial Instruments: Recognition and Measurement either in profit or loss or as a change to other comprehensive income. However, if the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured as the amount of the excess of the aggregate of the consideration transferred and the non-controlling interest over the net fair value of the identifiable assets acquired and the liabilities assumed. If this aggregate is lower than the fair value of the net assets acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purpose and is not larger than an operating segment before aggregation.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation. Goodwill disposed of in this circumstance is measured based on the relative recoverable amounts of the operation disposed of and the portion of the cash-generating unit retained.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements require management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumption and estimate could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Revenue recognition

The Group based on trading patterns and whether the economic substance were expose to the sale of goods or services related to the significant risks and rewards, to determine whether the Group should be classified as the principal of the transaction or agent. When expose to the sale of goods or services related to the significant risks and rewards, the principal of the transaction should recognize the total receivables or received economic benefit as revenue; if determine as the agent, recognize the net transaction as revenue.

The Group provides electronic manufacturing services and integrated circuit packaging and testing manufacturing services, determined as to conform to the following indicators; it is recognized as total revenue collected:
(a) has the primary responsibility to the provision of goods or services provided
(b) assumed inventory risk
(c) assumed customer's credit risk

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below

(1) Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including income approach (for example the discounted cash flows model) or market approach. Changes in assumptions about these factors could affect the reported fair value of the financial instruments. Please refer to Note 12 for more details.

(2) Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date less incremental costs that would be directly attributable to the disposal of the asset or cash generating unit. The value in use calculation is based on a discounted cash flow model. The cash flows projections are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

(3) Pension benefits

The cost of post-employment benefit and the present value of the pension obligation under defined benefit pension plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate and future salary increases. Please refer to Note 6 more details.

(4) Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile.

Deferred tax assets are recognized for all carryforward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies.

(5) Accounts receivables—estimation of impairment loss

Starting from January 1, 2018:

The Group estimates the impairment loss of accounts receivables at an amount equal to lifetime expected credit losses. The credit loss is the present value of the difference between the contractual cash flows that are due under the contract (carrying amount) and the cash flows that expects to receive (evaluate forward looking information). However, as the impact from the discounting of short-term receivables is not material, the credit loss is measured by the undiscounted cash flows. Where the actual future cash flows are lower than expected, a material impairment loss may arise. Please refer to

Note 6 for more details.

Before January 1, 2018:

The Group considers the estimation of future cash flows when there is objective evidence showing indications of impairment. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. However, as the impact from the discounting of short-term receivables is not material, the impairment of short-term receivables is measured as the difference between the asset's carrying amount and the estimated undiscounted future cash flows. Where the actual future cash flows are lower than expected, a material impairment loss may arise. Please refer to Note 6 for more details.

(6) Inventories

Estimates of net realisable value of inventories take into consideration that inventories may be damaged, become wholly or partially obsolete, or their selling prices have declined. The estimates are based on the most reliable evidence available at the time the estimates are made. Please refer to Note 6.(5) for more details.

6. CONTENTS OF SIGNIFICANT ACCOUNTS

(1) CASH AND CASH EQUIVALENTS

	Dec. 31 , 2018	Dec. 31 , 2017
Cash on hand	$226	$284
Demand deposits	762,085	1,293,963
Total	$762,311	$1,294,247

(2) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS－CURRENT

	Dec. 31 , 2018	Dec. 31 , 2017 (Note)
Financial assets designated at fair value through profit or loss:		
Non-derivative financial assets-stocks	–	

	Dec. 31 , 2018 (Note)	Dec. 31 , 2017
Non-derivative financial assets		
Stocks		$30,813

(Note) : The Group adopted IFRS 9 since January 1, 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Financial assets at fair value through profit or loss were not pledged.

(3) NOTES RECEIVABLES

	Dec. 31 , 2018	Dec. 31 , 2017
Notes receivables	$10,510	$11,950
Less : loss allowance	(－)	(－)
Total	$10,510	$11,950

Notes receivables were not pledged.

The Group adopted IFRS 9 for impairment assessment since January 1, 2018. Please refer to Note 6 for more details on accumulated impairment. Please refer to Note 12 for more details on credit risk.

(4) ACCOUNTS RECEIVABLES AND ACCOUNTS RECEIVABLES－AFFILIATES

(a) Details are as follows:

	Dec. 31 , 2018	Dec. 31 , 2017
Accounts receivables	$2,177,906	$2,329,115
Add : Pledged accounts receivable	224,523	—
Less : loss allowance	(17,329)	(2,987)
Subtotal	2,385,100	2,326,128
Accounts receivables -affiliates	695,348	237,740
Less : loss allowance	(1,200)	(386)
Subtotal	694,148	237,354
Total	$3,079,248	$2,563,482

Please refer to Note 8 for the more details on part of accounts receivables under pledge.

(b) Accounts receivables are generally on 30-150 day terms. The Group adopted IFRS 9 for impairment assessment since January 1, 2018. Please refer to Note 6 for more details on impairment of accounts receivables. The Group adopted IAS 39 for impairment assessment before January 1, 2018. The movements in the provision for impairment of accounts receivables and accounts receivables-affiliates for the years ended December 31, 2017 are as follows: (Please refer to Note 12 for more details on credit risk management.)

	Individually impaired	Collectively impaired	Total
As of Jan. 1 , 2017	－	$5,237	$5,237

	Individually impaired	Collectively impaired	Total
Charge/(reversal) for the current period	—	(996)	(996)
Effect of exchange rate	—	—	—
Other changes		(868)	(868)
As of Dec. 31 , 2017	—	$3,373	$3,373

Aging analysis of accounts receivables and accounts receivables-affiliate, net:

		Past due but not impaired			
	Neither past due nor impaired	61-90 days	91-120 days	>=121 days	Total
Dec. 31 , 2017	$2,561,208	$881	$387	$1,006	$2,563,482

(c) The Group signed loan agreements with the following banks and used its accounts receivable as securities for the loans. Certain of the Group's accounts receivable were under pledge to the banks. The details of the loan agreements are as follows:

Dec. 31, 2018

Bank	Contract period	Banking facility	Loan amount	Factored amount
Far Eastern Bank	August 20, 2018 ~ August 20, 2019	NTD 135,000	NTD 135,000	NTD 224,523

Dec. 31, 2017

Bank	Contract period	Banking facility	Loan amount	Factored amount
Far Eastern Bank	July 6, 2017 ~ July 6, 2018	NTD 135,000	—	—

(5) INVENTORIES

(a) Details are as follows:

	Dec. 31 ,2018	Dec. 31 ,2017
Raw materials	$1,280,124	$936,991
Supplies	102,425	86,849
Work in progress	130,325	242,917
Finished goods	54,595	161,135

Total	$1,567,469	$1,427,892

(b)

	Dec. 31 ,2018	Dec. 31 ,2017
Cost of inventories sold	$14,606,096	$13,661,340
Loss on an realizable value and obsolescence of inventories	—	21,342
Loss(Gain) in inventory write-off	48,841	21,502
Inventory loss	1,118	492
Cost of Goods Sold	$14,656,055	$13,704,676

(c) As of December 31, 2018 and 2017, inventories were insured for $12,372,050 thousand and $10,734,816 thousand, respectively.

(d) No inventories were pledged.

(6) FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME-NON CURRENT

	Dec. 31, 2018	Dec. 31, 2017
Equity instrument investments measured at fair value through other comprehensive income-Non-current：		
Unlisted companies stocks	$234,878	

(Note)：The Group adopted IFRS 9 since January 1, 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

The Group classified certain of its financial assets as financial assets at fair value through other comprehensive income. Financial assets at fair value through other comprehensive income were not pledged.

(7) AVAILABLE-FOR-SALE FINANCIAL ASSETS— NON CURRENT

(a) Details are as follows:

	Dec. 31, 2018(Note)	Dec. 31, 2017
Unlisted stocks		$40,482
Less：Unrealized gains and losses		175,055
Total		$215,537

(b) Stock details are as follows:

Investee Company	Type of stock	Dec. 31, 2018(Note)	Dec. 31, 2017
ACTIONTEC	Common stock		$102,023
ACTIONTEC	Preferred stock		113,514
Total			$215,537

(Note)：The Group adopted IFRS 9 since January 1, 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

(8) FINANCIAL ASSETS MEASURED AT COST –NON CURRENT

(a) Available-for-Sale Financial Assets

	Dec. 31 , 2018(Note1)	Dec. 31 , 2017
STRATEDGE		$1,323
SPINERGY		—
GOLFWARE, INC.		—
Foreign stocks		4,557
SPARQTRON CORP. (Note)		31,366
		$37,246

(Note): The Group lost significant influence since October 2017, therefore, recognized the investment for financial assets measured at cost. Please refer to Note 6.(9) for more detail.

(Note1)：The Group adopted IFRS 9 since January 1, 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

(b) The Group adopted IAS 39 before January 1, 2018.The above investments in the equity instruments of unlisted entities are measured at cost as the fair value of these investments are not reliably measurable due to the fact that the variability in the range of reasonable fair value measurements is significant for that investment and that the probabilities of the various estimates within the range cannot be reasonably assessed and used when measuring fair value.

No financial assets measured at cost were pledged.

(9) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(a) The group investments accounted for using the equity method are as follows:

Investee Company	Type of stock	Dec. 31, 2018 Amount	Dec. 31, 2018 Ownership	Dec. 31, 2017 Amount	Dec. 31, 2017 Ownership
Investments in associates:					
OSE PROPERTIES, INC.	Common stock	－	39.99%	－	39.99%
ATP ELECTRONICS, TAIWAN INC.	Common stock	$449,790	18.31%	$414,213	18.31%
INFOFAB, INC.	Common stock	8,288	13.52%	5,074	14.85%
SCS HIGHTECH INC.	Common stock	－	18.17%	－	18.17%
SPARQTRON CORP. (Note)	Common stock	－	－	－	－
Total		$458,078		$419,287	

(Note)：The Group lost significant influence since October 2017, therefore, recognized the investment for financial assets measured at cost. Please refer to Note 6.(9) for more detail.

(b) In September 2006, shares of the investee company ATP were exchanged with ATP TAIWAN so that the Company would hold 15.13% ownership of ATP TAIWAN after the exchange. The Group had purchased 1,929 thousand shares of treasury stocks. So the Group held 18.31% ownership of ATP TAIWAN as of December 31, 2018.

(c) SCS HIGHTECH INC. was written off as losses in 2004, and the company was rescinded based on the approval granted by Science Park Bureau on March 8, 2007 by Doc No.0960006126.

(d) In March 2017, the Group lost control of the investee company SPARQTRON, but still has significant influence. Therefore, the investment accounted for using the equity method. In October 2017, the Group had not been the director of SPARQTRON and lost significant influence. Therefore, the investment accounted for financial assets measured at cost, and the Group recognized the investment by fair value. When losing significant influence, the amount of difference between book value and fair value plus selling price was $872 thousand and classfied under loss on disposal of investments.

(e) Part of the shares in long-term equity investments has been pledged to the banks as securities for bank loans granted to the Group. Please refer to Note 8 for the more details.

(f) The Group's investments by using the equity method are not published price quotations.

(g) The investment gain (loss) recognized under the equity method for 2018 and 2017 are $68,497 thousand and $45,524 thousand. The investment other comprehensive (loss) gain recognized under the equity method for 2018 and 2017 are $0 and ($233) thousand.

(h) The following table lists the investments accounted for using the equity method of the Group:

	Dec. 31, 2018	Dec. 31, 2017
Total assets (100%)	$3,932,454	$3,032,959
Total liabilities (100%)	$1,796,670	$1,112,327

	For the years ended December 31	
	2018	2017
Revenue (100%)	$5,348,674	$3,869,411
Profit (100%)	$367,342	$247,259

(10) PROPERTY, PLANT AND EQUIPMENT

(a)

	Land and land Improvements	Buildings	Machinery and equipment	Transportation equipment	Office equipment	Rental assets	Leased assets	Leasehold improvements	Other equipment	Construction in progress and equipment awaiting examination	Total
Cost:											
As of Jan.1, 2018	—	$6,951,055	$15,716,783	$5,216	$67,024	$279,342	$158,211	—	$368,331	$17,108	$23,563,070
Additions	—	—	3,692	—	105	—	—	—	3,178	408,298	415,273
Disposals	—	(14,399)	(165,357)	(717)	(129)	—	—	—	(947)	—	(181,549)
Transfers	—	52,997	764,269	—	—	—	(124,350)	—	11,377	(281,187)	423,106
Exchange differences	—	—	3,933	(53)	158	—	—	—	(395)	(22)	3,621
As of Dec. 31, 2018	—	$6,989,653	$16,323,320	$4,446	$67,158	$279,342	$33,861	—	$381,544	$144,197	$24,223,521
Depreciation and impairment:											
As of Jan.1, 2018	—	$4,125,549	$11,250,823	$3,914	$63,913	$125,518	$51,565	—	$295,122	—	$15,916,404
Depreciation	—	216,703	1,122,583	501	962	6,685	16,189	—	26,321	—	1,389,944
Disposals	—	(14,378)	(130,594)	(717)	(114)	—	—	—	(875)	—	(146,678)
Transfers	—	—	54, 815	—	—	—	(59,738)	—	—	—	(4,923)
Exchange differences	—	—	4,900	(39)	171	—	—	—	(166)	—	4,866
As of Dec. 31, 2018	—	$4,327,874	$12,302,527	$3,659	$64,932	$132,203	$8,016	—	$320,402	—	$17,159,613

	Land and land Improvements	Buildings	Machinery and equipment	Transportation equipment	Office equipment	Rental assets	Leased assets	Leasehold improvements	Other equipment	Construction in progress and equipment awaiting examination	Total
Cost:											
As of Jan. 1, 2017	$35,856	$7,030,483	$18,108,900	$8,945	$97,500	$279,342	$759,230	$19,686	$409,005	$126,561	$26,875,508
Additions	—	1,116	6,837	111	89	—	—	—	2,789	84,658	95,600
Disposals	—	(99,862)	(2,904,217)	(861)	(14,458)	—	—	(4,266)	(47,887)	—	(3,071,551)
Transfers	—	130,540	736,103	50	—	—	(601,019)	—	5,572	(194,111)	77,135
Exchange differences	—	—	(30,993)	(75)	(1,482)	—	—	—	(215)	—	(32,765)
Subsidiaries derecognition effects	(35,856)	(111,222)	(199,847)	(2,954)	(14,625)	—	—	(15,420)	(933)	—	(380,857)
As of Dec. 31, 2017	—	$6,951,055	$15,716,783	$5,216	$67,024	$279,342	$158,211	—	$368,331	$17,108	$23,563,070
Depreciation and impairment:											
As of Jan. 1, 2017	—	$4,011,383	$12,936,991	$5,619	$88,212	$118,833	$212,329	$14,665	$312,515	—	$17,700,547
Depreciation	—	224,885	1,171,930	496	940	6,685	23,040	70	26,980	—	1,455,026
Disposals	—	(99,787)	(2,853,369)	(301)	(14,387)	—	—	(1,226)	(43,685)	—	(3,012,755)
Transfers	—	—	183,804	—	—	—	(183,804)	—	—	—	—
Exchange differences	—	—	(30,724)	(41)	(1,427)	—	—	—	(174)	—	(32,318)
Subsidiaries derecognition effects		(10,932)	(157,809)	(1,859)	(9,425)	—	—	(13,509)	(514)	—	(194,048)
As of Dec. 31, 2017	—	$4,125,549	$11,250,823	$3,914	$63,913	$125,518	$51,565	—	$295,122	—	$15,916,404
Net carrying amount:											
As of Dec. 31, 2018	—	$2,661,779	$4,020,793	$787	$2,226	$147,139	$25,845	—	$61,142	$144,197	$7,063,908
As of Dec. 31, 2017	—	$2,825,506	$4,465,960	$1,302	$3,111	$153,824	$106,646	—	$73,209	$17,108	$7,646,666

(b) Affects both the cash and non-cash items of investing activities：

Item	For the years end December 31	
	2018	2017
Acquisition of property, plant, and equipment expenditure:		
Increase of property, plant and equipment	$838,379	$172,735
Increase of prepayment for equipment	118,667	46,290
(Increase) decrease of payables on equipment	(184,083)	458,411
Cash expenditure	$772,963	$677,436

(c) Details of capitalized borrowing costs are as follows:

Item	For the years ended December 31	
	2018	2017
Prepayments for equipment	$4,308	$2,474
Capitalisation rate of borrowing costs	2.89%～3.78%	2.08%～3.24%

(d) As of December 31, 2018 and 2017, fixed assets were insured for $11,607,638 thousand and $12,689,548 thousand, respectively.

(e) Please refer to Note 8 for more details on property, plant and equipment under pledge.

(11) INVESTMENT PROPERTY

	Buildings
Cost：	
As of Jan.1, 2018	$649,932
Exchange difference	20,515
As of Dec.31, 2018	$670,447
As of Jan.1, 2017	$703,838
Exchange difference	(53,906)
As of Dec.31, 2017	$649,932
Depreciation:	
As of Jan.1, 2018	$155,083
Depreciation	23,819
Impairment losses	4,923
Exchange difference	5,003
As of Dec.31, 2018	$188,828

	Buildings
As of Jan.1, 2017	$63,019
Depreciation	23,993
Impairment losses	75,591
Exchange difference	(7,520)
As of Dec.31, 2017	$155,083
Net carrying amount：	
As of Dec.31, 2018	$481,619
As of Dec.31, 2017	$494,849

No investment properties were pledged.

The fair value of investment property is $503,470 thousand and $494,849 thousand as of December 31, 2018 and December 31, 2017. The fair value has been determined based on valuations performed by an independent appraiser and on transactions observable in the market. The investment property has no rent revenue.

(12) INTANGIBLE ASSETS

(a) As of December 31, 2018 and 2017, the cost of the computer software, original cost, accumulated amortization and amount of amortization in the book of the Group is listed as below:

	Computer software
Cost:	
As of Jan. 1, 2018	$271,625
Addition	63,714
Transfer	—
Other changes	8,035
Exchange differences	—
As of Dec. 31, 2018	$343,374
As of Jan. 1, 2017	$229,771
Addition	26,388
Transfer	15,466
Exchange differences	—
As of Dec. 31, 2017	$271,625
Amortization and impairment:	
As of Jan. 1, 2018	$191,945
Amortization	61,792
Exchange differences	4
As of Dec. 31, 2018	$253,741

	Computer software
As of Jan. 1, 2017	$133,794
Amortization	58,097
Exchange differences	54
As of Dec. 31, 2017	$191,945
Net carrying amount as of:	
Dec. 31, 2018	$89,633
Dec. 31, 2017	$79,680

(b) Amortization expense of intangible assets under the statement of comprehensive income:

	For the years ended December 31	
	2018	2017
Operating costs	$38,371	$34,615
Operating expenses	$23,421	$23,482

(13) PREPAYMENTS

	Dec. 31, 2018	Dec. 31, 2017
Current assets－prepayments		
Prepaid expenses	$46,817	$50,868
Other prepayments	4,631	5,522
Total	$51,448	$56,390
Non-current assets－prepayments for equipment：		
Prepayment for equipment	$180,354	$79,953

(14) LONG-TERM RECEIVABLES-AFFILIATES

(a) Details are as follows:

	Dec. 31, 2018	Dec. 31, 2017
Loan receivable -PROPERTIES	$95,300	$92,384
Less :loss allowance	(－)	(－)
Net	$95,300	$92,384

(b) OSE PHILIPPINES, INC. lent USD 4,387 thousand to OSE PROPERTIES Inc. in July 31, 1996. OSE PROPERTIES Inc. disposed of part of the land and returned USD 1,285 thousand in the first quarter of 2015. The principal was USD 3,102 thousand as of December 31, 2018. The interest rates for the years ended December 31, 2018 and 2017 were both 2.50%. The contract periods were 10 years and may be extended to another 10 years, if necessary.

(15) SHORT-TERM LOANS

(a) Details are as follows:

Items	Dec. 31, 2018	Dec. 31, 2017
L/C	$798,069	$382,699
Unsecured bank loans	1,924,803	1,809,979
Mortgage loan on machine and equipment	83,985	—
Total	$2,806,857	$2,192,678

(b) The ranges of interest rates and the due dates:

	Dec. 31, 2018	Dec. 31, 2017
Ranges of interest rates	1.06%～4.25%	1.14%～3.54%
Due dates	January 14, 2019～ November 30, 2019	January 19, 2018～ December 31, 2018

(c) As of December 31, 2018 and 2017, unused short-term loans were $614,906 thousand and $1,600,591 thousand, respectively.

(d) Please refer to Note 8 for more details on short-term loans.

(16) SHORT-TERM NOTES PAYABLE

(a) Details are as follows:

	Dec. 31, 2018	Dec. 31, 2017
Par value of commercial papers	$350,000	$400,000
Less : Discount for short-term notes payable	(390)	(1,062)
Net	$349,610	$398,938

(b) The ranges of interest rates and the due dates:

	Dec. 31, 2018	Dec. 31, 2017
Ranges of interest rates	1.938%～2.088%	1.65%～1.988%
Due dates	January 3, 2019～ March 7, 2019	January 10, 2018～ November 23, 2018

(17) LONG-TERM LOANS

(a) Details are as follows:

Items	Dec. 31, 2018	Dec. 31, 2017
Mortgage loan	$3,053,515	$3,757,706
Less: Due within one year	(1,340,270)	(1,586,951)
Net	$1,713,245	$2,170,755

(b) The ranges of interest rates and the due dates:

	Dec. 31, 2018	Dec. 31, 2017
Ranges of interest rates	1.80%～4.65%	1.80%～3.38%
Due dates	January 26, 2019～ August 15, 2023	March 1, 2018～ July 28, 2021

(c) Part of property, plant and equipment, and deposits reserved for repayment are pledged as security for the Group's long-term borrowings. Please refer to Note 8 for more details.

(18) LONG-TERM LEASE PAYABLE

(a)The Group has finance leases contracts for various items of machinery. These leases contain purchase options. Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	Dec. 31, 2018		Dec. 31, 2017	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	$2,617	$2,610	$24,835	$24,495
After one year but not more than five years	—	—	69	56
More than five years	—	—	—	—
Total minimum lease payments	2,617	2,610	24,904	24,551
Less : finance charges on finance lease	(7)	—	(353)	—
Present value of minimum lease payments	$2,610	$2,610	$24,551	$24,551
Current		$2,610		$24,495
Non-current		—		$56

(b)The details of future annual rental lease payments are as follow:

Year	Dec. 31, 2018	Dec. 31, 2017
2018	–	$24,835
2019	$2,617	69
	$2,617	$24,904

(19) POST-EMPLOYMENT BENEFITS

(a) Defined contribution plan

The Company and its domestic subsidiaries adopt a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. Under the Labor Pension Act, the Company and its domestic subsidiaries will make monthly contributions of no less than 6% of the employees' monthly wages to the employees' individual pension accounts. The Company and its domestic subsidiaries have made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

Subsidiaries located in the People's Republic of China will contribute social welfare benefits based on a certain percentage of employees' salaries or wages to the employees' individual pension accounts. Pension benefits for employees of overseas subsidiaries and branches are provided in accordance with the local regulations.

Expenses under the defined contribution plan for the years ended December 31, 2018 and 2017 are $102,285 thousand and $98,932 thousand, respectively.

(b) Defined benefits plan

The Company and its domestic subsidiaries adopt a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed 45 units. Under the Labor Standards Act, the Company and its domestic subsidiaries contribute an amount equivalent to 2% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee. Before the end of each year, the Company and its domestic subsidiaries assess the balance in the designated labor pension fund. If the amount is inadequate to pay pensions calculated for workers retiring in the same year, the Company and its domestic subsidiaries will make up the difference in one appropriation before the end of March the following year.

Expenses under the defined benefit obligation for the years ended December 31, 2018 and 2017 are

$59,828 thousand and $56,267 thousand, respectively.

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund. The pension fund is invested in-house or under mandation, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate manager flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury Funds can be used to cover the deficits after the approval of the competent authority. As the Company does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with paragraph 142 of IAS 19. The Group expects to contribute $99,743 thousand to its defined benefit plan during the 12 months beginning after December 31, 2018.

The average duration of the defined benefits plan obligation as at December 31, 2018 and 2017, is the end of the year of 2028 and 2027, respectively.

Pension costs recognized in profit or loss for the years ended December 31, 2018 and 2017:

	For the years ended December 31	
	2018	2017
Current period service costs	$7,814	$8,188
Net interest expense of net defined benefit liability (asset)	7,475	8,936
Expected return on plan assets	—	—
Total	$15,289	$17,124

Changes in the defined benefit obligation and fair value of plan assets are as follows:

	Dec. 31, 2018	Dec. 31, 2017	Jan. 1, 2017
Present value of the defined benefit obligation	$1,019,883	$1,022,458	$1,019,544
Plan assets at fair value	(523,987)	(484,675)	(423,822)
Other non-current liabilities - Accrued pension liabilities recognized on the consolidated balance sheets	$495,896	$537,783	$595,722

Reconciliation of liability (asset) of the defined benefit plan is as follows:

	Present value of the defined benefit obligation	Fair value of plan assets	Net defined benefit liability (asset)
As of Jan. 1, 2017	$1,019,544	($423,822)	$595,722
Current period service costs	8,188	—	8,188
Net interest expense (income)	15,293	(6,357)	8,936
Subtotal	23,481	(6,357)	17,124
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in demographic assumptions	(1,424)	—	(1,424)
Actuarial gains and losses arising from changes in financial assumptions	12,447	—	12,447
Experience adjustments	18,446	—	18,446
Return on plan assets	—	3,087	3,087
Subtotal	29,469	3,087	32,556
Payments from the plan	(50,036)	50,036	—
Contribution by employer	—	(107,619)	(107,619)
As of Dec. 31, 2017	$1,022,458	($484,675)	$537,783
Current period service costs	7,814	—	7,814
Net interest expense (income)	14,213	(6,737)	7,476
Subtotal	22,027	(6,737)	15,290
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in demographic assumptions	2,673	—	2,673
Actuarial gains and losses arising from changes in financial assumptions	38,784	—	38,784
Experience adjustments	12,752	—	12,752
Return on plan assets	—	(11,642)	(11,642)
Subtotal	54,209	(11,642)	42,567
Payments from the plan	(78,811)	78,811	—
Contribution by employer	—	(99,744)	(99,744)
As at Dec. 31, 2018	$1,019,883	($523,987)	$495,896

The following significant actuarial assumptions are used to determine the present value of the defined benefit obligation:

	Dec. 31, 2018	Dec. 31, 2017
Discount rate	1.01%	1.39%
Expected rate of salary increases	1.40%	1.40%

Sensitivity analysis for significant assumption:

	For the years ended December 31			
	2018		2017	
	Increase in defined benefit obligation	Decrease in defined benefit obligation	Increase in defined benefit obligation	Decrease in defined benefit obligation
Discount rate increase by 0.5%	—	$50,647	—	$54,153
Discount rate decrease by 0.5%	$76,629	—	$60,776	—
Future salary increase by 0.5%	$75,851	—	$60,426	—
Future salary decrease by 0.5%	—	$50,699	—	$54,402

The sensitivity analyses above are based on a change in a significant assumption (for example: change in discount rate or future salary), keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another. There was no change in the methods and assumptions used in preparing the sensitivity analyses compared to the previous period.

(20) EQUITY

(a) Common stock

i. The Company had increased capital by cash by $1,800,000 thousand with par value $10 per share and issued price $9.2 on May 30, 2007. The rights and obligations of new shares by private placement are the same as those of common shares. Ownership of shares by private placement cannot be transferred to others within three years since issuance per Security and Exchange regulations.

ii. The board of directors of the Company agreed on June 21, 2011 to increase capital by issuing common stocks for cash in order to repay loan and improve the Company financial structure. A total of 200,000 thousand shares of common stocks, with face value of $10 per share, will be issued for a total of $2,000,000 thousand. Approval has been granted by Financial Supervisory Commission on July 22, 2011 by Doc No. 1000030977. In the event of existing shareholders or employees forfeiting purchasing rights or the event of shortage of subscription of share, the board of directors will authorize the chair of directors to contact a designated person for purchases. As of August 2, 2011, the board of directors agreed stocks will be issued with the issuance price of NTD 6.4 per share with the official issuance date of September 5, 2011. As of September 19, 2011, registration for the issuance of new stocks is complete.

iii. The Board of shareholders' meeting of the Company agreed on June 29, 2018 to reduce capital $2,536,872 thousand for cover accumulated deficits in order to improve the Company's financial structure. The ratio of reduction capital was 31.4742285%, and it was declared effective by

Financial Supervisory Commission on August 8, 2018. The record date for reverse split was at September 30, 2018, and the amendment of registration was completed at October 8, 2018.

iv. As of December 31, 2018, and 2017, the authorized capitals were $20,000,000 thousand. Issued capital were $5,523,285 thousand and 8,060,158 thousand, with 552,328,533 shares and 806,015,782 shares respectively. Each share is at a par value of NT$10.

(b) Additional paid-in capital

	Dec. 31, 2018	Dec. 31, 2017
Form shares of changes in equities of subsidiaries	$5,833	$6,712
The differences between the fair value of consideration paid or received from acquiring or disposing subsidiaries and the carrying amounts of the subsidiaries	16,940	16,940
Share of changes in net assets of associates and joint ventures accounted for using the equity method	(2,669)	(2,232)
Total	$20,104	$21,420

i. According to the Company Act, the capital reserve shall not be used except for making good the deficit of the company. When a company incurs no loss, it may distribute the capital reserves related to the income derived from the issuance of new shares at a premium or income from endowments received by the company. The distribution could be made in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them. Additional paid-in capital arising from long-term equity investment can not be used for any purpose.

ii. According to the prevailing laws and regulations, each year, the amount of capital increase transferred from capital reserve arising from premiums on issuance of capital stock and donations cannot exceed 10% of the Company's total issued capital.

(c) Retained earnings and dividend policies

According to the Company's original Articles of Incorporation, current year's earnings, if any, shall be distributed in the following order:

i. Payment of all taxes and dues;

ii. Offset prior years' operation losses;

iii. Set aside 10% of the remaining amount as legal reserve;

iv. Set aside or reverse special reserve in accordance with the requirements for operating and law and regulations;

v. The remaining balance combined with the undistributed earnings accumulated during previous years shall be distributed to the shareholders as dividends.

The Company shall take into account the changing environment of the industry and development stage of the Company in meeting the needs of capital in the future and in establishing long-term financial planning together with satisfying the shareholders' demand for cash. The earnings

distributed for the current year shall not be lower than 10% of accumulated distributable earnings and shall not be distributed if the accumulated distributable earnings is lower than 1% of contributed capital. Cash dividends distributed shall not be lower than 10% of the dividends distributed.
According to the Company Act, the Company needs to set aside amount to legal reserve unless where such legal reserve amounts to the total authorized capital. The legal reserve can be used to make good the deficit of the Company. When the Company incurs no loss, it may distribute the portion of legal serve which exceeds 25% of the paid-in capital by issuing new shares or by cash in proportion to the number of shares being held by each of the shareholders.

Following the adoption of TIFRS, the FSC on April 6, 2012 issued Order No. Financial-Supervisory-Securities-Corporate-1010012865, which sets out the following provisions for compliance:

On a public company's first-time adoption of the TIFRS, for any unrealized revaluation gains and cumulative translation adjustments (gains) recorded to shareholders' equity that the company elects to transfer to retained earnings by application of the exemption under IFRS 1, the company shall set aside an equal amount of special reserve. Following a company's adoption of the TIFRS for the preparation of its financial reports, when distributing distributable earnings, it shall set aside to special reserve, from the profit/loss of the current period and the undistributed earnings from the previous period, an amount equal to "other net deductions from shareholders' equity for the current fiscal year, provided that if the company has already set aside special reserve according to the requirements in the preceding point, it shall set aside supplemental special reserve based on the difference between the amount already set aside and other net deductions from shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

The Board of shareholders' meeting on March 29, 2019 and June 29, 2018, respectively. The Company still had accumulated deficit. As a result, the Company did not distribute earnings.

Please refer to Note 6.(25) for further details on employees' compensation and remuneration to directors and supervisors.

(d) Non-controlling interests

	For the years ended December 31	
	2018	2017
Beginning balance	—	$192,208
Profit (loss) attributable to non-controlling interests:		
Consolidated net (loss)	—	(1,227)
Actual disposal or acquisition of interest in subsidiaries	—	—
Increase in non-controlling interests	—	3,120

Other comprehensive (loss) income	—	(1,893)
Effect of deconsolidation of Subsidiary	—	(192,208)
Ending balance	—	—

(21) OPERATING REVENUE

The detail are as follow:

	For the years ended December 31	
	2018	2017
Revenue from contracts with customers		
Sale of goods	$14,630,122	$13,280,708
Revenue arising from rendering of services	465,126	364,337
Income on sale of material	92,944	241,267
Total	$15,188,192	$13,886,312

(Note)：The Group has adopted IFRS 15 from January 1, 2018. The Group elected to apply the standard retrospectively by recognizing the cumulative effect of initially applying the standard at the date of initial application (January 1, 2018)

The Group has adopted IFRS 15 from January 1, 2018. Analysis of revenue from contracts with customers during the year is as follows:

(a) Disaggregation of revenue

For the year ended December 31, 2018	Semiconductor Group	EMS Group	Total
Sales of goods	$8,533,978	$6,096,146	$14,630,124
Rendering of Services	465,123	—	465,123
Sales of materials	16,672	76,273	92,945
Total	$9,015,773	$6,172,419	$15,188,192
Timing of revenue recognition:			
At a point in time	$481,795	$6,172,419	$6,654,214
Over time	8,533,978	—	8,533,978
Total	$9,015,773	$6,172,419	$15,188,192

(b) Contract balances

i. Contract assets-current

	Jan. 1, 2018	Dec. 31, 2018	Difference

Sales of goods	$212,604	$425,684	$213,080

As of December 31, 2018, the Group does not have an unconditional right to receive the consideration in the contract of to $425,684 thousand and transferred to accounts receivables at the reporting date.

ii. Contract liabilities-current

	Jan. 1, 2018	Dec. 31, 2018	Difference
Sales of goods	$51,752	$15,821	($35,931)

As of December 31, 2018, $16,583 thousand included in the current contract liability balance at the beginning of the period was recognized as revenue during the period.

iii. Transaction price allocated to unsatisfied performance obligations
None.

iv. Assets recognized from costs to fulfil a contract
None.

(22) Expected credit losses

	For the years ended December 31	
	2018	2017 (Note)
Operating expenses-expected credit losses		
Accounts receivable and contract assets	$15,145	

(Note) : The Group adopted IFRS 9 since January 1, 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Please refer to Note 12 for more details on credit risk.

The Group measures the loss allowance of its contract assets and accounts receivables at an amount equal to lifetime expected credit losses. The assessment of the Group's loss allowance as of December 31, 2018 is as follow:

The Group considers the grouping of contract assets and accounts receivables by counterparties' credit rating, by geographical region and by industry sector and its loss allowance is measured by using a provision matrix, details are as follow:

Semiconductor Group		Overdue					
	Not yet due (Note)	Within 30 days	31-60 days	61-90 days	91-180 days	After 181 days	Total
Gross carrying amount	$2,103,807	$188,799	$13,441	$1,379	$8,172	$4,483	$2,320,081

Loss ratio	0%~0.19%	0%~2.76%	0%~15.21%	0%~50.26%	0.01%~85.63%	100%	
Lifetime expected credit losses	1,847	1,902	1,306	660	6,964	4,483	17,162
Carrying amount of trade receivables	$2,101,960	$186,897	$12,135	$719	$1,208	－	$2,302,919

EMS Group		Overdue					
	Not yet due (Note)	Within 30 days	31-60 days	61-90 days	91-180 days	After 181 days	Total
Gross carrying amount	$1,152,403	$55,746	$1,690	$3,282	$128	$641	$1,213,890
Loss ratio	0%~0.01%	0%~0.13%	0%~10.05%	0%~16.12%	0%~46.39%	100%	
Lifetime expected credit losses	114	65	－	521	26	641	1,367
Carrying amount of trade receivables	$1,152,289	$55,681	$1,690	$2,761	$102	－	$1,212,523

The movement in the provision for impairment of contract assets and accounts receivables during the years ended December 31, 2018 is as follows:

	Accounts receivable and contract assets
Beginning balance (in accordance with IAS 39)	$3,373
Transition adjustment to retained earnings	－
Beginning balance (in accordance with IFRS 9)	3,373
Addition for the current period	15,145
Exchange differences	11
Ending balance	$18,529

(23) LEASES

Operating lease commitments – Group as lessee

(a) Rental Agreement

The Company has entered into a series of land rental agreements with the government which will expire between January 31, 2020 and April 30, 2025. The Company could apply for lease renewal three months prior to the expiry date. If the Company fails to do so, the land shall be returned to the government and the building on the land shall be sold to another approved exporting enterprise within six months after the expiry date. If the Company fails to complete all the above-mentioned procedures within the prescribed six months, the government has the right to dispose the property on the land on the behalf of the Company. The government has the right to adjust the rent based on the publicly announced land value. The government also has the right to terminate the contract if the Company breaches the contract or fails to pay the rent over four months or violates the civil law or the land law.

The Group has signed non-cancellable operating leases. There are no restrictions placed upon the Group by entering into these leases. Future minimum rentals payable as of December 31, 2018 and 2017 are as follows:

	Dec. 31, 2018	Dec. 31, 2017
Within one year	$13,135	$10,375
After one year but not more than five years	35,425	22,380
More than five years	26,139	9,665
Total	$74,699	$42,420

(b) Recognized as an expense：

During December 31, 2018 and, 2017 the rental expenses were both $13,135.

(24) AMORTIZATION EXPENSE AND OPERATING LEASE EXPENSES IN THE STATEMENT OF COMPREHENSIVE INCOME

	For the years ended December 31	
	2018	2017
Included in operating costs :		
Amortization expense of intangible assets	$38,371	$34,615
Minimum lease payments recognized as operating lease expenses	$29,638	$30,011
Included in operating expenses：		
Amortization expense of intangible assets	$23,421	$23,482
Minimum lease payments recognized as operating lease expenses	$14,375	$13,219

(25) SUMMARY STATEMENTS OF EMPLOYEE BENEFITS, DEPRECIATION AND AMORTIZATION EXPENSES BY FUNCTION

	For the years ended December 31					
	2018			2017		
	Operating costs	Operating expenses	Total amount	Operating costs	Operating expenses	Total amount
Employee benefits expense						
Salaries	$2,296,555	$380,040	$2,676,595	$2,171,967	$378,170	$2,550,137
Pension	$136,089	$26,024	$162,113	$130,872	$24,327	$155,199

Labor and health insurance	$259,697	$42,581	$302,282	$240,871	$38,796	$279,667
Other employee benefits expense	$152,534	$50,582	$203,116	$257,317	$48,127	$305,444
Depreciation	$1,353,914	$61,069	$1,414,983	$1,417,877	$65,493	$1,483,370
Amortization	$38,371	$23,421	$61,792	$34,615	$23,482	$58,097

According to the resolution, the employee's compensation and remuneration to directors and supervisors is based on the current year's earnings, which should be used first to cover accumulated deficit, if any, and then the remaining balance shall be distributed: 8%~12% as employees' compensation, and no more than 3% as remuneration to directors and supervisors.

The distribution ratio of employee's compensation and remuneration to directors and supervisors and employee's compensation may be made in the form of stocks or cash, which shall be determined by a resolution adopted by a majority vote at a board of directors meeting attended by two-thirds or more of the directors and be reported at a shareholders' meeting. Cash or stock dividends as bonus to employees shall only be given to employees who satisfy certain conditions.

As of December 31, 2018, the Company still had accumulated deficit. As a result the Company's expected amounts of Employees' bonuses and rewards for Directors and Supervisors for the years ended December 31, 2018 was $0.

The estimated employee bonuses and remuneration to directors and supervisors for the years ended December 31, 2017 were based on post-tax net income of the period and the Company's Articles of Incorporation, and considered factors such as appropriation to legal reserve etc. The estimated employee bonuses and remuneration to directors and supervisors for the years ended December 31, 2017 are recognized as employee benefits expense for the period. If the Board modified the estimates significantly in the subsequent periods, the Company will recognize the change as an adjustment to current income. The difference between the estimation and the resolution of shareholders' meeting will be recognized in profit or loss of the subsequent year. The number of stocks distributed as employee bonuses was calculated based on the closing price one day earlier than the date of shareholders' meeting and considered the impacts of ex-right/ex-dividend. As of years ended December 31, 2017, the Company still had accumulated deficit. As a result the Company's expected amounts of Employees' bonuses and rewards for Directors and Supervisors for the years ended December 31, 2017 was $0.

As of December 31, 2018 and 2017, the total number of employees of the Group were 7,251 and 6,496, respectively.

Information on the Board of Directors' resolution regarding the employees' compensation and remuneration to directors and supervisors can be obtained from the "Market Observation Post System" on the website of the TWSE.

(26) NON-OPERATING INCOME AND EXPENSES

(a) Other income

	For the years ended December 31	
	2018	2017

Rental income	$25,167	$24,701
Interest income	8,754	6,794
Dividend income	—	3,677
Other income	40,325	87,671
Total	$74,246	$122,843

(b) Other gains and losses

	For the years ended December 31	
	2018	2017
Gains on disposal of property, plant and equipment	$6,187	$21,865
Losses on disposal of investments	—	(872)
Foreign exchange gains (losses), net	14,222	(54,547)
Gains on financial assets at fair value through profit or loss	7,371	53,198
Losses on impairment of non-financial assets	—	(75,591)
Other losses	(1,010)	(485)
Total	$26,770	($56,432)

(c) Finance costs

	For the years ended December 31	
	2018	2017
Interest on borrowings from bank	($125,034)	($134,919)
Interest on borrowings from others	(952)	(4,168)
Total	($125,986)	($139,087)

(27) COMPONENTS OF OTHER COMPREHENSIVE INCOME

For the year ended Dec. 31, 2018

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Items that will not be reclassified subsequently to profit or loss:					
Remeasurements of defined benefit plans	($42,568)	—	($42,568)	$10,708	($31,860)
Unrealized gains (losses) from equity instruments investment measured at fair value through other comprehensive					
Items that may be reclassified	(22,810)	—	(22,810)	(1,982)	(24,108)

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
subsequently to profit or loss:					
Exchange differences arising on translating of foreign operation	17,469	—	17,469	(7,408)	10,061
Total of other comprehensive income	($47,279)	—	($47,279)	$1,372	($45,907)

For the year ended Dec. 31, 2017

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Items that will not be reclassified subsequently to profit or loss:					
Remeasurements of defined benefit plans	($32,557)	—	($32,557)	$5,535	($27,022)
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translating of foreign operation	(51,640)	—	(51,640)	8,457	(43,183)
Unrealized gain from available-for-sale financial assets	(50,453)	—	(50,453)	8,577	(41,876)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(233)	—	(233)	—	(233)
Total of other comprehensive income	($134,883)	—	($134,883)	$22,569	($112,314)

(28) INCOME TAX

(a) The major components of income tax expense (income) are as follows:

i. Income tax expense (income) recognized in profit or loss

	For the years ended December 31	
	2018	2017
Current income tax benefit (expense):		
Current income tax charge	($7,306)	($17,706)

Adjustments in respect of current income tax of prior periods	280	—
Deferred tax income (expense):		
Deferred tax (expense) relating to origination and reversal of temporary differences	(80,207)	(90,176)
Deferred tax income (expense) relating to origination and reversal of tax loss and tax credit	85,235	143,678
Deferred tax income relating to change in tax rate	253,144	—
Others	(158)	925
Total income tax benefit (expense)	$250,988	$36,721

ii. Income tax relating to components of other comprehensive income

	For the years ended December 31	
	2018	2017
Deferred tax income:		
Remeasurements of defined benefit plans	$8,514	$5,535
Unrealized (gains) losses from equity instruments investments measured at fair value through other comprehensive income	3,324	—
Exchange differences on translation of foreign operations	(3,494)	8,457
Unrealized gain from available-for-sale financial assets	—	8,577
Deferred tax income relating to change in tax rate	(6,972)	—
Total other comprehensive income, net of tax	$1,372	$22,569

(b) Reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rates is as follows:

	For the years ended December 31	
	2018	2017
Accounting (loss) before tax from continuing operations	($362,536)	($751,525)
At parent company statutory income tax rate	72,507	$127,759
Effect of different tax rates applicable to OSE and its subsidiaries	(5,889)	(13,974)
Tax effect of revenues exempt from taxation	3,833	3,371
Tax effect of deferred tax assets/liabilities	(70,267)	(82,966)
Other adjustment due to taxation	(2,472)	4,554
Adjustments in respect of current income tax of prior periods	280	—
Deferred tax income relating to change in tax rate	253,144	—

Exchange adjustments	(148)	(2,023)
Total income tax benefit recognized in profit or loss	$250,988	$36,721

(c) Deferred tax assets (liabilities) relate to the following:

For the year ended December 31, 2018

	Beginning balance as of Jan. 1, 2018	Deferred tax income (expense) recognized in profit or loss	Deferred tax income (expense) recognized in other comprehensive income	Exchange adjustments	Ending balance as of Dec. 31, 2018
Temporary differences					
Unrealized exchange gains and losses	$1,220	($3,172)	—	—	($1,952)
Loss on inventory obsolescence	39,298	10,476	—	—	49,774
Investments accounted for using the equity method	995,821	151,324	($7,408)	—	1,139,737
Unrealized (gains) losses from financial assests measured at fair value through other comprehensive income	(29,760)	—	(1,928)	—	(31,688)
Unrealized intragroup profits and losses	56	(56)	—	—	—
Impairment of assets	1,793	317	—	—	2,110
Non-current liability – Defined benefit Liability	91,424	(2,952)	10,708	—	99,180
Compensated absences	5,859	(1,208)	—	—	4,651
Other	43,152	(25,223)	—	—	17,929
Unused tax losses	246,116	128,667	—	—	374,783

	Beginning balance as of Jan. 1, 2018	Deferred tax income (expense) recognized in profit or loss	Deferred tax income (expense) recognized in other comprehensive income	Exchange adjustments	Ending balance as of Dec. 31, 2018
Deferred tax (expense)/income		$258,173	$1,372	—	
Net deferred tax assets/(liabilities)	$1,394,979				$1,654,524
Reflected in balance sheet as follows:					
Deferred tax assets	$1,424,739				$1,688,163
Deferred tax liabilities	$29,760				$33,639

For the year ended December 31, 2017

	Beginning balance as of Jan. 1, 2017	Deferred tax income (expense) recognized in profit or loss	Deferred tax income (expense) recognized in other comprehensive income	Exchange adjustments	Ending balance as of Dec. 31, 2017
Temporary differences					
Unrealized exchange gains and losses	$1,242	($22)	—	—	$1,220
Loss on inventory obsolescence	35,615	3,683	—	—	39,298
Investments accounted for using the equity method	1,015,997	(28,633)	$8,457	—	995,821
Unrealized gains and losses on available-for-sale financial assets	(38,337)	—	8,577	—	(29,760)
Unrealized intragroup profits and losses	443	(387)	—	—	56
Impairment of assets	1,793	—	—	—	1,793
Bad debts	50,124	(50,124)	—	—	—
Non-current liability – Defined benefit Liability	101,273	(15,384)	5,535	—	91,424
Compensated absences	4,708	1,151	—	—	5,859
Other	43,612	(460)	—	—	43,152
Unused tax losses	102,438	143,678	—	—	246,116

	Beginning balance as of Jan. 1, 2017	Deferred tax income (expense) recognized in profit or loss	Deferred tax income (expense) recognized in other comprehensive income	Exchange adjustments	Ending balance as of Dec. 31, 2017
Deferred tax (expense)/income		$53,502	$22,569	–	
Net deferred tax assets/(liabilities)	$1,318,908				$1,394,979
Reflected in balance sheet as follows:					
Deferred tax assets	$1,357,245				$1,424,739
Deferred tax liabilities	$38,337				$29,760

(d) The following table contains information of the unused tax losses of the Group:

Year	Tax losses for the period	Unused tax losses as of Dec. 31, 2017	Unused tax losses as of Dec. 31, 2016	Expiration year	Note
2009	$377,207	$305,367	$377,207	2019	Assessed
2011	$155,641	155,641	155,641	2021	Assessed
2013	$52,387	52,387	52,387	2023	Assessed
2017	$862,507	862,507	862,507	2027	Non-assessed
2018	$498,015	498,015	–	2028	Non-assessed
	Total	$1,873,917	$1,447,742		

(e) Unrecognized deferred tax assets

As of December 31, 2018 and 2017, deferred tax assets that have not been recognized as they may not be used to offest taxable profits both amount to $0.

(f) The assessment of income tax returns

As of December 31, 2018, the assessment of the income tax returns of the Company is as follows:

	The assessment of income tax returns
The Company	Assessed and approved up to 2016

(29) EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible bonds payable) by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The weighted average number of shares outstanding used for the earnings per share computation was adjusted retrospectively for the capital reduction implemented to offset accumulated deficits, the earnings per share adjusted for the proposed retrospective adjustment are as below :

Basic earnings per share :

	For the years ended December 31	
	2018	2017
Basic (losses) per share		
(Loss) attributable to ordinary equity holders of the Company (in thousand NT$)	($111,548)	($713,577)
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	552,329	552,329
Basic (losses) per share (NT$)	($0.20)	($1.29)

The Board of shareholders' meeting of the company agreed on June 29, 2018 to issue restricted stocks for employees, and it is unimplemented before the release of the financial statements.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date the financial statements were authorized for issue.

(30) RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

For the year ended December 31, 2018:

	January 1, 2018	Cash Flows	Foreign exchange	Others	December 31, 2018
Short-term loans	$2,192,678	$613,297	$1,059	($177)	$2,806,857
Long-term loans	$3,757,706	($707,191)	$6,670	($3,670)	$3,053,515
Lease Payable	$24,551	($21,941)	—	—	$2,610
Guarantee deposits	$3,574	($52)	—	—	$3,522
Short-term notes payable	$398,938	($49,328)	—	—	$349,610

For the year ended December 31, 2017:

Not applicable.

(31) INFORMATION OF SUBSIDIARY DERECOGNITION

On August 23, 2016 the Company sold 12,350,000 shares of SPARQTRON to Diamond Creative Holding Limited, reducing its shareholding ratio to 9.96%. As at December 31,2016, despite holding less than 50% of the voting rights, the Company determined that it still had control over SPARQTRON. From the beginning of investment in SPAQTRON, the Company has been the single largest shareholder of SPAQTRON. The Company and its related parties jointly hold more than 50% ownership. Therefore, the Company is capable of leading decision-making activities at shareholders' meetings and exercising substantial control. During the three-month period ended 31 March 2017, the Company lost majority interest because of the change of the related parties. As a result, the Company lost control of SPAQTRON in March, 2017. Though, the Company and the related parties jointly hold less than 50% of shareholding rights, but remained the board members. The Company still has material influence and recognized the investments using the equity method.

In March 2017, the Company lost control of the investee company SPARQTRON, but still has significant influence. Therefore, the investment accounted for using the equity method. In October 2017, the Company had not been the director of SPARQTRON and lost significant influence. Therefore, the investment accounted for financial assets measured at cost, and the Company recognized the investment by fair value. When losing significant influence, the amount of difference between book value and fair value plus selling price was $872 thousand and classfied under loss on disposal of investments.

(a)Analysis of assets and liabilities of lost control

		Book Value
Current asset		
	Cash and cash equivalents	$98,513
	Accounts receivables	31,380
	Inventories	41,670
	Other current asset	50,077
		Book Value
Non-Current asset		
	Property, plant and equipment	186,809
	Financial assets measured at cost	3,037
	Investment	2,259
	Other non-current asset	7,891
Current liability		
	Short-term loans	(22,575)
	Accounts payable	(38,302)
	Long-term loans due within one year	(9,677)
	Other current liability	(17,163)
Non-current liability		

Long-term loans		(110,655)
Total net assets		$223,264

(b) Gain on subsidiary derecognition

Fair value of the investment		$31,056
Less:Book value of the investment		
Net assets of derecognition	223,264	
Non-controlling interests	(192,208)	
		31,056
Gain on subsidiary derecognition		—

(c) Cashflow of subsidiary derecognition

Cash and cash equivalents of derecognition	$98,513

7. RELATED PARTY TRANSACTIONS

Information of the related parties that had transactions with the Group during the financial reporting period is as follows:

Name and nature of relationship of the related parties

Name of the related parties	Nature of relationship of the related parties
ATP Electronics Taiwan Inc.(ATP)	Associate
INFOFAB, INC.(INFOFAB)	Associate
OSE PROPERTIES, INC.(PROPERTIES)	Associate
Phison Electronics Corporation(PHISON)	Legal Director of the Company
Longsys Electronics (TAIWAN) Co.,Ltd.(LONGSYS)	Legal Director of the Company
Longsys Electronics (HK) Co., Ltd. (LONGSYS)	Associate of Legal Director of the Company
Chin-Hsing Investment Co., Ltd.(Chin-Hsing)	Substantive related party
YUANJEN INVESTMENT CO., LTD.(YUANJEN)	Substantive related party
ACTIONTEC ELECTRONICS,INC.(ACTIONTEC)	Other related party
InfoAction Technology,Inc.(InfoAction)	Other related party
SPARQTRON CORP. (SPARQTRON)	Associate (No longer listed as a related party in the fourth quarter in 2017)
DIAMOND DIGITAL CORPORATION(DIAMOND)	Other related party (No longer listed as a related

party in the fourth quarter in 2017)

(1)Significant transactions with related parties:

(a) Sales

	For the years ended December 31	
	2018	2017
Associates	$187,869	$150,681
PHISON	1,521,906	1,043,413
LONGSYS	946,231	611,187
Other related party	7	62,072
Total	$2,656,013	$1,867,353

The sales price to the above related parties was determined through mutual agreement based on the market rates. The details of credit period are 30～60 days. The outstanding balance at December 31, 2018 and 2017 was unsecured, non-interest bearing and must be settled in cash. The receivables from the related parties were not guaranteed.

(b) Purchase

	For the years ended December 31	
	2018	2017
ATP	$892	—
SPARQTRON	—	$9,622
InfoAction	3,799	4,792
Total	$4,691	$14,414

The purchase price to the above related parties was determined through mutual agreement based on the market rates. The payment terms from the related party suppliers are comparable with third party suppliers.

(c) Accounts Receivable

	Dec. 31, 2018	Dec. 31, 2017
ATP	$45,024	$31,621
PHISON	343,356	85,529
LONGSYS	306,961	120,590
Other related party	7	—
Less : loss allowance	(1,200)	(386)

Net	$694,148	$237,354

(d) Other Receivable

	Dec. 31, 2018	Dec. 31, 2017
Associates	$1,773	$1,082
Key management personnel of the Group	79	—
LONGSYS	6,389	1,450
PROPERTIES	46,288	42,563
Other related party	238	—
Net	$54,767	$45,095

(e) Accounts Payable

	Dec. 31, 2018	Dec. 31, 2017
INFOFAB (Note)	$48,889	$18,437
Key management personnel of the Group	50	10
Other related party	271	—
Net	$49,210	$18,447

(Note): The payments are the purchase of computer software and information system maintenance.

(f) Transaction of properties

For the years ended December 31, 2018 :

Counterparty	Property	Amount	Gain (loss) on sales of assets	The basis of transaction price
Purchase				
INFOFAB	Other equipment	$3,595	Not applicable	Negotiate
INFOFAB	Computer software	51,168	Not applicable	Negotiate
	Total	$54,763		

Counterparties	Property	Unreduced balance	Sale price	Gain (loss) on sales of assets	The Reference of Trading Price
Sales					
LONGSYS	Machinery and equipment	$1,448	$3,364	$1,916	Negotiate

For the years ended December 31, 2017 :

Counterparty	Property	Amount	Gain (loss) on sales of assets	The basis of transaction price
Purchase				
INFOFAB	Buildings	$713	Not applicable	Negotiate
INFOFAB	Other equipment	5,017	Not applicable	Negotiate
INFOFAB	Computer software	21,013	Not applicable	Negotiate
	Total	$26,743		

Counterparty	Property	Unreduced balance	Amount	Gain (loss) on sales of assets	The basis of transaction price
Sales					
DIAMOND	Machinery and equipment	$43,523	$55,751	$12,228	Negotiate
DIAMOND	Transportation equipment	559	559	－	Negotiate
DIAMOND	Leasehold improvements	3,040	3,040	－	Negotiate
DIAMOND	Other equipment	4,190	10,687	6,497	Negotiate
	Total	$51,312	$70,037	$18,725	

(g) Intercompany borrowing

Related parties	Dec. 31, 2018 Maximum amount	Amount	Interest rates	Interest income (expense)
Amount lent to: (included in long-term receivables-affiliates accounts)				
PROPERTIES	$95,300 (USD3,102 thousand)	$95,300 (USD3,102 thousand)	2.50%	$2,336

Related parties	Dec. 31, 2017 Maximum amount	Amount	Interest rates	Interest income (expense)

Amount lent to: (included in long-term receivables-affiliates accounts)				
PROPERTIES	$92,384 (USD3,102 thousand)	$92,384 (USD3,102 thousand)	2.50%	$2,374
Amount borrowed from: (included in other payable-affiliates accounts)				
Other related parties	$245,000	–	–	–

(h) Compensation of key management personnel

	For the years ended December 31	
	2018	2017
Short-term employee benefits	$38,044	$38,362
Post-employment benefits	661	720
Total	$38,705	$39,082

For details of total compensation paid to the Company's key management personnel, please refer to the annual report for the Company.

(i) Other disclosures

i. As of December 31, 2018 and 2017, interest receivables from PROPERTIES amounted to $46,288 thousand and $42,563 thousand, respectively, which were included in other receivable-affiliates accounts.

ii. PROPERTIES had borrowed USD$3,102 thousand from subsidiary and provided all of real estates to trust as the mortgage for financing bank.

iii. As of December 31, 2018 and 2018, the Group paid $71,306 thousand and $7,605 thousand, $36,507 thousand and $2,416 thousand service fees to maintain information system of INFO, respectively, which are accounted for as maintenance expenses. As of December 31, 2018 and 2017 the unpaid maintenance expenses amounted to $48,889 thousand and $17,069 thousand, respectively, which were recorded under accounts payable – affiliates-account.

iv. The rental incomes from Associates for machinery and equipment and furniture and fixtures are as follows：

	For the years ended December 31	
	2018	2017
ATP	$4,258	$4,258
INFOFAB	2,940	2,940
Other related parties	42	42
Total	$7,240	$7,240

8. ASSETS PLEDGED AS SECURITY

The following table lists assets of the Group pledged as security:

Assets pledged for security	Carrying amount Dec. 31, 2018	Carrying amount Dec. 31, 2017	Secured liabilities details
Accounts Receivable–Short-term	$224,523	—	Short-term borrowings
Other financial assets–current–time deposits	107,944	$389,832	Short and long-term borrowings
Other financial assets–current–deposits reserved for repayment	135,671	121,128	Short and long-term borrowings
Investments accounted for using the equity method –ATP	389,474	358,667	Short-term borrowings
Property, plant and equipment–Building and equipment	890,776	919,768	Short and long-term borrowings
Property, plant and equipment–Machinery and equipment	2,623,647	3,013,675	Short and long-term borrowings
Property, plant and equipment–Leased assets	25,845	106,646	Short and long-term borrowings
Property, plant and equipment–Assets leased to others Buildings	145,777		Long-term borrowings
Refundable deposits-time deposits	163,704	182,572	Customs export Guarantee or others
Total	$4,707,361	$5,092,288	

9.COMMITMENTS AND CONTINGENCIES

(1) Guarantee given by the bank for the payment of input tax imposed for sales from a tax free zone to non-tax free zone amounted to $400,000 thousand.

(2) The Company issued promissory notes of $8,705,692 thousand as guarantees for bank loans.

(3) The Company issued promissory notes of $33,119 thousand as guarantee for finance lease.

(4) The Company issued promissory notes of $10,570 thousand as guarantee for project.

(5) The Company has acted as a subcontractor for processing electronic products and provided storage services for outsiders. As of December 31, 2018, the Company kept the processed electronic products of $11,812,301 thousand and raw materials of $512,595 thousand on custodian.

(6) As of December 31, 2018, the Company had opened an unused letter of credit amounting to JPY 261,637 thousand and USD 132 thousand.

10. LOSSES DUE TO MAJOR DISASTERS

None.

11. SIGNIFICANT SUBSEQUENT EVENTS

None.

12. FINANCIAL INSTRUMENTS

(1) Categories of financial instruments

Financial assets	Dec. 31, 2018	Dec. 31, 2017

Designated at fair value through profit or loss at initial recognition	—	$30,813
Financial assets at fair value through other comprehensive income	$234,878	(Note 1)
Available-for-sale financial assets –Non current (including financial assets measured at cost in balance sheet) (Note 2)	(Note 1)	252,783
Financial assets measured at amortized cost:		
Cash and cash equivalents (exclude cash on hand)	762,085	1,293,963
Notes, accounts and other receivable	3,189,369	2,676,397
Long-term receivables-Affiliates	95,300	92,384
Subtotal	4,046,754	4,062,744
Total	$4,281,632	$4,346,340

Financial liabilities	Dec. 31, 2018	Dec. 31, 2017
Financial liabilities at amortized cost:		
Short-term borrowings	$2,806,857	$2,192,678
Short-term notes payable	349,610	398,938
Notes, accounts and other payable	4,398,185	3,940,831
Long-term loans (including of current portion)	3,053,515	3,757,706
Lease payable (including of current portion)	2,610	24,551
Total	$10,610,777	$10,314,704

(Note1): The Group adopted IFRS 9 since January 1, 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

(Note2): Balances as at December 31, 2017 including financial assets measured at cost.

(2) Financial risk management objectives and policies

The Group's principal financial risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activates. The Group identifies measures and manages the aforementioned risks based on the Group's policy and risk appetite.

The Group has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant transactions, due approval process by the Board of Directors and Audit Committee must be carried out based on related protocols and internal control procedures. The Group complies with its financial risk management policies at all times.

(3) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market prices comprise currency risk, interest rate risk and other price risk (such as equity risk).

In practice, it is rarely the case that a single risk variable will change independently from other risk variable, there is usually interdependencies between risk variables. However the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

Foreign currency risk

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense are denominated in a different currency from the Group's functional currency) and the Group's net investments in foreign subsidiaries.

The Group has certain foreign currency receivables to be denominated in the same foreign currency with certain foreign currency payables, therefore natural hedge is received. The Group also uses forward contracts to hedge the foreign currency risk on certain items denominated in foreign currencies. Hedge accounting is not applied as they did not qualify for hedge accounting criteria. Furthermore, as net investments in foreign subsidiaries are for strategic purposes, they are not hedged by the Group.

The foreign currency sensitivity analysis of the possible change in foreign exchange rates on the Group's profit is performed on significant monetary items denominated in foreign currencies as at the end of the reporting period. The Group's foreign currency risk is mainly related to the volatility in the exchange rates for foreign currency USD and foreign currency JPY.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's loans and receivables at variable interest rates, bank borrowings with fixed interest rates and variable interest rates.

The Group manages its interest rate risk by having a balanced portfolio of fixed and variable loans and borrowings and entering into interest rate swaps. Hedge accounting does not apply to these swaps as they do not qualify for it.

Equity price risk

The Group's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group's listed equity securities are classified under held for trading financial assets or available-for-sale financial assets, while unlisted equity securities are classified as available-for-sale. The Group manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of Directors reviews and approves all equity investment decisions.

Risks of pre-tax Sensitivity analysis are as follows:

For the years ended December 31, 2018

Key risk	Variation	Sensitivity of profit and loss
Foreign currency risk	NTD/USD Foreign currency +/− 1%	+/− 8,462 thousand
	NTD/JPY Foreign currency +/− 1%	−/+ 855 thousand
Interest rate risk	Market rate +/− 10 fundamental proposition	+/− 5,860 thousand
Equity price risk	Market price +/− 10 fundamental proposition	+/− 2,349 thousand

For the years ended December 31, 2017

Key risk	Variation	Sensitivity of profit and loss
Foreign currency risk	NTD/USD Foreign currency +/− 1%	+/− 17,047 thousand
	NTD/JPY Foreign currency +/− 1%	−/+ 78 thousand
Interest rate risk	Market rate +/− 10 fundamental proposition	+/− 5,950 thousand
Equity price risk	Market price +/− 10 fundamental proposition	+/− 2,836 thousand

Please refer to Note 12.(7) for sensitivity analysis information of other equity instruments or derivatives that are linked to such equity instruments whose fair value measurement is categorized under Level 3.

(4) Credit risk management

Credit risk is the risk that a counterparty will not meet its obligations under a contract, leading to a financial loss. The Group is exposed to credit risk from operating activities (primarily for accounts receivables and notes receivables) and from its financing activities, including bank deposits and other financial instruments.

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit limits are established for all customers based on their financial position, rating from credit rating agencies, historical experience, prevailing economic condition and the Group's internal rating criteria etc. Certain customer's credit risk will also be managed by taking credit enhancing procedures, such as requesting for prepayment or insurance.

As of December 31, 2018 and 2017, amounts receivables from top ten customers represent 84.88%

and 72.36% of the total accounts receivables of the Group, respectively. The credit concentration risk of other accounts receivables is insignificant.

Credit risk from balances with banks, fixed income securities and other financial instruments is managed by the Group's treasury in accordance with the Group's policy. The Group only transacts with counterparties approved by the internal control procedures, which are banks and financial institutions, companies and government entities with good credit rating and with no significant default risk. Consequently, there is no significant credit risk for these counter parties.

(5) Liquidity risk management

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents, highly liquid equity investments, bank borrowings, convertible bonds and finance leases. The table below summarizes the maturity profile of the Group's financial liabilities based on the contractual undiscounted payments and contractual maturity. The payment amount includes the contractual interest. The undiscounted payment relating to borrowings with variable interest rates is extrapolated based on the estimated interest rate yield curve as of the end of the reporting period.

Non-derivative financial instruments

	Less than 1 year	2 to 3 years	4 to 5 years	> 5 years	Total
As of Dec. 31, 2018					
Borrowings	$4,153,483	$1,650,614	$62,631	—	$5,866,728
Short-term notes payable	$349,610	—	—	—	$349,610
Lease payable	$2,617	—	—	—	$2,617
As of Dec. 31, 2017					
Borrowings	$3,781,483	$2,010,755	$160,000	—	$5,952,238
Short-term notes payable	$398,938	—	—	—	$398,938
Lease payable	$24,835	$69	—	—	$24,904

(6) Fair values of financial instruments

(a) The methods and assumptions applied in determining the fair value of financial instruments:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used by the Group to measure or disclose the fair values of financial assets and financial liabilities:

i. The carrying amount of cash and cash equivalents, accounts receivables, accounts payable and other current liabilities approximate their fair value due to their short maturities.

ii. For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities, beneficiary certificates, bonds and futures etc.) at the reporting date.

iii. Fair value of equity instruments without market quotations (including private placement of listed equity securities, unquoted public company and private company equity securities) are estimated using the market method valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information (for example, inputs such as discount for lack of marketability, P/E ratio of similar entities and Price-Book ratio of similar entities).

iv. Fair value of debt instruments without market quotations, bank loans, bonds payable and other non-current liabilities are determined based on the counterparty prices or valuation method. The valuation method uses DCF method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instrument (such as yield curves published by the GreTai Securities Market, average prices for Fixed Rate Commercial Paper published by Reuters and credit risk, etc.)

v. The fair value of derivatives which are not options and without market quotations, is determined based on the counterparty prices or discounted cash flow analysis using interest rate yield curve for the contract period. Fair value of option-based derivative financial instruments is obtained using on the counterparty prices or appropriate option pricing model (for example, Black-Scholes model) or other valuation method (for example, Monte Carlo Simulation).

(b) Fair value of financial instruments measured at amortized cost

Other than cash and cash equivalents, accounts receivables, accounts payable and other current liabilities whose carrying amount approximate their fair value, the fair value of the Group's financial assets and financial liabilities measured at amortized cost is listed in the table below:

	Carrying amount	
	Dec. 31, 2018	Dec. 31, 2017
Financial Assets		
Long-term receivables-affiliates	$95,300	$92,384
Financial liabilities		
Long-term borrowings	$3,053,515	$3,757,706
Lease payable	$2,610	$24,551

	Fair Value	
	Dec. 31, 2018	Dec. 31, 2017
Financial Assets		
Long-term receivables-affiliates	$95,300	$92,384
Financial liabilities		
Long-term borrowings	$3,053,515	$3,757,706
Lease payable	$2,610	$24,551

(c) Fair value measurement hierarchy for financial instruments

Please refer to Note 12.(7) for fair value measurement hierarchy for financial instruments of the Group.

(7) Fair value measurement hierarchy

(a) Fair value measurement hierarchy:

All asset and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole. Level 1, 2 and 3 inputs are described as follows:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization at the end of each reporting period.

(b) Fair value measurement hierarchy of the Group's assets and liabilities:

The Group does not have assets that are measured at fair value on a non-recurring basis. Fair value measurement hierarchy of the Group's assets and liabilities measured at fair value on a recurring basis is as follows:

December 31, 2018

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at fair value through other				

	Level 1	Level 2	Level 3	Total
comprehensive income				
Equity instrument	—	$40,807	$194,071	$234,878

December. 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at fair value through profit or loss				
Stocks	$30,813	—	—	$30,813
Available-for-sale financial assets				
Equity securities	—	—	$215,537	$215,537

Transfers between Level 1 and Level 2 during the period

During the years ended December 31, 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements.

Reconciliation for fair value measurements in Level 3 of the fair value hierarchy for movements during the period is as follows:

	At fair value through other comprehensive income
	Stock
Beginning balance as of Jan. 1, 2018	$215,537
Recognized in other comprehensive income	(21,466)
Transfer in of reclassifying	—
Transfer out of Level 3	—
Ending balance as of Dec. 31, 2018	$194,071

	Available-for-sale financial assets
	Stock
Beginning balance as of Jan. 1, 2017	$265,990
Recognized in other comprehensive income	(50,453)
Transfer in of reclassifying	—
Transfer out of Level 3	—
Ending balance as of Dec. 31, 2017	$215,537

Information on significant unobservable inputs to valuation

Description of significant unobservable inputs to valuation of recurring fair value measurements categorized within Level 3 of the fair value hierarchy is as follows:

December 31, 2018

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity of the input to fair value
Financial assets :					

Financial assets at fair value through other comprehensive income					
Stocks	Option-Pricing Model	discount for lack of marketability	13%~19%	(1) The higher the discount rate, the lower the fair value of the stocks (2)The higher the discount for lack of marketability, the lower the fair value of the stocks	1% increase (decrease) in the discount for lack of marketability would result in increase (decrease) in the Company's equity by $2,365 thousand.

December 31, 2017

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity of the input to fair value
Financial assets:					
Available-for-sale					
Stocks	Option-Pricing Model	discount for lack of marketability	13%~16%	(1) The higher the discount rate, the lower the fair value of the stocks (2)The higher the discount for lack of marketability, the lower the fair value of the stocks	1% increase (decrease) in the discount for lack of marketability would result in increase (decrease) in the Company's equity by $2,502 thousand.

(c) Fair value measurement hierarchy of the Group's assets and liabilities not measured at fair value but
for which the fair value is disclosed

December 31, 2018

	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value but for which the fair value is disclosed:				
Investment properties	–	–	$503,470	$503,470
Long-term receivables-affiliates	–	$95,300	–	$95,300

	Level 1	Level 2	Level 3	Total
Financial liabilities not measured at fair value but for which the fair value is disclosed:				
Long-term loans	—	$3,053,515	—	$3,053,515
Lease payable	—	$2,610	—	$2,610

December 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value but for which the fair value is disclosed:				
Investment properties	—	—	$494,849	$494,849
Long-term receivables-affiliates	—	$92,384	—	$92,384
Financial liabilities not measured at fair value but for which the fair value is disclosed:				
Long-term loans	—	$3,757,706	—	$3,757,706
Lease payable	—	$24,551	—	$24,551

(8) Significant assets and liabilities denominated in foreign currencies

Information regarding the significant assets and liabilities denominated in foreign currencies is listed below:

	Dec. 31, 2018		
	Foreign currencies	Foreign exchange rate	NTD
Financial assets			
Monetary items:			
USD	$119,977	30.72	$3,685,693
JPY	$220,238	0.2784	$61,314
Non-monetary items:			
USD	$7,652	30.72	$235,069

	Dec. 31, 2018		
	Foreign currencies	Foreign exchange rate	NTD
Financial liabilities			
Monetary items:			
USD	$92,433	30.72	$2,839,542
JPY	$527,327	0.2784	$146,808

	Dec. 31, 2017

	Foreign currencies	Foreign exchange rate	NTD
Financial assets			
Monetary items:			
USD	$142,647	29.78	$4,248,028
JPY	$443,960	0.2647	$117,516
Non-monetary items:			
USD	$8,479	29.78	$252,505
RMB	$1,000	4.573	$4,573
Financial liabilities			
Monetary items:			
USD	$85,402	29.78	$2,543,272
JPY	$473,334	0.2647	$125,292

The above information is disclosed based on the carrying amount of foreign currency (after conversion to functional currency).

The Group's entities functional currencies are various, and hence are not able to disclose the information of exchange gains and losses of monetary financial assets and liabilities by each significant asset and liability denominated in foreign currencies. The foreign exchange gains (losses) were $14,222 thousand and ($54,547) thousand for the year ended December 31, 2018 and 2017, respectively.

(9) Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

13. SEGMENT INFORMATION

For management purposes, the Company is organized into business units based on its products and services and has two reportable segments as follows:

- Semiconductor Group: Mainly provides IC packaging and testing services.
- EMS Group: Provides professional electronics manufacturing services.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, group finance costs, finance income and income taxes are managed on a group basis and are not allocated to operating segments.

The transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

For the years ended Dec. 31, 2018

	Semiconductor Group	EMS Group	Other	Adjustment and Eliminations	Consolidated
Revenue					
External customer	$9,015,773	$6,172,419	—	—	$15,188,192
Inter-Segment	53,077	736,579	—	($789,656)(Note 1)	—
Total Revenue	$9,068,850	$6,908,998	—	($789,656)(Note 1)	$15,188,192
Segment Profit	($531,564)	$203,271	$249,318	($283,561)(Note 2)	($362,536)

(Note 1)：Inter-segment revenues are eliminated on consolidation.

(Note 2)：The profit for each operating segment does not include income tax expense.

For the years ended Dec. 31, 2017

	Semiconductor Group	EMS Group	Other	Adjustment and Eliminations	Consolidated
Revenue					
External customer	$8,198,468	$5,687,844	—	—	$13,886,312
Inter-Segment	33,715	934,225	—	($967,940) (Note1)	—
Total Revenue	$8,232,183	$6,622,069	—	($967,940) (Note1)	$13,886,312
Segment Profit	($952,741)	$284,483	$34,997	($118,264) (Note2)	($751,525)

(Note 1)：Inter-segment revenues are eliminated on consolidation.

(Note 2)：The profit for each operating segment does not include income tax expense.

(1) Geographical information:

A. Sales to other than consolidated entities (Sales are presented by customers' country)

	For the years ended December 31	
	2018	2017
Taiwan	$5,067,475	$5,192,222
U.S.A.	4,186,016	4,113,054
China	1,676,305	1,730,753

	Dec. 31, 2018	Dec. 31, 2017
Others	4,258,396	2,850,283
Total	$15,188,192	$13,886,312

B. Non-current assets

	Dec. 31, 2018	Dec. 31, 2017
Taiwan	$7,762,808	$8,234,618
Philippines	478,943	487,469
U.S.A.	219,359	202,049
China	57,333	63,339
Total	$8,518,443	$8,987,475

(2) Major customers

Sales to customers representing over 10% of the Company's consolidated net sales are as follows:

	For the years ended December 31			
	2018		2017	
Customers	Amounts	%	Amounts	%
A	$4,469,670	29.43%	$4,141,282	30.75%
B	$3,242,267	21.35%	$2,790,315	20.72%
C	$1,521,905	10.02%	—	—

Independent Auditors' Audit Report

English Translation of a Report Originally Issued in Chinese

To Orient Semiconductor Electronics Limited

Opinion

We have audited the accompanying parent company only balance sheets of Orient Semiconductor Electronics Limited (the "Company") as of December 31, 2018 and 2017, and the related statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2018 and 2017, and notes to the financial statements, including the summary of significant accounting policies (collectively referred to as "the financial statements").

In our opinion, based on our audits and the reports of other auditors (please refer to the Other Matter – Making Reference to the Audits of Component Auditors section of our report), the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and their financial performance and cash flows for the years ended December 31, 2018 and 2017, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and 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 the Company and its subsidiaries in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China (the "Norm"), and we have fulfilled our other ethical responsibilities in accordance with the Norm. Based on our audits and the reports of other auditors, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of 2018 parent company only financial statements. 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.

1. Revenue recognition

   Net sales recognized by the Company amounted to $14,924,371 thousand for the year ended December 31, 2018, including assembly and testing service in the amount of $8,533,978 thousand which accounted for 57% of total revenue. The service process includes enhancing the work in process, and customers obtain control of the service when enhanced. Therefore, the revenue will be recognized over time. The management recognizes assembly and testing service revenue based on the progress of work at end of every month. As the aforementioned transaction involves estimation and manual control, the risk of revenue been recognized incorrectly exists. Therefore, we considered this a key audit matter.

   Our audit procedures included, but not limited to, assessing the appropriateness of the accounting policy of revenue recognition, including the reassessment of revenue recognition and measurement upon first-time adoption of IFRS 15; evaluating and testing the design and operating effectiveness of internal controls around revenue recognition; performing cut-off tests by selecting samples of transactions from either side of the balance sheet date and vouching related certificates to verify correctness of the timing of recognizing transaction; selecting samples to perform test of details and reviewing significant contact terms and conditions; recalculating manual sales journal entries recognized over time to validate the correctness of the timing of recognizing sales revenue.

   We also considered the appropriateness of the disclosures of sales. Please refer to Note 4 and Note 6 to the parent company only financial statements.

2. Deferred tax assets

The Company recognized deferred tax assets in the amout of $1,654,524 thousand, for the year ended December 31, 2018. The recognition of deferred tax assets for the related unused tax losses, unused tax credits, and deductible temporary differences arising from operating entities located in other areas is based on management estimates of its future available taxable profits and the probability that the related deferred tax assets will be realized. As a result, we determined the matter to be a key audit matter.

Our audit procedures include (but are not limited to) understanding and testing the controls surrounding the Company’s assessment process for recognition of deferred tax assets; understanding the Company’s significant operating entities for which deferred tax assets are recognized and assessing the management estimates for assumptions used in the future cash flow projection and future taxable profits calculation; retrospectively reviewing the accuracy of assumptions used in prior-period estimates of future cash flow projection and assessing whether there are any other matters that will affect the recognition of deferred tax assets; and assessing the adequacy of the Company’s disclosures regarding its deferred tax asset recognition policy and other related disclosures.

We also considered the appropriateness of the income tax disclosures. Please refer to Note 5 and Note 6 to the parent company only financial statements.

Other Matter – Making Reference to the Audits of Component Auditors

We did not audit the financial statements of certain associates and joint ventures accounted for under the equity method whose statements are based solely on the reports of other auditors. These associates and joint ventures, OSE PHILIPPINES, INC., OSE PROPERTIES, INC. and OSE USA, INC., the balances of investments accounted for using the equity method on these investee companies amounted to $123,476 thousand and $153,735 thousand, representing 0.74% and 0.93% of parent company only total assets as of December 31, 2018 and 2017, respectively. The related shares of profits from the associates and joint ventures under the equity method amounted to ($34,437) thousand and ($106,682) thousand, representing 9.20% and 13.85% of the parent company only net loss and net income before tax for the years ended December 31, 2018 and 2017, respectively. As of December 31, 2018, and 2017 the share of other comprehensive income of associates and joint ventures were both $0 thousand.

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 the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by Financial Supervisory Commission of the Republic of China and for such internal control as management determines is necessary to enable the preparation of 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 the ability to continue as a going concern of the Company and its subsidiaries, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including audit committee or supervisors, are responsible for overseeing the financial reporting process of the Company and its subsidiaries.

Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 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 the internal control of the Company and its subsidiaries.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern of the Company and its subsidiaries. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 auditor's report. However, future events or conditions may cause the Company and its subsidiaries 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 accompanying notes, and whether the parent company only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and its subsidiaries to express an opinion on the parent company only 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 2018 parent company only financial statements and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Lee, Fang-Wen

Chen,Cheng-Chu

Ernst & Young, Taiwan

March 29, 2019

English Translation of Financial Statements Originally Issued in Chinese

ORIENT SEMICONDUCTOR ELECTRONICS LIMITED

PARENT COMPANY ONLY BALANCE SHEETS

As of December 31, 2018 and 2017

(Amounts expressed in Thousands of New Taiwan Dollars)

Items	Notes	December 31, 2018		December 31, 2017	
		Amount	%	Amount	%
Current assets					
Cash and cash equivalents	4, 6.(1)	$555,480	3	$1,060,043	7
Financial assets at fair value through profit or loss-Current	4, 6.(2), 8	–	–	30,813	–
Contract assets-Current	4, 6.(20)	425,684	3	–	–
Notes receivable	4, 6.(3)	10,510	–	11,950	–
Accounts receivable-Non Affiliates	4, 6.(4), 8	2,355,244	14	2,283,089	14
Accounts receivable-Affiliates	4, 6.(4), 7	694,335	4	237,785	1
Other receivable-Non Affiliates		41,993	–	27,805	–
Other receivable-Affiliates	7	14,376	–	9,751	–
Inventories	4, 6.(5)	1,254,084	8	1,193,312	8
Prepayments	4, 6.(12)	42,887	–	34,602	–
Other current assets		37,863	–	22,892	–
Other financial assets-Current	8	243,615	2	510,960	3
Total current assets		5,676,071	34	5,423,002	33
Non-current assets					
Financial assets at fair value through other comprehensive income-Non current	4, 6.(6)	234,878	1	–	–
Available-for-sale financial assets-Non current	4, 6.(7)	–	–	215,537	1
Financial assets measured at cost-Non current	4, 6.(8)	–	–	32,689	–
Investments accounted for using the equity method	4, 6.(9), 8	1,099,290	7	1,035,870	6
Property, plant, and equipment	4, 6.(10), 8	7,012,652	42	7,600,104	46
Intangible assets	4, 6.(11)	89,266	1	78,985	1
Deferred income tax assets	4, 6.(26)	1,654,524	10	1,394,979	8
Prepayment for equipment	4, 6.(12)	180,354	1	79,953	1
Refundable deposits	8	168,428	1	186,562	1
Long-term receivables-Affiliates	4, 6.(13), 7	499,401	3	476,791	3
Other non-current assets	4	6,556	–	9,454	–
Total non-current assets		10,945,349	66	11,110,924	67
Total assets		$16,621,420	100	$16,533,926	100

(The accompanying notes are an integral part of the financial statements.)

English Translation of Financial Statements Originally Issued in Chinese

ORIENT SEMICONDUCTOR ELECTRONICS LIMITED

PARENT COMPANY ONLY BALANCE SHEETS

As of December 31, 2018 and 2017

(Amounts expressed in Thousands of New Taiwan Dollars)

Items	Notes	December 31, 2018		December 31, 2017	
		Amount	%	Amount	%
Current liabilities					
Short-term loans	6.(14)	$2,806,857	17	$2,192,678	14
Short-term notes payable	6.(15)	349,610	2	398,938	2
Contract Liabilities-Current	4, 6.(20)	15,150	—	—	—
Notes payable		49,126	—	25,116	—
Other notes payable		13,072	—	1,249	—
Accounts payable-Non Affiliates		3,097,264	19	2,954,308	18
Accounts payable-Affiliates	7	142,171	1	118,127	1
Accrued expenses		702,482	4	602,797	4
Payables on equipment		239,748	2	55,665	—
Current portion of long-term loans	6.(16)	1,340,270	8	1,586,951	10
Lease payable-Current	4, 6.(17)	2,610	—	24,495	—
Other current liabilities		147,895	1	201,688	1
Total current liabilities		8,906,255	54	8,162,012	50
Non-current liabilities					
Long-term loans	6.(16)	1,713,245	10	2,170,755	13
Lease payable-Non current	4, 6.(17)	—	—	56	—
Net defined benefit liabilities-noncurrent	4, 6.(18)	495,896	3	537,783	3
Other non-current liabilities	4	3,424	—	3,474	—
Total non-current liabilities		2,212,565	13	2,712,068	16
Total liabilities		11,118,820	67	10,874,080	66
Equity	4, 6.(19)				
Capital					
Common stock		5,523,285	33	8,060,158	48
Additional paid-in capital		20,104	—	21,420	—
Retained earnings					
Retained deficits		(44,832)	—	(2,536,872)	(15)
Other Components of Equity		4,043	—	115,140	1
Total stockholders' equity		5,502,600	33	5,659,846	34
Total liabilities and stockholders' equity		$16,621,420	100	$16,533,926	100

(The accompanying notes are an integral part of the financial statements.)

English Translation of Financial Statements Originally Issued in Chinese

ORIENT SEMICONDUCTOR ELECTRONICS LIMITED

PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2018 and 2017

(Amounts expressed in Thousands of New Taiwan Dollars)

Items	Notes	2018 Amount	2018 %	2017 Amount	2017 %
Net revenue	4, 6.(20), 7	$14,924,371	100	$13,468,695	100
Cost of goods sold	4, 6.(5), 6.(23)	(14,480,558)	(97)	(13,462,884)	(100)
Gross profit		443,813	3	5,811	—
Operating expenses	4, 6.(23)				
Selling and administration expenses		(555,916)	(4)	(542,680)	(4)
Research and development expenses		(270,528)	(2)	(239,285)	(2)
Expected credit losses	4, 6.(21)	(15,338)	—	—	—
Subtotal		(841,782)	(6)	(781,965)	(6)
Operating loss		(397,969)	(3)	(776,154)	(6)
Non-operating income and expenses	6.(24)				
Other income		64,328	—	123,267	1
Other gains and losses		21,241	—	25,903	—
Financial costs		(125,986)	—	(138,112)	(1)
Share of profits of associates and joint ventures	4, 6.(9)	68,766	—	(4,931)	—
Pretax loss from continuing operations		(369,620)	(3)	(770,027)	(6)
Income tax benefit	4, 6.(26)	258,072	2	56,450	1
Net loss		(111,548)	(1)	(713,577)	(5)
Other comprehensive loss	4, 6.(25)				
Items that will not be reclassified subsequently to profit or loss					
Remeasurements of defined benefit plans		(42,568)	—	(32,557)	—
Unrealized gains or losses on financial assets measured at fair value through other comprehensive income		(17,627)	—	—	—
Unrealized gains or losses from equity instruments investments measured at far value through other comprehensive income of subsidiares, associates and joint ventures accounting for using the equity method		(4,553)	—	—	—
Income tax benefit (expense) related to items that will not be reclassified		8,780	—	5,535	—
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations		17,469	—	(49,747)	—
Unrealized (loss) gain from available-for-sale financial assets		—	—	(50,453)	—
Share of other comprehensive (loss) income of associates and joint ventures		—	—	(233)	—
Income tax related to components of other comprehensive income (loss)		(7,408)	—	17,034	—
Total other comprehensive (loss) for the period, net of tax		(45,907)	—	(110,421)	—
Total comprehensive income		($157,455)	(1)	($823,998)	(5)
Basic earnings per share (Expressed in NTD)	4, 6.(27)	($0.20)		($1.29)	

(The accompanying notes are an integral part of the financial statements.)

English Translation of Financial Statements Originally Issued in Chinese

ORIENT SEMICONDUCTOR ELECTRONICS LIMITED

PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY

For the Years ended December 31, 2018 and 2017

(Amounts expressed in Thousands of New Taiwan Dollars)

Items	Common stock	Capitla Surplus	Retained earnings	Other equity			Total Equity
			Retained deficits	Exchange differences on translation of foreign operations	Unrealized gains or losses on financial assets measured at fair value through other comprehensive income	Unrealized gains or losses from available-for-sale financial assets	
Balance as of January 1, 2017	$8,060,158	$21,868	($1,796,040)	$11,134	–	$187,172	$6,484,292
Share of changes in net assets of associates and joint ventures accounted for using the equity method		(1,113)					(1,113)
Loss for the years ended December 31, 2017			(713,577)				(713,577)
Other comprehensive income for the year ended December 31, 2017			(27,255)	(41,290)		(41,876)	(110,421)
Total comprehensive income	–	–	(740,832)	(41,290)	–	(41,876)	(823,998)
From shares of changes in equities of subsidiaries		665					665
Balance as of December 31, 2017	$8,060,158	$21,420	($2,536,872)	($30,156)	–	$145,296	$5,659,846
Balance as of January 1, 2018	$8,060,158	$21,420	($2,536,872)	($30,156)	–	$145,296	$5,659,846
Impact of retroactive applications			260,065		($113,244)	(145,296)	1,525
Adjusted balance as of January 1, 2018	8,060,158	21,420	(2,276,807)	(30,156)	(113,244)	–	5,661,371
Share of changes in net assets of associates and joint ventures accounted for using the equity method		(1,316)					(1,316)
Loss for the years ended December 31, 2018			(111,548)				(111,548)
Other comprehensive income for the year ended December 31, 2018			(31,860)	10,061	(24,108)	–	(45,907)
Total comprehensive income	–	–	(143,408)	10,061	(24,108)	–	(157,455)
Captial reduction for cover accumulated deficits	(2,536,873)		2,536,873				–
Proceeds from disposal of equity instruments at fair value through other comprehensive income			(161,490)		161,490		–
Balance as of December 31, 2018	$5,523,285	$20,104	($44,832)	($20,095)	$24,138	–	$5,502,600

(The accompanying notes are an integral part of the financial statements.)

English Translation of Financial Statements Originally Issued in Chinese

ORIENT SEMICONDUCTOR ELECTRONICS LIMITED

PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS

For the years ended December 31, 2018 and 2017

(Amounts expressed in Thousands of New Taiwan Dollars)

Items	2018 Amount	2017 Amount	Items	2018 Amount	2017 Amount
Cash flows from operating activities:			Cash flows from investing activities:		
Net loss before tax	($369,620)	($770,027)	Disposal of financial asset at fair value through profit or loss	38,184	57,651
Adjustments to reconcile net loss before tax to net			Acqusition of property, plant and equipment	(762,947)	(680,096)
cash provided by operating activities:			Disposal of property, plant and equipment	41,029	76,257
The profit or loss items which did not affect cash flows:			(Increase) in refundable deposits	—	(46,518)
Depreciation	1,382,760	1,454,409	Decrease in refundable deposits	18,134	—
Amortization	61,468	57,383	Acqusition of intangible assets	(63,714)	(25,854)
Expected credit loss (profit)	15,338	(1,321)	(Increase) Decrease in long-term receivables	(22,610)	33,464
Net income of financial assets and liabilities at fair value through profit or loss	(7,371)	(53,198)	Acqusition of dividend	—	3,677
Interest expense	125,986	138,112	Net cash (used in) investing activities	(751,924)	(581,419)
Interest revenue	(13,386)	(11,616)			
Dividend revenue	—	(3,677)			
Share of (profit) loss of associates accounted for using the equity method	(68,766)	4,931			
(Gain) on disposal of property, plant and equipment	(6,464)	(25,294)	Cash flows from financing activities:		
Loss on disposal of investments	—	872	Increase in short-term loans	614,356	741,178
Loss on inventory valuation	43,705	21,662	Increase in short-term notes payable	349,610	398,938
Changes in operating assets and liabilities:			(Decrease) in short-term notes payable	(398,938)	(249,131)
(Increase) in contract assets	(213,080)	—	Increase in long-term loans	1,011,376	1,386,000
Decrease in notes receivable	1,440	835	Repayment of long-term loans	(1,711,897)	(1,577,950)
(Increase) in accounts receivable-non affiliates	(86,679)	(46,093)	(Decrease) in guarantee deposits received	(50)	(7)
(Increase) Decrease in accounts receivable-affiliates	(457,354)	50,534	(Decrease) in other payables-affiliates	—	(245,000)
(Increase) Decrease in other receivable-non affiliates	(5,439)	62,880	Increase in lease payable	30,380	2,177
Decrease in other receivable-affiliates	12,668	44,190	(Decrease) in lease payable	(52,321)	(159,513)
(Increase) in inventories	(319,835)	(126,581)	Interset paid	(123,894)	(150,805)
(Increase) Decrease in prepayments	(1,902)	28,949	Other financing activities	267,345	(242,909)
(Increase) Decrease in other current assets	(14,970)	33,212	Net cash (used in) financing activities	(14,033)	(97,022)
Decrease (Increase) in other operating assets	1,040	(2,229)			
(Decrease) in contract liabilities	(30,632)	—			
Increase (Decrease) in notes payable-non affiliates	35,833	(30,310)	Net (Decrease) Increase in cash	(504,563)	257,953
Increase in accounts payable-non affiliates	142,956	53,848	Cash and cash equivalents, beginning of period	1,060,043	802,090
Increase in accounts payable-affiliates	24,034	52,962	Cash and cash equivalents, end of period	$555,480	$1,060,043
(Decrease) Increase in other payable	(2,092)	12,693			
Increase in other current liabilities	91,674	71,155			
(Decrease) in net defined benefit liabilities	(84,455)	(90,496)			
Cash generated from operating activities	256,857	927,785			
Interest received	4,637	8,609			
Income tax paid	(100)	—			
Net cash provided by operating activities	261,394	936,394			

(The accompanying notes are an integral part of the financial statements.)

1. ORGANIZATION AND OPERATION

Orient Semiconductor Electronics Limited (the Company) was incorporated as a company limited by shares under the provisions of the Company Law of the Republic of China in June 1971. The Company was registered in Kaohsiung City and the registered address is 9 Central 3Rd St. N.E.P.Z., Kaohsiung, Taiwan, 11, R.O.C. The principal activity of the Company is to engage in the manufacture, assembly, processing and sale of integrated circuits, parts for semiconductors, computer motherboards and related products. The Company's shares commenced trading in the Taiwan stock exchange market in April 1994.

As of December 31, 2018, the Company's current liabilities and current assets were $8,906,255 thousand and $5,676,071 thousand, respectively. The current ratio was 63.73%. The Company has devoted to adjusting its product structure. The Company keeps making a profit and improving financial structure.

2. DATE AND PROCEDURES OF AUTHORIZATION OF FINANCIAL STATEMENTS FOR ISSUE

The parent company only financial statements of the Company for the year ended December 31, 2018 and 2017 were authorized for issue by the Board of Directors on March 29, 2019.

3. NEWLY ISSUED OR REVISED STANDARDS AND INTERPRETATIONS

(1) Changes in accounting policies resulting from applying for the first time certain standards and amendments.

The Company applied for the first time International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are endorsed by Financial Supervisory Commission ("FSC") and become effective for annual periods beginning on or after January 1, 2018. The nature and the impact of each new standard and amendment that has a material effect on the Company is described below:

(a) IFRS 15 "Revenue from Contracts with Customers" (including Amendments to IFRS 15 "Clarifications to IFRS 15 Revenue from Contracts with Customers")

IFRS 15 replaces IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations. In accordance with the transition provision in IFRS 15, the Company elected to recognize the cumulative effect of initially applying IFRS 15 at the date of initial application (January 1, 2018). The Company also elected to apply this standard retrospectively only to contracts that are not completed contracts at the date of initial application.

The Company’s principal activities consist of the sale of goods and rendering of services. The impacts arising from the adoption of IFRS 15 on the Company are summarized as follows:

A. Please refer to Note 4 for the accounting policies before or after January 1, 2018.

B. In addition to electronic assembly service, the Company also conducts IC testing commissioned by customers as the main business. According to the contract, the ownership of the work in progress belongs to suppliers. The Company enhances the work in process during the assembly and testing process, and customers obtain control of the work when it is enhanced. The aforementioned transaction complies with recognizing revenue over time under IFRS 15, therefore, the revenue from sale of goods will be recognized revenue over time instead of recognizing revenue when goods have been delivered to the buyer prior to January 1, 2018. However, for some contracts, if the Company has the right to transfer the goods to customers but does not has a right to an amount of consideration that is unconditional, these contacts should be presented as contract assets, which is different from the accounting treatment of recognizing trade receivables before the date of initial application. Additionally, loss allowance for contract assets was assessed in accordance with IFRS 9. For some contracts, part of the consideration was received from customers upon signing the contract, then the Company has the obligation to provide the goods and the services subsequently. Before January 1, 2018, the Company recognized the consideration received in advance from customers under other current liabilities. Starting from January 1, 2018, in accordance with IFRS 15, it should be recognized as contract liabilities. Compared with the requirements of IAS 18, contract asset will increase $212,604 thousand, inventory will decrease $215,358 thousand and retained earnings will decrease $2,754 thousand as at January 1, 2018.

C. Please refer to Note 4, Note 5 and Note 6 for additional disclosure note required by IFRS 15.

(b)IFRS 9“Financial Instruments”

IFRS 9 replaces IAS 39 “Financial Instruments: Recognition and Measurement”, In accordance with the transition provision in IFRS 9, the Company elected not to restate prior periods at the date of initial application (January 1, 2018). The adoption of IFRS 9 has the following impacts on the Company:

A. The Company adopted IFRS 9 since January 1, 2018 and it adopted IAS 39 before January 1, 2018. Please refer to Note 4 for more details on accounting policies.

B. In accordance with the transition provision in IFRS 9, the assessment of the business model and classification of financial assets into the appropriate categories are based on the facts and circumstances that existed as at January 1, 2018. The classifications of financial assets and its carrying amounts as at January 1, 2018 are as follows:

IAS 39		IFRS 9	
Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
Fair value through profit or loss	$30,813	Fair value through profit or loss	$30,813
Fair value through other comprehensive income		Fair value through other comprehensive income	252,506
Available-for-sale financial assets (including $32,689 thousand measured at cost)	248,226		
At amortized cost		Amortized cost (including cash and cash equivalents, notes receivables, accounts receivables, other financial assets and other receivables)	4,618,049
Loans and receivables (including cash and cash equivalents, notes receivables, accounts receivables, other financial assets and other receivables)	4,618,049		
Total	$4,897,088	Total	$4,901,368

C. The transition adjustments from IAS 39 to IFRS 9 for the classifications of financial assets and financial liabilities as at January 1, 2018 are as follows:

IAS 39		IFRS 9				
Class of financial instruments	Carrying Amount	Class of financial instruments	Carrying Amount	Difference	Retained Earnings Adjustment	Other components of equity Adjustment
Financial assets at fair value through profit or loss						
Held-for-trading	$30,813	Measured at fair value through profit or loss	$30,813			
Available-for-sale financial assets (including investments measured at cost with initial investment cost of $32,689 thousand, reported as a separate line item) (Note 1)	248,226	Measured at fair value through other comprehensive income (equity instruments)	252,506	$4,280	$262,820	($258,540)
Subtotal	279,039					

IAS 39		IFRS 9				Other
Class of financial instruments	Carrying Amount	Class of financial instruments	Carrying Amount	Difference	Retained Earnings Adjustment	components of equity Adjustment
Loan and receivable (Note 2)						
Cash and cash equivalents (exclude cash on hand)	$1,059,918	Cash and cash equivalents (exclude cash on hand)	1,059,918			
Other financial assets	510,960	Other financial assets	510,960			
Notes receivables	11,950	Notes receivables	11,950			
Accounts receivables	2,520,874	Accounts receivables	2,520,874			
Other receivables	37,556	Other receivables	37,556			
Long-term accounts receivable-affiliates	476,791	Long-term accounts receivable-affiliates	476,791			
Subtotal	4,618,049					
Total	$4,897,088	Total	$4,901,368		$262,820	($258,540)

Note :

(1) In accordance with of IAS 39, the Company's available-for-sale financial assets included investments in funds, stocks and bonds of listed companies and stocks of unlisted companies. Adjustment details are described as follows:

Stocks (including listed and unlisted companies)

The Company assessed the facts and circumstances existed as of January 1, 2018, and determined these stocks were not held-for-trading; therefore, the Company elected to designate them as financial assets measured at fair value through other comprehensive income. As of January 1, 2018, the Company reclassified available-for-sale financial assets (including measured at cost) to financial assets measured at fair value through other comprehensive income of $248,226 thousand. Other related adjustments are described as follows:

(a) The stocks of unlisted companies previously measured at cost in accordance with IAS 39 had an original cost of $295,509 thousand. In accordance with IFRS 9, stocks of unlisted companies must be measured at fair value. The fair value of the stocks of unlisted companies was $36,969 thousand as of January 1, 2018. Accordingly, the Company adjusted the carrying amount of financial assets measured at fair value through other comprehensive income of $36,969 thousand and also adjusted the retained earning and other equity by increasing $262,820 thousand and decreasing $258,540 thousand, respectively.

(b) As of January 1, 2018, the Company reclassified the stocks of unlisted companies of $215,537 thousand measured at fair value from available-for-sale financial assets to financial assets measured at fair value through other comprehensive income. This adjustment did not result in any differences in the carrying amounts of assets, but reclassified within equity accounts.

(2) In accordance with IAS 39, the cash flow characteristics for loans and receivables are solely payments of principal and interest on the principal amount outstanding. The assessment of the business model is based on the facts and circumstances that existed as of January 1, 2018. These financial assets were measured at amortized cost as they were held within a business model whose objective was to hold financial assets in order to collect contractual cash flows. Besides, in accordance with IFRS 9, there was no adjustment arised from the assessment of impairment losses for the aforementioned assets as of January 1, 2018. Therefore, there is no impact on the carrying amount as of January 1, 2018.

D. Please refer to Note 4, Note 5, Note 6 and Note 12 for the related disclosures required by IFRS 7 and

IFRS 9.

(2) Standards or interpretations issued, revised or amended, by International Accounting Standards Board "IASB" which are endorsed by FSC, but not yet adopted by the Company as at the end of the reporting period are listed below:

Items	New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB
a	IFRS 16 "Leases"	January 1, 2019
b	IFRIC 23 "Uncertainty Over Income Tax Treatments"	January 1, 2019
c	IAS 28 "Investment in Associates and Joint Ventures" — Amendments to IAS 28	January 1, 2019
d	Prepayment Features with Negative Compensation (Amendments to IFRS 9)	January 1, 2019
e	Improvements to International Financial Reporting Standards (2015-2017 cycle)	January 1, 2019
f	Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	January 1, 2019

(g) IFRS 16"Leases"

The new standard requires lessees to account for all leases under one single accounting model (except for short-term or low-value asset lease exemptions), which is for lessees to recognize right-of-use assets and lease liabilities on the balance sheet and the depreciation expense and interest expense associated with those leases in the consolidated statements of comprehensive income.

Besides, lessors' classification remains unchanged as operating or finance leases, but additional disclosure information is required.

(h) IFRIC 23 "Uncertainty Over Income Tax Treatments"

The Interpretation clarifies application of recognition and measurement requirements in IAS 12 "Income Taxes" when there is uncertainty over income tax treatments.

(i) IAS 28"Investment in Associates and Joint Ventures" –Amendment to IAS 28

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture before it applies IAS 28, and in applying IFRS 9, does not take account of any adjustments that arise from applying IAS 28.

(j) Prepayment Features with Negative Compensation (Amendments to IFRS 9)

The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract, to be measured at amortized cost or at fair value through other comprehensive income.

(k) Improvements to International Financial Reporting Standards (2015-2017 cycle):

IFRS 3 "Business Combinations"

The amendments clarify that an entity that has joint control of a joint operation shall remeasure its previously held interest in a joint operation when it obtains control of the business.

IFRS 11"Joint Arrangements"

The amendments clarify that an entity that participates in, but does not have joint control of, a joint operation does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

IAS 12 "Income Taxes"

The amendments clarify that an entity shall recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

IAS 23"Borrowing Costs"

The amendments clarify that an entity should treats as part of general borrowings any borrowing made specifically to obtain an asset when the asset is ready for its intended use or sale.

(l) Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

The amendments clarify that when a change in a defined benefit plan is made (such as amendment, curtailment or settlement, etc.), the entity should use the updated assumptions to remeasure its net defined benefit liability or asset.

The abovementioned standards and interpretations issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after January 1, 2019. Apart from item (a) explained below, the remaining standards and interpretations have no material impact on the Company.

(2) IFRS 16 “Leases”

IFRS 16 “Leases” replaces 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”. The impact arising from the adoption of IFRS 16 on the Company are summarized as follows:

C. For the definition of a lease, the Company elects not to reassess whether a contract is, or contains, a lease at the date of initial application (January 1, 2019) in accordance with the transition provision in IFRS 16. Instead, the Company is permitted to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 but not to apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Company is a lessee and elects not to restate comparative information in accordance with the transition provision in IFRS 16. Instead, the Company recognizes the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

(c) Leases classified as operating leases

For leases that were classified as operating leases applying IAS 17, the Company expects to measure and recognize those leases as lease liability on January 1, 2019 at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate on January 1, 2019 and; the Company chooses, on a lease-by-lease basis, to measure the right-of-use asset at an amount equal to the lease liability. The lease liability adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet immediately before January 1, 2019.

The Company expects the right-of-use asset will increase by $150,349 thousand and the lease liability will increase by $150,349 thousand on January 1, 2019.

(d) Leases classified as finance leases

For leases that were classified as finance leases applying IAS 17, the Company expects to reclassify the lease asset of $25,844 thousand and the lease payable of $2,610 thousand as measured by IAS 17 to the right-of-use asset of $25,844 thousand and the lease liability of

$2,610 thousand, respectively, on January 1, 2019.

D. The additional disclosures of lessee and lessor required by IFRS 16 will be disclosed in the relevant notes.

(3) Standards or interpretations issued, revised or amended, by IASB but not yet endorsed by FSC at the date of issuance of the Company′s financial statements are listed below:

Items	New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB
a	IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” — Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures	To be determined by IASB
b	IFRS 17 “Insurance Contracts”	January 1, 2021
c	Definition of a Business (Amendments to IFRS 3)	January 1, 2020
d	Definition of Material (Amendments to IAS 1 and 8)	January 1, 2020

(e) <u>IFRS 10“Consolidated Financial Statements” and IAS 28“Investments in Associates and Joint Ventures” ─ Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures</u>

The amendments address the inconsistency between the requirements in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full. IFRS 10 was also amended so that the gains or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors′ interests in the associate or joint venture. The effective date of the amendments has been postponed indefinitely, but early adoption is allowed.

(f)<u>IFRS 17 “Insurance Contracts”</u>

IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects (including recognition, measurement, presentation and disclosure requirements). The core of IFRS 17 is the General (building block) Model, under this model, on initial recognition, an entity shall measure a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. The fulfilment cash flows comprise of the following:

(3) estimates of future cash flows;
(4) Discount rate: an adjustment to reflect the time value of money and the financial risks related to the future cash flows, to the extent that the financial risks are not included in the estimates of the
future cash flows; and
(5) a risk adjustment for non-financial risk.

The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims. Other than the General Model, the standard also provides a specific adaptation for contracts with direct participation features (the Variable Fee Approach) and a simplified approach (Premium Allocation Approach) mainly for short-duration contracts.

(g) Definition of a Business (Amendments to IFRS 3)

The amendments clarify the definition of a business in IFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.
IFRS 3 continues to adopt a market participant's perspective to determine whether an acquired set of activities and assets is a business. The amendments clarify the minimum requirements for a business; add guidance to help entities assess whether an acquired process is substantive; and narrow the definitions of a business and of outputs; etc.

(h) Definition of a Material (Amendments to IAS 1 and 8)

The main amendment is to clarify new definition of material. It states that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The abovementioned standards and interpretations issued by IASB have not yet endorsed by FSC at the date when the Company's financial statements were authorized for issue, the local effective dates are to be determined by FSC. All other standards and interpretations have no material impact on the Company.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance

The parent company only financial statements for the year ended December 31, 2018 and 2017 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers ("the Regulations").

(2) Basis of preparation

When preparing the parent company only financial statements, the Company account for subsidiaries and associates by using the equity method. In order to agree with the amount of net income, other comprehensive income and equity attributable to shareholders of the parent in the consolidated financial statements, the differences of the accounting treatment between the parent company only basis and the consolidated basis are adjusted under the heading of investments accounted for using equity method, share of profits of subsidiaries and associates and share of other comprehensive income of subsidiaries and associates in the parent company only financial statements.

The parent company only financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value. The PARENT COMPANY ONLY financial statements are expressed in thousands of New Taiwan Dollars ("NT$") unless otherwise stated.

(3) Foreign currency transactions

The parent company only financial statements are presented in NT$, which is also the Company's functional currency. Each entity in The Company determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by The Company entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

(a) Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.
(b) Foreign currency items within the scope of IAS 39 Financial Instruments: Recognition and Measurement are accounted for based on the accounting policy for financial instruments.
(c) Exchange differences arising on a monetary item that forms part of a reporting entity′s net investment
in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

(4) Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into NT$ at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized.

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

(5) Current and non-current distinction

An asset is classified as current when:
(a) The Company expects to realize the asset, or intends to sell or consume it, in its normal operating cycle.
(b) The Company holds the asset primarily for the purpose of trading.
(c) The Company expects to realize the asset within twelve months after the reporting period.
(d) The asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

(a) The Company expects to settle the liability in its normal operating cycle.
(b) The Company holds the liability primarily for the purpose of trading.
(c) The liability is due to be settled within twelve months after the reporting period.
(d) The Company 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 the issue of equity instruments do not affect its classification.

All other liabilities are classified as non-current.

(6) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Fixed-term deposits include deposits that have maturities of three months from the date of acquisition and can be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value.

(7) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.
Financial assets and financial liabilities within the scope of IFRS 9 Financial Instruments (Before January 1, 2018: IAS 39 Financial Instruments: Recognition and Measurement) are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

A. Financial instruments: Recognition and Measurement

The accounting policy from January 1, 2018 as follow:

The Company accounts for regular way purchase or sales of financial assets on the trade date.

The Company classified financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss considering both factors below:

(a) the Company's business model for managing the financial assets and

(b) the contractual cash flow characteristics of the financial asset.

Financial assets measured at amortized cost

A financial asset is measured at amortized cost if both of the following conditions are met and presented as note receivables, trade receivables financial assets measured at amortized cost and other receivables etc., on balance sheet as at the reporting date:

(a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets are subsequently measured at amortized cost (the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and adjusted for any loss allowance) and is not part of a hedging relationship. A gain or loss is recognized in profit or loss when the financial asset is derecognized, through the amortization process or in order to recognize the impairment gains or losses.

Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

(a) purchased or originated credit-impaired financial assets. For those financial assets, the Company applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.

(b) financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Company applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

Financial asset measured at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

(a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Recognition of gain or loss on a financial asset measured at fair value through other comprehensive income are described as below:

(a) A gain or loss on a financial asset measured at fair value through other comprehensive income recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.

(b) When the financial asset is derecognized the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.

(c) Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

i. Purchased or originated credit-impaired financial assets. For those financial assets, the Company applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.

ii. Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Company applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

Besides, at initial recognition, the Company makes an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss (when disposal of such equity instrument, its cumulated amount included in other components of equity is transferred directly to the retained earnings) and should be recorded as financial assets measured at fair value through other comprehensive income on balance sheet. Dividends on such investment are recognized in profit or loss unless the dividends clearly represents a recovery of part of the cost of investment.

Financial asset measured at fair value through profit or loss

Financial assets were measured at amortized cost or measured at fair value through other comprehensive income only if they met particular conditions. All other financial assets were measure at fair value through profit or loss and presented on the balance sheet as financial assets measured at fair value through profit or loss and trade receivables.

<u>The accounting policy before January 1, 2018 as follow:</u>

The Company accounts for regular way purchase or sales of financial assets on the trade date.

Financial assets of the Company are classified as financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables. The Company determines the classification of its financial assets at initial recognition.

<u>Financial assets at fair value through profit or loss</u>

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated as at fair value through profit or loss. A financial asset is classified as held for trading if:

(a) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;

(b) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

(c) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial asset at fair value through profit or loss; or a financial asset may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

(a) it eliminates or significantly reduces a measurement or recognition inconsistency; or

(b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

Financial assets at fair value through profit or loss are measured at fair value with changes in fair value recognized in profit or loss. Dividends or interests on financial assets at fair value through profit or loss are recognized in profit or loss (including those received during the period of initial investment).

If financial assets do not have quoted prices in an active market and their far value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

Available-for-sale financial assets

Available-for-sale investments are non-derivative financial assets that are designated as available-for-sale or those not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, or loans and receivables.
Foreign exchange gains and losses and interest calculated using the effective interest method relating to monetary available-for-sale financial assets, or dividends on an available-for-sale equity instrument, are recognized in profit or loss. Subsequent measurement of available-for-sale financial assets at fair value is recognized in equity until the investment is derecognized, at which time the cumulative gain or loss is recognized in profit or loss.

If equity instrument investments do not have quoted prices in an active market and their far value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold it to maturity, other than those that are designated as available-for-sale, classified as financial assets at fair value through profit or loss, or meet the definition of loans and receivables.

After initial measurement held-to-maturity financial assets are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company upon initial recognition designates as available for sale, classified as at fair value through profit or loss, or those for which the holder may not recover substantially all of its initial investment.

Loans and receivables are separately presented on the balance sheet as receivables or debt instrument investments for which no active market exists. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

B. Impairment of financial assets

The accounting policy from January 1, 2018 as follow:

The Company recognizes a loss allowance for expected credit losses on debt instrument investments measured at fair value through other comprehensive income and financial asset measured at amortized cost. The loss allowance on debt instrument investments measured at fair value through other comprehensive income is recognized in other comprehensive income and not reduce the carrying amount in the statement of financial position.

The Company measures expected credit losses of a financial instrument in a way that reflects:

(d) an unbiased and probability-weighted amount that is determined by evaluating a range of possible
outcomes;
(e) the time value of money; and
(f) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The loss allowance is measures as follow:

(a) At an amount equal to 12-month expected credit losses: the credit risk on a financial asset has not increased significantly since initial recognition or the financial asset is determined to have low credit risk at the reporting date. In addition, the Company measures the loss allowance at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that the credit risk on a financial asset has increased significantly since initial recognition is no longer met.

(b) At an amount equal to the lifetime expected credit losses: the credit risk on a financial asset has increased significantly since initial recognition or financial asset that is purchased or originated credit-impaired financial asset.

(c) For trade receivables or contract assets arising from transactions within the scope of IFRS 15, the Company measures the loss allowance at an amount equal to lifetime expected credit losses.

At each reporting date, the Company needs to assess whether the credit risk on a financial asset has increased significantly since initial recognition by comparing the risk of a default occurring at the reporting date and the risk of default occurring at initial recognition. Please refer to Note 12 for further details on credit risk.

The accounting policy before January 1, 2018 as follow:

The Company assesses at each reporting date whether there is any objective evidence that a financial asset other than the financial assets at fair value through profit or loss is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset. The carrying amount of the financial asset impaired, other than receivables impaired which are reduced through the use of an allowance account, is reduced directly and the amount of the loss is recognized in profit or loss.

A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is considered a loss event.

Other loss events include:

(a) significant financial difficulty of the issuer or obligor; or
(b) a breach of contract, such as a default or delinquency in interest or principal payments; or
(c) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
(d) the disappearance of an active market for that financial asset because of financial difficulties.

For held-to-maturity financial assets and loans and receivables measured at amortized cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial asset that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exits for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. Interest income is accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.
In the case of equity investments classified as available-for-sale, where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss – is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after

impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recognized in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

C. Derecognition of financial assets

A financial asset is derecognized when:

(a) The rights to receive cash flows from the asset have expired
(b) The Company has transferred the asset and substantially all the risks and rewards of the asset have been transferred
(c) The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received or receivable including any cumulative gain or loss that had been recognized in other comprehensive income, is recognized in profit or loss.

D. Financial liabilities and equity

Classification between liabilities or equity

The Company classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

Financial liabilities

Financial liabilities within the scope of IFRS 9 Financial Instruments (before January 1, 2018: IAS 39 Financial Instruments: Recognition and Measurement) are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated as at fair value through profit or loss. A financial liability is classified as held for trading if:

(a) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
(b) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
(c) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial liability at fair value through profit or loss; or a financial liability may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

(a) it eliminates or significantly reduces a measurement or recognition inconsistency; or
(b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

Gains or losses on the subsequent measurement of liabilities at fair value through profit or loss including interest paid are recognized in profit or loss.

Before January 1, 2018, if the financial liabilities at fair value through profit or loss do not have quoted prices in an active market and their far value cannot be reliably measured, then they are classified as financial liabilities measured at cost on balance sheet and carried at cost as at the reporting date.

Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include interest bearing loans and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified (whether or not attributable to the financial difficulty of the debtor), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

E. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(8) Derivative instrument

The Company uses derivative instruments to hedge its foreign currency risks and interest rate risks. A derivative is classified in the balance sheet as assets or liabilities at fair value through profit or loss except for derivatives that are designated effective hedging instruments which are classified as derivative financial assets or liabilities for hedging.

Derivative instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognized in equity.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss.

(9) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

(a) In the principal market for the asset or liability, or
(b) In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by The Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

(10) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials	— Purchase cost on an average basis
Finished goods and work in Progress	— Cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity on weighted average cost basis

Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

Starting from January 1, 2018, rendering of services is accounted in accordance with IFRS 15 and not within the scope of inventories.

(11) Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction that is highly probable within one year from the date of classification and the asset or disposal group is available for immediate sale in its present condition. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

In the consolidated income statement of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separate from income and expenses from continuing activities, down to the level of profit after taxes, even when the

Company retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the income statement.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortized.

(12) Investments accounted for using the equity method

The Company′s investment in its associate is accounted for using the equity method. An associate is an entity in which the Company has significant influence.

Under the equity method, the investment in the associate is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Company′s share of net assets of the associate. After the interest in the associate is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the Company′s related interest in the associate.

When changes in the net assets of an associate occur and not those that are recognized in profit or loss or other comprehensive income and do not affects the Company′s percentage of ownership interests in the associate, the Company recognizes such changes in equity based on its percentage of ownership interests. The resulting capital surplus recognized will be reclassified to profit or loss at the time of disposing the associate on a prorata basis.

When the associate issues new stock, and the Company′s interest in an associate is reduced or increased as the Company fails to acquire shares newly issued in the associate proportionately to its original ownership interest, the increase or decrease in the interest in the associate is recognized in Additional Paid in Capital and Investment in associate. When the interest in the associate is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the Company disposes the associate.

The financial statements of the associate are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the 'share of profit or loss of an associate' in the statement of comprehensive income.

Upon loss of significant influence over the associate, the Company measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal are recognized in profit or loss.

The Company recognizes its interest in the jointly controlled entities using the equity method other than those that meet the criteria to be classified as held for sale. A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity.

Upon loss of significant influence over the associate, the Company measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal are recognized in profit or loss.

The Company recognizes its interest in the jointly controlled entities using the equity method other than those that meet the criteria to be classified as held for sale. A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity.

(13) Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. 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 is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Company recognized such parts as individual assets with specific useful lives and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 Property, plant and equipment. When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Buildings	10～50 years
Machinery and equipment	7～15 years
Transportation equipment	5 years
Office equipment	5 years
Leased assets	7～15 years
Leasehold improvements	5～15 years
Other equipment	5 years

upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in profit or loss.

The assets′ residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

(14) Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are measured using the cost model in accordance with the requirements of IAS 16 for that model, other than those that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition.
Properties are transferred to or from investment properties when the properties meet, or cease to meet, the definition of investment property and there is evidence of the change in use.

(15) Leases

Company as a lessee

Finance leases which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Company as a lessor

Leases where the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Sale and leaseback

The company sold and portion machinery and equipment and leased back. When sale and leaseback determined as finance lease, the company (the lessor and lessee) deferred the amount exceed book value in the leasehold period.

(16) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Company can demonstrate:

(a) The technical feasibility of completing the intangible asset so that it will be available for use or sale
(b) Its intention to complete and its ability to use or sell the asset
(c) How the asset will generate future economic benefits
(d) The availability of resources to complete the asset
(e) The ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use.

It is amortized over the period of expected future benefit.

A summary of the policies applied to the Company's intangible assets is as follows:

	Cost of computer software
Useful lives	1～3 years
Amortization method used	Amortized on a straight-line basis
Internally generated or acquired	Acquired

(17) Impairment of non-financial assets

The Company assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 Impairment of Assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset′s recoverable amount. An asset′s recoverable amount is the higher of an asset′s or cash-generating unit′s ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or companies of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the cash generating unit (company of units), then to the other assets of the unit (company of units) pro rata on the basis of the carrying amount of each asset in the unit (company of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.
An impairment loss of continuing operations or a reversal of such impairment loss is recognized in profit or loss.

(18) Revenue recognition

The accounting policy from January 1, 2018 as follow:

The Company′s revenue arising from contracts with customers are primarily related to sale of goods and rendering of services. The accounting policies are explained as follow:

Sale of goods

The Company manufactures and sells machinery. Sales are recognized when control of the goods is transferred to the customer and the goods are delivered to the customers. The main products of the Company are integrated circuits, semiconductor devices and computer motherboards, etc and revenue is recognized based on the consideration stated in the contract. For certain sales of goods transactions, they are usually accompanied by volume discounts (based on the accumulated total sales amount for a specified period). Therefore, revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts.

Products manufactured according to customer's agreed specifications if the customer controls the product at the time of creation or enhancement of the product, the Company will gradually recognize revenue over time.

The Company provides its customer with a warranty with the purchase of the products. The warranty provides assurance that the product will operate as expected by the customers. And the warranty is accounted in accordance with IAS 37.

The credit period of the Company's sale of goods is from 30 to 150 days. For most of the contracts, when the Company transfers the goods to customers and has a right to an amount of consideration that is unconditional, these contracts are recognized as trade receivables. The Company usually collects the payments shortly after transfer of goods to customers; therefore, there is no significant financing component to the contract. For some of the contracts, the Company has transferred the goods to customers but does not has a right to an amount of consideration that is unconditional, these contacts should be presented as contract assets. Besides, in accordance with IFRS 9, the Company measures the loss allowance for a contract asset at an amount equal to the lifetime expected credit losses. However, for some contracts, part of the consideration was received from customers upon signing the contract, then the Company has the obligation to transfer the goods to customers subsequently; accordingly, these amounts are recognized as contract liabilities.

Rendering of services

Revenue is recognized when the Company finishes the processing services.

The accounting policy before January 1, 2018 as follow:

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods

Revenue from the sale of goods is recognized when all the following conditions have been satisfied:

(a) the significant risks and rewards of ownership of the goods have passed to the buyer;
(b) neither continuing managerial involvement nor effective control over the goods sold have been retained;
(c) the amount of revenue can be measured reliably;
(d) it is probable that the economic benefits associated with the transaction will flow to theentity; and
(e) the costs incurred in respect of the transaction can be measured reliably

Dividends

Revenue is recognized when the Company's right to receive the payment is established.

Rendering of services

Revenue is recognized when the Company finishes the processing services.

(19) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(20) Post-employment benefits

All regular employees of the Company and its domestic subsidiaries are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account and hence, not associated with the Company and its domestic subsidiaries.

Therefore, fund assets are not included in the parent company only financial statements. Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

For the defined contribution plan, the Company and its domestic subsidiaries will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due. Overseas subsidiaries and branches make contribution to the plan based on the requirements of local regulations.

Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions. Re-measurements, comprising of the effect of the actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets, excluding net interest, are recognized as other comprehensive income with a corresponding debit or credit to retained earnings in the period in which they occur. Past service costs are recognized in profit or loss on the earlier of:

(a) the date of the plan amendment or curtailment, and

(b) the date that the Company recognizes restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payment.

(21) Income taxes

Income tax expense (income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

<u>Current income tax</u>

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.
The income tax for undistributed earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved by the Shareholders′ meeting.

<u>Deferred tax</u>

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

i. Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

ii. In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

i. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

ii. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTMATES AND ASSUMPTIONS

estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumption and estimate could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgement

In the process of applying the Company’s accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the parent company only financial statements:

(1) Revenue recognition

The Company based on trading patterns and whether the economic substance were expose to the sale of goods or services related to the significant risks and rewards, to determine whether the Company should be classified as the principal of the transaction or agent. When expose to the sale of goods or services related to the significant risks and rewards, the principal of the transaction should recognize the total receivables or received economic benefit as revenue; if determine as the agent, recognize the net transaction as revenue.

The Company provides electronic manufacturing services and integrated circuit packaging and testing manufacturing services, determined as to conform to the following indicators; it is recognized as total revenue collected:

(a) Has the primary responsibility to the provision of goods or services provided
(b) Assumed inventory risk
(c) Assumed customer's credit risk

Estimates and assumptions

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the consolidated financial statements:

(1) The Fair Value of Financial Instruments

Where the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including income approach (for example the discounted cash flows model) or the market approach. Changes in assumptions about these factors could affect the reported fair value of the financial instruments. Please refer to Note 12 for more details.

(2) Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs that would be directly attributable to the disposal of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows projections are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested.

The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

(3) Post-employment benefits

The cost of post-employment benefit and the present value of the pension obligation under defined benefit pension plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Please refer to Note 6.(18) for more details.

(4) Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group Company's domicile.

Deferred tax assets are recognized for all carryforward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies.

(5) Accounts receivables—estimation of impairment loss

Starting from January 1, 2018:

The Company estimates the impairment loss of accounts receivables at an amount equal to lifetime expected credit losses. The credit loss is the present value of the difference between the contractual cash flows that are due under the contract (carrying amount) and the cash flows that expects to receive (evaluate forward looking information). However, as the impact from the discounting of short-term receivables is not material, the credit loss is measured by the undiscounted cash flows. Where the actual future cash flows are lower than expected, a material impairment loss may arise. Please refer to Note 6 for more details.

Before January 1, 2018:

The Company considers the estimation of future cash flows when there is objective evidence showing indications of impairment. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. However, as the impact from the discounting of short-term receivables is not material, the impairment of short-term receivables is measured as the difference between the asset's carrying amount and the estimated undiscounted future cash flows. Where the actual future cash flows are lower than expected, a material impairment loss may arise. Please refer to Note 6 for more details.

(6) Inventories

Estimates of net realisable value of inventories take into consideration that inventories may be damaged, become wholly or partially obsolete, or their selling prices have declined. The estimates are based on the most reliable evidence available at the time the estimates are made. Please refer to Note 6 for more details.

6. CONTENTS OF SIGNIFICANT ACCOUNTS

(1) CASH AND CASH EQUIVALENTS

	Dec. 31, 2018	Dec. 31, 2017
Cash on hand	$125	$125
Demand deposits	555,355	1,059,918
Total	$555,480	$1,060,043

(2) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS－CURRENT

	Dec. 31, 2018	Dec. 31, 2017(Note)
Financial assets designated at fair value through profit or loss:		
Non-derivative financial assets - stocks	—	

	Dec. 31, 2018 (Note)	Dec. 31, 2017
Non-derivative financial assets:		
Stocks		$30,813

(Note) : The Company adopted IFRS 9 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Financial assets at fair value through profit or loss were not pledged.

(3) NOTES RECEIVABLES

	Dec. 31, 2018	Dec. 31, 2017
Notes receivables	$10,510	$11,950
Less: loss allowance	(−)	(−)
Total	$10,510	$11,950

Notes receivables were not pledged.

The Company adopted IFRS 9 for impairment assessment since January 1, 2018. Please refer to Note 6 for more details on accumulated impairment. Please refer to Note 12 for more details on credit risk.

(4) ACCOUNTS RECEIVABLES AND ACCOUNTS RECEIVABLES－AFFILIATES

(A)Details are as follows :

	Dec. 31, 2018	Dec. 31, 2017
Accounts receivables	$2,147,903	$2,285,747
Add : Pledged accounts receivable	224,523	—
Less: loss allowance	(17,182)	(2,658)
Subtotal	2,355,244	2,283,089
Accounts receivables-affiliates	695,535	238,171
Less: loss allowance	(1,200)	(386)
Subtotal	694,335	237,785
Total	$3,049,579	$2,520,874

Please refer to Note 8 for more details on the part of accounts receivables under pledge.

(B) Accounts receivables are generally on 30-150 day terms. The Company adopted IFRS 9 for impairment assessment since January 1, 2018. Please refer to Note 6 for more details on impairment of accounts receivables. The Company adopted IAS 39 for impairment assessment before January 1, 2018. The movements in the provision for impairment of accounts receivables and accounts receivables-affiliates for the year ended December 31, 2017 are as follows: (Please refer to Note 12 for more details on credit risk management.)

	Individually impaired	Collectively impaired	Total
As of Jan. 1, 2017	–	$4,365	$4,365
Charge (reversal) for the current period	–	(1,321)	(1,321)
As of Dec. 31, 2017	–	$3,044	$3,044

Aging analysis of accounts receivable and accounts receivables-affiliate, net:

		Past due but not impaired			
	Neither past due nor impaired	61-90 days	91-120 days	>=121 days	Total
Dec. 31, 2017	$2,516,007	$503	$610	$3,754	$2,520,874

(C) The Company signed loan agreements with the following banks and used its accounts receivable as securities for the loans. Certain of the Company's accounts receivable were under pledge to the banks. The details of the loan agreements are as follows:

Dec. 31, 2018

Bank	Contract period	Banking facility	Loan amount	Factored amount
Far Eastern Bank	August 20, 2018~ August 20, 2019	$135,000	$135,000	$224,523

Dec. 31, 2017

Bank	Contract period	Banking facility	Loan amount	Factored amount
Far Eastern Bank	July 6, 2017 ~July 6, 2018	$135,000	–	–

(5) INVENTORIES

(A) Details are as follows :

	Dec. 31, 2018	Dec. 31, 2017
Raw materials	$973,828	$705,619

Supplies	102,425	86,849
Work in progress	128,137	241,672
Finished goods	49,694	159,172
Total	$1,254,084	$1,193,312

(B)

	2018	2017
Cost of inventories sold	$14,435,735	$13,419,388
Loss on realizable value and obsolescence of inventories	—	21,342
Loss in inventory write-off	43,705	21,662
Inventory loss	1,118	492
Cost of goods sold	$14,480,558	$13,462,884

(C) As of December 31, 2018, and 2017, inventories were insured for $12,067,679 thousand and $10,424,902 thousand, respectively.

(D) No inventories were pledged.

(6) FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - NON CURRENT

	Dec. 31, 2018	Dec. 31, 2017(Note)
Equity instrument investments measured at fair value through other comprehensive income-Non-current：		
Unlisted companies stocks	$234,878	

(Note)：The Company adopted IFRS 9 since January 1, 2018. The Company p elected not to restate prior periods in accordance with the transition provision in IFRS 9.

The Company classified certain of its financial assets as financial assets at fair value through other comprehensive income. Financial assets at fair value through other comprehensive income were not pledged.

(7) AVAILABLE-FOR-SALE FINANCIAL ASSETS– NON CURRENT

(A)Details are as follows:

	Dec. 31, 2018 (Note)	Dec. 31, 2017
Unlisted stocks		$40,482

Add : Unrealized gains and losses	175,055
Total	$215,537

(B) Stock details are as follows:

Investee Company	Type of stock	Dec. 31, 2018(Note)	Dec. 31, 2017
ACTIONTEC	Common stock		$102,023
ACTIONTEC	Preferred stock		113,514
			$215,537

(Note)：The Company adopted IFRS 9 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

(8) FINANCIAL ASSETS MEASURED AT COST –NON CURRENT

(A) Available-for-Sale Financial Assets

	Dec. 31, 2018 (Note 1)	Dec. 31, 2017
STRATEDGE		$1,323
SPINERGY		－
GOLFWARE, INC.		－
SPARQTRON CORP. (Note)		31,366
Total		$32,689

(Note)：The Company lost significant influence since October 2017, therefore, recognized the investment for financial assets measured at cost. Please refer to Note 6.(9)(k) for more detail.

(Note 1)：The Company adopted IFRS 9 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

(B) The Company adopted IAS 39 before January 1, 2018. The above investments in the equity instruments of unlisted entities are measured at cost as the fair value of these investments are not reliably measurable due to the fact that the variability in the range of reasonable fair value measurements is significant for that investment and that the probabilities of the various estimates within the range cannot be reasonably assessed and used when measuring fair value.

(C) No financial assets measured at cost were pledged.

(9) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(A) The company investments accounted for using the equity method are as follows:

Investee Company	Type of stock	Dec. 31, 2018 Amount	Dec. 31, 2018 Ownership	Dec. 31, 2017 Amount	Dec. 31, 2017 Ownership
Investments in subsidiaries:					
ORIENT SEMICONDUCTOR ELECRTONICS PHILIPPINES INC.(OSEP)	Common stock	$23,361	93.67%	$54,429	93.67%
OSE USA, INC. (OSEU)	Common stock	100,115	100.00%	99,306	100.00%
OSE INTERNATIONAL LTD.	Common stock	296,610	100.00%	266,535	100.00%
COREPLUS (HK) LIMITED	Common stock	440,101	100.00%	397,704	100.00%
Subtotal		860,187		817,974	
Investments in associates:					
OSE PROPERTIES, INC.	Common stock	—	39.99%	—	39.99%
ATP ELECTRONICS, TAIWAN INC.	Common stock	230,815	9.57%	212,822	9.57%
INFOFAB, INC.	Common stock	8,288	13.52%	5,074	14.85%
SCS HIGHTECH INC.	Common stock	—	18.17%	—	18.17%
Subtotal		239,103		217,896	
Total		$1,099,290		$1,035,870	

(B) In February 2006, for the purpose of a merger, the investee company OSE ACQUISITION CORP. purchased 100% of common shares in OSE USA, Inc. at a price of US$0.006 per share and assumed all of its assets and liabilities. After the merger, OSE ACQUISITION CORP. changed its name to OSE USA, Inc.

(C) In September 2006, shares of the investee company ATP were exchanged with ATP TAIWAN so that the Company would hold 6.79% ownership of ATP TAIWAN after the exchange. The Company had purchased 1,929 thousand treasury shares. So the Company held 9.57% ownership of ATP TAIWAN on December 31, 2018.

(D) Because SCS HIGHTECH INC. was in financial crisis in 2004, the long-term investment amounted to $96,203 thousand was written off as losses in 2004.

(E) Owing to the continue loss of OSE PROPERTIES, INC., the accumulated investment loss has made the book value of long-term investment declining to zero, the company will no longer recognize the investment loss.

(F)In order to improve the financial structure of OSEP, the Company made a financial structure improvement plan as following:

i. On December 12, 2008, the board of directors of the Company approved OSEP to issue first set of new stocks for a total value of US$8 million, consisting of US$5.18 million of cash and US $2.82 million worth of debt to equity swap. This was approved on May 21, 2009 by Investment Commission M.O.E.A.

ii. On December 9, 2009, the board of directors of the Company approved OSEP to issue second set stocks for a total value of US$8 million, consisting of US$1.6 million of cash and US$6.4 million of debt-to-equity swap. This was approved on September 8, 2011 by Investment Commission M.O.E.A.

iii. On May 5, 2010, the board of the directors of the Company approved OSEP to issue third set of stocks for a total value of US$13.5 million, consisting of US$2.7 million of cash and US$10.8 million of debt-to-equity swap. This was approved on September 8, 2011 by Investment Commission M.O.E.A.

iv. On August 26, 2010, the board of the directors of the Company approved OSEP to issue fourth set of stocks for a total value of US$10.5 million, consisting of US$2.1 million of cash and US$8.4 million of debt-to-equity swap. This was approved on September 8, 2011 by Investment Commission M.O.E.A.

v. On December 28, 2010, the board of the directors of the Company approved OSEP to issue fifth set of stocks for a total value of US$8 million, consisting of US$1.6 million of cash and US$6.4 million of debt-to-equity swap. This was approved on January 16, 2012 by Investment Commission M.O.E.A.

(G) In order to improve the financial structure of OSEU, the Company made financial improvement plan as following:

i. On July 15, 2010, the board of directors of the Company approved to merge OSEI and OSEU in September 2010. OESU is the remaining existing entity while OSEI ceased to operate. Starting from September 2010, all assets, liabilities, rights and obligations of OSEI were transferred to OSEU.

ii. On July 15, 2010 the board of directors of the Company approved OSEU to raise capital by the issuance of new stock for the total value of US$35,762 thousand in debt-to-equity swap. This was approved on January 17, 2011 by Investment Commission M.O.E.A.

(H) On March 24, 2011, the board of the directors of the Company approved COREPLUS (HK) LIMITED to issue stocks, consisting of US$2.7 million of debt-to-equity swap. This was approved on October 3, 2012 by Investment Commission M.O.E.A.

(I) OSE INTERNATIONAL LTD was approved by its Board of Directors to decrease its capital by US$2,800 thousand and US$4,200 thousand on June 25, 2008 and April 20, 2015, respectively. The Company had taken back the investment amount by $84,280 thousand (US$2,800 thousand) and $132,536 thousand (US$4,200 thousand), respectively.

(J) On May 27, 2016, the board of directors of the Company approved to disposal the investment company Sparqtron Corp., at USD 0.05 per common stock 2,000 thousand shares and USD 0.311 per preferred stock A 10,350 thousand shares, the proceeds were USD 3,319 thousand, which was received on August 23, 2016, therefore, the company held 9.96% ownership as of December 31, 2016.

(K) In March 2017, the Company lost control of the investee company SPARQTRON, but still has significant influence. Therefore, the investment accounted for using the equity method. In October 2017, the Company had not been the director of SPARQTRON and lost significant influence. Therefore, the investment accounted for financial assets measured at cost, and the Company recognized the investment by fair value. When losing significant influence, the amount of difference between book value and fair value plus selling price was $872 thousand and classified under loss on disposal of investments.

(L) The share of the profit or loss of these associates and joint ventures for using the equity method are as follows：

	For the years ended December 31	
Investee Companies	2018	2017
OSE PHILIPPNES INC.	($32,158)	($105,385)
OSE PROPERTIES, INC.	—	—
OSE USA, INC.	(2,280)	(1,297)
SPARQTRON CORP.	—	639
OSE INTERNATIONAL LTD.	25,576	10,677
INFOFAB, INC.	3,651	1,659
ATP TAIWAN	33,895	22,593
COREPLUS (HK) LIMITED.	40,082	66,183
Total	$68,766	($4,931)

The 2018 and 2017 financial statements were audited by other auditors.

(M) In year 2018 and 2017, the Company obtained cash dividend from ATP Taiwan and InfoFab in the form of cash dividend for $17,293 thousand and $0, $15,037 thousand and $1,114 thousand, respectively. They are recorded as credit to "Investments accounted for using the equity method".

(N) The details of translation adjustment from investments accounted for using the equity method are as follows：

Investee Companies	For the years ended December 31 2018	For the years ended December 31 2017
OSE PHILIPPNES INC.	$1,082	($10,170)
OSE USA, INC.	3,089	(8,306)
SPARQTRON CORP.	—	543
OSE INTERNATIONAL LTD.	5,379	(9,683)
ATP TAIWAN.	1,391	162
COREPLUS (HK) LIMITED.	6,528	(22,293)
Net	$17,469	($49,747)

(O) Part of investments accounted for using the equity method has been pledged to the banks as securities for bank loans granted to the Company. Please refer to Note 8 for more details.

(P)The Company investments by using the equity method are not published price quotations.

(Q) The following table lists the investments accounted for using the equity method of the Company:

	Dec. 31, 2018	Dec. 31, 2017
Total assets (100%)	$3,932,454	$3,032,959
Total liabilities (100%)	$1,796,670	$1,112,327

	For the years ended December 31 2018	For the years ended December 31 2017
Revenue (100%)	$5,348,674	$3,869,411
Profit (100%)	$367,342	$247,259

(10) PROPERTY, PLANT AND EQUIPMENT

(A)

	Buildings	Machinery and equipment	Transportation equipment	Office equipment	Rental assets	Leased assets	Leasehold improvements	Other equipment	Construction in progress and equipment awaiting examination	Total
Cost:										
As of Jan. 1, 2018	$6,951,055	$15,322,416	$1,804	$54,890	$279,343	$158,211	—	$355,290	$17,109	$23,140,118
Additions	—	—	—	—	—	—	—	—	402,530	402,530
Disposals	(14,399)	(162,992)	(717)	—	—	—	—	(354)	—	(178,462)
Transfers	52,997	764,269	—	—	—	(124,351)	—	8,957	(276,039)	425,833
As of Dec. 31, 2018	$6,989,653	$15,923,693	$1,087	$54,890	$279,343	$33,860	—	$363,893	$143,600	$23,790,019
Depreciation and impairment:										
As of Jan. 1, 2018	$4,125,549	$10,895,907	$1,749	$53,364	$125,518	$51,565	—	$286,362	—	$15,540,014
Depreciation	216,704	1,116,921	14	500	6,685	16,189	—	24,527	—	1,381,540
Disposals	(14,379)	(128,740)	(716)	—	—	—	—	(352)	—	(144,187)
Transfers	—	59,738	—	—	—	(59,738)	—	—	—	—
As of Dec. 31, 2018	$4,327,874	$11,943,826	$1,047	$53,864	$132,203	$8,016	—	$310,537	—	$16,777,367

	Buildings	Machinery and equipment	Transportation equipment	Office equipment	Rental assets	Leased assets	Leasehold improvements	Other equipment	Construction in progress and equipment awaiting examination	Total
Cost:										
As of Jan. 1, 2017	$6,919,262	$17,317,753	$2,614	$54,915	$279,343	$759,230	$4,266	$397,472	$126,561	$25,861,416
Additions	1,116	—	—	—	—	—	—	—	84,658	85,774
Disposals	(99,862)	(2,731,440)	(860)	(25)	—	—	(4,266)	(47,754)	—	(2,884,207)
Transfers	130,539	736,103	50	—	—	(601,019)	—	5,572	(194,110)	77,135
As of Dec. 31, 2017	$6,951,055	$15,322,416	$1,804	$54,890	$279,343	$158,211	—	$355,290	$17,109	$23,140,118
Depreciation and impairment:										
As of Jan. 1, 2017	$4,000,451	$12,230,281	$2,022	$52,889	$118,833	$212,329	$1,156	$303,519	—	$16,921,480
Depreciation	224,885	1,168,444	28	500	6,685	23,039	70	26,407	—	1,450,058
Disposals	(99,787)	(2,686,621)	(301)	(25)	—	—	(1,226)	(43,564)	—	(2,831,524)
Transfers	—	183,803	—	—	—	(183,803)	—	—	—	—
As of Dec. 31, 2017	$4,125,549	$10,895,907	$1,749	$53,364	$125,518	$51,565	—	$286,362	—	$15,540,014
Net carrying amount:										

As of Dec. 31, 2018	$2,661,779	$3,979,867	$40	$1,026	$147,140	$25,844	—	$53,356	$143,600	$7,012,652
As of Dec. 31, 2017	$2,825,506	$4,426,509	$55	$1,526	$153,825	$106,646	—	$68,928	$17,109	$7,600,104

(B) Affects both the cash and non-cash items of investing activities:

	For the years ended December 31, 2018	2017
Acquisition of property, plant, and equipment expenditure:		
Increase of property, plant and equipment	$828,363	$85,774
Increase of prepayment for equipment	118,667	135,911
(Increase) decrease of payables on equipment	(184,083)	458,411
Cash expenditure	$762,947	$680,096

(C) Details of capitalized borrowing costs are as follows:

	For the years ended December 31	
	2018	2017
Prepayments for equipment	$4,308	$2,474
Capitalisation rate of borrowing costs	2.89%～3.78%	2.08%～3.24%

(D) As of December 31, 2018, and 2017, fixed assets were insured for $11,031,474 thousand and $12,103,998 thousand, respectively.

(E) Please refer to Note 8 for more details on property, plant and equipment under pledge.

(11) INTANGIBLE ASSETS

(A) As of December 31, 2018, and 2017, the cost of the computer software, original cost, accumulated amortization and amount of amortization in the book of the Company is listed as below:

	Computer software
	Amount
Cost：	
As of Jan. 1, 2018	$263,863
Addition	63,714
Transfers	8,035
As of Dec. 31, 2018	$335,612
As of Jan. 1, 2017	$222,543
Addition	25,854
Transfers	15,466
As of Dec. 31, 2017	$263,863

	Computer software
	Amount
Amortization and impairment：	
As of Jan. 1, 2018	$184,878
Amortization	61,468
As of Dec. 31, 2018	$246,346
As of Jan. 1, 2017	$127,495
Amortization	57,383
As of Dec. 31, 2017	$184,878
Net carrying amount :	
Dec. 31, 2018	$89,266
Dec. 31, 2017	$78,985

(B) Amortization expense of intangible assets under the statement of comprehensive income:

	For the years ended December 31	
	2018	2017
Operating costs	$38,371	$34,615
Managing costs	$1,978	$2,779
Research and development costs	$21,119	$19,989

(C) The cost of the computer software is amortized with straight-line method over the estimated useful life of 1～3 years.

(12) PREPAYMENTS

	Dec. 31, 2018	Dec. 31, 2017
Current assets－prepayments		
Prepaid expenses	$40,651	$32,246
Other prepayments	2,236	2,356
Total	$42,887	$34,602
Non-current assets－prepayments for equipment：		
Prepayment for equipment	$180,354	$79,953

(13) LONG-TERM RECEIVABLES-AFFILIATES

	Dec. 31, 2018	Dec. 31, 2017
Loan receivable (Note)	$378,002	$366,436
Receivable for sale/rent of machinery and equipment and payment on behalf (Note)	74,733	72,446
Interest receivable from financial activities (Note)	46,666	37,909
Total	499,401	476,791
(Less) : Loss allowance	(−)	(−)
	$499,401	$476,791

(Note):

(1) Long-term receivable − OSE PHILIPPINES INC. and Long-term receivable − OSE USA Inc. amounted to $803,966 thousand and $1,148,668 thousand, respectively. In 2010, they were converted to common stocks of OSEP and common stocks of OSEU through debt-to-equity swap options.

(2) Long-term receivable − OSE PHILIPPINES INC. amounted to $183,843 thousand. In May 2011, the receivable was subsequently converted to common stocks of OSE PHILIPPINES INC. through debt-to-equity swap options.

(3) Long-term receivable − COREPLUS amounted to $79,893 thousand. In October, 2012, the amount was converted to common stocks of investment of COREPLUS through debt-to-equity swap options.

(14) SHORT-TERM LOANS

(A) Detail are as follows :

Items	Dec. 31, 2018	Dec. 31, 2017
L/C	$798,069	$382,699
Unsecured bank loans	1,924,803	1,809,979
Mortgage loans on machine and equipment	83,985	−
Total	$2,806,857	$2,192,678

(B) The ranges of interest rates and the due dates:

	Dec. 31, 2018	Dec. 31, 2017
Ranges of interest rates	1.06%～4.25%	1.14%～3.54%
Due dates	January 14, 2019～ November 30, 2019	January 19, 2018～ December 31, 2018

(C) As of December 31, 2018, and 2017, unused short-term loans were $614,906 thousand and $1,600,591 thousand, respectively.

(D) Please refer to Note 8 for more detail on held for trading financial assets pledged as security for short-term loans.

(15) SHORT-TERM NOTES PAYABLE－NET

(A) Detail are as follows :

	Dec. 31, 2018	Dec. 31, 2017
Par value of commercial papers	$350,000	$400,000
(Less) : Discount for short-term notes payable	(390)	(1,062)
Net	$349,610	$398,938

(B) The ranges of interest rates and the due dates:

	Dec. 31, 2018	Dec. 31, 2017
Ranges of interest rates	1.938%～2.088%	1.65%～1.988%
Due dates	January 3, 2019～ March 7, 2019	January 10, 2018～ November 23, 2018

(16) LONG-TERM LOANS

(A) Detail are as follows:

Items	Dec. 31, 2018	Dec. 31, 2017
Mortgage loan	$3,053,515	$3,757,706
Less: Due within one year	(1,340,270)	(1,586,951)
Net	$1,713,245	$2,170,755

(B) The ranges of interest rates and the due dates:

	Dec. 31, 2018	Dec. 31, 2017
Ranges of interest rates	1.80%～4.65%	1.80%～3.38%
Due dates	January 26, 2019～ August 15, 2023	March 1, 2018～ July 28, 2021

(C) Part of property, plant and equipment, and deposits reserved for repayment are pledged as security for the Company's long-term borrowings. Please refer to Note 8 for more details.

(17) LONG-TERM LEASE PAYABLE

(A)

	Dec. 31, 2018		Dec. 31, 2017	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	$2,617	$2,610	$24,835	$24,495
After one year but not more than five years	—	—	69	56
More than five years	—	—	—	—
Total minimum lease payments	2,617	2,610	24,904	24,551
Less amounts representing finance charges	(7)	—	(353)	—
Present value of minimum lease payments	$2,610	$2,610	$24,551	$24,551
Current		$2,610		$24,495
Non-current		—		$56

(B) The details of future annual rental lease payments are as follow:

Year	Dec. 31, 2018	Dec. 31, 2017
2018	—	$24,835
2019	$2,617	69
Total	$2,617	$24,904

(18) POST-EMPLOMENT BENEFITS

(A) Defined contribution plan

The Company adopts a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. Under the Labor Pension Act, the Company will make monthly contributions of no less than 6% of the employees' monthly wages to the employees' individual pension accounts. The Company has made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

Expenses under the defined contribution plan for the years ended December 31, 2018 and 2017 are $102,285 thousand and $98,932 thousand, respectively.

(B) Defined benefits plan

The Company adopts a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed 45 units. Under the Labor Standards Act, the Company contributes an amount equivalent to 2% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee. Before the end of each year, the Company assesses the balance in the designated labor pension fund. If the amount is inadequate to pay pensions calculated for workers retiring in the same year, the Company will make up the difference in

one appropriation before the end of March the following year.
Costs under the defined contribution plan for the years ended December 31, 2018 and 2017 are $59,828 thousand and $56,267 thousand, respectively.

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund. The pension fund is invested in-house or under mandate, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate manager flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury Funds can be used to cover the deficits after the approval of the competent authority. As the Company does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with paragraph 142 of IAS 19. The Company expects to contribute $99,743 thousand to its defined benefit plan during the 12 months beginning after December 31, 2018.

The average duration of the defined benefits plan obligation as of December 31, 2018 and 2017, is the end of the year of 2028 and 2027, respectively.

Pension costs recognized in profit or loss for the years ended December 31, 2018 and 2017:

	For the years ended December 31	
	2018	2017
Current period service costs	$7,814	$8,188
Interest income or expense	7,475	8,936
Expected return on plan assets	—	—
	$15,289	$17,124

Changes in the defined benefit obligation and fair value of plan assets are as follows:

	Dec. 31, 2018	Dec. 31, 2017	Jan. 1, 2017
Present value of the defined benefit obligation	$1,019,883	$1,022,458	$1,019,544
Plan assets at fair value	(523,987)	(484,675)	(423,822)
Other non-current liabilities - Accrued pension liabilities recognized on the company only balance sheets	$495,896	$537,783	$595,722

Reconciliation of liability (asset) of the defined benefit plan is as follows:

	Defined benefit obligation	Fair value of plan assets	Benefit liability (asset)
As of Jan. 1, 2017	$1,019,544	($423,822)	$595,722
Current period service costs	8,188	—	8,188
Net interest expense (income)	15,293	(6,357)	8,936
Subtotal	23,481	(6,357)	17,124
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in demographic assumptions	(1,424)	—	(1,424)
Actuarial gains and losses arising from changes in financial assumptions	12,447	—	12,447
Experience adjustments	18,446	—	18,446
Return on plan assets	—	3,087	3,087
Subtotal	29,469	3,087	32,556
Payments from the plan	(50,036)	50,036	—
Contributions by employer	—	(107,619)	(107,619)
As of Dec. 31, 2017	$1,022,458	($484,675)	$537,783
Current period service costs	7,814	—	7,814
Net interest expense (income)	14,213	(6,737)	7,476
Subtotal	22,027	(6,737)	15,290
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in demographic assumptions	2,673	—	2,673
Actuarial gains and losses arising from changes in financial assumptions	38,784	—	38,784
Experience adjustments	12,752	—	12,752
Return on plan assets	—	(11,642)	(11,642)
Subtotal	54,209	(11,642)	42,567
Payments from the plan	(78,811)	78,811	—
Contributions by employer	—	(99,744)	(99,744)
As of Dec. 31, 2018	$1,019,883	($523,987)	$495,896

The following significant actuarial assumptions are used to determine the present value of the defined benefit obligation:

	Dec. 31, 2018	Dec. 31, 2017
Discount rate	1.01%	1.39%
Expected rate of salary increases	1.40%	1.40%

A sensitivity analysis for significant assumption as at December 31, 2018 and 2017 is, as shown below:

	Effect on the defined benefit obligation			
	2018		2017	
	Increase defined benefit obligation	Decrease defined benefit obligation	Increase defined benefit obligation	Decrease defined benefit obligation
Discount rate increase by 0.5%	—	$50,647	—	$54,153
Discount rate decrease by 0.5%	$76,629	—	$60,776	—
Future salary increase by 0.5%	$75,851	—	$60,426	—
Future salary decrease by 0.5%	—	$50,699	—	$54,402

The sensitivity analyses above are based on a change in a significant assumption (for example: change in discount rate or future salary), keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another. There was no change in the methods and assumptions used in preparing the sensitivity analyses compared to the previous period.

(19) EQUITY

(A) Common stock

(a) The Company had increased capital by cash by $1,800,000 thousand with par value $10 per share and issued price $9.2 on May 30, 2007. The rights and obligations of new shares by private placement are the same as those of common shares. Ownership of shares by private placement cannot be transferred to others within three years since issuance per Security and Exchange regulations.

(b) The board of directors of the Company agreed on June 21, 2011 to capital injection by issuing common stocks for cash in order to repay loan and improve the Company financial structure. A total of 200,000 thousand shares of common stocks, with face value of $10 per share, will be issued for a total of $2,000,000 thousand. Approval has been granted by Financial Supervisory Commission on July 22, 2011 by Doc No. 1000030977. In the event of existing shareholders or employees forfeiting purchasing rights or the event of shortage of subscription of share, the board of directors will authorize the chair of directors to contact an arranged person for purchases. As of August 2, 2011, the board of directors agreed stocks will be issued with the issuance price of NTD 6.4 per share with the official issuance date of September 5, 2011. As of September 19, 2011, registration for the issuance of new stocks is complete.

(c) The Board of shareholders' meeting of the Company agreed on June 29, 2018 to reduce capital $2,536,872 thousand for cover accumulated deficits in order to improve the Company's financial structure. The ratio of reduction capital was 31.4742285%, and it was declared effective by Financial Supervisory Commission on August 8, 2018. The record date for reverse split was at September 30, 2018, and the amendment of registration was completed at October 8, 2018.

(d) As of December 31, 2018, and 2017, the authorized capitals were $20,000,000 thousand. Issued capital were $5,523,285 thousand and $8,060,158 thousand, with 552,328,533 shares and 806,015,782 shares respectively. Each share is at a par value of NT$10.

(B) Additional paid-in capital

	Dec. 31, 2018	Dec. 31, 2017
Form shares of changes in equities of subsidiaries	$5,833	$6,712
The differences between the fair value of consideration paid or received from acquiring or disposing subsidiaries and the carrying amounts of the subsidiaries	16,940	16,940
Share of changes in net assets of associates and joint ventures accounted for using the equity method	(2,669)	(2,232)
Total	$20,104	$21,420

(a) According to the Company Act, the capital reserve shall not be used except for making good the deficit of the company. When a company incurs no loss, it may distribute the capital reserves related to the income derived from the issuance of new shares at a premium or income from endowments received by the company. The distribution could be made in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them.

(b) According to the prevailing laws and regulations, each year, the amount of capital increase transferred from capital reserve arising from premiums on issuance of capital stock and donations cannot exceed 10% of the Company's total issued capital.

(C) Retained earnings and dividend policies

According to the Company's original Articles of Incorporation, current year's earnings, if any, shall be distributed in the following order:

(a) Payment of all taxes and dues;
(b) Offset prior years′ operation losses;
(c) Set aside 10% of the remaining amount as legal reserve;
(d) Set aside or reverse special reserve in accordance with the requirements for operating and law and regulations;
(e) The remaining balance combined with the undistributed earnings accumulated during previous years shall be distributed to the shareholders as dividends.

The Company shall take into account the changing environment of the industry and development stage of the Company in meeting the needs of capital in the future and in establishing long-term financial planning together with satisfying the shareholders' demand for cash. The earnings distributed for the current year shall not be lower than 10% of accumulated distributable earnings and shall not be distributed if the accumulated distributable earnings is lower than 1% of contributed capital. Cash dividends distributed shall not be lower than 10% of the dividends distributed.

According to the Company Act, the Company needs to set aside amount to legal reserve unless where such legal reserve amounts to the total authorized capital. The legal reserve can be used to make good the deficit of the Company. When the Company incurs no loss, it may distribute the portion of legal serve which exceeds 25% of the paid-in capital by issuing new shares or by cash in proportion to the number of shares being held by each of the shareholders.

Following the adoption of TIFRS, the FSC on 6 April 2012 issued Order No. Financial-Supervisory-Securities-Corporate-1010012865, which sets out the following provisions for compliance:

On a public company's first-time adoption of the TIFRS, for any unrealized revaluation gains and cumulative translation adjustments (gains) recorded to shareholders' equity that the company elects to transfer to retained earnings by application of the exemption under IFRS 1, the company shall set aside an equal amount of special reserve. Following a company's adoption of the TIFRS for the preparation of its financial reports, when distributing distributable earnings, it shall set aside to special reserve, from the profit/loss of the current period and the undistributed earnings from the previous period, an amount equal to "other net deductions from shareholders' equity for the current fiscal year, provided that if the company has already set aside special reserve according to the requirements in the preceding point, it shall set aside supplemental special reserve based on the difference between the amount already set aside and other net deductions from shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

The Board of shareholders' meeting on March 29, 2019 and June 29, 2018, respectively. The Company still had accumulated deficit. As a result, the Company did not distribute earnings.

Please refer to Note 6.(23) for further details on employees' compensation and remuneration to directors and supervisors.

(20) OPERATING REVENUE

The details are as follow:

	For the years ended December 31	
	2018 (Note)	2017
Revenue from contracts with customers		
Sale of goods	$14,400,738	$12,914,941
Revenue arising from rendering of services	465,123	364,339
Income on sale of material	58,510	189,415
Total	$14,924,371	$13,468,695

(Note): The Company has adopted IFRS 15 from January 1, 2018. The Company elected to apply the standard retrospectively by recognizing the cumulative effect of initially applying the standard at the date of initial application (January 1, 2018)

The Company has adopted IFRS 15 from January 1, 2018. Analysis of revenue from contracts with customers during the year is as follows:

(A) Disaggregation of revenue

For the year ended December 31, 2018	Semiconductor Group	EMS Group	Total
Sales of goods	$8,533,978	$5,866,760	$14,400,738
Rendering of Services	465,123	—	465,123
Sales of materials	16,672	41,838	58,510
Total	$9,015,773	$5,908,598	$14,924,371
Timing of revenue recognition:			
At a point in time	$481,795	$5,908,598	$6,390,393
Over time	8,533,978	—	8,533,978
Total	$9,015,773	$5,908,598	$14,924,371

(B) Contract balances

(a) Contract assets-current

	Jan. 1, 2018	Dec. 31, 2018	Difference
Sales of goods	$212,604	$425,684	$213,080

As of December 31, 2018, the Company does not have an unconditional right to receive the consideration in the contract of to $425,684 thousand and transferred to accounts receivables at the reporting date.

(b) Contract liabilities-current

	Jan. 1, 2018	Dec. 31, 2018	Difference
Sales of goods	$45,782	$15,150	($30,632)

As of December 31, 2018, $16,583 thousand included in the current contract liability balance at the beginning of the period was recognized as revenue during the period.

(C) Transaction price allocated to unsatisfied performance obligations
None.

(D) Assets recognized from costs to fulfil a contract
None.

(21) Expected credit losses

	For the years ended December 31,	
	2018	2017 (Note)
Operating expenses-expected credit losses		
Accounts receivable and contract assets	$15,338	

(Note) : The Company adopted IFRS 9 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Please refer to Note 12 for more details on credit risk.

The Company measures the loss allowance of its contract assets and accounts receivables at an amount equal to lifetime expected credit losses. The assessment of the Company's loss allowance as of December 31, 2018 is as follow:

The Company considers the grouping of contract assets and accounts receivables by counterparties' credit rating, by geographical region and by industry sector and its loss allowance is measured by using a provision matrix, details are as follow:

Semiconductor Group		Overdue					
	Not yet due (Note)	Within 30 days	31-60 days	61-90 days	91-180 days	After 181 days	Total
Gross carrying amount	$2,103,807	$188,799	$13,441	$1,379	$8,172	$4,483	$2,320,081
Loss ratio	0%~0.19%	0%~2.76%	0%~15.21%	0%~50.26%	0.01%~85.63%	100%	
Lifetime expected credit losses	1,847	1,902	1,306	660	6,964	4,483	17,162
Carrying amount of trade receivables	$2,101,960	$186,897	$12,135	$719	$1,208	—	$2,302,919

EMS Group		Overdue					
	Not yet due (Note)	Within 30 days	31-60 days	61-90 days	91-180 days	After 181 days	Total
Gross carrying amount	$1,130,624	$49,631	$4	$3,282	$24	$509	$1,184,074
Loss ratio	0%~0.01%	0%~0.13%	0%~10.05%	0%~16.12%	0%~46.39%	100%	
Lifetime expected credit losses	114	65	—	521	11	509	1,220
Carrying amount of trade receivables	$1,130,510	$49,566	$4	$2,761	$13	—	$1,182,854

The movement in the provision for impairment of contract assets and accounts receivables during the years ended December 31, 2018 is as follows:

	Accounts receivable and contract assets
Beginning balance (in accordance with IAS 39)	$3,044
Transition adjustment to retained earnings	—
Beginning balance (in accordance with IFRS 9)	3,044
Addition for the current period	15,338
Ending balance	$18,382

(22) LEASES

Operating lease commitments – Company as lessee

(A) Rental Agreement:

The Company has entered into a series of land rental agreements with the government which will expire between January 31, 2020 and April 30, 2025. The Company could apply for lease renewal three months prior to the expiry date. If the Company fails to do so, the land shall be returned to the government and the building on the land shall be sold to another approved exporting enterprise within six months after the expiry date. If the Company fails to complete all the above-mentioned procedures within the prescribed six months, the government has the right to dispose the property on the land on the behalf of the Company. The government has the right to adjust the rent based on the publicly announced land value. The government also has the right to terminate the contract if the Company breaches the contract or fails to pay the rent over four months or violates the civil law or the land law.

The Company has signed non-cancellable operating leases. There are no restrictions placed upon the Company by entering into these leases. Future minimum rentals payable as of December 31, 2018 and 2017 are as follows:

	Dec. 31, 2018	Dec. 31, 2017
Within one year	$13,135	$10,375
After one year but not more than five years	35,425	22,380
More than five years	26,139	9,665
Total	$74,699	$42,420

(B) Recognized as an expense:

During December 31, 2018 and 2017 the rental expenses were both $13,135.

(23) SUMMARY STATEMENTS OF EMPLOYEE BENEFITS, DEPRECIATION AND AMORTIZATION EXPENSES BY FUNCTION

	For the years ended December 31					
	2018			2017		
	Operating costs	Operating expenses	Total amount	Operating costs	Operating expenses	Total amount
Employee benefits expense						
Salaries	$2,174,812	$328,869	$2,503,681	$2,048,490	$338,322	$2,386,812
Pension	$136,089	$26,024	$162,113	$130,872	$24,327	$155,199
Labor and health insurance	$249,843	$36,670	$286,513	$233,669	$34,708	$268,377
Remuneration to directors	－	$3,720	$3,720	－	$3,720	$3,720
Other employee benefits expense	$146,376	$46,623	$192,999	$141,492	$45,194	$186,686
Depreciation	$1,347,234	$35,526	$1,382,760	$1,413,923	$40,486	$1,454,409
Amortization	$38,371	$23,097	$61,468	$34,615	$22,768	$57,383

As of December 31, 2018, and 2017, the total number of employees of the Company were 6,111 and 5,644, including 5 and 5 non-employee directors, respectively.

According to the resolution, the employee's compensation and remuneration to directors and supervisors is based on the current year's earnings, which should be used first to cover accumulated deficit, if any, and then the remaining balance shall be distributed: 8%~12% as employees' compensation, and no more than 3% as remuneration to directors and supervisors.

The distribution ratio of employee's compensation and remuneration to directors and supervisors and employee's compensation may be made in the form of stocks or cash, which shall be determined by a resolution adopted by a majority vote at a board of directors meeting attended by two-thirds or more of the directors and be reported at a shareholders' meeting. Cash or stock dividends as bonus to employees shall only be given to employees who satisfy certain conditions.

As of December 31, 2018, the Company still had accumulated deficit. As a result, the Company's recognized amounts of Employees' compensation and rewards for Directors and Supervisors for the year ended December 31, 2018 was $0.

The estimated employee bonuses and remuneration to directors and supervisors for the year ended December 31, 2017 were based on post-tax net income of the period and the Company's Articles of Incorporation, and considered factors such as appropriation to legal reserve etc. The estimated employee bonuses and remuneration to directors and supervisors for the year ended December 31, 2017 are recognized as employee benefits expense for the period. If the Board modified the estimates significantly in the subsequent periods, the Company will recognize the change as an adjustment to current income. The difference between the estimation and the resolution of shareholders' meeting will be recognized in profit or loss of the subsequent year. The number of stocks distributed as employee bonuses was calculated based on the closing price one day earlier than the date of shareholders' meeting and considered the impacts of ex-right/ex-dividend. As of the year ended December 31, 2017, the Company still had accumulated deficit. As a result, the Company's expected amounts of Employees' bonuses and rewards for Directors and Supervisors for the year ended December 31, 2017, was $0.

Information on the Board of Directors' resolution regarding the employees' compensation and remuneration to directors and supervisors can be obtained from the "Market Observation Post System" on the website of the TWSE.

(24) NON-OPERATING INCOME AND EXPENSES

(A) Other income

	For the years ended December 31	
	2018	2017
Rental income	$24,626	$24,626
Interest income	13,386	11,616
Dividend income	—	3,677
Other income	26,316	83,348
Total	$64,328	$123,267

(B) Other gains and losses

	For the years ended December 31	
	2018	2017
Gains on disposal of property, plant and equipment	$6,464	$25,294
Losses on disposal of investments	—	(872)
Foreign exchange gains (losses), net	7,406	(51,717)
Gains on financial assets at fair value through profit or loss	7,371	53,198
Total	$21,241	$25,903

(C) Finance costs

	For the years ended December 31	
	2018	2017
Interest on borrowings from bank	($125,034)	($133,944)
Interest on borrowings from others	(952)	(4,168)
Total	($125,986)	($138,112)

(25) COMPONENTS OF OTHER COMPREHENSIVE INCOME(LOSS)

For the year ended Dec. 31, 2018

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Items that will not be reclassified subsequently to profit or loss:					
Remeasurements of defined benefit plans	($42,568)	—	($42,568)	$10,708	($31,860)
Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income	(17,627)	—	(17,627)	(1,928)	(19,555)
Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income of subsidiaries, associates and joint ventures accounted for using the equity method	(4,553)	—	(4,553)	—	(4,553)
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translating of foreign operation	17,469	—	17,469	(7,408)	10,061
Total of other comprehensive incme	($47,279)	—	($47,279)	$1,372	($45,907)

For the year ended Dec. 31, 2017

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Items that will not be reclassified to profit or loss:					
Remeasurements of defined benefit plans	($32,557)	—	($32,557)	$5,535	($27,022)
Items that may be reclassified to profit or loss:					
Exchange differences arising on translating of foreign operation	(49,747)	—	(49,747)	8,457	(41,290)
Unrealized gain from available-for-sale financial assets	(50,453)	—	(50,453)	8,577	(41,876)
Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using the equity method	(233)	—	(233)	—	(233)
Total of other comprehensive incme	($132,990)	—	($132,990)	$22,569	($110,421)

(26) INCOME TAX

(A) The major components of income tax expense (income) are as follows:

(a) Income tax expense (income) recognized in profit or loss

	For the years ended December 31	
	2018	2017
Current income tax benefit (expense) income:		
Current income tax charge	—	—
Adjustments in respect of current income tax of prior periods	($100)	—
Deferred tax income (expense):		
Deferred tax (expense) relating to origination and reversal of temporary differences	(80,207)	($90,176)
Deferred tax (expense) relating to origination and reversal of tax loss and tax credit	85,235	146,626

Deferred tax income relating to change in tax rate	253,144	—
Total income tax benefit	$258,072	$56,450

(b) Income tax relating to components of other comprehensive income

	For the years ended December 31	
	2018	2017
Deferred tax income:		
Remeasurements of defined benefit plans	$8,514	$5,535
Unrealized (gains) losses from equity instruments investments measured at fair value through other comprehensive income	3,324	—
Exchange differences on translation of foreign operations	(3,494)	8,457
Unrealized gain from available-for-sale financial assets	—	8,577
Deferred tax income relating to change in tax rate	(6,972)	—
Total other comprehensive income, net of tax	$1,372	$22,569

(B) A reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rates is as follows:

	For the years ended December 31	
	2018	2017
Accounting (loss) before tax from continuing operations	($369,620)	($770,027)
At parent company statutory income tax rate	73,924	130,904
Tax effect of revenues exempt from taxation	3,833	3,371
Tax effect of deferred asset/liability	(70,267)	(82,966)
Other adjustment due to taxation	(2,462)	5,141
Adjustments in respect of current income tax of prior periods	(100)	—
Deferred tax income relating to change in tax rate	253,144	—
Total income tax benefit recognized in profit or loss	$258,072	$56,450

(C) Deferred tax assets (liabilities) relate to the following:

For the year ended December 31, 2018

	Beginning balance as of Jan. 1, 2018	Deferred tax income (expense) recognized in profit or loss	Deferred tax income (expense) recognized in other comprehensive income	Ending balance as of Dec. 31, 2018
Temporary differences				
Unrealized exchange gains and losses	$1,220	($3,172)	—	($1,952)
Loss on inventory obsolescence	39,298	10,476	—	49,774
Investments accounted for using the equity method	995,821	151,324	($7,408)	1,139,737
Unrealized (gains) losses from financial assets measured at fair value through other comprehensive income	(29,760)	—	(1,928)	(31,688)
Unrealized intragroup profits and losses	56	(56)	—	—
Impairment of assets	1,793	317	—	2,110
Non-current liability – Defined benefit Liability	91,424	(2,952)	10,708	99,180
Compensated absences	5,859	(1,208)	—	4,651
Other	43,152	(25,223)	—	17,929
Unused tax losses	246,116	128,667	—	374,783
Deferred tax (expense)/ income		$258,173	$1,372	
Net deferred tax assets/(liabilities)	$1,394,979			$1,654,524
Reflected in balance sheet as follows:				
Deferred tax assets	$1,424,739			$1,688,163
Deferred tax liabilities	$29,760			$33,639

For the year ended December 31, 2017

	Beginning balance as of Jan. 1, 2017	Deferred tax income (expense) recognized in profit or loss	Deferred tax income (expense) recognized in other comprehensive income	Ending balance as of Dec. 31, 2017
Temporary differences				
Unrealized exchange gains and losses	$1,242	($22)	—	$1,220
Loss on inventory obsolescence	35,615	3,683	—	39,298
Investments accounted for using the equity method	1,015,997	(28,633)	$8,457	995,821
Unrealized gains and losses on available-for-sale financial assets	(38,337)	—	8,577	(29,760)
Unrealized intragroup profits and losses	443	(387)	—	56
Impairment of assets	1,793	—	—	1,793
Bad debts	50,124	(50,124)	—	—
Non-current liability – Defined benefit Liability	101,273	(15,384)	5,535	91,424
Compensated absences	4,708	1,151	—	5,859
Other	43,612	(460)	—	43,152
Unused tax losses	99,490	146,626	—	246,116
Deferred tax (expense)/income		$56,450	$22,569	
Net deferred tax assets/(liabilities)	$1,315,960			$1,394,979
Reflected in balance sheet as follows:				
Deferred tax assets	$1,354,297			$1,424,739
Deferred tax liabilities	$38,337			$29,760

(D) The following table contains information of the unused tax losses of the Company:

Year	Tax losses for the period	Unused tax losses as of Dec. 31, 2018	Unused tax losses as of Dec. 31, 2017	Expiration year	Note
2009	$377,207	$305,367	$377,207	2019	Assessed
2011	$155,641	155,641	155,641	2021	Assessed
2013	$52,387	52,387	52,387	2023	Assessed
2017	$862,507	862,507	862,507	2027	Non-assessed
2018	$498,015	498,015	—	2028	Non-assessed
		$1,873,917	$1,447,742		

(E) Unrecognized deferred tax assets

As of December 31, 2018, and 2017, deferred tax assets that have not been recognized as they may not be used to offset taxable profits both amount to $0.

(F) The assessment of income tax returns

As of December 31, 2018, the assessment of the income tax returns of the Company is as follows:

	The assessment of income tax returns
The Company	Assessed and approved up to 2016

(27) EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent entity (after adjusting for interest on the convertible bonds payable) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The weighted average number of shares outstanding used for the earnings per share computation was adjusted retrospectively for the capital reduction implemented to offset accumulated deficits, the earnings per share adjusted for the proposed retrospective adjustment are as below :

Basic earnings per share :

	For the years ended December 31	
	2018	2017
Net (loss)	($111,548)	($713,577)
Earnings per share (thousand shares)	552,329	552,329
(Loss) per share-basic (NT$)	($0.20)	($1.29)

The Board of shareholders′ meeting of the company agreed on June 29, 2018 to issue restricted stocks for employees, and it is unimplemented before the release of the financial statements.
There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date the financial statements were authorized for issue.

(28) RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

For the year ended December 31, 2018:

	January 1, 2018	Cash Flows	Foreign exchange	Others	December 31, 2018
Short-term loans	$2,192,678	$613,297	$1,059	($177)	$2,806,857
Long-term loans	$3,757,706	($707,191)	$6,670	($3,670)	$3,053,515
Lease Payable	$24,551	($21,941)	—	—	$2,610
Guarantee deposits	$3,474	($50)	—	—	$3,424
Short-term notes payable	$398,938	($49,328)	—	—	$349,610

For the year ended December 31, 2017:

Not applicable.

7. RELATED PARTY TRANSACTIONS

Information of the related parties that had transactions with the Company during the financial reporting period is as follows:

Name and nature of relationship of the related parties

Name of the related parties	Nature of relationship of the related parties
ORIENT SEMICONDUCTOR ELECTRONICS PHILIPPINES, INC. (OSEP)	Subsidiary
OSE USA, INC. （OSEU）	Subsidiary
ATP Electronics Taiwan Inc.(ATP)	Associate
INFOFAB, INC.(INFOFAB)	Associate
OSE INTERNATIONAL LTD. (B.V.I)	Subsidiary
COREPLUS (HK) LIMITED. (COREPLUS)	Subsidiary
ACTIONTEC ELECTRONICS, INC. (ACTIONTEC)	Substantive related party
InfoAction Technology, Inc. (InfoAction)	Substantive related party
GOLFWARE INC.	Substantive related party
VALUE PLUS TECHNOLOGY (SUZHOU) CO. (VALUEPLUS)	Subsidiary
Chin-Hsing Investment Co., Ltd. (Ching-Hsing)	Substantive related party
YUANJEN INVESTMENT CO., LTD. (YUANJEN)	Substantive related party
Edward Du et al.	Director of the Company
Michael Lee et al.	The management of Vice General Manager
Phison Electronics Corporation (PHISON)	Legal Director of the Company
Longsys Electronics (TAIWAN) Co., Ltd. (LONGSYS)	Legal Director of the Company
Longsys (HK) Electronics Co., Ltd. (LONGSYS)	Associate of Legal Director of the Company
SPARQTRON CORP.(SPARQTRON)	Associate (No longer listed as a related party in the fourth quarter in 2017)
DIAMOND DIGITAL CORPORATION(DIAMOND)	Substantive related party (No longer listed as a related party in the fourth quarter in 2017)

(1)Significant transactions with related parties:

(A) Sales

	For the years ended December 31	
	2018	2017
Subsidiaries	$189	$438
Associates	187,869	150,681
PHISON	1,521,906	1,043,413
LONGSYS	946,231	611,187
Substantive related party	7	62,072
Total	$2,656,202	$1,867,791

The sales price to the above related parties was determined through mutual agreement based on the market rates. The details of credit period are 30～60 days. The outstanding balance at December 31, 2018 and 2017 was unsecured, non-interest bearing and must be settled in cash. The receivables from the related parties were not guaranteed.

(B) Purchase

	For the years ended December 31	
	2018	2017
COREPLUS	$483,184	$620,411
Subsidiaries	8,588	—
Associates	892	11,443
Substantive related party	3,799	4,792
Total	$496,463	$636,646

The purchase price to the above related parties was determined through mutual agreement based on the market rates. The payment terms from the related party suppliers are comparable with third party suppliers

(C) Accounts Receivable

	Dec. 31, 2018	Dec. 31, 2017
Subsidiaries	$187	$431
ATP	45,024	31,621
LONGSYS	306,961	120,590
PHISON	343,356	85,529
Substantive related party	7	—
Less: loss allowance	(1,200)	(386)
Total	$694,335	$237,785

(D) Other Receivable

	Dec. 31, 2018	Dec. 31, 2017
VALUEPLUS	$5,897	$7,219
Associates	274	273
ATP	1,499	809
LONGSYS	6,389	1,450
Key management personnel of the Company	79	—
Substantive related party	238	—
Total	$14,376	$9,751

(E) Accounts Payable

	Dec. 31, 2018	Dec. 31, 2017
COREPLUS	$92,706	$100,685
Subsidiaries	255	363
INFOFAB (Note)	48,889	17,069
Substantive related party	271	—
Key management personnel of the Company	50	10
Total	$142,171	$118,127

(Note): The payments are the purchase of computer software and information system maintenance.

(F) Property Exchange

For the year ended December 31, 2018

Counterparties	Assets	Amount	The gain(loss) of Selling Assets	The Reference of Trading Price
Purchases				
INFOFAB	Other equipment	$3,595	Not applicable	Negotiate
INFOFAB	Computer software	51,168	Not applicable	Negotiate
	Total	$54,763		

Counterparties	Assets	Unreduced balance	Sale price	Gain (loss) on sales of assets	The Reference of Trading Price
Sales					
LONGSYS	Machinery and equipment	$1,448	$3,364	$1,916	Negotiate

For the year ended December 31, 2017

Counterparties	Assets	Amount	The gain(loss) of Selling Assets	The Reference of Trading Price
Purchases				
INFOFAB	Buildings	$713	Not applicable	Negotiate
INFOFAB	Other equipment	5,017	Not applicable	Negotiate
INFOFAB	Computer Software	21,013	Not applicable	Negotiate
	Total	$26,743		

Counterparties	Assets	Unreduced balance	Selling Amount	The gain(loss) of Selling Assets	The Reference of Trading Price
Sales					
DIAMOND	Machinery and equipment	$43,523	$55,751	$12,228	Negotiate
DIAMOND	Transportation equipment	559	559	—	Negotiate
DIAMOND	Leasehold improvement	3,040	3,040	—	Negotiate
DIAMOND	Other equipment	4,190	10,687	6,497	Negotiate
Subsidiaries	Machinery and equipment	329	886	557	Negotiate
	Total	$51,641	$70,923	$19,282	

(G) Intercompany borrowing

	Dec. 31, 2018			
Related parties	Maximum amount	Amount	Interest rates	Interest income (expense)
Amount lent to: (included in long-term receivables-affiliates accounts)				
OSEP	$378,002 (USD12,305 thousand)	$378,002 (USD12,305 thousand)	2.00%	$7,422

	Dec. 31, 2017			
Related parties	Maximum amount	Amount	Interest rates	Interest income (expense)
Amount lent to: (included in long-term receivables-affiliates accounts)				
OSEP	$366,436 (USD12,305 thousand)	$366,436 (USD12,305 thousand)	2.00%	$7,455
Amount borrowed from: (included in other payable-affiliates accounts)				
Substantive related parties	$245,000	—	—	—

(H) Compensation of key management personnel

	For the years ended December 31	
	2018	2017
Short-term employee benefits	$38,044	$38,362
Post-employment benefits	661	720
Total	$38,705	$39,082

(I) Other disclosures

(a) The Company has engaged with OSEU as its sales and collection agent in America. For the year ended December 31, 2018, and 2017, total commission expenses amounted to $52,799 thousand and $33,600 thousand. The amount unpaid as of December 31, 2018, and 2017 were $10,381 thousand and $7,510 thousand, which were included in accrued expenses account.

(b) As of December 31,2018 and 2017, the Company paid $71,306 thousand and $7,605 thousand、$36,507 thousand and $2,416 thousand service fees to maintain information system of INFOFAB, respectively, which are accounted for as maintenance expenses. As of December 31, 2018, and 2017, the unpaid maintenance expenses amounted to $48,889 thousand and $17,069 thousand, respectively, which were recorded under accounts payable－affiliates-account.

(c) The rental incomes from Associates for machinery and equipment and furniture and fixtures are as follows：

	For the years ended December 31	
	2018	2017
ATP	$4,258	$4,258
INFOFAB	2,940	2,940
Other affiliates	42	42
Total	$7,240	$7,240

(d) The summary of the guaranty/ warranty balance toward the Company's affiliates is as follows:

	Dec. 31, 2018	Dec. 31, 2017
COREPLUS	$76,800	$74,450

(USD2,500 thousand) (USD2,500 thousand)

8. ASSETS PLEDGED AS SECURITY

The following table lists assets of the Company pledged as security:

Assets pledged for security	Carrying amount Dec. 31, 2018	Carrying amount Dec. 31, 2017	Secured liabilities details
Accounts Receivables–Short-term	$224,523	—	Short-term borrowings
Other financial assets–non current–time deposits	107,944	$389,832	Short and long-term borrowings
Other financial assets–non current–deposits reserved for repayment	135,671	121,128	Short and long-term borrowings
Investments accounted for using the equity method –ATP	171,597	158,221	Short-term borrowings
Property, plant and equipment–Building and equipment	890,776	919,768	Short and long-term borrowings
Property, plant and equipment–Machinery and equipment	2,623,647	3,013,675	Short and long-term borrowings
Property, plant and equipment–Lease Assets	25,845	106,646	Short and long-term borrowings
Property, plant and equipment–Assets leased to others–Buildings	145,777	—	Long-term borrowings
Refundable deposits-time deposits	163,704	182,572	Customs export guarantee and Other
	$4,489,484	$4,891,842	

9. COMMITMENTS AND CONTINGENCIES

(7) Guarantee given by the bank for the payment of input tax imposed for sales from a tax free zone to non tax free zone amounted to $400,000 thousand.

(8) The Company issued promissory notes of $8,705,692 thousand as guarantees for bank loans.

(9) The Company issued promissory notes of $33,119 thousand as guarantee for finance lease.

(10) The Company issued promissory notes of $10,570 thousand as guarantee for project.

(11) The Company has acted as a subcontractor for processing electronic products and provided storage services for outsiders. As of December 31, 2018, the Company kept the processed electronic products of $11,812,301 thousand and raw materials of $512,595 thousand on custodian.

(12) As of December 31, 2018, the Company had opened an unused letter of credit amounting to JPY 261,637

thousand and USD 132 thousand.

10. LOSSES DUE TO MAJOR DISASTERS

None.

11. SIGNIFICANT SUBSEQUENT EVENTS

None.

12. FINANCIAL INSTRUMENTS

(1) Categories of financial instruments

Financial assets	Dec. 31, 2018	Dec. 31, 2017
Designated at fair value through profit or loss at initial recognition	—	$30,813
Financial assets at fair value through other comprehensive income	$234,878	(Note 1)
Available-for-sale financial assets –Non current (including financial assets measured at cost in balance sheet) (Note 2)	(Note 1)	248,226
Financial assets measured at amortized cost		
Cash and cash equivalents (exclude cash on hand)	555,355	1,059,918
Notes, accounts and other receivables	3,116,458	2,570,380
Long-term receivables-Affiliates	499,401	476,791
Subtotal	4,171,214	4,107,089
Total	$4,406,092	$4,386,128

Financial liabilities	Dec. 31, 2018	Dec. 31, 2017
Financial liabilities at amortized cost:		
Short-term borrowings	$2,806,857	$2,192,678
Short-term notes payable	349,610	398,938
Notes, accounts and other payable	4,243,863	3,757,262
Long-term loans (including current portion)	3,053,515	3,757,706
Lease payable (including current portion)	2,610	24,551
Total	$10,456,455	$10,131,135

(Note1): The Company adopted IFRS 9 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

(Note2): Balances as at December 31, 2017 including financial assets measured at cost.

(2) Financial risk management objectives and policies

The company's principal financial risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activates. The Company identifies measures and manages the aforementioned risks based on the company's policy and risk appetite.
The Company has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant transactions, due approval process by the Board of Directors and Audit Committee must be carried out based on related protocols and internal control procedures. The Company complies with its financial risk management policies at all times.

(3) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market prices comprise currency risk, interest rate risk and other price risk (such as equity risk).
In practice, it is rarely the case that a single risk variable will change independently from other risk variable, there is usually interdependencies between risk variables. However, the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

Foreign currency risk

The company's exposure to the risk of changes in foreign exchange rates relates primarily to the company's operating activities (when revenue or expense are denominated in a different currency from the company's functional currency) and the company's net investments in foreign subsidiaries.
The Company has certain foreign currency receivables to be denominated in the same foreign currency with certain foreign currency payables, therefore natural hedge is received. The Company also uses forward contracts to hedge the foreign currency risk on certain items denominated in foreign currencies. Hedge accounting is not applied as they did not qualify for hedge accounting criteria. Furthermore, as net investments in foreign subsidiaries are for strategic purposes, they are not hedged by the Company.
The foreign currency sensitivity analysis of the possible change in foreign exchange rates on the company's profit is performed on significant monetary items denominated in foreign currencies as at the end of the reporting period. The company's foreign currency risk is mainly related to the volatility in the exchange rates for foreign currency USD and foreign currency JPY.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The company's exposure to the risk of changes in market interest rates relates primarily to the company's loans and receivables at variable interest rates, bank borrowings with fixed interest rates and variable interest rates.
The Company manages its interest rate risk by having a balanced portfolio of fixed and variable loans and borrowings and entering into interest rate swaps. Hedge accounting does not apply to these swaps as they do not qualify for it.

Equity price risk

The company's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The company's listed equity securities are classified under held for trading financial assets or available-for-sale financial assets, while unlisted equity securities are classified as available-for-sale. The Company manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the company's senior management on a regular basis. The company's Board of Directors reviews and approves all equity investment decisions.

Risks of pre-tax Sensitivity analysis are as follows:

For the year ended December 31, 2018

Key risk	Variation	Sensitivity of profit and loss	
Foreign currency risk	NTD/USD Foreign currency +/− 1%	+/−	7,290 thousand
	NTD/JPY Foreign currency +/− 1%	−/+	855 thousand
Interest rate risk	Market rate +/− 10 fundamental proposition	+/−	5,861 thousand
Equity price risk	Market price +/− 10 fundamental proposition	+/−	2,349 thousand

For the year ended December 31, 2017

Key risk	Variation	Sensitivity of profit and loss	
Foreign currency risk	NTD/USD Foreign currency +/− 1%	+/−	24,451 thousand
	NTD/JPY Foreign currency −/+ 1%	−/+	78 thousand
Interest rate risk	Market rate +/− 10 fundamental proposition	+/−	5,951 thousand
Equity price risk	Market price +/− 10 fundamental	+/−	2,790 thousand

Key risk	Variation proposition	Sensitivity of profit and loss

(4) Credit risk management

Credit risk is the risk that a counterparty will not meet its obligations under a contract, leading to a financial loss. The Company is exposed to credit risk from operating activities (primarily for accounts receivables and notes receivables) and from its financing activities, including bank deposits and other financial instruments.

Customer credit risk is managed by each business unit subject to the company's established policy, procedures and control relating to customer credit risk management. Credit limits are established for all customers based on their financial position, rating from credit rating agencies, historical experience, prevailing economic condition and the company's internal rating criteria etc. Certain customer's credit risk will also be managed by taking credit enhancing procedures, such as requesting for prepayment or insurance.

As of December 31, 2018, and 2017, amounts receivables from top ten customers represent 85.70% and 73.64% of the total accounts receivables of the Company, respectively. The credit concentration risk of other accounts receivables is insignificant.

Credit risk from balances with banks, fixed income securities and other financial instruments is managed by the company's treasury in accordance with the company's policy. The Company only transacts with counterparties approved by the internal control procedures, which are banks and financial institutions, companies and government entities with good credit rating and with no significant default risk. Consequently, there is no significant credit risk for these counter parties.

(5) Liquidity risk management

The company's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents, highly liquid equity investments, bank borrowings, convertible bonds and finance leases. The table below summarizes the maturity profile of the company's financial liabilities based on the contractual undiscounted payments and contractual maturity. The payment amount includes the contractual interest. The undiscounted payment relating to borrowings with variable interest rates is extrapolated based on the estimated interest rate yield curve as of the end of the reporting period.

Non-derivative financial instruments

	Less than 1 year	2 to 3 years	4 to 5 years	> 5 years	Total
As of Dec. 31, 2018					
Borrowings	$4,153,483	$1,650,614	$62,631	—	$5,866,728
Short-term notes payable	$349,610	—	—	—	$349,610
Lease payable	$2,617	—	—	—	$2,617
As of Dec. 31, 2017					
Borrowings	$3,781,483	$2,010,755	$160,000	—	$5,952,238
Short-term notes payable	$398,938	—	—	—	$398,938
Lease payable	$24,835	$69	—	—	$24,904

(6) Fair values of financial instruments

A. The methods and assumptions applied in determining the fair value of financial instruments:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used by the Company to measure or disclose the fair values of financial assets and financial liabilities:

(a) The carrying amount of cash and cash equivalents, accounts receivables, accounts payable and other current liabilities approximate their fair value due to their short maturities.

(b) For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities, beneficiary certificates, bonds and futures etc.) at the reporting date.

(c) Fair value of equity instruments without market quotations (including private placement of listed equity securities, unquoted public company and private company equity securities) are estimated using the market method valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information (for example, inputs such as discount for lack of marketability, P/E ratio of similar entities and Price-Book ratio of similar entities).

(d) Fair value of debt instruments without market quotations, bank loans, bonds payable and other non-current liabilities are determined based on the counterparty prices or valuation method. The valuation method uses DCF method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instrument (such as yield curves published by the GreTai Securities Market, average prices for Fixed Rate Commercial Paper published by Reuters and credit risk, etc.)

(e) The fair value of derivatives which are not options and without market quotations, is determined based on the counterparty prices or discounted cash flow analysis using interest rate yield curve for the contract period. Fair value of option-based derivative financial instruments is obtained using on the counterparty prices or appropriate option pricing model (for example, Black-Scholes model) or other valuation method (for example, Monte Carlo Simulation).

B. Fair value of financial instruments measured at amortized cost

Other than cash and cash equivalents, accounts receivables, accounts payable and other current liabilities whose carrying amount approximate their fair value, the fair value of the Company’s financial assets and financial liabilities measured at amortized cost is listed in the table below:

	Carrying amount	
	Dec. 31, 2018	Dec. 31, 2017
Financial Assets		
Long-term receivables-affiliates	$499,401	$476,791
Financial liabilities		
Long-term borrowings	$3,053,515	$3,757,706
Lease payable	$2,610	$24,551

	Fair Value	
	Dec. 31, 2018	Dec. 31, 2017
Financial Assets		
Long-term receivables-affiliates	$499,401	$476,791
Financial liabilities		
Long-term borrowings	$3,053,515	$3,757,706
Lease payable	$2,610	$24,551

C. Fair value measurement hierarchy for financial instruments

Please refer to Note 12.(7) for fair value measurement hierarchy for financial instruments of the Company.

(7) Fair value measurement hierarchy

A. Fair value measurement hierarchy:

All asset and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole. Level 1, 2 and 3 inputs are described as follows:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization at the end of each reporting period.

B. Fair value measurement hierarchy of the Company's assets and liabilities:

The Company does not have assets that are measured at fair value on a non-recurring basis. Fair value measurement hierarchy of the Company's assets and liabilities measured at fair value on a recurring basis is as follows:

December 31, 2018

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at fair value through other comprehensive profit or loss				
Equity instrument	—	$40,807	$194,071	$234,878

December. 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at fair value through profit or loss				
Stocks	$30,813	—	—	$30,813
Available-for-sale financial assets				
Equity securities	—	—	$215,537	$215,537

Transfers between Level 1 and Level 2 during the period

During the years ended December 31, 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements.

Reconciliation for fair value measurements in Level 3 of the fair value hierarchy for movements during the period is as follows:

	At fair value through other comprehensive income
	Stock
Beginning balance as of Jan. 1, 2018	$215,537
Recognized in other comprehensive income	(21,466)
Transfer in of reclassifying	—
Transfer out of Level 3	—
Ending balance as of Dec. 31, 2018	$194,071

	Available-for-sale financial assets
	Stock
Beginning balance as of Jan. 1, 2017	$265,990
Recognized in other comprehensive income	(50,453)
Transfer in of reclassifying	—
Transfer out of Level 3	—
Ending balance as of Dec. 31, 2017	$215,537

Information on significant unobservable inputs to valuation

Description of significant unobservable inputs to valuation of recurring fair value measurements categorized within Level 3 of the fair value hierarchy is as follows:

December 31, 2018

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity of the input to fair value
Financial assets : Financial assets at fair value through other comprehensive income					
Stocks	Option-Pricing Model	discount for lack of marketability	13%~19%	(1) The higher the discount rate, the lower the fair value of the stocks (2)The higher the discount for lack of marketability, the lower the fair value of the stocks	1% increase (decrease) in the discount for lack of marketability would result in increase (decrease) in the Company's equity by $2,365 thousand.

December 31, 2017

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity of the input to fair value
Financial assets : Available-for-sale					
Stocks	Option-Pricing Model	discount for lack of marketability	13%~16%	(1) The higher the discount rate, the lower the fair value of the stocks (2)The higher the discount for lack of marketability, the lower the fair value of the stocks	1% increase (decrease) in the discount for lack of marketability would result in increase (decrease) in the Company's equity by $2,502 thousand.

C. Fair value measurement hierarchy of the Company's assets and liabilities not measured at fair value but for which the fair value is disclosed :

December 31, 2018

	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value but for which the fair value is disclosed:				
Long-term receivables-affiliates	—	$499,401	—	$499,401
Financial liabilities not measured at fair value but for which the fair value is disclosed:				
Long-term loans	—	$3,053,515	—	$3,053,515
Lease payable	—	$2,610	—	$2,610

December 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value but for which the fair value is disclosed:				
Long-term receivables-affiliates	—	$476,791	—	$476,791
Financial liabilities not measured at fair value but for which the fair value is disclosed:				
Long-term loans	—	$3,757,706	—	$3,757,706
Lease payable	—	$24,551	—	$24,551

(8) Significant assets and liabilities denominated in foreign currencies

Information regarding the significant assets and liabilities denominated in foreign currencies is listed below:

	Dec. 31, 2018		
	Foreign currencies	Foreign exchange rate	NTD
Financial assets			
Monetary items:			
USD	$114,733	30.72	$3,524,598
JPY	$220,238	0.2784	$61,314
Non-monetary items:			
USD	$35,670	30.72	$1,095,782
Financial liabilities			
Monetary items:			
USD	$91,003	30.72	$2,795,612
JPY	$527,327	0.2784	$146,808

	Dec. 31, 2017		
	Foreign currencies	Foreign exchange rate	NTD
Financial assets			
Monetary items:			
USD	$135,220	29.78	$4,026,852
JPY	$443,960	0.2647	$117,516
Non-monetary items:			
USD	$28,213	29.78	$840,183
Financial liabilities			
Monetary items:			
USD	$81,327	29.78	$2,421,918
JPY	$473,334	0.2647	$125,292

The above information is disclosed based on the carrying amount of foreign currency (after conversion to functional currency).

The Company's entities functional currencies are various, and hence are not able to disclose the information of exchange gains and losses of monetary financial assets and liabilities by each significant asset and liability denominated in foreign currencies. The foreign exchange gains (losses) were $7,406 thousand and ($51,717) thousand for the years ended December 31, 2018 and 2017, respectively.

(9) Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

VI. Financial difficulties of the company and its affiliated enterprises: None.

Seven. Review and analysis of financial status and financial performance and risk matters

I. Financial status

Unit: NTD thousand

Item \ Year	2018	2017	Increase (decrease) amount	Proportion of change	Analysis of change (Note)
Current assets	6,276,273	6,027,501	248,772	4.13%	
Property, plant and equipment	7,063,908	7,646,666	(582,758)	(7.62%)	
Intangible assets	89,633	79,680	9,953	12.49%	
Other assets	3,316,629	2,957,461	359,168	12.14%	
Total assets	16,746,443	16,711,308	35,135	0.21%	
Current liabilities	9,031,180	8,339,294	691,886	8.30%	
Non-current liabilities	2,212,663	2,712,168	(499,505)	(18.42%)	
Totalliabilities	11,243,843	11,051,462	192,381	1.74%	
Equity attributed to owners of the parent company	5,502,600	5,659,846	(157,246)	(2.78%)	
Capital	5,523,285	8,060,158	(2,536,873)	(31.47%)	(I)
Capital reserve	20,104	21,420	(1,316)	(6.14%)	
Retained earnings(loss)	(4,832)	(2,536,872)	2,492,040	98.23%	(II)
Other equity	4,043	115,140	(111,097)	(96.49%)	(III)
Total equity	5,502,600	5,659,846	(157,246)	(2.78%)	

(Note): Analysis for proportion of change between the current and the previous period which reaches 20% and the amount is considerable

Analysis for proportion of change:

(I) The capital decreases by NT$2,536,873 thousand compared with the same period of the last year and the main reason is the implementation of the capital reduction for writing off accumulated losses in 2018.

(II) The retained earnings increase by NT$2,492,040 thousand compared with the same period of the last year, and the main reason is the implementation of the capital reduction of NT$2,536,873 thousand for writing off accumulated losses in addition to the decrease of re-measurements of the defined benefit plans by NT$31,860 thousand and the increase of the loss after tax by NT$111,548 thousand in the current period.

(III) The decrease of other equity by NT$111,097 thousand compared with the same period of the last year mainly results from the increase of the foreign exchange loss in the financial statements by NT$10,061 thousand after USD appreciation and decrease by NT$97,050 thousand for the new IFRS, decrease of unrealized gain or loss on available-for-sale financial assets by NT$24,108 thousand.

II. Financial performance

Unit: NTD thousand

Item	2018	2017	Increase (decrease) amount	Proportion of change	Analysis of change (Note)
Operating revenue	15,188,192	13,886,312	1,301,880	9.38%	
Operating margin	532,137	181,636	350,501	192.97%	(I)
Operating income (loss)	(406,063)	(724,373)	318,310	43.94%	(I)
Non-operating income and expenses	43,527	(27,152)	70,679	260.31%	(II)
Net income (loss) before tax	(362,536)	(751,525)	388,989	51.76%	
Net income(loss) from continuing operations	(111,548)	(714,804)	603,256	84.39%	
Loss of discontinued operations	–	–	–	–	
Net income (loss)	(111,548)	(714,804)	603,256	84.39%	
Other comprehensive income /loss (net of tax) of current period	(45,907)	(112,314)	66,407	59.13%	
Total comprehensive income (loss)	(157,455)	(827,118)	669,663	80.96%	
Net income attributed to the owner of parent company	(111,548)	(713,577)	602,029	84.37%	
Net income attributed to non-controlling interest	–	(1,227)	1,227	(100.00%)	
Total comprehensive income attributed to the owner of parent company	(157,455)	(823,998)	666,543	80.89%	
Total comprehensive income attributed to non-controlling interest	–	(3,120)	3,120	(100.00%)	
EPS (note)	(0.20)	(1.29)	1.09	(84.50%)	

Note: Analysis for proportion of change between the current and the previous period which reaches 20% and the amount is considerable

Analysis for proportion of change:

(I) Gross profit, operating loss:
Semiconductor Group benefited from the stable supply of upstream raw materials, the price of upstream raw materials constantly declined, and the demand of the terminal market was driven by that, which led to the sales growth in the memory product packaging. In addition, the demand from the existing customers of EMS Group was increasing and the products of new customers entered the mass production stage, all these caused the increase in the revenue. The revenue of the company grew by 9.38%.

(II) Non-operating income and (expenses):
Grew by 260.31% compared with the same period last year mainly because the property, plant and equipment of subsidiary was stated at impairment in the same period last year, no such situation this year, so grew by 42.18%

III. Cash flow

(I) The analysis of the liquidity for the past two years

Year / Item	Dec. 31, 2018	Dec. 31, 2017	Proportion of change
Cash flow ratio	2.61%	12.18%	(78.55%)
Cash flow adequacy ratio	83.56%	92.02%	(9.19%)
Cash reinvestment ratio	0.95%	4.19%	(77.33%)

Analysis for proportion of change:

Compared with the last period, the cash flow ratio and cash re-investment ratio in the current period decrease by 9.57% and 3.24%, respectively, which mainly resulted from the decrease of net cash flow from operating activities by NT$235,987 thousand compared with that of the last period. In addition, the increase ratio of net cash flow from operating activities is relatively less than that of the capital expenditures in the past 5 years, so the cash flow adequacy ratio in the current period decreases by 8.46% compared with that of the last period.

(II) Analysis of cash liquidity for the coming year

Unit: NTD thousand

Cash balance A in the beginning of the year	Projected net cash flow provided by operating activities in the whole year B	Projected cash outflow in the whole year C	Projected cash balance A+B-C
762,311	1,813,000	1,500,000	1,075,311

Analysis interpretation:

We project that the cash flow from the operating activities in the coming year is about NT$1,813,000 thousand, cash outflow in the whole coming year is about NT$1,500,000 thousand, cash balance in the end of the year is about NT$1,075,311 thousand.

IV. Major capital expenditures in the recent years and the impact on finance and business

(I) Use status of major capital expenditures and source of the capital

Plan	Actual or planned source of capital	Actual or planned date of completion	Total capital amount	Actual or planned use status of capital	
				2017	2018
Forming machine	Own funds, long-term debt payable	Nov., 2018	37,271	37,271	–
Tester	〃	Nov., 2018	20,175	15,591	4,584
Microscope	〃	Dec., 2018	19,396	19,396	–
Pick and place inspection system	〃	Nov., 2018	16,128	16,128	–
X-RAY	〃	Dec., 2018	10,567	10,567	–
Deflash machine	〃	Nov., 2018	9,920	6,971	2,949
Die saw machine	〃	May, 2018	8,905	8,905	–
Test system	〃	May, 2018	8,169	8,169	–
Sealing machine and dies	〃	Dec., 2018	6,133	5,457	676
Laser printer	〃	Nov., 2018	3,174	3,174	–
Ball pusher	〃	Dec., 2018	2,969	2,969	–
Oven	〃	Nov., 2018	2,859	2,859	–
CCD dimension inspection machine	〃	Nov., 2018	2,715	1,905	810
Projector	〃	Nov., 2018	1,070	1,070	–
Mounter	〃	Dec., 2018	92,725	92,725	–
SSD plant engineering	〃	Dec., 2018	14,371	6,265	8,106
Solder paste inspection machine	〃	Dec., 2018	9,403	3,510	5,893
Solder joint inspection machine	〃	Nov., 2018	7,541	4,988	2,553
Selective wave soldering	〃	Jan., 2018	3,825	3,825	–
N2 reflow oven	〃	Jul., 2018	2,712	2,712	–
Solder paste printer	〃	Dec., 2018	2,406	–	2,406
HQ plant engineering	〃	Mar., 2018	2,050	2,050	–
Optical final tester	〃	Apr., 2018	1,656	1,656	–

(II) The impact on finance and business:

1. Expand the capacity of flash memory-related products to increase the products' added level.
2. Increase the automatic production equipment to lower the dependence on the manpower, reduce the production procedure and improve the production quality.

V. Reinvestment policy in the most recent year, main reasons for profits or losses, improvement plans and investment plans for the coming year:

(I) The subsidiary in the Philippines OSEP shut down in Oct. 31, 2011 and the disposal of the machines was completed in 2013

(II) In 1st quarter of 2015, OSE PROPERTIES, INC. had completed the disposal of idle land whose area is 18,380 m^2, the proceeds were used to repay OSEP after deducting the relevant payment.

(III) The Company continues implementing the selling/ lease plan of land and plant for the subsidiary in the Philippines OSEP. We appointed the professional real estate agent to assist in the selling and lease of land and plant

VI. Risk matters

(I) The influence of changes in Interest rates, foreign exchange rates and inflation on corporate losses of profits, and future countermeasures:

1. In response to the change of international political and economic situation, we keep in touch with banks to acquire the latest relevant information and take the countermeasures such as conversion of the liabilities currency, expediting the re-payment for the foreign currency liabilities to achieve the effect of hedging.
2. The receiving and paying of the foreign currency resulting from the sales and purchases transactions will offset mutually to lower the risks of foreign currency exchange losses.

(II) Policies, main reasons for profits or losses and future countermeasures with respect to engaging in high-risk, high-leverage investments, loaning to others, endorsements and guarantees and derivatives transactions:

1. To control the financial risks with caution, the Company doesn't engage in the high-risk, high-leverage investments.
2. The Company has formulated the "Operational Procedure for Loaning to Others," “Operational Procedure for Endorsements and Guarantees” and “Operating Procedure for Assets Acquisition and Disposal” to manage the related operations.
3. Please refer to the Company's loaning amount to others in 2018 , and the amount for endorsements and guarantees in.

(III) Future R&D plans and projected R&D expenses: Please refer to the page No. 77 of the annual report.

(IV) The influence of change for important domestic or foreign policies and laws on finance and business and the countermeasures:

1. The Company pays close attention at any time to any policies and laws that will possibly affect the business and operations of the company to adjust the company's internal system. There is no occurrence on the change for the important domestic/ foreign policies and laws and their effects on finance and business in the most recent year and by the date of the annual report publication
2. EU environmental directive (RoHS): Please refer to the page No. 85 of the annual report.

(V) The influence of changes in technology and industry on corporate finance and business and countermeasures:

1. The Company's business mainly focuses on semiconductor packaging and testing services, electronic manufacturing services, we continue collecting the business information regarding the changes of technology industry

and strengthen our management and R&D teams to keep our technical lead in the industry and grasp the effect of this part on our business and finance.

2. With the constant improvement of the techniques in the semiconductor industry, the Company is devoted to R&D of products and market development in response to the changes of technology and industry to assist the company's finance and business in a positive way.

(VI) The influence of changes in corporate image on corporate risk management and countermeasures:

The Company has established the extensive countermeasures for corporate risk management including the procedure for establishing project response team when it is necessary. If the Company encounters crisis may cause the change in corporate image, it will immediately establish the response team and take the necessary countermeasure to minimize the personal injury, business interruption and finance impact and maintain the operation smoothly.

(VII) The expected benefits and potential risks of mergers and acquisitions and countermeasures: none.

(VIII) The expected benefits and potential risks of plant expansion and countermeasures:

Continue improving the production conditions in the old plant and increase the production quality to satisfy the customers, so there is no relevant risks

(IX) The risks of purchase or sales concentration and countermeasures:

(X) The influence and risk of the massive transaction or conversion of shares of the Directors, Supervisors or dominant shareholders holding over 10% of the stakes and countermeasures: none.

(XI) The influence and potential risks of management right change and countermeasures: none.

(XII) For litigious or non-litigious events, list the major litigious events, non-litigious events or administrative remedies with confirmed verdicts or in progress of the company and its Directors, Supervisors, Presidents, actual person-in-charge, and shareholders holding over 10% of the stakes, subsidiaries and affiliates. When the results of such events and remedies may have potential influence on the shareholder’s equity or stock price, disclose the fact in dispute, the amount in dispute, the start date of event, principal parties involving in the event, and the handling status by the date of annual report publication.

1. Major litigious events, non-litigious events, or administrative remedies for the Company: none
2. Major litigious events, non-litigious events, or administrative remedies for Directors, Supervisors, Presidents, actual person-in-charge and shareholders holding over 10% of the stakes, subsidiaries: none.

(XIII) Other important risks and countermeasures:

1. The influence of unexpected abnormality for information system on the company operation and protection and control measures:
   (1) In constructing the basic structure of information system, we establish the remote communication and connection, host remote backup and integrate with cloud services providers after taking high availability and backup loading into consideration and we try hard to lower the service interruption resulting from equipment abnormality. In addition to the protection of the basic construction, we also conduct the data backup for all the major systems and materials. Aside from strengthening the protection of

media backup, we also reinforce the materials preservation. We can activate the recovery when the abnormality occurs to maintain the materials.

(2) We have the specialized teams of the development and maintenance for company's major systems, production systems, ERP systems. In addition to the protection of all the major procedures from operating smoothly, the information system can adjust according to the change of the company to ensure the constant operation and the flexible extension for the company. Moreover, the system interruption resulting from abnormality of human or system development vendor can be reduced because of the protection and management of major information system by specialized teams.

(3) Because of the annual regular audit by international famous enterprises, including business secrets, laws and regulations, manufacturing process, information system and so on, we can adjust the system, management and control measures to comply with their requirement and the operation requirement. Currently, we continue auditing and improving the information system to lower the operating impacts and recover the operations rapidly when the risk occurs and reduce the losses of the customers and maintain the operations of the company.

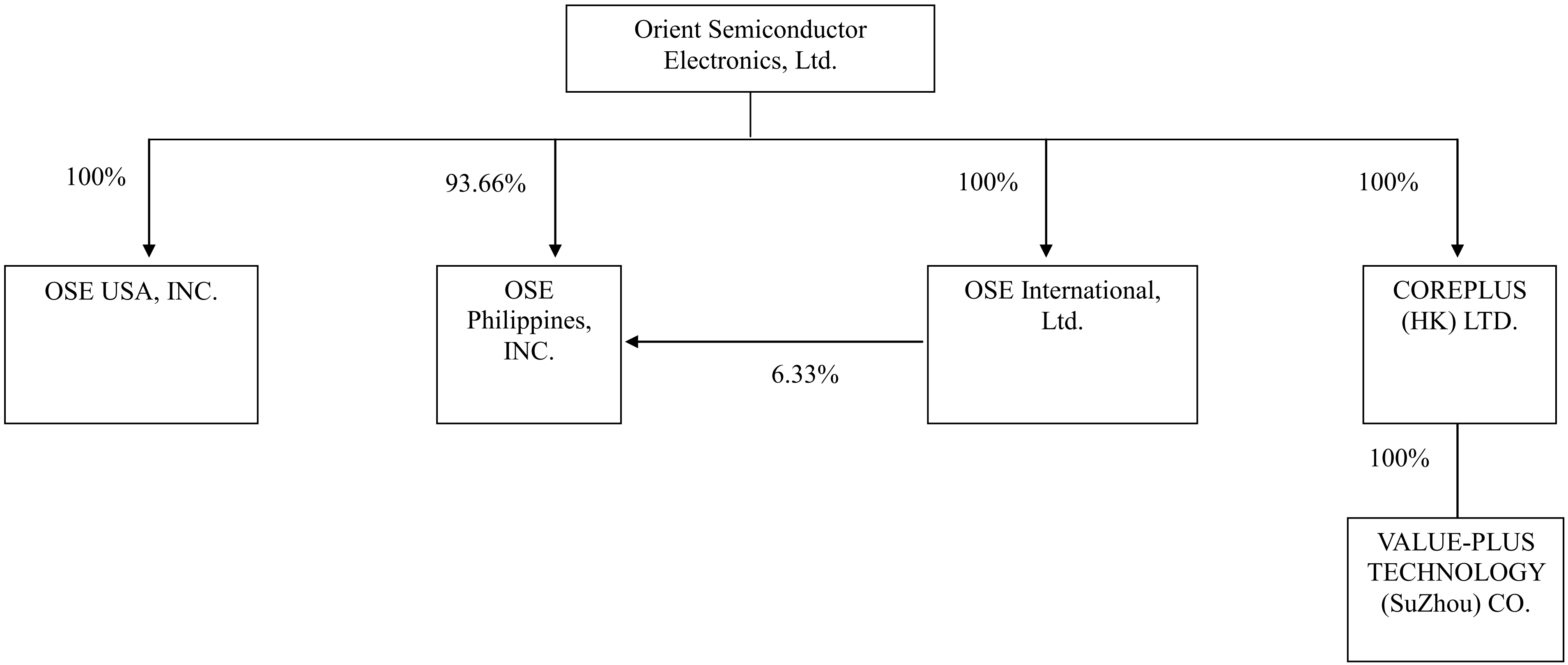
VII. Other material information: none

Eight. Special Disclosure

I. Information of affiliated enterprises

Consolidated business reports of affiliated enterprises

(I) Organization chart of affiliated enterprises



(II) Basic information of all the affiliated enterprises

Unit: NTD thousand

Name of affiliate	Date of establishment	Address	Paid- in capital.	Major items of operation or production
OSE PHILIPPINES, INC.	1996. 6.11	6 Ring Road, Light Industry & Science Park II, Brgy. Lamesa, Calamba, Laguna 4027, Philippines	4,127,308 (USD134,352,476)	(1) IC and all kinds of semiconductor parts (2) The research, design, production, assembly, processing, testing and after-sale services of the aforementioned products.
OSE USA, INC.	2005.10.17	1737 N. 1st Street, Suite 350, San Jose, Ca 95112, USA	392,251 (USD12,768,594)	Services for the customers of the Northern America
OSE INTERNATIONAL LTD.	1999.11.19	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.	491,520 (USD16,000,000)	Investment on all kinds of production business
COREPLUS (HK) LTD.	2008.11.10	1004 AXA Centre, 151 Gloucester Road, Wan Chai, HK	230,400 (USD7,500,000)	Operations of raw material purchase and processing, assembly outsourcing.
VALUE-PLUS TECHNOLOGY (SuZhou) CO.	2005.9.14	A-7 Factory Building, Export Processing Zone, No. 19, Datong Road, SND-EPZ, Suzhou, China	337,920 (USD11,000,000)	Substrate SMT of electronic parts, parts insertion and welding, relevant testing, assembly processing, self-manufactured products sales, corresponding technical maintenance and after-sale services.

Note: If the affiliated enterprises are foreign companies, list the relevant numbers in NTD according to the exchange rate in the report date. (NTD : USD = 1 : 30.72)

(III) For companies presumed to have a relationship of control and subordination, disclose the information of identical shareholders: N/A.

(IV) Operating relationship interpretation

1. The industries covered by the business operated by all the affiliated enterprises: Please refer to (2) basic information of all the affiliated enterprises.
2. The connections exist among the businesses operated by the affiliated enterprises, and the situation of the mutual dealings and division of work among them: All the affiliated enterprises of the Company build to order and operate individually.

(V) The information of Directors, Supervisors and Presidents of all the affiliated enterprises

Name of affiliate	Title	Name or representative	Shareholdings	
			Share	Proportion of shareholdings (Voting right)
OSE PHILIPPINES, INC.	Chairman/President	Edward Shaw-Yau Duh	97	0.00%
	Director	Yueh-Ming Tung	1	0.00%
	Director	Chun-Kuan Lee	1	0.00%
	Director	Edmond Tseng	5	0.00%
	Director	Simon Hung	1	0.00%
OSE INTERNATIONAL LTD.	Chairman	OSE Institutional representative: Michael Lee	16,000,000	100.00%
	President	Michael Lee	—	—
OSE USA, INC.	Chairman/President	Edmond Tseng	—	—
	Director	Edward Shaw-Yau Duh	—	—
	Director	OSE Institutional representative: Yueh-Ming Tung	8,024	100.00%
COREPLUS (HK) LTD.	Chairman	OSE Institutional representative: Edward Shaw-Yau Duh	7,500,000	100.00%
	Director	OSE(Institutional representative: Yueh-Ming Tung)	7,500,000	100.00%
	Director	OSE(Institutional representative: Chun-Kuan Lee)	7,500,000	100.00%
VALUE-PLUS TECHNOLOGY(SuZhou) CO.	Chairman	COREPLUS (HK) LTD. (Institutional representative: Grace Chiang)	—	—
	Director	COREPLUS (HK) LTD. (Institutional representative: Tzu Ming Liu)	—	—
	Director	COREPLUS (HK) LTD. (Institutional representative: Yueh-Ming Tung)	—	—

(VI) Operating status of all the affiliated enterprises

Unit: NTD thousand

Name of affiliate	Capital amount	Total assets	Total liabilities	Net worth	Operating revenue	Operating income (loss)	Net income or loss for current period (after tax)	Earnings per share (NTD) (after tax)
OSE PHILIPPINES, INC.	4,127,308 (USD134,352,476)	663,157 (USD21,587,148)	638,196 (USD20,774,619)	24,961 (USD812,529)	–	(28,384) (-USD942,253)	(34,331) (-USD1,139,666)	(8.74)
OSE USA, INC.	392,251 (USD12,768,594)	104,138 (USD3,389,923)	4,023 (USD130,965)	100,115 (USD3,258,958)	61,583 (USD2,044,320)	(2,244) (-USD74,497)	(2,280) (-USD75,673)	(284.09)
OSE INTERNATIONAL LTD.	491,520 (USD16,000,000)	296,610 (USD9,655,274)	–	296,610 (USD9,655,274)	–	(100) (-USD3,324)	25,576 (USD849,022)	1.60
COREPLUS (HK) LTD.	230,400 (USD7,500,000)	964,867 (USD31,408,421)	524,244 (USD17,065,244)	440,622 (USD14,343,177)	2,086,864 (USD69,275,788)	13,618 (USD452,054)	40,083 (USD1,330,589)	5.34
VALUE-PLUS TECHNOLOGY (SuZhou) CO.	337,920 (USD11,000,000)	242,519 (RMB54,182,159)	106,286 (RMB23,745,819)	136,233 (RMB30,436,339)	272,104 (RMB59,763,739)	11,535 (RMB2,533,447)	12,630 (RMB2,774,054)	1.15

Note: If the affiliated enterprises are foreign companies, list the relevant numbers in NTD according to the exchange rate in the report date. (Exchange rate in the end of the period NTD : USD = 30.72 : 1, NTD : RMB = 4.476 : 1; average exchange rate NTD : USD = 30.124 : 1, NTD: RMB = 4.553 : 1)

Consolidated financial statements of Affiliated Enterprises

In the fiscal year 2018 (from Jan. 1, 2018 to Dec. 31, 2018), the consolidated entities within the consolidated financial statement of affiliated enterprises in accordance with the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" are identical to the entities within the consolidated financial statement in accordance with Statement of Financial Accounting Standard(SFAS)No. 27. All information should be disclosed in the consolidated financial statements of affiliated enterprises is disclosed in the consolidated financial statement in accordance with SFAS No. 27. Consequently, the Company would not prepare the consolidated financial statement of affiliated enterprises separately.

Affiliation Report

The Company is not subordinate company stated in the Chapter Affiliated Enterprises of the Company Act, so we are free from preparing the affiliation report to state the affiliation between the controlling company.

II. Private placements of securities in the most recent year and by the date of annual report publication: none

III. Stocks of the Company held or disposed by subsidiaries in the most recent year and by the date of annual report publication: none

IV. Other required supplementary notes: none

V. Events with material impacts on shareholder equity or stock price as specified in Item 2, Paragraph 3, Article 36 of the Securities and Exchange Act in the recent year and by the date of annual report publication: none.