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2018 ANNUAL REPORT

COMPEQ MANUFACTURING CO., LTD.

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This English version of the Compeq Annual Report is a concise translation of the Mandarin version. This document is created for the sole purpose of the convenience for its non-Mandarin readers and is not anofficial document to represent the financial status of the Company per Taiwan laws.
Compeq does not assure the accuracy of this translated document. Readers wishing to view the official audited version of Compeq's financial reports can obtain a copy of the Compeq Annual Report (Mandarin version) on the Compeq Corporation website(www.compeq.com.tw).

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I. Letter to Our Shareholders

Dear Shareholders:

Due to the China-US trade war, the saturated smart phone market, and the dwindling demand from the market in Mainland China, the global economy experienced a downturn from 2018 to 2019. According to the IMF statistics, the global GDP growth rate in 2018 was 3.7%, and the overall PCB industry grew 6% from 2017. The Company's operating revenue for 2018 was NT$50.83 billion, decreasing 5.8% from the NT$53.96 billion in 2017. The net profit for 2018 was NT$2.4 billion, decreasing NT$1.18 billion from the net profit of NT$3.58 billion in 2017. In response to the 5G high-frequency and high-speed product applications, the customer's product specifications will be higher in the future. The Company aims to establish a competitive management model based on a sound structure with great product quality and infrastructure. In 2019, most of the Company's products are mature products that do not require significant investment. Only products that have room for future growth will be invested in, and a more cautious attitude will be adopted in order to respond to market changes.

In 2019, the Company will continue to engage in environmental protection in order to achieve the goal of exceeding the requirements of government regulations. The Company will also implement corporate social responsibility and value labor interests in order to achieve the expectations of shareholders, customers and the government, as well as moving towards sustainable development.

1.1 2018 Operating Report

1.1.1 Operating Report

A. Consolidated Statements Of Comprehensive Income

Compare to 2017, our 2018 profit reached NT$ 2.4 billion; Our 2018 EPS was NT$ 2.01 about NT$ 0.99 less. (see in Table 1).

Table 1. 2018 Comprehensive income summary

Description (Hundred million of NTD)	2018	2017	Variation Rate
Operating Revenues	508.3	539.6	-5.8%
Profit from continuing operations before tax	39.2	49.1	-9.9
Profit	24.0	35.8	-11.8
Earnings per share	2.01	3.00	-0.99

B.The Implementation Statements of Budget

Our major products are PCB and SMT assemblyservice. We have PCB manufacturing sites on Taiwan (Luchu、Tayuan) and China (Huizhou, including FPC、Chongqing). Total PCB capacity was 32.0 million square feet annually, actual sales was 26.0 million square feet. The SMT manufacturing sitesare locatedon China (Suzhou and Huizhou), actual sales was 180 million units.

C. Technology Development

Our long-term development is to be the leading high-end PCB and Rigid-flex PCB manufacturer. Our major enhance the ability and quality of research and development, and strengthen the industry and suppliers of informationcollection. We will continue to devote on new process development technologies, such as fine lines、automation applications、High Tg、Low loss material...etc. For SMT technology, we will continue on development of portable power management, automotive electronics, Connector module and related modular operations...etc.

1.2 The Outlines for 2019 Business Plan

1.2.1 Operating Guidelines

A. Manufacturing management will be perfected with excellent product quality that is based on a sound structure while focusing on the equipment. The Company requires an increased quality awareness from the entire staff, aligning plan with real actions to implement infrastructure in order for product quality to satisfy customer needs and achieving a competitive yield level.

B. Establish a manufacturing-guided order fulfill procedure. To have each factory fully loaded with stable operation, we are first to setting up a capable factory, enabling the competitiveness on quality, delivery and cost. Then the orders are arranged on selected product market according to the capacity and capability of each factory.

C. Continuous improve on effective management and to achieve a competitive operating system.

D. Continue to accomplish our social responsibility and commitments to government, customers, share holders, and employee. Keep on environmental protection, respect human rights, and improve our employee's quality of life to become an everlasting green enterprise.

1.2.2 Sale Volume Projection

Our core buiness and major products are print circuit boards. Among all of the productionsites, the anticipated sale's volume is 31 million square feet. On SMT operation, we expect to output 180 million units.

1.2.3 Important Production and Marketing Policy

The terminal products do not do the amount of expansion, mainly in the quality of the upgrade, product structure to enhance and improve the profit. The SMT factories in Suzhou and Huizhou, will focus on designated products and to expand customer base in the futurefor stable full load production.

Chairman

Charles C. Wu

President

P. K. Chiang

II. Company Overview

2.1 Introduction

Established at Taoyuan Lu-Chu village in August 1973, Compeq Manufacturing Co., Ltd. was the first specialized printed-circuit board (PCB) manufacturing company in Taiwan to support the government's policy in developing the high-tech industry. Beginning with producing single-sided and doubled-sided printed circuit boards, and progressing by persistent dedication to technology research and development, Compeq then started mass production of 6-layer printed circuit boards for computers in 1983, leading Taiwan PCB industry into the new stage for multi-layer board production.

Since the foundation, Compeq has been focusing on PCB industry as our core business. Under the trend of globalization, Compeq later established the Utah plant, Compeq International Corp., in the United States in 1989 to approach the center of the world's primary electronics consumer market, bridging Compeq to the world's latest product trend and enabling Compeq to provide direct local services to North American customers. Subsequently, Mainland China sharply raised her economy strength and became the hot spot for global manufacturer's production logistics, the China Huizhou site was established in 1996, after the government began to allow investment in China, in order to strengthen Compeq's overall global coverage, satisfy customers' demand and access the advantages of manufacturing cost savings and potential local markets. To meet the production condition requirement for advanced high precision products, Compeq set up an advanced plant with class 1000 clean room in the Tayuan industrial park, Taiwan in 1998 as the development and production base. Furthermore, Compeq set up Compeq Technology (Huizhou) Co. Ltd., and Compeq Manufacturing (Suzhou) Co. Ltd., in 2004, supplying flex PCB and small quantity part assembly services to provide total solution for our clients.

Moreover, to successfully capture the market opportunities and fulfill consumers' needs under the rapid diversification of electronics products and advancement of technologies, Compeq accordingly adjusted the product matrix and operation strategies. Currently, the appliances for Compeq's PCB include computer (notebook, server and peripheral, etc), telecommunication (cellular phone, base station, etc), network (switch, router, storage device, etc) and consumer electronics (PDA, LCD, Game Console, DSC, etc) products. In the meantime, Compeq integrates cross-national production facilities, service offices, and enterprise supporting resource to strengthen flexibility and competitiveness for providing customer an integral service from product development to after service.

Compeq's competitiveness strength has been the leading-edge technology capability and endeavor to develop new products and advanced technologies: the company decreased the trace width/spacing to 25 μ m, copper fill and stack via to developed high accurate and complex HDI boards (4+N+4, 2+N+N+2, HDI+IVH, and HDI+HLC, etc.), flex PCB and rigid-flex PCB technologies to meet the trend of thin and compact electronic products; secondly, derived high-layer count products (currently up to 26 layers), high aspect ratio plating technology and low Dk/Low Df and high Tg applications to meet the high reliability requirement for high-end networking equipment and servers.

Having been a pioneer for environmental protection in PCB industry, Compeq took the initiative to invest in building a professional PCB wastewater treatment plant in 1991 and received ISO-14001 certification in 1997. Compeq also successfully developed lead-free and halogen-free applications for PCB products to meet the global standard of environmental protection and our clients' green partner. In the future, Compeq will keep our promises as a global citizen and continue sharing the responsibilities in environmental protection.

Insisting on the principle of "Highest Quality" and "Customer First", Compeq continues devoting itself to process improvement and technology development. We have received the ISO-9002, QS-9000, ISO-9001, and TS 16949 certifications, and our complete quality control system is recognized to assure our products are meeting customer standards and needs. To enhance our customer services, Compeq also established cross-national service offices in Europe, Japan, Singapore, Malaysia, the United States and Mainland China to offer on-site services to our customers. With better understanding of customers' various needs in product design, manufacturing and quality, Compeq is able to stay ahead in developing new products and becoming good partners with our customers.

Recognizing to provide a safe working environment is the company's moral and the foundation of stable operation. Compeq has received OHSAS 18001 certification in 2005, and we endeavor to enforce the safety design and working discipline at shop floor to ensure the employee safety and avoid damage to the company.

When facing the rigorous and intense global competition, not only will we continue to enhance the partnerships with our valued customers to develop cutting-edge products and capture market opportunities, but also, through planned actions and optimized management synergy, play a key role in overall industry upgrades and realize the vision to learn and grow with all electronic manufacturers around the world.

2.2 Compeq Milestones

1973	● Founded on Aug. 30, Compeq Manufacturing Co., Ltd. was the first mass production PCB (Printed Circuit Board) manufacturer in Taiwan.
1974	● Completed construction of Luchu plant. Started fabricating single-side and double-side PCBs. ● Received UL-94V-0 certification.
1982	● Became the first IBM certified PCB suppliers in Taiwan. Actively developed precise process technologies and expanded facilities for producing multi-layer PCBs.
1983	● Expanded facilities; began the mass production of 6 layer PCBs for desktop PC.
1987	● Started a joint venture with Matsushita Electric Works to establish TNPL (which had renamed as PEWEMT in 2005), a copper clad laminate factory (in Hsinchu) to secure stable source of quality materials.
1989	● Established Compeq International Corp. (Utah, USA) as the forefront to approach American market.
1990	● Initial public offering of Compeq stocks in Taiwan Stock Exchange on 24th, July.
1991	● Constructed the first PCB wastewater treatment plant in Taiwan. ● Began to produce 8-layer PCBs used by notebook PC at Luchu plant.
1993	● Invested NT$1.9 million in Wei-Hua Recycled PCB Co., Ltd. ● Received ISO-9002 certification.
1995	● Established Huaton Holdings Limited (in British Virgin Islands) to invest in Mainland China indirectly.
1996	● Established Compeq Manufacturing (Huizhou) Co., Ltd. (in Guangdong, China) to expand global production allocation.
1997	● Established Pelican Cove Investment Ltd., (in British Virgin Islands) to engage in international trade affairs and investments. ● Established GMEM (in Guangdong, China), another joint venture with Matsushita for supplying quality CCL to Compeq China. ● Pioneered in applying laser drilling in producing HDI PCB, major application was micro-via technology used in high-end telecommunication, networking and cellar phone products. ● Received ISO-14001 certification.
1998	● Established Tayuan plant as a dedicated manufacturing facility for advanced PCBs. ● Annual sales revenues exceeded NT$10 billion.
1999	● Entered the telecom market by implementing HDI technology on cellular phone and base station products. ● Received QS-9000 certification.

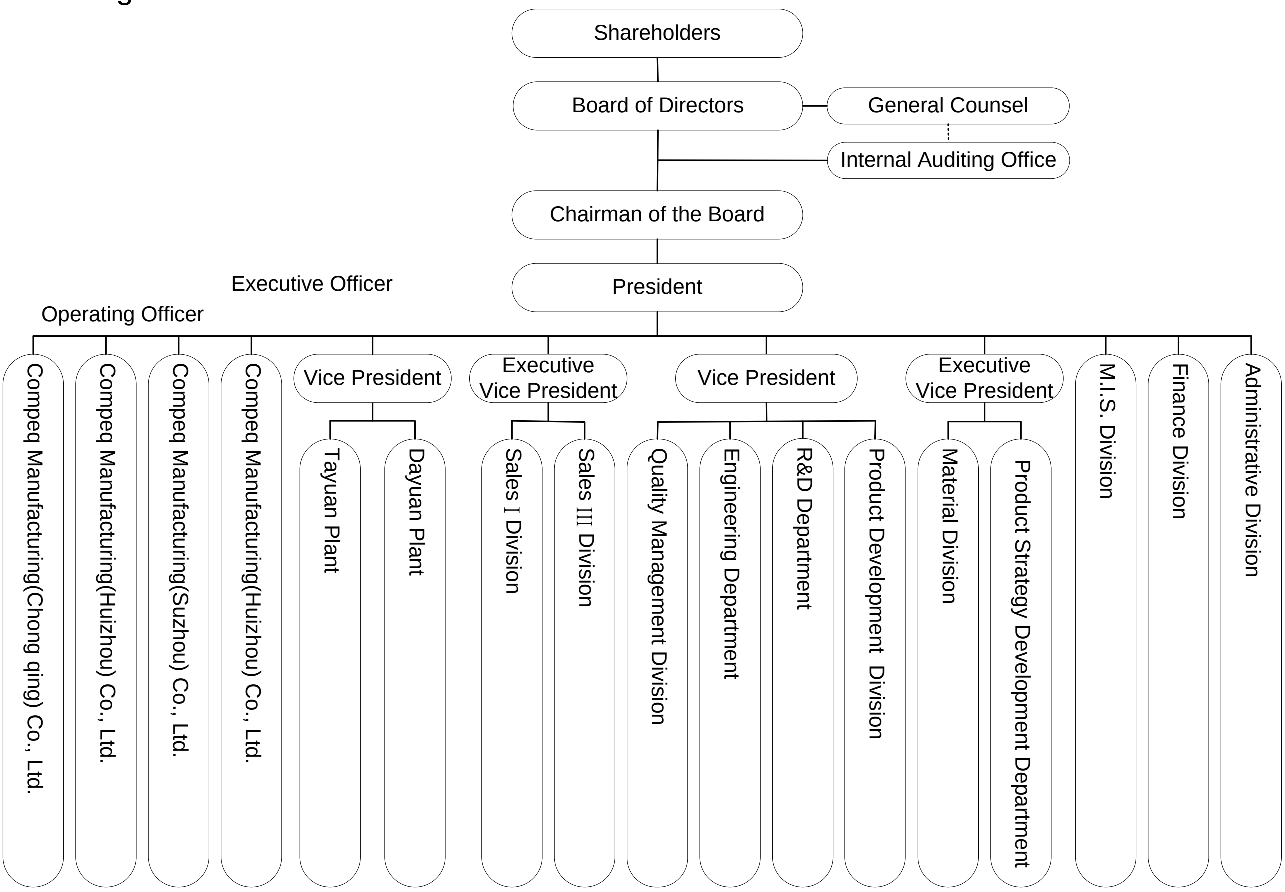
2002	● Annual shipment of cellular phone boards exceeded 61 million pieces, stood for 15% world's overall output of cellular phone board.
2003	● Received ISO-9001 certification.
2004	● Established Compeq Manufacturing (Suzhou) Co., Ltd., which was capitalized by Huaton Holdings Limited (spun out from Compeq) to provide small quantity assembly services for customers' new product development. ● Established Compeq Technology (Huizhou) Co., Ltd., supplying flex-PCBs for existing customers.
2005	● Received OHSAS 18001 certification.
2006	● Monthly shipment of cellular phone boards reached 20 million pieces. ● Completed rigid-flex PCB development and began to mass production.
2007	● Established Liton Holdings Ltd. (in British Virgin Islands) to engage in investment logistics. ● Established Huanein Holdings Ltd. to overall arrange investment business. ● Established Vecreation Co., Ltd. (in Jiangsu, China) to engage in China trade affairs. ● Established Compeq Manufacturing (Suzhou) Service Ltd. to purchase components for customers in east China. ● Established Compeq Overseas Holdings Ltd. (in British Virgin Islands) and Max Innovation Holdings Ltd. (in British Virgin Islands) to integral overseas investment operation.
2008	● Received TS 16949 certification.
2009	● Established Hong Kong Compeq Huizhou Trading Company Ltd. (in Hong Kong) to engage in China trade affairs. ● Received IECQ QC080000 certification. ● Received OHSAS 18001:2007 certification. ● Received TOSHMS certification.
2011	● Received SA8000 certification. ● Received GRI report certification.
2013	● Established Compeq Manufacturing (Chongqing) Co., Ltd. supplying PCBs for existing customers.
2017	● The sale revenue in November exceeded NT$ 5.78 billion, made the highest record in Compeq's history

(Note: Up to the annual report published date, none of the major stockholder with more than 10% shareholding, members of the board, and controllers had large quantity stock transfer. Neither the ownership nor the business model and content had major change.)

III. Corporate Governance Report

3.1 Organization

3.1.1 Organization Chart



3.1.2 Major Corporate Functions

Department	Functions
Internal Auditing Office	Auditing and offering suggestions for improving the internal control system..
M.I.S. Division	Information system analysis and planning, programming, database management, software and hardware maintenance
Administrative Division	Management of corporate image, corporate culture, human resources, general affairs, industrial relations and other logistics related operating.
Finance Division	Management of the financial, accounting, taxation, cost systems
ExecutiveVice President	To integrate and manage the products and materials within the Company.
Material Division	management of sourcing, warehousing, and material
Product Strategy Development Department	Management, coordination, and resource integration in the product development process
Vice President	To integrate and manage the technology, equipment, process, and products within the company.
Product Development Division	Product and process development
R&D Department	New product, new process design
Engineering Department	Planning, management, and integration of company plants, equipment, environmental protection, public facilities
Quality Management Division	Planning of quality control systems
Executive Vice President	To establish and implement sales and production strategies; to coordinate and integrate product sales and production; to cultivate markets in Northeast Asia and China; and to cultivate and provide after-sales services for FPC and RFPC customers.
Sales III Division	Customer development and after-sales service in the Americas and Southeast Asia
Sales I Division	Customer development and after-sales service in Europe
Vice President	Production management of plants in Taiwan
Dayuan Plant	Manufacturing of high-end PCB
Tayuan Plant	Manufacturing of high-end PCB
Compeq Manufacturing(Huizhou)Co., Ltd.	Manufacturing of PCB in China
Compeq Manufacturing(Suzhou) Co., Ltd.	Manufacturing of SMT
Compeq Technology (Huizhou) Co., Ltd.,	Manufacturing of FPC
Compeq Manufacturing(Chong qing) Co., Ltd.	Manufacturing of PCB in China

3.2 Directors, Supervisors and Management Team

3.2.1 Board of Directors

Title	Nationality	Name	Gender	Date Elected	Term (Years)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement	
							Shares	%	Shares	%	Shares	%	Shares	%
Chairman of the Board	R.O.C.	Charles C.Wu	Male	2017.6.16	3	1996.5.17	34,078,243	2.86	34,078,243	2.86	29,230,149	2.45	0	0
Director	R.O.C.	K.S Peng	Male	2017.6.16	3	2002.5.24	8,365,186	0.70	8,365,186	0.70	1,865,113	0.16	0	0
Director	R.O.C.	P.K. Chiang	Male	2017.6.16	3	2014.6.12	503,450	0.04	943,450	0.08	0	0.00	0	0
Director	R.O.C.	P.Y. Wu	Male	2017.6.16	3	2008.6.13	28,108,499	2.36	27,658,499	2.32	9,262,800	0.78	0	0
Director	R.O.C.	P.H. Wu	Male	2017.6.16	3	2017.6.16	27,204,857	2.28	27,204,857	2.28	9,966,100	0.84	0	0
Director	R.O.C.	Andrew Chen, on behalf of Chang-Zhi Investment Co., Ltd.	Male	2017.6.16	3	2008.6.13	15,653,000	1.31	16,353,000	1.37	0	0.00	0	0
Independent Director	R.O.C.	Tung Chun Huang	Male	2017.6.16	3	2014.6.12	0	0.00	0	0.00	0	0.00	0	0
Independent Director	R.O.C.	Tzu Kuan Chiu	Female	2017.6.16	3	2017.6.16	0	0.00	0	0.00	0	0.00	0	0
Independent Director	R.O.C.	Teng Ling Liu	Male	2017.6.16	3	2017.6.16	1,416,565	0.12	1,366,565	0.11	9,147	0.00	0	0

<table>
<tr><th rowspan="2">Title</th><th rowspan="2">Name</th><th rowspan="2">Experience（Education）</th><th rowspan="2">Selected Current Positions at
Compeq and Other Companies</th><th colspan="3">Directors or Management who are spouses or within Two Degrees of Kinship</th></tr>
<tr><th>Title</th><th>Name</th><th>Relation</th></tr>
<tr><td rowspan="2">Chairman of the Board</td><td rowspan="2">Charles C.Wu</td><td rowspan="2">●Bachelor's Degree of Chemical and Materials Engineering, Tunghai University
●Chairman of Time Enterprises Co., Ltd.
●Director of Robina Finance & Leasing Co., Ltd.</td><td rowspan="2">●CEO COMPEQ Manufacturing Co., Ltd.
●Chairman of Chang-Zhi Investment Co., Ltd.</td><td>Director</td><td>P.Y. Wu</td><td>Filiation</td></tr>
<tr><td>Director</td><td>P.H. Wu</td><td>Filiation</td></tr>
<tr><td>Director</td><td>K.S Peng</td><td>●Bachelor's Degree of Business Administration,Chinese Culture University
●Director of Ming Yu Enterprises Co., Ltd.</td><td>●Director of COMPEQ Manufacturing Co., Ltd.</td><td>—</td><td>—</td><td>—</td></tr>
<tr><td>Director</td><td>P.K. Chiang</td><td>●Bachelor's Degree of Chemical and Materials Engineering, Tamkang University
●President of COMPEQ Manufacturing Co., Ltd.</td><td>●President of COMPEQ Manufacturing Co., Ltd.
●Chairman of Huaton Holdings Limited
●Chairman of Compeq Manufacturing (Huizhou) Co., Ltd.
●Chairman of Compeq Manufacturing (Chongging) Co., Ltd.
●Director of Compeq Technology (Huizhou) Co., Ltd.</td><td>—</td><td>—</td><td>—</td></tr>
<tr><td rowspan="2">Director</td><td rowspan="2">P.Y. Wu</td><td rowspan="2">● Master’s Defree of Electrical Engineering, State University of New York
●General Manager of Rigid-Flex Product Group, COMPEQ Manufacturing Co., Ltd.</td><td rowspan="2">●Vice President of COMPEQ Manufacturing Co., Ltd.
●Director of Compeq Manufacturing (Huizhou) Co., Ltd.
●Chairman of Compeq Technology (Huizhou) Co., Ltd.
●Chairman of Compeq Manufacturing (Suzhou) Co., Ltd.
●Director of Chang-Zhi Investment Co., Ltd .
●Chairman of Positive Bo Investment Co., Ltd.</td><td>Chairman</td><td>Charles C.Wu</td><td>Filiation</td></tr>
<tr><td>Director</td><td>P.H. Wu</td><td>Sibling</td></tr>
<tr><td rowspan="2">Director</td><td rowspan="2">P.H. Wu</td><td rowspan="2">● Master’s Degree of Science, National Chiao Tung University
● Director of COMPEQ Manufacturing Co., Ltd.</td><td rowspan="2">●Vice President of COMPEQ Manufacturing Co., Ltd.
●Chairman of Huanein Holdings Limited
●Director of Compeq Manufacturing (Huizhou) Co., Ltd.
●Supervisor of Compeq Manufacturing (Chongging) Co., Ltd.
●Supervisor of Chang-Zhi Investment Co., Ltd.
●Chairman of Xue Dayton Investment Co., Ltd.</td><td>Chairman</td><td>Charles C.Wu</td><td>Filiation</td></tr>
<tr><td>Director</td><td>P.Y. Wu</td><td>Sibling</td></tr>
</table>

Director	Andrew Chen, on behalf of Chang-Zhi Investment Co., Ltd.	● Bachelor's Degree of Chemical and Materials Engineering, Tunghai University ●Manager of Du Pont Taiwan Ltd.	●Vice President of COMPEQ Manufacturing Co., Ltd. ●Director of Compeq Manufacturing (Huizhou) Co., Ltd. ●Director of Compeq Manufacturing (Suzhou) Co., Ltd. ●Director of Compeq Manufacturing (Chongging) Co., Ltd.	—	—	—
Independent Director	Tung Chun Huang	●Ph.D, Ohio State University ●Professor, Institute of Human Resource Management, National Central University ●Professor, Chin Yun University	● Audit Committee Member. COMPEQ Manufacturing Co., Ltd. ● Remuneration Committee Member. COMPEQ Manufacturing Co., Ltd.	—	—	—
Independent Director	Tzu Kuan Chiu	●Ph.D, University of Pennsylvania. ●Professor, Department of Financial Finance, National Central University ●Professor, Shanghai Advanced Institute of Finance, Shanghai Jiaotong University	●Professor, Shanghai Advanced Institute of Finance, Shanghai Jiao Tong University ● Audit Committee Member. COMPEQ Manufacturing Co., Ltd. ● Remuneration Committee Member. COMPEQ Manufacturing Co., Ltd. ● Independent Director of Founder Fubon Fund Management Co., Ltd.	—	—	—
Independent Director	Teng Ling Liu	● Bachelor's Degree of National Taipei University of Technology ●Vice chairman of COMPEQ Manufacturing Co., Ltd.	● Audit Committee Member. COMPEQ Manufacturing Co., Ltd. ●Remuneration Committee Member. COMPEQ Manufacturing Co., Ltd.	—	—	—

Note:Current Shareholding is to the date of the annual report

Major shareholders of the Company's major institutional shareholders

Name of Institutional Shareholders	Major Shareholders
Chang-Zhi Investment Co., Ltd	Charles C.Wu (52.05%)、F.M. Peng (23.34%)、P.Y. Wu (12.94%)、P.H. Wu (11.67%)

Professional qualifications and independence analysis of directors and supervisors

Criteria / Name	Met One of the Following Professional Qualification Requirements with at Least Five Years Work Experience			Independence Criteria(Note)										Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
Charles C.Wu			✓					✓	✓	✓		✓	✓	0
K.S Peng			✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	0
P.K. Chiang			✓			✓	✓	✓	✓	✓	✓	✓	✓	0
P.Y. Wu			✓					✓	✓	✓		✓	✓	0
P.H. Wu			✓					✓	✓	✓		✓	✓	0
Andrew Chen, on behalf of Chang-Zhi Investment Co., Ltd.			✓			✓	✓	✓	✓	✓	✓	✓		0
Tung Chun Huang	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Tzu Kuan Chiu	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Teng Ling Liu			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0

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

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of the Company or any of its affiliates. Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding

three subparagraphs.

5. Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company or who holds shares ranking in the top five holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the shares, of a specified company or institution which has a financial or business relationship with the Company.
7. Not a professional individual who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof. These restrictions do not apply to any member of the remuneration committee who exercises powers pursuant to Article 7 of the "Regulations Governing the Establishment and Exercise of Powers of Remuneration Committees of Companies whose Stock is Listed on the TWSE or Traded on the TPEx".
8. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
9. Not been a person of any conditions defined in Article 30 of the Company Law.
10. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

3.2.2 Management Team

Title	Nationality	Name	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement	
					Shares	%	Shares	%	Shares	%
CEO	R.O.C.	Charles C.Wu	Male	2012.10	34,078,243	2.86	29,230,149	2.45	0	0
President	R.O.C.	P.K. Chiang	Male	2012.10	943,450	0.08	0	0.00	0	0
Executive Vice President	R.O.C.	Andrew Chen	Male	2016.01	206,668	0.02	46,000	0.00	0	0
Executive Vice President	R.O.C.	P.Y Wu	Male	2016.01	27,658,499	2.32	9,262,800	0.78	0	0
Corporate Vice President	R.O.C.	Victor Lu	Male	2016.01	18,729	0.00	0	0.00	0	0
Corporate Vice President	R.O.C.	P.H Wu	Male	2017.03	27,204,857	2.28	9,966,100	0.84	0	0
Vice President	R.O.C.	R.H. Chung	Male	2009.10	267,761	0.02	13,111	0.00	0	0
Vice President	R.O.C.	Tony Chuang	Male	2018.06	93,334	0.00	10,000	0.00	0	0

<table>
<tr><th rowspan="2">Title</th><th rowspan="2">Name</th><th rowspan="2">Experience（Education）</th><th rowspan="2">Other Position</th><th colspan="3">Managers who are Spouses or Within Two Degrees of Kinship</th></tr>
<tr><th>Title</th><th>Name</th><th>Relation</th></tr>
<tr><td rowspan="2">CEO</td><td rowspan="2">Charles C.Wu</td><td rowspan="2">●Bachelor's Degree of Chemical and Materials Engineering, Tunghai University
●Chairman of Time Enterprises Co., Ltd.
●Director of Robina Finance & Leasing Co., Ltd.</td><td rowspan="2">●Chairman of Chang-Zhi Investment Co., Ltd.</td><td>Executive Vice President</td><td>P.Y. Wu</td><td>Filiation</td></tr>
<tr><td>Corporate Vice President</td><td>P.H. Wu</td><td>Filiation</td></tr>
<tr><td>President</td><td>P.K. Chiang</td><td>●Bachelor's Degree of Chemical and Materials Engineering, Tamkang University
●President of COMPEQ Manufacturing Co., Ltd.</td><td>●Chairman of Huaton Holdings Limited
●Chairman of Compeq Manufacturing (Huizhou) Co., Ltd.
●Chairman of Compeq Manufacturing (Chongging) Co., Ltd.
●Director of Compeq Technology (Huizhou) Co., Ltd.</td><td>—</td><td>—</td><td>—</td></tr>
<tr><td>Executive Vice President</td><td>Andrew Chen</td><td>●Bachelor's Degree of Chemical and Materials Engineering, Tunghai University
●Manager of Du Pont Taiwan Ltd.</td><td>●Vice President of COMPEQ Manufacturing Co., Ltd.
●Director of Compeq Manufacturing (Huizhou) Co., Ltd.
●Director of Compeq Manufacturing (Suzhou) Co., Ltd.
●Director of Compeq Manufacturing (Chongging) Co., Ltd.</td><td>—</td><td>—</td><td>—</td></tr>
<tr><td rowspan="2">Executive Vice President</td><td rowspan="2">P.Y Wu</td><td rowspan="2">●Master’s Degree of Electrical Engineering, State University of New York
●General Manager of Rigid-Flex Product Group, COMPEQ Manufacturing Co., Ltd.</td><td rowspan="2">●Chairman of Pelican Cove Investment Ltd.
●Director of Compeq Manufacturing (Huizhou) Co., Ltd.
●Chairman of Compeq Technology (Huizhou) Co., Ltd.
●Chairman of Compeq Manufacturing (Suzhou) Co., Ltd.
●Director of Chang-Zhi Investment Co., Ltd..
●Chairman of Positive Bo Investment Co., Ltd.</td><td>CEO</td><td>Charles C.Wu</td><td>Filiation</td></tr>
<tr><td>Corporate Vice President</td><td>P.H. Wu</td><td>Sibling</td></tr>
<tr><td>Corporate Vice President</td><td>Victor Lu</td><td>●Bachelor's Degree of Chemical and Materials Engineering, Tamkang University</td><td>●Director of Compeq Manufacturing (Huizhou) Co., Ltd.</td><td>—</td><td>—</td><td>—</td></tr>
</table>

Corporate Vice President	P.H Wu	●Master’s Degree of Science, National Chiao Tung University ● Director of COMPEQ Manufacturing Co., Ltd.	●Chairman of Huanein Holdings Limited ●Director of Compeq Manufacturing (Huizhou) Co., Ltd. ●Supervisor of Compeq Manufacturing (Chongging) Co., Ltd. ●Supervisor of Chang-Zhi Investment Co., Ltd.. ●Chairman of Xue Dayton Investment Co., Ltd.	CEO	Charles C.Wu	Filiation
				Executive Vice President	P.Y. Wu	Sibling
Vice President	R.H. Chung	●MinShyong Senior high School ●Assistant Vice President of COMPEQ Manufacturing Co., Ltd.	●Director of Compeq Manufacturing (Huizhou) Co., Ltd.	—	—	—
Vice President	Tony Chuang	●Bachelor's Degree of Civil EngineeringTamkang University ●Chairman of Compeq Manufacturing (Suzhou) Co., Ltd.	●Director of Compeq Manufacturing (Suzhou) Co., Ltd.	—	—	—

3.3 **Remuneration of Directors and Management Team**

3.3.1 Remuneration of Directors

Unit: NT$ thousands

Title/ Name	Remuneration								Ratio of Total Remuneration (A+B+C+D) to Net Income (%)		Relevant Remuneration Received by Directors Who are Also Employees								Ratio of Total Compensation (A+B+C+D+E+F+G) to Net Income (%)		Compensation Paid to Directors from an Invested Company Other than the Company's Subsidiary
	Base Compensation (A)		Severance Pay (B)		Directors Compensation(C)		Allowances (D)				Salary, Bonuses, and Allowances (E)		Severance Pay (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		The company	Companies in the consolidated financial statements	
															Cash	Stock	Cash	Stock			
Chairman of the Board Charles C.Wu																					
Director P.K. Chiang																					
Director P.Y Wu											56,835	56,835	—	—	77	—	77	—			
Director P.H Wu																					
Director Andrew Chen																					
Director K.S Peng	5,400	5,400	—	—	—	—	—	—	0.23%	0.23%									2.60%	2.60%	--
Independent Director Tung Chun Huang																					
Independent Director Tzu Kuan Chiu											K.S Peng、Tung Chun Huang、Tzu Kuan Chiuand Teng Ling Liu Who are not Employees.										
Independent Director Teng Ling Liu																					

* In addition to the above information, do directors provide any consultancy service to all consolidated entities and what is its remuneration in the most recent year：None

Range of Remuneration	Name of Directors			
	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)	
	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements
Under NT$ 2,000,000	Charles C.Wu、K.S Peng、P.K. Chiang、P.Y Wu、P.H Wu、Andrew Chen、Tung Chun Huang、Tzu Kuan Chiu、Teng Ling Liu	Charles C.Wu、K.S Peng、P.K. Chiang、P.Y Wu、P.H Wu、Andrew Chen、Tung Chun Huang、Tzu Kuan Chiu、Teng Ling Liu	K.S Peng、Tung Chun Huang、Tzu Kuan Chiu、Teng Ling Liu	K.S Peng、Tung Chun Huang、Tzu Kuan Chiu、Teng Ling Liu
NT$2,000,001 ~ NT$5,000,000				
NT$5,000,001 ~ NT$10,000,000			P.H Wu	P.H Wu
NT$10,000,001 ~ NT$15,000,000			Charles C.Wu、Andrew Chen、P.Y Wu	Charles C.Wu、Andrew Chen、P.Y Wu
NT$15,000,001 ~ NT$30,000,000			P.K. Chiang	P.K. Chiang
NT$30,000,001~ NT$50,000,000				
NT$50,000,001 ~ NT$100,000,000				
Over NT$100,000,000				
Total	9	9	9	9

3.3.2 Remuneration of Management Team

Unit: NT$ thousands

Title	Name	Salary(A)		Severance Pay (B)		Bonuses and Allowances (C)		Employee Compensation (D)				Ratio of total compensation (A+B+C+D) to net income (%)		Compensation Paid to the President and Vice Presidents 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 consolidated financial statements	
								Cash	Stock	Cash	Stock			
CEO	Charles C.Wu	19,001	19,001	8,751	8,751	58,714	58,714	136	—	136	—	3.61%	3.61%	--
President	P.K. Chiang													
Executive Vice President	Andrew Chen													
Executive Vice President	P.Y Wu													
Corporate Vice President	Victor Lu													
Corporate Vice President	P.H. Wu													
Vice President	R.H. Chung													
Vice President	Y.C. Huang													
Vice President	Tony Chuang													

Range of Remuneration	Name of President and Vice Presidents	
	The company	Companies in the consolidated financial statements
Under NT$ 2,000,000		
NT$2,000,001 ~ NT$5,000,000		
NT$5,000,001 ~ NT$10,000,000	P.H. Wu、Y.C. Huang、R.H. Chung、Tony Chuang	P.H. Wu、Y.C. Huang、R.H. Chung、Tony Chuang
NT$10,000,001 ~ NT$15,000,000	Charles C.Wu、P.K. Chiang 、Andrew Chen、P.Y Wu、Victor Lu	Charles C.Wu、P.K. Chiang 、Andrew Chen、P.Y Wu、Victor Lu
NT$15,000,001 ~ NT$30,000,000		
NT$30,000,001 ~ NT$50,000,000		
NT$50,000,001 ~ NT$100,000,000		
Over NT$100,000,000		
Total	9	9

3.3.3 Employee Profit Sharing Granted to Management Team：

	Title	Name	Employee Compensation - in Stock (Fair Market Value)	Employee Compensation - in Cash	Total	Ratio of Total Amount to Net Income (%)
Executive Officers	CEO	Charles C.Wu	--	174	174	0.01%
	President	P.K. Chiang				
	Executive Vice President	Andrew Chen				
	Executive Vice President	P.Y Wu				
	Corporate Vice President	Victor Lu				
	Corporate Vice President	P.H. Wu				
	Vice President	R.H. Chung				
	Vice President	Tony Chuang				
	Chief of Financial Officer	Fine Lu				
	Accounting Manager	Y.M Wu				

3.3.4 Comparison of Remuneration for Directors and Management Team in the Most Recent Two Fiscal Years and Remuneration Policy for Directors, Supervisors, President and Vice Presidents：

A.

	2018		2017	
	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements
Net Income of year 2017 (Unit: NT$ thousands)	2,399,731	2,399,731	3,577,044	3,577,044
Ratio of total remuneration paid to directors to net income (%)	0.23%	0.23%	0.15%	0.15%
Ratio of total remuneration paid to Management Team to net income (%)	3.61%	3.61%	2.43%	2.43%

B. Ddescribe the policy, criteria, packages and rules relating to the remuneration, as well as its relation to business performance and future risks：

Compliance with the Securities Exchange Act and Remuneration Committee Charter of Compeq, the company has rstablished the remuneration committee, which shall exercise the care of a good administrator in faithfully performing the official powers listed below, and shall submit its recommendations for deliberation by the board of directors.

1.Prescribe and periodically review the performance review and remuneration policy, system, standards, and structure for directors and managements.

2.Periodically evaluate and prescribe the remuneration of directorsand managements.

3.4 **Implementation of Corporate Governance**

3.4.1 Board of Directors：

A total of 6 (A) meetings of the Board of Directors were held in the previous period. The attendance of director and supervisor were as follows：

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%)【B/A】	Remarks
Chairman of the Board	Charles C.Wu	5	1	83%	
Director	K.S Peng	6	0	100%	
Director	P.K. Chiang	6	0	100%	
Director	P.Y. Wu	6	0	100%	
Director	P.H. Wu	5	1	83%	
Director	Andrew Chen, on behalf of Chang-Zhi Investment Co., Ltd.	6	0	100%	
Independent Director	Tung Chun Huang	6	0	100%	
Independent Director	Tzu Kuan Chiu	6	0	100%	
Independent Director	Teng Ling Liu	6	0	100%	

Other mentionable items：

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

1.1 Matters referred to in Article 14-3 of the Securities and Exchange Act.

Meeting Date	Proposal	Independent Director's opinion	Treatment of Independent Director's opinion	Resolution
2018.03.08	1.Approved 2017 Statement of Internal Control System 2.Approved theReport on the 2017 Employee Compensation Distribution 3.Approved 2017 Financial Statements 4.Approved 2017 Business Report 5.Approved the proposal for distribution of 2017 earnings 6.Approved the proposal for Financing with financial institutions 7.Approved the proposal for endorsement, or provision of guarantee 8.Approved the proposal for the hiring or dismissal of an attesting CPA, and evaluating the Independence. 9.Approved the Amendment to the Procedures for Endorsements and Guarantees	None	None	proposal was approved as proposed
2018.05.03	1.Approved 2018Q1 Financial Statements 2.Approved the proposal for Financing with financial institutions 3.Approved the proposal for endorsement, or provision of guarantee 4.Approved the assignment of the company's financial management.	None	None	proposal was approved as proposed
2018.08.03	1.Approved 2018Q2 Financial Statements 2.Approved the proposal for Financing with financial institutions 3.Approved the proposal for endorsement,	None	None	proposal was approved as proposed

	or provision of guarantee 4.Approved the proposal Directors & Officers liability Insurance			
2018.11.02	1.Approved 2018Q3 Financial Statements 2.Approved the proposal for Financing with financial institutions 3.Approved the proposal for endorsement, or provision of guarantee	None	None	proposal was approved as proposed
2019.03.13	1.Approved 2018 Statement of Internal Control System 2.Approved the Report on the 2018 Employee Compensation Distribution 3.Approved 2018 Financial Statements 4.Approved 2018 Business Report 5.Approved the proposal for distribution of 2018 earnings 6.Approved the proposal for Financing with financial institutions 7.Approved the proposal for endorsement, or provision of guarantee 8.Approved the proposal for the hiring or dismissal of an attesting CPA, and evaluating the Independence. 9.Approved the assignment of the chief corporate governance officer 10.Approved the Amendment to the Articles of Incorporation 11.Approved the Amendment to the Procedures for Acquisition and Disposal of Assets 12.Approved the SOP for handling requests from directors 13.Approved the proposal for release the prohibition on directors from participation in competitive business	None	None	proposal was approved as proposed

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

2. If there are directors' avoidance of motions in conflict of interest, the directors' names, contents of motion, causes for avoidance and voting should be specified：
   2018 BOD held on March 8, May 3, August 3, November 2,and 2019 BOD on March 13 2019, when the Compensation Committee made a proposal to discuss the salary system for directors, supervisors, and managers, Chairman Wu, Director Jiang, Director Chen, Director P.Y. Wu, and Director P.H, Wu recused themselves from the discussion and voting of their salary. The proposal was unanimously approved by all present directors.
   2019 BOD held on March 13 2019, when the BOD discussed to release the prohibition on directors from participation in competitive business, Independent Director Tzu Kuan Chiu recused herself from the discussion and voting process. The proposal was unanimously approved by all present directors.
3. Measures taken to strengthen the functionality of the board: The Board of Directors has established an Audit Committee and a Remuneration Committee to assist the board in carrying out its various duties.：
   All of the board of directors meeting of the company have followed the"Rules of Procedure for the Board of Directors Meeting and related regulations, and the company has established audit committee to ensure the quality of important business decisions.

3.4.2 Audit Committee：

A. Audit Committee：

A total of 5 (A) Audit Committee meetings were held in the previous period. The attendance of the independent directors was as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%)【B/A】	Remarks
Independent Director	Tung Chun Huang	5	0	100%	
Independent Director	Tzu Kuan Chiu	5	0	100%	
Independent Director	Teng Ling Liu	5	0	100%	

Other mentionable items：

1. If any of the following circumstances occur, the dates of meetings, sessions, contents of motion, resolutions of the Audit Committee and the Company's response to the Audit Committee's opinion should be specified:

1.1 Matters referred to in Article 14-5 of the Securities and Exchange Act.

Meeting Date	Proposal	Independent Director's opinion	Treatment of Independent Director's opinion	Resolution
2018.03.08	1.Approved 2017 Statement of Internal Control System 2.Approved 2017 Employee Compensation Distributions 3.Approved 2017 Financial Statements 4.Approved 2017 Business Report 5.Approved the proposal for distribution of 2017 earnings 6.Approved the proposal for Financing with financial institutions 7.Approved the proposal for endorsement, or provision of guarantee 8.Approved the proposal for the hiring or dismissal of an attesting CPA, and evaluating the Independence. 9.Approved the Amendment to the Procedures for Endorsements and Guarantees	None	None	proposal was approved as proposed
2018.05.03	1.Approved 2018Q1 Financial Statements 2.Approved the proposal for Financing with financial institutions 3.Approved the proposal for endorsement, or provision of guarantee 4. Approved the assignment of the company's financial management.	None	None	proposal was approved as proposed
2018.08.03	1.Approved 2018Q2 Financial Statements 2.Approved the proposal for Financing with financial institutions 3.Approved the proposal for endorsement, or provision of guarantee 4.Approved the proposal Directors & Officers liability Insurance	None	None	proposal was approved as proposed
2018.11.02	1.Approved 2018Q3 Financial Statements 2.Approved the proposal for Financing with financial institutions 3.Approved the proposal for endorsement, or provision of guarantee 4.Approved Corporate Governance Best Practice Principles of Compeq 5.Approved Corporate Social Responsibility Best Practice Principles of Compeq	None	None	proposal was approved as proposed
2019.03.13	1.Approved 2018 Statement of Internal Control System 2.Approved 2018 Employee Compensation Distributions 3.Approved 2018Financial Statements 4.Approved 2018 Business Report 5.Approved the proposal for distribution of 2018 earnings	None	None	proposal was approved as proposed

		6.Approved the proposal for Financing with financial institutions 7.Approved the proposal for endorsement, or provision of guarantee 8. Approved the proposal for the hiring or dismissal of an attesting CPA, and evaluating the Independence. 9.Approved the Amendment to the Articles of Incorporation 10.Approved the Amendment to the Procedures for Acquisition and Disposal of Assets 11.Approved the SOP for handling requests from directors 12Approved the proposal for release the prohibition on directors from participation in competitive business 13.Approved the assignment of the chief corporate governance officer			

1.2 Other matters which were not approved by the Audit Committee but were approved by two-thirds or more of all directors.：None

2. If there are independent directors' avoidance of motions in conflict of interest, the directors' names, contents of motion, causes for avoidance and voting should be specified：
Independent director Tzu Kuan Chiu is invited to serve as an independent director of Founder Fubon Fund Management Co., Ltd..When the Audit Committee discussed to release the prohibition on directors from participation in competitive business, Independent director Tzu Kuan Chiu recused herself from the discussion and voting process. The proposal was unanimously approved by all present independent directors.

3. Communications between the independent directors, the Company's chief internal auditor and CPAs (e.g. the material items, methods and results of audits of corporate finance or operations, etc.)
Communications between the independent directors and the Company's chief internal auditor：

Date	Discussion content	Independent Director's opinion	Treatment of Independent Director's opinion
2018.11.02	1.2018Interal auditing report. 2.2019Internal auditing plan 3.Internal control failure of External case report. 4.Independence director's assginmnet follow-up actions report	None	None
2019.03.13	1.2019Interal auditing report. 2.Approved 2018 Statement of Internal Control System 3.Internal control failure of external case report. 4.Independence director's assginmnet follow-up actions report	None	None

Communications between the independent directors and CPA：
The CAP issues a letter to the independent directors every year to inquire about the opinions and suggestions for the financial statements, as the basis for the CPA to assess the effectiveness of corporate governance and internal control.

3.4.3 Corporate Governance Implementation Status and Deviations from "the Corporate Governance Best-Practice Principles for TWSE Listed Companies"

Evaluation Item	Implementation Status			Deviations from "the Corporate Governance Best-Practice Principles for TWSE Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
1. Does the company establish and disclose the Corporate Governance Best-Practice Principles based on "Corporate Governance Best-Practice Principles for	V		The Company have established and disclosed Corporate Governance Best Practice Principles of Compeq on 2018.Nov.02	None

Evaluation Item	Implementation Status			Deviations from "the Corporate Governance Best-Practice Principles for TWSE Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
TWSE/TPEx Listed Companies"?				
2. Shareholding structure & shareholders' rights				
2.1 Does the company establish an internal operating procedure to deal with shareholders' suggestions, doubts, disputes and litigations, and implement based on the procedure?	V		The Company establishes internal procedures and assigns designated departments to handle shareholder suggestions, proposals, complaints and disputes. Shall there be any legal issue, our legal department and outside counsel will involve and handle the issues.	None
2.2 Does the company possess the list of its major shareholders as well as the ultimate owners of those shares?	V		The Company maintains a good relationship with major shareholders and keeps an updated list of the major shareholders.	None
2.3 Does the company establish and execute the risk management and firewall system within its conglomerate structure?	V		The Company has established appropriate internal policies and assigned designated personnel to handle risk management mechanism and "firewall" between the Company and its affiliates.	None
2.4 Does the company establish internal rules against insiders trading with undisclosed information?	V		The company establishes internal rules against insiders trading.	None
3.Composition and Responsibilities of the Board of Directors				
3.1 Does the Board develop and implement a diversified policy for the composition of its members?	V		The composition of the board of directors is determined by taking diversity into consideration.All members of the board shall have the knowledge, skills, and experience necessary to perform their duties. To achieve the ideal goal of corporate governance, the board of directors shall possess the following abilities: Ability to make operational judgments. Ability to perform accounting and financial analysis. Ability to conduct management administration. Ability to conduct crisis management. Knowledge of the industry. An international market perspective. Ability to lead.	None

Evaluation Item	Implementation Status			Deviations from "the Corporate Governance Best-Practice Principles for TWSE Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
			Ability to make policy decisions.	
3.2 Does the company voluntarily establish other functional committees in addition to the Remuneration Committee and the Audit Committee?	V		The Company established Compensation Committee and Audit Committee and its policies and procedures. Apart from the above mentioned committees, the Company has not established any other functional committee.	None
3.3 Does the company establish a standard to measure the performance of the Board, and implement it annually?		V	The compant will establish a standard to measure the performance of the Board, and implement it annually in 2020	NA
3.4 Does the company regularly evaluate the independence of CPAs?	V		The company evaluates the independence of CPAs evry year.	None
4. Does the company set up a corporate governance unit or appoint personnel responsible for corporate governance matters (including but not limited to providing information for directors and supervisors to perform their functions, handling work related to meetings of the board of directors and the shareholders' meetings, filing company registration and changes to company registration, and producing minutes of board meetings and shareholders' meetings)?	V		The company has set up a corporate governance management on March.13 2019.	None
5. Does the company establish a communication channel and build a designated section on its website for stakeholders (including but not limited to shareholders, employees, customers, and suppliers), as well as handle all the issues they care for in terms of corporate social responsibilities?	V		The company establishes a communication channel and builds a designated section on its website for stakeholders, employees, customers, and suppliers, as well as handles all the issues they care for in terms of corporate social responsibilities.	None
6. Does the company appoint a professional shareholder service agency to deal with shareholder affairs?	V		The Company designates Taishin International Bank Stock Transfer Agency Department Inc. to deal with shareholder affairs.	None
7. Information Disclosure				
7.1 Does the company have a corporate website to disclose both financial standings and the status of corporate governance?	V		The company has an official website to disclose both financial standings and the status of corporate governance.	None

Evaluation Item	Implementation Status			Deviations from "the Corporate Governance Best-Practice Principles for TWSE Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
7.2 Does the company have other information disclosure channels (e.g. building an English website, appointing designated people to handle information collection and disclosure, creating a spokesman system, webcasting investor conferences)?	V		The company has official website for information disclosure, and appoint designated people to handle information collection and disclosure, creating a spokesman system, webcasting investor conferences.	None
8. Is there any other important information to facilitate a better understanding of the company's corporate governance practices (e.g., including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors)?	V		1.Employees rights and wellness are stated in internal policies as required by relevant laws and regulations. 2.The Company maintains good relationship with investors and have IR system to handle the investors; affairs. 3.The company designates personnel exclusively dedicated to handling suppliers' affairs. 4.The company maintains communication with stakeholders and safeguards their rights and interests.The company maintains channels of communication with its banks, other creditors, employees, consumers, suppliers, community, or other stakeholders of the company, respects and safeguards their legal rights and interests, and designates a stakeholders section on its website. When any of a stakeholder's legal rights or interests is harmed, the company shall handle the matter in a proper manner and in good faith. 5.Continuing education of directors:None 6.Internal control, auditing and self-evaluation procedures are in place. 7.In order to protect the interests of the consumers and customers, the company havs designated personnel exclusively dedicated to handling the customers' proposals, inquiries, and disputes.	None

<table>
<tr><th rowspan="2">Evaluation Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Deviations from “the Corporate Governance Best-Practice Principles for TWSE Listed Companies” and Reasons</th></tr>
<tr><th>Yes</th><th>No</th><th>Abstract Illustration</th></tr>
<tr><td></td><td></td><td></td><td>8.The company has taken out directors liability insurance with respect to liabilities resulting from exercising their duties during their terms of occupancy so as to reduce and spread the risk of material harm to the company and shareholders arising from the wrongdoings or negligence of a director.</td><td></td></tr>
<tr><td colspan="5">9. Please explain the improvements which have been made in accordance with the results of the Corporate Governance Evaluation System released by the Corporate Governance Center, Taiwan Stock Exchange, and provide the priority enhancement measures.
The result of the Corporate Governance Evaluation of the company falls in the range of the first 51% to 65% of the Taiwan listed companies. The company will recitify the non-compliance items to improve the Corporate Governance system gradually.</td></tr>
</table>

3.4.4 Status of Remuneration Committee：

A.

Title	Criteria / Name	Met One of the Following Professional Qualification Requirements with at Least Five Years Work Experience			Independence Criteria(Note)								Number of Other Public Companies in Which the Individual is Concurrently Serving a Member of Remuneration Committee	Remarks
		An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8		
Independent Director	Tung Chun Huang	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	1	
Independent Director	Tzu Kuan Chiu	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Independent Director	Teng Ling Liu			✓	✓	✓	✓	✓	✓	✓	✓	✓	0	

Note:

1. Not an employee of the Company or any of its affiliates.

2.Not a director or supervisor of the Company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the Company, its parent company, or any subsidiary as regulated by local governing body..

3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others'names, in an aggregate amount of 1% or more of the total number ofoutstanding shares of the Company or ranking in the top 10 in holdings.

4. Not a spouse, relative within the second degree of kinship, or lineal relative within the fifth degree of kinship, of any of the persons in the preceding three subparagraphs.

5. Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the Company or that holds shares ranking in the top five in holdings.

6. Not a director, supervisor, officer, or shareholder holding 5% or more of the share, of a specified company or institution that has a financial or business relationship with the Company.

7. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultationto the Company or to any affiliate of the Company, or a spouse thereof.

8. Article 30 of Company Act shall not apply.

B. A total of 4 meetings of Remuneration Committee were held in the previous period. The status of attendance is as follows.

<table>
<tr><th>Title</th><th>Name</th><th>Attendance in Person (B)</th><th>By Proxy</th><th>Attendance Rate (%) 【B/A】</th><th>Remarks</th></tr>
<tr><td>Member</td><td>Tung Chun Huang</td><td>4</td><td>0</td><td>100%</td><td rowspan="3">The functions of the Committee are to professionally and objectively evaluate the policies and systems for compensation of the directors and managements, and submit recommendations to the board of directors for its reference in decision making..</td></tr>
<tr><td>Member</td><td>Tzu Kuan Chiu</td><td>4</td><td>0</td><td>100%</td></tr>
<tr><td>Chairman</td><td>Teng Ling Liu</td><td>4</td><td>0</td><td>100%</td></tr>
<tr><td colspan="6">Other Information to be disclosed:
1. If Board of Directors did not adopt or revise the proposal made by the Compensation Committee, please specify the date, session, agendas and resolutions of the Board of Directors meeting and how the Company handled the proposal made by the Compensation Committee (If amount of the compensation approved by the Board of Directors is higher than that proposed by the Compensation Committee, please specify the reasons and differences in proposals.): None.
2. If any members of the Compensation Committee were against or reserved their opinions towards the resolutions, please specify the date, session, agendas, opinions of all members and how the opinions were handled: None.</td></tr>
</table>

3.4.5 Implementation of Corporate Social Responsibility：

Evaluation Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	yes	No	Abstract Explanation	
1. Corporate Governance Implementation				
1.1 Does the company declare its corporate social responsibility policy and examine the results of the implementation?	V		The Company have established and disclosed Corporate Social Responsibility Best Practice Principles of Compeq on 2018.Nov.02 We have established a CSR policy and related systems and passed SA8000 certification to supervise the effectiveness of CSR implementation at Compeq at planned intervals.	None
1.2 Does the company provide educational training on corporate social responsibility on a regular basis?	V		The company organizes CSR-related training activities regularly. Employees are also required to undertake refresher training every year.	None
1.3 Does the company establish exclusively (or concurrently) dedicated first-line managers authorized by the board to be in charge of proposing the corporate social responsibility policies and reporting to the board?	V		The company has assigned dedicated personnel to promote the establishment and execution of the CSR management system.	None
1.4 Does the company declare a reasonable salary remuneration policy, and integrate the employee performance appraisal system with its corporate social responsibility policy, as well as establish an effective reward and disciplinary system?	V		The actual execution of CSR policy at Compeq is broken down into different tasks and goals based on each unit's area of responsibility. Our compensation policy evaluates employees on their performance of assigned tasks before the appropriate reward/punishment is meted out.	None
2. Sustainable Environment Development				
2.1 Does the company endeavor to utilize all resources more efficiently and use renewable materials which have low impact on the environment?	V		The company strives to improve the recycling and reuse of different resources (e.g., recovery of water, copper, gold and silver metals) as well as the reuse of pallet materials to reduce waste production.	None
2.2 Does the company establish proper environmental management systems based on the characteristics of their industries?	V		The company has set up an ISO 14001 environmental management systems with complete documentation and regular external audits.	None
2.3 Does the company monitor the impact of climate change on its operations and conduct greenhouse gas inspections, as well as establish company strategies for energy conservation and carbon reduction?	V		In addition to implementing GHG inventory and reduction, the company voluntarily discloses its achievements through channels including the CSR report published every June, customer survey, and the Carbon Disclosure Project (CDP).	None
3. Preserving Public Welfare				
3.1 Does the company formulate appropriate management policies and procedures according to relevant regulations and the International Bill of Human Rights?	V		The Company follows international guidelines defined in SA8000 and EICC to protect our employees. If there are any conflicting provisions then the more rigorous provision is adopted.	None
3.2 Has the company set up an employee hotline or grievance mechanism to handle complaints with appropriate solutions?	V		The company has comprehensive grievance and communication channels in place including e-mail, physical mailbox, telephone number and labor union. Employee feedback is addressed in accordance with the relevant regulations.	None

3.3 Does the company provide a healthy and safe working environment and organize training on health and safety for its employees on a regular basis	V		The company has passed the certification of both OHSAS18001 and TOSHMS of MOL, and both certificates are still valid. Apart from providing employees with a safe and healthy work environment, periodic safety and health education and training are according to the above standards. Most importantly, we accept audits periodically.	None
3.4 Does the company setup a communication channel with employees on a regular basis, as well as reasonably inform employees of any significant changes in operations that may have an impact on them?	V		Compeq executives communicate directly with employee representatives on a regular basis through employer/employee meetings, employee welfare meetings and operating reports.	None
3.5 Does the company provide its employees with career development and training sessions?	V		The company provides a range of comprehensive training programs based on the organization and roles. The head of each functional unit is responsible for defining the skills and knowledge required for personnel of all levels in their particular field. With the assistance of the training unit, these are converted into suitable training courses that give employees the professional skills and knowledge required to carry out their work. All employees are encouraged to actively share their knowledge and combine the results with the performance evaluation system in order to realize the goal of employee learning and the passing down of experience.	None
3.6 Does the company establish any consumer protection mechanisms and appealing procedures regarding research development, purchasing, producing, operating and service?	V		As the company's operations do not include end-users, we only ensure that the products and services provided for customers and by suppliers and if their collections and payments meet the contract terms and related laws and regulations. 1. We ensure that products or services are provided in compliance with the contract terms and related laws and regulations. 2. Where appropriate and applicable, we provide correct and clear information regarding the content, maintenance and repair, storage,and disposal of products or services to ensure customers are well informed prior to making a decision. 3. We establish and implement a transparent and effective customer grievance procedure fairly and timely to resolve customer grievances without incurring undue fees or burdens. 4. We do not to engage in any deception, misdirection, fraud or unfair statements or omissions, or any other improper acts.	None
3.7 Does the company advertise and label its goods and services according to relevant regulations and international standards?	V		The company adheres to the relevant regulations, international principles and customer requirements on the marketing and labeling of products and services.	None
3.8 Does the company evaluate the records of suppliers' impact on the environment and society before taking on business partnerships?	V		CSR performance is the one of the company's main concerns in supplier selection. Apart from requesting qualified suppliers to sign the "Compeq Supplier CSR and Code of Ethics Declaration," we require suppliers to fill in the "Supplier CSR Self-Assessment Form" or conduct a "Supplier CSR Audit" in respect of their risks.	None

3.9 Do the contracts between the company and its major suppliers include termination clauses which come into force once the suppliers breach the corporate social responsibility policy and cause appreciable impact on the environment and society?	V		The “Supplier CSR and Code of Ethics Declaration” designed by Compeq’s ethical management unit includes a ethical behavior clause so that the Company’s business activities adhere to ethical and CSR standards in accordance with company policy. The Declaration also explicitly states that in the event of any violations that cause irreparable loss to Compeq and its customers then Compeq has the right to terminate or reject the contract.	None
4. Enhancing Information Disclosure				
4.1 Does the company disclose relevant and reliable information regarding its corporate social responsibility on its website and the Market Observation Post System (MOPS)?	V		The official Compeq website already discloses the latest corporate social responsibility related information on a regular basis.	None
5. If the Company has established the corporate social responsibility principles based on “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies”, please describe any discrepancy between the Principles and their implementation：None.				
6. Other important information to facilitate better understanding of the company’s corporate social responsibility practices：There is a specific CSR section on the company’s official website including CSR policy, targets and management procedures. (http://www.compeq.com.tw/duty01.php)				
7. A clear statement shall be made below if the corporate social responsibility reports were verified by external certification institutions：The CSR report has been assured by the third party certification body：TÜ V Asia Pacific Ltd. Taiwan Branch. Compeq applies the “Core” indicators of the GRI Sustainability Reporting Standards (GRI Standards) issued by the Global Reporting Initiative (GRI) and AA1000AS: 2008 as the reporting framework.				

3.4.6 Ethical Corporate Management：

Evaluation Item	Implementation Status			Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
1. Establishment of ethical corporate management policies and programs				
1.1 Does the company declare its ethical corporate management policies and procedures in its guidelines and external documents, as well as the commitment from its board to implement the policies?	V		Although we have not established an “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies”, our ethical corporate management unit has established the “Ethics Policy” (by management) and published it on the corporate website. In addition to the “Ethics and Integrity Management Regulations” and the “CSR Manual”, and we have specified the requirements for ethical conduct in the “Supplier CSR and Ethics and Integrity Declaration” to ensure that all Compeq business activities are ethically and integrally conducted. We have also established regulations to govern the accounting system and ensure that the internal control system is completely, fairly, accurately, timely, and comprehensibly disclosed. We further announce the need for business ethics and integrity, the implementation of anti-corruption and reporting of corruption, and the measures for protecting retaliation, in order to provide proper grievance channels.	None

1.2 Does the company establish policies to prevent unethical conduct with clear statements regarding relevant procedures, guidelines of conduct, punishment for violation, rules of appeal, and the commitment to implement the policies?	V		The ethical management unit has established "Code of Ethics Management Rules". It includes operating procedures, guides to behavior, punishment for violations of rules on undue or improper advantage. Code of ethics and anti-corruption measures have been implemented along with protection for whistle blowers through proper grievance channels.	None
1.3 Does the company establish appropriate precautions against high-potential unethical conducts or listed activities stated in Article 2, Paragraph 7 of the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies?	V		The company has established the "Guidelines on Labor and Ethical Risk Management" based on the articles governing unethical behavior from the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies". The "Code of Ethics Management Rules" also identifies and provides preventive measures for business activities at higher risk.	None
2. Fulfill operations integrity policy				
2.1 Does the company evaluate business partners' ethical records and include ethics-related clauses in business contracts?	V		The "Supplier CSR and Code of Ethics Declaration" designed by the ethical management unit includes an ethical behavior clause to ensure that all business activities within the organization are conducted in compliance with the ethical and CSR standards specified in our ethnical management policy. The Declaration also explicitly states that the management is entitled to terminate or reject a contract signed with the contractor that has caused irreparable loss to either company or customers.	None
2.2 Does the company establish an exclusively (or concurrently) dedicated unit supervised by the Board to be in charge of corporate integrity?	V		The company has set up a CSR organization headed by the chairman of the Company who designates a senior executive as the CSR management representative. The CSR organization discloses the CSR report and report to BOD the progress of report publication by the end of June every year.	None
2.3 Does the company establish policies to prevent conflicts of interest and provide appropriate communication channels, and implement it?	V		The company has established the "Code of Ethics Management Rules" that states the conflicts of interest policy and initiatives. Code of ethics and anti-corruption measures have been implemented along with protection for whistle blowers through proper complaint channels.	None
2.4 Has the company established effective systems for both accounting and internal control to facilitate ethical corporate management, and are they audited by either internal auditors or CPAs on a regular basis?	V		The company has established an accounting system, an internal control system, and various management regulations in accordance with the Compact Act, Business Accounting Act, and Securities and Exchange Act. In addition, the internal audit unit draws up an annual audit program based on risk assessments to verify the performance of internal controls.	None
2.5 Does the company regularly hold internal and external educational trainings on operational integrity?	V		The company organizes education and training activities relating to CSR and business ethics and integrity and request employees to receive recurrent training every year.	None
3. Operation of the integrity channel				

3.1 Does the company establish both a reward/punishment system and an integrity hotline? Can the accused be reached by an appropriate person for follow-up?	V		The company has established comprehensive grievance and communication channels for employees to report any activities violating the law or the ethics and integrity regulations, or corruption. Employees having doubts about or detecting such activities (e.g. cooking the books, stealing company assets, embezzling company property, obtaining undue or improper advantage, extortion, and leaking trade secrets) should report to the management. We will punish or reward relevant employees based on the severity of offence in accordance with the employee work rules and related regulations.	None
3.2 Does the company establish standard operating procedures for confidential reporting on investigating accusation cases?	V		The company has established the "Whistleblowing Handling and Whistleblower Protection Regulations" to specify the standard operating procedures for investigations. For the protection of whistleblowers, we promise the protection of their identity.	None
3.3 Does the company provide proper whistleblower protection?	V		The company has established the "Whistleblowing Handling and Whistleblower Protection Regulations" to specify the standard operating procedure for investigations. We have also established the "Whistleblower Protection Policy" to protect whistleblowers against retaliation.	None
4. Strengthening information disclosure				
4.1 Does the company disclose its ethical corporate management policies and the results of its implementation on the company's website and MOPS?	V		The company has a CSR section on the corporate website and publishes a CSR report by the end of every June to disclose our policy and information relating to business ethics and integrity. In the internal audit section, we publish important regulations and disclose important documents, such as the "Ethics and Integrity Management Regulations", relating to our business activities. We also update related company information for public reference.	None
5. If the company has established the ethical corporate management policies based on the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies, please describe any discrepancy between the policies and their implementation.: There have been no differences.				
6. Other important information to facilitate a better understanding of the company's ethical corporate management policies (e.g., review and amend its policies). There is a specific CSR section on the company's official website including ethical policy, In the internal audit section, we publish important regulations and disclose important documents, such as the "Ethics and Integrity Management Regulations", relating to our business activities. We also update related company information for public reference. targets and management procedures. (http://www.compeq.com.tw/duty01.php)				

3.4.7 Corporate Governance Guidelines and Regulation：

Please refer to the official website, http://www.compeq.com.tw/company03.php

3.4.8 Other Important Information Regarding Corporate Governance:

Please refer to the official website, http://www.compeq.com.tw/company01.php

3.4.9 Statement of Internal Control System

A. Statement of Internal Control System

Compeq Manufacturing Company Limited
Statement of Internal Control System

Date: March 13, 2019

Based on the findings of self-assessment, Compeq Manufacturing Company Limited (Compeq) states the following with regard to its internal control system in 2018:

1. Compeq is fully aware that establishing, operating and maintaining an internal control system are the responsibilities of its Board of Directors and management, and such a system has been established. The aim of the internal control system is to provide reasonable assurance to effectiveness and efficiency of operations (including profitability, performance and safeguarding of assets), reliability, timeliness, transparency and regulatory compliance of financial reporting and compliance with of applicable laws, regulations and bylaws.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can only provide reasonable assurance of accomplishing the aforementioned three objectives. Moreover, the effectiveness of an internal control system may be subject to changes of environmental or circumstances. Nevertheless, the internal control system of Compeq contains self-monitoring mechanism and Compeq takes corrective actions whenever a deficiency is identified.
3. Compeq evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control System by Public Companies (herein below, the “Regulations”). The criteria adopted by the Regulations identify five constituent elements of internal control based on the process of management control: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communications, and (5) monitoring activities. Each component further contains several items. Please refer to the Regulations for details.
4. Compeq has evaluated the design and operating effectiveness of its internal control system according to the aforesaid criteria.
5. Based on the findings of the self-assessment mentioned in the preceding paragraph, Compeq believes that, as of December 31, 2018, its internal control system (including its supervision and management of subsidiaries), as well as understanding the degree of achievement of its objectives concerning operational effectiveness and efficiency, reliability, timeliness, transparency and regulatory compliance of financial reporting, and compliance with the applicable laws, regulations and bylaws, were effective in design and operation, and reasonably assured the achievement of the above-stated objectives.
6. This Statement will be integral part of Compeq’s Annual Report for the year 2018 and prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171 and 174 of the Securities and Exchange Law.
7. This Statement has been passed by the Board of Directors in their meeting held on March 13, 2019 with zero of nine attending directors expressing dissenting opinions, and the remainder all affirming the content of this Statement.

Compeq Manufacturing Company Limited

Charles C. Wu
Chairman

P.K. Chiang
President

B. If CPA was engaged to conduct a special audit of internal control system, provide its audit report: None.

3.4.10 The penalties delivered to the Company and the staffs of the Company, or the penalties delivered by the Company to the staffs for violations of internal control system, the major nonconformity, and the corrective action in the most recent years and up to the date of the annual report: None.

3.4.11 Major Resolutions of Shareholders' Meeting and Board Meetings：

A. Shareholders' meeting：

Date	Major resolutions	follow-up actions
2018.06.14	●Approved 2018 Business Report and Financial Statements ●Approved the proposal for distribution of 2017 earnings ●Approved Procedures for Endorsements and Guarantees	●Declared and distributed 2018 Business Report and Financial Statements ●Declared and distributed the cash dividends ND$1.2 per share. ●Declared the Procedures for Endorsements and Guarantee on Compeq's officialweb site

B. Board meeting：

Date	Major resolutions
2018.03.08	●Approvde 2017 Statement of Internal Control System ●Approved the Report on the 2017 Employee Compensation Distribution. ●Approved 2017 Financial Statements ●Approved the proposal for distribution of 2017 earnings ●Approved the proposal for the hiring or dismissal of an attesting CPA, and evaluating the Independence. ●Approved the Amendment to the Procedures for Endorsements and Guarantees ●Approved the meeting date of 2018 Annual Shareholders' Meeting ●Approved the agenda of 2018 Annual Shareholders' Meeting ●Approved 2017 Business Report ●Approved the recommendations submitted by Remuneration Committee
2018.05.03	●Approved 2018Q1 Financial Statements ●Approved the assignment of the company financial management ●Approved the recommendations submitted by Remuneration Committee
2018.06.14	●Approved the cash dividend distribution base date
2018.08.03	●Approved 2018Q2 Financial Statements ●Approved the proposal Directors & Officers liability Insurance ● Approved the recommendations submitted by Remuneration Committee
2018.11.02	●Approved 2019 Internal auditing plan ●Approved 2018Q3 Financial Statements ●Approved the Corporate Governance Best Practice Principles of Compeq ●Approved the Corporate Social Responsibility Best Practice Principle of Compeq ●Approved the recommendations submitted by Remuneration Committee
2019.03.13	●Approved 2018 Statement of Internal Control System ●Approved the Report on the 2018 Employee Compensation Distribution ●Approved 2018Financial Statements ●Approved the proposal for distribution of 2018 earnings ●Approved the proposal for the hiring or dismissal of an attesting CPA, and evaluating the Independence. ●Amendment to the Articles of Incorporation ●Approved the Amendment to the Procedures for Endorsements and

	Guarantees ●Approved the Amendment to the Fund Loan Procedures of Compeq and its Subsidiaries ●Approved the Amendment to the Procedures for Acquisition and Disposal of Assets ●Approved the SOP for handling requests from directors ●Approved the meeting date of 2019 Annual Shareholders' Meeting ●Approved the agenda of 2019 Annual Shareholders' Meeting ●Approved 2018 Business Report ●Approved the recommendations submitted by Remuneration Committee ●Approved the proposal for release the prohibition on directors from participation in competitive business ●Approved the assignment of the chief corporate governance officer

3.4.12 Major Issues of Record or Written Statements Made by Any Director or Supervisor Dissenting to Important Resolutions Passed by the Board of Directors：None

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

As of Mar. 20, 2019

Title	Name	Date of Appointment	Date of Termination	Reasons for Resignation or Dismissal
Chief of Financial Officer	Y.C. Huang	2009.6.16	2018.6.25	Retirement

3.5. Information Regarding the Company's Audit Fee and Independence

3.5.1 Information of CPA

CPA Firm	CPA		Auditing Period	Remarks
Baker Tilly Clock & Co	Cheng, Hsien-Hsiu	Wu, Hsin-Liang	2018.01~2108.06	CPA job rotation
Baker Tilly Clock & Co	Ting, Hung-Hsun	Cheng, Hsien-Hsiu	2018.07~2018.12	

Unit: NT$ thousands

Fee range \ Fee Item		Audit Fee	Non-Audit Fee	Total
1	Below 2,000 thousand			
2	2,000 thousand (included) ~ 4,000 thousand(excluded)	2,370	300	2,670
3	4,000 thousand (included) ~ 6,000 thousand(excluded)			
4	6,000 thousand (included) ~ 8,000 thousand(excluded)			
5	8,000 thousand (included) ~ 10,000 thousand(excluded)			
6	Over 10,000 thousand (included)			

3.5.2 Audit Fee

A. For companies whose non-audit shared expenses account for 1/4 or more of the audit shared expenses paid to CPA, audit firms of the CPA, or its affiliated firms, should disclose the amount of audit and non-audit shared expenses, and the service details of non-audit expenses: none.

Unit: NT$ thousands

CPA Firm	CPA	Audit Fee	Non- audit fee					Auditing Period	Remarks
			System of Design	Company Registration	Human Resource	Others	Subtotal		
Baker Tilly Clock & Co	Cheng, Hsien-Hsiu	2,370	—	—	—	300	300	2018.Q1 ~2018.Q2	Non- audit fee including Tax consultant and other sevice.
	Wu, Hsin-Liang								
	Ting, Hung-Hsun							2018.Q3 ~2018.Q4	
	Cheng, Hsien-Hsiu								

B. Companies that have switched accounting firms and whose annual audit shared expenses are less than that of the previous year prior to the switch: none.

C. For companies whose audit shared expenses have decreased by 15% or more, the ratio of the decrease in audit shared expense and the reason should be disclosed: none.

3.6 Replacement of CPA

3.6.1 Regarding the former CPA

<table>
<tr><td>Replacement Date</td><td colspan="3">July,2018</td></tr>
<tr><td>Replacement reasons and explanations</td><td colspan="3">The original CPAs of the Company were Cheng, Hsien-Hsiu and Wu, Hsin-Liang from Baker Tilly Clock & Co. Due to internal restructuring at Baker Tilly Clock & Co. , the CPAs of the Company were changed to Cheng, Hsien-Hsiu and Ting, Hung-Hsun, beginning July, 2018.</td></tr>
<tr><td rowspan="3">Describe whether the Company terminated or the CPA did not accept the appointment</td><td>Parties
Status</td><td>CAP</td><td>Company</td></tr>
<tr><td>Termination of appointment</td><td colspan="2" rowspan="2">NA</td></tr>
<tr><td>No longer accepted (continued) appointment</td></tr>
<tr><td>Other issues (except for unqualified issues) in the audit reports within the last two years</td><td colspan="3">NA</td></tr>
<tr><td rowspan="6">Differences with the company</td><td rowspan="4">YES</td><td></td><td>Accounting principles or practices</td></tr>
<tr><td></td><td>Disclosure of Financial Statements</td></tr>
<tr><td></td><td>Audit scope or steps</td></tr>
<tr><td></td><td>Others</td></tr>
<tr><td>NONE</td><td colspan="2">✓</td></tr>
<tr><td colspan="3">Remarks/specify details:</td></tr>
<tr><td>Other Revealed Matters</td><td colspan="3">NA</td></tr>
</table>

3.6.2 Regarding the successor CPA

Name of accounting firm	Baker Tilly Clock & Co
Name of CPA	Ting, Hung-Hsun
Date of appointment	July, 2018
Consultation results and opinions on accounting treatments or principles with respect to specified transactions and the company's financial reports that the CPA might issue prior to the engagement.	None
Succeeding CPA's written opinion of disagreement toward the former CPA	None

3.6.3 Note: Article 10-5-1 of Regulation Governing Information to be published in Annual Report of Public Companies was not applicable to Compeq.

3.7 Audit Independence

The Company's Chairman, Chief Executive Officer, Chief Financial Officer, and managers in charge of its finance and accounting operations did not hold any positions in the Company's independent auditing firm or its affiliates during 2018.

3.8 **Changes in Shareholding of Directors, Supervisors, Managers and Major Shareholders**

Unit: Share

Title	Name	2018		As of Feb. 28, 2019	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Chairman of the Board and CEO	Charles C.Wu	0	0	0	0
Director	K.S Peng	0	0		0
Director and President	P.K. Chiang	0	0	0	0
Director and Executive Vice President	P.Y Wu	(245,000)	0	0	0
Director and Corporate Vice President	P.H Wu	0	0	0	0
Director	Chang Zhi holdings Ltd.	700,000	0	0	0
	Andrew Chen, on behalf of Chang-Zhi Investment Co., Ltd.	(67,000)	0	0	0
Independent Director	Tung Chun Huang	0	0	0	0
Independent Director	Tzu Kuan Chiu	0	0	0	0
Independent Director	Teng Ling Liu				
Corporate Vice President	Victor Lu	0	0	0	0
Vice President	R.H. Chung	0	0	0	0
Vice President	Y.C. Huang	0	0	2018.6.25 Retired	2018.6.25 Retired
Vice President	Tony Chuang	0	0	0	0
Chief Financial Officer	Fine Lu	0	0	0	0
Accounting Manager	Y.M Wu	0	0	0	0

Shares Trading with Related Parties

Name	Reason for Transfer	Date of Transaction	Transferee	Relationship between Transferee and Directors, Supervisors, Managers and Major Shareholders	Shares	Transaction Price (NT$)
Andrew Chen	Gift	2018.07	S.C. Chen	Filiation	67,000	NA
P.Y Wu	Gift	2018.12	L.T. Kao	Spouse	130,000	NA
P.Y Wu	Gift	2018.12	Y.X. Wu	Filiation	115,000	NA

Shares Pledge with Related Parties：None

3.9 Relationship Among the Top Ten Shareholders：

As of Jul. 12, 2018

Name	Current Shareholding		Spouse's/minor's Shareholding		Shareholding by Nominee Arrangement		Name and Relationship Between the Company's Top Ten Shareholders, or Spouses or Relatives Within Two Degrees		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relationship	
Y.C. Wu	34,556,106	2.90%	—	—	—	—	Charles Wu F.M. Peng P.H. Wu P.Y. Wu	Filiation Filiation Sibling Sibling	
Charles Wu	34,078,243	2.86%	29,230,149	2.45%	—	—	F.M. Peng P.H. Wu P.Y. Wu Y.C. Wu	Spouse Filiation Filiation Filiation	
M.D. Chang	30,790,166	2.58%	—	—	—	—	—	—	
F.M. Peng	29,230,149	2.45%	34,078,243	2.86%	—	—	Charles Wu P.H. Wu P.Y. Wu Y.C. Wu	Spouse Filiation Filiation Filiation	
P.Y. Wu	27,903,499	2.34%	9,017,800	0.76%	—	—	Charles Wu F.M. Peng P.H. Wu Y.C. Wu	Filiation Filiation Sibling Sibling	
P.H. Wu	27,204,857	2.28%	9,966,100	0.84%	—	—	Charles Wu F.M. Peng P.Y. Wu Y.C. Wu	Filiation Filiation Sibling Sibling	
VANGUARD EMERGING MARKETS STOCK INDEX FUND, A SERIES OF VANGUARD INTERNATION AL EQUITY INDEX FUNDS	17,354,000	1.46%	—	—	—	—	—	—	
ING SERIES FUND, INC. - ING 130/30 FUNDAME NTAL RESEARCH FUND	17,255,000	1.45%	—	—	—	—	—	—	
M.W. Chang	17,022,835	1.43%	—	—	—	—	—	—	
Chang Zhi Holdings Ltd.	16,353,000	1.37%	—	—	—	—	—	—	

3.10 Ownership of Shares in Affiliated Enterprises：None

IV. Capital and Shares

4.1 Capital Overview

4.1.1 Source of Capital

A. Issued Shares

Unit：NT$/Share

Month/ Year	Par Value	Authorized Capital		Paid-in Capital		Remark		
		Share	Amount (NT$)	Share	Amount (NT$)	Sources of Capital	Capital Increased by Assets Other than Cash	Other
97/12	10	1,600,000,000	16,000,000,000	1,191,820,589	11,918,205,890	Write off treasury shares (8,685,000s hares)	None	Approved by the competent authority

B. Type of Stock

Type of Stock	Authorized Capital Stock			Remarks Outstanding Shares
	Outstanding Shares	Un-issued Shares	Total Shares	
Common Stock	1,191,820,589 shares	408,179,411 shares	Common Stock	1,191,820,589 shares

Note: Shelf Registration: None.

4.1.2 Status of Shareholders

(As of 7/12/2018)

Type / Item	Government Agencies	Financial Institutions	Other Juridical Persons	Domestic Nature Persons	Foreigner Institutions and Nature Persons	Sum
Number of Shareholders	6	63	133	79,906	315	80,423
Shareholding (shares)	31,670,598	33,058,230	56,813,447	754,982,695	315,295,619	1,191,820,589
Percentage	2.66%	2.77%	4.77%	63.35%	26.45%	100%

4.1.3 Major Shareholders

(As of 7/12/2018)

Class of Shareholding (Unit: Share)	Number of Shareholders	Shareholding (Unit:Share)	Percentage
1～ 999	16,390	1,746,804	0.15 %
1,000～ 5,000	48,066	106,532,828	8.94 %
5,001～ 10,000	8,724	73,390,864	6.16 %
10,001～ 15,000	2,138	28,251,240	2.37 %
15,001～ 20,000	1,767	33,732,217	2.83 %
20,001～ 30,000	1,151	30,578,903	2.56 %
30,001～ 40,000	546	20,094,520	1.68 %
40,001～ 50,000	393	18,796,040	1.58 %
50,001～ 100,000	607	44,616,242	3.74 %
100,001～ 200,000	258	36,812,218	3.09 %
200,001～ 400,000	139	40,369,724	3.39 %
400,001～ 600,000	57	27,949,184	2.35 %
600,001～ 800,000	24	17,050,273	1.43 %
800,001～1,000,000	28	25,119,825	2.11 %
1,000,001 以上	135	686,779,707	57.62 %
Sum	80,423	1,191,820,589	100.00%

Note: Preferred Share: None.

4.1.4 List of Major Shareholders

As of 7/12/2018

Shareholder's Name	Shareholding	
	Share	Percentage
Y.C. Wu	34,556,106	2.90%
Charles Wu	34,078,243	2.86%
M.D. Chang	30,790,166	2.58%
F.M. Peng	29,230,149	2.45%
P.Y. Wu	27,903,499	2.34%
P.H. Wu	27,204,857	2.28%
VANGUARD EMERGING MARKETS STOCK INDEX FUND, A SERIES OF VANGUARD INTERNATIONAL EQUITY INDEX FUNDS	17,354,000	1.46%
ING SERIES FUND, INC. - ING 130/30 FUNDAMENTAL RESEARCH FUND	17,255,000	1.45%
M.W. Chang	17,022,835	1.43%
Chang Zhi Holdings Ltd.	16,353,000	1.37%

4.1.5 Market Price, Book Value, Earnings, and Dividends per Share

UNIT：NT$

Items \ Year			2017	2018	As of Feb 28 2019
Market Price per Share	Highest Market Price		52.20	42.40	23.35
	Lowest Market Price		15.50	17.80	18.90
	Average Market Price		28.66	28.99	21.04
Book Value per Share	Before Distribution		19.18	19.71	—
	After Distribution		17.98	Undistributed	—
Earnings per Share	Weighted Average Shares		1,191,820,589	1,191,820,589	1,191,820,589
	Earnings Per Share		3.00	2.01	—
Dividends per Share	Cash Dividends		1.20	0.80	—
	Stock Dividends	Dividends from Retained Earnings	—	—	—
		Dividends from Capital Surplus	—	—	—
	Accumulated Undistributed Dividends		—	—	—
Return on Investment	Price / Earnings Ratio (Note 1)		9.55	14.42	—
	Price / Dividend Ratio (Note 2)		23.88	36.24	—
	Cash Dividend Yield Rate (Note 3)		4.19	2.76	—

Note 1: Price / Earnings Ratio = Average Market Price / Earnings per Share
Note 2: Price / Dividend Ratio = Average Market Price / Cash Dividends per Share
Note 3: Cash Dividend Yield Rate = Cash Dividends per Share / Average Market Price

4.1.6 Dividend Policy and Implementation Status

A. Dividend Policy

If there is a surplus after the final settlement of the Company's annual accounts, the loss shall first be made up according to law, and 10% shall be appropriated as legal capital reserve. However, this is not applicable when the legal capital reserve has reached the paid-in capital. After the legal capital reserve has been listed or transferred in accordance with the law or regulations of the competent authorities, the balance is the surplus that can be distributed in the current year. When the annual distributable surplus, together with the accumulated undistributed surplus at the beginning of the period is distributed as an available surplus, it is distributed according to the following principles:

a. The Company is part of the technology industry. In order to improve the financial structure of the Company, the status of operating surplus and the need to expand the scale of operations in the future, it is planned to adopt the remaining dividend policy to improve growth and sustainable operation of the Company.

b. The Company's current and future investment environment, capital needs, profitability, domestic and international competitiveness, and capital budget, etc., are proposed by the Board of Directors for surplus distribution and decided by the shareholders' meeting. When distributing the surplus, the available surplus' amount shall not be less than 10% of the distributable surplus for the year.

c. The distribution of the Company's surplus can be paid in cash or in stock. The proportion of cash distribution shall not be less than 50% of the total dividend.

B. The Board approved the proposal of NT$ 953,456,471 cash dividend for 2018 dividend distribution at its meeting on March 13, 2019. The proposal will become effective according to the relevant regulations, upon the approval of shareholders at the Annual Shareholders’ Meeting on June 14, 2019

4.1.7 Impact to 2018 Business Performance and EPS resulting from Stock Dividend Distribution:Not Applicable because of no Stock Dividend Distribution.

4.1.8 Compensation of Employees, Directors：

A. Information Relating to Compensation of Employees, Directors in the Articles of Incorporation

Articles of Incorporation Article 17：The remuneration of all directors of the Company is decided based on their participation and value of contribution regardless of profit or loss. The standards of domestic and international peers are equally taken into consideration.

Articles of Incorporation Article 20：Non-independent directors are allowed to concurrently hold other positions of the Company. Their remuneration shall be authorized by the Board of Directors to the managers in accordance with the internal management measures of the Company.

Articles of Incorporation Article 28-1：The Company's individual consolidated income statement for the year shows profit prior to calculating the employees' remuneration, 2% of the profit shall be added to the employees' remuneration. The aforementioned profit refers to the net profit before tax minus the benefits before the employee is paid. In case of accumulated loss, the Company shall retain figures to make up for the loss, and then allocate incentives according to the aforementioned Article.

The aforementioned employee benefits are to be issued in the form of shares or cash. Approval for such benefits should be passed by at least half of the Directors in attendance in a Board meeting attended by no less than two-thirds of all Board members. The results should be reported during the Shareholder's Meeting.

Articles of Incorporation Article 29：If there is a surplus after the final settlement of the Company's annual accounts, the loss shall first be made up according to law, and 10% shall be appropriated as legal capital reserve. However, this is not applicable when the legal capital reserve has reached the paid-in capital. After the legal capital reserve has been listed or transferred in accordance with the law or regulations of the competent authorities, the balance is the surplus that can be distributed in the current year. When the annual distributable surplus, together with the accumulated undistributed surplus at the beginning of the period is distributed as an available surplus, it is distributed according to the following principles:

I.The Company is part of the technology industry. In order to improve the financial structure of the Company, the status of operating surplus and the need to expand the scale of operations in the future, it is planned to adopt the remaining dividend policy to improve growth and sustainable operation of the Company.

II.The Company's current and future investment environment, capital needs, profitability, domestic and international competitiveness, and capital budget, etc., are proposed by the Board of Directors for surplus distribution and decided by the shareholders' meeting. When distributing the surplus, the available surplus' amount shall not be less than 10% of the distributable surplus for the year.

III.The distribution of the Company's surplus can be paid in cash or in stock. The proportion of cash distribution shall not be less than 50% of the total dividend.

B. The basis for estimating the amount of employee, director, and supervisor compensation, for calculating the number of shares to be distributed as employee compensation, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated figure, for the current period：No difference

C. Remuneration distribution in 2018 resolved by the Board of Directors

I. Recommended Distribution of remuneration of Employee and Directors
Proposed remuneration to employee is NT$70,981,606 in cash and
no remuneration to Directors. No difference between actual and estimated remuneration to employees and remuneration to directors.

II. Proposed stock based remuneration to employees as a percentage of total employee
remuneration and of net income from standalone financial report:No stock based remuneration was distributed in 2018

D. Information of 2017 Distribution of Compensation of Employees and Directors (with an indication of the number of shares, monetary amount, and stock price, of the shares distributed) and, if there is any discrepancy between the actual distribution and the recognized employee, director compensation, additionally the discrepancy, cause, and how it is treated.

I. Distribution of remuneration to employee in 2016 is NT$89,773,897 in Cash resolved by the Annual Shareholders Meeting on Jun. 14, 2017.

II.no remuneration to Directors
No difference between actual and estimated remuneration to employee and remuneration to directors

4.1.9 Buyback of Treasury Stock：None.

4.2 Corporate Bonds、Convertible Bonds、Exchangeable Bonds、Shelf Registration for Issuing Bonds、Corporate Bonds with Warrants：None.

4.3 Preferred Share and Preferred Share with Warrants：None.

4.4 Global Depository Receipts：None.

4.5 Employee Stock Options：None.

4.6 Issuance of New Restricted Employee Shares：None.

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

4.8 Financing Plans and Implementation：None.

V. Operation Highlights

5.1 Business Activities

5.1.1 Business Scope

Compeq has been devoted in the production of PCBs (Printed Circuit Boards) related industrial field. Be a key component of various electronic products, PCBs act as a carrier for electronic components and the interconnection between components. Compeq's major products include regular multi-layered PCB, H.D.I. (High Density Interconnection), H.L.C. (High Layer Count), F.P.C. (Flexible PCB) and Rigid-Flex PCB; in the meantime, Compeq also provides the service of module assembly to customer.

5.1.2 Industry Overview

Looking back at 2018, the growth of the global economy was optimistic at the beginning of the year, but it lost momentum as time went by. That is because of "tariff war".

The US economy growing rapidly in 2018 lead to the dollar appreciating, however, some fragile emerging market economies are under pressure. The IMF estimated that the world economic growth rate in 2018 was 3.7%.

In the PCB industry, due to the data center and high-frequency high-speed transmission demand has increased significantly, the use of high-order new materials, and new applications of rigid-flex, Prismark believes that it will drive the output value to grow by 8% from 2017 to reach $63.5 billion.

Looking into the global economic situation in 2019, the IMF pointed out that the global economy is facing weak growth momentum. The US-China trade war and the Brexit agreement have caused uncertainty and the risk rising. The world economic growth rate is expected to be 3.5% in 2019.

In the PCB industry, the fundamentals of the economy are weak, and the growth momentum of the overall auto market slow down. The growth of mobile phones is stagnant. The 5G, electric vehicle demand is unclear, and there is no clear growth momentum, so Prismark predicts it grew 3.5% to $65.7 billion in 2019.

5.1.3 Research & Development

A. R&D Expenditure for the Past Five Years

Year	2014	2015	2016	2017	2018
Expenditure (NT$ 1,000)	282,421	261,739	296,824	375,528	860,613

B. R&D Items and Achievements

a. Product Development

- MSAP process application on 0.32 mm BGA product development.
- Radar product technology development.
- High frequency Antenna (AIP), large dimension, IT product development.
- High End product technology development and qual.

- SI Test Vehicle multi-laminate product development

b. Process Development
- 2DID traceability process development.
- 0.32mm BGA with 3 fine lines 25/25um MSAP platform setup.
- LW/LS=35/35~40/40um substractive side wall protec agent etching solution development.
- Improving D+60um alignment capability -alignment system upgrade.

c. Equipment Setup
- Evaluate 3 wave length LED-UV light direct imagine machine for solder mask.
- Post exposure baking (PEB) laminator setup after direct imagine.
- Automatic flex printing + baking continue line for solder mask and legend.
- Automatic thin flex (12-12-12um) sheet to sheet dry film laminator setup.
- Inkjet printer for flex legend machine setup
- New generation UV laser drilling machine

d. Material Development
- RF and high speed material evaluation
- MTF Copper development for 25/25um Line space for MSAP process
- MSAP BT,BT-like materials and thin PP process development for anylayer products

B. Future R&D Projects

a. Research & Development of Product
- MSAP process application on 25/25um trace product development and set up.
- Coreless anylayer process ability set up
- New product (thin core/AIP/mSAP) development

b. Research & Development of Production Processes
- 0.3mm BGA with 3 fine lines 20/20um MSAP path finding.
- LW/LS=35/35~30/30um substractive side wall protec agent etching solution development
- Molex product coverlay laminated evaluation in MA site.

c. Equipment Setup
- non-contact panel cleaner.
- The ability of post lamination processing automatic establish
- Laser mark instead destruct board edge equipment evaluation
- Lamination equipment evaluation for 5G products material
- New generation roll to roll LDI for patterning
- Evaluate New generation CO_2 laser drilling machine

d. Research & Development of Material
- RF and high speed material evaluation.
- mSAP used material third source evaluation

- 5G product material evaluation
- mSAP process thin copper foil development

5.1.4 Long/Short Term Business Development Plans

In the short term, Compeq will still take the strategy of full product lines to provide our customer the regular multi-layer PCB, H.D.I. boards, H.L.C. boards, F.P.C. boards, Rigid-Flex boards, and SMT service. Compeq will devote to new PCBs technology development continuously.

For the long-term business plan, the current mainstream products(smartphones, smart wearable devices, and other handheld devices) come from the slowdown in the growth. Compeq maintains the relationship and development process of customers, in addition, aggressively develop major growth products like network communication products (5G base stations, servers, high-speed Netcom products, etc.), automotive electronics (electric vehicles, self-driving related), 5G applications (VR, smart speakers). Compeq devotes in research and development for new products and provides customers with the best quality PCBs.

5.2 Markets and Supply Overview

5.2.1 Market Analysis

A. Cellular phone：

In 2018, impacted by the US-China Trade War and increasing uncertainty, worldwide smart phone shipments decreased 4.1%, reached 1.41 billion.

The mobile phone industry has entered the pattern of the big and the Evergrande, and product differentiation is becoming more and more difficult. Extend replacement cycles and reduce innovation result in top 6 brands counting for close market share. Despite many manufacturers aggressively develop 5G, foldable or AI system phones, the main sales growth comes from the middle and low-end models. The global smart phone market in 2019 is predicted to decrease 3%, reached 1.4 billion.

B. Tablet & Laptop：

In 2018, worldwide tablet shipments for full year decreased 11.4% to 146 million. Except the leading brand companies, other brands are showing a recession. Going into 2018, demand for tablets will continue to be curtailed by the increasing consumer preference for large-size smart phones, and global shipments are forecasted to fall by 4% to 140 million units.

In 2018 global PC shipments were 259 million units, compared with 1.3% decline in 2017, has been a recession for 7 consecutive years. Price is the most important consideration for consumers purchasing PC, because of the lack of product features. PC brand companies are hard to rely on new products to stimulate growth, and the major shipment are still concentrated in the top six PC brands. Looking forward to 2018, the market is still in the doldrums. In particular, the DT market is in a downturn. The main support is from commercial and gaming needs. The gaming market is still hot and the decline is expected to be significantly reduced .It is estimated that shipments will decline 2% to 254 million units.

C. Telecom infrastructure：

The global economic recovery drives the corporate mobile services market. Driven by video streaming and live streaming services, the demand for erection of corporate communications and telecommunications equipment has risen. In 2018, the market size was approximately US $ 71.1 billion, up 2.2% over the previous year. With the growth of telecommunications as LTE infrastructure and 4G base stations steadily stabilized, operators shifted their focus from coverage to capacity expansion and user experience. The LTE infrastructure remained the key driver, but the growth was steady. As the 5G network is going to commercialize soon in places such as the United States and South Korea in 2019, it is estimated that the global 5G and related network infrastructure market will grow from US$528 million in 2018 to US$26 billion in 2022 with a compound annual growth rate of 118%, according to IDC's latest 5G research report.

D. Server：

In 2018, the growth momentum of global server shipments was mainly from the North American, accounting for more than 30%. Business servers still accounted for the bulk of shipments, while the proportion of Internet data centers has grown to nearly 35%, and annual shipments have increased by about 5% year-on-year to 12.42 million units.

In spite of the demand for data center is less affected by the weak season, demand has slowed slightly in the second half of 2018 due to inventory adjustment and capital expenditure slowdown. After the launch of Intel's Gen2 and AMD's new Rome platform, it will once again drive market demand. It is estimated that global server shipments will grow 2% and reach 12.67 million units in 2019.

Mainstream consumer electronics products, such as smartphones, tablets, and PCs, have slowed down or even stagnated. As 5G is going to be commercialized in 2019, the investment in communications infrastructure will rise upwards, and related terminal applications get more popular, like Video and audio streaming products VR and 5G smartphones. In addition, vehicle electrification has driven the demand for automotive electronics. In the long-term business of PCBs, there is still growth momentum. Compeq devotes in research and development for new products and provides customers with the best services.

5.2.2 Applications and Production Flow of Major Products

A. Application of main products

The main applications of PCBs manufactured by Compeq can be categorized into four major segments:

a. Cellular phone related PCBs

   Major application is such as cellular phone.

b. Telecommunication Network related PCBs

   Major applications are telecommunication and networking related equipment such as base-station, router, hub, switch, etc.

c. PC/Tablet PC related PCBs

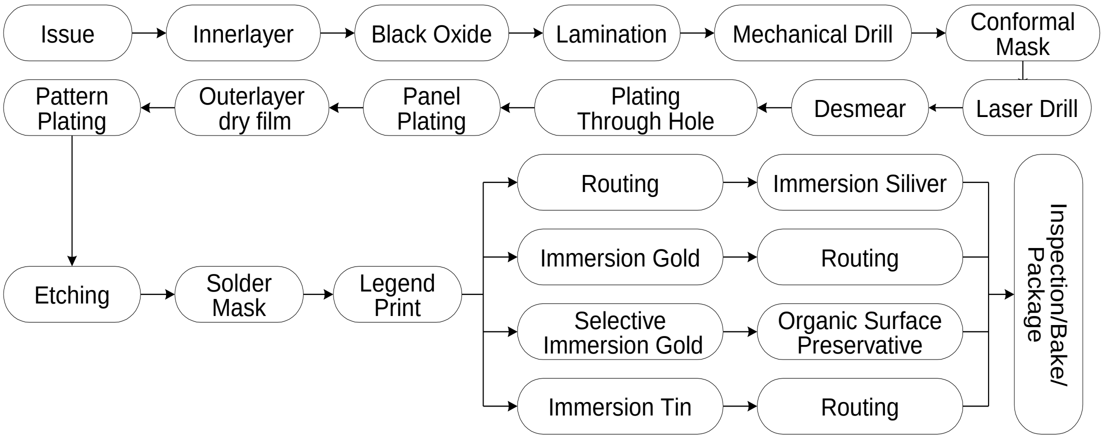
   Major applications are server, workstation, notebook PC, Tablet and PC peripheral products.

d. Consumer electronics related PCBs

   Major applications are consumer products such as, Audio, DSC, DVC, and other portable multimedia devices.

B. Manufacturing process of the major products

The major products of Compeq are printed circuit boards (PCB). The basic production process for rigid PCBs is shown as below.



5.2.3 Major Supplies and Material Market Situation

A. The key material of PCB are Laminate / Prepreg/Copper foil/Dry Film and various plating chemistry. The supplier of Compeq are famous companies in each field and has set up a long term relationship and stable supply channel with Compeq.

B. The price of PCB key material kept high in 2018 due to high metal price , and it's expected the key material price will be still affected by the demand of the market and the metal market price fluctuation.

5.2.4 Major Suppliers and Clients

A. Major Suppliers in the Last Two Calendar Years

Unit: NT$ thousands

Item	2017				2018			
	Company Name	Amount	Percent	Relation With Issuer	Company Name	Amount	Percent	Relation With Issuer
1	A	2,655,316	11%	None	A	2,648,140	11%	None
	Others	22,240,612	89%	None	Others	21,528,872	89%	None
	Net Total Supplies	24,895,928	100%		Net Total Supplies	24,177,012	100%	

B. Major Clients in the Last Two Calendar Years

Unit: NT$ thousands

Item	2017				2018			
	Company Name	Amount	Percent	Relation With Issuer	Company Name	Amount	Percent	Relation With Issuer
1	I	15,290,833	28%	None	I	11,477,098	23%	None
2	II	7,337,614	14%	None	II	5,045,918	10%	None
	Others	31,335,746	58%	None	Others	34,305,085	67%	None
	Net Sales	53,964,193	100%		Net Sales	50,828,101	100%	

5.2.5 The Production of the Last Two Years

Volume unit：1,000 square foot；value unit：NT$ 1,000

Major Products	2017			2018		
	Capacity	Production volume	Output value	Capacity	Production volume	Output value
PCB	32,000	28,699	33,572,012	32,000	25,877	31,459,281
SMT	—	—	16,636,892	—	—	15,691,356
Total	32,000	28,699	50,208,904	32,000	25,877	47,150,637

5.2.6 The Sales of the Last Two Years

Volume unit：1,000 square foot；value unit ：NT$ 1,000

	2017				2018			
	Domestic		Export		Domestic		Export	
	Sales Volume	Sales Amount	Sales Volume	Sales Amount	Sales Volume	Sales Amount	Sales Volume	Sales Amount
PCB	224	519,868	21,558	36,331,712	234	570,141	18,872	34,005,727
SMT	—	—	—	16,757,295	—	—	—	15,766,874
Others	—	7,558	—	347,760	—	55,317	—	430,042
Total	224	527,426	21,558	53,436,767	234	625,458	18,872	50,202,643

5.3 Breakdown Employee Data for the Past Two Years

Year		2017	2018	As of Feb 28 2019
Employees	Direct labor	20,880	15,442	14,749
	Indirect labor	3,100	2,586	2,554
	Total	23,980	18,028	17,303
Average Age		28.4	31.9	32.25
Average Years of Service		3.9	5.5	5.7
Educational Background	Ph. D.	3(0.01%)	3(0.01%)	3(0.01%)
	Master	217(0.9%)	209(1.2%)	212(1.2%)
	Associate / Baccalaureate	2,950(12.3%)	4,805(26.6%)	4,466(25.8%)
	Senior High School	10,592(44.2%)	3,578(19.8%)	3,493(20.2%)
	Junior High School	10,218(42.6%)	9,433(52.4%)	9,129(52.8%)

5.4 Environmental Protection Expenditure

5.4.1 Total Losses and Penalties

Item / Year	2017	2018	As of Feb 28 2019
Status of pollution (type & extent)	Noncompliance with Waste Disposal Act	None	None
Punishment imposed by or penalties paid to	Taoyuan city government environmental protection bureau	None	None
Penalties	NT $ 270,000	None	None
Other losses	None	None	None

5.4.2 Countermeasures：None.

5.4.3 Forecast of Environmental Expenditure for the year of 2018 &2019

Item / Year	2019	2020
Procurement of environmental control equipment	(1) Improvement of wastewater treatment efficiency. (2) Enhancement of waste minimization within plants & waste recovery (3)Soil and groundwater pollution prevention	(1) Improvement of wastewater treatment efficiency. (2) Enhancement of waste minimization within plants & waste recovery (3)Soil and groundwater pollution prevention
Predicted status improvement	Compliance with government regulation & production cost reduction.	Compliance with government regulation & production cost reduction.
Amount	NT $ 18,000,000	NT $ 23,000,000

5.5 Employees Relations

5.5.1 Compeq values employee benefits and employee education and always follows the related labor laws to protect employees' rights and interests.

A. Employee Benefits: Compeq exercises annual bonus for employees. We also provide free meals, accommodations, shuttle bus, night taxi delivery services, all kinds of associations, family day, and subsidies for holidays or special events.

B. Employee Education and Training: Headquarter and each site have departments specialized in employee training. Compeq arranges and organizes different training programs for different types of job, and encourages employees to participate advanced study programs.

C. Retirement: Compeq provides employee retirement pension plans that comply with labor laws and regulations and periodically allocate reserved funds to employees' retirement accounts.

5.5.2 Compeq actively set up in a variety of internal communication channels, such as employees suggestion box, complaints E-mail, complaints phone which can contact with HR, union representatives and so on. In the other hand, Labor-Management Meeting held each quarter. We encourage employees can use the Communication channels to react issues. Because of the sound organization of the labor union and the smooth internal communication channels, Compeq has never had any major labor disputes.

A. Labor Union**:** The labor union, organized by all Compeq employees, has its own governors/supervisors and managing governors/supervisors to serve a term of four years, and hold meetings each quarter. The labor union is well organized and operated smoothly.

B. Communication Channels**:** In addition to the labor union, Compeq also sets up channels for suggestions and complete petition systems in each department. Supervisors are also required to identify problems proactively. Therefore, most labor issues are resolved through prior and adequate communication and consultation.

5.5.3 In addition to our continued adherence to the principles of sincere and honest communication in formulating our labor policy, we will also take the following actions to create a win-win situation for both the company and the employees.

A. Comply with the Labor Standards Act and other related regulations to ensure maximum protection for the employees.

B. Initiative to invite the workers' representatives to participate in the formulation of all labor-related management system.

C. Adequately disseminate information about the company's operating status and major actions in advance to ensure the full understanding and support of the employees.

5.6 Important Contracts：None.

VI. Financial Information

6.1 Five-Year Financial Summary

6.1.1 Condensed Balance Sheet

A. Condensed Balance Sheet (Consolidated)

Unit: NT$ thousands

Item \ Year		Financial Summary for The Last Five Years				
		2014	2015	2016	2017	2018
Current assets		24,535,385	27,551,448	25,569,241	29,510,813	29,532,884
Property, Plant and Equipment		20,542,326	22,703,181	23,500,404	25,619,194	26,947,965
Intangible assets		104,877	111,906	96,304	78,128	87,979
Other assets		1,159,707	1,146,207	1,033,212	1,146,290	1,099,103
Total assets		46,342,295	51,512,742	50,199,161	56,354,425	57,667,931
Current liabilities	Before distribution	13,236,658	17,478,783	15,087,876	18,403,991	18,050,560
	After distribution	13,951,750	18,670,604	15,802,968	19,834,176	Undistributed
Non-current liabilities		14,231,980	13,254,397	14,863,541	15,094,006	16,125,079
Total liabilities	Before distribution	27,468,638	30,733,180	29,951,417	33,497,997	34,175,639
	After distribution	28,183,730	31,925,001	30,666,509	34,928,182	Undistributed
Equity attributable to shareholders of the parent		18,873,657	20,779,562	20,247,744	22,856,428	23,492,292
Capital stock		11,918,206	11,918,206	11,918,206	11,918,206	11,918,206
Capital surplus		1,016,898	1,016,898	1,016,898	1,016,898	1,016,898
Retained earnings	Before distribution	4,129,478	6,644,511	6,644,511	9,468,558	10,414,078
	After distribution	3,414,386	5,929,419	5,929,419	8,038,373	Undistributed
Other equity interest		1,809,075	1,633,603	668,129	452,766	143,110
Treasury stock		–	–	–	–	–
Non-controlling interest		–	–	–	–	–
Total equity	Before distribution	18,873,657	20,779,562	20,247,744	22,856,428	23,492,292
	After distribution	18,158,565	19,587,741	19,532,652	21,426,243	Undistributed

B. Condensed Balance Sheet (Unconsolidated)

Unit: NT$ thousands

Item \ Year		Financial Summary for The Last Five Years				
		2014	2015	2016	2017	2018
Current assets		13,162,027	14,996,555	13,710,058	14,385,748	14,332,201
Property, Plant and Equipment		7,645,946	7,822,579	8,055,594	9,221,798	8,933,780
Intangible assets		42,367	45,720	44,444	41,594	48,255
Other assets		14,893,816	15,362,907	15,256,249	17,787,404	19,387,366
Total assets		35,744,156	38,227,761	37,066,345	41,436,544	42,701,602
Current liabilities	Before distribution	7,082,179	8,864,852	8,343,269	10,120,769	10,903,345
	After distribution	7,797,271	10,056,673	9,058,361	11,950,554	Undistributed
Non-current liabilities		9,788,320	8,583,347	8,475,332	8,459,347	8,305,965
Total liabilities	Before distribution	16,870,499	17,448,199	16,818,601	18,580,116	19,209,310
	After distribution	17,585,591	18,640,020	17,533,693	20,010,301	Undistributed
Equity attributable to shareholders of the parent		18,873,657	20,779,562	20,247,744	22,856,428	23,492,292
Capital stock		11,918,206	11,918,206	11,918,206	11,918,206	11,918,206
Capital surplus		1,016,898	1,016,898	1,016,898	1,016,898	1,016,898
Retained earnings	Before distribution	4,129,478	6,644,511	6,644,511	9,468,558	10,414,078
	After distribution	3,414,386	5,929,419	5,929,419	8,038,373	Undistributed
Other equity interest		1,809,075	1,633,603	668,129	452,766	143,110
Treasury stock		—	—	—	—	—
Non-controlling interest		—	—	—	—	—
Total equity	Before distribution	18,873,657	20,779,562	20,247,744	22,856,428	23,492,292
	After distribution	18,158,565	19,587,741	19,532,652	21,426,243	Undistributed

6.1.2 Condensed Statement of Comprehensive Income/Condensed Statement of Income

A. Condensed Statement of Comprehensive Income (Consolidated)

Year / Item	Financial Summary for The Last Five Years				
	2014	2015	2016	2017	2018
Operating revenue	33,849,513	44,382,978	45,515,199	53,964,193	50,828,101
Gross profit	4,819,634	6,640,187	5,775,144	8,090,709	7,225,424
Income from operations	2,850,705	4,473,457	3,449,588	5,757,636	4,621,060
Non-operating income and expenses	(166,849)	(598,035)	(1,071,928)	(850,639)	(702,420)
Income before tax	2,683,856	3,875,422	2,377,660	4,906,997	3,918,640
Net Income from Continuing Operation	1,986,648	2,867,168	1,625,400	3,577,044	2,399,731
Net income (Loss)	1,986,648	2,867,168	1,625,400	3,577,044	2,399,731
Other comprehensive income (income after tax)	463,576	(246,171)	(965,397)	(253,268)	(333,682)
Total comprehensive income	2,450,224	2,620,997	660,003	3,323,776	2,066,049
Net income attributable to shareholders of the parent	1,986,648	2,867,168	1,625,400	3,577,044	2,399,731
Net income attributable to non-controlling interest	—	—	—	—	—
Comprehensive income attributable to Shareholders of the parent	2,450,224	2,620,997	660,003	3,323,776	2,066,049
Comprehensive income attributable to non-controlling interest	—	—	—	—	—
Earnings per share	1.67	2.41	1.36	3.00	2.01

B. Condensed Statement of Comprehensive Income (Unconsolidated)

Item \ Year	Financial Summary for The Last Five Years				
	2014	2015	2016	2017	2018
Operating revenue	24,529,452	31,867,208	29,448,194	37,157,973	34,972,503
Gross profit	2,716,415	3,736,987	2,415,446	3,551,030	2,443,189
Income from operations	1,428,150	2,449,931	1,044,657	2,238,298	1,140,905
Non-operating income	1,033,917	1,141,836	1,074,089	2,160,623	2,337,194
Non-operating expenses	2,462,067	3,591,767	2,118,746	4,398,921	3,478,099
Net Income from Continuing Operation	1,986,648	2,867,168	1,625,400	3,577,044	2,399,731
Net income (Loss)	1,986,648	2,867,168	1,625,400	3,577,044	2,399,731
Other comprehensive income (income after tax)	463,576	(246,171)	(965,397)	(253,268)	(333,682)
Total comprehensive income	2,450,224	2,620,997	660,003	3,323,776	2,066,049
Earnings per share	1.67	2.41	1.36	3.00	2.01

6.1.3 Auditors' Opinions from 2014 to 2018

Year	CPA	Audit Opinion
2014	Hung-Shun Ting & Kuo-Fu Tseng	An Unqualified Opinion
2015	Hung-Shun Ting & Hsien-Hsiu Cheng	An Unqualified Opinion
2016	Ying-Lai Chou & Hsien-Hsiu Cheng	An Unqualified Opinion
2017	Ying-Lai Chou & Hsien-Hsiu Cheng	An Unqualified Opinion
2018	Hung-Shun Ting & Hsien-Hsiu Cheng	An Unqualified Opinion

6.2 Five-Year Financial Analysis

6.2.1. Consolidated Financial Analysis –Consolidated

Item		Financial Analysis for the Last Five Years				
	Year	2014	2015	2016	2017	2018
Financial structure (%)	Debt Ratio	59.27	59.66	59.67	59.44	59.26
	Ratio of long-term capital to property, plant and equipment	161.16	149.91	149.41	148.13	147.01
Solvency (%)	Current ratio	185.36	157.63	169.47	160.35	163.61
	Quick ratio	142.52	116.18	123.48	121.60	122.71
	Interest earned ratio (times)	11.88	14.03	8.39	13.78	9.37
Operating performance	Accounts receivable turnover (times)	3.41	4.17	3.96	4.19	3.76
	Average collection period	107	88	92	87	97
	Inventory turnover (times)	6.47	6.79	6.31	7.38	6.69
	Accounts payable turnover (times)	6.27	5.99	4.91	5.02	4.60
	Average days in sales	56	54	58	49	55
	Property, plant and equipment turnover (times)	1.78	2.05	1.97	2.20	1.93
	Total assets turnover (times)	0.79	0.91	0.89	1.01	0.89
Profitability	Return on total assets (%)	5.12	6.37	3.73	7.32	4.90
	Return on stockholders' equity (%)	11.07	14.46	7.92	16.60	10.36
	Pre-tax income to paid-in capital (%)	22.52	32.52	19.95	41.17	32.88
	Profit ratio (%)	5.87	6.46	3.57	6.63	4.72
	Earnings per share (NT$)	1.67	2.41	1.36	3.00	2.01
Cash flow	Cash flow ratio (%)	32.34	41.32	35.65	35.24	28.39
	Cash flow adequacy ratio (%)	72.32	81.40	78.69	93.00	82.92
	Cash reinvestment ratio (%)	6.39	11.06	6.86	8.79	5.34
Leverage	Operating leverage	5.30	3.24	3.71	3.06	3.54
	Financial leverage	1.10	1.07	1.10	1.07	1.11

Analysis of financial ratio differences for the last two years. (Not required if the difference does not exceed 20%)

1. Interest earned ratio：The ratio increased in 2018 due to the increase in income tax and interest expense.
2. Return on total assets：The ratio decreased in 2018 due to the decrease in profit.
3. Return on stockholders' equity：The ratio decreased in 2018 due to the decrease in profit.
4. Pre-tax income to paid-in capital：The ratio decreased in 2018 due to the decrease in profit.
5. Profit ratio：The ratio decreased in 2018 due to the decrease in profit.
6. Earnings per share：The ratio decreased in 2018 due to the decrease in profit.
7. Cash reinvestment ratio：The ratio decreased in 2018 due to the decrease in Net Cash Provided by Operating Activities

Note: Equations:

1. Capital Structure Analysis
   (1) Debt Ratio = Total Liabilities / Total Assets
   (2) Long-term Fund to Property, Plant and Equipment Ratio = (Shareholders' Equity + Noncurrent Liabilities) / Net Property, Plant and Equipment
2. Liquidity Analysis
   (1) Current Ratio = Current Assets / Current Liabilities
   (2) Quick Ratio = (Current Assets - Inventories - Prepaid Expenses) / Current Liabilities
   (3) Times Interest Earned = Earnings before Interest and Taxes / Interest Expenses
3. Operating Performance Analysis
   (1) Average Collection Turnover = Net Sales / Average Trade Receivables
   (2) Days Sales Outstanding = 365 / Average Collection Turnover
   (3) Average Inventory Turnover = Cost of Sales / Average Inventory
   (4) Average Inventory Turnover Days = 365 / Average Inventory Turnover
   (5) Average Payment Turnover = Cost of Sales / Average Trade Payables
   (6) Property, Plant and Equipment Turnover = Net Sales / Average Net Property, Plant and Equipment
   (7) Total Assets Turnover = Net Sales / Average Total Assets
4. Profitability Analysis
   (1) Return on Total Assets = (Net Income + Interest Expenses * (1 - Effective Tax Rate)) / Average Total Assets
   (2) Return on Equity Attributable to Shareholders of the Parent = Net Income Attributable to Shareholders of the Parent / Average Equity Attributable to Shareholders of the Parent
   (3) Operating Income to Paid-in Capital Ratio= Operating Income / Paid-in Capital
   (4) Pre-tax Income to Paid-in Capital Ratio = Income before Tax / Paid-in Capital
   (5) Net Margin = Net Income / Net Sales
   (6) Earnings Per Share = (Net Income Attributable to Shareholders of the Parent - Preferred Stock Dividend) / Weighted Average Number of Shares Outstanding
5. Cash Flow
   (1) Cash Flow Ratio = Net Cash Provided by Operating Activities / Current Liabilities
   (2) Cash Flow Adequacy Ratio = Five-year Sum of Cash from Operations / Five-year Sum of Capital Expenditures, Inventory Additions, and Cash Dividend
   (3) Cash Flow Reinvestment Ratio = (Cash Provided by Operating Activities - Cash Dividends)/ (Gross Property, Plant and Equipment + Long-term Investments + Other Noncurrent Assets + Working Capital)
6. Leverage
   (1) Operating Leverage = (Net Sales - Variable Cost) / Income from Operations
   (2) Financial Leverage = Income from Operations / (Income from Operations - Interest Expenses)

6.2.2. Consolidated Financial Analysis –Unconsolidated

Item	Year	Financial Analysis for the Last Five Years				
		2014	2015	2016	2017	2018
Financial structure (%)	Debt Ratio	47.20	45.64	45.37	44.84	44.98
	Ratio of long-term capital to property, plant and equipment	374.87	375.36	356.56	339.58	355.93
Solvency (%)	Current ratio	185.85	169.17	164.32	142.14	131.45
	Quick ratio	157.82	139.82	138.41	121.72	115.51
	Interest earned ratio (times)	17.01	23.75	16.60	32.98	25.35
Operating performance	Accounts receivable turnover (times)	3.82	4.87	4.41	5.21	4.32
	Average collection period	95	75	83	70	84
	Inventory turnover (times)	11.02	12.79	11.75	16.44	17.70
	Accounts payable turnover (times)	6.43	6.87	5.42	6.06	5.23
	Average days in sales	33	29	31	22	21
	Property, plant and equipment turnover (times)	3.23	4.12	3.71	4.30	3.85
	Total assets turnover (times)	0.71	0.86	0.78	0.95	0.83
Profitability	Return on total assets (%)	6.15	8.11	4.62	9.40	5.99
	Return on stockholders' equity (%)	11.07	14.46	7.92	16.60	10.36
	Pre-tax income to paid-in capital (%)	20.66	30.14	17.78	36.91	29.18
	Profit ratio (%)	8.10	9.00	5.52	9.63	6.86
	Earnings per share (NT$)	1.67	2.41	1.36	3.00	2.01
Cash flow	Cash flow ratio (%)	38.12	48.22	24.63	32.50	12.01
	Cash flow adequacy ratio (%)	71.79	103.84	98.02	119.64	107.00
	Cash reinvestment ratio (%)	5.13	8.54	2.08	5.81	-0.27
Leverage	Operating leverage	4.98	2.76	4.72	2.19	4.67
	Financial leverage	1.12	1.07	1.15	1.07	1.14

Analysis of financial ratio differences for the last two years. (Not required if the difference does not exceed 20%)

1. Interest earned ratio：The ratio increased in 2018 due to the increase in income tax and interest expense.
2. Average collection period: Due to the decrease in operating revenue in 2018.
3. Return on total assets：The ratio decreased in 2018 due to the decrease in profit.
4. Return on stockholders' equity：The ratio decreased in 2018 due to the decrease in profit.
5. Pre-tax income to paid-in capital：The ratio decreased in 2018 due to the decrease in profit.
6. Profit ratio：The ratio decreased in 2018 due to the decrease in profit.
7. Earnings per share：The ratio decreased in 2018 due to the decrease in profit.
8. Cash flow ratio: The ratio decreased in 2018 due to the decrease in Net Cash Provided by Operating Activities
9. Cash reinvestment ratio：The ratio decreased in 2018 due to the decrease in Net Cash Provided by Operating Activities
10. Operating leverage：The ratio increased in 2018 Due to the decrease in Income from Operations.

6.3 Audit Committee's Review Report

Audit Committee's Review Report

The Board of Directors has prepared the Company's 2018 Business Report, Financial Statements, and proposal for allocation of earnings.The CPA firm of Baker Tilly Clock & Co was retained to audit COMPEQ Financial Statements and has issued an audit report relating to the Financial Statements. The Business Report, Financial Statements, and earnings allocation proposal have been reviewed and determined to be correct and accurate by the Audit Committee members of COMPEQ MANUFACTURING CO.,LTD. According to relevant requirements of the Securities and Exchange Act and the Company Law, we hereby submit this report.

COMPEQ MANUFACTURING CO., LTD.

Chairman of the Audit Committee:

Teng Ling Liu

On the date of March 13th, 2019

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

COMPEQ MANUFACTURING CO., LTD.

AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AND INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Address: No. 91, Ln. 814, Daxin Rd., Shin-juang Vil. Luzhu Dist., Taoyuan City, Taiwan, R.O.C.

Phone : (886-3) 323-1111

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

REPRESENTATION LETTER

The Companies required to be included in the consolidated financial statements of affiliates in accordance with Compeq Manufacturing Co., Ltd. as of and for the year ended December 31, 2018, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standards No. 10, "Consolidated Financial Statements." In addition, the information required to be disclosed in the consolidated financial statements is included in the consolidated financial statements. Consequently, Compeq Manufacturing Co., Ltd. and Subsidiaries do not prepare a separate set of consolidated financial statements of affiliates.

Very truly yours,

COMPEQ MANUFACTURING CO., LTD.

By

Charles C. Wu

Chairman

March 13, 2019

INDEPENDENT AUDITORS' REPORT

NO.00151070ECA

To the Board of Directors of Compeq Manufacturing Co., Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Compeq Manufacturing Co., Ltd. and its subsidiaries (collectively referred to as “the Company”), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2018 and 2017, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), interpretations as well as related guidance 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 in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis 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 the consolidated financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Company's consolidated financial statements for the year ended December 31,2018 are explained as follows:

Revenue recognition from shipping warehouses

Description of the key audit matter

Refer to note 4(14), 5(4) and 6(17) of the consolidated financial statements for the information relating to revenue recognition.

The Company's sales come in two types of direct shipping from factories and shipping from warehouses, in which the revenue from shipping warehouses is recognized when the customer picks up the goods (the risk of the ownership of the goods sold is transferred and the profit is earned). The Company mainly recognizes its revenue in accordance with the statements or other information provided by the custodians of shipping warehouses and reconciliation with any change in recorded inventory. Given that the shipping warehouses spread many regions and the sales terms for each major customer also vary, such revenue recognition process often involves a lot of labor in operation, which is likely to result in inappropriate timing to recognize the revenue or inconsistence between physical quantity and recorded quantity of the inventory in custody. On the other hand, it requires both parties' labor judgment to determine if a shipment meets the terms for customer's acquisition of goods control right and such risk is the major measurement index adopted by the report users. As such, the deadline of the recognition of the revenue of the goods sold from shipping warehouses is listed as one of the key audit matter.

How the matter was addressed in our audit

We performed the following audit procedures in respect of the above key audit matter:

1. Understand and assess the propriety of the accounting policy for revenue recognition, and evaluate and test the internal control in relation to the timing of revenue recognition.

2. Implement the deadline test for the revenue from shipping warehouses in the periods before or after the balance sheet date, and check if customer account statement data, change in recorded inventory, revenue and cost carry-over were recorded at appropriate times.
3. Execute document enquiry or field stock-taking observation for the quantity of inventory in shipping warehouses, and check as well as reconcile the warehouse inventory quantity with the recorded inventory quantity. In case of any inconsistence with the recorded inventory quantity found from the enquiry response or stock-taking observation, the reasons for the inconsistence will be investigated and the test for the reconciliation items shall be executed, so as to confirm if material differences are properly adjusted and recorded.

Evaluation of allowance for loss on reduction of inventory to market

<u>Description of the key audit matter</u>

Refer to note 4(11), 5(2) and 6(4) of the consolidated financial statements for the information relating to inventory valuation.

The Company mainly engages in manufacture and sales of PCB(Printed Circuit Boards). Due to their short life circle and severe competition in the industry, electronic products are susceptible to the volatility of market prices, so they have higher risk in losses on reduction of inventory to market and inventory obsolescence. The net realizable value adopted by The Company for invalid and obsolescent inventory often involves subjective judgment, so it is in a high degree of uncertainty. Given that The Company's inventory and its allowance for loss on reduction of inventory to market have a vital impact on its financial statements, the valuation of the allowance for loss on reduction of inventory to market is listed as one of the key audit matters.

<u>How the matter was addressed in our audit</u>

We performed the following audit procedures in respect of the above key audit matter:

1. Evaluate if the policy and procedure for setting aside the allowance for loss on reduction of inventory to market are appropriately and consistently adopted.

2. Understand the inventory warehouse management process, inspect the annual stock-taking plan and participate in the annual observation of stock-taking, so as to confirm the inventory management and status.
3. Acquire the statement to identify inventory obsolescence and invalidation and verify inventory aging propriety and rationality, so as to confirm the possibility for the loss of the inventory exceeding a certain inventory age and coverage of the invalid and obsolescent inventory items in the statement, and ensure the consistence of the statement information with the policy.
4. Inspect a variety of data adopted by the management for calculation of the inventory net realizable value, and give random check and calculation to evaluate the rationality of the inventory net realizable value and judge if relevant disclosures are adequate.

Other Matter

We have also audited the parent company only financial statements of Compeq Manufacturing Co., Ltd as of and for the years ended December 31, 2018 and 2017 on which we have issued an unmodified opinion.

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

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

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

Those charged with governance, (including supervisors), are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with 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 Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Baker Tilly Clock & Co

Hung-Hsun Ting , CPA

Hsien-Hsiu Cheng, CPA

March 13, 2019

Notes to Readers

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

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

COMPEQ MANUFACTURING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2018 and 2017

(Expressed in thousands of New Taiwan Dollars)

ASSETS	NOTES	December 31,2018		December 31,2017	
		Amount	%	Amount	%
CURRENT ASSETS					
Cash and cash equivalents	6(1)	$ 6,743,559	11.69	$ 7,920,755	14.06
Financial assets at fair value through profit or loss-current	6(2)	78,532	0.14	128,221	0.23
Notes receivable	6(3)	86,333	0.15	271,781	0.48
Accounts receivable	6(3)	13,344,770	23.14	13,349,660	23.69
Other receivables		217,908	0.38	640,044	1.13
Inventories	6(4)	6,942,268	12.04	6,099,940	10.82
Prepayments		440,162	0.76	1,031,823	1.83
Other current financial assets	6(5)	1,597,368	2.77	—	—
Other current assets		81,984	0.14	68,589	0.12
Total current assets		29,532,884	51.21	29,510,813	52.36
NONCURRENT ASSETS					
Property, plant and equipment	6(6),8	26,947,965	46.73	25,619,194	45.46
Intangible assets	6(7)	87,979	0.15	78,128	0.14
Deferred tax assets	6(21)	821,067	1.42	719,103	1.28
Prepayments for equipment		39,436	0.07	171,202	0.30
Refundable deposits		4,357	0.01	4,393	0.01
Long-term prepayments for lease	6(8)	229,685	0.40	241,598	0.43
Other non-current assets		4,558	0.01	9,994	0.02
Total noncurrent assets		28,135,047	48.79	26,843,612	47.64
TOTAL		$ 57,667,931	100.00	$ 56,354,425	100.00

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

COMPEQ MANUFACTURING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2018 and 2017

(Expressed in thousands of New Taiwan Dollars)

LIABILITIES AND EQUITY	NOTES	December 31,2018		December 31,2017	
		Amount	%	Amount	%
CURRENT LIABILITIES					
Short-term borrowings	6(9)	$ —	—	$ 178,560	0.32
Notes payable	6(10)	811,166	1.41	637,902	1.13
Accounts payable	6(10)	8,540,102	14.81	8,959,402	15.90
Other payables	6(11)	5,928,969	10.28	5,956,057	10.57
Current tax liabilities	6(21)	662,777	1.15	684,845	1.22
Provisions-current	6(12)	244,848	0.42	217,335	0.38
Receipts in advance		2,469	—	114,377	0.20
Current portion of long-term borrowings	6(13),8	1,346,637	2.34	1,539,723	2.73
Other current liabilities		513,592	0.89	115,790	0.21
Total current liabilities		18,050,560	31.30	18,403,991	32.66
NONCURRENT LIABILITIES					
Long-term borrowings	6(13),8	13,458,225	23.34	12,808,117	22.73
Deferred tax liabilities	6(21)	1,871,822	3.24	1,466,663	2.60
Net defined pension liabilities	6(14)	767,263	1.33	819,226	1.45
Other non-current liabilities, others		27,769	0.05	—	—
Total noncurrent liabilities		16,125,079	27.96	15,094,006	26.78
Total liabilities		34,175,639	59.26	33,497,997	59.44
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY					
Capital stock	6(15)	11,918,206	20.67	11,918,206	21.15
Capital surplus	6(15)	1,016,898	1.76	1,016,898	1.81
Retained earnings	6(15)	10,414,078	18.06	9,468,558	16.80
Legal reserve		1,657,697	2.87	1,299,992	2.31
Unappropriated earnings		8,756,381	15.19	8,168,566	14.49
Other equity	6(15)	143,110	0.25	452,766	0.80
Total equity attributable to owners of the Company		23,492,292	40.74	22,856,428	40.56
NON-CONTROLLING INTERESTS		—	—	—	—
Total equity		23,492,292	40.74	22,856,428	40.56
TOTAL		$ 57,667,931	100.00	$ 56,354,425	100.00

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

COMPEQ MANUFACTURING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED ON DECEMBER 31, 2018 AND 2017

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

DESCRIPTION	NOTE	2018 Amount	2018 %	2017 Amount	2017 %
OPERATING REVENUES	6(17)	$ 50,828,101	100.00	$ 53,964,193	100.00
OPERATING COSTS	6(4)	(43,602,667)	(85.79)	(45,873,484)	(85.01)
GROSS PROFIT		7,225,434	14.21	8,090,709	14.99
OPERATING EXPENSES					
Selling and marketing expenses		(864,878)	(1.70)	(937,534)	(1.74)
General and administrative expenses		(946,267)	(1.86)	(995,466)	(1.84)
Research and development expenses		(860,613)	(1.69)	(375,528)	(0.70)
Expected credit impairment income	6(3)	67,384	0.13		
Total operating expenses		(2,604,374)	(5.12)	(2,308,528)	(4.28)
OTHER OPERATING INCOME AND EXPENSES, NET	6(3)	—	—	(24,545)	(0.04)
INCOME FROM OPERATIONS		4,621,060	9.09	5,757,636	10.67
NON-OPERATING INCOME AND EXPENSES					
Other income	6(18)	628,706	1.24	278,931	0.52
Other gains and losses	6(19)	(856,667)	(1.69)	(741,519)	(1.38)
Finance costs	6(20)	(474,459)	(0.93)	(388,051)	(0.72)
Total non-operating income and expenses		(702,420)	(1.38)	(850,639)	(1.58)
INCOME BEFORE INCOME TAX		3,918,640	7.71	4,906,997	9.09
INCOME TAX EXPENSE	6(21)	(1,518,909)	(2.99)	(1,329,953)	(2.46)
NET INCOME		$ 2,399,731	4.72	$ 3,577,044	6.63
OTHER COMPREHENSIVE INCOME (LOSS)					
Items that will not be reclassified subsequently to profit or loss					
Remeasurement of defined benefit obligation	6(14)	(39,901)	(0.08)	(45,669)	(0.08)
Income tax benefit (expense) related to items that will not be reclassified subsequently	6(21)	15,875	0.03	7,764	0.01
Items that may be reclassified subsequently to profit or loss					
Exchange differences arising from the translation of the foreign operations	6(15)	(366,613)	(0.72)	(259,473)	(0.48)
Income tax relating to the components of other comprehensive income(loss)	6(21)	56,957	0.11	44,110	0.08
Other comprehensive (loss) income, net of income tax		(333,682)	(0.66)	(253,268)	(0.47)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		$ 2,066,049	4.06	$ 3,323,776	6.16
NET INCOME ATTRIBUTABLE TO：					
Shareholders of the parent		$ 2,399,731	4.72	$ 3,577,044	6.63
Non-controlling interests		—	—	—	—
		$ 2,399,731	4.72	$ 3,577,044	6.63
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO：					
Shareholders of the parent		$ 2,066,049	4.06	$ 3,323,776	6.16
Non-controlling interests		—	—	—	—
		$ 2,066,049	4.06	$ 3,323,776	6.16
EARNING PER SHARE					
Basic	6(16)	$ 2.01		$ 3.00	
Diluted	6(16)	$ 2.00		$ 2.99	

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

COMPEQ MANUFACTURING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(Expressed in thousands of New Taiwan Dollars)

DESCRIPTION	Equity attributable to the owners of the Company						Non-controlling interests	Total equity
			Retained earnings		Other equity			
	Capital Stock	Capital surplus	Legal reserve	Unappropriated earnings	Exchange differences arising from the translation of the foreign operations	Subtotal		
BALANCE, JANUARY 1, 2017	$ 11,918,206	$ 1,016,898	$ 1,137,452	$ 5,507,059	$ 668,129	$ 20,247,744	$ –	$ 20,247,744
Appropriations of prior year's earnings								
Legal reserve	–	–	162,540	(162,540)	–	–	–	–
Cash dividends	–	–	–	(715,092)	–	(715,092)	–	(715,092)
Net income in 2017	–	–	–	3,577,044	–	3,577,044	–	3,577,044
Other comprehensive income in 2017, net of income tax	–	–	–	(37,905)	(215,363)	(253,268)	–	(253,268)
Total comprehensive income in 2017	–	–	–	3,539,139	(215,363)	3,323,776	–	3,323,776
BALANCE, JANUARY 1, 2018	11,918,206	1,016,898	1,299,992	8,168,566	452,766	22,856,428	–	22,856,428
Appropriations of prior year's earnings								
Legal reserve	–	–	357,705	(357,705)	–	–	–	–
Cash dividends	–	–	–	(1,430,185)	–	(1,430,185)	–	(1,430,185)
Net income in 2018	–	–	–	2,399,731	–	2,399,731	–	2,399,731
Other comprehensive income in 2018, net of income tax	–	–	–	(24,026)	(309,656)	(333,682)	–	(333,682)
Total comprehensive income in 2018	–	–	–	2,375,705	(309,656)	2,066,049	–	2,066,049
BALANCE, DECEMBER 31, 2018	$ 11,918,206	$ 1,016,898	$ 1,657,697	$ 8,756,381	$ 143,110	$ 23,492,292	$ –	$ 23,492,292

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

COMPEQ MANUFACTURING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED ON DECEMBER 31, 2018 AND 2017

(Expressed in thousands of New Taiwan Dollars)

DESCRIPTION	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 3,918,640	$ 4,906,997
Adjustments for:		
Income and expense (loss) items		
Depreciation expense	3,532,436	3,162,135
Amortization expense	41,042	38,807
Expected credit impairment loss (income)	(67,384)	—
Provision for Bad Debts Losses	—	24,545
Net (gain) loss on financial assets and liabilities at fair value through profit or loss	386	(11,229)
Interest expense	474,459	388,051
Interest income	(134,122)	(62,406)
Loss on disposal of property, plant and equipment	157,674	97,929
Exchange loss (gain) on long-term debts	(79,539)	(349,186)
Changes in operating assets and liabilities		
Increase in financial assets held for trading	—	(25,722)
Financial assets mandatorily at fair value through profit or loss	49,304	—
Notes receivable	186,818	(55,271)
Accounts receivable	4,129	(1,685,033)
Other receivables	441,674	(99,937)
Inventories	(1,024,326)	180,654
Prepayments	584,310	(420,462)
Other current assets	(18,933)	30,120
Other current financial assets	(1,594,477)	91,591
Notes payable	183,035	378,680
Accounts payable	(303,756)	654,410
Other payables	42,836	561,994
Provisions	31,402	7,738
Receipts in advance	(111,979)	(4,732)
Other current liabilities	397,675	(58,609)
Accrued pension liabilities	(91,864)	(90,058)
Cash generated from operations	6,619,440	7,661,006
Interest received	135,613	57,394
Interest paid	(468,650)	(384,186)
Income taxes paid	(1,161,060)	(848,859)
Net cash generated by operating activities	$ 5,125,343	$ 6,485,355

(Continued)

COMPEQ MANUFACTURING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED ON DECEMBER 31, 2018 AND 2017

(Expressed in thousands of New Taiwan Dollars)

DESCRIPTION	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets at cost	$ —	$ (63,142)
Payments for property, plant and equipment	(5,443,476)	(4,780,428)
Proceeds from disposal of property, plant and equipment	7,686	19,055
Increase in Refundable Deposits	(37,365)	(29,282)
Decrease in Refundable Deposits	42,588	32,932
Purchase of Intangible Assets	(43,672)	(14,052)
Increase in prepayments for equipment	—	(120,298)
Decrease in Prepayments for equipment	134,618	—
Increase in other Noncurrent Assets	—	(5,105)
Net cash generated by (used in) investing activities	(5,339,621)	(4,960,320)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term borrowings	4,512,912	4,571,595
Decrease in short-term borrowings	(4,699,923)	(4,677,436)
Increase in long-term borrowings	11,436,702	8,209,018
Decrease in long-term borrowings	(10,689,001)	(6,738,910)
Increase in guarantee deposits received	6,782	19,856
Decrease in guarantee deposits received	(5,613)	(3,138)
Increase in other non-current liabilities	27,743	—
Cash dividends	(1,430,185)	(715,092)
Net cash generated by (used in) financing activities	(840,583)	665,893
EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES	(122,335)	8,453
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,177,196)	2,199,381
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	7,920,755	5,721,374
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	$ 6,743,559	$ 7,920,755

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

COMPEQ MANUFACTURING CO., LTD. AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Amounts in thousands of New Taiwan dollars, unless otherwise stated)

1. ORGANIZATION AND OPERATIONS

Compeq Manufacturing Co., Ltd. (the Compeq Company) was established in August 1973. It is engaged in the manufacture and sale of PCB (Printed Circuit Boards) for computer use. In January 1990, the Compeq Company's stocks were approved by the Financial Supervisory Commission (FSC) for listing on the Taiwan Stock Exchange.

The consolidated financial statements were included Compeq manufacturing Co., Ltd. and its subsidiaries collectively as the “Company” are described in Note 4.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorized for issue on March 13, 2019.

3. APPLICATION OF NEW AND REVISED STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRS”) as endorsed by the Financial Supervisory Commission (“FSC”)

New standards, interpretations and amendments endorsed by FSC effective from 2018 are as follows:

New Standards, Interpretations and Amendments	Effective Date Issued by IASB
Classification and measurement of share-based payment transactions (amendments to IFRS 2)	January 1, 2018
Applying IFRS 9 ‘Financial instruments’ with IFRS 4 ‘Insurance contracts’ (amendments to IFRS 4)	January 1, 2018
IFRS 9, ‘Financial instruments’	January 1, 2018
IFRS 15, ‘Revenue from contracts with customers’	January 1, 2018
Clarifications to IFRS 15, ‘Revenue from contracts with customers’ (amendments to IFRS 15)	January 1, 2018
Disclosure initiative (amendments to IAS 7)	January 1, 2017
Recognition of deferred tax assets for unrealized losses (amendments to IAS 12)	January 1, 2017
Transfers of investment property (amendments to IAS 40)	January 1, 2018
IFRS 22, ‘Foreign currency transactions and advance consideration’	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IFRS 1, ‘First-time adoption of international financial reporting standards’	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IFRS 12, ‘Disclosure of interests in other entities’	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IAS 28, ‘Investments in associates and joint ventures’	January 1, 2018

Except for the following items, the above standards and interpretations have no significant impact to the Company's financial condition and operating results based on the Company's assessment. The quantitative impact will be disclosed when the assessment is complete.

a. IFRS 9 "Financial Instruments"

IFRS 9 replaces the current standards on accounting for financial instruments, IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, measured at fair value through other comprehensive income ("FVTOCI") and measured at fair value through profit or loss ("FVTPL"). This Standard eliminates the classification of financial assets under IAS 39 which are held to maturity, loans and receivables and available for sale. In addition, IAS 39 has an exception for the measurement of investments in equity instruments (and related derivatives) that do not have a quoted market price in an active market and for which fair value cannot therefore be measured reliably; such financial instruments are measured at cost. IFRS 9 removes this exception and requires that all equity instruments (and related derivatives) should be measured at fair value.

IFRS 9 requires that impairment loss on financial assets to be recognized by using the "Expected Credit Losses Model". A loss allowance is required for financial assets measured at amortized cost, investments in debt instruments measured at FVTOCI, contract assets arising from IFRS 15 "Revenue from Contracts with Customers", certain written loan commitments and financial guarantee contracts. A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full-lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full-lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For purchased or originated credit-impaired financial assets, the Company takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

On the basis of the facts and circumstances that existed as of January 1, 2018, the Company has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amount under IAS 39 and the new measurement categories and carrying amount under IFRS 9 for each class of the Company's financial assets and financial liabilities as of January 1, 2018 were as follows:

	Measurement Category		Carrying Amount	
Financial Assets	IAS 39	IFRS 9	IAS 39	IFRS 9
Cash and cash equivalents	Loans and receivables	Amortized cost	$ 7,920,755	$ 7,920,755
Derivatives	Held-for-trading	Mandatorily at fair value through profit or loss (i.e. FVTPL)	386	386
Stock instruments	Held-for-trading	Mandatorily at fair value through profit or loss (i.e. FVTPL)	127,835	127,835
Notes and accounts receivables and other receivables	Loans and receivables	Amortized cost	14,261,485	14,261,485
Refundable deposits	Loans and receivables	Amortized cost	43,431	43,431

(a) Derivatives that previously classified as held-for-trading under IAS 39 were mandatorily classified as measured at FVTPL under IFRS 9.

(b) Cash and cash equivalents, notes and accounts receivables and other receivables and refundable deposits that were previously classified as loans and receivables under IAS 39 were classified as measured at amortized cost with an assessment of expected credit losses under IFRS 9.

As evaluated by the Company, except for reclassification of accounting items, the rules related to new classification, measurement method and impairment are considered applicable to the Company, and they do not affect the profit or loss and equity of 2018.

b. IFRS 15 “Revenue from Contracts with Customers” and related amendments

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 “Revenue,” IAS 11 “Construction Contracts,” and a number of revenue-related interpretations.

When applying IFRS 15, the Company shall recognize revenue by applying the following steps:

(a) Identify the contract with the customer;

(b) Identify the performance obligations in the contract;

(c) Determine the transaction price;

(d) Allocate the transaction price to the performance obligations in the contract; and

(e) Recognize revenue when the entity satisfies a performance obligation.

The Company chose retrospective applicability of International Financial Reporting Standards (IFRS) No. 15 only for the contracts that have not been completed on January 1, 2018, and no restatement of 2017 comparison information was made. The accumulated effect of initial applicability of IFRS No. 15 did not affect the retained earnings at January 1, 2018.

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

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

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

Except for the items discussed below, the Company believes that the initial adoption of abovementioned standards or interpretations would not have a material impact on its accounting policies.

IFRS 16, Leases

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, and a number of related interpretations.

Under IFRS 16, if the Company is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Company may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the consolidated statements of comprehensive income, the Company should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability; interest is computed by using effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of the lease liability are classified within financing activities; cash payments for the interest portion are classified within operating activities.

The Company has handled lessee's lease contracts in accordance with IFRS 16, but it has adopted no restatement for the financial statements of the previous period. The Company may increase its right-of-use assets and lease liabilities by $132,887 thousand on January 1, 2019.

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

As of the date the following IFRSs that have been issued by the IASB, but not yet endorsed by the FSC:

New Standards, Interpretations and Amendments	Effective Date Issued by IASB
Definition of Material (amendment to IAS 1 and IAS 8)	January 1, 2020
Definition of a Business (amendment to IFRS 3)	January 1, 2020
Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	To be determined by IASB
IFRS 17, Insurance Contracts	January 1, 2021

As of the date the accompanying consolidated financial statements were issued, the Company continues in evaluating the impact on its financial position and financial performance as a result of the initial adoption of the aforementioned standards or interpretations. The related impact will be disclosed when the Company completes the evaluation.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance

The consolidated financial statements have been prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, IFRSs, IASs, Interpretations as well as related guidance translated by the ARDF endorsed by the FSC with the effective dates (collectively, "IFRSs").

(2) Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair value, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

(3) Basis of Consolidation

A. The basis for the consolidated financial statements

The consolidated financial statements incorporated the financial statements of Compeq Manufacturing Co., Ltd. and its controlled entities (the subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

All intra-company transactions, balances, income and expenses are eliminated in full on consolidation.

Total comprehensive income of 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.

Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are accounted for as equity transactions. The carrying amounts of the Company interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to shareholders of the Corporation.

B. The Subsidiaries in the consolidated financial statements:

Name of Investor	Name of Investee	Main Businesses and Products	Establishment and Operating Location
Compeq Manufacturing Co., Ltd.	Huaton Holdings Limited	Investment and trading (Indirectly investment in Mainland China)	British Virgin Islands
Compeq Manufacturing Co., Ltd.	Pelican Cove Investment Ltd.	Investment and trading	British Virgin Islands
Compeq Manufacturing Co., Ltd.	Liton Holdings Limited	Investment and trading (Indirectly investment in Mainland China)	British Virgin Islands
Compeq Manufacturing Co., Ltd.	Hua Nian Investment Ltd	General investing	Taiwan
Huaton Holdings Limited	Compeq Manufacturing (Huizhou) Co., Ltd.	PCB manufacturing and sales	China
Huaton Holdings Limited	Compeq Manufacturing (Suzhou) Co., Ltd.	PCB manufacturing and sales	China
Huaton Holdings Limited	Compeq Technology (Huizhou) Co., Ltd.	PCB manufacturing and sales	China
Huaton Holdings Limited	Compeq Manufacturing (Chongqing) Co., Ltd.	PCB manufacturing and sales	China
Compeq Manufacturing (Huizhou) Co., Ltd.	Hong Kong Compeq Huizhou Trading Company Limited	Trading	Hong Kong

Name of Investee	Percentage of Ownership	
	December 31,2018	December 31,2017
Huaton Holdings Limited	100.00%	100.00%
Pelican Cove Investment Ltd.	100.00%	100.00%
Liton Holdings Limited	100.00%	100.00%
Hua Nian Investment Ltd	100.00%	100.00%
Compeq Manufacturing (Huizhou) Co., Ltd.	100.00%	100.00%
Compeq Manufacturing (Suzhou) Co., Ltd.	100.00%	100.00%
Compeq Technology (Huizhou) Co., Ltd.	100.00%	100.00%
Compeq Manufacturing (Chongqing) Co., Ltd.	100.00%	100.00%
Hong Kong Compeq Huizhou Trading Company Limited	100.00%	100.00%

C. Subsidiaries excluded from consolidated financial statement: None.

D. Each invested company adopting the equity valuation method will obtain the investment loss and profit data included in the current financial statements duly audited and certified by a certified public accountant.

(4) Current and Noncurrent Assets and Liabilities

Current assets held for trading purposes and expected to be sold or consumed within one year from the balance sheet date. Current liabilities are obligations incurred for trading purposes and to be settled within one year from the balance sheet date. Assets and liabilities that are not classified as current are noncurrent assets and liabilities, respectively.

(5) Foreign Currencies

In preparing the financial statements of each individual consolidated entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the closing rates. 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. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise, except for exchange differences on transactions entered into in order to hedge certain foreign-currency risks.

c. For the items of currency receivable from or payable to foreign business operating institute, if there is no plan for liquidation or the liquidation is impossible to occur in the foreseeable future. Exchange differences arising on a monetary item that is part of a reporting entity's net investment in a foreign operation are recognized initially in other comprehensive income and reclassified from equity to profit or loss upon disposal of such investment.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are recognized in profit or loss for the year except for exchange difference arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Consolidated Company’ foreign operations (including of the subsidiaries, associates and joint ventures operating in other countries or using currencies different from the Company’s) are translated into New Taiwan dollars using exchange rates prevailing at each balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity.

(6) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Including time deposits and repurchase agreements collateralized by corporate bonds.

Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operation are classified as cash equivalents.

(7) Financial Instruments

Financial assets and financial liabilities are recognized when the Consolidated Company become a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss. For the determination of fair value, please refer to Note 12.

A. Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or Convention in the marketplace.

a. Measurement category

2018

Financial assets are classified into the following categories: financial assets at FVTPL, and financial assets at amortized cost.

A) Financial asset at FVTPL

For certain financial assets which include debt instruments that do not meet the criteria of amortized cost or FVTOCI, it is mandatorily required to measure them at FVTPL. Any gain or loss arising from remeasurement is recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest earned on the financial asset.

B) Measured at amortized cost

When a company after merger simultaneously meets the following two conditions in its investment in financial assets, the financial assets are classified as the ones carried at cost after amortization:

a) The financial assets are held under a specific operation mode, in which the purpose of the mode is to hold the financial assets in order to collect contract cash flows.

b) The cash flow generated on a specific date due to contract clauses is completely for the payment of the principal and the interest accrued from the outstanding principal amount.

Cash and cash equivalents, notes and accounts receivable, other receivables and refundable deposits are measured at amortized cost. Subsequent to initial recognition, financial assets measured at amortized cost are measured at amortized cost, which equals to carrying amount determined by the effective interest method less any impairment loss. Foreign exchange gains and losses are recognized in profit or loss.

Except for the two conditions below, the interest income is calculated by multiplying the effective interest rate by the total book value of the financial assets:

A) The interest income of the purchased or originated credit-impaired financial assets is calculated by multiplying the credit-adjusted effective interest rate by the cost of amortized financial assets.

B) The interest income of the financial assets which are not purchased or originated credit-impairment but subsequently become credit-impaired financial assets is calculated by multiplying the effective interest rate by the cost of amortized financial assets.

2017

Financial assets held by the Consolidated Company include financial assets at fair value through profit or loss, and loans and receivables.

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

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

Financial assets that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:

a) They eliminate or significantly reduce a measurement or recognition inconsistency; or

b) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

c) Hybrid (combined) contracts

The financial assets at fair value through income statement are measured at fair value, in which the resulting profit or loss is recognized in the income statement. Such profit or loss recognized in the income statement does not include any stock dividends or interest (including those that were received in the year in which the investment was made) yielded from the financial asset in question.

(b) Available-for-sale financial assets

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

The listed stocks held by the Company are traded in the active market and therefore classified as the financial assets available for sale. They are presented at fair value at the last day of each reporting period.

Available-for-sale equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period. Such equity instruments are subsequently remeasured at fair value when their fair value can be reliably measured, and the difference between the carrying amount and fair value is recognized in profit or loss or other comprehensive income.

Available-for-sale financial assets are measured at fair value. Interest income from available-for-sale monetary financial assets and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. Dividends on available-for-sale equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established.

(c) Loans and receivables

Loan releases and receivables refer to the non-derivative financial assets without price offer in the active market and with fixed or decidable payment amounts.

Loans and receivables are non-derivative financial asserts with fired or determinable payments that are not quoted in and active market.

Loans and receivables including accounts receivable, and other receivable and bond investments with no active market are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

b. Impairment of financial assets

<u>2018</u>

At the end of each reporting period, a loss allowance for expected credit loss is recognized for financial assets at amortized cost (including accounts receivable).

The loss allowance for accounts receivable is measured at an amount equal to lifetime expected credit losses. For financial assets at amortized cost, when the credit risk on the financial instrument has not increased significantly since initial recognition, a loss allowance is recognized at an amount equal to expected credit loss resulting from possible default events of a financial instrument within 12 months after the reporting date. If, on the other hand, there has been a significant increase in credit risk since initial recognition, a loss allowance is recognized at an amount equal to expected credit loss resulting from all possible default events over the expected life of a financial instrument.

The expected credit loss is calculated according to the average weighted credit loss in which the risk rated ratio of default occurrence is used in calculation. The 12-month expected credit loss represents the credit loss expected to occur to the financial instruments within 12 months after their reporting day due to possible default. The expected credit loss in the duration period refers to the credit loss expected to occur to the financial instruments in the expected duration period due to possible default.

The Company recognizes an impairment loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

2017

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

Financial assets carried at amortized cost, such as accounts receivable, other receivables and bond investments with no active market are assessed for impairment on a collective basis even if there is no objective evidence of impairment individually. The amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered an objective evidence of impairment. For all other financial assets, objective evidence of impairment could include: Significant financial difficulty of the issuer or counterparty; Breach of contract, such as a default or delinquency in interest or principal payments; It becoming probable that the borrower will undergo bankruptcy or financial reorganization; The disappearance of an active market for that financial asset because of financial difficulties.

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

For available-for-sale equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value after an impairment loss is recognized in other comprehensive income. In the case that the fair value of a liability instrument available for sale increases in the ensuing period, and the increase can be objectively linked to loss of reduction and recognized as the item occurring after profit or loss, the loss of reduction can be reversed and recognized in the income statement.

For financial assets carried at cost, impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. This impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is directly reduced by the impairment loss, except for trade receivables, whose carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss, and uncollectible trade receivables are written off against the allowance account.

c. Derecognition of financial assets

The Consolidated Company derecognize a financial asset only when the contractual rights to the cash flows from the asset expire, or when they transfer the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset in its entirety, the difference between the asset’s carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

B. Equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

C. Financial liabilities

a. Subsequent measurement

Financial liabilities other than those held for trading purposes and designated as at FVTPL are subsequently measured at amortized cost at the end of each reporting period.

Financial liabilities measured at FVTPL are derivative financial instruments that do not meet the criteria for hedge accounting, and they are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Related net profits or net losses are listed in "other profits and losses" of the statement of comprehensive income.

b. Derecognition of financial liabilities

The Consolidated Company derecognizes financial liabilities only when the obligations are discharged cancelled or expires. The difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

c. Offsetting financial instruments

Financial assets and liabilities are offset and reported in the net amount in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

D. Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks, including foreign exchange forward contracts.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instruments is negative, the derivative is recognized as a financial liability.

(8) Inventories

Inventories are included supplies, raw materials, work in process and Finished goods. Inventories are stated at the lower of cost or net realizable value. Inventories are recorded at weighted-average cost. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale.

(9) Property, Plant, and Equipment

Property, plant and equipment are stated at cost, less subsequent accumulated depreciation and subsequent accumulated impairment loss.

Properties under construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization.

These properties are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Depreciation is recognized using the straight-line method. Each significant item is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Depreciation is computed by the straight-line method over the estimated useful lives. The estimated useful lives are as follows:

Buildings: 5-35 years; machinery and equipment: 6-10 years; computer equipment: 3-8 years; testing equipment: 5-8 years; pollution-prevention equipment: 3-10 years; transportation equipment: 5 years; furniture and fixtures: 5-8 years; other equipment: 5-15 years.

(10) Land use rights

The land of China is owned by the government and the subsidiary acquired the land use right of China which is under non-current assets. Amortization is comported by the straight-line method over the estimated used loves, which amounted to 50 years.

(11) Intangible Assets

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The residual value of an intangible asset with a finite useful life is assumed to be zero unless the Group expects to dispose of the intangible asset before the end of its economic life.

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

(12) Impairment of Non-financial Assets

At each balance sheet date, the Consolidated Company review the carrying amounts of their tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Consolidated Company estimate the recoverable amount of the cash-generating unit to which the asset belongs. When amortization can be reasonably and consistently made, common assets can also be amortized to individual cash production units. Otherwise, the amortization shall be made to the minimum cash production unit group in a reasonable and consistent way.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized in profit or loss.

When an impairment loss subsequently is reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(13) Provision

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

The present obligation arising from any onerous contracts shall be listed and measured as a liability reserve. When the unavoidable cost required for obligation fulfillment of a signed contract exceeds the economic effect expected to gain from the contract, the contract shall be referred to as an onerous contract.

(14) Revenue recognition

2018

When applying IFRS 15, the Company shall recognize revenue by applying the following steps:

(a) Identify the contract with the customer;

(b) Identify the performance obligations in the contract;

(c) Determine the transaction price;

(d) Allocate the transaction price to the performance obligations in the contract; and

(e) Recognize revenue when the entity satisfies a performance obligation.

Sales of goods

Revenue is recognized when the goods committed by the Company are transferred to the customer to fulfill the contract performance obligation, i.e. the revenue is recognized when the customer acquires the control right of the goods, in which the net amount of the contract price deducting estimated sales allowance is set aside and recognized. The revenue recognition amount is limited to the part where material reversal is very unlikely to occur, and the estimation is renewed at each balance sheet day. The allowance for sales discounts of the sales related estimates as of the balance sheet date is listed as the refund liabilities.

2017

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Sales returns are recognized at the time of sale provided the seller can reliably estimate future returns and recognizes a liability for returns based on previous experience and relevant factors.

A. Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

(a) The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;

(b) The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

(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 Company; and

(e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The company does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of materials ownership.

In principle, payment term granted to customers is due 30 days from the invoice date or 30 days from the end of the month of when the invoice is issued. Due to the short term nature of the receivables from sale of goods with the immaterial discounted effect, the Company measures them at the original invoice amounts without discounting.

B. Rent income, royalties income dividend income and interest income are recognized when it is probable that the economic benefits will flow to the Company and the amount of revenue can be reliably measured, recognized as follows:

(a) Rent income is recognized during the rental period at straight method.

(b) Revenue from royalties is recognized on an accrual basis in accordance with the substance of the relevant agreement and a accrued on a time basis.

(c) Dividend income is recognized when the shareholder’s right to receive payment has been established.

(d) Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

(15) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of these assets, until the assets are substantially ready for their intended use or sale.

If a specific loan is used for temporary investment before being applied to the capital expenditure meeting required elements and therefore earns the investment income, it shall be deducted from the loan cost meeting the terms of capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(16) Employee Benefits

A. Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for service rendered by employees.

B. Retirement benefits

For defined contribution retirement benefit plans, payments to the benefit plan are recognized as an expense when the employees have rendered service entitling them to the contribution. For defined benefit retirement benefit plans, the cost of providing benefit is recognized based on actuarial calculations.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the Projected Unit Credit Method. Service cost (including current service cost), and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability represents the actual deficit in the Company's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

(17) Taxation

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

A. Current tax

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

Income tax on unappropriated earnings (excluding earnings from foreign consolidated subsidiaries) is expensed in the year the shareholders approved the appropriation of earnings which is the year subsequent to the year the earnings are generated.

B. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, net operating loss carryforwards and unused tax credits to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered. The deferred tax assets which originally not recognized is also reviewed at the end of each reporting period and recognized to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the year in which the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets 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.

C. Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in Note 4, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

The following are the critical judgments, apart from those involving estimations, that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

(1) Estimated impairment of accounts receivable

When there is objective evidence of impairment loss, the Consolidated Company take into consideration the estimation of future cash flows. The amount of the impairment 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. Where the actual future cash flows are less than expected, a material impairment loss may arise.

(2) Valuation of Inventory

Inventories are stated at the lower of cost or net realizable value, and the Company use judgment and estimate to determine the net realizable value of inventory at the end of each reporting period.

Due to the rapid industrial changes, the Company estimates the net realizable value of inventory for obsolescence and unmarketable items at the end of reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions of future demand within a specific time horizon.

(3) Impairment of non-financial Assets

In the process of evaluating the potential impairment of tangible and intangible assets other than goodwill, the Company is required to make subjective judgments in determining the independent cash flows, useful lives, expected future revenue and expenses related to the specific asset groups with the consideration of the nature of semiconductor industry. Any changes in these estimates based on changed economic conditions or business strategies could result in significant impairment charges or reversal in future years.

(4) Revenue Recognition

In principle, goods sales revenue is recognized when the contract performance obligation is met, in which the terms are described as per Note 4. The Company records a provision for estimated future returns and other allowances in the same period the related revenue is recorded. Provision for estimated sales returns and other allowances is generally made and adjusted at a specific percentage based on historical experience and any known factors that would significantly affect the allowance, and our management periodically reviews the adequacy of the percentage used.

(5) Realization of deferred income tax assets

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. Assessment of the realization of deferred income tax assets involves critical accounting judgments and estimates of the management, including the assumptions of expected future sales revenue growth rate and profit rate, tax exempt duration, available tax credits, tax planning, etc. Any variations in global economic environment, industrial environment, and laws and regulations might cause material adjustments to deferred income tax assets.

6. CONTENTS OF SIGNIFICANT ACCOUNTS

(1) CASH AND CASH EQUIVALENTS

	December 31, 2018	December 31, 2017
Cash on hand	$ 17,693	$ 15,656
Demand deposits and checking accounts	1,805,989	2,365,239
Cash equivalent		
Time deposits	4,899,695	5,246,666
Repurchase agreements collateralized by government bonds	20,182	293,194
Total	$ 6,743,559	$ 7,920,755

(A) The bank deposits and bonds interest rate as of December 31, 2018 and 2017 were as follows:

	December 31, 2018	December 31, 2017
Demand deposits	0.001%～1.150%	0.001%～1.150%
Time deposits	0.60%～4.00%	0.59%～4.30%
Repurchase agreements collateralized by government bonds	0.38%	0.35%～1.70%

(B) The Company's bank time deposit certificates which are three months past the initial due dates are listed under the item of other financial assets-current. Please refer to note 6(5).

(2) FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

(A) Mandatorily measured at FVIPL-current

	December 31, 2018
Non-derivative financial instruments	
Publicly traded stocks	$ 48,536
Emerging stocks	29,996
Total	$ 78,532

(B) Financial assets held for trading-current

	December 31, 2017
Derivative financial instruments	
Forward exchange contracts	$ 386
Non-derivative financial instruments	
Publicly traded stocks	$ 5,391
Emerging stocks	122,444
	127,835
Total	$ 128,221

(a) For the years ended December 31, 2018 and 2017, the main purpose for the Consolidated Company to engage in forward exchange contracts transactions is to evade the risk resulting from the fluctuation of currency exchange rate. However, those derivative assets and liabilities did not meet the criteria of hedge effectiveness and therefore were not accounted for by using hedge accounting.

(b) The contracts resulted in net loss of $29,051 thousand in 2018 and net gain of $23,719 thousand (including realized gain $12,489 thousand and the appraisal gain $11,230 thousand) in 2017.

(c) The undue derivative financial products were as follows:

	Currency	Maturity	Contract Amount (in thousand)
December 31, 2017			
Sell	US$ / NT$	January 11, 2018 to January 25, 2018	US$ 6,000

(3) NOTES AND ACCOUNTS RECEIVABLE- NET

	December 31, 2018	December 31, 2017
Notes receivable	$ 86,333	$ 271,781
Accounts receivable	13,477,368	13,814,868
Less: Loss allowance	(132,598)	(201,028)
Less: Allowance for sales returns and discounts	—	(264,180)
Net	$ 13,344,770	$ 13,349,660

(A) The Company's notes receivable are all undue.

(B) The Company does not hold any collateral for its notes receivable and accounts receivable.

(C) The Company has adopted IFRS No. 15 as of January 1, 2018, with which the estimated allowance for sales discounts is listed as the refund liabilities. As of December 31, 2018, the balance of the refund liabilities was $400,852 thousand (listed as other current liabilities).

(D) 2018

(a) In principle, the Company's credit period for its customers in the Asian region is 90 days after the close of the month. As for other foreign regions, it is 80 – 90 days after the shipping date. The Company has adopted IFRS No.9 as of January 1, 2018 to evaluate impairment, while it adopted International Accounting Standard No. 39 to evaluate impairment before January 1, 2018.

(b) As of January 1, 2018, the Company has again adopted IFRS No. 9 to recognize the loss on reduction of receivables according to the expected credit loss occurring in the duration period. Accounts receivable are grouped according to the risk characteristics of customer's credit rating, which have been incorporated into the prospective information. The evaluation of the expected credit loss in the duration period is made by considering customer's past default record and existing financial status as well as economic growth.

(c) Analysis of expected credit losses as of December 31, 2018, which was measured based on the aforementioned method, was as follows:

	Carrying amount of accounts receivable	Expected credit loss rate	Loss allowance for lifetime expected credit losses
Non past due	$ 13,036,935	0%～10%	$ 18,693
Past due less than 30 days	310,235	0%～10%	18,064
Past due 31-100 days	33,673	0%～10%	402
Past due less than 101-180 days	2,011	50%～60%	925
Past due 181-365 days	94,514	100%	94,514
Total	$ 13,477,368		$ 132,598

(E) <u>2017</u>

(a) The Company's credit policy of 2017 is same as the aforesaid credit policy adopted in 2018. The allowance for doubtful receivables is assessed by reference to the collectability of receivables by performing the account aging analysis, historical experience and current financial condition of customers.

(b) Except for those impaired, for the rest of the notes and accounts receivable, the account aging analysis at the end of the reporting period is summarized in the following table. Notes and accounts receivable include amounts that are past due but for which the Company has not recognized an allowance for doubtful receivables after the assessment since there has not been a significant change in the credit quality of its customers and the amounts are still considered recoverable.

(c) Aging analysis of notes and accounts receivable

	December 31, 2017
Neither past due nor impaired	$ 13,191,623
Past due but not impaired	
Less than 30 days	157,357
31-60 days	680
61-180 days	—
180-365 days	—
Total	$ 13,349,660

The above aging schedule was based on the past due date.

(F) Movements of the allowance for doubtful accounts were as follows:

	For the Year Ended December 31, 2018	For the Year Ended December 31, 2017		
		Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance, beginning of the period (IAS 39)	$ 201,028	$ 162,584	$ 14,313	$ 176,897
Effect of retrospective application of IFRS 9	—			
Balance at January 1, 2018 (IFRS 9)	201,028			
Provision (Reversal)	(67,384)	24,511	34	24,545
Amount written off	(695)	(227)	—	(227)
Effect of exchange rate changes	(351)	(69)	(118)	(187)
Balance, end of the period	$ 132,598	$ 186,799	$ 14,229	$ 201,028

(G)The Company has signed a non recourse accounts receivable factoring agreement with the financial institution. Based on the factoring agreements, losses from trade disputes (such as those on sales returns and discounts) are borne by the Company while losses from credit are borne by the banks. These accounts receivable met the derecognition criteria for financial assets had transfer to other receivable.

The accounts receivables meeting the deletion terms have been transferred to the account of other receivables, as of December 31, 2018 and December 31, 2017, these accounts receivable met the derecognized criteria were as follows:

December 31, 2018

Purchaser of accounts receivable	Receivables sold	Credit Line (in thousand)	Advances Received	Interest Rate	Derecognized amount
Financial institution	$ 419,583	$ 6,531,852	$ 408,141	Note	$ 418,349

December 31, 2017

Purchaser of accounts receivable	Receivables sold	Credit Line (in thousand)	Advances Received	Interest Rate	Derecognized amount
Financial institution	$ 1,870,657	$ 4,791,360	$ 1,757,717	Note	$ 1,860,657

Note: The interest rate of the withdrawn credit line is as per the agreed interbank interest rate, and the rate is determined piece by piece.

The above credit lines may be used on a revolving basis.

(4) INVENTORIES

	December 31, 2018	December 31, 2017
Raw materials	$ 1,397,566	$ 1,155,075
Supplies	396,494	253,382
Work in process	1,564,079	1,887,717
Finished goods	3,571,831	2,795,289
Goods	12,298	8,477
Total	$ 6,942,268	$ 6,099,940

(A) As of December 31, 2018 and 2017, the allowance for inventory devaluation (including normal and idle products) were $1,672,743 thousand and $1,449,137 thousand, respectively.

(B) The cost of inventories recognized as cost of sales for the years ended December 31, 2018 and 2017 were as follows:

	For the Year Ended December 31	
	2018	2017
The cost of goods sold	$ 42,890,935	$ 45,696,614
Provision for (Reversal of) loss on inventories	67,231	34,820
Loss (gain) on physical inventory	—	565
Loss on scrapped inventories	536,268	660,513
Income from scrap sales	(506,505)	(568,885)
Idle capacity cost	614,738	49,857
Total	$ 43,602,667	$ 45,873,484

(5) OTHER CURRENT FINANCIAL ASSETS

	December 31, 2018
Non-cash equivalent of time deposits	$ 1,597,368

The interest rate interval of the balance sheet date of the financial were as follows:

	December 31, 2018
Interest rate interval	1.55%～3.48%

(6) PROPERTY, PLANT AND EQUIPMENT

	For the Year Ended December 31, 2018					
Item	Balance, Beginning of year	Additions	Disposals	Reclassifications	Effect of Exchange Rate changes	Balance, End of year
Cost						
Land	$ 674,929	$ –	$ –	$ –	$ –	$ 674,929
Buildings and structures	11,594,875	698,128	(53,780)	–	(201,654)	12,037,569
Machinery and equipment	30,366,666	3,571,056	(1,020,384)	(124,896)	(524,590)	32,267,852
Computer equipment	132,861	6,872	(10,364)	–	(243)	129,126
Testing equipment	1,839,887	258,239	(129,980)	103,530	(11,211)	2,060,465
Pollution Prevention equipment	561,483	31,999	(9,041)	–	–	584,441
Transportation equipment	68,945	6,780	(6,381)	–	(632)	68,712
Office equipment	172,128	10,053	(6,014)	–	(2,838)	173,329
Other facilities	6,581,493	646,389	(150,200)	21,366	(67,026)	7,032,022
Construction in progress	1,383,133	233,754	–	13,625	(20,605)	1,609,907
Total	$53,376,400	$ 5,463,270	$ (1,386,144)	$ 13,625	$ (828,799)	$56,638,352
Accumulated depreciation and impairment						
Buildings and structures	$ 5,678,898	$ 663,006	$ (38,613)	$ –	$ (81,554)	$ 6,221,737
Machinery and equipment	15,812,033	2,150,271	(928,117)	(58,983)	(241,519)	16,733,685
Computer equipment	101,881	9,871	(9,448)	–	(160)	102,144
Testing equipment	902,059	208,329	(91,985)	52,022	(6,416)	1,064,009
Pollution Prevention equipment	359,030	28,070	(8,474)	–	–	378,626
Transportation equipment	40,484	7,404	(5,285)	–	(331)	42,272
Office equipment	147,911	7,087	(5,449)	–	(2,287)	147,262
Other facilities	4,714,910	458,398	(133,413)	6,961	(46,204)	5,000,652
Total	27,757,206	$ 3,532,436	$ (1,220,784)	$ –	$ (378,471)	29,690,387
Net	$25,619,194					$26,947,965

Item	For the Year Ended December 31, 2017					
	Balance, Beginning of year	Additions	Disposals	Reclassifications	Effect of Exchange Rate changes	Balance, End of year
Cost						
Land	$ 674,929	$ —	$ —	$ —	$ —	$ 674,929
Buildings and structures	10,044,367	1,644,080	(27,363)	—	(66,209)	11,594,875
Machinery and equipment	28,468,761	3,153,710	(1,036,250)	—	(219,555)	30,366,666
Computer equipment	128,905	10,542	(6,464)	—	(122)	132,861
Testing equipment	1,419,893	601,561	(178,997)	—	(2,570)	1,839,887
Pollution Prevention equipment	518,143	52,713	(9,373)	—	—	561,483
Transportation equipment	66,897	8,395	(6,022)	—	(325)	68,945
Office equipment	170,908	4,679	(1,976)	—	(1,483)	172,128
Other facilities	6,224,674	494,058	(103,076)	—	(34,163)	6,581,493
Construction in progress	1,780,399	(381,596)	—	—	(15,670)	1,383,133
Total	$49,497,876	$ 5,588,142	$ (1,369,521)	$ —	$ (340,097)	$53,376,400
Accumulated depreciation and impairment						
Buildings and structures	$ 5,137,599	$ 584,318	$ (15,325)	$ —	$ (27,694)	$ 5,678,898
Machinery and equipment	14,909,260	1,976,567	(968,411)	—	(105,383)	15,812,033
Computer equipment	97,880	10,103	(6,029)	—	(73)	101,881
Testing equipment	920,042	137,107	(154,135)	—	(955)	902,059
Pollution Prevention equipment	342,690	25,170	(8,830)	—	—	359,030
Transportation equipment	38,674	6,816	(4,844)	—	(162)	40,484
Office equipment	143,664	7,186	(1,850)	—	(1,089)	147,911
Other facilities	4,407,663	414,868	(89,064)	—	(18,557)	4,714,910
Total	25,997,472	$ 3,162,135	$ (1,248,488)	$ —	$ (153,913)	27,757,206
Net	$23,500,404					$25,619,194

(A) The significant part of the Company's buildings include main plants and affiliated equipment and the related depreciation is calculated using the estimated useful lives of 20 to 35 years, and 5 to 30 years, respectively.

(B) The Company mortgaged or pledged property, plant and equipment, see Note 8.

(7) INTANGIBLE ASSETS

Item	For the Year Ended December 31, 2018					
	Balance, Beginning of year	Additions	Disposals	Reclassifications	Effect of Exchange Rate changes	Balance, End of year
Cost						
Software and system cost	$ 189,888	$ 43,673	$ (35,392)	$ —	$ (1,802)	$ 196,367
Accumulated amortization						
Software and system cost	111,760	33,100	(35,392)	—	(1,080)	108,388
Net	$ 78,128	$ 10,573	$ —	$ —	$ (722)	$ 87,979

Item	For the Year Ended December 31, 2017					
	Balance, Beginning of year	Additions	Disposals	Reclassifications	Effect of Exchange Rate changes	Balance, End of year
Cost						
Software and system cost	$ 197,052	$ 14,052	$ (19,698)	$ —	$ (1,518)	$ 189,888
Accumulated amortization						
Software and system cost	100,748	31,331	(19,698)	—	(621)	111,760
Net	$ 96,304	$ (17,279)	$ —	$ —	$ (897)	$ 78,128

Amortization for 2018 and 2017 were recognized in operating cost and operating expenses $13,622 thousand, $19,478 thousand, $18,392 thousand, $12,939 thousand, respectively.

(8) LONG-TERM PREPAYMENTS FOR LEASE

	For the Year Ended December 31	
	2018	2017
Balance, beginning of the period	$ 241,598	$ 251,387
Less: Amortization	(6,322)	(6,251)
Effect of exchange rate changes	(5,591)	(3,538)
Balance, end of the period	$ 229,685	$ 241,598

The long-term prepayment for lease was a land use right contract for use of the land at China.

(9) SHORT-TERM BORROWINGS

	December 31, 2017
Unsecured loans	$ 178,560
Rate	3.445%～3.852%

(10) NOTES PAYABLE AND ACCOUNTS PAYABLE

	December 31, 2018	December 31, 2017
Notes payable	$ 811,166	$ 637,902
Account payable	8,540,102	8,959,402
Total	$ 9,351,268	$ 9,597,304

(A) The average credit purchase period of payables is 60 to 120 days. The Company has set up its financial risk management policy, so as to ensure that all the payables could be liquidated within the agreed credit period.

(B) For the disclosure of the Company’s payables exposing currency and liquidity risks and other payables, please refer to Note 12.

(11) OTHER PAYABLES

	December 31, 2018	December 31, 2017
Machinery and Equipment payable	$ 2,072,459	$ 2,041,930
Employee Bonus payable	71,902	90,192
Salary and wages payable	804,763	805,499
Annual bonuses payable	353,825	560,652
Commissions payable	80,633	145,076
Processing payable	621,034	705,673
Maintenance payable	448,179	406,339
Utilities payable	91,440	90,955
Interest payable	32,680	27,511
Employee vacation payable	83,603	77,067
Freight charge payable	138,862	132,620
Compensation payable	394,476	337,149
Other payable	735,113	535,394
Total	$ 5,928,969	$ 5,956,057

(12) PROVISIONS- CURRENT

	For the Year Ended December 31, 2018		
	Other	Onerous contracts	Total
Balance, beginning of the year	$ 178,285	$ 39,050	$ 217,335
Recognized (Reversed)	25,019	6,383	31,402
Effect of exchange rate changes	(2,973)	(916)	(3,889)
Balance, end of the period	$ 200,331	$ 44,517	$ 244,848

	For the Year Ended December 31, 2017		
	Other	Onerous contracts	Total
Balance, beginning of the year	$ 183,178	$ 29,308	$ 212,486
Recognized (Reversed)	(2,130)	10,014	7,884
Effect of exchange rate changes	(2,763)	(272)	(3,035)
Balance, end of the period	$ 178,285	$ 39,050	$ 217,335

(A) Other liability reserves refer to the estimation of the accrued expenses with the liability reserve character, which is written off when the expense is incurred.

(B) The onerous contract loss reserve refers the loss on onerous contracts recognized due to the fulfillment cost of signed contracts exceeding expected economic effect. The estimation is written off when a contract is fulfilled.

(C) Given that the aforesaid reserve was prepared for the short run or for discount and the impact was not significant, they were not discounted.

(13) LONG-TERM BORROWINGS

Creditors	Description	No.	December 31, 2018 Amount	December 31, 2017 Amount	Expiry Date
Chang Hwa Bank	Secured borrowings	1	$ —	$ 400,000	07/11/2019
Land Bank of Taiwan	〃	1	—	400,000	11/25/2019
Mega International Commercial-Bank	〃	1	—	150,000	12/29/2019
Hua Nan Commercial Bank	〃	2	100,000	—	06/22/2020
Chang Hwa Bank	〃	1	400,000	—	09/11/2021
Land Bank of Taiwan	〃	1	400,000	—	10/12/2021
Mega International Commercial-Bank	〃	1	150,000	—	10/22/2021
Bank of Taiwan	Unsecured borrowings	2	—	200,000	08/22/2019
Bank of Taiwan	〃	3	—	250,000	09/29/2019
CTBC Bank	〃	4	153,846	307,692	12/08/2019
Bank of Panshin	〃	5	—	100,000	03/25/2020
E. Sun Bank	〃	1	200,000	—	07/04/2020
KGI Bank	〃	6	300,000	300,000	09/28/2020
Taipei Fubon commercial Bank (Union lean)	〃	7	3,780,000	4,200,000	07/29/2021
Industrial Bank of Taiwan	〃	8	194,118	264,706	08/15/2021
Far Eastern International Bank	〃	9	250,000	—	08/18/2021
Bank of Taiwan	〃	1	500,000	—	09/06/2021
Bank of Panshin	〃	10	100,000	—	11/30/2021
Taiwan Cooperative Bank (Suzhou)	〃	11	—	119,005	02/09/2019
E. Sun Bank (Dongguan)	〃	10	—	76,845	05/30/2019
HSBC (Huizhou)	〃	12	—	137,223	08/06/2019
United Overseas Bank (China) (Guangzhou)	〃	13	—	131,735	09/20/2019
Hua Nan Commercial Bank (Shenzhen)	〃	13	—	109,779	10/25/2019
Bank of Taiwan (Guangzhou)	〃	14	—	137,223	10/25/2019
China Construction Bank (Boluo)	〃	15	—	178,390	04/11/2020
HSBC (Huizhou)	〃	12	267,958	—	09/11/2020
China Construction Bank (Huizhou)	〃	15	261,259	272,160	10/18/2020
Bank of Taiwan (Union loan)	〃	16	—	2,499,840	03/03/2021
China Construction Bank (Boluo)	〃	15	174,172	—	03/21/2021
Far Eastern International Bank (Union loan)	〃	16	—	1,130,880	04/24/2021
E. Sun Bank (Dongguan)	〃	3	254,560	—	05/28/2021
China Construction Bank (Huizhou)	〃	15	176,405	—	07/26/2021
Bank of Taiwan (Union loan)	〃	17	1,535,750	1,488,000	12/20/2021
E. Sun Bank (Union loan)	〃	18	1,429,554	1,494,362	12/24/2021
Bank of Taiwan (Union loan)	〃	17	2,856,495	—	08/27/2023
Far Eastern International Bank (Union loan)	〃	17	1,320,745	—	10/18/2023
Total			$ 14,804,862	$ 14,347,840	
Current			$ 1,346,637	$ 1,539,723	
Noncurrent			$ 13,458,225	$ 12,808,117	
Rate			1.000%~4.750%	1.263%~4.988%	

(A) Please refer to Note 8. For property, plant and equipment pledged as collateral for long-term borrowing.

(B) Explanation:

No.1: Three-year term loan, become due once repay, interest to be paid monthly.

No.2: Two-year term loan, become due once repay, interest to be paid monthly.

No.3: Three-year term loan, repayable in 6 installments, interest to be paid monthly.

No.4: Five-year term loan, repayable in 13 installments, interest to be paid monthly.

No.5: Two-and-a-half-year term loan, repayable in 4 installments, interest to be paid monthly.

No.6: Three-year term loan, repayable in 3 installments, interest to be paid monthly.

No.7: Five-year term loan, repayable in 7 installments, interest to be paid monthly. Also, as agreed, within the loan duration, specific current ratio, debt ratio and times of interest earned shall be maintained in accordance with the yearly and half yearly consolidated financial statements.

No.8: Seven-year term loan, repayable in 17 installments, interest to be paid monthly.

No.9: Three-year one month term loon, become due once repay, interest to be paid monthly.

NO.10: Three-year term loan, repayable in 5 installments, interest to be paid monthly.

No.11: Two-year term loan, repayable in 4 installments, interest to be paid quarterly.

No.12: Two-year term loan, repayable in 4 installments, interest to be paid monthly.

No.13: Three-year term loan, repayable in 6 installments, interest to be paid quarterly.

NO.14: Three-year term loan, repayable in 4 installments, interest to be paid quarterly.

No.15: Three-year term loan, repayable in 7 installments, interest to be paid quarterly.

No.16: Seven-year term loan, repayable in 7 installments, interest to be paid quarterly. Also, as agreed, within the loan duration, specific current ratio, debt ratio and times of interest earned shall be maintained in accordance with the yearly and half yearly consolidated financial statements.

No.17: Five-year term loan, repayable in 5 installments, interest to be paid quarterly. Also, as agreed, within the loan duration, specific current ratio, debt ratio and times of interest earned shall be maintained in accordance with the yearly consolidated financial statements.

No.18: Five-year term loan, repayable in 9 installments, interest to be paid quarterly. Also, as agreed, within the loan duration, specific current ratio, debt ratio and times of interest earned shall be maintained in accordance with the yearly consolidated financial statements.

(14) <u>RETIRED BENEFIT PLANS</u>

(A) Defined contribution plans

The Compeq Company adopted a pension plan according to the Labor Pension Act (the "LPA"), which is a defined contribution plan. Based on the LPA, the Corporation makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. Accordingly the Company recognized expenses of $105,471 thousand and $104,764 thousand in the consolidated statements of comprehensive income ended December 31, 2018 and 2017, respectively.

The Company's mainland subsidiaries have a defined contribution plan Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People's Republic of China (PRC.) are based on certain percentage of employees' monthly salaries and wages. Other than the monthly contributions, the Company has no further obligations. The pension costs under defined contribution pension plans of the Compeq Company for the years ended December 31, 2018 and 2017 were $303,601 thousand and $282,866 thousand, respectively.

(B) Defined benefit plans

(a) The Compeq Company adopted the defined benefit plan under the Labor Standards Law, under which pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The company contributed amounts equal to 5% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name.

Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (”the Bureau”); the Company has no right to influence the investment policy and strategy.

(b) The pension costs of the defined benefit plans recognized in profit or loss were as follows:

	For the Year Ended December 31	
	2018	2017
Current service cost	$ 17,870	$ 21,363
Net interest on the defined benefit liabilities	9,633	12,190
Recognized in profit or loss	27,503	33,553
Remeasurement:		
Expected return on plan assets	(25,926)	5,963
Actuarial loss (gain) arising from experience adjustments	20,146	(12,244)
Actuarial loss (gain) arising from changes in demographic assumptions	(123)	2,704
Actuarial loss (gain) arising from changes in financial assumptions	45,804	49,246
Components of defined benefit cost recognized in other comprehensive income	39,901	45,669
Total	$ 67,404	$ 79,222

The pension costs of the aforementioned defined benefit plans were recognized in profit or loss by the follows categories:

	For the Year Ended December 31			
	2018		2017	
Operating costs	$	21,389	$	27,984
Selling and marketing expenses		385		390
General and administrative expenses		2,985		3,593
Research and development expenses		2,744		1,586
Total	$	27,503	$	33,553

(c) The amount arising from the defined benefit obligations of the Company in the consolidated balance sheets were as follows:

	December 31, 2018		December 31, 2017	
Present value of defined benefit obligation	$	1,720,726	$	1,802,330
Fair value of plan assets		(953,463)		(983,104)
Net defined benefit liabilities	$	767,263	$	819,226

(d) Movements in the present value of the defined benefit obligations were as follows:

	For the Year Ended December 31			
	2018		2017	
Balance, beginning of year	$	1,802,330	$	1,832,563
Current service cost		17,870		21,363
Interest cost		22,200		27,135
Benefits paid directly by the Company		(187,501)		(118,437)
Defined benefit obligation pre-registration		1,654,899		1,762,624
Re-measurement:				
Actuarial loss (gain) arising form experience adjustment		20,146		(12,244)
Actuarial loss (gain) arising form changes in demographic assumptions		(123)		2,704
Actuarial loss (gain) arising from changes in financial assumptions		45,804		49,246
Ending of defined benefit obligation	$	1,720,726	$	1,802,330

(e) Movements in the fair value of the plan assets were as follows:

	For the Year Ended December 31	
	2018	2017
Balance, beginning of year	$ 983,104	$ 968,948
Expected return on plan assets	12,567	14,945
Re-measurement:		
Return on plan assets	25,926	(5,963)
Contributions from the employer	119,367	123,611
Benefits paid from plan assets	(187,501)	(118,437)
Balance, end of year	$ 953,463	$ 983,104
Actual return of plan assets	$ 38,492	$ 8,982

(f) The fair value of the plan assets by major categories at the end of reporting period were as follows:

	December 31, 2018	December 31, 2017
Cash and cash equivalents	$ 953,463	$ 983,104

(g) The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The principal assumptions of the actuarial valuation were as follows:

	December 31, 2018	December 31, 2017
Discount rate	1.00%	1.25%
Future salary rate increase	1.00%	1.00%

Through the defined benefit plans under the Labor Standards Law, the Company is exposed to the following risks:

a. Investment risk: The pension funds are invested in equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the government’s designated authorities or under the mandated management. However, under the Labor Standards Law, the rate of return on assets shall not be less than the average interest rate on a two-year time deposit published by the local banks and the government is responsible for any shortfall in the event that the rate of return is less than the required rate of return.

b. Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the debt investments of the plan assets.

   Assuming a hypothetical decrease in interest rate at the end of the reporting period contributed to a decrease of 0.25% in the discount rate and all other assumptions were held constant, the present value of the defined benefit obligation would increase by $47,637 thousand and $51,375 thousand as of December 31, 2018 and 2017, respectively.

c. Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

   Assuming the expected salary rate increases by 0.25% at the end of the reporting period and all other assumptions were held constant, the present value of the defined benefit obligation would increase by $47,517 thousand and $51,375 thousand as of December 31, 2018 and 2017, respectively.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognized in the consolidated balance sheets.

(h) The Company expects to make contributions of $50,838 thousand to the defined benefit plans in the next year starting from December 31, 2018. The weighted average duration of the defined benefit obligation is 10 years.

(15). EQUITY

(A) Capital stock

	December 31, 2018	December 31, 2017
Numbers of shares authorized	$ 16,000,000	$ 16,000,000
Shares issued	$ 11,918,206	$ 11,918,206

(a) The capital stock represents common stock with 10 dollars par value, and carry one vote per share and the right to dividends.

(b) The Compeq Company's authorized capital was $16,000,000 thousand by Ministry of Economic Affairs, including 100,000 thousand shares reserved for the conversion of employee's stock warrants and 308,179 thousand shares of convertible bonds payable, which have not been issued.

(B) Capital surplus

	December 31, 2018	December 31, 2017
Convertible bonds	$ 935,127	$ 935,127
Accrued interest-premium of convertible bonds	30,609	30,609
Other	51,162	51,162
Total	$ 1,016,898	$ 1,016,898

Under the Securities and Exchange Act, capital surplus can only be used to offset a deficit when reserves are insufficient. However, the capital surplus from share issued in excess of par (additional paid-in capital from issuance of common shares, conversion of bonds and treasury stock transactions) and donations may be capitalized, which however is limited to 10% of the Company's paid-in capital and once a year. Under the Company Act newly revised on January 4, 2012, capital surplus shall be distributed by cash. Also, the capital surplus from long-term investments may not be used for any purpose.

(C) Retained earnings

(a) The Compeq Company’s articles of incorporation are as follows:

After the annual accounting settlement, if The Compeq Company has any earnings left, it shall first use the earnings to cover losses by law, followed by setting aside 10% of the remaining earnings as the legal surplus reserve. However, it is not limited to the circumstance where the legal surplus reserve has already reached the paid-up capital. Then, after setting aside the legal surplus reserve as required by law or competent authorities or reversing the special surplus reserve, the balance becomes the distributable earnings of the prevailing year. The distributable earnings of the prevailing year along with the undistributed earnings accumulated in the beginning of the same period are the earnings available for distribution, which shall be distributed in accordance with the principle below:

a. Given that The Compeq Company is in the technology industry and by considering the needs for reinforcing its corporate financial structure, fostering its operating earnings and expanding its business scale, it plans to adopt the residual dividend policy to strength its growth and sustainable operation.

b. According to the factors in the current and future investment environment, capital requirements, profitability, local and foreign competition status and capital budgeting, the board of directors of The Compeq Company plans to draft an earnings distribution proposal, which will be resolved by the board of shareholders. When distributing earnings, the earnings to be distributed shall come from those that are available for distribution, and, in principle, the contribution amount shall be no lower than 10% of the distributable earnings of the prevailing year.

c. The Compeq Company may distribute its earnings by cash or stock, in which, in principle, the ratio of cash dividend shall not be lower than 50% of the total dividend amount.

(b) The Compeq Company has separately set up its employee remuneration distribution policy in its articles of incorporation. The information about the employee and director's compensation, please refer to Note 6(22).

(c) According to the revised Company Law, effective January 2012, the appropriation for legal capital reserve shall be made until the reserve equals the Company's paid-in capital. The reserve may be used to offset a deficit, or be distributed as dividends in cash or stocks for the portion in excess of 25% of the paid-in capital if the Company incurs no loss.

(d) Pursuant to existing regulations, The Compeq Company is required to set aside additional special reserve equivalent to the net debit balance of the other components of shareholders' equity items (including exchange differences on translating foreign operations, unrealized gain [loss] on available-for-sale financial assets, and the gain or loss on the hedging instrument relating to the effective portion of a cash flow hedge). For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

(e) Under Rule No. 1010012865 issued by the FSC on April 6, 2012 on the first-time adoption of Taiwan-IFRSs, the Compeq Company should appropriate to a special reserve an amount that is the same as these of unrealized revaluation increment and cumulative translation differences (gains) transferred to retained earnings as a result of the Compeq Company's use of exemptions under IFRS 1. However, at the date of transition to Taiwan-IFRSs, if the increase in retained earnings that resulted from all Taiwan-IFRSs adjustments is not sufficient for this appropriation, only the increase in retained earnings that resulted from all Taiwan-IFRSs adjustments will be appropriated to special reserve. This special reserve may be reversed in proportion to the usage, disposal or reclassification of the related assets and thereafter distributed. The Copmeq Company without appropriated the special reserve because the unrealized revaluation increment and cumulative translation differences (gains) transferred to retained earnings were both recognize $0 thousand.

(f) The Compeq appropriations of earnings for 2018 had been proposed in the meeting of Board of Directors held on March 13, 2019. The appropriations and dividends per share were as follow:

	Appropriation of Earnings	Dividends per Share (NT$)
Legal reserve	$ 239,973	
Cash dividends	953,456	0.80
Total	$ 1,193,429	

The appropriations of earnings, profit sharing to employees and bonus to members of the Board of Directors for 2018 are to be presented for approval in the Compeq's shareholders' meeting to be held on June 13, 2019 (expected).

(g) The Compeq Company's earning allocation for the previous year of 2017 and 2016, were approved in the regular meeting of shareholders on June 14, 2018 and on June 16, 2017, respectively. The actual allocation of employees' bonus and remuneration to director auditors is the same as the proposed allocation passed by the board of directors. The appropriations and dividends per share were as follows:

	For Fiscal Year 2017		For Fiscal Year 2016	
	Appropriation of Earnings	Dividends per Share (NT$)	Appropriation of Earnings	Dividends per Share (NT$)
Legal reserve	$ 357,704		$ 162,540	
Cash dividends	1,430,185	$ 1.20	715,092	$ 0.60
Total	$ 1,787,889		$ 877,632	

(D) Other equity items

	For the Year Ended December 31, 2018	For the Year Ended December 31, 2017
Balance, beginning of year	$ 452,766	$ 668,129
Exchange differences on translating foreign operations	(366,613)	(259,473)
Exchange differences on translating foreign operations income tax	56,957	44,110
Balance, end of year	$ 143,110	$ 452,766

(16) EARNINGS PER SHARE

	For the Year Ended December 31	
	2018	2017
Basic EPS	$ 2.01	$ 3.00
Diluted EPS	$ 2.00	$ 2.99

EPS is computed as follows:

(A) Basic earnings per share

	For the Year Ended December 31	
	2018	2017
Loss for the period attributable to owners of the Corporation	$ 2,399,731	$ 3,577,044
Weighted average number of ordinary shares outstanding (in thousand shares)	1,191,821	1,191,821
Basic EPS	$ 2.01	$ 3.00

(B) Diluted earnings per share

	For the Year Ended December 31	
	2018	2017
Loss for the period attributable to owners of the Corporation	$ 2,399,731	$ 3,577,044
Weighted average number of ordinary shares outstanding (in thousand shares)	1,191,821	1,191,821
Assumed conversion of all dilutive potential ordinary shares		
Employees’ remuneration (in thousand shares)	5,909	3,933
Weighted average number of dilutive ordinary shares outstanding (in thousand shares)	1,197,730	1,195,754
Diluted EPS	$ 2.00	$ 2.99

(17) OPERATING REVENUES

The analysis of the Company operating revenues was as follows:

	For the Year Ended December 31	
	2018	2017
Taiwan	$ 767,892	$ 531,020
United States	447,854	342,584
Asia	49,421,406	52,485,451
Europe	153,930	427,897
Other	37,019	177,241
Total	$ 50,828,101	$ 53,964,193

(18) OTHER INCOME

	For the Year Ended December 31	
	2018	2017
Interest income	$ 134,122	$ 62,406
Rent income	648	1,773
Other income, other	493,936	214,752
Total	$ 628,706	$ 278,931

(19) OTHER GAINS AND LOSSES

	For the Year Ended December 31	
	2018	2017
Gains on disposal of property, plant and equipment (losses)	$ (157,674)	$ (97,929)
Foreign exchange gains (losses)	(157,866)	(159,711)
Gains on financial assets (liabilities) at fair value through profit or losses	(29,051)	23,719
Onerous contracts (losses)	(6,383)	(10,014)
Miscellaneous disbursements	(505,693)	(497,584)
Total	$ (856,667)	$ (741,519)

(20) FINANCE COSTS

	For the Year Ended December 31	
	2018	2017
Interest expense	$ 491,036	$ 411,381
Procedural expense	22,295	—
Less: interest capitalized	(38,872)	(23,330)
Total	$ 474,459	$ 388,051
Interest rates	1.624%~4.680%	1.628%~4.230%

(21) INCOME TAX

(A) Income tax recognized in profit or loss

(a) Income tax expense consisted of the following:

	For the Year Ended December 31	
	2018	2017
Current income tax expense		
Current tax expense recognized in the current year	$ 1,234,160	$ 821,776
Additional 10% tax on undistributed earnings	175,125	74,899
Adjustments for prior year's income tax	(8,899)	(6,060)
	1,400,386	890,615
Deferred income tax expense (benefit)		
The origination and reversal of temporary difference	(86,705)	439,338
Effect of tax change	205,228	—
	118,523	439,338
Income tax expense recognized in profit or loss	$ 1,518,909	$ 1,329,953

(b) A reconciliation of income before income tax and income tax expense recognized in profit or loss was as follows:

	For the Year Ended December 31	
	2018	2017
Tax calculated base on profit before tax and statutory tax rate	$ 1,146,426	$ 1,269,803
Tax effect of adjusting items:		
Nondeductible (deductible items in determining taxable income	94,145	(448,660)
Additional income tax on undistributed earnings	175,125	74,899
The origination and reversal of temporary difference	(86,705)	439,338
Income Basic Tax	2,428	633
Income tax credits	(8,839)	—
Adjustments for prior year's income tax	(8,899)	(6,060)
Effect of tax change	205,228	—
Income tax expense recognized in profit or loss	$ 1,518,909	$ 1,329,953

For the year ended December 31, 2017, the Company applied a tax rate of 17% for entities subject to the R.O.C. Income Tax Law. In February 2018, the Income Tax Law in the R.O.C. was amended and, starting from 2018, the corporate income tax rate was adjusted from 17% to 20%. As a result of the change in the tax rate, the deferred income tax expense required to be recognized in profit or loss has all been fully recognized in the period where the tax rate was changed. In addition, the tax rate for 2018 unappropriated earnings was reduced from 10% to 5%.

The tax rates of the subsidiaries in China are 25% and 15%. As for other areas, the tax shall be calculated according to the rates applicable in respective areas.

Given that the earnings distribution will not be finalized until the 2019 shareholders' meeting is held, the potential income tax effect of imposition income tax on the 2018 undistributed earnings has yet to be reliably determined.

(B) Current tax assets and liabilities

	December 31, 2018	December 31, 2017
Current tax liabilities		
Income tax payable	$ 662,777	$ 684,845

(C) Income tax expense (benefit) recognized in other comprehensive income

	For the Year Ended December 31	
	2018	2017
Deferred tax expenses (income)		
Effect of tax rate change		
Exchange differences on translation of foreign operations	$ 16,365	$ —
Remeasurement of defined benefit obligation	(7,895)	—
	8,470	—
Current year		
Exchange differences on translation of foreign operations	(73,322)	(44,110)
Remeasurement of defined benefit obligation	(7,980)	(7,764)
	(81,302)	(51,874)
Income tax expense (benefit) recognized in the components of other comprehensive income	$ (72,832)	$ (51,874)

(D) Deferred income tax balance

(a) The analysis of deferred income tax in the consolidated Balance Sheets was as follows:

	For the Year Ended December 31, 2018				
	Balance, Beginning of year	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Effect of Exchange Rate changes	Balance, End of year
Temporary difference					
Accounts receivable	$ 70,593	$ 24,046	$ —	$ (88)	$ 94,551
Inventories	285,864	85,878	—	(3,660)	368,082
Property, plant and equipment	289	(161)	—	—	128
Other payables	156,804	(24,318)	—	(866)	131,620
Provisions	25,915	6,616	—	(507)	32,024
Net defined benefit liabilities	142,606	(1,101)	15,875	—	157,380
Other current liabilities	29,387	6,045	—	—	35,432
Unrealized loss on exchange	7,645	(5,795)	—	—	1,850
Deferred tax assets	$ 719,103	$ 91,210	$ 15,875	$ (5,121)	$ 821,067
Temporary difference					
Investment gain	$ 1,333,792	$ 472,603	$ —	$ —	$ 1,806,395
Exchange difference on foreign operations	92,736	—	(56,958)	—	35,778
Property, plant and equipment	—	2,081	—	10	2,091
Compensation income	38,065	(10,507)	—	—	27,558
Financial assets at fair value through profit or loss	2,070	(2,070)	—	—	—
Deferred tax liabilities	$ 1,466,663	$ 462,107	$ (56,958)	$ 10	$ 1,871,822

	For the Year Ended December 31, 2017				
	Balance, Beginning of year	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Effect of Exchange Rate changes	Balance, End of year
Temporary difference					
Financial liabilities fair value through profit or loss	$ 1,843	$ (1,843)	$ —	$ —	$ —
Accounts receivable	44,847	25,793	—	(47)	70,593
Inventories	191,279	95,971	—	(1,386)	285,864
Property, plant and equipment	289	—	—	—	289
Other payables	87,183	69,878	—	(257)	156,804
Provisions	23,406	2,956	—	(447)	25,915
Net defined benefit liabilities	150,152	(15,310)	7,764	—	142,606
Other current liabilities	24,621	4,766	—	—	29,387
Unrealized loss on exchange	—	7,645	—	—	7,645
Total	523,620	189,856	7,764	(2,137)	719,103
Other credits	192,384	(176,498)	—	(15,886)	—
Deferred tax assets	$ 716,004	$ 13,358	$ 7,764	$ (18,023)	$ 719,103
Temporary difference					
Investment gain	$ 1,141,452	$ 192,340	$ —	$ —	$ 1,333,792
Exchange difference on foreign operations	136,846	—	(44,110)	—	92,736
Unrealized gain on exchange	6,224	(6,224)	—	—	—
Compensation income	24,797	13,268	—	—	38,065
Financial assets at fair value through profit or loss	—	2,070	—	—	2,070
Deferred tax liabilities	$ 1,309,319	$ 201,454	$ (44,110)	$ —	$ 1,466,663

(b) Items for which no deferred tax assets have been recognized

	December 31, 2018	December 31, 2017
Deductible temporary differences	$ 42,357	$ 36,003

(c) The reduction in income tax expenses of the year about the laws and decrees, items, income tax credits and expiry date of unused income tax credits were as follows: None.

(d) Loss carryforwards as of December 31, 2018 comprise of the Compeq Company and the Company's subsidiary in China were as follows: None.

(E) Income tax assessments

The Compeq Company's income tax and subsidiaries Hua Nian Investment Ltd it's income tax were returns through 2016 have been assessed by the tax authorities.

(22) THE PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES OF THE COMPANY

	For the Year Ended December 31, 2018			For the Year Ended December 31, 2017		
	Classified as operating cost	Classified as operating expenses	Total	Classified as operating cost	Classified as operating expenses	Total
Personnel expenses	$7,638,963	$1,137,135	$8,776,098	$7,624,584	$ 891,173	$8,515,757
Direct labor	3,852,477	-	3,852,477	3,591,467	-	3,591,467
Payroll expense	2,525,640	967,592	3,493,232	2,745,503	763,196	3,508,699
Insurance expense	322,521	66,085	388,606	335,422	50,137	385,559
Pension	384,676	51,899	436,575	384,658	36,525	421,183
Board compensation	-	5,400	5,400	-	5,400	5,400
Others	553,649	46,159	599,808	567,534	35,915	603,449
Depreciation	3,491,312	41,124	3,532,436	3,134,534	27,601	3,162,135
Amortization	21,564	19,478	41,042	25,868	12,939	38,807

(A) According to the articles of incorporation passed by the regular shareholders' meeting held on June 17, 2016, prior to the calculation of the employee compensation, if the Compeq Company has any profit in its comprehensive income statement of the prevailing year, 2% of the aforesaid profit shall be contributed for the employee compensation. The aforesaid profit refers to the benefit earned before deducting employee compensation from before-tax net profit. However, in case that the Compeq Company has any accumulated loss, it shall reserve an amount to cover the loss before contributing the amount for employee compensation according to the aforesaid ratio.

The preceding employee compensation can be distributed by either stock or cash, which shall be adopted by a majority of the directors of the Compeq Company present at the meeting attended by more than two-thirds of the entire body of directors and reported to the board of shareholders before implementation.

(B) The estimate of the Compeq Company's employee compensation for 2018 and 2017 was $70,982 thousand and $89,774 thousand respectively. According to the profit status as of the prevailing period, the aforesaid estimates were listed as operating cost and operating expenses pursuant to the articles of incorporation. Any change in the annual financial statements after its publication day shall be processed according to the accounting estimate change, in which the change amount shall be adjusted and recorded in the following year.

(C) The Compeq Company's profit sharing bonus to employees in the amounts of $89,774 thousand and $43,240 thousand in cash for 2017 and 2016, respectively, had been approved by the shareholders in its meetings held on June 14, 2018 and June 16, 2017, respectively. There was no difference between the actual amounts of employees' compensation and the amounts recognized in the consolidated financial statements for the years ended December 31, 2017 and 2016 respectively.

(D) The information about the appropriations of The Compeq Company's profit sharing bonus to employees and compensation to directors is available at the Market Observation Post System website.

7. <u>RELATED PARTY TRANSACTIONS</u>

Intercompany balances and transactions between The Compeq Company and its subsidiaries, which are related parties of The Compeq Company, have been eliminated upon consolidation; therefore those items are not disclosed in this note.

The compensation to directors and other key management personnel were as follows:

	For the Year Ended December 31	
	2018	2017
Short-term employee benefits	$ 24,537	$ 24,818
Post-employment benefits	8,751	8,833
Other long-term employee benefits	58,714	58,835
Total	$ 92,002	$ 92,486

The compensation to directors and other key management personnel were determined by the Compensation Committee of The Compeq Company in accordance with the individual performance and the market trends.

8. PLEDGED ASSETS

Items	Purpose	Book Value December 31, 2018	Book Value December 31, 2017
Property, plant and equipment	Long-term borrowings	$ 1,114,058	$ 1,187,449

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS.

(1)

	December 31, 2018	December 31, 2017
The balance of the Company's LC amounts	NT 62,149 thousand	NT 3,119 thousand
	US$ 10,359 thousand	US$ 20,969 thousand
	JP￥ 109,410 thousand	JP￥ 891,703 thousand
	EUR€ 362 thousand	EUR€ 396 thousand

(2) After deducting the paid amount from the total amount of the Company's signed equipment purchase contracts, the Company's equipment payables as follows:

	December 31, 2018	December 31, 2017
Payable on equipment	NT 70,500 thousand	NT 238,547 thousand
	CNY 206,505 thousand	CNY 455,322 thousand

10. SUBSEQUENT LOSSES: None.

11. SUBSEQUENT EVENTS: None.

12. OTHER

(1) CAPITAL MANAGEMENT

The Company plans its working capital (including R&D expenses and debt liquidation, etc.) required for the future in accordance with the characteristics currently existing in its industry and its future development status while it also considers the changes in the external environment, so as to ensure its sustainable operations. In so doing, the Company will be able to concurrently protect the interests of its shareholders and other related parties, maintain the optimal capital structure, and elevate the stockholder value. As a whole, the Company adopts a prudent risk management strategy.

(2) FINANCIAL INSTRUMENTS

(A) Categories of financial instruments

	December 31, 2018		December 31, 2017	
	Book value	Fair value	Book value	Fair value
Financial assets				
Amortized cost				
Cash and cash equivalents	$ 6,743,559	$ 6,743,559	$ —	$ —
Notes and accounts receivables	13,431,103	13,431,103	—	—
Other receivables	217,908	217,908	—	—
Refundable deposits (including current)	37,850	37,850	—	—
Loan and receivables				
Cash and cash equivalents	—	—	7,920,755	7,920,755
Notes and accounts receivables	—	—	13,621,441	13,621,441
Other receivables	—	—	640,044	640,044
Refundable deposits (including current)	—	—	43,431	43,431
Financial assets at fair value through profit or loss	78,532	78,532	128,221	128,221
Total	$ 20,508,952	$ 20,508,952	$ 22,353,892	$ 22,353,892
Financial liabilities				
Amortized cost				
Short-term borrowings	$ —	$ —	$ 178,560	$ 178,560
Notes and accounts payable	9,351,268	9,351,268	9,597,304	9,597,304
Other payables	5,928,969	5,928,969	5,956,057	5,956,057
Lang-term borrowings (including current portion)	14,804,862	14,804,862	14,347,840	14,347,840
Guarantee deposits (including current)	58,458	58,458	58,106	58,106
Total	$ 30,143,557	$ 30,143,557	$ 30,137,867	$ 30,137,867

(B) Financial risk management objectives

The currency risk, interest rate risk, credit risk and liquidity risk related to management and operation activities are the target of the Company's financial risk management. The Company has devoted its efforts to recognizing, assessing and hedging market uncertainty in an attempt to reduce the potential adverse influence of market change on the Company's financial performance.

The Company's major financial activities have all been re-checked by its board of directors in accordance with the related regulations and internal control system. During the financial plan execution period, the Company has to strictly follow the financial operation procedures related to overall financial risk management and accrual basis.

(C) Market risk

The Company is exposed to the market risks arising from changes in foreign exchange rates, interest rates and the prices in equity investments, and utilizes some derivative financial instruments to reduce the related risks.

(a) Foreign currency risk

Most of the Company's operating activities and investment in foreign are denominated in foreign currencies. Consequently, the Company is exposed to foreign currency risk. To protect against reductions in value and the volatility of future cash flows caused by changes in foreign exchange rates, the Company utilizes derivative shore-term borrowing and financial instruments, including currency forward contracts and cross currency swaps, to hedge its currency exposure. These instruments help to reduce, but do not eliminate, the impact of foreign currency exchange rate movements.

The maturity of the derivative financial instruments engaged by the Company is all less than six months, which does not meet the terms for accounting hedge.

For the sensitivity analysis of the foreign currency risk, the calculation is made according to the foreign currency items listed at the financial reporting closing date. When the NT dollar appreciates or depreciates 1% against a foreign currency, the Company's net profit or loss in 2018 and 2017 will increase or decrease by $34,769 thousand and $21,488 thousand respectively.

(b) Interest rate risk

Interest rate risk refers the risk caused by the change in the fair value of financial instruments as a result of change of the market interest rate. The Company's interest rate risk mainly comes from its mid and long term loans and the floating of the interest rates for the income investments with a fixed or floating interest rate

Regarding the sensitivity analysis of the interest rate risk, the calculation is made according to the amount of the bank loan and the floating interest rate at the final day of the financial report period, and a quarter's effect is assumed to be held. If the interest rate increased or decreased by 1%, the Company's profit or loss as of December 31, 2018 and December 31, 2017 would increase or decrease $752 thousand and $755 thousand respectively.

(D) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company is exposed to credit risk from operating activities, primarily trade receivables, and from financing activities, primarily deposits, fixed-income investments and other financial instruments with banks. Credit risk is managed separately for business related and financial related exposures.

(a) Business related credit risk

In order to maintain its quality of accounts receivable, the Company has set up its operation related credit risk management procedure.

The individual customer risk assessment covers the factors of an individual customer's financial status and credit rating agency's ratings, the Company's internal credit ratings and historical transaction records and current economic status, etc. which may affect customer's solvency capacity. In addition, the Company will also use some credit enhancement instruments, such as purchase prepayment and credit insurance, etc., at an appropriate time to reduce the credit risk of some specific customers.

As of December 31, 2018 and 2017, the Company's ten largest customers accounted for 59% and 72% of notes and accounts receivable, respectively. The Company believes the concentration of credit risk is insignificant for the remaining accounts receivable.

(b) Financial credit risk

The credit risk of bank deposits, fixed income investments and other financial instruments is measured and monitored by the Company's financial department. The Company's transaction counterparts and contract performance parties are the financial institutions with good credit, and the Company has diversified its risk by dealing with multiple financial institutions, so there shall be no significant credit risk caused by too much concentration on some financial institutions and no significant doubt about contract performance. As such, the Company shall have no material credit risk.

(E) Liquidity risk management

The purpose of the Company's management of liquidity risk is to maintain the cash and cash equivalents, high liquidity securities and enough bank financing facilities required for business operations, so as to ensure sufficiency of the Company's financial flexibility.

(a) The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments, including principles and interests.

	December 31, 2018			
	Less Than 1 year	2-3 year	4-5 year	Total
Non-derivative financial liabilities				
Notes and accounts payable	$ 9,351,268	$ —	$ —	$ 9,351,268
Other payable	5,928,969	—	—	5,928,969
Lang-term borrowings	1,346,637	9,489,847	3,968,378	14,804,862
Guarantee deposits	58,458	—	—	58,458
Total	$ 16,685,332	$ 9,489,847	$ 3,968,378	$ 30,143,557

	December 31, 2017			
	Less Than 1 year	2-3 year	4-5 year	Total
Non-derivative financial liabilities				
Short-term borrowings	$ 178,560	$ —	$ —	$ 178,560
Notes and accounts payable	9,597,304	—	—	9,597,304
Other payable	5,956,057	—	—	5,956,057
Lang-term borrowings	1,539,723	8,237,813	4,570,304	14,347,840
Guarantee deposits	58,106	—	—	58,106
Total	$ 17,329,750	$ 8,237,813	$ 4,570,304	$ 30,137,867

(b) Bank credit limit

	December 31, 2018	December 31, 2017
Secured bank general credit limit		
Total	$ 1,350,000	$ 950,000
Unsecured bank general credit limit		
Total	$ 23,510,746	$ 22,589,514

(3) Fair value of financial instruments

(A) Fair value of financial instruments carried at amortized cost

Except as detailed in the following table, the Company considers that the carrying amounts of financial assets and financial liabilities carried at amortized cost recognized in the consolidated financial statements approximate their fair values.

(B) Valuation techniques and assumptions used in fair value measurement

The fair values of financial assets and financial liabilities are determined as follows:

(a)The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes interest rate futures contracts, publicly traded stocks, money market funds, government bonds, agency bonds and corporate bonds).

(b) Forward exchange contracts is measured using quoted forward exchange rates.

(c) The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

(C) Fair value measurements recognized in the consolidated balance sheets

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

(a) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities; active market refers to the market meeting the terms below: the products traded in the market are in homogeneity; buyers and sellers with trading intention are available in the market and the price information is open to the public.

(b) Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

(c) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(D) Financial assets and liabilities measured at fair value on a recurring basis

The following table presents the Company's financial assets and liabilities measured at fair value on a recurring basis:

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Financial assets at fair valve through profit or loss				
Publicly traded stocks	$ 48,536	$ －	$ －	$ 48,536
Emerging stocks	－	29,996	－	29,996
Total	$ 48,536	$ 29,996	$ －	$ 78,532

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Financial assets at fair valve through profit or loss				
Derivative financial instruments	$ －	$ 386	$ －	$ 386
Publicly traded stocks	5,391	－	－	5,391
Emerging stocks	－	122,444	－	122,444
Total	$ 5,391	$ 122,830	$ －	$ 128,221

(a) For assets and liabilities held as of December 31, 2018 and 2017 that are measured at fair value on a recurring basis, there were no transfers between Level 1 and Level 2 of the fair value hierarchy.

(b) There were no purchases and disposals for assets on Level 3 for the years ended December 31, 2018 and 2017, respectively.

(4) SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

(A) The following information was summarized according to the foreign currencies other than the functional currency of the Company. The exchange rates disclosed were used to translate the foreign currencies into the functional currency. The significant financial assets and liabilities denominated in foreign currencies were as follows:

	December 31, 2018		
	Foreign currencies (In thousands)	Exchange Rare	Book Value (NTD)
<u>Financial assets</u>			
Monetary items			
USD	$ 428,364	30.715	$ 13,157,193
EUR	109	35.20	3,848
JPY	867,657	0.2782	241,382
CNY	207,357	4.472	927,302
<u>Financial liabilities</u>			
Monetary items			
USD	340,430	30.715	10,456,299
EUR	472	35.20	16,626
JPY	1,285,466	0.2782	357,617
HKD	6,016	3.921	23,588

	December 31, 2017		
	Foreign currencies (In thousands)	Exchange Rare	Book Value (NTD)
<u>Financial assets</u>			
Monetary items			
USD	$ 406,803	29.76	$ 12,106,467
EUR	69	35.57	2,455
JPY	1,738,440	0.2642	459,296
CNY	131,957	4.565	602,383
<u>Financial liabilities</u>			
Monetary items			
USD	348,816	29.76	10,380,774
EUR	486	35.57	17,298
JPY	2,293,401	0.2642	605,916
HKD	5,835	3.807	22,212

Note: The functional currency of some of the consolidated entities is not the NT dollar, so this factor shall be taken into account in disclosure. For instance, when a subsidiary’s functional currency is the RMB, its US dollar foreign currency position shall be the factor required to be taken into consideration.

(2) Since the Company has numerous categories of foreign currency transactions, there is no way for it to disclose the details according to respective major currencies. As such, the information on exchange gain or loss of currency items is disclosed in a way of summarization. For the Company’s exchange gains and losses, the realized loss was $30,890 thousand and unrealized loss was $126,976 thousand in 2018, whereas the realized gain was $51,475 thousand and unrealized loss was $211,186 thousand in 2017.

13. ADDITIONAL DISCLOSURES

The following are additional disclosures for the Company and its affiliates as required by the R.O.C. Securities and Futures Bureau:

(1) Information on significant transactions:

A. Financing provided to others: None;

B. Endorsements/guarantees provided: Please see Table 1 attached;

C. Marketable securities held (excluding investment in subsidiaries, associates and joint controlled entities): Please see Table 2 attached;

D. Marketable securities acquired and disposed at costs or prices at least NT$300 million or 20% of the paid-in capital: None;

E. Acquisition of individual real estate at costs of at least NT $300 million or 20% of the paid-in capital: None;

F. Disposal of individual real estate at prices of at least NT$300 million or 20% of the paid-in capital: None;

G. Total purchases from or sales to related parties amounting to at least NT$100 million or 20% of the paid-in capital: Please see Table 3 to Table 3-1 attached;

H. Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: Please see Table 4 attached;

I. Trading in derivative instruments: Please see Note 6(2) attached;

J. Intercompany relationships and significant intercompany transactions: Please see Table 5 to Table 5-7 attached;

(2) Information on investees:

A. Significant transactions information: Please see Table 1 to Table 4 and Table 7 attached;

B. Names, locations, and related information of investees over which The Company exercises significant influence: Please see Table 6 attached;

(3) Information on investment in Mainland China

A. The name of the investee in Mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, income (losses) of the investee, share of profits/losses of investee, ending balance, amount received as dividends from the investee, and the limitation on investee: Please see Table 7 attached.

B. Significant direct or indirect transactions with the investee, its prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in Mainland China on financial reports: Please see Table 1 to Table 4 and Table 5 to Table 5-7 attached.

TABLE 1

ENDORSEMENTS / GUARANTEES PROVIDED

Amounts in Thousands of New Taiwan Dollars and Foreign currencies in Thousands

No. (Note 1)	Endorsement / Guarantee Provider	Guaranteed Party		Limits on Endorsement / Guarantee Amount Provided to Each Guaranteed Party (Note 4)	Maximum Balance for the Period (US$ in Thousands)	Ending Balance (US$ in Thousands)	Amount Actually Draw (US$ in Thousands)	Amount of Endorsement/ Guarantee Collateralized by Properties	Ratio of Accumulated Endorsement / Guarantee to Net Equity per Latest Financial Statements	Maximum Endorsement / Guarantee Amount Allowable (Note 5)	Guarantee Provided by Parent Company (Note 6)	Guarantee Provided by A Subsidiary (Note 6)	Guarantee Provided to Subsidiaries in Mainland China (Note 6)
		Name	Nature of Relationship (Note 2)										
0	Compeq Manufacturing Co., Ltd.	HUATON HOLDINGS LIMITED	2	$ 14,095,375	$ 2,487,915 US$ 81,000	$ 721,803 US$ 23,500	$ 51,140 US$ 1,665	None	3%	$ 28,190,750	Y	–	–
0	Compeq Manufacturing Co., Ltd.	PELICAN COVE INVESTMENT LTD.	2	$ 14,095,375	$ 3,470,795 US$ 113,000	$ 3,470,795 US$ 113,000	$ 1,069,865 US$ 34,832	None	15%	$ 28,190,750	Y	–	–
0	Compeq Manufacturing Co., Ltd.	Compeq Manufacturing (Huizhou) Co., Ltd.	3	$ 14,095,375	$ 2,150,050 US$ 70,000	$ 2,150,050 US$ 70,000	$ 1,320,745 US$ 43,000	None	9%	$ 28,190,750	Y	–	Y
0	Compeq Manufacturing Co., Ltd.	Compeq Manufacturing (Suzhou) Co., Ltd.	3	$ 14,095,375	$ 153,575 US$ 5,000	$ 153,575 US$ 5,000	$ – US$ –	None	1%	$ 28,190,750	Y	–	Y
0	Compeq Manufacturing Co., Ltd.	Compeq Technology (Huizhou) Co., Ltd.	3	$ 14,095,375	$ 4,146,525 US$ 135,000	$ 4,146,525 US$ 135,000	$ 3,490,514 US$ 113,642	None	18%	$ 28,190,750	Y	–	Y
0	Compeq Manufacturing Co., Ltd.	Compeq Manufacturing (Chongqing) Co., Ltd.	3	$ 14,095,375	$ 5,405,840 US$ 176,000	$ 4,607,250 US$ 150,000	$ 2,856,495 US$ 93,000	None	20%	$ 28,190,750	Y	–	Y
1	Compeq Manufacturing (Huizhou) Co., Ltd.	Compeq Technology (Huizhou) Co., Ltd.	3	$ 4,198,495 US$ 136,692	$ 1,075,025 US$ 35,000	$ 1,075,025 US$ 35,000	$ 201,521 US$ 6,561	None	5%	$ 6,997,491 US$ 227,820	–	–	Y

Note 1: The Company and its subsidiaries are coded as follows:

1. The Company is coded “0”.
2. The subsidiaries are coded consecutively beginning from ”1” in the order presented in the table above.

Note 2: According to the “Guidelines Governing the Preparation of Financial Reports by Securities Issuers” issued by the R.O.C. Securities and Futures Bureau, receiving parties should be disclosed as one of the following:

1. A company with which it does business.
2. A company in which the public company directly and indirectly holds more than 50% of the voting shares.
3. A company that directly and indirectly holds more than 50 % of the voting shares in the public company.
4. A company in which the public company holds, directly or indirectly, 90% or more of the voting shares.
5. A company that fulfills its contractual obligations by providing mutual endorsements/guarantees for another company in the same industry or for joint builders for purposes of undertaking a construction project.
6. A company that all capital contributing shareholders make endorsements/ guarantees for their jointly invested company in proportion to their shareholding percentages.
7. Companies in the same industry provide among themselves joint and several security for a performance guarantee of a sales contract for pre-construction homes pursuant to the Consumer Protection Act for each other.

Note 3: The calculation method and the ceiling amount shall be indicated. If there are contingent losses recognized in financial statements, the recognized amounts shall be indicated.

Note 4: 10% of the net value shown in its latest financial statement. However, for any single enterprise where the Company directly or indirectly holds more than 90% of its voting shares, the amount shall not exceed 60% of the net value shown in the Company’s latest financial statement. The amount for a single enterprise shall not exceed 20% of the net value shown in the Company and its subsidiaries’ latest financial statement. Nevertheless, if the Company directly or indirectly holds more than 90% of the single enterprise’s voting shares, the amount shall be no more than 70% of the net value shown in the Company’s latest financial statement. 10% of the net value shown in its latest financial statement of Compeq Manufacturing (Huizhou) Co., Ltd, if the Company directly or indirectly holds more than 90% of the single enterprise’s voting shares, the amount shall be no more than 60% of the net value shown in the Company’s latest financial statement.

Note 5: One and one-fifth times as much as the net value shown in the Company’s latest financial statement; one and a half times as much as the net value shown in the Company and its subsidiaries’ latest financial statement. Two time as much as the net value shown in the Compeq Manufacturing (Huizhou) Co., Ltd.’s latest financial statement.

Note 6: Under the circumstance where the TSE or OTC listed parent company endorses or guarantees its subsidiaries, the subsidiary endorses or guarantees its TSE or OTC listed parent company or the endorsement and guarantee is made in mainland China, “Y” shall be filled in.

TABLE 2

MARKETABLE SECURITIES HELD

Amounts in Thousands of New Taiwan Dollars.

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2018				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Fair Value	
	Stock							
Hua Nian Investment Ltd.	GLOBAL TEK FABRICATION CO., LTD.	None	Finacial assets at fair value through profit of loss-current	357,677	$ 15,595	0.54%	$ 15,595	
	Nuvoton Technology Corporation	〃	〃	245,000	9,726	0.12%	9,727	
	FORMOSA LABORATORIES INC.	〃	〃	167,000	6,396	0.17%	6,396	
	Elite Material Co., Ltd.	〃	〃	256,000	16,819	0.08%	16,819	
	ZILLTEK TECHNOLOGY CORP.	〃	〃	319,000	17,657	0.61%	17,657	
	KEYSTONE MICROTECH CORPORATION	〃	〃	150,000	12,339	0.85%	12,339	

Note: Excluding subsidiaries.

TABLE 3

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL

Amounts in Thousands of New Taiwan Dollars and Foreign currencies in Thousands

Company Name	Related Party	Nature of Relation ships	Transaction Details				Details of non-arm's length transaction		Notes and Accounts receivable (payable)		Note
			Purchases/ Sales	Amount (Foreign Currencies in Thousands)	Percentage of total purchases (sales)	Payment Terms	Unit Price	Payment Terms	Ending Balance (Foreign Currencies in Thousands)	Percentage of total receivables (payable)	
Compeq Manufacturing Co., Ltd.	PELICAN COVE INVESTMENT LTD.	Subsidiary	Purchases	$ 19,255,533	73%	60～90 days	The purchase price are similar to those price from other supplies	Similar to those price from other supplies	$ 4,021,049	61%	2
Compeq Manufacturing Co., Ltd.	Compeq Manufacturing (Suzhou) Co., Ltd.	Subsidiary	Purchases	2,590,485	10%	60～90 days	The purchase price are similar to those price from other supplies	Similar to those price from other supplies	650,160	10%	1 2
Compeq Manufacturing Co., Ltd.	Compeq Manufacturing (Huizhou) Co., Ltd.	Subsidiary	Sales	927,552	3%	60～90 days	The selling prices were based on the mutual agreement	Similar to those price from other supplies	44,027	1%	1 2
Compeq Manufacturing Co., Ltd.	Compeq Manufacturing (Suzhou) Co., Ltd.	Subsidiary	Sales	389,299	1%	60～90 days	The selling prices were based on the mutual agreement	Similar to those price from other supplies	—	—	1 2
PELICAN COVE INVESTMENT LTD.	Compeq Manufacturing (Huizhou) Co., Ltd.	Subsidiary	Purchases	US$ 133,418	17%	60～90 days	The selling prices were based on the mutual agreement	Similar to those price from other supplies	US$ 20,248	12%	1 2
PELICAN COVE INVESTMENT LTD.	Compeq Manufacturing (Suzhou) Co., Ltd.	Subsidiary	Sales	US$ 33,866	4%	60～90 days	The selling prices were based on the mutual agreement	Similar to those price from other supplies	US$ 6,982	4%	1 2

TABLE 3-1

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL

Amounts in Thousands of New Taiwan Dollars and Foreign currencies in Thousands

Company Name	Related Party	Nature of Relation ships	Transaction Details				Details of non-arm's length transaction		Notes and Accounts receivable (payable)		Note
			Purchases/ Sales	Amount (Foreign Currencies in Thousands)	Percentage of total purchases (sales)	Payment Terms	Unit Price	Payment Terms	Ending Balance (Foreign Currencies in Thousands)	Percentage of total receivables (payable)	
PELICAN COVE INVESTMENT LTD.	Compeq Technology (Huizhou) Co., Ltd.	Subsidiary	Purchases	US$ 539,747	67%	60～90 days	The selling prices were based on the mutual agreement	Similar to those price from other supplies	US$ 106,907	64%	1 2
PELICAN COVE INVESTMENT LTD.	Compeq Manufacturing (Chongqing) Co., Ltd.	Subsidiary	Purchases	US$ 95,572	12%	90～120 days	The selling prices were based on the mutual agreement	Similar to those price from other supplies	US$ 32,678	20%	1 2
Compeq Manufacturing (Huizhou) Co., Ltd.	Compeq Technology (Huizhou) Co., Ltd.	Subsidiary	Sales	US$ 63,709	13%	90～120 days	The selling prices were based on the mutual agreement	Similar to those price from other supplies	US$ 23,431	22%	1 2
Compeq Manufacturing (Huizhou) Co., Ltd.	Compeq Manufacturing (Chongqing) Co., Ltd.	Subsidiary	Purchases	US$ 112,852	42%	90～120 days	The selling prices were based on the mutual agreement	Similar to those price from other supplies	US$ 35,759	37%	1 2
Compeq Technology (Huizhou) Co., Ltd.	Compeq Manufacturing (Huizhou) Co., Ltd.	Subsidiary	Sales	US$ 6,361	1%	90～120 days	The selling prices were based on the mutual agreement	Similar to those price from other supplies	US$ 667	－	1 2

Note 1: As agreed by both parties, the settlement of accounts receivables and accounts payable was finalized in accordance with the net amount at the end of the period.

Note 2: The related parties have been eliminated upon consolidation.

Note 3: The calculation was made according to the ratio of the net amount of respective account titles prior to consolidation.

TABLE 4

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL

Amounts in Thousands of New Taiwan Dollars and Foreign currencies in Thousands

Company Name	Related Party	Nature of Relationships	Ending Balance (Foreign Currencies in Thousands)	Turnover rate	Overdue receivables		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
Compeq Manufacturing Co., Ltd.	PELICAN COVE INVESTMENT LTD.	Subsidiary	$ 190,977 (Note 1)	(Note 2)	None	None	$ 185,552	－
HUATON HOLDINGS LIMITED	Compeq Manufacturing (Huizhou) Co., Ltd.	Subsidiary	US$ 4,580 (Note 1)	(Note 2)	None	None	US$ －	－
PELICAN COVE INVESTMENT LTD.	Compeq Manufacturing Co., Ltd.	Parent company	US$ 130,915 (Note 1)	5.43	None	None	US$ 114,770	－
PELICAN COVE INVESTMENT LTD.	Compeq Manufacturing (Huizhou) Co., Ltd.	Subsidiary	US$ 12,343 (Note 1)	(Note 2)	None	None	US$ 270	－
PELICAN COVE INVESTMENT LTD.	Compeq Technology (Huizhou) Co., Ltd.	Subsidiary	US$ 23,928 (Note 1)	(Note 2)	None	None	US$ 8,779	－
Compeq Manufacturing (Huizhou) Co., Ltd.	PELICAN COVE INVESTMENT LTD.	Subsidiary	US$ 20,248 (Note 1)	5.87	None	None	US$ 20,003	－
Compeq Manufacturing (Huizhou) Co., Ltd.	Compeq Technology (Huizhou) Co., Ltd.	Subsidiary	US$ 23,431 (Note 1)	3.99	None	None	US$ 12,737	－
Compeq Manufacturing (Suzhou) Co., Ltd.	Compeq Manufacturing Co., Ltd.	Parent company	US$ 21,157 (Note 1)	3.73	None	None	US$ 16,585	－
Compeq Manufacturing (Suzhou) Co., Ltd.	PELICAN COVE INVESTMENT LTD.	Subsidiary	US$ 6,982 (Note 1)	4.90	None	None	US$ 6,982	－
Compeq Technology (Huizhou) Co., Ltd.	PELICAN COVE INVESTMENT LTD.	Subsidiary	US$ 106,907 (Note 1)	4.67	None	None	US$ 65,148	－
Compeq Manufacturing (Chongqing) Co., Ltd.	PELICAN COVE INVESTMENT LTD.	Subsidiary	US$ 32,560 (Note 1)	2.38	None	None	US$ 15,491	－
Compeq Manufacturing (Chongqing) Co., Ltd.	Compeq Manufacturing (Huizhou) Co., Ltd.	Subsidiary	US$ 35,771 (Note 1)	3.60	None	None	US$ 17,884	－

Note 1 : The related parties have been eliminated upon consolidation.

None 2 : The ending balance is primarily consisted of other receivables, which is not applicable for the calculation of turnover days.

TABLE 5

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS

For the Year Ended December 31, 2018

Amounts in Thousands of New Taiwan Dollars and Foreign currencies in Thousands

No. (Note 1)	Company Name	Counter Party	Nature of Relationship (Note 2)	Intercompany Transactions			
				Financial Statements Item	Amount	Terms	Percentage of Consolidated Net Revenue or Total Assets (Note 3)
0	Compeq Manufacturing Co., Ltd.	HUATON HOLDINGS LIMITED (HHL)	1	Other non-operation income	$ 1,425	The price finalized by both buyer and seller is equivalent to that offered by other firms, and the credit period is 30-60 days.	—
				Purchases	329	The price finalized by both buyer and seller is equivalent to that offered by other firms, and the credit period is 60-90 days.	—
				Other payables	41,681	〃	—
		Compeq Manufacturing (Huizhou) Co., Ltd.	1	Net sales	927,552	〃	2%
				Other operating income	151	〃	—
				Premium income	114,378	Half year closing, 60-90 days	—
				Accounts receivable	44,027	The price finalized by both buyer and seller is equivalent to that offered by other firms, and the credit period is 60-90 days.	—
				Other receivables	56,892	〃	—
				Compensation losses	447	〃	—
		Compeq Manufacturing (Suzhou) Co., Ltd.	1	Net sales	389,299	The price finalized by both buyer and seller is equivalent to that offered by other firms, and the credit period is 60-90 days.	1%
				Compensation income	1,445	〃	—
				Other receivables	493	〃	—
				Purchases	2,590,485	〃	5%
				Accounts payable	650,160	〃	1%

TABLE 5-1

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS

For the Year Ended December 31, 2018

Amounts in Thousands of New Taiwan Dollars and Foreign currencies in Thousands

No. (Note 1)	Company Name	Counter Party	Nature of Relationship (Note 2)	Intercompany Transactions			
				Financial Statements Item	Amount	Terms	Percentage of Consolidated Net Revenue or Total Assets (Note 3)
0	Compeq Manufacturing Co., Ltd.	Compeq Technology (Huizhou) Co., Ltd.	1	Net sales	$ 6,048	The price finalized by both buyer and seller is equivalent to that offered by other firms, and the credit period is 60-90 days.	—
				Other operation income	560	〃	—
				Premium income	47,280	Half year closing, 60-90 days	—
				Accounts receivable	2,243	The price finalized by both buyer and seller is equivalent to that offered by other firms, and the credit period is 60-90 days.	—
				Other receivables	28,154	〃	—
				Compensation losses	12,852	〃	—
		Compeq Manufacturing (Chongqing) Co., Ltd.	1	Net sales	4,789	〃	—
				Other operation income	273	〃	—
				Premium income	169,787	Half year closing, 60-90 days	—
				Accounts receivable	58,974	The price finalized by both buyer and seller is equivalent to that offered by other firms, and the credit period is 60-90 days.	—
				Other receivables	86,440	〃	—
		PELICAN COVE INVESTMENT LTD.	1	sales of fixed assets	79,471	The price finalized by both buyer and seller is equivalent to that offered by other firms, and the credit period is 60-90 days.	—
				Compensation income	64,779	〃	—
				Other operation income	53,492	The price finalized by both buyer and seller is equivalent to that offered by other firms, and the credit period is 30-60 days.	—

TABLE 5-2

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS

For the Year Ended December 31, 2018

Amounts in Thousands of New Taiwan Dollars and Foreign currencies in Thousands

No. (Note 1)	Company Name	Counter Party	Nature of Relationship (Note 2)	Intercompany Transactions			
				Financial Statements Item	Amount	Terms	Percentage of Consolidated Net Revenue or Total Assets (Note 3)
0	Compeq Manufacturing Co., Ltd.	PELICAN COVE INVESTMENT LTD.	1	Other receivables	$ 190,977	The price finalized by both buyer and seller is equivalent to that offered by other firms, and the credit period is 30-90 days.	—
				Purchases	19,255,533	The price finalized by both buyer and seller is equivalent to that offered by other firms, and the credit period is 60-90 days.	38%
				Accounts payable	4,021,049	〃	7%
1	HUATON HOLDINGS LIMITED	Compeq Manufacturing (Huizhou) Co., Ltd.	3	Other receivables	$ 140,678 US$ 4,580	Dividends announced by the board of directors	—
				Purchases	$ 318 US$ 11	The price finalized by both buyer and seller is equivalent to that offered by other firms, and the credit period is 60-90 days.	—
		Compeq Technology (Huizhou) Co., Ltd.	3	Sales of fixed assets	$ 51,817 US$ 1,740	120-360 days	—
				Other receivables	$ 53,444 US$ 1,740	Equipment 120-360 days	—
2	Compeq Manufacturing (Huizhou) Co., Ltd.	Compeq Technology (Huizhou) Co., Ltd.	3	Net sales	$ 56,699 US$ 1,869	The price finalized by both buyer and seller is equivalent to that offered by other firms, and the credit period is 90-120 days.	—
				Other operation income	$ 1,864,055 US$ 61,840	〃	4%
				Rental income	$ 69,394 US$ 2,272		—

TABLE 5-3

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS

For the Year Ended December 31, 2018

Amounts in Thousands of New Taiwan Dollars and Foreign currencies in Thousands

No. (Note 1)	Company Name	Counter Party	Nature of Relationship (Note 2)	Intercompany Transactions			
				Financial Statements Item	Amount	Terms	Percentage of Consolidated Net Revenue or Total Assets (Note 3)
2	Compeq Manufacturing (Huizhou) Co., Ltd.	Compeq Technology (Huizhou) Co., Ltd.	3	Accounts receivable	$ 719,689 US$ 23,431	The price finalized by both buyer and seller is equivalent to that offered by other firms, and the credit period is 90-120 days.	1%
				Other receivable	$ 34,848 US$ 1,135	〃	—
				Purchases of fixed assets	$ 9,184 US$ 313	〃	—
				Purchases	$ 68,038 US$ 2,241	〃	—
				Commissioned processing feet	$ 123,328 US$ 4,120	〃	—
				Notes payable	$ 2,424 US$ 79	〃	—
				Receipts in advance	$ 28,041 US$ 913		—
				Guarantee deposits	$ 1,478 US$ 48		—
		Compeq Manufacturing (Suzhou) Co., Ltd.	3	Net sales	$ 27,501 US$ 915	The price finalized by both buyer and seller is equivalent to that offered by other firms, and the credit period is 60-90 days.	—
				Accounts receivable	$ 4,689 US$ 153	〃	—
		Compeq Manufacturing (Chongqing) Co., Ltd.	3	Other operation income	$ 191 US$ 6	The price finalized by both buyer and seller is equivalent to that offered by other firms, and the credit period is 60-90 days.	—
				Purchases	$ 3,398,475 US$ 112,852	The price finalized by both buyer and seller is equivalent to that offered by other firms, and the credit period is 90-120 days.	7%

TABLE 5-4

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS

For the Year Ended December 31, 2018

Amounts in Thousands of New Taiwan Dollars and Foreign currencies in Thousands

No. (Note 1)	Company Name	Counter Party	Nature of Relationship (Note 2)	Intercompany Transactions				
				Financial Statements Item	Amount		Terms	Percentage of Consolidated Net Revenue or Total Assets (Note 3)
2	Compeq Manufacturing (Huizhou) Co., Ltd.	Compeq Manufacturing (Chongqing) Co., Ltd.	3	Commissioned processing feet	$ US$	5,318 175	The price finalized by both buyer and seller is equivalent to that offered by other firms, and the credit period is 90-120 days.	—
				Accounts payable	$ US$	1,098,328 35,759	〃	2%
				Other payables	$ US$	374 12	〃	—
		PELICAN COVE INVESTMENT LTD.	3	Purchases of fixed assets	$ US$	786,418 26,110	120-360 days	2%
				Net sales	$ US$	4,017,500 133,418	The price finalized by both buyer and seller is equivalent to that offered by other firms, and the credit period is 60-90 days.	8%
				Compensation income	$ US$	18,957 674	〃	—
				Accounts receivable	$ US$	621,911 20,248	〃	1%
				Other payables	$ US$	362,481 11,801	The price finalized by both buyer and seller is equivalent to that offered by other firms, and the credit period is 60-90 days, Equipment 120-360 days.	—
				Provision-current	$ US$	16,636 542	The price finalized by both buyer and seller is equivalent to that offered by other firms, and the credit period is 60-90 days.	—
3	Compeq Manufacturing (Suzhou) Co., Ltd.	PELICAN COVE INVESTMENT LTD.	3	Net sales	$ US$	1,021,240 33,866	The price finalized by both buyer and seller is equivalent to that offered by other firms, and the credit period is 60-90 days.	2%

TABLE 5-5

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS

For the Year Ended December 31, 2018

Amounts in Thousands of New Taiwan Dollars and Foreign currencies in Thousands

No. (Note 1)	Company Name	Counter Party	Nature of Relationship (Note 2)	Intercompany Transactions			
				Financial Statements Item	Amount	Terms	Percentage of Consolidated Net Revenue or Total Assets (Note 3)
3	Compeq Manufacturing (Suzhou) Co., Ltd.	PELICAN COVE INVESTMENT LTD.	3	Accounts receivable	$ 214,448 US$ 6,982	The price finalized by both buyer and seller is equivalent to that offered by other firms, and the credit period is 60-90 days.	—
				Compensation losses	$ 127 US$ 4	〃	—
		Compeq Technology (Huizhou) Co., Ltd.	3	Sales of fixed assets	$ 7,983 US$ 259	The price finalized by both buyer and seller is equivalent to that offered by other firms, and the credit period is 90-120 days.	—
				Other operation income	$ 12,877 US$ 421	〃	—
				Other receivables	$ 8,143 US$ 265	〃	—
				Purchases of fixed assets	$ 2,492 US$ 81	90-120 days	—
				Purchases	$ 53,388 US$ 1,765	The price finalized by both buyer and seller is equivalent to that offered by other firms, and the credit period is 60-90 days.	—
				Commissioned processing feet	$ 20,555 US$ 682	〃	—
				Accounts payable	$ 11,363 US$ 370	〃	—
				Other payables	$ 2,604 US$ 85	〃	—
4	Compeq Technology (Huizhou) Co., Ltd.	PELICAN COVE INVESTMENT LTD.	3	Net sales	$ 16,320,498 US$ 539,656	The price finalized by both buyer and seller is equivalent to that offered by other firms, and the credit period is 60-90 days.	32%

TABLE 5-6

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS

For the Year Ended December 31, 2018

Amounts in Thousands of New Taiwan Dollars and Foreign currencies in Thousands

No. (Note 1)	Company Name	Counter Party	Nature of Relationship (Note 2)	Intercompany Transactions			
				Financial Statements Item	Amount	Terms	Percentage of Consolidated Net Revenue or Total Assets (Note 3)
4	Compeq Technology (Huizhou) Co., Ltd.	PELICAN COVE INVESTMENT LTD.	3	Other operation income	$ 2,697 US$ 91	The price finalized by both buyer and seller is equivalent to that offered by other firms, and the credit period is 60-90 days.	—
				Compensation income	$ 14,093 US$ 518	〃	—
				Other income	$ 757 US$ 25	〃	—
				Accounts receivable	$ 3,283,663 US$ 106,907	〃	6%
				Purchases of fixed assets	$ 1,009,667 US$ 33,649	120-360 days	2%
				Other payables	$ 729,007 US$ 23,735	The price finalized by both buyer and seller is equivalent to that offered by other firms, and the credit period is 60-90 days, Equipment 120-360 days	1%
				Provision-current	$ 5,947 US$ 194	The price finalized by both buyer and seller is equivalent to that offered by other firms, and the credit period is 60-90 days.	—
		Compeq Manufacturing (Chongqing) Co., Ltd.	3	Not Sales	$ 2,240 US$ 73	〃	—
				Other operation income	$ 1,613 US$ 53	〃	—
5	Compeq Manufacturing (Chongqing) Co., Ltd.	PELICAN COVE INVESTMENT LTD.	3	Net sales	$ 2,874,303 US$ 95,572	The price finalized by both buyer and seller is equivalent to that offered by other firms, and the credit period is 90-120 days.	6%

TABLE 5-7

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS

For the Year Ended December 31, 2018

Amounts in Thousands of New Taiwan Dollars and Foreign currencies in Thousands

No. (Note 1)	Company Name	Counter Party	Nature of Relationship (Note 2)	Intercompany Transactions			
				Financial Statements Item	Amount	Terms	Percentage of Consolidated Net Revenue or Total Assets (Note 3)
5	Compeq Manufacturing (Chongqing) Co., Ltd.	PELICAN COVE INVESTMENT LTD.	3	Accounts receivable	$ 1,000,088 US$ 32,560	The price finalized by both buyer and seller is equivalent to that offered by other firms, and the credit period is 90-120 days.	2%
				Compensation losses	$ 26,897 US$ 888	The price finalized by both buyer and seller is equivalent to that offered by other firms, and the credit period is 60-90 days.	－
				Purchases of fixed assets	$ 900,499 US$ 30,309	120-360 days	2%
				Other payables	$ 7,051 US$ 230	The price finalized by both buyer and seller is equivalent to that offered by other firms, and the credit period is 60-90 days, Equipment 120-360 days.	－
				Provision-current	$ 25,285 US$ 823	The price finalized by both buyer and seller is equivalent to that offered by other firms, and the credit period is 60-90 days.	－

Note 1: The Compeq Company and its subsidiaries are coded as follows:

1. The Compeq Company is coded “0”.
2. The subsidiaries are coded consecutively beginning from “1” in the order presented in the table above.

Note 2: Transactions are categorized as follows:

1. The holding company to subsidiary.
2. Subsidiary to holding company.
3. Subsidiary to subsidiary.

Note 3: The percentage with respect to the consolidated asset/liability for transactions of balance sheet items are based on each item’s balance at period-end. For profit or loss items, cumulative balances are used as basis.

TABLE 6

NAMES, LOCATIONS AND RELATED INFORMATION OF INVESTEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE (EXCLUDING INFORMATION OF INVESTMENT MAINLAND CHINA)

Amounts in Thousands of New Taiwan Dollars and Foreign currencies in Thousands

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment		Balance as of December 31, 2018			Net Income (Losses) of the Investee (Foreign Currencies in Thousands)	Shares of Profits/Losses of Investee (Foreign Currencies in Thousands)	Notes
				December 31, 2018 (Foreign Currencies in Thousands)	December 31, 2017 (Foreign Currencies in Thousands)	Shares	Percentage of ownership	Carrying value (Foreign in Thousands)			
Compeq Manufacturing Co., Ltd.	HUATON HOLDINGS LIMITED	BVI	Investment and trading (Indirectly investment in Mainland China)	$ 3,771,004	$ 2,848,804	240,886,000	100.00%	$ 18,035,088	$ 1,919,477 US$ 63,742	$ 1,909,002 (Note 1,2)	Subsidiary
	PELICAN COVE INVESTMENT LTD.	BVI	Investment and trading	559,685	559,685	17,700,000	100.00%	597,300	$ 7,818 US$ 290	$ 7,818 (Note 2)	Subsidiary
	Hua Nian Investment Ltd.	TAIWAN	General investing	150,000	150,000	18,000,000	100.00%	174,810	$ (13,177)	$ (13,177) (Note 2)	Subsidiary
	LITON HOLDINGS LIMITED	BVI	Investment and trading (Indirectly investment in Mainland China)	168,250	168,250	100,000	100.00%	1,834	$ (129) US$ (4)	$ (129) (Note 2)	Subsidiary
Compeq Manufacturing (Huizhou) Co., Ltd.	Hong Kong Compeq Huizhou Trading Company Limited	Hong Kong	Trading	$ 9,215 US$ 300	$ 9,215 US$ 300	—	100.00%	$ 8,244 US$ 268	$ (112) US$ (4)	(Note 3)	Subsidiary

Note 1: The investment profits and losses recognized in the current period include the recognition and deletion of realized and unrealized profits and losses.

Note 2: The related parties have been eliminated upon consolidation.

Note 3: The current period profit and loss of the investee company were already included in the investment company's income statement, so they are not separately presented.

Note 4: The current period profit and loss of the investee company and the investment profit and loss recognized in the current period by the investee company are converted in accordance with the average exchange rate, while other profits and losses are converted according to the exchange rate at the end of the period.

TABLE 7

INFORMATION ON INVESTMENT IN MAINLAND CHINA

1.

Amounts in Thousands of New Taiwan Dollars and Foreign currencies in Thousands

Investee Company	Main Businesses and products	Total Amount of paid-in Capital (Foreign Currencies in Thousands)	Method of Investment	Accumulated Outflow of Investment January 1, 2018 (US$ in Thousands)	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2018 (US$ in Thousands)	Net income (loss) of investee company	Percentage of Ownership	Shares of profits/Losses (Note 2)	Carrying Amount (US$ in Thousands) as of December 31, 2018 (US$ in Thousands)	Accumulated Inward Remittance of Earnings as of December 31, 2018
					Outflow	Inflow						
Compeq Manufacturing (Huizhou) Co., Ltd.	PCB manufacturing and sales	$ 4,654,876 CNY$ 1,042,301	(Note 1)	$ 1,535,750 US$ 50,000	—	—	$ 1,535,750 US$ 50,000	$ 298,039 CNY$ 65,390	100%	$ 298,039 US$ 9,927	$ 6,987,050 US$ 227,480	—
Compeq Manufacturing (Suzhou) Co., Ltd.	PCB manufacturing and sales	$ 408,073 CNY$91,374	(Note 1)	$ 337,865 US$ 11,000	—	—	$ 337,865 US$ 11,000	$ 95,125 CNY$ 21,030	100%	$ 95,125 US$ 3,129	$ 1,167,473 US$ 38,010	—
Compeq Technology (Huizhou) Co., Ltd.	PCB manufacturing and sales	$ 3,045,813 CNY$682,006	(Note 1)	$ 552,870 US$ 18,000	$ 921,450 US$ 30,000	—	$ 1,474,320 US$ 48,000	$ 345,140 CNY$ 76,925	100%	$ 345,140 US$ 11,289	$ 4,099,684 US$ 133,475	—
Compeq Manufacturing (Chongqing) Co., Ltd.	PCB manufacturing and sales	$ 2,377,632 CNY$532,390	(Note 1)	—	—	$ 913,833 US$ 29,752	—	$ 1,197,569 CNY$262,344	100%	$ 1,197,569 US$ 39,960	$ 4,769,049 US$ 155,268	$ 913,833 US$ 29,752

Accumulated Investment in Mainland China as of December 31, 2018 (US$ in Thousands)	Investment Amounts Authorized by Investment Commission, MOEA (US$ in Thousands)	Upper Limit on Investment (US$ in Thousands)
$ 3,780,709 [US$ 123,090]	$ 10,810,943 [US$ 351,976]	$ — (Note 4)

Note 1: Indirectly investment in Mainland China through the HUATON HOLDINGS LTD registered in a third region.

Note 2: The investment income (loss) recognized in current period adopted the financial statement certificated by the CPA of the parent company in Taiwan.

Note 3: Initial investment amounts denominated in foreign currencies are translated into New Taiwan Dollars using the spot rates at the financial report date. (US$1:NT$30.715, US$1:NT$30.76, CNY$1:NT$4.4660, CNY$1:NT$4.4448)

Note 4: The Company already received the letter of corporate operation headquarters establishment issued by Industrial Development Bureau, MOEA, and the approval period has been from March 22, 2017 to March 21, 2020. It could be exempt from the restriction on investment amounts or ratios.

2.

The Company invested resolution	Investment Amounts				Investment Amounts		Indirectly Investment in Mainland China		
	Approved Number	Authorized Amounts					Investment outflow		Purpose
HUATON HOLDINGS LIMITED	1995/09/29-(84)-84015347	US$	20,000,000		US$	20,000,000	US$	20,000,000	Indirectly investment Compeq Manufacturing (Huizhou) Co., Ltd.
〃	1997/07/14-(86)-86721040	US$	30,000,000		US$	30,000,000	US$	30,000,000	〃
〃	1997/09/18-(86)-86736526	US$	5,400,000		US$	5,400,000	US$	5,400,000	Indirectly investment PEWC (Guangzhou) Co., Ltd. and achieved 45% stake.
〃	2001/07/27-(90)-90022765	US$	5,400,000		US$	3,390,000	US$	1,890,000	〃
〃	2004/02/13-093003687	US$	(1,920,000)		US$	—	US$	(1,296,000)	Reduce investment PEWC (Guangzhou) Co., Ltd. and achieved 8% stake.
〃	2004/04/23-093010705	US$	2,900,000		US$	2,900,000	US$	2,900,000	Indirectly investment Compeq Manufacturing (Suzhou) Co., Ltd.
〃	2004/06/23-093015571	US$	9,500,000		US$	9,500,000	US$	9,500,000	Indirectly investment Compeq Technology (Huizhou) Co., Ltd.
〃	2005/02/23-094001762	US$	4,100,000		US$	4,100,000	US$	4,100,000	Indirectly investment Compeq Manufacturing (Suzhou) Co., Ltd.
〃	2006/03/31-09500069340	US$	8,500,000		US$	8,500,000	US$	8,500,000	Indirectly investment Compeq Technology (Huizhou) Co., Ltd.
〃	2006/03/31-09500069390	US$	7,000,000		US$	4,000,000	US$	4,000,000	Indirectly investment Compeq Manufacturing (Suzhou) Co., Ltd.
〃	2011/03/25-10000119020	US$	(3,000,000)		US$	—	US$	—	Reduce investment Compeq Manufacturing (Suzhou) Co., Ltd.
〃	2006/07/20-09500220150	US$	290,000		US$	290,000	US$	—	Directly investment Compeq Manufacturing (Suzhou) Co., Ltd.
〃	2006/12/27-09500445960	US$	1,000,000		US$	210,000	US$	210,000	Indirectly investment Veceration Co., Ltd.
〃	2009/07/24-09800263470	US$	(790,000)		US$	—	US$	—	Reduce investment Veceration Co., Ltd.
〃	2007/01/22-09600008530	US$	2,886,000		US$	2,886,000	US$	2,886,000	Indirectly investment PEWC (Guangzhou) Co., Ltd.
〃	2011/03/28-10000119030	US$	7,000,000		US$	7,000,000	US$	—	Directly investment Compeq Technology (Huizhou) Co., Ltd.
〃	2012/03/30-10100019840	US$	45,000,000		US$	45,000,000	US$	—	Directly investment Compeq Manufacturing (Chongqing) Co., Ltd.
〃	2012/05/25-10199165700	US$	15,000,000		US$	15,000,000	US$	—	Directly investment Compeq Technology (Huizhou) Co., Ltd.
〃	2014/02/27-10200494220	US$	50,000,000		US$	40,000,000	US$	—	Directly investment Compeq Manufacturing (Chongqing) Co., Ltd.
〃	2015/03/31-10300357540	US$	30,000,000		US$	30,000,000	US$	—	Directly investment Compeq Technology (Huizhou) Co., Ltd.
〃	2017/07/06-10600111220	US$	15,000,000		US$	15,000,000	US$	—	Directly investment Compeq Manufacturing (Huizhou) Co., Ltd.
〃	2018/01/31-10600349330	US$	33,710,000		US$	—	US$	—	Directly investment Compeq (Suzhou) Co., Ltd
〃	2018/04/02-10600349320	US$	60,000,000		US$	30,000,000	US$	30,000,000	Indirectly investment Compeq Technology (Huizhou) Co., Ltd.
LITON HOLDINGS LIMITED	2007/04/24-09600111850	US$	5,000,000		US$	5,000,000	US$	5,000,000	Indirectly investment Victor (Chang shu) Co., Ltd.

14. SEGMENT INFORMATION

(1) Operating segments

The Company uses the income from operations as the measurement for segment profit and the basis of performance assessment. There was no material differences between the accounting policies of the operating segment and the accounting policies described in Note 4.

(2) Segment revenue and operating results

The Company's segment revenue and operating results as follows:

	For the Year Ended December 31, 2018				
Items	Taiwan	China	Other	Adjustment and Elimination	Total
Net revenue from external customers	$33,643,831	$17,184,270	$ —	$ —	$50,828,101
Net revenue from sales among intersegments	1,328,672	48,779,215	—	(50,107,887)	—
Income (loss) from operations	1,140,905	3,117,101	(13,091)	376,145	4,621,060
Income tax expense	1,078,368	440,117	424	—	1,518,909

	For the Year Ended December 31, 2017				
Items	Taiwan	China	Other	Adjustment and Elimination	Total
Net revenue from external customers	$35,885,879	$18,052,487	$ 25,827	$ —	$53,964,193
Net revenue from sales among intersegments	1,272,094	39,146,796	—	(40,418,890)	—
Income (loss) from operations	2,238,298	3,214,023	25,406	279,909	5,757,636
Income tax expense	821,877	505,111	2,965	—	1,329,953

(3) Information on major revenue

Major revenue of the Company as follows:

	For the Year Ended December 31	
	2018	2017
PCB & SMT	$ 50,342,112	$ 53,549,105
Goods	630	604
Other	485,359	414,484
Total	$ 50,828,101	$ 53,964,193

(4) Geographical information

The Company's revenue from operations from external customers by location of operations and information on its non-current assets by location of assets are shown below. The Company categorized the net revenue based on the country in which the customer is headquartered. Non-current assets include investments accounted for using equity method, property, plant and equipment, intangible assets and other noncurrent assets. Excluded financial instruments and deferred tax assets.

	Net Revenue from External Customers		Non-current Assets	
	For the Year Ended December 31		December 31, 2018	December 31, 2017
	2018	2017		
Taiwan	$ 767,892	$ 531,020	$ 8,985,923	$ 9,270,161
United States	447,854	342,584	—	—
Asia	49,421,406	52,485,451	18,323,700	16,849,955
Europe	153,930	427,897	—	—
Others	37,019	177,241	—	—
Total	$ 50,828,101	$ 53,964,193	$ 27,309,623	$ 26,120,116

(5) Major Customers information

Major customers representing at least 10% of net revenue:

	For the Year Ended December 31			
	2018		2017	
Customer	Amount	%	Amount	%
Customer A	$ 11,477,098	23	$ 15,290,833	28
Customer B	5,045,918	10	7,337,614	14

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

COMPEQ MANUFACTURING CO., LTD.

PARENT COMPANY ONLY FINANCIAL STATEMENTS

AND INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Address: No. 91, Ln. 814, Daxin Rd., Shin-juang Vil. Luzhu Dist., Taoyuan City, Taiwan, R.O.C.

Phone : (886-3) 323-1111

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

INDEPENDENT AUDITORS' REPORT

NO.00151070EA

To the Board of Directors of Compeq Manufacturing Co., Ltd.

Opinion

We have audited the accompanying parent company only financial statements of Compeq Manufacturing Co., Ltd. (collectively referred to as “the Company”), which comprise the parent company only balance sheets as of December 31, 2018 and 2017, the parent company only statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2018 and 2017, and the notes to the parent company only financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company only financial statements present fairly, in all material respects, the parent company only financial position of the Company as of December 31, 2018 and 2017, and its parent company only financial performance and its parent company only cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), interpretations as well as related guidance 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 Parent Company only Financial Statements section of our report. We are independent of the Company in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis 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 the parent company only financial statements for the year ended December 31, 2018. 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.
Key audit matters for the Company's parent company only financial statements for the year ended December 31,2018 are explained as follows:

Revenue recognition from shipping warehouses

Description of the key audit matter

Refer to note 4(13), 5(4) and 6(16) of the parent company only financial statements for the information relating to revenue recognition.

The Company's sales come in two types of direct shipping from factories and shipping from warehouses, in which the revenue from shipping warehouses is recognized when the customer picks up the goods (the risk of the ownership of the goods sold is transferred and the profit is earned). The Company mainly recognizes its revenue in accordance with the statements or other information provided by the custodians of shipping warehouses and reconciliation with any change in recorded inventory. Given that the shipping warehouses spread many regions and the sales terms for each major customer also vary, such revenue recognition process often involves a lot of labor in operation, which is likely to result in inappropriate timing to recognize the revenue or inconsistence between physical quantity and recorded quantity of the inventory in custody. On the other hand, it requires both parties' labor judgment to determine if a shipment meets the terms for customer's acquisition of goods control right and such risk is the major measurement index adopted by the report users. As such, the deadline of the recognition of the revenue of the goods sold from shipping warehouses is listed as one of the key audit matter.

How the matter was addressed in our audit

We performed the following audit procedures in respect of the above key audit matter:

1. Understand and assess the propriety of the accounting policy for revenue recognition, and evaluate and test the internal control in relation to the timing of revenue recognition.

2. Implement the deadline test for the revenue from shipping warehouses in the periods before or after the balance sheet date, and check if customer account statement data, change in recorded inventory, revenue and cost carry-over were recorded at appropriate times.
3. Execute document enquiry or field stock-taking observation for the quantity of inventory in shipping warehouses, and check as well as reconcile the warehouse inventory quantity with the recorded inventory quantity. In case of any inconsistence with the recorded inventory quantity found from the enquiry response or stock-taking observation, the reasons for the inconsistence will be investigated and the test for the reconciliation items shall be executed, so as to confirm if material differences are properly adjusted and recorded.

Evaluation of allowance for loss on reduction of inventory to market

Description of the key audit matter

Refer to note 4(7), 5(2) and 6(4) of the parent company only financial statements for the information relating to inventory valuation.

The Company mainly engages in manufacture and sales of PCB(Printed Circuit Boards). Due to their short life circle and severe competition in the industry, electronic products are susceptible to the volatility of market prices, so they have higher risk in losses on reduction of inventory to market and inventory obsolescence. The net realizable value adopted by The Company for invalid and obsolescent inventory often involves subjective judgment, so it is in a high degree of uncertainty. Given that The Company's inventory and its allowance for loss on reduction of inventory to market have a vital impact on its financial statements, the valuation of the allowance for loss on reduction of inventory to market is listed as one of the key audit matters.

How the matter was addressed in our audit

We performed the following audit procedures in respect of the above key audit matter:

1. Evaluate if the policy and procedure for setting aside the allowance for loss on reduction of inventory to market are appropriately and consistently adopted.

2. Understand the inventory warehouse management process, inspect the annual stock-taking plan and participate in the annual observation of stock-taking, so as to confirm the inventory management and status.
3. Acquire the statement to identify inventory obsolescence and invalidation and verify inventory aging propriety and rationality, so as to confirm the possibility for the loss of the inventory exceeding a certain inventory age and coverage of the invalid and obsolescent inventory items in the statement, and ensure the consistence of the statement information with the policy.
4. Inspect a variety of data adopted by the management for calculation of the inventory net realizable value, and give random check and calculation to evaluate the rationality of the inventory net realizable value and judge if relevant disclosures are adequate.

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 Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs, IASs, interpretations as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of 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 Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, (including supervisors), are responsible for overseeing the Company’s financial reporting process.

Auditors' Responsibilities for the Audit of the Parent company only Financial Statements

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

As part of an audit in accordance with 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 Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the parent company only financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the disclosures, and whether the 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 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 the parent company only financial statements for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Baker Tilly Clock & Co

Hung-Hsun Ting , CPA

Hsien-Hsiu Cheng, CPA

March 13, 2019

Notes to Readers

The accompanying parent company only financial statements are intended only to present the parent company only financial position, financial performance and its cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit (or review) such parent company only financial statements are those generally accepted and applied in the Republic of China.
The auditors' report and the accompanying parent company only financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language auditors' report and parent company only financial statements, the Chinese version shall prevail.

COMPEQ MANUFACTURING CO., LTD.

PARENT COMPANY ONLY BALANCE SHEETS

December 31, 2018 and 2017

(Expressed in thousands of New Taiwan Dollars)

ASSETS	NOTES	December 31,2018		December 31,2017	
		Amount	%	Amount	%
CURRENT ASSETS					
Cash and cash equivalents	6(1)	$ 2,756,182	6.45	$ 4,356,002	10.51
Financial assets at fair value through profit or loss-current	6(2)	–	–	386	–
Notes receivable	6(3)	7	–	77	–
Accounts receivable	6(3)	8,745,247	20.47	7,204,958	17.39
Receivables from related parties	6(3)	105,244	0.25	185,110	0.45
Other receivables		423,700	1.00	554,499	1.34
Inventories	6(4)	1,683,778	3.94	1,993,922	4.81
Prepayments		54,179	0.13	72,840	0.18
Other current financial assets	6(5)	546,876	1.28	–	–
Other current assets		16,988	0.04	17,954	0.04
Total current assets		14,332,201	33.56	14,385,748	34.72
NONCURRENT ASSETS					
Investments accounted for using equity method	6(6)	18,809,032	44.05	17,275,662	41.69
Property, plant and equipment	6(7),8	8,933,780	20.92	9,221,798	22.25
Intangible assets	6(8)	48,255	0.11	41,594	0.10
Deferred tax assets	6(21)	570,697	1.34	501,203	1.21
Refundable deposits		3,748	0.01	3,770	0.01
Other non-current assets		3,889	0.01	6,769	0.02
Total noncurrent assets		28,369,401	66.44	27,050,796	65.28
TOTAL		$ 42,701,602	100.00	$ 41,436,544	100.00

The accompanying notes are an integral part of the parent company only financial statements.

COMPEQ MANUFACTURING CO., LTD.

PARENT COMPANY ONLY BALANCE SHEETS

December 31, 2018 and 2017

(Expressed in thousands of New Taiwan Dollars)

LIABILITIES AND EQUITY	NOTES	December 31,2018		December 31,2017	
		Amount	%	Amount	%
CURRENT LIABILITIES					
Accounts payable	6(9)	$ 1,964,660	4.60	$ 1,994,599	4.81
Payable to related parties	6(9)	4,671,209	10.94	3,824,888	9.23
Other payables	6(10)	2,008,136	4.70	2,915,592	7.04
Current tax liabilities	6(21)	520,429	1.22	481,759	1.16
Provisions-current	6(11)	161,198	0.38	159,198	0.38
Receipts in advance		57	–	57	–
Current portion of long-term borrowings	6(12),8	1,114,434	2.61	644,434	1.56
Other current liabilities		463,222	1.09	100,242	0.24
Total current liabilities		10,903,345	25.54	10,120,769	24.42
NONCURRENT LIABILITIES					
Long-term borrowings	6(12),8	5,413,530	12.67	5,927,964	14.31
Deferred tax liabilities	6(21)	2,125,172	4.98	1,712,157	4.13
Net defined pension liabilities	6(13)	767,263	1.80	819,226	1.98
Total noncurrent liabilities		8,305,965	19.45	8,459,347	20.42
Total liabilities		19,209,310	44.99	18,580,116	44.84
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY					
Capital stock	6(14)	11,918,206	27.91	11,918,206	28.76
Capital surplus	6(14)	1,016,898	2.38	1,016,898	2.46
Retained earnings	6(14)	10,414,078	24.39	9,468,558	22.85
Legal reserve		1,657,697	3.88	1,299,992	3.14
Unappropriated earnings		8,756,381	20.51	8,168,566	19.71
Other equity	6(14)	143,110	0.33	452,766	1.09
Total equity		23,492,292	55.01	22,856,428	55.16
TOTAL		$ 42,701,602	100.00	$ 41,436,544	100.00

The accompanying notes are an integral part of the parent company only financial statements.

COMPEQ MANUFACTURING CO., LTD.

PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED ON DECEMBER 31, 2018 AND 2017

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

DESCRIPTION	NOTE	2018		2017	
		Amount	%	Amount	%
OPERATING REVENUES	6(16)	$ 34,972,503	100.00	$ 37,157,973	100.00
OPERATING COSTS	6(4)	(32,540,183)	(93.05)	(33,606,406)	(90.44)
GROSS PROFIT BEFORE UNREALIZED GROSS		2,432,320	6.95	3,551,567	9.56
UNREALIZED PROFIT FROM SALES		(20,168)	(0.06)	(31,037)	(0.08)
REALIZED PROFIT ON FROM SALES		31,037	0.09	30,500	0.08
GROSS PROFIT		2,443,189	6.98	3,551,030	9.56
OPERATING EXPENSES					
Selling and marketing expenses		(396,406)	(1.13)	(495,095)	(1.33)
General and administrative expenses		(374,973)	(1.07)	(417,014)	(1.13)
Research and development expenses		(604,243)	(1.73)	(375,528)	(1.01)
Expected credit impairment income	6(3)	73,338	0.21	—	—
Total operating expenses		(1,302,284)	(3.72)	(1,287,637)	(3.47)
OTHER OPERATING INCOME AND EXPENSES, NET	6(3)	—	—	(25,095)	(0.07)
INCOME FROM OPERATIONS		1,140,905	3.26	2,238,298	6.02
NON-OPERATING INCOME AND EXPENSES					
Other income	6(17)	681,708	1.95	557,923	1.50
Other gains and losses	6(18)	(103,982)	(0.30)	(844,882)	(2.27)
Finance costs	6(19)	(144,046)	(0.41)	(137,622)	(0.37)
Share of profit of subsidiaries and associates	6(20)	1,903,514	5.44	2,585,204	6.96
Total non-operating income and expenses		2,337,194	6.68	2,160,623	5.82
INCOME BEFORE INCOME TAX		3,478,099	9.94	4,398,921	11.84
INCOME TAX EXPENSE	6(21)	(1,078,368)	(3.08)	(821,877)	(2.21)
NET INCOME		$ 2,399,731	6.86	$ 3,577,044	9.63
OTHER COMPREHENSIVE INCOME (LOSS)					
Items that will not be reclassified subsequently to profit or loss					
Remeasurement of defined benefit obligation	6(13)	(39,901)	(0.11)	(45,669)	(0.12)
Income tax benefit (expense) related to items that will not be reclassified subsequently	6(21)	15,875	0.05	7,764	0.02
Items that may be reclassified subsequently to profit or loss					
Exchange differences arising from the translation of the foreign operations	6(14)	(366,613)	(1.05)	(259,473)	(0.70)
Income tax relating to the components of other comprehensive income(loss)	6(21)	56,957	0.16	44,110	0.12
Other comprehensive (loss) income, net of income tax		(333,682)	(0.95)	(253,268)	(0.68)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		$ 2,066,049	5.91	$ 3,323,776	8.95
EARNING PER SHARE					
Basic	6(15)	$ 2.01		$ 3.00	
Diluted	6(15)	$ 2.00		$ 2.99	

The accompanying notes are an integral part of the parent company only financial statements.

COMPEQ MANUFACTURING CO., LTD.

PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(Expressed in thousands of New Taiwan Dollars)

DESCRIPTION	Equity attributable to the owners of the Company					Total equity
			Retained earnings		Other equity	
	Capital Stock	Capital surplus	Legal reserve	Unappropriated earnings	Exchange differences arising from the translation of the foreign operations	
BALANCE, JANUARY 1, 2017	$ 11,918,206	$ 1,016,898	$ 1,137,452	$ 5,507,059	$ 668,129	$ 20,247,744
Appropriations of prior year's earnings						
Legal reserve	–	–	162,540	(162,540)	–	–
Cash dividends	–	–	–	(715,092)	–	(715,092)
Net income in 2017	–	–	–	3,577,044	–	3,577,044
Other comprehensive income in 2017, net of income tax	–	–	–	(37,905)	(215,363)	(253,268)
Total comprehensive income in 2017	–	–	–	3,539,139	(215,363)	3,323,776
BALANCE, JANUARY 1, 2018	11,918,206	1,016,898	1,299,992	8,168,566	452,766	22,856,428
Appropriations of prior year's earnings						
Legal reserve	–	–	357,705	(357,705)	–	–
Cash dividends	–	–	–	(1,430,185)	–	(1,430,185)
Net income in 2018	–	–	–	2,399,731	–	2,399,731
Other comprehensive income in 2018, net of income tax	–	–	–	(24,026)	(309,656)	(333,682)
Total comprehensive income in 2018	–	–	–	2,375,705	(309,656)	2,066,049
BALANCE, DECEMBER 31, 2018	$ 11,918,206	$ 1,016,898	$ 1,657,697	$ 8,756,381	$ 143,110	$ 23,492,292

For the years ended December 31, 2018 and 2017, the Company's employee compensation were $70,982 thousand and $89,774 thousand respectively, the compensation to directors were both $0 thousand, which were deducted from the statement of comprehensive income for each period.

The accompanying notes are an integral part of the parent company only financial statements.

COMPEQ MANUFACTURING CO., LTD.

PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED ON DECEMBER 31, 2018 AND 2017

(Expressed in thousands of New Taiwan Dollars)

DESCRIPTION	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 3,478,099	$ 4,398,921
Adjustments for:		
Income and expense (loss) items		
Depreciation expense	1,252,178	1,119,072
Amortization expense	17,274	12,400
Expected credit impairment loss (income)	(73,338)	—
Provision for Bad Debts Losses	—	25,095
Net (gain) loss on financial assets and liabilities at fair value through profit or loss	386	(11,230)
Interest expense	144,046	137,622
Interest income	(52,135)	(25,809)
Share of profit of subsidiaries and associates	(1,903,514)	(2,585,204)
Loss on disposal of property, plant and equipment	27,252	36,845
Unrealized profit from sales	20,737	22,719
Realized profit on from sales	(22,719)	(7,326)
Changes in operating assets and liabilities		
Notes receivable	70	(39)
Accounts receivable	(1,466,951)	(488,037)
Receivables from related parties	79,866	(44,953)
Other receivables	131,902	219,820
Inventories	310,144	101,646
Prepayments	19,921	(7,862)
Other current assets	585	2,963
Other current financial assets	(546,876)	—
Accounts payable	(29,939)	98,690
Payables to related parties	846,321	454,803
Other payables	(482,750)	370,798
Provisions	2,000	40,034
Other current liabilities	363,760	(99,370)
Accrued pension liabilities	(91,864)	(90,058)
Cash generated from operations	2,024,455	3,681,540
Interest received	51,032	25,474
Interest paid	(142,909)	(137,546)
Income taxes paid	(623,345)	(280,695)
Net cash generated by operating activities	$ 1,309,233	$ 3,288,773

(Continued)

COMPEQ MANUFACTURING CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED ON DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan Dollars)

DESCRIPTION	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investments accounted for under the equity method	(922,200)	(60,000)
Payments for property, plant and equipment	(1,489,719)	(1,945,809)
Proceeds from disposal of property, plant and equipment	80,476	60,794
Increase in Refundable Deposits	(26,294)	(25,805)
Decrease in Refundable Deposits	26,697	14,554
Purchase of Intangible Assets	(22,315)	(8,325)
Increase in deferred charges	—	(5,104)
Dividends received from investment accounted for using equity method	919,701	—
Net cash generated by (used in) investing activities	(1,433,654)	(1,969,695)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term borrowings	2,403,130	3,014,586
Decrease in short-term borrowings	(2,403,130)	(3,014,586)
Increase in long-term borrowings	5,810,000	5,410,000
Decrease in long-term borrowings	(5,854,434)	(5,549,140)
Increase in guarantee deposits received	2,010	10,977
Decrease in guarantee deposits received	(2,790)	(2,220)
Cash dividends	(1,430,185)	(715,092)
Net cash generated by (used in) financing activities	(1,475,399)	(845,475)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,599,820)	473,603
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	4,356,002	3,882,399
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	$ 2,756,182	$ 4,356,002

The accompanying notes are an integral part of the parent company only financial statements.

COMPEQ MANUFACTURING CO., LTD.
NOTES TO PARENT COMPANY ONLY FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Amounts in thousands of New Taiwan dollars, unless otherwise stated)

1. ORGANIZATION AND OPERATIONS

Compeq Manufacturing Co., Ltd. (the Compeq Company) was established in August 1973. It is engaged in the manufacture and sale of PCB (Printed Circuit Boards) for computer use. In January 1990, the Compeq Company's stocks were approved by the Financial Supervisory Commission (FSC) for listing on the Taiwan Stock Exchange.

The parent company only financial statements are presented in the Company's functional currency, New Taiwan dollars.

2. APPROVAL OF FINANCIAL STATEMENTS

The parent company only financial statements were approved by the board of directors and authorized for issue on March 13, 2019.

3. APPLICATION OF NEW AND REVISED STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards ("IFRS") as endorsed by the Financial Supervisory Commission ("FSC")

New standards, interpretations and amendments endorsed by FSC effective from 2018 are as follows:

New Standards, Interpretations and Amendments	Effective Date Issued by IASB
Classification and measurement of share-based payment transactions (amendments to IFRS 2)	January 1, 2018
Applying IFRS 9 'Financial instruments' with IFRS 4 'Insurance contracts' (amendments to IFRS 4)	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Clarifications to IFRS 15, 'Revenue from contracts with customers' (amendments to IFRS 15)	January 1, 2018
Disclosure initiative (amendments to IAS 7)	January 1, 2017
Recognition of deferred tax assets for unrealized losses (amendments to IAS 12)	January 1, 2017
Transfers of investment property (amendments to IAS 40)	January 1, 2018
IFRS 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IFRS 1, 'First-time adoption of international financial reporting standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

Except for the following items, the above standards and interpretations have no significant impact to the Company's financial condition and operating results based on the Company's assessment. The quantitative impact will be disclosed when the assessment is complete.

a. IFRS 9 "Financial Instruments"

IFRS 9 replaces the current standards on accounting for financial instruments, IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, measured at fair value through other comprehensive income ("FVTOCI") and measured at fair value through profit or loss ("FVTPL"). This Standard eliminates the classification of financial assets under IAS 39 which are held to maturity, loans and receivables and available for sale. In addition, IAS 39 has an exception for the measurement of investments in equity instruments (and related derivatives) that do not have a quoted market price in an active market and for which fair value cannot therefore be measured reliably; such financial instruments are measured at cost. IFRS 9 removes this exception and requires that all equity instruments (and related derivatives) should be measured at fair value.

IFRS 9 requires that impairment loss on financial assets to be recognized by using the "Expected Credit Losses Model". A loss allowance is required for financial assets measured at amortized cost, investments in debt instruments measured at FVTOCI, contract assets arising from IFRS 15 "Revenue from Contracts with Customers", certain written loan commitments and financial guarantee contracts. A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full-lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full-lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For purchased or originated credit-impaired financial assets, the Company takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

On the basis of the facts and circumstances that existed as of January 1, 2018, the Company has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amount under IAS 39 and the new measurement categories and carrying amount under IFRS 9 for each class of the Company's financial assets and financial liabilities as of January 1, 2018 were as follows:

	Measurement Category		Carrying Amount	
Financial Assets	IAS 39	IFRS 9	IAS 39	IFRS 9
Cash and cash equivalents	Loans and receivables	Amortized cost	$2,756,182	$2,756,182
Derivatives	Held-for-trading	Mandatorily at fair value through profit or loss (i.e. FVTPL)	386	386
Notes and accounts receivables and other receivables	Loans and receivables	Amortized cost	9,274,198	9,274,198
Refundable deposits	Loans and receivables	Amortized cost	16,795	16,795

(a) Derivatives that previously classified as held-for-trading under IAS 39 were mandatorily classified as measured at FVTPL under IFRS 9.

(b) Cash and cash equivalents, notes and accounts receivables and other receivables and refundable deposits that were previously classified as loans and receivables under IAS 39 were classified as measured at amortized cost with an assessment of expected credit losses under IFRS 9.

As evaluated by the Company, except for reclassification of accounting items, the rules related to new classification, measurement method and impairment are considered applicable to the Company, and they do not affect the profit or loss and equity of 2018.

b. IFRS 15 "Revenue from Contracts with Customers" and related amendments

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 "Revenue," IAS 11 "Construction Contracts," and a number of revenue-related interpretations.

When applying IFRS 15, the Company shall recognize revenue by applying the following steps:

(a) Identify the contract with the customer;

(b) Identify the performance obligations in the contract;

(c) Determine the transaction price;

(d) Allocate the transaction price to the performance obligations in the contract; and

(e) Recognize revenue when the entity satisfies a performance obligation.

The Company chose retrospective applicability of International Financial Reporting Standards (IFRS) No. 15 only for the contracts that have not been completed on January 1, 2018, and no restatement of 2017 comparison information was made. The accumulated effect of initial applicability of IFRS No. 15 did not affect the retained earnings at January 1, 2018.

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

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

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

Except for the items discussed below, the Company believes that the initial adoption of abovementioned standards or interpretations would not have a material impact on its accounting policies.

IFRS 16, Leases

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, and a number of related interpretations.

Under IFRS 16, if the Company is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the parent company only balance sheets except for low-value and short-term leases. The Company may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the parent company only statements of comprehensive income, the Company should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability; interest is computed by using effective interest method. On the parent company only statements of cash flows, cash payments for the principal portion of the lease liability are classified within financing activities; cash payments for the interest portion are classified within operating activities.

The Company has handled lessee's lease contracts in accordance with IFRS 16, but it has adopted no restatement for the financial statements of the previous period. The Company may increase its right-of-use assets and lease liabilities by $59,124 thousand on January 1, 2019.

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

As of the date the following IFRSs that have been issued by the IASB, but not yet endorsed by the FSC:

New Standards, Interpretations and Amendments	Effective Date Issued by IASB
Definition of Material (amendment to IAS 1 and IAS 8)	January 1, 2020
Definition of a Business (amendment to IFRS 3)	January 1, 2020
Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	To be determined by IASB
IFRS 17, Insurance Contracts	January 1, 2021

As of the date the accompanying parent company only financial statements were issued, the Company continues in evaluating the impact on its financial position and financial performance as a result of the initial adoption of the aforementioned standards or interpretations. The related impact will be disclosed when the Company completes the evaluation.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance

The parent company only financial statements have been prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, IFRSs, IASs, Interpretations as well as related guidance translated by the ARDF endorsed by the FSC with the effective dates (collectively, "IFRSs").

(2) Basis of Preparation

The parent company only financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair value, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The subsidiaries, associates and jointly controlled entities are incorporated in the parent company only financial statements under the equity method. To make net profit for the year, other comprehensive income and equity in the parent company only financial statements equal to those attributed to owners of the Company on parent company only financial statements, the effect of the differences between basis of parent company only and basis of consolidation are adjusted in the investments accounted for using equity method, the related share of the profit or loss, the related share of other comprehensive income of subsidiaries and associates and related equity.

(3) Current and Noncurrent Assets and Liabilities

Current assets held for trading purposes and expected to be sold or consumed within one year from the balance sheet date. Current liabilities are obligations incurred for trading purposes and to be settled within one year from the balance sheet date. Assets and liabilities that are not classified as current are noncurrent assets and liabilities, respectively.

(4) Foreign Currencies

In preparing the financial statements of each individual parent company only entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the closing rates. 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. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise, except for exchange differences on transactions entered into in order to hedge certain foreign-currency risks.

c. For the items of currency receivable from or payable to foreign business operating institute, if there is no plan for liquidation or the liquidation is impossible to occur in the foreseeable future. Exchange differences arising on a monetary item that is part of a reporting entity's net investment in a foreign operation are recognized initially in other comprehensive income and reclassified from equity to profit or loss upon disposal of such investment.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are recognized in profit or loss for the year except for exchange difference arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purposes of presenting parent company only financial statements, the assets and liabilities of the Company' foreign operations (including of the subsidiaries, associates and joint ventures operating in other countries or using currencies different from the Company's) are translated into New Taiwan dollars using exchange rates prevailing at each balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity.

(5) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Including time deposits and repurchase agreements collateralized by corporate bonds.

Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operation are classified as cash equivalents.

(6) Financial Instruments

Financial assets and financial liabilities are recognized when the Company become a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss. For the determination of fair value, please refer to Note 12.

A. Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or Convention in the marketplace.

a. Measurement category

<u>2018</u>

Financial assets are classified into the following categories: financial assets at FVTPL, and financial assets at amortized cost.

A) Financial asset at FVTPL

For certain financial assets which include debt instruments that do not meet the criteria of amortized cost or FVTOCI, it is mandatorily required to measure them at FVTPL. Any gain or loss arising from remeasurement is recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest earned on the financial asset.

B) Measured at amortized cost

When a company after merger simultaneously meets the following two conditions in its investment in financial assets, the financial assets are classified as the ones carried at cost after amortization:

a) The financial assets are held under a specific operation mode, in which the purpose of the mode is to hold the financial assets in order to collect contract cash flows.

b) The cash flow generated on a specific date due to contract clauses is completely for the payment of the principal and the interest accrued from the outstanding principal amount.

Cash and cash equivalents, notes and accounts receivable, other receivables and refundable deposits are measured at amortized cost. Subsequent to initial recognition, financial assets measured at amortized cost are measured at amortized cost, which equals to carrying amount determined by the effective interest method less any impairment loss. Foreign exchange gains and losses are recognized in profit or loss.

Except for the two conditions below, the interest income is calculated by multiplying the effective interest rate by the total book value of the financial assets:

A) The interest income of the purchased or originated credit-impaired financial assets is calculated by multiplying the credit-adjusted effective interest rate by the cost of amortized financial assets.

B) The interest income of the financial assets which are not purchased or originated credit-impairment but subsequently become credit-impaired financial assets is calculated by multiplying the effective interest rate by the cost of amortized financial assets.

<u>2017</u>

Financial assets held by the Company include financial assets at fair value through profit or loss, and loans and receivables.

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

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

Financial assets that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:

a) They eliminate or significantly reduce a measurement or recognition inconsistency; or

b) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

c) Hybrid (combined) contracts

The financial assets at fair value through income statement are measured at fair value, in which the resulting profit or loss is recognized in the income statement. Such profit or loss recognized in the income statement does not include any stock dividends or interest (including those that were received in the year in which the investment was made) yielded from the financial asset in question.

(b) Available-for-sale financial assets

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

The listed stocks held by the Company are traded in the active market and therefore classified as the financial assets available for sale. They are presented at fair value at the last day of each reporting period.

Available-for-sale equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period. Such equity instruments are subsequently remeasured at fair value when their fair value can be reliably measured, and the difference between the carrying amount and fair value is recognized in profit or loss or other comprehensive income.

Available-for-sale financial assets are measured at fair value. Interest income from available-for-sale monetary financial assets and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. Dividends on available-for-sale equity instruments are recognized in profit or loss when the Company’s right to receive the dividends is established.

(c) Loans and receivables

Loan releases and receivables refer to the non-derivative financial assets without price offer in the active market and with fixed or decidable payment amounts.

Loans and receivables are non-derivative financial asserts with fired or determinable payments that are not quoted in and active market. Loans and receivables including accounts receivable, and other receivable and bond investments with no active market are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

b. Impairment of financial assets

2018

At the end of each reporting period, a loss allowance for expected credit loss is recognized for financial assets at amortized cost (including accounts receivable).

The loss allowance for accounts receivable is measured at an amount equal to lifetime expected credit losses. For financial assets at amortized cost, when the credit risk on the financial instrument has not increased significantly since initial recognition, a loss allowance is recognized at an amount equal to expected credit loss resulting from possible default events of a financial instrument within 12 months after the reporting date. If, on the other hand, there has been a significant increase in credit risk since initial recognition, a loss allowance is recognized at an amount equal to expected credit loss resulting from all possible default events over the expected life of a financial instrument.

The expected credit loss is calculated according to the average weighted credit loss in which the risk rated ratio of default occurrence is used in calculation. The 12-month expected credit loss represents the credit loss expected to occur to the financial instruments within 12 months after their reporting day due to possible default. The expected credit loss in the duration period refers to the credit loss expected to occur to the financial instruments in the expected duration period due to possible default.

The Company recognizes an impairment loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

2017

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

Financial assets carried at amortized cost, such as accounts receivable, other receivables and bond investments with no active market are assessed for impairment on a collective basis even if there is no objective evidence of impairment individually. The amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered an objective evidence of impairment. For all other financial assets, objective evidence of impairment could include: Significant financial difficulty of the issuer or counterparty; Breach of contract, such as a default or delinquency in interest or principal payments; It becoming probable that the borrower will undergo bankruptcy or financial reorganization; The disappearance of an active market for that financial asset because of financial difficulties.

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

For available-for-sale equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value after an impairment loss is recognized in other comprehensive income. In the case that the fair value of a liability instrument available for sale increases in the ensuing period, and the increase can be objectively linked to loss of reduction and recognized as the item occurring after profit or loss, the loss of reduction can be reversed and recognized in the income statement.

For financial assets carried at cost, impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. This impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is directly reduced by the impairment loss, except for trade receivables, whose carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss, and uncollectible trade receivables are written off against the allowance account.

c. Derecognition of financial assets

The Company derecognize a financial asset only when the contractual rights to the cash flows from the asset expire, or when they transfer the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset in its entirety, the difference between the asset’s carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

B. Equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

C. Financial liabilities

a. Subsequent measurement

Financial liabilities other than those held for trading purposes and designated as at FVTPL are subsequently measured at amortized cost at the end of each reporting period.

Financial liabilities measured at FVTPL are derivative financial instruments that do not meet the criteria for hedge accounting, and they are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Related net profits or net losses are listed in "other profits and losses" of the statement of comprehensive income.

b. Derecognition of financial liabilities

The Company derecognizes financial liabilities only when the obligations are discharged cancelled or expires. The difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

c. Offsetting financial instruments

Financial assets and liabilities are offset and reported in the net amount in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

D. Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks, including foreign exchange forward contracts.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instruments is negative, the derivative is recognized as a financial liability.

(7) Inventories

Inventories are included supplies, raw materials, work in process and Finished goods. Inventories are stated at the lower of cost or net realizable value. Inventories are recorded at weighted-average cost. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale.

(8) Investments Accounted for Using Equity Method

Investments accounted for using the equity method is investments in subsidiarie. A subsidiary is an entity that is controlled by the Company.

Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company's share of profit or loss and other comprehensive income of the subsidiary as well as the distribution received. The Company also recognized its share in the changes in the equity of subsidiaries.

Changes in the Company's ownership interests in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions. Any difference between the carrying amount of the subsidiary and the fair value of the consideration paid or received is recognized directly in equity.

The acquisition cost exceeding the amount of the share of the fair value of the subsidiary's recognizable assets and liabilities received by the Company on its acquisition day is listed as goodwill. Such goodwill includes the investment's book value which cannot be amortized. The amount exceeding the share of the fair value of the subsidiary's recognizable assets and liabilities received by the Company on its acquisition day is listed as the current income.

When losing the control of its subsidiary, the Company measures its residual investment in the aforesaid subsidiary according to the fair value at the day that the Company loses its control of the subsidiary. The difference between the residual investment's fair value as well as any disposal amount and the investment book value at the day that the Company loses its control is listed as the current profit or loss. In addition, the accounting treatment of all the amounts related to the subsidiary in question and recognized in the comprehensive income is same as the basis required to be complied with in the Company's direct handling of related assets or liabilities.

When the Company transacts with its subsidiaries, profits and losses resulting from the transactions with the subsidiaries are recognized in the Company's parent company only financial statements only to the extent of interests in the subsidiaries that are not owned by the Company.

(9) Property, Plant, and Equipment

Property, plant and equipment are stated at cost, less subsequent accumulated depreciation and subsequent accumulated impairment loss.

Properties under construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization.

These properties are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Depreciation is recognized using the straight-line method. Each significant item is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Depreciation is computed by the straight-line method over the estimated useful lives. The estimated useful lives are as follows:

Buildings: 5-35 years; machinery and equipment: 6-10 years; computer equipment: 3-8 years; testing equipment: 5-8 years; pollution-prevention equipment: 3-10 years; transportation equipment: 5 years; furniture and fixtures: 5-8 years; other equipment: 5-15 years.

(10) Intangible Assets

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The residual value of an intangible asset with a finite useful life is assumed to be zero unless the Group expects to dispose of the intangible asset before the end of its economic life.

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

(11) Impairment of Non-financial Assets

At each balance sheet date, the Company review the carrying amounts of their tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimate the recoverable amount of the cash-generating unit to which the asset belongs. When amortization can be reasonably and consistently made, common assets can also be amortized to individual cash production units. Otherwise, the amortization shall be made to the minimum cash production unit group in a reasonable and consistent way.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized in profit or loss.

When an impairment loss subsequently is reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(12) Provision

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

The present obligation arising from any onerous contracts shall be listed and measured as a liability reserve. When the unavoidable cost required for obligation fulfillment of a signed contract exceeds the economic effect expected to gain from the contract, the contract shall be referred to as an onerous contract.

(13) Revenue recognition

2018

When applying IFRS 15, the Company shall recognize revenue by applying the following steps:

(a) Identify the contract with the customer;

(b) Identify the performance obligations in the contract;

(c) Determine the transaction price;

(d) Allocate the transaction price to the performance obligations in the contract; and

(e) Recognize revenue when the entity satisfies a performance obligation.

Sales of goods

Revenue is recognized when the goods committed by the Company are transferred to the customer to fulfill the contract performance obligation, i.e. the revenue is recognized when the customer acquires the control right of the goods, in which the net amount of the contract price deducting estimated sales allowance is set aside and recognized. The revenue recognition amount is limited to the part where material reversal is very unlikely to occur, and the estimation is renewed at each balance sheet day. The allowance for sales discounts of the sales related estimates as of the balance sheet date is listed as the refund liabilities.

2017

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Sales returns are recognized at the time of sale provided the seller can reliably estimate future returns and recognizes a liability for returns based on previous experience and relevant factors.

A. Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

(a) The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;

(b) The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

(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 Company; and

(e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The company does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of materials ownership.

In principle, payment term granted to customers is due 30 days from the invoice date or 30 days from the end of the month of when the invoice is issued. Due to the short term nature of the receivables from sale of goods with the immaterial discounted effect, the Company measures them at the original invoice amounts without discounting.

B. Rent income, royalties income dividend income and interest income are recognized when it is probable that the economic benefits will flow to the Company and the amount of revenue can be reliably measured, recognized as follows:

(a) Rent income is recognized during the rental period at straight method.

(b) Revenue from royalties is recognized on an accrual basis in accordance with the substance of the relevant agreement and a accrued on a time basis.

(c) Dividend income is recognized when the shareholder's right to receive payment has been established.

(d) Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

(14) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of these assets, until the assets are substantially ready for their intended use or sale.

If a specific loan is used for temporary investment before being applied to the capital expenditure meeting required elements and therefore earns the investment income, it shall be deducted from the loan cost meeting the terms of capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(15) Employee Benefits

A. Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for service rendered by employees.

B. Retirement benefits

For defined contribution retirement benefit plans, payments to the benefit plan are recognized as an expense when the employees have rendered service entitling them to the contribution. For defined benefit retirement benefit plans, the cost of providing benefit is recognized based on actuarial calculations.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the Projected Unit Credit Method. Service cost (including current service cost), and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability represents the actual deficit in the Company's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

(16) Taxation

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

A. Current tax

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

Income tax on unappropriated earnings is expensed in the year the shareholders approved the appropriation of earnings which is the year subsequent to the year the earnings are generated.

B. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the parent company only financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, net operating loss carryforwards and unused tax credits to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered. The deferred tax assets which originally not recognized is also reviewed at the end of each reporting period and recognized to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the year in which the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets 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.

C. Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company’s accounting policies, which are described in Note 4, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

The following are the critical judgments, apart from those involving estimations, that the directors have made in the process of applying the Company’s accounting policies and that have the most significant effect on the amounts recognized in the parent company only financial statements.

(1) Estimated impairment of accounts receivable

When there is objective evidence of impairment loss, the Company take into consideration the estimation of future cash flows. The amount of the impairment 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. Where the actual future cash flows are less than expected, a material impairment loss may arise.

(2) Valuation of Inventory

Inventories are stated at the lower of cost or net realizable value, and the Company use judgment and estimate to determine the net realizable value of inventory at the end of each reporting period.

Due to the rapid industrial changes, the Company estimates the net realizable value of inventory for obsolescence and unmarketable items at the end of reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions of future demand within a specific time horizon.

(3) Impairment of non-financial Assets

In the process of evaluating the potential impairment of tangible and intangible assets other than goodwill, the Company is required to make subjective judgments in determining the independent cash flows, useful lives, expected future revenue and expenses related to the specific asset groups with the consideration of the nature of semiconductor industry. Any changes in these estimates based on changed economic conditions or business strategies could result in significant impairment charges or reversal in future years.

(4) Revenue Recognition

In principle, goods sales revenue is recognized when the contract performance obligation is met, in which the terms are described as per Note 4. The Company records a provision for estimated future returns and other allowances in the same period the related revenue is recorded. Provision for estimated sales returns and other allowances is generally made and adjusted at a specific percentage based on historical experience and any known factors that would significantly affect the allowance, and our management periodically reviews the adequacy of the percentage used.

(5) Realization of deferred income tax assets

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. Assessment of the realization of deferred income tax assets involves critical accounting judgments and estimates of the management, including the assumptions of expected future sales revenue growth rate and profit rate, tax exempt duration, available tax credits, tax planning, etc. Any variations in global economic environment, industrial environment, and laws and regulations might cause material adjustments to deferred income tax assets.

6. CONTENTS OF SIGNIFICANT ACCOUNTS

(1) CASH AND CASH EQUIVALENTS

	December 31, 2018	December 31, 2017
Cash on hand	$ 3,454	$ 2,285
Demand deposits and checking accounts	749,779	1,165,030
Cash equivalent		
Time deposits	2,002,949	2,915,614
Repurchase agreements collateralized by government bonds	–	273,073
Total	$ 2,756,182	$ 4,356,002

(A) The bank deposits and bonds interest rate as of December 31, 2018 and 2017 were as follows:

	December 31, 2018	December 31, 2017
Demand deposits	0.001%～0.48%	0.001%～0.40%
Time deposits	0.60%～3.73%	0.59%～4.30%
Repurchase agreements collateralized by government bonds	－	0.37%～1.70%

(B) The Company’s bank time deposit certificates which are three months past the initial due dates are listed under the item of other financial assets-current. Please refer to note 6(5).

(2) FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

(A) Financial assets held for trading-current

	December 31, 2017
Derivative financial instruments	
Forward exchange contracts	$ 386

(a) For the years ended December 31, 2018 and 2017, the main purpose for the Company to engage in forward exchange contracts transactions is to evade the risk resulting from the fluctuation of currency exchange rate. However, those derivative assets and liabilities did not meet the criteria of hedge effectiveness and therefore were not accounted for by using hedge accounting.

(b) The contracts resulted in net loss of $29,051 thousand in 2018 and net gain of $23,719 thousand (including realized gain $12,489 thousand and the appraisal gain $11,230 thousand) in 2017.

(c) The undue derivative financial products were as follows:

	Currency	Maturity	Contract Amount (in thousand)
December 31, 2017			
Sell	US$ / NT$	January 11, 2018 to January 25, 2018	US$ 6,000

(3) NOTES AND ACCOUNTS RECEIVABLE- NET

	December 31, 2018	December 31, 2017
Notes receivable	$ 7	$ 77
Accounts receivable	8,865,577	7,663,501
Less: Loss allowance	(120,330)	(194,363)
Less: Allowance for sales returns and discounts	—	(264,180)
Net	8,745,247	7,204,958
Receivables from related parties	105,244	185,110
Total	$ 8,850,491	$ 7,390,068

(A) The Company's notes receivable are all undue.

(B) The Company does not hold any collateral for its notes receivable and accounts receivable.

(C) The Company has adopted IFRS No. 15 as of January 1, 2018, with which the estimated allowance for sales discounts is listed as the refund liabilities. As of December 31, 2018, the balance of the refund liabilities was $400,852 thousand (listed as other current liabilities).

(D) 2018

(a) In principle, the Company's credit period for its customers in the Asian region is 90 days after the close of the month. As for other foreign regions, it is 80 – 90 days after the shipping date. The Company has adopted IFRS No.9 as of January 1, 2018 to evaluate impairment, while it adopted International Accounting Standard No. 39 to evaluate impairment before January 1, 2018.

(b) As of January 1, 2018, the Company has again adopted IFRS No. 9 to recognize the loss on reduction of receivables according to the expected credit loss occurring in the duration period. Accounts receivable are grouped according to the risk characteristics of customer's credit rating, which have been incorporated into the prospective information. The evaluation of the expected credit loss in the duration period is made by considering customer's past default record and existing financial status as well as economic growth.

(c) Analysis of expected credit losses as of December 31, 2018, which was measured based on the aforementioned method, was as follows:

	Carrying amount of accounts receivable		Expected credit loss rate	Loss allowance for lifetime expected credit losses	
Non past due	$	8,604,737	0%～10%	$	11,964
Past due less than 30 days		239,578	0%～10%		15,083
Past due 31-100 days		32,298	0%～10%		105
Past due less than 101-180 days		1,895	50%～60%		865
Past due 181-365 days		92,313	100%		92,313
Total	$	8,970,821		$	120,330

(E) 2017

(a) The Company's credit policy of 2017 is same as the aforesaid credit policy adopted in 2018. The allowance for doubtful receivables is assessed by reference to the collectability of receivables by performing the account aging analysis, historical experience and current financial condition of customers.

(b) Except for those impaired, for the rest of the notes and accounts receivable, the account aging analysis at the end of the reporting period is summarized in the following table. Notes and accounts receivable include amounts that are past due but for which the Company has not recognized an allowance for doubtful receivables after the assessment since there has not been a significant change in the credit quality of its customers and the amounts are still considered recoverable.

(c) Aging analysis of notes and accounts receivable

	December 31, 2017	
Neither past due nor impaired	$	7,239,624
Past due but not impaired		
Less than 30 days		150,444
31-60 days		—
61-180 days		—
180-365 days		—
Total	$	7,390,068

The above aging schedule was based on the past due date.

(F) Movements of the allowance for doubtful accounts were as follows:

	For the Year Ended December 31, 2018	For the Year Ended December 31, 2017		
		Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance, beginning of the period (IAS 39)	$ 194,363	$ 159,093	$ 10,177	$ 169,270
Effect of retrospective application of IFRS 9	–			
Balance at January 1, 2018 (IFRS 9)	194,363			
Provision (Reversal)	(73,338)	23,846	1,249	25,095
Amount written off	(695)	(2)	–	(2)
Balance, end of the period	$ 120,330	$ 182,937	$ 11,426	$ 194,363

(G)The Company has signed a non recourse accounts receivable factoring agreement with the financial institution. Based on the factoring agreements, losses from trade disputes (such as those on sales returns and discounts) are borne by the Company while losses from credit are borne by the banks. These accounts receivable met the derecognition criteria for financial assets had transfer to other receivable.

The accounts receivables meeting the deletion terms have been transferred to the account of other receivables, as of December 31, 2018 and December 31, 2017, these accounts receivable met the derecognized criteria were as follows:

December 31, 2018

Purchaser of accounts receivable	Receivables sold	Credit Line (in thousand)	Advances Received	Interest Rate	Derecognized amount
Financial institution	$ 392,689	$ 4,745,468	$ 382,592	Note	$ 391,455

December 31, 2017

Purchaser of accounts receivable	Receivables sold	Credit Line (in thousand)	Advances Received	Interest Rate	Derecognized amount
Financial institution	$ 1,295,061	$ 3,452,160	$ 1,239,242	Note	$ 1,295,061

Note: The interest rate of the withdrawn credit line is as per the agreed interbank interest rate, and the rate is determined piece by piece.

The above credit lines may be used on a revolving basis.

(4) INVENTORIES

	December 31, 2018	December 31, 2017
Raw materials	$ 339,548	$ 396,245
Supplies	86,798	75,926
Work in process	379,019	502,322
Finished goods	612,947	729,820
Goods	265,466	289,609
Total	$ 1,683,778	$ 1,993,922

(A) As of December 31, 2018 and 2017, the allowance for inventory devaluation (including normal and idle products) were $921,628 thousand and $915,426 thousand, respectively.

(B) The cost of inventories recognized as cost of sales for the years ended December 31, 2018 and 2017 were as follows:

	For the Year Ended December 31	
	2018	2017
The cost of goods sold	$ 31,828,876	$ 33,238,146
Provision for (Reversal of) loss on inventories	(33,516)	65,031
Loss (gain) on physical inventory	—	565
Loss on scrapped inventories	339,017	518,548
Income from scrap sales	(208,932)	(265,741)
Idle capacity cost	614,738	49,857
Total	$ 32,540,183	$ 33,606,406

(5) OTHER CURRENT FINANCIAL ASSETS

	December 31, 2018
Non-cash equivalent of time deposits	$ 546,876

The interest rate interval of the balance sheet date of the financial were as follows:

	December 31, 2018
Interest rate interval	3.10%～3.48%

(6) INVESTMENT ACCOUNTED FOR EQUITY METHOD

Subsidiaries	Carrying Amount December 31, 2018	Carrying Amount December 31, 2017	% of Ownership and Voting Right Held by the Company December 31, 2018	% of Ownership and Voting Right Held by the Company December 31, 2017
Subsidiaries:				
HUATON HOLDINGS LIMITED	$ 18,035,088	$ 16,515,663	100.00%	100.00%
PELICAN COVE INVESTMENT LTD.	597,300	570,106	100.00%	100.00%
Hua Nian Investment Ltd.	174,810	187,987	100.00%	100.00%
LITON HOLDINGS LIMITED	1,834	1,906	100.00%	100.00%
Total	$ 18,809,032	$ 17,275,662		

The equity method was adopted for recognizing subsidiary’s profit or loss and the share of other comprehensive profit or loss of 2018 and 2017, in which the recognition was calculated according to the subsidiary’s financial statements audited by the CPA in the same period.

(7) PROPERTY, PLANT AND EQUIPMENT

For the Year Ended December 31, 2018

Item	Balance, Beginning of year	Additions	Disposals	Reclassifications	Balance, End of year
Cost					
Land	$ 674,929	$ —	$ —	$ —	$ 674,929
Buildings and structures	3,504,620	49,785	(23,097)	—	3,531,308
Machinery and equipment	11,386,148	637,897	(276,120)	(124,078)	11,623,847
Computer equipment	123,809	3,023	(9,218)	—	117,614
Testing equipment	1,461,080	174,460	(121,028)	103,530	1,618,042
Pollution Prevention equipment	561,483	31,999	(9,041)	—	584,441
Transportation equipment	44,651	1,370	(2,022)	—	43,999
Office equipment	57,028	—	(2,206)	—	54,822
Other facilities	3,862,498	430,052	(97,804)	20,548	4,215,294
Construction in progress	583,567	(264,710)	—	—	318,857
Total	$ 22,259,813	$ 1,063,876	$ (540,536)	$ —	$ 22,783,153
Accumulated depreciation and impairment					
Buildings and structures	$ 2,659,654	$ 110,636	$ (21,421)	$ —	$ 2,748,869
Machinery and equipment	6,199,244	790,297	(220,777)	(58,983)	6,709,781
Computer equipment	95,188	8,773	(8,405)	—	95,556
Testing equipment	713,678	104,564	(85,984)	52,022	784,280
Pollution Prevention equipment	359,030	28,070	(8,474)	—	378,626
Transportation equipment	23,200	4,362	(1,362)	—	26,200
Office equipment	54,669	146	(2,047)	—	52,768
Other facilities	2,933,352	205,330	(92,350)	6,961	3,053,293
Total	13,038,015	$ 1,252,178	$ (440,820)	$ —	13,849,373
Net	$ 9,221,798				$ 8,933,780

Item	For the Year Ended December 31, 2017 Balance, Beginning of year	Additions	Disposals	Reclassifications	Balance, End of year
Cost					
Land	$ 674,929	$ —	$ —	$ —	$ 674,929
Buildings and structures	3,452,431	62,960	(10,771)	—	3,504,620
Machinery and equipment	10,528,088	1,558,234	(700,174)	—	11,386,148
Computer equipment	119,639	9,955	(5,785)	—	123,809
Testing equipment	1,170,203	459,947	(169,070)	—	1,461,080
Pollution Prevention equipment	518,143	52,713	(9,373)	—	561,483
Transportation equipment	42,756	7,917	(6,022)	—	44,651
Office equipment	58,593	—	(1,565)	—	57,028
Other facilities	3,638,611	272,031	(48,144)	—	3,862,498
Construction in progress	624,091	(40,524)	—	—	583,567
Total	$ 20,827,484	$ 2,383,233	$ (950,904)	$ —	$ 22,259,813
Accumulated depreciation and impairment					
Buildings and structures	$ 2,565,827	$ 104,084	$ (10,257)	$ —	$ 2,659,654
Machinery and equipment	6,080,057	743,355	(624,168)	—	6,199,244
Computer equipment	91,632	8,979	(5,423)	—	95,188
Testing equipment	788,680	78,232	(153,234)	—	713,678
Pollution Prevention equipment	342,690	25,170	(8,830)	—	359,030
Transportation equipment	23,811	4,233	(4,844)	—	23,200
Office equipment	55,963	186	(1,480)	—	54,669
Other facilities	2,823,230	154,833	(44,711)	—	2,933,352
Total	12,771,890	$ 1,119,072	$ (852,947)	$ —	13,038,015
Net	$ 8,055,594				$ 9,221,798

(A) The significant part of the Company's buildings include main plants and affiliated equipment and the related depreciation is calculated using the estimated useful lives of 20 to 35 years, and 5 to 30 years, respectively.

(B) The Company mortgaged or pledged property, plant and equipment, see Note 8.

(8) INTANGIBLE ASSETS

Item	For the Year Ended December 31, 2018 Balance, Beginning of year	Additions	Disposals	Balance, End of year
Cost				
Software and system cost	$ 91,397	$ 22,315	$ (9,186)	$ 104,526
Accumulated amortization				
Software and system cost	49,803	15,654	(9,186)	56,271
Net	$ 41,594	$ 6,661	$ —	$ 48,255

Item	For the Year Ended December 31, 2017 Balance, Beginning of year	Additions	Disposals	Balance, End of year
Cost				
Software and system cost	$ 90,829	$ 8,325	$ (7,757)	$ 91,397
Accumulated amortization				
Software and system cost	46,385	11,175	(7,757)	49,803
Net	$ 44,444	$ (2,850)	$ —	$ 41,594

Amortization for 2018 and 2017 were recognized in operating cost and operating expenses $450 thousand, $15,204 thousand, $2,523 thousand, $8,652 thousand, respectively.

(9) NOTES PAYABLE AND ACCOUNTS PAYABLE

	December 31, 2018	December 31, 2017
Notes payable	$ —	$ —
Account payable	1,964,660	1,994,599
Payable to related parties	4,671,209	3,824,888
Total	$ 6,635,869	$ 5,819,487

(A) The average credit purchase period of payables is 60 to 120 days. The Company has set up its financial risk management policy, so as to ensure that all the payables could be liquidated within the agreed credit period.

(B) For the disclosure of the Company's payables exposing currency and liquidity risks and other payables, please refer to Note 12.

(10) OTHER PAYABLES

	December 31, 2018	December 31, 2017
Machinery and Equipment payable	$ 581,480	$ 1,007,323
Employee Bonus payable	71,902	90,192
Salary and wages payable	88,214	137,519
Annual bonuses payable	353,825	560,651
Commissions payable	80,633	145,076
Processing payable	154,388	305,101
Maintenance payable	178,924	160,630
Interest payable	3,523	2,386
Employee vacation payable	55,360	53,749
Freight charge payable	46,899	41,074
Compensation payable	209,877	275,061
Other payable	183,111	136,830
Total	$ 2,008,136	$ 2,915,592

(11) PROVISIONS- CURRENT

	For the Year Ended December 31, 2018		
	Other	Onerous contracts	Total
Balance, beginning of the year	$ 144,850	$ 14,348	$ 159,198
Recognized (Reversed)	11,722	(9,722)	2,000
Balance, end of the period	$ 156,572	$ 4,626	$ 161,198

	For the Year Ended December 31, 2017		
	Other	Onerous contracts	Total
Balance, beginning of the year	$ 117,344	$ 1,820	$ 119,164
Recognized (Reversed)	27,506	12,528	40,034
Balance, end of the period	$ 144,850	$ 14,348	$ 159,198

(A) Other liability reserves refer to the estimation of the accrued expenses with the liability reserve character, which is written off when the expense is incurred.

(B) The onerous contract loss reserve refers the loss on onerous contracts recognized due to the fulfillment cost of signed contracts exceeding expected economic effect. The estimation is written off when a contract is fulfilled.

(C) Given that the aforesaid reserve was prepared for the short run or for discount and the impact was not significant, they were not discounted.

(12) LONG-TERM BORROWINGS

Creditors	Description	No.	December 31, 2018 Amount	December 31, 2017 Amount	Expiry Date
Chang Hwa Bank	Secured borrowings	1	$ —	$ 400,000	07/11/2019
Land Bank of Taiwan	〃	1	—	400,000	11/25/2019
Mega International Commercial-Bank	〃	1	—	150,000	12/29/2019
Hua Nan Commercial Bank	〃	2	100,000	—	06/22/2020
Chang Hwa Bank	〃	1	400,000	—	09/11/2021
Land Bank of Taiwan	〃	1	400,000	—	10/12/2021
Mega International Commercial-Bank	〃	1	150,000	—	10/22/2021
Bank of Taiwan	Unsecured borrowings	2	—	200,000	08/22/2019
Bank of Taiwan	〃	3	—	250,000	09/29/2019
CTBC Bank	〃	4	153,846	307,692	12/08/2019
Bank of Panshin	〃	5	—	100,000	03/25/2020
E. Sun Bank	〃	1	200,000	—	07/04/2020
KGI Bank	〃	6	300,000	300,000	09/28/2020
Taipei Fubon commercial Bank (Union lean)	〃	7	3,780,000	4,200,000	07/29/2021
Industrial Bank of Taiwan	〃	8	194,118	264,706	08/15/2021
Far Eastern International Bank	〃	9	250,000	—	08/18/2021
Bank of Taiwan	〃	1	500,000	—	09/06/2021
Bank of Panshin	〃	10	100,000	—	11/30/2021
Total			$ 6,527,964	$ 6,572,398	
Current			$ 1,114,434	$ 644,434	
Noncurrent			$ 5,413,530	$ 5,927,964	
Rate			1.000%~1.797%	1.263%~1.790%	

(A) Please refer to Note 8. For property, plant and equipment pledged as collateral for long-term borrowing.

(B) Explanation:

No.1: Three-year term loan, become due once repay, interest to be paid monthly.

No.2: Two-year term loan, become due once repay, interest to be paid monthly.

No.3: Three-year term loan, repayable in 6 installments, interest to be paid monthly.

No.4: Five-year term loan, repayable in 13 installments, interest to be paid monthly.

No.5: Two-and-a-half-year term loan, repayable in 4 installments, interest to be paid monthly.

No.6: Three-year term loan, repayable in 3 installments, interest to be paid monthly.

No.7: Five-year term loan, repayable in 7 installments, interest to be paid monthly. Also, as agreed, within the loan duration, specific current ratio, debt ratio and times of interest earned shall be maintained in accordance with the yearly and half yearly consolidated financial statements.

No.8: Seven-year term loan, repayable in 17 installments, interest to be paid monthly.

No.9: Three-year one month term loon, become due once repay, interest to be paid monthly.

NO.10: Three-year term loan, repayable in 5 installments, interest to be paid monthly.

(13) RETIRED BENEFIT PLANS

(A) Defined contribution plans

The Compeq Company adopted a pension plan according to the Labor Pension Act (the “LPA”), which is a defined contribution plan. Based on the LPA, the Corporation makes monthly contributions to employees’ individual pension accounts at 6% of monthly salaries and wages. Accordingly the Company recognized expenses of $105,471 thousand and $104,764 thousand in the parent company only statements of comprehensive income ended December 31, 2018 and 2017, respectively.

(B) Defined benefit plans

(a) The Compeq Company adopted the defined benefit plan under the Labor Standards Law, under which pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The company contributed amounts equal to 5% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name.

Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Company has no right to influence the investment policy and strategy.

(b) The pension costs of the aforementioned defined benefit plans recognized in profit or loss were as follows:

	For the Year Ended December 31	
	2018	2017
Current service cost	$ 17,870	$ 21,363
Net interest on the defined benefit liabilities	9,633	12,190
Recognized in profit or loss	27,503	33,553
Remeasurement:		
Expected return on plan assets	(25,926)	5,963
Actuarial loss (gain) arising from experience adjustments	20,146	(12,244)
Actuarial loss (gain) arising from changes in demographic assumptions	(123)	2,704
Actuarial loss (gain) arising from changes in financial assumptions	45,804	49,246
Components of defined benefit cost recognized in other comprehensive income	39,901	45,669
Total	$ 67,404	$ 79,222

The pension costs of the aforementioned defined benefit plans were recognized in profit or loss by the follows categories:

	For the Year Ended December 31	
	2018	2017
Operating costs	$ 21,389	$ 27,984
Selling and marketing expenses	385	390
General and administrative expenses	2,985	3,593
Research and development expenses	2,744	1,586
Total	$ 27,503	$ 33,553

(c) The amount arising from the defined benefit obligations of the Company in the parent company only balance sheets were as follows:

	December 31, 2018	December 31, 2017
Present value of defined benefit obligation	$ 1,720,726	$ 1,802,330
Fair value of plan assets	(953,463)	(983,104)
Net defined benefit liabilities	$ 767,263	$ 819,226

(d) Movements in the present value of the defined benefit obligations were as follows:

	For the Year Ended December 31	
	2018	2017
Balance, beginning of year	$ 1,802,330	$ 1,832,563
Current service cost	17,870	21,363
Interest cost	22,200	27,135
Benefits paid directly by the Company	(187,501)	(118,437)
Defined benefit obligation pre-registration	1,654,899	1,762,624
Re-measurement:		
Actuarial loss (gain) arising form experience adjustment	20,146	(12,244)
Actuarial loss (gain) arising form changes in demographic assumptions	(123)	2,704
Actuarial loss (gain) arising from changes in financial assumptions	45,804	49,246
Ending of defined benefit obligation	$ 1,720,726	$ 1,802,330

(e) Movements in the fair value of the plan assets were as follows:

	For the Year Ended December 31	
	2018	2017
Balance, beginning of year	$ 983,104	$ 968,948
Expected return on plan assets	12,567	14,945
Re-measurement:		
Return on plan assets	25,926	(5,963)
Contributions from the employer	119,367	123,611
Benefits paid from plan assets	(187,501)	(118,437)
Balance, end of year	$ 953,463	$ 983,104
Actual return of plan assets	$ 38,492	$ 8,982

(f) The fair value of the plan assets by major categories at the end of reporting period were as follows:

	December 31, 2018	December 31, 2017
Cash and cash equivalents	$ 953,463	$ 983,104

(g) The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The principal assumptions of the actuarial valuation were as follows:

	December 31, 2018	December 31, 2017
Discount rate	1.00%	1.25%
Future salary rate increase	1.00%	1.00%

Through the defined benefit plans under the Labor Standards Law, the Company is exposed to the following risks:

a. Investment risk: The pension funds are invested in equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the government's designated authorities or under the mandated management. However, under the Labor Standards Law, the rate of return on assets shall not be less than the average interest rate on a two-year time deposit published by the local banks and the government is responsible for any shortfall in the event that the rate of return is less than the required rate of return.

b. Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the debt investments of the plan assets.

Assuming a hypothetical decrease in interest rate at the end of the reporting period contributed to a decrease of 0.25% in the discount rate and all other assumptions were held constant, the present value of the defined benefit obligation would increase by $47,637 thousand and $51,375 thousand as of December 31, 2018 and 2017, respectively.

c. Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

Assuming the expected salary rate increases by 0.25% at the end of the reporting period and all other assumptions were held constant, the present value of the defined benefit obligation would increase by $47,517 thousand and $51,375 thousand as of December 31, 2018 and 2017, respectively.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognized in the parent company only balance sheets.

(h) The Company expects to make contributions of $50,838 thousand to the defined benefit plans in the next year starting from December 31, 2018. The weighted average duration of the defined benefit obligation is 10 years.

(14). EQUITY

(A) Capital stock

	December 31, 2018	December 31, 2017
Numbers of shares authorized	$ 16,000,000	$ 16,000,000
Shares issued	$ 11,918,206	$ 11,918,206

(a) The capital stock represents common stock with 10 dollars par value, and carry one vote per share and the right to dividends.

(b) The Compeq Company's authorized capital was $16,000,000 thousand by Ministry of Economic Affairs, including 100,000 thousand shares reserved for the conversion of employee's stock warrants and 308,179 thousand shares of convertible bonds payable, which have not been issued.

(B) Capital surplus

	December 31, 2018	December 31, 2017
Convertible bonds	$ 935,127	$ 935,127
Accrued interest-premium of convertible bonds	30,609	30,609
Other	51,162	51,162
Total	$ 1,016,898	$ 1,016,898

Under the Securities and Exchange Act, capital surplus can only be used to offset a deficit when reserves are insufficient. However, the capital surplus from share issued in excess of par (additional paid-in capital from issuance of common shares, conversion of bonds and treasury stock transactions) and donations may be capitalized, which however is limited to 10% of the Company's paid-in capital and once a year. Under the Company Act newly revised on January 4, 2012, capital surplus shall be distributed by cash. Also, the capital surplus from long-term investments may not be used for any purpose.

(C) Retained earnings

(a) The Compeq Company’s articles of incorporation are as follows:

After the annual accounting settlement, if The Compeq Company has any earnings left, it shall first use the earnings to cover losses by law, followed by setting aside 10% of the remaining earnings as the legal surplus reserve. However, it is not limited to the circumstance where the legal surplus reserve has already reached the paid-up capital. Then, after setting aside the legal surplus reserve as required by law or competent authorities or reversing the special surplus reserve, the balance becomes the distributable earnings of the prevailing year. The distributable earnings of the prevailing year along with the undistributed earnings accumulated in the beginning of the same period are the earnings available for distribution, which shall be distributed in accordance with the principle below:

a. Given that The Compeq Company is in the technology industry and by considering the needs for reinforcing its corporate financial structure, fostering its operating earnings and expanding its business scale, it plans to adopt the residual dividend policy to strength its growth and sustainable operation.

b. According to the factors in the current and future investment environment, capital requirements, profitability, local and foreign competition status and capital budgeting, the board of directors of The Compeq Company plans to draft an earnings distribution proposal, which will be resolved by the board of shareholders. When distributing earnings, the earnings to be distributed shall come from those that are available for distribution, and, in principle, the contribution amount shall be no lower than 10% of the distributable earnings of the prevailing year.

c. The Compeq Company may distribute its earnings by cash or stock, in which, in principle, the ratio of cash dividend shall not be lower than 50% of the total dividend amount.

(b) The Compeq Company has separately set up its employee remuneration distribution policy in its articles of incorporation. The information about the employee and director's compensation, please refer to Note 6(22).

(c) According to the revised Company Law, effective January 2012, the appropriation for legal capital reserve shall be made until the reserve equals the Company's paid-in capital. The reserve may be used to offset a deficit, or be distributed as dividends in cash or stocks for the portion in excess of 25% of the paid-in capital if the Company incurs no loss.

(d) Pursuant to existing regulations, The Compeq Company is required to set aside additional special reserve equivalent to the net debit balance of the other components of shareholders' equity items (including exchange differences on translating foreign operations, unrealized gain [loss] on available-for-sale financial assets, and the gain or loss on the hedging instrument relating to the effective portion of a cash flow hedge). For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

(e) Under Rule No. 1010012865 issued by the FSC on April 6, 2012 on the first-time adoption of Taiwan-IFRSs, the Compeq Company should appropriate to a special reserve an amount that is the same as these of unrealized revaluation increment and cumulative translation differences (gains) transferred to retained earnings as a result of the Compeq Company's use of exemptions under IFRS 1. However, at the date of transition to Taiwan-IFRSs, if the increase in retained earnings that resulted from all Taiwan-IFRSs adjustments is not sufficient for this appropriation, only the increase in retained earnings that resulted from all Taiwan-IFRSs adjustments will be appropriated to special reserve. This special reserve may be reversed in proportion to the usage, disposal or reclassification of the related assets and thereafter distributed. The Copmeq Company without appropriated the special reserve because the unrealized revaluation increment and cumulative translation differences (gains) transferred to retained earnings were both recognize $0 thousand.

(f) The Compeq appropriations of earnings for 2018 had been proposed in the meeting of Board of Directors held on March 13, 2019. The appropriations and dividends per share were as follow:

	Appropriation of Earnings	Dividends per Share (NT$)
Legal reserve	$ 239,973	
Cash dividends	953,456	0.80
Total	$ 1,193,429	

The appropriations of earnings, profit sharing to employees and bonus to members of the Board of Directors for 2018 are to be presented for approval in the Compeq's shareholders' meeting to be held on June 13, 2019 (expected).

(g) The Compeq Company's earning allocation for the previous year of 2017 and 2016, were approved in the regular meeting of shareholders on June 14, 2018 and on June 16, 2017, respectively. The actual allocation of employees' bonus and remuneration to director auditors is the same as the proposed allocation passed by the board of directors. The appropriations and dividends per share were as follows:

	For Fiscal Year 2017		For Fiscal Year 2016	
	Appropriation of Earnings	Dividends per Share (NT$)	Appropriation of Earnings	Dividends per Share (NT$)
Legal reserve	$ 357,704		$ 162,540	
Cash dividends	1,430,185	$ 1.20	715,092	$ 0.60
Total	$ 1,787,889		$ 877,632	

(D) Other equity items

	For the Year Ended December 31, 2018	For the Year Ended December 31, 2017
Balance, beginning of year	$ 452,766	$ 668,129
Exchange differences on translating foreign operations	(366,613)	(259,473)
Exchange differences on translating foreign operations income tax	56,957	44,110
Balance, end of year	$ 143,110	$ 452,766

(15) EARNINGS PER SHARE

	For the Year Ended December 31	
	2018	2017
Basic EPS	$ 2.01	$ 3.00
Diluted EPS	$ 2.00	$ 2.99

EPS is computed as follows:

(A) Basic earnings per share

	For the Year Ended December 31	
	2018	2017
Loss for the period attributable to owners of the Corporation	$ 2,399,731	$ 3,577,044
Weighted average number of ordinary shares outstanding (in thousand shares)	1,191,821	1,191,821
Basic EPS	$ 2.01	$ 3.00

(B) Diluted earnings per share

	For the Year Ended December 31	
	2018	2017
Loss for the period attributable to owners of the Corporation	$ 2,399,731	$ 3,577,044
Weighted average number of ordinary shares outstanding (in thousand shares)	1,191,821	1,191,821
Assumed conversion of all dilutive potential ordinary shares		
Employees' remuneration (in thousand shares)	5,909	3,933
Weighted average number of dilutive ordinary shares outstanding (in thousand shares)	1,197,730	1,195,754
Diluted EPS	$ 2.00	$ 2.99

(16) OPERATING REVENUES

The analysis of the Company operating revenues was as follows:

	For the Year Ended December 31	
	2018	2017
Taiwan	$ 767,863	$ 503,644
United States	230,492	327,289
Asia	33,783,200	35,721,902
Europe	153,929	427,897
Other	37,019	177,241
Total	$ 34,972,503	$ 37,157,973

(17) OTHER INCOME

	For the Year Ended December 31	
	2018	2017
Interest income	$ 52,135	$ 25,809
Rent income	229	229
Premium income	331,444	258,657
Other income, other	297,900	273,228
Total	$ 681,708	$ 557,923

(18) OTHER GAINS AND LOSSES

	For the Year Ended December 31	
	2018	2017
Gains on disposal of property, plant and equipment (losses)	$ (27,252)	$ (36,845)
Foreign exchange gains (losses)	114,505	(344,785)
Gains on financial assets (liabilities) at fair value through profit or losses	(29,051)	23,719
Onerous contracts (losses)	9,722	(12,528)
Miscellaneous disbursements	(171,906)	(474,443)
Total	$ (103,982)	$ (844,882)

(19) FINANCE COSTS

	For the Year Ended December 31	
	2018	2017
Interest expense	$ 139,053	$ 143,570
Procedural expense	9,126	—
Less: interest capitalized	(4,133)	(5,948)
Total	$ 144,046	$ 137,622
Interest rates	1.624%~1.686%	1.628%~1.727%

(20) SHARE OF PROFIT OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

	For the Year Ended December 31	
	2018	2017
Share of profit of subsidiaries	$ 1,903,514	$ 2,585,204

(21) INCOME TAX

(A) Income tax recognized in profit or loss

(a) Income tax expense consisted of the following:

	For the Year Ended December 31	
	2018	2017
Current income tax expense		
Current tax expense recognized in the current year	$ 486,890	$ 450,545
Additional 10% tax on undistributed earnings	175,125	74,784
Adjustments for prior year's income tax	—	10,844
	662,015	536,173
Deferred income tax expense (benefit)		
The origination and reversal of temporary difference	211,125	285,704
Effect of tax change	205,228	—
	416,353	285,704
Income tax expense recognized in profit or loss	$ 1,078,368	$ 821,877

(b) A reconciliation of income before income tax and income tax expense recognized in profit or loss was as follows:

	For the Year Ended December 31	
	2018	2017
Tax calculated base on profit before tax and statutory tax rate	$ 695,620	$ 747,817
Tax effect of adjusting items:		
Nondeductible (deductible items in determining taxable income	(208,730)	(297,272)
Additional income tax on undistributed earnings	175,125	74,784
The origination and reversal of temporary difference	211,125	285,704
Adjustments for prior year's income tax	—	10,844
Effect of tax change	205,228	—
Income tax expense recognized in profit or loss	$ 1,078,368	$ 821,877

For the year ended December 31, 2017, the Company applied a tax rate of 17% for entities subject to the R.O.C. Income Tax Law. In February 2018, the Income Tax Law in the R.O.C. was amended and, starting from 2018, the corporate income tax rate was adjusted from 17% to 20%. As a result of the change in the tax rate, the deferred income tax expense required to be recognized in profit or loss has all been fully recognized in the period where the tax rate was changed. In addition, the tax rate for 2018 unappropriated earnings was reduced from 10% to 5%.

Given that the earnings distribution will not be finalized until the 2019 shareholders' meeting is held, the potential income tax effect of imposition income tax on the 2018 undistributed earnings has yet to be reliably determined.

(B) Current tax assets and liabilities

	December 31, 2018	December 31, 2017
Current tax liabilities		
Income tax payable	$ 520,429	$ 481,759

(C) Income tax expense (benefit) recognized in other comprehensive income

	For the Year Ended December 31	
	2018	2017
Deferred tax expenses (income)		
Effect of tax rate change		
Exchange differences on translation of foreign operations	$ 16,365	$ —
Remeasurement of defined benefit obligation	(7,895)	—
	8,470	—
Current year		
Exchange differences on translation of foreign operations	(73,322)	(44,110)
Remeasurement of defined benefit obligation	(7,980)	(7,764)
	(81,302)	(51,874)
Income tax expense (benefit) recognized in the components of other comprehensive income	$ (72,832)	$ (51,874)

(D) Deferred income tax balance

(a) The analysis of deferred income tax in the parent company only Balance Sheets was as follows:

	For the Year Ended December 31, 2018			
	Balance, Beginning of year	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Balance, End of year
Temporary difference				
Accounts receivable	$ 68,937	$ 22,588	$ —	$ 91,525
Inventories	157,331	34,219	—	191,550
Property, plant and equipment	289	(161)	—	128
Other payables	85,544	(4,246)	—	81,298
Provisions	9,464	2,070	—	11,534
Net defined benefit liabilities	142,606	(1,101)	15,875	157,380
Other current liabilities	29,387	6,045	—	35,432
Unrealized loss on exchange	7,645	(5,795)	—	1,850
Deferred tax assets	$ 501,203	$ 53,619	$ 15,875	$ 570,697
Temporary difference				
Investment gain	$ 1,581,291	$ 480,545	$ —	$ 2,061,836
Exchange difference on foreign operations	92,736	—	(56,958)	35,778
Compensation income	38,065	(10,507)	—	27,558
Financial assets at fair value through profit or loss	65	(65)	—	—
Deferred tax liabilities	$ 1,712,157	$ 469,973	$ (56,958)	$ 2,125,172

	For the Year Ended December 31, 2017			
	Balance, Beginning of year	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Balance, End of year
Temporary difference				
Financial liabilities fair value through profit or loss	$ 1,843	$ (1,843)	$ —	$ —
Accounts receivable	42,940	25,997	—	68,937
Inventories	79,860	77,471	—	157,331
Property, plant and equipment	289	—	—	289
Other payables	42,873	42,671	—	85,544
Provisions	3,257	6,207	—	9,464
Net defined benefit liabilities	150,152	(15,310)	7,764	142,606
Other current liabilities	24,621	4,766	—	29,387
Unrealized loss on exchange	—	7,645	—	7,645
Deferred tax assets	$ 345,835	$ 147,604	$ 7,764	$ 501,203
Temporary difference				
Investment gain	$ 1,141,452	$ 439,839	$ —	$ 1,581,291
Exchange difference on foreign operations	136,846	—	(44,110)	92,736
Unrealized gain on exchange	6,224	(6,224)	—	—
Compensation income	24,797	13,268	—	38,065
Financial assets at fair value through profit or loss	—	65	—	65
Deferred tax liabilities	$ 1,309,319	$ 446,948	$ (44,110)	$ 1,712,157

(b) Items for which no deferred tax assets have been recognized

	December 31, 2018	December 31, 2017
Deductible temporary differences	$ 42,357	$ 36,003

(c) The reduction in income tax expenses of the year about the laws and decrees, items, income tax credits and expiry date of unused income tax credits were as follows: None.

(E) Income tax assessments

The Compeq Company's income tax was returns through 2016 have been assessed by the tax authorities.

(22) THE PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES OF THE COMPANY

	For the Year Ended December 31, 2018			For the Year Ended December 31, 2017		
	Classified as operating cost	Classified as operating expenses	Total	Classified as operating cost	Classified as operating expenses	Total
Personnel expenses	$2,754,343	$ 772,531	$3,526,874	$3,187,983	$ 680,213	$3,868,196
Direct labor	1,372,290	-	1,372,290	1,479,000	-	1,479,000
Payroll expense	853,417	652,615	1,506,032	1,099,351	579,883	1,679,234
Insurance expense	222,531	51,761	274,292	237,686	41,373	279,059
Pension	100,822	32,152	132,974	111,865	26,452	138,317
Board compensation	-	5,400	5,400	-	5,400	5,400
Others	205,283	30,603	235,886	260,081	27,105	287,186
Depreciation	1,226,668	25,510	1,252,178	1,103,475	15,597	1,119,072
Amortization	2,070	15,204	17,274	3,749	8,652	12,401

(A) As of December 31, 2018 and 2017, the Company had 4,401 and 4,982 employees, respectively. There were 4 non-employee directors for both year.

(B) According to the articles of incorporation passed by the regular shareholders' meeting held on June 17, 2016, prior to the calculation of the employee compensation, if the Compeq Company has any profit in its comprehensive income statement of the prevailing year, 2% of the aforesaid profit shall be contributed for the employee compensation. The aforesaid profit refers to the benefit earned before deducting employee compensation from before-tax net profit. However, in case that the Compeq Company has any accumulated loss, it shall reserve an amount to cover the loss before contributing the amount for employee compensation according to the aforesaid ratio.

The preceding employee compensation can be distributed by either stock or cash, which shall be adopted by a majority of the directors of the Compeq Company present at the meeting attended by more than two-thirds of the entire body of directors and reported to the board of shareholders before implementation.

(C) The estimate of the Compeq Company's employee compensation for 2018 and 2017 was $70,982 thousand and $89,774 thousand respectively. According to the profit status as of the prevailing period, the aforesaid estimates were listed as operating cost and operating expenses pursuant to the articles of incorporation. Any change in the annual financial statements after its publication day shall be processed according to the accounting estimate change, in which the change amount shall be adjusted and recorded in the following year.

(D) The Compeq Company's profit sharing bonus to employees in the amounts of $89,774 thousand and $43,240 thousand in cash for 2017 and 2016, respectively, had been approved by the shareholders in its meetings held on June 14, 2018 and June 16, 2017, respectively. There was no difference between the actual amounts of employees' compensation and the amounts recognized in the parent company only financial statements for the years ended December 31, 2017 and 2016 respectively.

(E) The information about the appropriations of The Compeq Company's profit sharing bonus to employees and compensation to directors is available at the Market Observation Post System website.

7. RELATED PARTY TRANSACTIONS

(1) Related party name and categories:

Related Party Name	Related Party Categories
Huaton Holdings Limited (HHL)	Subsidiary
Pelican Cove Investment Ltd. (PCI)	Subsidiary
Compeq Manufacturing (Huizhou) Co., Ltd. (CC)	HHL's subsidiary
Compeq Manufacturing (Suzhou) Co., Ltd. (CS)	HHL's subsidiary
Compeq Technology (Huizhou) Co., Ltd. (CF)	HHL's subsidiary
Compeq Manufacturing (Chongqing) Co., Ltd. (CQ)	HHL's subsidiary
Hong Kong Compeq Huizhou Trading Company Limited (CHK)	CC's subsidiary
Directors, supervisiors, general managers, vice general managers across the board	The Company's major management executives

(2) The significant transactions between the Company and its related parties, other than those disclosed in other notes, are summarized as follows:

(A) Purchases

	For the Year Ended December 31	
	2018	2017
Subsidiaries	$ 21,714,240	$ 20,128,774

(a) The purchase prices were similar to those prices from other suppliers.

(b) The price of semi-finished products sold to the companies outside mainland China is determined according to the price agreed by both buyer and seller.

(B) Accounts payables

	December 31, 2018	December 31, 2017
Subsidiaries	$ 4,671,209	$ 3,824,888

The payment terms were similar to those terms of other suppliers.

(C) Net revenue

	For the Years Ended December 31	
	2018	2017
Subsidiaries	$ 1,328,672	$ 1,272,094

The selling prices were based on the mutual agreement.

(D) Accounts receivable

	December 31, 2018	December 31, 2017
Subsidiaries	$ 105,244	$ 185,110

The collection terms were similar to those terms to other customers.

(E) Other receivables

	December 31, 2018	December 31, 2017
Subsidiaries	$ 362,956	$ 426,178

The other receivables were compensation income, Premium income and advance payment.

(F) Other payables

	December 31, 2018	December 31, 2017
Subsidiaries	$ 41,681	$ 14,795

Other advance payment and payable on machinery and equipment.

(G) Other current liabilities

	December 31, 2018	December 31, 2017
Subsidiaries	$ –	$ 27,790

Mainly temporary payment.

(H) Disposal of property, plant and equipment

	For the Year Ended December 31			
	2018		2017	
	Disposal amount	Disposal gains (losses)	Disposal amount	Disposal gains (losses)
Subsidiaries	$ 79,471	$ 10,090	$ 58,794	$ 1,328

The selling prices were based on the mutual agreement.

(I) Other income

	For the Year Ended December 31	
	2018	2017
Subsidiaries	$ 452,586	$ 443,536

Other revenues mainly refer to the income from patent authorization and technical use, advance payments and compensation, of which the payment is made according to the terms of both parties' cooperation contract.

(J) Miscellaneous disbursements

	For the Year Ended December 31	
	2018	2017
Subsidiaries	$ 13,299	$ 9,285

Primarily loss on indemnity

(K) Export loss

	For the Year Ended December 31	
	2018	2017
Subsidiaries	$ –	$ 8

(L) Guaranties on the bank credit

Limits on Endorsement/Guarantee amount as follows:

	December 31, 2018	December 31, 2017
Subsidiaries	$ 15,249,998 (US$ 496,500 thousand)	$ 14,939,520 (US$ 502,000 thousand)

(M) The Company goes to the material processing to CC, CF and CQ were through HH and PCI, the related income and cost were reversed in the statement of income.

(N) Compensation of key management personnel

	For the Year Ended December 31	
	2018	2017
Short-term employee benefits	$ 24,537	$ 24,818
Post-employment benefits	8,751	8,833
Other long term employee benefits	58,714	58,835
Total	$ 92,002	$ 92,486

The compensation to directors and other key management personnel were determined by the Compensation Committee of the Company in accordance with the individual performance and the market trends.

8. PLEDGED ASSETS

Items	Purpose	Book Value December 31, 2018	Book Value December 31, 2017
Property, plant and equipment	Long-term borrowings	$ 1,114,058	$ 1,187,449

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS.

(1)

	December 31, 2018		December 31, 2017	
The balance of the Company's LC amounts	NT	62,149 thousand	NT	3,119 thousand
	US$	580 thousand	US$	2,115 thousand
	JP￥	2,110 thousand	JP￥	6,034 thousand
	EUR€	345 thousand	EUR€	396 thousand

(2) After deducting the paid amount from the total amount of the Company's signed equipment purchase contracts, the Company's equipment payables as follows:

	December 31, 2018		December 31, 2017	
Payable on equipment	NT	70,500 thousand	NT	238,547 thousand

(3) Guarantee repayment to the financial institution for the amount of the borrowings were as follows:

	December 31, 2018		December 31, 2017	
HHL	US$	23,500 thousand	US$	81,000 thousand
PCI	US$	113,000 thousand	US$	113,000 thousand
CC	US$	70,000 thousand	US$	53,000 thousand
CS	US$	5,000 thousand	US$	5,000 thousand
CF	US$	135,000 thousand	US$	130,000 thousand
CQ	US$	150,000 thousand	US$	120,000 thousand

10. SUBSEQUENT LOSSES: None.

11. SUBSEQUENT EVENTS: None.

12. OTHER

(1) CAPITAL MANAGEMENT

The Company plans its working capital (including R&D expenses and debt liquidation, etc.) required for the future in accordance with the characteristics currently existing in its industry and its future development status while it also considers the changes in the external environment, so as to ensure its sustainable operations. In so doing, the Company will be able to concurrently protect the interests of its shareholders and other related parties, maintain the optimal capital structure, and elevate the stockholder value. As a whole, the Company adopts a prudent risk management strategy.

(2) <u>FINANCIAL INSTRUMENTS</u>

(A) Categories of financial instruments

	December 31, 2018		December 31, 2017	
	Book value	Fair value	Book value	Fair value
Financial assets				
Amortized cost				
Cash and cash equivalents	$ 2,756,182	$ 2,756,182	$ –	$ –
Notes and accounts receivables	8,850,498	8,850,498	–	–
Other receivables	423,700	423,700	–	–
Refundable deposits (including current)	16,795	16,795	–	–
Loan and receivables				
Cash and cash equivalents	–	–	4,356,002	4,356,002
Notes and accounts receivables	–	–	7,390,145	7,390,145
Other receivables	–	–	554,499	554,499
Refundable deposits (including current)	–	–	17,198	17,198
Financial assets at fair value through profit or loss	–	–	386	386
Total	$ 12,047,175	$ 12,047,175	$ 12,318,230	$ 12,318,230
Financial liabilities				
Amortized cost				
Notes and accounts payable	$ 6,635,869	$ 6,635,869	$ 5,819,487	$ 5,819,487
Other payables	2,008,136	2,008,136	2,915,592	2,915,592
Lang-term borrowings (including current portion)	6,527,964	6,527,964	6,572,398	6,572,398
Guarantee deposits (including current)	24,794	24,794	25,574	25,574
Total	$ 15,196,763	$ 15,196,763	$ 15,333,051	$ 15,333,051

(B) Financial risk management objectives

The currency risk, interest rate risk, credit risk and liquidity risk related to management and operation activities are the target of the Company's financial risk management. The Company has devoted its efforts to recognizing, assessing and hedging market uncertainty in an attempt to reduce the potential adverse influence of market change on the Company's financial performance.

The Company's major financial activities have all been re-checked by its board of directors in accordance with the related regulations and internal control system. During the financial plan execution period, the Company has to strictly follow the financial operation procedures related to overall financial risk management and accrual basis.

(C) Market risk

The Company is exposed to the market risks arising from changes in foreign exchange rates, interest rates and the prices in equity investments, and utilizes some derivative financial instruments to reduce the related risks.

(a) Foreign currency risk

Most of the Company's operating activities and investment in foreign are denominated in foreign currencies. Consequently, the Company is exposed to foreign currency risk. To protect against reductions in value and the volatility of future cash flows caused by changes in foreign exchange rates, the Company utilizes derivative shore-term borrowing and financial instruments, including currency forward contracts and cross currency swaps, to hedge its currency exposure. These instruments help to reduce, but do not eliminate, the impact of foreign currency exchange rate movements.

The maturity of the derivative financial instruments engaged by the Company is all less than six months, which does not meet the terms for accounting hedge.

For the sensitivity analysis of the foreign currency risk, the calculation is made according to the foreign currency items listed at the financial reporting closing date. When the NT dollar appreciates or depreciates 1% against a foreign currency, the Company's net profit or loss in 2018 and 2017 will increase or decrease by $61,731 thousand and $64,656 thousand respectively.

(b) Interest rate risk

Interest rate risk refers the risk caused by the change in the fair value of financial instruments as a result of change of the market interest rate. The Company's interest rate risk mainly comes from its mid and long term loans and the floating of the interest rates for the income investments with a fixed or floating interest rate

Regarding the sensitivity analysis of the interest rate risk, the calculation is made according to the amount of the bank loan and the floating interest rate at the final day of the financial report period, and a quarter's effect is assumed to be held. If the interest rate increased or decreased by 1%, the Company's profit or loss as of December 31, 2018 and December 31, 2017 would increase or decrease $92 thousand and $154 thousand respectively.

(D) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company is exposed to credit risk from operating activities, primarily trade receivables, and from financing activities, primarily deposits, fixed-income investments and other financial instruments with banks. Credit risk is managed separately for business related and financial related exposures.

(a) Business related credit risk

In order to maintain its quality of accounts receivable, the Company has set up its operation related credit risk management procedure.

The individual customer risk assessment covers the factors of an individual customer's financial status and credit rating agency's ratings, the Company's internal credit ratings and historical transaction records and current economic status, etc. which may affect customer's solvency capacity. In addition, the Company will also use some credit enhancement instruments, such as purchase prepayment and credit insurance, etc., at an appropriate time to reduce the credit risk of some specific customers.

As of December 31, 2018 and 2017, the Company's ten largest customers accounted for 64% and 59% of notes and accounts receivable, respectively. The Company believes the concentration of credit risk is insignificant for the remaining accounts receivable.

(b) Financial credit risk

The credit risk of bank deposits, fixed income investments and other financial instruments is measured and monitored by the Company's financial department. The Company's transaction counterparts and contract performance parties are the financial institutions with good credit, and the Company has diversified its risk by dealing with multiple financial institutions, so there shall be no significant credit risk caused by too much concentration on some financial institutions and no significant doubt about contract performance. As such, the Company shall have no material credit risk.

(E) Liquidity risk management

The purpose of the Company's management of liquidity risk is to maintain the cash and cash equivalents, high liquidity securities and enough bank financing facilities required for business operations, so as to ensure sufficiency of the Company's financial flexibility.

(a) The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments, including principles and interests.

	December 31, 2018			
	Less Than 1 year	2-3 year	4-5 year	Total
Non-derivative financial liabilities				
Notes and accounts payable	$ 6,635,869	$ —	$ —	$ 6,635,869
Other payable	2,008,136	—	—	2,008,136
Lang-term borrowings	1,114,434	5,413,530	—	6,527,964
Guarantee deposits	24,794	—	—	24,794
Total	$ 9,783,233	$ 5,413,530	$ —	$ 15,196,763

	December 31, 2017			
	Less Than 1 year	2-3 year	4-5 year	Total
Non-derivative financial liabilities				
Notes and accounts payable	$ 5,819,487	$ —	$ —	$ 5,819,487
Other payable	2,915,592	—	—	2,915,592
Lang-term borrowings	644,434	4,405,023	1,522,941	6,572,398
Guarantee deposits	25,574	—	—	25,574
Total	$ 9,405,087	$ 4,405,023	$ 1,522,941	$ 15,333,051

(b) Bank credit limit

	December 31, 2018	December 31, 2017
Secured bank general credit limit		
Total	$ 1,350,000	$ 950,000
Unsecured bank general credit limit		
Total	$ 12,257,319	$ 13,059,118

(3) Fair value of financial instruments

(A) Fair value of financial instruments carried at amortized cost

Except as detailed in the following table, the Company considers that the carrying amounts of financial assets and financial liabilities carried at amortized cost recognized in the parent company only financial statements approximate their fair values.

(B) Valuation techniques and assumptions used in fair value measurement

The fair values of financial assets and financial liabilities are determined as follows:

(a)The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes interest rate futures contracts, publicly traded stocks, money market funds, government bonds, agency bonds and corporate bonds).

(b) Forward exchange contracts is measured using quoted forward exchange rates.

(c) The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

(C) Fair value measurements recognized in the parent company only balance sheets

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

(a) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities; active market refers to the market meeting the terms below: the products traded in the market are in homogeneity; buyers and sellers with trading intention are available in the market and the price information is open to the public.

(b) Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

(c) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(D) Financial assets and liabilities measured at fair value on a recurring basis

The following table presents the Company's financial assets and liabilities measured at fair value on a recurring basis:

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Financial assets at fair valve through profit or loss				
Derivative financial instruments	$ —	$ 386	$ —	$ 386

(a) For assets and liabilities held as of December 31, 2018 and 2017 that are measured at fair value on a recurring basis, there were no transfers between Level 1 and Level 2 of the fair value hierarchy.

(b) There were no purchases and disposals for assets on Level 3 for the years ended December 31, 2018 and 2017, respectively.

(4) <u>SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES</u>

(A) The following information was summarized according to the foreign currencies other than the functional currency of the Company. The exchange rates disclosed were used to translate the foreign currencies into the functional currency. The significant financial assets and liabilities denominated in foreign currencies were as follows:

	December 31, 2018		
	Foreign currencies (In thousands)	Exchange Rare	Book Value (NTD)
Financial assets			
Monetary items			
USD	$ 375,865	30.715	$ 11,544,679
EUR	109	35.20	3,847
JPY	588,251	0.2782	163,652
CNY	165,090	4.4720	738,284
Financial liabilities			
Monetary items			
USD	202,467	30.715	6,218,767
EUR	345	35.20	12,155
JPY	166,090	0.2782	46,206
HKD	396	3.921	1,554

	December 31, 2017		
	Foreign currencies (In thousands)	Exchange Rare	Book Value (NTD)
Financial assets			
Monetary items			
USD	$ 374,397	29.76	$ 11,142,067
EUR	69	35.57	2,454
JPY	1,717,770	0.2642	453,835
CNY	109,348	4.565	499,175
Financial liabilities			
Monetary items			
USD	174,369	29.76	5,189,213
EUR	396,000	35.57	14,086
JPY	1,613,220	0.2642	426,213
HKD	679	3.807	2,583

(2) Since the Company has numerous categories of foreign currency transactions, there is no way for it to disclose the details according to respective major currencies. As such, the information on exchange gain or loss of currency items is disclosed in a way of summarization. For the Company's exchange gains and losses, the realized gain was $123,754 thousand and unrealized loss was $9,249 thousand in 2018, whereas the realized loss was $299,817 thousand and unrealized loss was $44,968 thousand in 2017.

13. ADDITIONAL DISCLOSURES

The following are additional disclosures for the Company and its affiliates as required by the R.O.C. Securities and Futures Bureau:

(1) Information on significant transactions:

A. Financing provided to others: None;

B. Endorsements/guarantees provided: Please see Table 1 attached;

C. Marketable securities held (excluding investment in subsidiaries, associates and joint controlled entities): Please see Table 2 attached;

D. Marketable securities acquired and disposed at costs or prices at least NT$300 million or 20% of the paid-in capital: None;

E. Acquisition of individual real estate at costs of at least NT $300 million or 20% of the paid-in capital: None;

F. Disposal of individual real estate at prices of at least NT$300 million or 20% of the paid-in capital: None;

G. Total purchases from or sales to related parties amounting to at least NT$100 million or 20% of the paid-in capital: Please see Table 3 to Table 3-1 attached;

H. Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: Please see Table 4 attached;

I. Trading in derivative instruments: Please see Note 6(2) attached;

J. Other: None.

(2) Information on investees:

A. Significant transactions information: Please see Table 1 to Table 4 and Table 6 attached;

B. Names, locations, and related information of investees over which The Company exercises significant influence: Please see Table 5 attached;

(3) Information on investment in Mainland China

A. The name of the investee in Mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, income (losses) of the investee, share of profits/losses of investee, ending balance, amount received as dividends from the investee, and the limitation on investee: Please see Table 6 attached.

B. Significant direct or indirect transactions with the investee, its prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in Mainland China on financial reports: Please see Table 1 to Table 4 and Note7.

TABLE 1

ENDORSEMENTS / GUARANTEES PROVIDED

Amounts in Thousands of New Taiwan Dollars and Foreign currencies in Thousands

No. (Note 1)	Endorsement / Guarantee Provider	Guaranteed Party		Limits on Endorsement / Guarantee Amount Provided to Each Guaranteed Party (Note 4)	Maximum Balance for the Period (US$ in Thousands)	Ending Balance (US$ in Thousands)	Amount Actually Draw (US$ in Thousands)	Amount of Endorsement/ Guarantee Collateralized by Properties	Ratio of Accumulated Endorsement / Guarantee to Net Equity per Latest Financial Statements	Maximum Endorsement / Guarantee Amount Allowable (Note 5)	Guarantee Provided by Parent Company (Note 6)	Guarantee Provided by A Subsidiary (Note 6)	Guarantee Provided to Subsidiaries in Mainland China (Note 6)
		Name	Nature of Relationship (Note 2)										
0	Compeq Manufacturing Co., Ltd.	HUATON HOLDINGS LIMITED	2	$ 14,095,375	$ 2,487,915 US$ 81,000	$ 721,803 US$ 23,500	$ 51,140 US$ 1,665	None	3%	$ 28,190,750	Y	–	–
0	Compeq Manufacturing Co., Ltd.	PELICAN COVE INVESTMENT LTD.	2	$ 14,095,375	$ 3,470,795 US$ 113,000	$ 3,470,795 US$ 113,000	$ 1,069,865 US$ 34,832	None	15%	$ 28,190,750	Y	–	–
0	Compeq Manufacturing Co., Ltd.	Compeq Manufacturing (Huizhou) Co., Ltd.	3	$ 14,095,375	$ 2,150,050 US$ 70,000	$ 2,150,050 US$ 70,000	$ 1,320,745 US$ 43,000	None	9%	$ 28,190,750	Y	–	Y
0	Compeq Manufacturing Co., Ltd.	Compeq Manufacturing (Suzhou) Co., Ltd.	3	$ 14,095,375	$ 153,575 US$ 5,000	$ 153,575 US$ 5,000	$ – US$ –	None	1%	$ 28,190,750	Y	–	Y
0	Compeq Manufacturing Co., Ltd.	Compeq Technology (Huizhou) Co., Ltd.	3	$ 14,095,375	$ 4,146,525 US$ 135,000	$ 4,146,525 US$ 135,000	$ 3,490,514 US$ 113,642	None	18%	$ 28,190,750	Y	–	Y
0	Compeq Manufacturing Co., Ltd.	Compeq Manufacturing (Chongqing) Co., Ltd.	3	$ 14,095,375	$ 5,405,840 US$ 176,000	$ 4,607,250 US$ 150,000	$ 2,856,495 US$ 93,000	None	20%	$ 28,190,750	Y	–	Y
1	Compeq Manufacturing (Huizhou) Co., Ltd.	Compeq Technology (Huizhou) Co., Ltd.	3	$ 4,198,495 US$ 136,692	$ 1,075,025 US$ 35,000	$ 1,075,025 US$ 35,000	$ 201,521 US$ 6,561	None	5%	$ 6,997,491 US$ 227,820	–	–	Y

Note 1: The Company and its subsidiaries are coded as follows:

1. The Company is coded "0".
2. The subsidiaries are coded consecutively beginning from "1" in the order presented in the table above.

Note 2: According to the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" issued by the R.O.C. Securities and Futures Bureau, receiving parties should be disclosed as one of the following:

1. A company with which it does business.
2. A company in which the public company directly and indirectly holds more than 50% of the voting shares.
3. A company that directly and indirectly holds more than 50 % of the voting shares in the public company.
4. A company in which the public company holds, directly or indirectly, 90% or more of the voting shares.
5. A company that fulfills its contractual obligations by providing mutual endorsements/guarantees for another company in the same industry or for joint builders for purposes of undertaking a construction project.
6. A company that all capital contributing shareholders make endorsements/ guarantees for their jointly invested company in proportion to their shareholding percentages.
7. Companies in the same industry provide among themselves joint and several security for a performance guarantee of a sales contract for pre-construction homes pursuant to the Consumer Protection Act for each other.

Note 3: The calculation method and the ceiling amount shall be indicated. If there are contingent losses recognized in financial statements, the recognized amounts shall be indicated.

Note 4: 10% of the net value shown in its latest financial statement. However, for any single enterprise where the Company directly or indirectly holds more than 90% of its voting shares, the amount shall not exceed 60% of the net value shown in the Company's latest financial statement. The amount for a single enterprise shall not exceed 20% of the net value shown in the Company and its subsidiaries' latest financial statement. Nevertheless, if the Company directly or indirectly holds more than 90% of the single enterprise's voting shares, the amount shall be no more than 70% of the net value shown in the Company's latest financial statement. 10% of the net value shown in its latest financial statement of Compeq Manufacturing (Huizhou) Co., Ltd, if the Company directly or indirectly holds more than 90% of the single enterprise's voting shares, the amount shall be no more than 60% of the net value shown in the Company's latest financial statement.

Note 5: One and one-fifth times as much as the net value shown in the Company's latest financial statement; one and a half times as much as the net value shown in the Company and its subsidiaries' latest financial statement. Two time as much as the net value shown in the Compeq Manufacturing (Huizhou) Co., Ltd.'s latest financial statement.

Note 6: Under the circumstance where the TSE or OTC listed parent company endorses or guarantees its subsidiaries, the subsidiary endorses or guarantees its TSE or OTC listed parent company or the endorsement and guarantee is made in mainland China, "Y" shall be filled in.

TABLE 2

MARKETABLE SECURITIES HELD

Amounts in Thousands of New Taiwan Dollars.

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2018				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Fair Value	
	Stock							
Hua Nian Investment Ltd.	GLOBAL TEK FABRICATION CO., LTD.	None	Finacial assets at fair value through profit of loss-current	357,677	$ 15,595	0.54%	$ 15,595	
	Nuvoton Technology Corporation	〃	〃	245,000	9,726	0.12%	9,727	
	FORMOSA LABORATORIES INC.	〃	〃	167,000	6,396	0.17%	6,396	
	Elite Material Co., Ltd.	〃	〃	256,000	16,819	0.08%	16,819	
	ZILLTEK TECHNOLOGY CORP.	〃	〃	319,000	17,657	0.61%	17,657	
	KEYSTONE MICROTECH CORPORATION	〃	〃	150,000	12,339	0.85%	12,339	

Note: Excluding subsidiaries.

TABLE 3

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL

Amounts in Thousands of New Taiwan Dollars and Foreign currencies in Thousands

Company Name	Related Party	Nature of Relation ships	Transaction Details				Details of non-arm's length transaction		Notes and Accounts receivable (payable)		Note
			Purchases/ Sales	Amount (Foreign Currencies in Thousands)	Percentage of total purchases (sales)	Payment Terms	Unit Price	Payment Terms	Ending Balance (Foreign Currencies in Thousands)	Percentage of total receivables (payable)	
Compeq Manufacturing Co., Ltd.	PELICAN COVE INVESTMENT LTD.	Subsidiary	Purchases	$ 19,255,533	73%	60～90 days	The purchase price are similar to those price from other supplies	Similar to those price from other supplies	$ 4,021,049	61%	1
Compeq Manufacturing Co., Ltd.	Compeq Manufacturing (Suzhou) Co., Ltd.	Subsidiary	Purchases	2,590,485	10%	60～90 days	The purchase price are similar to those price from other supplies	Similar to those price from other supplies	650,160	10%	1
Compeq Manufacturing Co., Ltd.	Compeq Manufacturing (Huizhou) Co., Ltd.	Subsidiary	Sales	927,552	3%	60～90 days	The selling prices were based on the mutual agreement	Similar to those price from other supplies	44,027	1%	1
Compeq Manufacturing Co., Ltd.	Compeq Manufacturing (Suzhou) Co., Ltd.	Subsidiary	Sales	389,299	1%	60～90 days	The selling prices were based on the mutual agreement	Similar to those price from other supplies	－	－	1
PELICAN COVE INVESTMENT LTD.	Compeq Manufacturing (Huizhou) Co., Ltd.	Subsidiary	Purchases	US$ 133,418	17%	60～90 days	The selling prices were based on the mutual agreement	Similar to those price from other supplies	US$ 20,248	12%	1
PELICAN COVE INVESTMENT LTD.	Compeq Manufacturing (Suzhou) Co., Ltd.	Subsidiary	Purchases	US$ 33,866	4%	60～90 days	The selling prices were based on the mutual agreement	Similar to those price from other supplies	US$ 6,982	4%	1

TABLE 3-1

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL

Amounts in Thousands of New Taiwan Dollars and Foreign currencies in Thousands

Company Name	Related Party	Nature of Relation ships	Transaction Details				Details of non-arm's length transaction		Notes and Accounts receivable (payable)		Note
			Purchases/ Sales	Amount (Foreign Currencies in Thousands)	Percentage of total purchases (sales)	Payment Terms	Unit Price	Payment Terms	Ending Balance (Foreign Currencies in Thousands)	Percentage of total receivables (payable)	
PELICAN COVE INVESTMENT LTD.	Compeq Technology (Huizhou) Co., Ltd.	Subsidiary	Purchases	US$ 539,747	67%	60～90 days	The selling prices were based on the mutual agreement	Similar to those price from other supplies	US$ 106,907	64%	1
PELICAN COVE INVESTMENT LTD.	Compeq Manufacturing (Chongqing) Co., Ltd.	Subsidiary	Purchases	US$ 95,572	12%	90～120 days	The selling prices were based on the mutual agreement	Similar to those price from other supplies	US$ 32,678	20%	1
Compeq Manufacturing (Huizhou) Co., Ltd.	Compeq Technology (Huizhou) Co., Ltd.	Subsidiary	Sales	US$ 63,709	13%	90～120 days	The selling prices were based on the mutual agreement	Similar to those price from other supplies	US$ 23,431	22%	1
Compeq Manufacturing (Huizhou) Co., Ltd.	Compeq Manufacturing (Chongqing) Co., Ltd.	Subsidiary	Purchases	US$ 112,852	42%	90～120 days	The selling prices were based on the mutual agreement	Similar to those price from other supplies	US$ 35,759	37%	1
Compeq Technology (Huizhou) Co., Ltd.	Compeq Manufacturing (Huizhou) Co., Ltd.	Subsidiary	Sales	US$ 6,361	1%	90～120 days	The selling prices were based on the mutual agreement	Similar to those price from other supplies	US$ 667	－	1

Note 1: As agreed by both parties, the settlement of accounts receivables and accounts payable was finalized in accordance with the net amount at the end of the period.

TABLE 4

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL

Amounts in Thousands of New Taiwan Dollars and Foreign currencies in Thousands

Company Name	Related Party	Nature of Relationships	Ending Balance (Foreign Currencies in Thousands)	Turnover rate	Overdue receivables		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
Compeq Manufacturing Co., Ltd.	PELICAN COVE INVESTMENT LTD.	Subsidiary	$ 190,977	(Note 1)	None	None	$ 185,552	—
HUATON HOLDINGS LIMITED	Compeq Manufacturing (Huizhou) Co., Ltd.	Subsidiary	US$ 4,580	(Note 1)	None	None	US$ —	—
PELICAN COVE INVESTMENT LTD.	Compeq Manufacturing Co., Ltd.	Parent company	US$ 130,915	5.43	None	None	US$ 114,770	—
PELICAN COVE INVESTMENT LTD.	Compeq Manufacturing (Huizhou) Co., Ltd.	Subsidiary	US$ 12,343	(Note 1)	None	None	US$ 270	—
PELICAN COVE INVESTMENT LTD.	Compeq Technology (Huizhou) Co., Ltd.	Subsidiary	US$ 23,928	(Note 1)	None	None	US$ 8,779	—
Compeq Manufacturing (Huizhou) Co., Ltd.	PELICAN COVE INVESTMENT LTD.	Subsidiary	US$ 20,248	5.87	None	None	US$ 20,003	—
Compeq Manufacturing (Huizhou) Co., Ltd.	Compeq Technology (Huizhou) Co., Ltd.	Subsidiary	US$ 23,431	3.99	None	None	US$ 12,737	—
Compeq Manufacturing (Suzhou) Co., Ltd.	Compeq Manufacturing Co., Ltd.	Parent company	US$ 21,157	3.73	None	None	US$ 16,585	—
Compeq Manufacturing (Suzhou) Co., Ltd.	PELICAN COVE INVESTMENT LTD.	Subsidiary	US$ 6,982	4.90	None	None	US$ 6,982	—
Compeq Technology (Huizhou) Co., Ltd.	PELICAN COVE INVESTMENT LTD.	Subsidiary	US$ 106,907	4.67	None	None	US$ 65,148	—
Compeq Manufacturing (Chongqing) Co., Ltd.	PELICAN COVE INVESTMENT LTD.	Subsidiary	US$ 32,560	2.38	None	None	US$ 15,491	—
Compeq Manufacturing (Chongqing) Co., Ltd.	Compeq Manufacturing (Huizhou) Co., Ltd.	Subsidiary	US$ 35,771	3.60	None	None	US$ 17,884	—

Note 1 : The ending balance is primarily consisted of other receivables, which is not applicable for the calculation of turnover days.

TABLE 5

NAMES, LOCATIONS AND RELATED INFORMATION OF INVESTEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE (EXCLUDING INFORMATION OF INVESTMENT MAINLAND CHINA)

Amounts in Thousands of New Taiwan Dollars and Foreign currencies in Thousands

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment		Balance as of December 31, 2018			Net Income (Losses) of the Investee (Foreign Currencies in Thousands)	Shares of Profits/Losses of Investee (Foreign Currencies in Thousands)	Notes
				December 31, 2018 (Foreign Currencies in Thousands)	December 31, 2017 (Foreign Currencies in Thousands)	Shares	Percentage of ownership	Carrying value (Foreign in Thousands)			
Compeq Manufacturing Co., Ltd.	HUATON HOLDINGS LIMITED	BVI	Investment and trading (Indirectly investment in Mainland China)	$ 3,771,004	$ 2,848,804	240,886,000	100.00%	$ 18,035,088	$ 1,919,477 US$ 63,742	$ 1,909,002 (Note 1)	Subsidiary
	PELICAN COVE INVESTMENT LTD.	BVI	Investment and trading	559,685	559,685	17,700,000	100.00%	597,300	$ 7,818 US$ 290	$ 7,818	Subsidiary
	Hua Nian Investment Ltd.	TAIWAN	General investing	150,000	150,000	18,000,000	100.00%	174,810	$ (13,177)	$ (13,177)	Subsidiary
	LITON HOLDINGS LIMITED	BVI	Investment and trading (Indirectly investment in Mainland China)	168,250	168,250	100,000	100.00%	1,834	$ (129) US$ (4)	$ (129)	Subsidiary
Compeq Manufacturing (Huizhou) Co., Ltd.	Hong Kong Compeq Huizhou Trading Company Limited	Hong Kong	Trading	$ 9,215 US$ 300	$ 9,215 US$ 300	—	100.00%	$ 8,244 US$ 268	$ (112) US$ (4)	(Note 2)	Subsidiary

Note 1: The investment profits and losses recognized in the current period include the recognition and deletion of realized and unrealized profits and losses.

Note 2: The current period profit and loss of the investee company were already included in the investment company’s income statement, so they are not separately presented.

Note 3: The current period profit and loss of the investee company and the investment profit and loss recognized in the current period by the investee company are converted in accordance with the average exchange rate, while other profits and losses are converted according to the exchange rate at the end of the period.

TABLE 6

INFORMATION ON INVESTMENT IN MAINLAND CHINA

1.

Amounts in Thousands of New Taiwan Dollars and Foreign currencies in Thousands

Investee Company	Main Businesses and products	Total Amount of paid-in Capital (Foreign Currencies in Thousands)	Method of Investment	Accumulated Outflow of Investment January 1, 2018 (US$ in Thousands)	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2018 (US$ in Thousands)	Net income (loss) of investee company	Percentage of Ownership	Shares of profits/Losses (Note 2)	Carrying Amount (US$ in Thousands) as of December 31, 2018 (US$ in Thousands)	Accumulated Inward Remittance of Earnings as of December 31, 2018
					Outflow	Inflow						
Compeq Manufacturing (Huizhou) Co., Ltd.	PCB manufacturing and sales	$ 4,654,876 CNY$ 1,042,301	(Note 1)	$ 1,535,750 US$ 50,000	—	—	$ 1,535,750 US$ 50,000	$ 298,039 CNY$ 65,390	100%	$ 298,039 US$ 9,927	$ 6,987,050 US$ 227,480	—
Compeq Manufacturing (Suzhou) Co., Ltd.	PCB manufacturing and sales	$ 408,073 CNY$91,374	(Note 1)	$ 337,865 US$ 11,000	—	—	$ 337,865 US$ 11,000	$ 95,125 CNY$ 21,030	100%	$ 95,125 US$ 3,129	$ 1,167,473 US$ 38,010	—
Compeq Technology (Huizhou) Co., Ltd.	PCB manufacturing and sales	$ 3,045,813 CNY$682,006	(Note 1)	$ 552,870 US$ 18,000	$ 921,450 US$ 30,000	—	$ 1,474,320 US$ 48,000	$ 345,140 CNY$ 76,925	100%	$ 345,140 US$ 11,289	$ 4,099,684 US$ 133,475	—
Compeq Manufacturing (Chongqing) Co., Ltd.	PCB manufacturing and sales	$ 2,377,632 CNY$532,390	(Note 1)	—	—	$ 913,833 US$ 29,752	—	$ 1,197,569 CNY$262,344	100%	$ 1,197,569 US$ 39,960	$ 4,769,049 US$ 155,268	$ 913,833 US$ 29,752

Accumulated Investment in Mainland China as of December 31, 2018 (US$ in Thousands)	Investment Amounts Authorized by Investment Commission, MOEA (US$ in Thousands)	Upper Limit on Investment (US$ in Thousands)
$ 3,780,709 [US$ 123,090]	$ 10,810,943 [US$ 351,976]	$ — (Note 4)

Note 1: Indirectly investment in Mainland China through the HUATON HOLDINGS LTD registered in a third region.

Note 2: The investment income (loss) recognized in current period adopted the financial statement certificated by the CPA of the parent company in Taiwan.

Note 3: Initial investment amounts denominated in foreign currencies are translated into New Taiwan Dollars using the spot rates at the financial report date. (US$1:NT$30.715, US$1:NT$30.76, CNY$1:NT$4.4660, CNY$1:NT$4.4448)

Note 4: The Company already received the letter of corporate operation headquarters establishment issued by Industrial Development Bureau, MOEA, and the approval period has been from March 22, 2017 to March 21, 2020. It could be exempt from the restriction on investment amounts or ratios.

2.

The Company invested resolution	Investment Amounts		Investment Amounts	Indirectly Investment in Mainland China	
	Approved Number	Authorized Amounts		Investment outflow	Purpose
HUATON HOLDINGS LIMITED	1995/09/29-(84)-84015347	US$ 20,000,000	US$ 20,000,000	US$ 20,000,000	Indirectly investment Compeq Manufacturing (Huizhou) Co., Ltd.
〃	1997/07/14-(86)-86721040	US$ 30,000,000	US$ 30,000,000	US$ 30,000,000	〃
〃	1997/09/18-(86)-86736526	US$ 5,400,000	US$ 5,400,000	US$ 5,400,000	Indirectly investment PEWC (Guangzhou) Co., Ltd. and achieved 45% stake.
〃	2001/07/27-(90)-90022765	US$ 5,400,000	US$ 3,390,000	US$ 1,890,000	〃
〃	2004/02/13-093003687	US$ (1,920,000)	US$ —	US$ (1,296,000)	Reduce investment PEWC (Guangzhou) Co., Ltd. and achieved 8% stake.
〃	2004/04/23-093010705	US$ 2,900,000	US$ 2,900,000	US$ 2,900,000	Indirectly investment Compeq Manufacturing (Suzhou) Co., Ltd.
〃	2004/06/23-093015571	US$ 9,500,000	US$ 9,500,000	US$ 9,500,000	Indirectly investment Compeq Technology (Huizhou) Co., Ltd.
〃	2005/02/23-094001762	US$ 4,100,000	US$ 4,100,000	US$ 4,100,000	Indirectly investment Compeq Manufacturing (Suzhou) Co., Ltd.
〃	2006/03/31-09500069340	US$ 8,500,000	US$ 8,500,000	US$ 8,500,000	Indirectly investment Compeq Technology (Huizhou) Co., Ltd.
〃	2006/03/31-09500069390	US$ 7,000,000	US$ 4,000,000	US$ 4,000,000	Indirectly investment Compeq Manufacturing (Suzhou) Co., Ltd.
〃	2011/03/25-10000119020	US$ (3,000,000)	US$ —	US$ —	Reduce investment Compeq Manufacturing (Suzhou) Co., Ltd.
〃	2006/07/20-09500220150	US$ 290,000	US$ 290,000	US$ —	Directly investment Compeq Manufacturing (Suzhou) Co., Ltd.
〃	2006/12/27-09500445960	US$ 1,000,000	US$ 210,000	US$ 210,000	Indirectly investment Veceration Co., Ltd.
〃	2009/07/24-09800263470	US$ (790,000)	US$ —	US$ —	Reduce investment Veceration Co., Ltd.
〃	2007/01/22-09600008530	US$ 2,886,000	US$ 2,886,000	US$ 2,886,000	Indirectly investment PEWC (Guangzhou) Co., Ltd.
〃	2011/03/28-10000119030	US$ 7,000,000	US$ 7,000,000	US$ —	Directly investment Compeq Technology (Huizhou) Co., Ltd.
〃	2012/03/30-10100019840	US$ 45,000,000	US$ 45,000,000	US$ —	Directly investment Compeq Manufacturing (Chongqing) Co., Ltd.
〃	2012/05/25-10199165700	US$ 15,000,000	US$ 15,000,000	US$ —	Directly investment Compeq Technology (Huizhou) Co., Ltd.
〃	2014/02/27-10200494220	US$ 50,000,000	US$ 40,000,000	US$ —	Directly investment Compeq Manufacturing (Chongqing) Co., Ltd.
〃	2015/03/31-10300357540	US$ 30,000,000	US$ 30,000,000	US$ —	Directly investment Compeq Technology (Huizhou) Co., Ltd.
〃	2017/07/06-10600111220	US$ 15,000,000	US$ 15,000,000	US$ —	Directly investment Compeq Manufacturing (Huizhou) Co., Ltd.
〃	2018/01/31-10600349330	US$ 33,710,000	US$ —	US$ —	Directly investment Compeq (Suzhou) Co., Ltd
〃	2018/04/02-10600349320	US$ 60,000,000	US$ 30,000,000	US$ 30,000,000	Indirectly investment Compeq Technology (Huizhou) Co., Ltd.
LITON HOLDINGS LIMITED	2007/04/24-09600111850	US$ 5,000,000	US$ 5,000,000	US$ 5,000,000	Indirectly investment Victor (Chang shu) Co., Ltd.

14. SEGMENT INFORMATION

The Company has provided the operating segments disclosure in the consolidated financial statements.

6.6 Impact of the Financial Distress Occurred to the Company and Affiliates in Recent Years until the Annual Report Being Published：None.

VII. Review of Financial Conditions, Financial Performance, and Risk Management

7.1 Analysis of Financial Status

Unit: NT$ thousands

Item \ Year	2018	2017	Difference	
			Amount	%
Current Assets	29,532,884	29,510,813	22,071	0.1
Nocurrent Assets	28,135,047	26,843,612	1,291,435	4.8
Total Assets	57,667,931	56,354,425	1,313,506	2.3
Current Liabilities	18,050,560	18,403,991	(353,431)	(1.9)
Noncurrent Liabilities	16,125,079	15,094,006	1,031,073	6.8
Total Liabilities	34,175,639	33,497,997	677,642	2.0
Capital stock	11,918,206	11,918,206	0	0
Capital surplus	1,016,898	1,016,898	0	0
Retained Earnings	10,414,078	9,468,558	945,520	10.0
Other equity interest	143,110	452,766	(309,656)	(68.4)
Total Stockholders' Equity	23,492,292	22,856,428	635,864	2.8

- **Analysis of changes in financial ratios:**

  Other equity interest:

  Due to the impact of RMB depreciation and the appreciation of the NewTaiwan Dollar, the exchange difference calculated by the foreign operating institutions' financial statements has been significantly reduced.
- **Effect of changes on the company’s financial condition:** The Company’s financial condition has not changed significantly.
- **Future response actions:** Not applicable.

7.2 Analysis of Financial Performance

7.2.1

Unit: NT$ thousands

Item \ Year	2018	2017	Difference	
			Amount	%
Net Revenue	50,828,101	53,964,193	(3,136,092)	(5.8)
Cost of Revenue	43,602,667	45,873,484	(2,270,817)	(5.0)
Gross Profit	7,225,434	8,090,709	(865,275)	(10.7)
Operating Expenses	2,604,374	2,308,528	295,846	12.8
Other Operating Income and Expenses,(Net)	0	(24,545)	24,545	100
Income from Operations	4,621,060	5,757,636	(1,136,576)	(19.7)
Non-operating Income and Expenses	(702,420)	(850,639)	148,219	(17.4)
Income before Income Tax	3,918,640	4,906,997	(988,357)	(20.1)
Income Tax Expenses	1,518,909	1,329,953	188,956	14.2
Net income	2,399,731	3,577,044	(1,177,313)	(32.9)

- **Analysis of changes in financial ratios:**

1. Other Operating Income and Expenses: Other Operating Income and Expenses for the year 107 are classified as operating expenses.
2. Income before Income Tax: The decrease is due to the decrease of results from operating activities
3. Net income: The decrease is due to the decrease of gross profit.

- **Effect of changes on the company's future business:** The Company's business scope has not changed significantly.
- **Future response actions:** Not applicable.

7.2.2 Analysis of changes in Gross Profit

Unit: NT$ thousands

Item	Increase/Decrease of Gross Profit	Reason for Difference				
		Price Difference	Cost Difference	Sales Mix Difference	Quantity Difference	Product Mix Difference
Gross Profit	$(865,275)	$849,069	$2,995,191	$ (7,247)	$ (125,958)	$(4,576,330)

Note: Mainly in the change of sales product mix, resulting in the overall gross profit margin of this year decreased compared with the previous year.

7.3 Analysis of Cash Flow

7.3.1 Cash Flow Analysis for the Current Year

Unit: NT$ thousands

Cash and Cash Equivalents, Beginning of Year (1)	Net Cash Provided by Operating Activities (2)	Cash Outflow (3)	Cash Surplus (Deficit) (1)+(2)-(3)	Leverage of Cash Deficit	
				Investment Plans	Financing Plans
$ 7,920,755	$5,125,343	$ (6,302,539)	$6,743,559	－	－

Analysis of change in cash flow in the current year:

1. Cash flows from operating activities: The cash inflow is due to the working capital of operating activities.
2. Cash flows from investing activities: The cash outflow is due to the payment of acquisition of property, plant and equipment.
3. Cash flows from financing activities: not changed significantly

7.3.2 Remedy for Cash Deficit and Liquidity Analysis：Not applicable.

7.3.3 Cash Flow Analysis for the Coming Year

Estimated Cash and Cash Equivalents, Beginning of Year (1)	Estimated Net Cash Flow from Operating Activities (2)	Estimated Cash Outflow (Inflow) (3)	Cash Surplus (Deficit) (1)+(2)-(3)	Leverage of Cash Surplus (Deficit)	
				Investment Plans	Financing Plans
$ 6,743,559	$3,523,065	$(4,267,059)	$ 5,999,565	－	－

A. Cash flows from operating activities: Due to the increase in operating profit.

B. Cash flows from investing activities: None

C. Cash flows from financing activities: None.

7.4 Major Capital Expenditure Items

7.4.1 Major Capital Expenditure Items and Source of Capital

Unit: NT$ thousands

Project	Actual or Planned Source of Capital	Actual or Planned Date of Completion	Total Capital	Actual or Expected Capital Expenditure				
				2018	2019	2020	2021	2022
acquisition of equipment	Operating income and bank loans	108.12.31	$9,702,035	$5,443,476	$4,258,559	—	—	—

7.4.2 Expected Benefits

A. Estimated Increase in Production, Sales, and Gross Profits

Unit: NT$ thousands

Year	Item	Quantity of Production	Quantity of Sales	Amount of Sales	Gross Profit
2019	PCB	3,273K SF	3,273K SF	8,526,046	1,211,551

B. Other Benefits：Improve product quality.

7.5 Investment Policy in the Last Year, Main Causes for Profits or Losses, Improvement Plans and Investment Plans for the Coming Year

Unit: NT$ thousands

Remarks / Item	2018 Income (Loss) Amount	Policies	Reasons for Gain or Loss	Action Plan	Investment Plan for the Next 12 Months
HUATON HOLDINGS LIMITED	1,909,002	Investment business in China	Investment business id profitable in China	win more order and increase utilization rate in the future	None
PELICAN COVE INVESTMENT LTD.	7,818	Trading business in China	The trading business is profitable in China.	win more order in the future	None
HUANEIN HOLDINGS LTD.	(13,177)	Investment business	Financial asset investment loss	None	None
LITON HOLDINGS LIMITED	(129)	Investment business in China	None	None	None

7.6 Analysis of Risk Management

7.6.1 Effects of Changes in Interest Rates, Foreign Exchange Rates and Inflation on Corporate Finance, and Future Response Measures

A. Interest rate

While interest rate is unpredictable as shown in the historical trend, we regularly assess their impacts on our bank loans to timely adjust our financing policy.

B. Foreign exchange rates

As an export-oriented company, we have most accounts receivable in USD. As our suppliers are located in either Taiwan or China, we pay mostly in TWD and CNY. Therefore, most exchange loss and gain come from exchanging USD to TWD and USD to CNY. Past exchange rate trends show that exchange rates are impossible to predict accurately. Natural hedging of asset against debt was therefore used where possible last year. Pre-sale of USD at the forward rate was also used to reduce exchange risks. The hedging position is increased or reduced based on the trend of the USD exchange rate.

C. Inflation

There is currently no serious inflation problem in Taiwan so inflation does not have a material impact on our bottom line at the moment.

7.6.2 Policies, Main Causes of Gain or Loss and Future Response Measures with Respect to High-risk, High-leveraged Investments, Lending or Endorsement Guarantees, and Derivatives Transactions

In offering endorsements and guarantees, none of our wholly owned subsidiaries or their wholly owned investees offer endorsement or guarantee. Therefore, there are limited risks and no loss or gain from endorsements and guarantees.

Trading in derivative products can be authorized by the Chairman under our company’s “Acquisition or Disposal of Assets Procedure” but our current policy is to only engage in long-term foreign exchange transactions for hedging purposes. Future trading in derivatives will be mainly for hedging purposes as well. Trading for profit will be avoided to prevent major losses from errors in judgment.

7.6.3 Future Research & Development Projects and Corresponding Budget

In 2018, overall operations grew explosively, and R&D momentum advanced constantly along with new product development. In the future, we will continue our R&D tradition to develop newer technologies to fulfill the demand for and the challenge of rapidly changing new products. Our R&D focuses on HDI, FPC and RFPC products and technologies include: mSAP, ultra- thin dielectric layer, thin circuit, via filling plating, HDI, embedded devices, ink jet printing, high- speed high- resolution LDI equipment, and precision alignment equipment. They enable us to meet the challenges of multifunctional, lightweight, slim, and compact smart devices. It is expected that there is still room for growth of the smart device and mobile communications market in the future to drive the demand for high value-added PCBs.

Big Data and edge computing have driven the materials for making PCBs for high-speed servers and 5G communications infrastructure to evolve toward high speed and high frequency. In addition, thermal solution will be another focus due to the excess heat from high frequency operation. Therefore, high-frequency materials, low-loss materials, high heat-resistant materials, thermal conductive materials, thermal solution, high-reliability, and high quality are the features for HLC product development.

In response to the rapid growth of the China market and to timely fulfill the technological demand to improve technical support for customers, apart from establishing a R&D branch and a local technology R&D and new product implementation service team in China, we have expanded our new Chongqing Plant to specialize in the production of mid-level and high-level HDI products to benefit our overall capacity planning. We are optimistic about the future of the PCB industry. We are also determined to continue developing innovative technologies and new products. Dependable quality, comprehensive services and competitive prices will be used to boost our profitability so we can give back to society and investors.

7.6.4 Effects of and Response to Changes in Policies and Regulations Relating to Corporate Finance and Sales: No significant effects in 2018.

7.6.5 Effects of and Response to Changes in Technology and the Industry Relating to Corporate Finance and Sales

In recent years, with the development of network technology, malicious network attacks have also changed. The company has established a network security protection system to update the latest protection software and hardware at any time in response to changes in the external environment. With regularly risk assessment and reduce the risk of malicious attacks on the Internet to protect the company's important assets; the company has not had a significant impact on the financial business due to technological changes and industry changes in recent years.

7.6.6 The Impact of Changes in Corporate Image on Corporate Risk Management, and the Company's Response Measures: Not applicable

7.6.7 Expected Benefits from, Risks Relating to and Response to Merger and Acquisition Plans: Not applicable

7.6.8 Expected Benefits from, Risks Relating to and Response to Factory Expansion Plans: Not applicable

7.6.9 Risks Relating to and Response to Excessive Concentration of Purchasing Sources and Excessive Customer Concentration

The Company has consistently focused on identifying alternative sources for purchasing, and has worked to diversify its customer base in order to reduce the concentration of sales.

7.6.10 Effects of, Risks Relating to and Response to Large Share Transfers or Changes in Shareholdings by Directors, Supervisors, or Shareholders with Shareholdings of over 10%

The shareholdings of the Company's directors and supervisors have been stable during the last few years, and there have been no major transfers or swaps of shares.

7.6.11 Effects of, Risks Relating to and Response to the Changes in Management Rights: Not applicable

7.6.12 Litigation or Non-litigation Matters

A. Major ongoing lawsuits, non-lawsuits or administrative lawsuit: None.

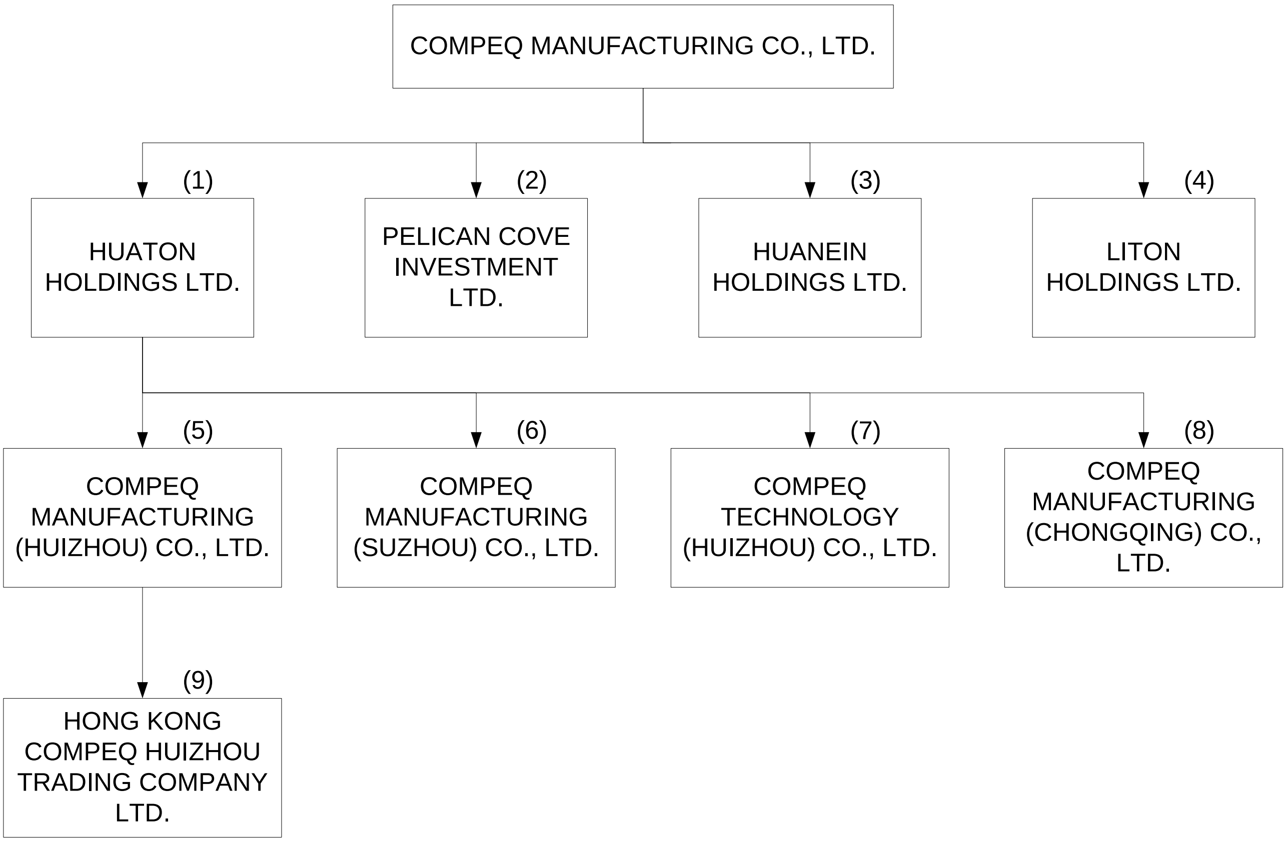
B. Major ongoing lawsuits, non-lawsuits or administrative lawsuits caused by directors, supervisors or shareholders with over 10% shareholdings: None.

7.6.13 Other Major Risks: None.

VIII. Special Disclosure -- RELATED PARTIES INFORMATION

8.1 Organization

8.1.1 Organization Chart



NOTE	PARENT COMPANY	SUBSIDIARY	SHARE RATIO
(1)	COMPEQ MANUFACTURING CO., LTD.	HUATON HOLDINGS LTD.	100%
(2)	COMPEQ MANUFACTURING CO., LTD.	PELICAN COVE INVESTMENT LTD.	100%
(3)	COMPEQ MANUFACTURING CO., LTD.	HUANEIN HOLDINGS LTD.	100%
(4)	COMPEQ MANUFACTURING CO., LTD.	LITON HOLDINGS LTD.	100%
(5)	HUATON HOLDINGS LTD.	COMPEQ MANUFACTURING (HUIZHOU) CO., LTD.	100%
(6)	HUATON HOLDINGS LTD.	COMPEQ MANUFACTURING (SUZHOU) CO., LTD.	100%
(7)	HUATON HOLDINGS LTD.	COMPEQ TECHNOLOGY (HUIZHOU) CO., LTD.	100%
(8)	HUATON HOLDINGS LTD.	COMPEQ MANUFACTURING (CHONGQING) CO., LTD.	100%
(9)	COMPEQ MANUFACTURING (HUIZHOU) CO., LTD.	HONG KONG COMPEQ HUIZHOU TRADING COMPANY LTD.	100%

8.1.2 General Information

Related Party	Setup Date	Location	Paid-in Capital	Business Segment
COMPEQ MANUFACTURING CO., LTD.	1973.08.30	No.91, Ln. 814, Daxin Rd., Shin-juang Vil. Luzhu Dist., Taoyuan City 33843, Taiwan	TWD 11,918,206 Thousands	PCB manufacturing and sales
HUATON HOLDINGS LTD.	1995.07.01	4th Floor Ellen Skelton Building, 3076 Sir Francis Drake Highway, Road Town, Tortola, British Virgin Islands VG1110,	US$240,886 Thousands	Investment and trading
COMPEQ MANUFACTURING (HUIZHOU) CO., LTD.	1995.11.21	No.168, Huguang Rd., Huzhen Town, Boluo County, Huizhou, Guangdong, China 516139	CNY 1,042,301 Thousands	PCB manufacturing and trading
COMPEQ MANUFACTURING (SUZHOU) CO., LTD.	2004.05.19	Block 20TH, Suchun Industrial Square, Xinglong Industrial Park, China 215021	CNY91,374 Thousands	PCB design and SMT service
COMPEQ TECHNOLOGY (HUIZHOU) CO., LTD.	2004.07.15	No.168, Huguang Rd., Huzhen Town, Boluo County, Huizhou, Guangdong, China 516139	CNY682,006Thousands	FPCB design and manufacturing
COMPEQ MANUFACTURING (CHONGQING) CO., LTD.	2012.05.16	No.21, Panlong Road, Fuling District, Chongqing, China	CNY532,390 Thousands	PCB manufacturing and sales
PELICAN COVE INVESTMENT LTD.	1997.02.05	4th Floor Ellen Skelton Building, 3076 Sir Francis Drake Highway, Road Town, Tortola, British Virgin Islands VG1110,	US$ 17,700 Thousands	Investment and trading
HUANEIN HOLDINGS LTD.	2007.04.23	No. 249, Guoqiang 2nd Street, Longxiangli, Taoyuan District, Taoyuan City, Taiwan	TWD 180,000 Thousands	Investment
LITON HOLDINGS LTD.	2007.03.28	4th Floor Ellen Skelton Building, 3076 Sir Francis Drake Highway, Road Town, Tortola, British Virgin Islands VG1110,	US$ 100 Thousands	Investment
HONG KONG COMPEQ HUIZHOU TRADING COMPANY LTD.	2009.12.15	Room 2702-03, Integrated Centre, 302-8 Hennessy Road, Wan Chai, Hong Kong	US$ 300 Thousands	Trading

8.1.3 The Business correlation between all of the affiliates overall

Related Party	Business Segment	Correlation
COMPEQ MANUFACTURING CO., LTD.	PCB manufacturing and sales	Integral related parties' management. Advanced PCBs manufacturing
HUATON HOLDINGS LTD.	Investment and trading	Mainly in charge of Investment and trading in China
COMPEQ MANUFACTURING (HUIZHOU) CO., LTD.	PCB manufacturing and trading	Mainly in charge of the manufacturing and sales of advanced and matured PCBs in China
COMPEQ MANUFACTURING (SUZHOU) CO., LTD.	PCB design and SMT service	Mainly in charge of low volume SMT service in East China
COMPEQ TECHNOLOGY (HUIZHOU) CO., LTD.	FPCB design and manufacturing	Mainly in charge of the manufacturing and sales of FPCBs
COMPEQ MANUFACTURING (CHONGQING) CO., LTD.	PCB manufacturing and sales	Mainly in charge of the manufacturing and sales of advanced and matured PCBs in China
PELICAN COVE INVESTMENT LTD.	Investment and trading	Trade with related parties in China and global investment
HUANEIN HOLDINGS LTD.	Investment	Domestic investment and trading.
LITON HOLDINGS LTD.	Investment	Mainly in charge of Investment and trading in China
HONG KONG COMPEQ HUIZHOU TRADING COMPANY LTD.	Trading	Electronic components trading in China.

8.1.4 Boards and Directors Information

Related Parties	Title	Representative	Shares and Capital	
			Shares	Share Ratio
COMPEQ MANUFACTURING CO., LTD.	Chairman of the Board	Charles Wu	34,078,243	2.86%
	Director and President	P.K. Chiang	943,450	0.08%
	Director	K.S. Peng	8,365,186	0.70%
	Director	P.Y. Wu	27,658,499	2.32%
	Director	Chang-Zhi Investment Co., Ltd. Delegation: Andrew Chen	16,353,000 206,668	1.37% 0.03%
	Director	P.H. Wu	27,204,857	2.28%
	Independent director	Huang, Tung-Chun	0	0.00%
	Independent director	Tzu Kuan Chiu	0	0.00%
	Independent director	Teng Ling Liu	1,366,565	0.11%
HUATON HOLDINGS LTD.	Chairman of the Board	Compeq Manufacturing Co., Ltd. Delegation: P.K. Chiang	240,886,000 0	100.00% 0.00%
COMPEQ MANUFACTURING (HUIZHOU) CO., LTD.	Chairman of the Board	Huaton Holdings Ltd. Delegation: P.K. Chiang	US$130,000,000(Paid-in) 0	100.00% 0.00%
	Director and President	Delegation: Steve Chen	0	0.00%
	Director	Delegation: Andrew Chen	0	0.00%
	Director	Delegation: R.H. Chung	0	0.00%
	Director	Delegation: P.Y. Wu	0	0.00%
	Director	Delegation: P.H. Wu	0	0.00%
	Director	Delegation: Victor Lu	0	0.00%
	Supervisor	Delegation: Fan Lu	0	0.00%
COMPEQ MANUFACTURING (SUZHOU) CO., LTD.	Chairman of the Board	Huaton Holdings Ltd. Delegation: P.Y. Wu	US$ 11,290,000(Paid-in) 0	100.00% 0.00%
	Director	Delegation: Andrew Chen	0	0.00%
	Director and President	Delegation: Tony Chuang	0	0.00%
	Supervisor	Delegation: Fan Lu	0	0.00%
COMPEQ TECHNOLOGY (HUIZHOU) CO., LTD.	Chairman of the Board	Huaton Holdings Ltd. Delegation: P.Y. Wu	US$100,000,000(Paid-in) 0	100.00% 0.00%
	Director and President	Delegation: Steve Chen	0	0.00%
	Director	Delegation: P.K. Chiang	0	0.00%
	Supervisor	Delegation: Fan Lu	0	0.00%
PELICAN COVE INVESTMENT LTD.	Chairman of the Board	Compeq Manufacturing Co., Ltd. Delegation: P.Y. Wu	17,700,000 0	100.00% 0.00%
HUANEIN HOLDINGS LTD.	Chairman of the Board	Compeq Manufacturing Co., Ltd. Delegation: P.H. Wu	18,000,000	100.00% 0.00%
	Director	Delegation: Albert Chen	0	0.00%
	Director	Delegation: Mark Chang	0	0.00%
	Supervisor	Delegation: Fan Lu	0	0.00%
LITON HOLDINGS LTD.	Chairman of the Board	Compeq Manufacturing Co., Ltd. Delegation: Fan Lu	100,000 0	100.00% 0.00%
HONG KONG COMPEQ HUIZHOU TRADING COMPANY LTD.	Director	COMPEQ MANUFACTURING (HUIZHOU) CO., LTD. Delegation: Steve Chen	US$ 300,000(Paid-in)	100.00%
COMPEQ MANUFACTURING (CHONGQING)CO., LTD.	Chairman of the Board	Huaton Holdings Ltd. Delegation: P.K. Chiang	US$ 85,000,000(Paid-in) 0	100.00% 0.00%
	Director	Delegation: Andrew Chen	0	0.00%
	Director and President	Delegation: Steve Chen	0	0.00%
	Supervisor	Delegation: P.H. Wu	0	0.00%

8.1.5 The overview of the operations of the affiliates

Unit: NT$ thousands, except EPS (NT$)

Related Parties	Capital	Assets	Liabilities	Net Worth	Revenues	Income (Loss) from Operation	Net Income (Loss)	EPS
COMPEQ MANUFACTURING CO., LTD.	11,918,206	42,701,602	19,209,309	23,492,293	34,972,503	1,140,905	2,399,731	2.01
HUATON HOLDINGS LTD.	7,398,813	18,303,624	90,493	18,213,131	52,146	52	1,919,477	0.29
COMPEQ MANUFACTURING (HUIZHOU) CO., LTD.	4,654,876	13,681,797	6,684,306	6,997,491	14,248,161	493,814	298,039	N/A
COMPEQ MANUFACTURING (SUZHOU) CO., LTD.	408,073	2,100,560	933,088	1,167,473	4,768,959	115,674	95,125	N/A
COMPEQ TECHNOLOGY (HUIZHOU) CO., LTD.	3,045,813	14,497,505	10,389,319	4,108,186	18,963,217	769,320	345,140	N/A
COMPEQ MANUFACTURING (CHONGQING) CO., LTD.	2,377,632	9,025,298	4,246,971	4,778,327	6,280,962	1,389,102	1,197,569	N/A
PELICAN COVE INVESTMENT LTD.	543,656	7,144,066	6,546,765	597,300	27,379,046	279,859	7,818	0.01
HUANEIN HOLDINGS LTD.	180,000	177,809	2,999	174,810	0	(12,953)	(13,177)	(0.76)
LITON HOLDINGS LTD.	3,072	1,834	0	1,834	0	(138)	(129)	(0.04)
HONG KONG COMPEQ HUIZHOU TRADING COMPANY LTD.	9,215	8,244	0	8,244	0	(114)	(112)	N/A

8.1.6 Consolidated financial statements of affiliates

REPRESENTATION LETTER

The Companies required to be included in the consolidated financial statements of affiliates in accordance with Compeq Manufacturing Co., Ltd.as of and for the year ended December 31, 2018, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standards No.10, “Consolidated Financial Statements.”In addition, the information required to be disclosed in the consolidated financial statements is included in the consolidated financial statements. Consequently, Compeq Manufacturing Co., Ltd.and Subsidiaries do not prepare a separate set of consolidated financial statements of affiliates.

Very truly yours,

COMPEQ MANUFACTURING CO., LTD

By

Charles C. Wu

Chairman

March 13,2019

8.1.7 Affiliation Report

REPRESENTATION LETTER

The Companies required to be included in the consolidated financial statements of affiliates in accordance with Compeq Manufacturing Co., Ltd.as of and for the year ended December 31, 2018, under Company Act, the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises，Compeq is not a subsidiary company of other companies, required to prepare the financial statements which must be compiled in accordance with relevant laws and regulations.

Very truly yours,

COMPEQ MANUFACTURING CO., LTD

By

Charles C. Wu

Chairman

March 13,2019

8.2 Private Placement Securities in the Most Recent year: None

8.3 The Shares of the Company Held or Disposed of by the Subsidiaries in the Most Recent year: None.

8.4 Any Other Special Notes to be specify: None

- **Any events in 2018 and as of the date of this annual report that had significant impacts on shareholders’right or security prices as stated in item 2 paragraph 2 of Article 36 of Securities and Exchange Law of Taiwan: None.**

COMPEQ MANUFACTURING CO., LTD.

Chairman
Charles C. Wu

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