

**ORIENT SEMICONDUCTOR ELECTRONICS LIMITED  
AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS  
WITH  
REPORT OF INDEPENDENT AUDITORS  
FOR THE NINE-MONTH PERIODS ENDED  
SEPTEMBER 30, 2019 AND 2018**

The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese financial statements shall prevail.

English Translation of a Report Originally Issued in Chinese

**Review Report of Independent Accountants**

To Orient Semiconductor Electronics Limited

**Introduction**

We have reviewed the accompanying consolidated balance sheets of Orient Semiconductor Electronics Limited (the “Company”) and its subsidiaries as of September 30, 2019 and 2018, the related consolidated statements of comprehensive income for the three-month and nine-month periods ended September 30, 2019 and 2018 and consolidated statements of changes in equity and cash flows for the nine-month periods ended September 30, 2019 and 2018, and notes to the consolidated financial statements, including the summary of significant accounting policies (together “the consolidated financial statements”). Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, “Interim Financial Reporting” as endorsed and became effective by Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

**Scope of Review**

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

**Basis for Qualified Conclusion**

As explained in Note 4.(3), the financial statements of certain insignificant subsidiaries were not reviewed by independent accountants. Those statements reflect total assets of \$1,183,191 thousand and \$1,137,176 thousand, constituting 7.18% and 6.71% of the consolidated total assets, and total liabilities of \$291,116 thousand and \$326,550 thousand, constituting 2.79% and 2.85% of the consolidated total liabilities as of September 30, 2019 and 2018, respectively; and total comprehensive income of \$15,970 thousand, \$21,811 thousand, \$51,855 thousand and \$36,629 thousand, constituting 6.48%, (62.74%), 9.52% and (21.35%) of the consolidated total comprehensive income for the three-month and nine-month periods ended September 30, 2019 and 2018, respectively. As explained in Note 6.(6), the financial statements of certain associates and joint ventures accounted for under the equity method were not reviewed by independent accountants. Those associates and joint ventures under equity method amounted to \$448,720 thousand and \$430,479 thousand as of September 30, 2019 and 2018, respectively. The related shares of profits from the associates and joint ventures under the equity method amounted to \$3,026 thousand, \$19,715 thousand, \$26,984 thousand and \$41,189 thousand and the related shares of other comprehensive income from the associates and joint ventures under the equity method were \$0, \$0 and (\$277) thousand, \$0, for the three-month and nine-month periods ended September 30, 2019 and 2018, respectively.

## **Qualified Conclusion**

Based on our reviews, except for the effect of such adjustments, if any, as might have been determined to be necessary had the financial statements of certain insignificant subsidiaries, associates and joint ventures accounted for using equity method and the information been reviewed by independent accountants described in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as at September 30, 2019 and 2018, and their consolidated financial performance and cash flows for the three-month and nine-month periods ended September 30, 2019 and 2018, in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, “Interim Financial Reporting” as endorsed and became effective by Financial Supervisory Commission of the Republic of China.

## **Emphasis of Matter – Applying for New Accounting Standards**

We draw attention to Note 3 of the consolidated financial statements, which describes the Company and its subsidiaries applied for the International Financial Reporting Standard 16, “Leases” starting from January 1, 2019, and elected not to restate the consolidated financial statements for prior periods. Our conclusion is not modified in respect of this matter.

Chen, Chih-Chung

Chen, Cheng-Chu

Ernst & Young, Taiwan

November 12, 2019

English Translation of Financial Statements Originally Issued in Chinese  
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED AND SUBSIDIARIES  
UNAUDITED CONSOLIDATED BALANCE SHEETS  
As of September 30, 2019, December 31, 2018 and September 30, 2018  
(September 30, 2019 and 2018 are unaudited)  
(Amounts expressed in Thousands of New Taiwan Dollars)

Items	Notes	September 30, 2019		December 31, 2018		September 30, 2018	
		Amount	%	Amount	%	Amount	%
Current assets							
Cash and cash equivalents	4, 6.(1)	\$1,192,186	7	\$762,311	5	\$929,802	6
Contract asset-Current	4, 6.(18)	308,270	2	425,684	3	237,918	2
Notes receivable	4, 6.(2)	3,153	—	10,510	—	28,045	—
Accounts receivable-Non Affiliates	4, 6.(3), 8	3,165,837	19	2,385,100	14	2,248,149	13
Accounts receivable-Affiliates	4, 6.(3), 7	305,919	2	694,148	4	652,706	4
Other receivable-Non Affiliates	4	34,036	—	44,844	—	37,462	—
Other receivable-Affiliates	4, 7	51,039	—	54,767	1	49,117	—
Inventories	4, 6.(4)	1,340,607	8	1,567,469	9	1,707,857	10
Prepayments	4, 6.(10)	81,986	1	51,448	—	75,535	—
Other current assets		23,816	—	36,377	—	29,411	—
Other financial assets-Current	8	146,772	1	243,615	1	362,557	2
Total current assets		<u>6,653,621</u>	<u>40</u>	<u>6,276,273</u>	<u>37</u>	<u>6,358,559</u>	<u>37</u>
Non-current assets							
Financial assets at fair value through other comprehensive income-Non current	4, 6.(5)	234,878	2	234,878	1	256,943	2
Investments accounted for using the equity method	4, 6.(6), 8	448,720	3	458,078	3	430,479	3
Property, plant, and equipment	4, 6.(7), 8	6,469,990	39	7,063,908	42	7,157,658	42
Right-of use assets	4, 6.(20)	219,636	1	—	—	—	—
Investment property	4, 6.(8)	468,082	3	481,619	3	484,626	3
Intangible assets	4, 6.(9)	65,315	—	89,633	1	56,251	—
Deferred income tax assets	4	1,552,230	9	1,688,163	10	1,705,888	10
Prepayment for equipment	4, 6.(10)	106,502	1	180,354	1	205,265	1
Refundable deposits	8	159,361	1	201,903	1	210,090	1
Long-term receivables-Affiliates	4, 6.(11), 7	96,231	1	95,300	1	94,711	1
Other non-current assets	4	6,887	—	9,973	—	11,158	—
Total non-current assets		<u>9,827,832</u>	<u>60</u>	<u>10,503,809</u>	<u>63</u>	<u>10,613,069</u>	<u>63</u>
Total assets		<u>\$16,481,453</u>	<u>100</u>	<u>\$16,780,082</u>	<u>100</u>	<u>\$16,971,628</u>	<u>100</u>

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

English Translation of Financial Statements Originally Issued in Chinese  
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED AND SUBSIDIARIES  
UNAUDITED CONSOLIDATED BALANCE SHEETS  
As of September 30, 2019, December 31, 2018 and September 30, 2018  
(September 30, 2019 and 2018 are unaudited)  
(Amounts expressed in Thousands of New Taiwan Dollars)

Items	Notes	September 30, 2019		December 31, 2018		September 30, 2018	
		Amount	%	Amount	%	Amount	%
Current liabilities							
Short-term loans	6.(12), 7	\$2,107,163	13	\$2,806,857	17	\$2,705,799	16
Short-term notes payable	6.(13)	199,561	1	349,610	2	399,058	3
Contract liabilities-Current	4, 6.(18)	18,512	—	15,821	1	18,155	—
Notes payable	4	22,008	—	49,126	—	26,059	—
Other notes payable	4	25,340	—	13,072	—	24,733	—
Accounts payable-Non Affiliates	4	3,601,239	22	3,295,988	20	3,841,386	23
Accounts payable-Affiliates	4, 7	79,471	—	49,210	—	6,315	—
Accrued expenses		843,930	5	751,041	4	704,759	4
Payables on equipment		163,360	1	239,748	1	204,668	1
Current income tax liabilities	4	623	—	2,175	—	4,027	—
Lease liabilities-Current	4, 6.(20)	20,648	—	—	—	—	—
Current portion of long-term loans	6.(14)	1,325,069	8	1,340,270	8	1,349,412	8
Lease payable-Current	4, 6.(15)	—	—	2,610	—	10,205	—
Other current liabilities		91,413	1	115,652	1	75,186	—
Total current liabilities		8,498,337	51	9,031,180	54	9,369,762	55
Non-current liabilities							
Long-term loans	6.(14)	1,266,110	8	1,713,245	10	1,608,761	10
Deferred tax liabilities	4	31,687	—	33,639	—	36,416	—
Lease liabilities-Non current	4, 6.(20)	200,733	1	—	—	—	—
Net defined benefit liabilities-Non current	4	434,080	3	495,896	3	464,284	3
Other non current liabilities-Others	4	3,520	—	3,522	—	3,680	—
Total non-current liabilities		1,936,130	12	2,246,302	13	2,113,141	13
Total liabilities		10,434,467	63	11,277,482	67	11,482,903	68
Equity attributable to the parent company	4, 6.(17)						
Capital							
Common stock		5,523,285	34	5,523,285	33	5,523,285	32
Additional paid-in capital		19,988	—	20,104	—	20,353	—
Retained earnings							
Undistributed earnings (Retained deficits)		496,936	3	(44,832)	—	87,533	1
Other Components of Equity		6,777	—	4,043	—	(142,446)	(1)
Equity attributable to stockholders of the parent		6,046,986	37	5,502,600	33	5,488,725	32
Total stockholders' equity		6,046,986	37	5,502,600	33	5,488,725	32
Total liabilities and stockholders' equity		\$16,481,453	100	\$16,780,082	100	\$16,971,628	100

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

English Translation of Financial Statements Originally Issued in Chinese  
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED AND SUBSIDIARIES  
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
For the three-month and nine-month periods ended September 30, 2019 and 2018  
( Amounts expressed in Thousands of New Taiwan Dollars )

Items	Notes	For the three-month periods ended September 30, 2019		For the three-month periods ended September 30, 2018		For the nine-month periods ended September 30, 2019		For the nine-month periods ended September 30, 2018	
		Amount	%	Amount	%	Amount	%	Amount	%
Net revenue	4, 6.(18) , 7	\$4,971,024	100	\$4,112,318	100	\$13,416,556	100	\$10,981,666	100
Cost of goods sold	4, 6.(4), 6.(21)	(4,395,602)	(89)	(3,939,117)	(96)	(11,982,724)	(89)	(10,813,383)	(98)
Gross profit		575,422	11	173,201	4	1,433,832	11	168,283	2
Operating expenses	4, 6.(21)								
Selling and administration expenses		(187,119)	(4)	(152,903)	(3)	(535,133)	(4)	(453,490)	(4)
Research and development expenses		(72,626)	(1)	(68,496)	(2)	(209,667)	(2)	(191,609)	(2)
Expected credit losses	4, 6.(19)	(2,144)	—	(778)	—	(13,510)	—	(4,240)	—
Subtotal		(261,889)	(5)	(222,177)	(5)	(758,310)	(6)	(649,339)	(6)
Operating income (loss)		313,533	6	(48,976)	(1)	675,522	5	(481,056)	(4)
Non-operating income and expenses	6.(22)								
Other income		12,362	—	19,389	—	38,210	—	57,791	1
Other gains and losses		11,462	—	(1,606)	—	31,387	—	25,519	—
Financial costs		(26,849)	—	(30,359)	(1)	(91,316)	—	(95,134)	(1)
Share of profit of associates under equity method	4, 6.(6)	3,026	—	19,715	1	26,984	—	41,189	—
Subtotal		1	—	7,139	—	5,265	—	29,365	—
Pretax income (loss)		313,534	6	(41,837)	(1)	680,787	5	(451,691)	(4)
Income tax (expense) benefit	4, 6.(24)	(63,018)	(1)	10,465	—	(138,742)	(1)	279,158	2
Consolidated net income (loss)		250,516	5	(31,372)	(1)	542,045	4	(172,533)	(2)
Other comprehensive income (loss)	4, 6.(23)								
Items that will not be reclassified subsequently to profit or loss:									
Income tax related to items that will not be reclassified		—	—	—	—	—	—	(5,252)	—
Items that may be reclassified subsequently to profit or loss:									
Exchange differences on translation of foreign operations		(5,095)	—	(4,240)	—	3,417	—	12,649	—
Share of other comprehensive income (loss) of associates and joint ventures		—	—	—	—	(277)	—	—	—
Income tax related to items that may be reclassified		1,019	—	848	—	(683)	—	(6,443)	—
Total other comprehensive income (loss), net of tax		(4,076)	—	(3,392)	—	2,457	—	954	—
Total comprehensive income		\$246,440	5	(\$34,764)	(1)	\$544,502	4	(\$171,579)	(2)
Consolidated net income (loss) attributable to:									
Common stockholders of the parent		\$250,516	5	(\$31,372)	(1)	\$542,045	4	(\$172,533)	(2)
Non controlling interests		—	—	—	—	—	—	—	—
		\$250,516	5	(\$31,372)	(1)	\$542,045	4	(\$172,533)	(2)
Consolidated comprehensive income (loss) attributable to:									
Common stockholders of the parent		\$246,440	5	(\$34,764)	(1)	\$544,502	4	(\$171,579)	(2)
Non-controlling interests		—	—	—	—	—	—	—	—
		\$246,440	5	(\$34,764)	(1)	\$544,502	4	(\$171,579)	(2)
Basic earnings (losses) per share (Expressed in NTD)	4, 6.(25)	\$0.45		(\$0.06)		\$0.98		(\$0.31)	
Diluted earnings (losses) per share (Expressed in NTD)		\$0.45		(\$0.06)		\$0.98		(\$0.31)	

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

English Translation of Financial Statements Originally Issued in Chinese  
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED AND SUBSIDIARIES  
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
For the nine-month periods ended September 30, 2019 and 2018  
(Amounts expressed in Thousands of New Taiwan Dollars)

Items	Equity attributable to stockholders of the parent						Total	Total Equity
	Common stock	Captial surplus	Retained earnings	Other equity				
			Undistributed earnings ( Retained deficits)	Exchange differences on translation of foreign operations	Unrealized gains or losses on financial assets measured at fair value through other comprehensive income	Unrealized gains from available-for- sale financial assets		
Balance as of January 1, 2018	\$8,060,158	\$21,420	(\$2,536,872)	(\$30,156)	—	\$145,296	\$5,659,846	\$5,659,846
Impact of retroactive applications	—	—	260,065	—	(\$113,244)	(145,296)	1,525	1,525
Adjusted balance as of January 1, 2018	8,060,158	21,420	(2,276,807)	(30,156)	(113,244)	—	5,661,371	5,661,371
Share of changes in net assets of associates and joint ventures accounted for using equity method	—	(1,067)	—	—	—	—	(1,067)	(1,067)
(Loss) for the nine-month ended September 30, 2018	—	—	(172,533)	—	—	—	(172,533)	(172,533)
Other comprehensive income (loss) for the nine-month ended September 30, 2018	—	—	—	6,206	(5,252)	—	954	954
Total comprehensive income (loss)	—	—	(172,533)	6,206	(5,252)	—	(171,579)	(171,579)
Capital reduction for cover accumulated deficits	(2,536,873)	—	2,536,873	—	—	—	—	—
Balance as of September 30, 2018	\$5,523,285	\$20,353	\$87,533	(\$23,950)	(\$118,496)	—	\$5,488,725	\$5,488,725
Balance as of January 1, 2019	\$5,523,285	\$20,104	(\$44,832)	(\$20,095)	\$24,138	—	\$5,502,600	\$5,502,600
Share of changes in net assets of associates and joint ventures accounted for using equity method	—	(116)	—	—	—	—	(116)	(116)
Income for the nine-month ended September 30, 2019	—	—	542,045	—	—	—	542,045	542,045
Other comprehensive income (loss) for the nine-month ended September 30, 2019	—	—	(277)	2,734	—	—	2,457	2,457
Total comprehensive income (loss)	—	—	541,768	2,734	—	—	544,502	544,502
Balance as of September 30, 2019	\$5,523,285	\$19,988	\$496,936	(\$17,361)	\$24,138	—	\$6,046,986	\$6,046,986

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



English Translation of Financial Statements Originally Issued in Chinese  
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED AND SUBSIDIARIES  
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the nine-month periods ended September 30, 2019 and 2018  
(Amount expressed in Thousands of New Taiwan Dollars)

Items	For the nine-month periods ended September 30, 2019	For the nine-month periods ended September 30, 2018	Items	For the nine-month periods ended September 30, 2019	For the nine-month periods ended September 30, 2018
	Amount	Amount		Amount	Amount
Cash flows from operating activities:			Cash flows from investing activities:		
Pretax income (loss)	\$680,787	(\$451,691)	Disposal of financial assets at fair value through profit or loss	—	38,184
Adjustments to reconcile net income (loss) before tax to net			Acquisition of property, plant, and equipment	(519,550)	(552,616)
The profit or loss items which did not affect cash flows:			Disposal of property, plant, and equipment	44,295	37,358
Depreciation	1,123,720	1,054,031	(Increase) in refundable deposits	—	(1,121)
Amortization	49,548	45,575	Decrease in refundable deposits	42,542	—
Expected credit loss	13,510	4,240	Acquisition of intangible assets	(24,713)	(22,154)
Net (gain) of financial assets and liabilities at fair value through profit or loss	—	(7,371)	(Increase) in long-term receivables	(931)	(2,327)
Interest expense	91,316	95,134	Other investing activities	—	(879)
Interest revenue	(3,738)	(7,056)	Net cash (used in) investing activities	(458,357)	(503,555)
Share of (profit) of associates accounted for using the equity method	(26,984)	(41,189)			
(Gain) on disposal of property, plant and equipment	(32,889)	(3,356)	Cash flows from financing activities:		
Loss of impairment of non-financial assets	2,159	—	Increase in short-term loans	—	513,437
Loss on inventory valuation	30,054	35,510	(Decrease) in short-term loans	(699,788)	—
Changes in operating assets and liabilities:			Increase in short-term notes payable	199,561	399,058
Decrease (Increase) in contract assets	117,414	(25,314)	(Decrease) in short-term notes payable	(349,610)	(398,938)
Decrease (Increase) in notes receivable-non affiliates	7,357	(16,095)	Increase in long-term loans	1,100,000	525,584
(Increase) Decrease in accounts receivable-non affiliates	(795,327)	74,117	Repayment of long-term loans	(1,565,515)	(1,326,090)
Decrease (Increase) in accounts receivable-affiliates	389,308	(415,738)	(Decrease) in guarantee deposits received	(2)	(53)
Decrease in other receivable-non affiliates	9,272	16,762	Increase in lease payable	—	30,378
Decrease in other receivable-affiliates	40,934	29,089	(Decrease) in lease payable	—	(44,724)
Decrease (Increase) in inventories	196,715	(531,108)	Repayment of lease liabilities	(23,475)	—
(Increase) in prepayments	(10,623)	(18,653)	Interest paid	(93,745)	(93,950)
Decrease in other current assets	12,564	1,376	Other financing activities	96,843	148,403
Decrease in other non-current assets	1,954	1,618	Net cash (used in) financing activities	(1,335,731)	(246,895)
Increase (Decrease) in contract liabilities	2,691	(33,597)			
(Decrease) Increase in notes payable-non affiliates	(14,850)	24,427	Effect of exchange rate changes on cash and cash equivalents	(3,990)	(933)
Increase in accounts payable-non affiliates	305,251	664,034	Net increase (decrease) in cash and cash equivalents	429,875	(364,445)
Increase (Decrease) in accounts payable-affiliates	30,261	(12,132)	Cash and cash equivalents at the beginning of period	762,311	1,294,247
Increase (Decrease) in other payable	2,429	(1,184)	Cash and cash equivalents at the end of period	\$1,192,186	\$929,802
Increase (Decrease) in other current liabilities	68,650	(21,002)			
(Decrease) in accrued pension liabilities	(61,816)	(73,499)			
Cash generated from operations	2,229,667	386,928			
Interest received	3,730	7,040			
Income tax (paid)	(5,444)	(7,030)			
Net cash provided by operating activities	2,227,953	386,938			

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



English Translation of Financial Statements Originally Issued in Chinese  
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018  
(Unless otherwise stated, all amounts expressed are in thousands of New Taiwan Dollars)

1. ORGANIZATION AND OPERATION

Orient Semiconductor Electronics Limited (the Company) was incorporated as a company limited by shares under the provisions of the Company Law of the Republic of China in June 1971. The Company was registered in Kaohsiung City and the registered address is 9 Central 3Rd St. N.E.P.Z., Kaohsiung, Taiwan, 11, R.O.C. The principal activity of the Company is to engage in the manufacture, assembly, processing and sale of integrated circuits, parts for semiconductors, computer motherboards and related products. The Company's shares commenced trading in the Taiwan stock exchange market in April 1994.

For the nine-month periods ended September 30, 2019, the Company and its subsidiaries current liabilities and current assets amounted to \$8,498,337 thousand and \$6,653,621 thousand, respectively. The current ratio was 78.29%. The Company has devoted to adjusting its product structure. The Company keeps making a profit and improving financial structure.

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

The consolidated financial statements of the Company and its subsidiaries ("the Group") for the nine-month periods ended September 30, 2019 and 2018 were authorized for issue by the Board of Directors on November 12, 2019.

3. NEWLY ISSUED OR REVISED STANDARDS AND INTERPRETATIONS

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

The Group applied for the first time International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are recognized by Financial Supervisory Commission ("FSC") and become effective for annual periods beginning on or after January 1, 2019. The nature and the impact of each new standard and amendment that has a material effect on the Group is described below:

A. IFRS 16 "Leases"

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

The Group followed the transition provision in IFRS 16 and the date of initial application was January 1, 2019. The impacts arising from the adoption of IFRS 16 are summarized as follows:

- (a) Please refer to Note 4 for the accounting policies before or after January 1, 2019.
- (b) For the definition of a lease, the Group elected not to reassess whether a contract was, or contained, a lease on 1 January 2019. The Group was permitted to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 but not to apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. That is, for contracts entered into (or changed) on or after 1 January 2019, the Group need to assess whether contracts are, or contain, leases applying IFRS 16. In comparing to IAS 17, IFRS 16 provides that a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group assessed most of the contracts are, or contain, leases and has no significant impact arisen.
- (c) The Group is a lessee and elects not to restate comparative information in accordance with the transition provision in IFRS 16. Instead, the Group recognized the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

#### I. Leases previously classified as operating leases

For leases that were previously classified as operating leases applying IAS 17, the Group measured and recognized those leases as lease liability on January 1, 2019 at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019, and; the Group chose, on a lease-by-lease basis, to measure the right-of-use asset at either:

- i. its carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate on January 1, 2019; or
- ii. an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet immediately before January 1, 2019.

On January 1, 2019, the Group's right-of-use asset and lease liability increased by \$238,816 thousand and \$238,816 thousand, respectively.

In accordance with the transition provision in IFRS 16, the Group used the following practical expedients on a lease-by-lease basis to leases previously classified as operating leases:

- i. Apply a single discount rate to a portfolio of leases with reasonably similar characteristics.
- ii. Rely on its assessment of whether leases are onerous immediately before January 1, 2019 as an alternative to performing an impairment review.
- iii. Elect to account in the same way as short-term leases to leases for which the lease term ends within 12 months of January 1, 2019.
- iv. Exclude initial direct costs from the measurement of the right-of-use asset on January 1, 2019.
- v. Use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

## II. Leases previously classified as finance leases

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

III. Please refer to Note 4, Note 5 and Note 6 for additional disclosure of lessee and lessor which required by IFRS 16.

IV. As at January 1, 2019, the impacts arising from the adoption of IFRS 16 are summarized as follows:

- i. The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized in the balance sheet on January 1, 2019 was 2.24%.
- ii. The explanation for the difference of \$174,196 thousand between: 1) operating lease commitments disclosed applying IAS 17 as of December 31, 2018, discounted using the incremental borrowing rate on January 1, 2019; and 2) lease liabilities recognized in the balance sheet as at January 1, 2019 is summarized as follows:

Operating lease commitments disclosed applying IAS 17 as of December 31, 2018	\$74,699
Discounted using the incremental borrowing rate on January 1, 2019	\$67,230
Add: the carrying value of lease payables as of December 31, 2018	2,610
Add: adjustments to the options to extend or terminate the lease that is reasonably certain to exercise	171,586
The carrying value of lease liabilities recognized as of January 1, 2019	\$241,426

(d) The Group is a lessor and has not made any adjustments. Please refer to Note 4, Note 5 and Note 6 for the information relating to the lessor.

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

Items	New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB
a	Definition of a Business (Amendments to IFRS 3)	January 1, 2020
b	Definition of Material (Amendments to IAS 1 and 8)	January 1, 2020

A. Definition of a Business (Amendments to IFRS 3)

The amendments clarify the definition of a business in IFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

IFRS 3 continues to adopt a market participant’s perspective to determine whether an acquired set of activities and assets is a business. The amendments clarify the minimum requirements for a business; add guidance to help entities assess whether an acquired process is substantive; and narrow the definitions of a business and of outputs; etc.

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

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

The abovementioned standards and interpretations were issued by International Accounting Standards Board (“IASB”) and endorsed by FSC so that they are applicable for annual periods beginning on or after January 1, 2020. All other standards and interpretations have no material impact on the Group.

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

Items	New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB
a	IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” — Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures	To be determined by IASB
b	IFRS 17 “Insurance Contracts”	January 1, 2021
c	Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7	January 1, 2020

A. IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” — Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures

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

B. IFRS 17 “Insurance Contracts”

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

- (a) estimates of future cash flows;

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

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

### C. Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7

The amendments include a number of exceptions, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is directly affected if the interest rate benchmark reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. Hence, the entity shall apply the exceptions to all hedging relationships directly affected by the interest rate benchmark reform.

The amendments include:

(a) highly probable requirement

When determining whether a forecast transaction is highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the interest rate benchmark reform.

(b) prospective assessments

When performing prospective assessments, an entity shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the interest rate benchmark reform.

(c) IAS 39 retrospective assessment

An entity is not required to undertake the IAS 39 retrospective assessment (i.e. the actual results of the hedge are within a range of 80–125%) for hedging relationships directly affected by the interest rate benchmark reform.

(d) separately identifiable risk components

For hedges of a non-contractually specified benchmark component of interest rate risk, an entity shall apply the separately identifiable requirement only at the inception of such hedging relationships.

The amendments also include the end of application of the exceptions requirements and the related disclosures requirements of the amendments.

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

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### (1) Statement of compliance

The consolidated financial statements of the Group for the nine-month periods ended September 30, 2019 and 2018 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (“the Regulations”) and IAS 34 Interim Financial Reporting as endorsed and became effective by the FSC.

##### (2) Basis of preparation

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

##### (3) Basis of consolidation

###### Preparation principle of consolidated financial statement

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

- (a) power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- (b) exposure, or rights, to variable returns from its involvement with the investee, and
- (c) the ability to use its power over the investee to affect its returns

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

- (a) the contractual arrangement with the other vote holders of the investee
- (b) rights arising from other contractual arrangements
- (c) the Group’s voting rights and potential voting rights

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

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



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

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

If the Group loses control of a subsidiary, it:

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

A. The consolidated entities are listed as follows:

Investor	Name of subsidiaries	Main businesses	Percentage of ownership			Remarks
			September 30, 2019	December 31, 2018	September 30, 2018	
The Company	Orient Semiconductor Electronics Philippines, Inc. (OSE PHILIPPINES, INC. ; OSEP)	Manufacture and export of integrated circuits and computers	99.99%	99.99%	99.99%	1. As of September 30, 2019, the Company owned 93.67% and OSE B.V.I. owned 6.33% of the shares of OSEP, which represented the aggregate a 99.99% ownership of OSEP. 2. OSEP ceased its operation in fourth quarter of 2011.
The Company	OSE INTERNATIONAL, LTD. (OSE B.V.I.)	Investments of various manufacturing businesses	100.00%	100.00%	100.00%	—

Investor	Name of subsidiaries	Main businesses	Percentage of ownership			Remarks
			September 30, 2019	December 31, 2018	September 30, 2018	
The Company	OSE USA, INC. (OSEU)	Investments of various manufacturing businesses	100.00%	100.00%	100.00%	OSEA merged with OSEU on February 14, 2006 and assumed OSEU's assets, liabilities and preferred stocks. OSEA changed its name as OSE USA, Inc. after the merger.
The Company	COREPLUS (HK) LIMITED (COREPLUS)	Manufacture of electronics product	100.00%	100.00%	100.00%	—
COREPLUS (HK) LIMITED (COREPLUS)	VALUE-PLUS TECHNOLOGY (SUZHOU) CO. (VALUE-PLUS (SUZHOU))	Manufacture of electronics product	100.00%	100.00%	100.00%	—

B. The consolidated financial statements of part of insignificant subsidiaries listed above had not been reviewed by auditors. As of September 30, 2019 and 2018, the related assets of the subsidiaries which were unaudited by auditors amount to \$1,183,191 thousand and \$1,137,176 thousand respectively, and the related liabilities amount to \$291,116 thousand and \$326,550 thousand, respectively. The comprehensive income of these subsidiaries amount to \$15,970 thousand, \$21,811 thousand, \$51,855 thousand and \$36,629 thousand for the three-month and nine-month periods ended September 30, 2019 and 2018, respectively.

#### (4) Foreign currency transactions

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

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

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

- (a) Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.
- (b) Foreign currency items within the scope of IAS 39 Financial Instruments: Recognition and Measurement are accounted for based on the accounting policy for financial instruments.
- (c) Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

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

(5) Translation of financial statements in foreign currency

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

- (a) when the partial disposal involves the loss of control of a subsidiary that includes a foreign operation; and
- (b) when the retained interest after the partial disposal of an interest in a joint arrangement or a partial disposal of an interest in an associate that includes a foreign operation is a financial asset that includes a foreign operation.

On the partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is re-attributed to the non-controlling interests in that foreign operation. In partial disposal of an associate or joint arrangement that includes a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

(6) Current and non-current distinction

An asset is classified as current when:

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

All other assets are classified as non-current.

A liability is classified as current when:

- (a) The Group expects to settle the liability in its normal operating cycle.
- (b) The Group holds the liability primarily for the purpose of trading.
- (c) The liability is due to be settled within twelve months after the reporting period.
- (d) The Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(7) Cash and cash equivalents

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

(8) Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities within the scope of IFRS 9 Financial Instruments are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

A. Financial instruments: Recognition and Measurement

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

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

- (a) the Group's business model for managing the financial assets and
- (b) the contractual cash flow characteristics of the financial asset.

#### Financial assets measured at amortized cost

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

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

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

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

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

#### Financial asset measured at fair value through other comprehensive income

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

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

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

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

- (a) A gain or loss on a financial asset measured at fair value through other comprehensive income recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.
- (b) When the financial asset is derecognized the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.
- (c) Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:
  - i. Purchased or originated credit-impaired financial assets. For those financial assets, the Group applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
  - ii. Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Group applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

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

#### Financial asset measured at fair value through profit or loss

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

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

#### B. Impairment of financial assets

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

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

- (a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- (b) the time value of money; and
- (c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The loss allowance is measures as follow:

- (a) At an amount equal to 12-month expected credit losses: the credit risk on a financial asset has not increased significantly since initial recognition or the financial asset is determined to have low credit risk at the reporting date. In addition, the Group measures the loss allowance at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that the credit risk on a financial asset has increased significantly since initial recognition is no longer met.
- (b) At an amount equal to the lifetime expected credit losses: the credit risk on a financial asset has increased significantly since initial recognition or financial asset that is purchased or originated credit-impaired financial asset.
- (c) For trade receivables or contract assets arising from transactions within the scope of IFRS 15, the Group measures the loss allowance at an amount equal to lifetime expected credit losses.
- (d) For lease receivables arising from transactions within the scope of IFRS 16 (before January 1, 2019: IAS 17), the Group measures the loss allowance at an amount equal to lifetime expected credit losses.

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



### C. Derecognition of financial assets

A financial asset is derecognized when:

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

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

### D. Financial liabilities and equity

#### Classification between liabilities or equity

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

#### Equity instruments

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

#### Financial liabilities

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

#### Financial liabilities at fair value through profit or loss

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

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

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

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

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

#### Financial liabilities at amortized cost

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

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

#### Derecognition of financial liabilities

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

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

#### E. Offsetting of financial instruments

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

#### (9) Fair value measurement

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

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

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants in their economic best interest.

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

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

#### (10) Inventories

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

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

Raw materials – Purchase cost on an average basis.

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

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

Rendering of services is accounted in accordance with IFRS 15 and not within the scope of inventories.

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

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

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

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

#### (12) Investment accounted for using the equity method

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

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

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

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

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

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

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

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

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

### (13) Property, plant and equipment

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

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

Buildings	10~50 years
Machinery and equipment	7~15 years
Transportation equipment	5 years
Office equipment	5 years
Right-of-use assets/leased assets (Note)	1~50 years
Leasehold improvements	5~15 years
Other equipment	5 years

(Note): The Group reclassified the lease assets to right-of-use assets after the adoption of IFRS 16 from January 1, 2019.

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

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

(14) Investment property

**The accounting policy from January 1, 2019 as follow:**

The Group's owned investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, other than those that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, investment properties are measured using the cost model in accordance with the requirements of IAS 16 Property, plant and equipment for that model. If investment properties are held by a lessee as right-of-use assets and is not held for sale in accordance with IFRS 5, investment properties are measured in accordance with the requirements of IFRS 16.

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

Buildings	40 years
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Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition.

The Group transfers to or from investment properties when there is a change in use for these assets.

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

**The accounting policy before January 1, 2019 as follow:**

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



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

The Group transfers to or from investment properties when there is a change in use for these assets.

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

#### (15) Leases

##### **The accounting policy from January 1, 2019 as follow:**

For contracts entered on or after January 1, 2019, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Group assesses whether, throughout the period of use, has both of the following:

- (a) the right to obtain substantially all of the economic benefits from use of the identified asset; and
- (b) the right to direct the use of the identified asset.

The Group elected not to reassess whether a contract is, or contains, a lease on January 1, 2019. The Group is permitted to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 but not to apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

For a contract that is, or contains, a lease, the Group accounts for each lease component within the contract as a lease separately from non-lease components of the contract. For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. The relative stand-alone price of lease and non-lease components shall be determined on the basis of the price the lessor, or a similar supplier, would charge the Group for that component, or a similar component, separately. If an observable stand-alone price is not readily available, the Group estimates the stand-alone price, maximising the use of observable information.

##### **Group as a lessee**

Except for leases that meet and elect short-term leases or leases of low-value assets, the Group recognizes right-of-use asset and lease liability for all leases which the Group is the lessee of those lease contracts.

At the commencement date, the Group measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses its incremental borrowing rate. At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- (a) fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- (c) amounts expected to be payable by the lessee under residual value guarantees;
- (d) the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- (e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

After the commencement date, the Group measures the lease liability on an amortised cost basis, which increases the carrying amount to reflect interest on the lease liability by using an effective interest method; and reduces the carrying amount to reflect the lease payments made.

At the commencement date, the Group measures the right-of-use asset at cost. The cost of the right-of-use asset comprises:

- (a) the amount of the initial measurement of the lease liability;
- (b) any lease payments made at or before the commencement date, less any lease incentives received;
- (c) any initial direct costs incurred by the lessee; and
- (d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

For subsequent measurement of the right-of-use asset, the Group measures the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses. That is, the Group measures the right-of-use asset applying a cost model.

If the lease transfers ownership of the underlying asset to the Group by the end of the lease term or if the cost of the right-of-use asset reflects that the Group will exercise a purchase option, the Group depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Group depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Group applies IAS 36 “Impairment of Assets” to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

Except for those leases that the Group accounted for as short-term leases or leases of low-value assets, the Group presents right-of-use assets and lease liabilities in the balance sheet and separately presents lease-related interest expense and depreciation charge in the statements comprehensive income.

For short-term leases or leases of low-value assets, the Group elects to recognize the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis.

#### Group as a lessor

At inception of a contract, the Group classifies each of its leases as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. At the commencement date, the Group recognizes assets held under a finance lease in its balance sheet and present them as a receivable at an amount equal to the net investment in the lease.

For a contract that contains lease components and non-lease components, the Group allocates the consideration in the contract applying IFRS 15.

The Group recognizes lease payments from operating leases as rental income on either a straight-line basis or another systematic basis. Variable lease payments for operating leases that do not depend on an index or a rate are recognized as rental income when incurred.

#### **The accounting policy before January 1, 2019 as follow:**

##### Group as a lessee

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

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

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

### Group as a lessor

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

### (16) Intangible assets

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

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

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

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

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

### Research and development costs

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

- (a) The technical feasibility of completing the intangible asset so that it will be available for use or sale
- (b) Its intention to complete and its ability to use or sell the asset
- (c) How the asset will generate future economic benefits

- (d) The availability of resources to complete the asset
- (e) The ability to measure reliably the expenditure during development.

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

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

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

#### (17) Impairment of non-financial assets

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

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

An impairment loss of continuing operations or a reversal of such impairment loss is recognized in profit or loss.

## (18) Revenue recognition

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

### Sale of goods

The Group manufactures and sells machinery. Sales are recognized when control of the goods is transferred to the customer and the goods are delivered to the customers. The main products of the Group are integrated circuits, semiconductor devices and computer motherboards, etc and revenue is recognized based on the consideration stated in the contract. For certain sales of goods transactions, they are usually accompanied by volume discounts (based on the accumulated total sales amount for a specified period). Therefore, revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts.

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

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

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

### Rendering of services

Revenue is recognized when the Group finishes the processing services.

#### (19) Borrowing costs

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

#### (20) Post-employment benefits

All regular employees of the Company and its domestic subsidiaries are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account and hence, not associated with the Company and its domestic subsidiaries. Therefore fund assets are not included in the Group's consolidated financial statements. Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

For the defined contribution plan, the Company and its domestic subsidiaries will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due. Overseas subsidiaries and branches make contribution to the plan based on the requirements of local regulations.

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

- (a) the date of the plan amendment or curtailment, and
- (b) the date that the Group recognizes restructuring-related costs

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

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted and disclosed for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events.



## (21) Income taxes

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

### Current income tax

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

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

### Deferred tax

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

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

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

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

- (a) Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- (b) In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

Interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the pre-tax income of the interim period. The estimated average annual effective income tax rate only includes current income tax. The recognition and measurement of deferred tax follows annual financial reporting requirements in accordance with IAS 12. The Group recognizes the effect of change in tax rate for deferred taxes in full if the new tax rate is enacted by the end of the interim reporting period, by charging to profit or loss, other comprehensive income, or directly to equity.

## (22) Business combinations and goodwill

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognized at the acquisition-date fair value. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with IFRS 9 Financial Instruments either in profit or loss or as a change to other comprehensive income. However, if the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

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

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

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

## 5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTMATES AND ASSUMPTIONS

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

### Judgement

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

#### Revenue recognition

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

The Group provides electronic manufacturing services and integrated circuit packaging and testing manufacturing services, determined as to conform to the following indicators; it is recognized as total revenue collected:

- (a) has the primary responsibility to the provision of goods or services provided
- (b) assumed inventory risk
- (c) assumed customer's credit risk

#### Estimates and assumptions

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

##### (1) Fair value of financial instruments

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

##### (2) Impairment of non-financial assets

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

##### (3) Pension benefits

The cost of post-employment benefit and the present value of the pension obligation under defined benefit pension plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate and future salary increases (decreases).

#### (4) Income tax

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

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

#### (5) Accounts receivables—estimation of impairment loss

The Group estimates the impairment loss of accounts receivables at an amount equal to lifetime expected credit losses. The credit loss is the present value of the difference between the contractual cash flows that are due under the contract (carrying amount) and the cash flows that expects to receive (evaluate forward looking information). However, as the impact from the discounting of short-term receivables is not material, the credit loss is measured by the undiscounted cash flows. Where the actual future cash flows are lower than expected, a material impairment loss may arise. Please refer to Note 6 for more details.

#### (6) Inventories

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

## 6. CONTENTS OF SIGNIFICANT ACCOUNTS

### (1) CASH AND CASH EQUIVALENTS

	Sep. 30, 2019	Dec. 31, 2018	Sep. 30, 2018
Cash on hand	\$264	\$226	\$226
Demand deposits	1,191,922	762,085	929,576
Total	<u>\$1,192,186</u>	<u>\$762,311</u>	<u>\$929,802</u>

### (2) NOTES RECEIVABLES

	Sep. 30, 2019	Dec. 31, 2018	Sep. 30, 2018
Notes receivables	\$3,153	\$10,510	\$28,045
Less : loss allowance	(—)	(—)	(—)
Total	<u>\$3,153</u>	<u>\$10,510</u>	<u>\$28,045</u>

Notes receivables were not pledged.

The Group follows the requirement of IFRS 9 to assess the impairment. Please refer to Note 6.(19) for more details on loss allowance and Note 12 for details on credit risk.

### (3) ACCOUNTS RECEIVABLES AND ACCOUNTS RECEIVABLES – AFFILIATES

(a) Details are as follows:

	Sep. 30, 2019	Dec. 31, 2018	Sep. 30, 2018
Accounts receivables	\$3,197,756	\$2,177,906	\$2,064,419
Add : pledged accounts receivables	—	224,523	190,579
Less : loss allowance	(31,919)	(17,329)	(6,849)
Subtotal	<u>3,165,837</u>	<u>2,385,100</u>	<u>2,248,149</u>
Accounts receivables - affiliates	306,040	695,348	653,478
Less : loss allowance	(121)	(1,200)	(772)
Subtotal	<u>305,919</u>	<u>694,148</u>	<u>652,706</u>
Total	<u>3,471,756</u>	<u>\$3,079,248</u>	<u>\$2,900,855</u>

(b) Accounts receivables are generally on 30-150 day terms. The total carrying amount as of September 30, 2019, December 31, 2018 and September 30, 2018 were \$3,506,949 thousand, \$3,108,287 thousand and \$2,936,521 thousand, respectively. Please refer to Note 6.(19) for more details on loss allowance of accounts receivables for the nine-month periods ended September 30, 2019 and 2018. Please refer to Note 12 for more details on credit risk management.

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

The details of the loan agreements are as follows:

Sep. 30, 2019

None.

Dec. 31, 2018

Bank	Contract period	Banking facility	Loan amount	Factored amount
Far Eastern Bank	August 20, 2018 ~August 20, 2019	\$135,000	<u>\$135,000</u>	<u>\$224,523</u>

Sep. 30, 2018

Bank	Contract period	Banking facility	Loan amount	Factored amount
Far Eastern Bank	August 20, 2018 ~August 20, 2019	\$135,000	<u>\$135,000</u>	<u>\$190,579</u>

(4) INVENTORIES, NET

(a) Details are as follows:

	<u>Sep. 30, 2019</u>	<u>Dec. 31, 2018</u>	<u>Sep. 30, 2018</u>
Raw materials	\$999,710	\$1,280,124	\$1,386,756
Supplies	81,091	102,425	100,443
Work in progress	210,389	130,325	179,692
Finished goods	<u>49,417</u>	<u>54,595</u>	<u>40,966</u>
Total	<u>\$1,340,607</u>	<u>\$1,567,469</u>	<u>\$1,707,857</u>

(b)

	<u>For the three-month periods ended September 30</u>		<u>For the nine-month periods ended September 30</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Cost of inventories sold	\$4,413,343	\$3,920,192	\$11,952,670	\$10,777,873
(Gain) Loss on inventory valuation	(17,741)	18,925	30,054	35,510
Cost of goods sold	<u>\$4,395,602</u>	<u>\$3,939,117</u>	<u>\$11,982,724</u>	<u>\$10,813,383</u>

(c) As of September 30, 2019 and 2018, inventories were insured for \$13,186,229 thousand and \$12,413,844 thousand, respectively.

(d) No inventories were pledged.

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

	Sep. 30, 2019	Dec. 31, 2018	Sep. 30, 2018
Equity instrument investments measured at fair value through other comprehensive income-Non-current :			
Unlisted companies stocks	\$234,878	\$234,878	\$256,943

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

(6) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

Investee Company	Type of stock	Sep. 30, 2019		Dec. 31, 2018		Sep. 30, 2018	
		Amount	Ownership	Amount	Ownership	Amount	Ownership
<u>Investments in associates:</u>							
OSE PROPERTIES, INC.	Common stock	—	39.99%	—	39.99%	—	39.99%
ATP ELECTRONICS, TAIWAN INC.	Common stock	\$440,383	18.31%	\$449,790	18.31%	\$426,029	18.31%
INFOFAB, INC.	Common stock	8,337	13.32%	8,288	13.52%	4,450	13.88%
SCS HIGHTECH INC.	Common stock	—	18.17%	—	18.17%	—	18.17%
Total		\$448,720		\$458,078		\$430,479	

(b) In September 2006, shares of the investee company ATP were exchanged with ATP TAIWAN so that the Company would hold 15.13% ownership of ATP TAIWAN after the exchange. The Group had purchased 1,929 thousand shares of treasury stocks. So the Group held 18.31% ownership of ATP TAIWAN as of September 30, 2019.

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

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



(e) Investments accounted for using the equity method of the Company and its subsidiaries, were \$448,720 thousand and \$430,479 thousand as of September 30, 2019 and 2018, respectively. For the three-month and nine-month periods ended September 30, 2019 and 2018, the related shares of investment income from the associates were \$3,026 thousand, \$19,715 thousand, \$26,984 thousand and \$41,189 thousand, respectively. For the three-month and nine-month periods ended September 30, 2019 and 2018, the related shares of other comprehensive income (loss) from the associates were \$0, \$0, (\$277) thousand and \$0, which were based solely on the financial reports of other independent accountants.

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

	Sep. 30, 2019	Dec. 31, 2018	Sep. 30, 2018
Total assets (100%)	\$3,446,950	\$3,932,454	\$3,730,542
Total liabilities (100%)	\$1,363,285	\$1,796,670	\$1,752,504

  

	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2019	2018	2019	2018
Revenue	\$1,081,316	\$1,446,503	\$3,856,017	\$3,590,392
Profit	\$19,595	\$108,412	\$150,662	\$212,653
Other Comprehensive income (loss)	(\$1,704)	\$544	\$4,956	\$12,857
Total Comprehensive Income	\$17,891	\$108,956	\$155,618	\$225,510

(7) PROPERTY, PLANT AND EQUIPMENT

	Sep. 30, 2019	Dec. 31, 2018	Sep. 30, 2018
Owner occupied property, plant and equipment	\$6,327,865	\$7,063,908	\$7,157,658
Property, plant and equipment leased out under operating leases	142,125	(Note)	(Note)
Total	<u>\$6,469,990</u>	<u>\$7,063,908</u>	<u>\$7,157,658</u>

(Note) : The Group adopted IFRS 16 since January 1, 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

(a) Owner occupied property, plant and equipment (applicable under IFRS 16 requirements)

	Land and land Improvements	Buildings	Machinery and equipment	Transportation equipment	Office equipment	Other equipment	Construction in progress and equipment awaiting examination	Total
Cost:								
As of Jan. 1, 2019	—	\$6,989,653	\$16,323,320	\$4,446	\$67,158	\$381,544	\$144,197	\$23,910,318
Additions	—	—	4,429	—	71	99	186,330	190,929
Disposals	—	—	(2,189,480)	—	(51)	(331)	—	(2,189,862)
Transfers	—	44,590	521,353	—	—	3,751	(227,344)	342,350
Exchange differences	—	—	(1,374)	(63)	(13)	(344)	(12)	(1,806)
As of Sep. 30, 2019	—	<u>\$7,034,243</u>	<u>\$14,658,248</u>	<u>\$4,383</u>	<u>\$67,165</u>	<u>\$384,719</u>	<u>\$103,171</u>	<u>\$22,251,929</u>
Depreciation and impairment:								
As of Jan. 1, 2019	—	\$4,327,874	\$12,302,527	\$3,659	\$64,932	\$320,402	—	\$17,019,394
Depreciation	—	166,272	889,598	187	728	19,104	—	1,075,889
Impairment	—	—	2,159	—	—	—	—	2,159
Disposals	—	—	(2,178,112)	—	(46)	(298)	—	(2,178,456)
Transfers	—	—	8,349	—	—	—	—	8,349
Exchange differences	—	—	(2,991)	(52)	(1)	(227)	—	(3,271)
As of Sep. 30, 2019	—	<u>\$4,494,146</u>	<u>\$11,021,530</u>	<u>\$3,794</u>	<u>\$65,613</u>	<u>\$338,981</u>	<u>—</u>	<u>\$15,924,064</u>
Net carrying amount								
As of Jan. 1, 2019	—	<u>\$2,661,779</u>	<u>\$4,020,793</u>	<u>\$787</u>	<u>\$2,226</u>	<u>\$61,142</u>	<u>\$144,197</u>	<u>\$6,890,924</u>
As of Sep. 30, 2019	—	<u>\$2,540,097</u>	<u>\$3,636,718</u>	<u>\$589</u>	<u>\$1,552</u>	<u>\$45,738</u>	<u>\$103,171</u>	<u>\$6,327,865</u>

(Note) : The Group adopted IFRS 16 since January 1, 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

(b) Property, plant and equipment leased out under operating leases (applicable under IFRS 16 requirements)

	Leased assets
Cost:	
As of Jan. 1, 2019	\$279,342
Additions	—
Disposals	—
Transfers	—
Exchange differences	—
As of Sep. 30, 2019	\$279,342
Depreciation and impairment:	
As of Jan. 1, 2019	\$132,203
Depreciation	5,014
Disposals	—
Transfers	—
Exchange differences	—
As of Sep. 30, 2019	\$137,217
Net carrying amounts as at:	
As of Jan. 1, 2019	\$147,139
As of Sep. 30, 2019	\$142,125

(c) Property, plant and equipment (prior to the application of IFRS 16)

	Land and land Improvements	Buildings	Machinery and equipment	Transportation equipment	Office equipment	Rental assets	Leased assets	Other equipment	Construction in progress and equipment awaiting examination	Total
Cost:										
As of Jan. 1, 2018	—	\$6,951,055	\$15,716,783	\$5,216	\$67,024	\$279,342	\$158,211	\$368,331	\$17,108	\$23,563,070
Additions	—	—	3,577	—	103	—	—	2,694	299,385	305,759
Disposals	—	(14,399)	(63,063)	(717)	(128)	—	—	(910)	—	(79,217)
Transfers	—	46,385	598,393	—	—	—	(124,350)	7,769	(257,649)	270,548
Exchange differences	—	—	909	(82)	73	—	—	(484)	(1)	415
As of Sep. 30, 2018	—	\$6,983,041	\$16,256,599	\$4,417	\$67,072	\$279,342	\$33,861	\$377,400	\$58,843	\$24,060,575
Depreciation and impairment:										
As of Jan. 1, 2018	—	\$4,125,549	\$11,250,823	\$3,914	\$63,913	\$125,518	\$51,565	\$295,122	—	\$15,916,404
Depreciation	—	161,545	833,634	381	721	5,014	14,248	19,709	—	1,035,252
Disposals	—	(14,378)	(29,790)	(717)	(115)	—	—	(852)	—	(45,852)
Transfers	—	—	54,935	—	—	—	(59,739)	—	—	(4,804)
Exchange differences	—	—	2,128	(62)	95	—	—	(244)	—	1,917
As of Sep. 30, 2018	—	\$4,272,716	\$12,111,730	\$3,516	\$64,614	\$130,532	\$6,074	\$313,735	—	\$16,902,917
Net carrying amount:										
As of Jan. 1, 2018	—	\$2,825,506	\$4,465,960	\$1,302	\$3,111	\$153,824	\$106,646	\$73,209	\$17,108	\$7,646,666
As of Sep. 30, 2018	—	\$2,710,325	\$4,144,869	\$901	\$2,458	\$148,810	\$27,787	\$63,665	\$58,843	\$7,157,658

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

Item	For the nine-month periods end September 30	
	2019	2018
Acquisition of property, plant, and equipment expenditure:		
Increase of property, plant and equipment	\$533,279	\$576,307
Transfer to right-of-use assets	(33,441)	—
(Decrease) Increase of prepayment for equipment	(56,676)	125,312
Decrease (Increase) of payables on equipment	76,388	(149,003)
Cash expenditure	<u>\$519,550</u>	<u>\$552,616</u>

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

Item	For the nine-month periods end September 30	
	2019	2018
Prepayments for equipment	\$4,223	\$2,315
Capitalisation rate of borrowing costs	3.42%~3.95%	2.89%~3.47%

(f) As of September 30, 2019 and 2018, fixed assets were insured for \$10,415,129 thousand and \$11,603,666 thousand, respectively.

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

(8) INVESTMENT PROPERTY

	Buildings
Cost :	
As of Jan. 1, 2019	\$670,447
Additions from other non-current assets	—
Exchange difference	6,547
As of Sep. 30, 2019	<u>\$676,994</u>
As of Jan. 1, 2018	\$649,932
Additions from other non-current assets	—
Exchange difference	16,368
As of Sep. 30, 2018	<u>\$666,300</u>
Depreciation and impairment:	
As of Jan. 1, 2019	\$188,828
Depreciation	18,326
Additions from other non-current assets	—
Exchange difference	1,758
As of Sep. 30, 2019	<u>\$208,912</u>

	Buildings
As of Jan. 1, 2018	\$155,083
Depreciation	17,776
Additions from other non-current assets	4,893
Exchange difference	3,922
As of Sep. 30, 2018	<u>\$181,674</u>
Net carrying amount :	
As of Sep. 30, 2019	<u>\$468,082</u>
As of Dec. 31, 2018	<u>\$481,619</u>
As of Sep. 30, 2018	<u>\$484,626</u>

No investment properties were pledged.

The fair value of investment property is \$508,387 thousand, \$503,470 thousand and \$500,356 thousand as of September 30, 2019, December 31, 2018 and September 30, 2018, respectively. The fair value has been determined based on valuations performed by an independent appraiser and on transactions observable in the market. The investment property has no rent revenue.

#### (9) INTANGIBLE ASSETS

- (a) As of September 30, 2019, December 31, 2018 and September 30, 2018, the cost of the computer software, original cost, accumulated amortization and amount of amortization in the book of the Group is listed as below:

	Computer software
Cost:	
As of Jan. 1, 2019	\$343,374
Addition	24,713
Transfer	534
Other changes	(11)
Exchange differences	—
As of Sep. 30, 2019	<u>\$368,610</u>
As of Jan. 1, 2018	\$271,625
Addition	22,154
Transfer	—
Exchange differences	—
As of Sep. 30, 2018	<u>\$293,779</u>

	<u>Computer software</u>
Amortization and impairment:	
As of Jan. 1, 2019	\$253,741
Amortization	49,548
Exchange differences	6
As of Sep. 30, 2019	<u>\$303,295</u>
As of Jan. 1, 2018	\$191,945
Amortization	45,575
Exchange differences	8
As of Sep. 30, 2018	<u>\$237,528</u>
Net carrying amount as of:	
Sep. 30, 2019	<u>\$65,315</u>
Dec. 31, 2018	<u>\$89,633</u>
Sep. 30, 2018	<u>\$56,251</u>

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

	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2019	2018	2019	2018
Operating costs	<u>\$11,420</u>	<u>\$9,390</u>	<u>\$30,194</u>	<u>\$28,089</u>
Operating expenses	<u>\$6,602</u>	<u>\$5,731</u>	<u>\$19,354</u>	<u>\$17,486</u>

#### (10) PREPAYMENTS

Details are as follows:

	<u>Sep. 30, 2019</u>	<u>Dec. 31, 2018</u>	<u>Sep. 30, 2018</u>
Current assets — prepayments :			
Prepaid expenses	\$72,899	\$46,817	\$67,380
Other prepayments	9,087	4,631	8,155
Total	<u>\$81,986</u>	<u>\$51,448</u>	<u>\$75,535</u>
Non-current assets — prepayments for equipment :			
Prepayment for equipment	<u>\$106,502</u>	<u>\$180,354</u>	<u>\$205,265</u>

(11) LONG-TERM RECEIVABLES-AFFILIATES

(a) Details are as follows:

	Sep. 30, 2019	Dec. 31, 2018	Sep. 30, 2018
Loan receivables -PROPERTIES	\$96,231	\$95,300	\$94,711
Less : loss allowance	(—)	(—)	(—)
Net	\$96,231	\$95,300	\$94,711

(b) OSE PHILIPPINES, INC. lent USD 4,387 thousand to OSE PROPERTIES Inc. in July 31, 1996. OSE PROPERTIES Inc. disposed of part of the land and returned USD 1,285 thousand in the first quarter of 2015. The principal was USD 3,102 thousand as of September 30, 2019. The interest rates for the nine-month periods ended September 30, 2019 and 2018 were both 2.50%. The contract periods were 10 years and may be extended to another 10 years, if necessary.

(12) SHORT-TERM LOANS

(a) Details are as follows:

Items	Sep. 30, 2019	Dec. 31, 2018	Sep. 30, 2018
L/C	\$569,267	\$798,069	\$664,884
Unsecured bank loans	1,537,896	1,924,803	2,017,663
Mortgage loans on machine and equipment	—	83,985	23,252
Total	\$2,107,163	\$2,806,857	\$2,705,799

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

	Sep. 30, 2019	Dec. 31, 2018	Sep. 30, 2018
Ranges of interest rates	1.58% ~ 3.44%	1.06% ~ 4.25%	1.14% ~ 3.59%
Due dates	October 22, 2019 ~ August 31, 2020	January 14, 2019 ~ November 30, 2019	November 30, 2018 ~ August 30, 2019

(c) As of September 30, 2019, December 31, 2018 and September 30, 2018, unused short-term lines of credit were \$1,690,446 thousand, \$614,906 thousand and \$1,160,030 thousand, respectively.

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



(13) SHORT-TERM NOTES PAYABLE

(a) Details are as follows:

	Sep. 30, 2019	Dec. 31, 2018	Sep. 30, 2018
Par value of commercial papers	\$200,000	\$350,000	\$400,000
Less : Discount for short-term notes payable	(439)	(390)	(942)
Net	\$199,561	\$349,610	\$399,058

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

	Sep. 30, 2019	Dec. 31, 2018	Sep. 30, 2019
Range of interest rates	1.738% ~ 1.958%	1.938% ~ 2.088%	1.650% ~ 2.088%
Due dates	November 7, 2019 ~ November 19, 2019	January 3, 2019 ~ March 7, 2019	October 29, 2018 ~ December 10, 2018

(14) LONG-TERM LOANS

(a) Details are as follows:

Items	Sep. 30, 2019	Dec. 31, 2018	Sep. 30, 2018
Mortgage loans	\$2,591,179	\$3,053,515	\$2,958,173
Less: Due within one year	(1,325,069)	(1,340,270)	(1,349,412)
Net	\$1,266,110	\$1,713,245	\$1,608,761

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

	Sep. 30, 2019	Dec. 31, 2018	Sep. 30, 2018
Range of interest rates	1.80% ~ 3.46%	1.80% ~ 4.65%	1.80% ~ 4.20%
Due dates	December 20, 2019 ~ August 15, 2023	January 26, 2019 ~ August 15, 2023	November 12, 2018 ~ August 15, 2023

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

(15) LONG-TERM LEASE PAYABLE

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

	Sep. 30, 2019 (Note)		Dec. 31, 2018		Sep. 30, 2018	
	Minimum	Present value	Minimum	Present value	Minimum	Present value
	payments	of payments	payments	of payments	payments	of payments
Within one year			\$2,617	\$2,610	\$10,266	\$10,205
After one year but not more than five years			—	—	13	—
Total minimum lease payments			2,617	2,610	10,279	10,205
Less : finance charges on finance lease			(7)	—	(74)	—
Present value of minimum lease payments			\$2,610	\$2,610	\$10,205	\$10,205
Current				\$2,610		\$10,205
Non-current				—		—

(Note): The Group adopted IFRS 16 since January 1, 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

(16) POST-EMPLOYMENT BENEFITS

- (a) Defined contribution plan

Expenses under the defined contribution plan for the three-month periods ended September 30, 2019 and 2018 are \$28,082 thousand and \$25,953 thousand, respectively; for the nine-month periods ended September 30, 2019 and 2018 are \$83,569 thousand and \$75,738 thousand, respectively.

- (b) Defined benefits plan

Expenses under the defined benefits plan for the three-month periods ended September 30, 2019 and 2018 are \$14,896 thousand and \$14,796 thousand, respectively; for the nine-month periods ended September 30, 2019 and 2018 are \$44,749 thousand and \$45,021 thousand, respectively.

## (17) EQUITY

### (a) Common stock

- i. The Company had increased capital by cash by \$1,800,000 thousand with par value \$10 per share and issued price \$9.2 on May 30, 2007. The rights and obligations of new shares by private placement are the same as those of common shares. Ownership of shares by private placement cannot be transferred to others within three years since issuance per Security and Exchange regulations.
- ii. The board of directors of the Company agreed on June 21, 2011 to increase capital by issuing common stocks for cash in order to repay loan and improve the Company financial structure. A total of 200,000 thousand shares of common stocks, with face value of \$10 per share, will be issued for a total of \$2,000,000 thousand. Approval has been granted by Financial Supervisory Commission on July 22, 2011 by Doc No. 1000030977. In the event of existing shareholders or employees forfeiting purchasing rights or the event of shortage of subscription of share, the board of directors will authorize the chair of directors to contact a designated person for purchases. As of August 2, 2011, the board of directors agreed stocks will be issued with the issuance price of NTD 6.4 per share with the official issuance date of September 5, 2011. As of September 19, 2011, registration for the issuance of new stocks is complete.
- iii. The Board of shareholders' meeting of the Company agreed on June 29, 2018 to reduce capital \$2,536,872 thousand for cover accumulated deficits in order to improve the Company's financial structure. The ratio of reduction capital was 31.4742285%, and it was declared effective by Financial Supervisory Commission on August 8, 2018. The record date for reverse split was at September 30, 2018, and the amendment of registration was completed at October 8, 2018.
- iv. The Board of shareholders' meeting of the Company agreed on June 29 ,2018 to issue restricted stocks for employees by \$50,000 thousand of common stock with par value \$10 per share , and it was declared effective by Financial Supervisory Commission on June 10 , 2019.
- v. As of September 30, 2019, December 31, 2018 and September 30, 2018, the authorized capitals were \$20,000,000 thousand. Issued capital were \$5,523,285 thousand with 552,328,533 shares. Each share is at a par value of NT\$10.

(b) Additional paid-in capital

	Sep. 30, 2019	Dec. 31, 2018	Sep. 30, 2018
Form shares of changes in equities of subsidiaries	\$5,723	\$5,833	\$5,832
The differences between the fair value of consideration paid or received from acquiring or disposing subsidiaries and the carrying amounts of the subsidiaries	16,940	16,940	16,940
Share of changes in net assets of associates and joint ventures accounted for using the equity method	(2,675)	(2,669)	(2,419)
Total	<u>\$19,988</u>	<u>\$20,104</u>	<u>\$20,353</u>

- i. According to the Company Act, the capital reserve shall not be used except for making good the deficit of the company. When a company incurs no loss, it may distribute the capital reserves related to the income derived from the issuance of new shares at a premium or income from endowments received by the company. The distribution could be made in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them. Additional paid-in capital arising from long-term equity investment can not be used for any purpose.
- ii. According to the prevailing laws and regulations, each year, the amount of capital increase transferred from capital reserve arising from premiums on issuance of capital stock and donations cannot exceed 10% of the Company's total issued capital.

(c) Retained earnings and dividend policies

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

- i. Payment of all taxes and dues;
- ii. Offset prior years' operation losses;
- iii. Set aside 10% of the remaining amount as legal reserve;
- iv. Set aside or reverse special reserve in accordance with the requirements for operating and law and regulations;
- v. The remaining balance combined with the undistributed earnings accumulated during previous years shall be distributed to the shareholders as dividends.

The Company shall take into account the changing environment of the industry and development stage of the Company in meeting the needs of capital in the future and in establishing long-term financial planning together with satisfying the shareholders' demand for cash. The earnings distributed for the current year shall not be lower than 10% of accumulated distributable earnings and shall not be distributed if the accumulated distributable earnings is lower than 1% of contributed capital. Cash dividends distributed shall not be lower than 10% of the dividends distributed.

According to the Company Act, the Company needs to set aside amount to legal reserve unless where such legal reserve amounts to the total authorized capital. The legal reserve can be used to make good the deficit of the Company. When the Company incurs no loss, it may distribute the portion of legal serve which exceeds 25% of the paid-in capital by issuing new shares or by cash in proportion to the number of shares being held by each of the shareholders.

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

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

The Board of shareholders' meeting on June 18, 2019 and June 29, 2018, respectively. The Company still had accumulated deficit. As a result, the Company did not distribute earnings.

Please refer to Note 6.(21) for further details on employees' compensation and remuneration to directors.

#### (18) OPERATING REVENUE

The details are as follow:

	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2019	2018	2019	2018
Revenue from contracts with customers				
Sales of IC packaging and testing service	\$2,768,329	\$2,262,463	\$7,858,405	\$5,947,498
Sales of electronics manufacturing service	2,013,603	1,675,744	5,163,061	4,540,484
Other operating revenue	189,092	174,111	395,090	493,684
Total	<u>\$4,971,024</u>	<u>\$4,112,318</u>	<u>\$13,416,556</u>	<u>\$10,981,666</u>

(a) Disaggregation of revenue

For the three-month periods ended September 30, 2019	Semiconductor Group	EMS Group	Total
Sales of IC packaging and testing service	\$2,768,329	—	\$2,768,329
Sales of electronics manufacturing service	—	\$2,013,603	2,013,603
Other operating revenue	152,636	36,456	189,092
Total	<u>\$2,920,965</u>	<u>\$2,050,059</u>	<u>\$4,971,024</u>

Timing of revenue recognition:

Over time	\$2,768,329	—	\$2,768,329
At a point in time	152,636	\$2,050,059	2,202,695
Total	<u>\$2,920,965</u>	<u>\$2,050,059</u>	<u>\$4,971,024</u>

For the three-month periods ended September 30, 2018	Semiconductor Group	EMS Group	Total
Sales of IC packaging and testing service	\$2,262,463	—	\$2,262,463
Sales of electronics manufacturing service	—	\$1,675,744	1,675,744
Other operating revenue	152,682	21,429	174,111
Total	<u>\$2,415,145</u>	<u>\$1,697,173</u>	<u>\$4,112,318</u>

Timing of revenue recognition:

Over time	\$2,262,463	—	\$2,262,463
At a point in time	152,682	\$1,697,173	1,849,855
Total	<u>\$2,415,145</u>	<u>\$1,697,173</u>	<u>\$4,112,318</u>

For the nine-month periods ended September 30, 2019	Semiconductor Group	EMS Group	Total
Sales of IC packaging and testing service	\$7,858,405	—	\$7,858,405
Sales of electronics manufacturing service	—	\$5,163,061	5,163,061
Other operating revenue	314,776	80,314	395,090
Total	<u>\$8,173,181</u>	<u>\$5,243,375</u>	<u>\$13,416,556</u>

Timing of revenue recognition:

Over time	\$7,858,405	—	\$7,858,405
At a point in time	314,776	\$5,243,375	5,558,151
Total	<u>\$8,173,181</u>	<u>\$5,243,375</u>	<u>\$13,416,556</u>

For the nine-month periods ended September 30, 2018	Semiconductor Group	EMS Group	Total
Sales of IC packaging and testing service	\$5,947,498	—	\$5,947,498
Sales of electronics manufacturing service	—	\$4,540,484	4,540,484
Other operating revenue	430,712	62,972	493,684
Total	<u>\$6,378,210</u>	<u>\$4,603,456</u>	<u>\$10,981,666</u>
Timing of revenue recognition:			
Over time	\$5,947,498	—	\$5,947,498
At a point in time	430,712	\$4,603,456	5,034,168
Total	<u>\$6,378,210</u>	<u>\$4,603,456</u>	<u>\$10,981,666</u>

(b) Contract balances

i. Contract assets-current

	Sep. 30, 2019	Dec. 31, 2018	Sep. 30, 2018
Sales of IC packing and testing service	<u>\$308,270</u>	<u>\$425,684</u>	<u>\$237,918</u>

As of September 30, 2019 and 2018, the Group does not have an unconditional right to receive the consideration in the contract and transferred to accounts receivables at the reporting date were \$308,270 thousand and \$237,918 thousand, respectively.

ii. Contract liabilities-current

	Sep. 30, 2019	Dec. 31, 2018	Sep. 30, 2018
Sales of IC packing and testing service	<u>\$18,512</u>	<u>\$15,821</u>	<u>\$18,155</u>

As of September 30, 2019, and 2018, the Group recognized \$4,070 thousand and \$16,493 thousand, respectively, in revenues from the contract liabilities balance at the beginning of the period.

iii. Transaction price allocated to unsatisfied performance obligations

None.

iv. Assets recognized from costs to fulfil a contract

None.

(19) Expected credit losses

	For the three-month periods		For the nine-month periods ended	
	ended September 30		September 30	
	2019	2018	2019	2018
Operating expenses-expected credit losses				
Accounts receivable and contract assets	<u>\$2,144</u>	<u>\$778</u>	<u>\$13,510</u>	<u>\$4,240</u>

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

The Group measures the loss allowance of its contract assets and accounts receivables at an amount equal to lifetime expected credit losses. The assessment of the Group's loss allowance as of September 30, 2019 and 2018 are as follow:

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

As of September 30, 2019

Semiconductor Group	Not yet due (Note)	Overdue					Total
		Within 30 days	31-60 days	61-90 days	91-180 days	After 181 days	
Gross carrying amount	\$2,146,892	\$201,956	\$16,275	\$450	\$7,263	\$3,308	\$2,376,144
Loss ratio	0%~0.39%	0%~5.10%	0%~23.52%	0%~59.59%	0%~76.56%	100%	
Lifetime expected credit losses	5,114	9,700	3,218	268	6,798	3,308	28,406
Carrying amount of trade receivables	<u>\$2,141,778</u>	<u>\$192,256</u>	<u>\$13,057</u>	<u>\$182</u>	<u>\$465</u>	<u>—</u>	<u>\$2,347,738</u>

EMS Group	Not yet due (Note)	Overdue					Total
		Within 30 days	31-60 days	61-90 days	91-180 days	After 181 days	
Gross carrying amount	\$1,367,569	\$46,917	\$20,215	\$2,555	\$1,686	\$133	\$1,439,075
Loss ratio	0%~0.04%	0%~1.55%	0%~12.21%	0%~23.39%	0%~30.71%	100%	
Lifetime expected credit losses	533	638	1,470	365	495	133	3,634
Carrying amount of trade receivables	<u>\$1,367,036</u>	<u>\$46,279</u>	<u>\$18,745</u>	<u>\$2,190</u>	<u>\$1,191</u>	<u>—</u>	<u>\$1,435,441</u>



As of December 31, 2018

Semiconductor Group	Overdue						Total
	Not yet due (Note)	Within 30 days	31-60 days	61-90 days	91-180 days	After 181 days	
Gross carrying amount	\$2,103,807	\$188,799	\$13,441	\$1,379	\$8,172	\$4,483	\$2,320,081
Loss ratio	0%~0.19%	0%~2.76%	0%~15.21%	0%~50.26%	0.01%~85.63%	100%	
Lifetime expected credit losses	1,847	1,902	1,306	660	6,964	4,483	17,162
Carrying amount of trade receivables	\$2,101,960	\$186,897	\$12,135	\$719	\$1,208	—	\$2,302,919

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

As of September 30, 2018

Semiconductor Group	Overdue						Total
	Not yet due (Note)	Within 30 days	31-60 days	61-90 days	91-180 days	After 181 days	
Gross carrying amount	\$1,844,755	\$175,618	\$19,103	\$2,372	\$1,592	\$2,961	\$2,046,401
Loss ratio	0%~0.08%	0%~1.10%	0%~8.62%	0%~38.33%	0.01%~90.60%	100%	
Lifetime expected credit losses	594	387	462	909	1,423	2,961	6,736
Carrying amount of trade receivables	\$1,844,161	\$175,231	\$18,641	\$1,463	\$169	—	\$2,039,665

EMS Group	Overdue						Total
	Not yet due (Note)	Within 30 days	31-60 days	61-90 days	91-180 days	After 181 days	
Gross carrying amount	\$1,101,898	\$23,476	\$1,644	\$333	—	\$687	\$1,128,038
Loss ratio	0%~0.01%	0%~0.13%	0%~1.87%	0%~16.56%	0%~47.85%	100%	
Lifetime expected credit losses	108	24	12	54	—	687	885
Carrying amount of trade receivables	\$1,101,790	\$23,452	\$1,632	\$279	—	—	\$1,127,153

(Note): The Group's note receivables are not overdue.

The movement in the provision for impairment of contract assets, note receivables, trade receivables and other receivables during the nine-month periods ended September 30, 2019 and 2018 is as follows:

	Contract assets	Notes receivables	Accounts receivable
Bal. as of Jan. 1, 2019	—	—	\$18,529
Addition/(reversal) for the current period	—	—	13,510
Exchange differences	—	—	1
Bal. as of Sep. 30, 2019	—	—	\$32,040
Bal. as of Jan. 1, 2018 (in accordance with IAS 39)	—	—	\$3,373
Transition adjustment to retained earnings as of Jan. 1, 2018	—	—	—
Beginning balance as of Jan.1 ,2018 (in accordance with IFRS 9)	—	—	3,373
Addition for the current period	—	—	4,240
Exchange differences	—	—	8
Bal. as of Sep. 30, 2018	—	—	\$7,621

## (20) LEASES

### A. Group as a lessee (applicable to the disclosure requirement under IFRS 16)

The Group leases various properties, including real estate such as land and buildings, transportation equipment and other equipment. The lease terms range from 2 to 51 years.

The Group's leases effect on the financial position, financial performance and cash flows are as follow:

#### (a) Amounts recognized in the balance sheet

##### I. Right-of-use assets

The carrying amount of right-of-use assets

	Sep. 30, 2019	Dec. 31, 2018 (Note)	Sep. 30, 2018 (Note)
Land	\$199,242		
Buildings	10,317		
Transportation equipment	10,012		
Other equipment	65		
Total	\$219,636		

(Note): The Group adopted IFRS 16 since January 1, 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

During the nine-month period ended September 30, 2019, the Group's additions to right-of-use assets amounting to \$2,616 thousand.

## II. Lease liabilities

	Sep. 30, 2019	Dec. 31, 2018 (Note)	Sep. 30, 2018 (Note)
Current	\$20,648		
Non-current	200,733		
Lease liabilities	<u>\$221,381</u>		

Please refer to Note 6.(22)(c) for the interest on lease liabilities recognized during the three-month and nine-month period ended September 30, 2019 and refer to Note 12.(5) Liquidity Risk Management for the maturity analysis for lease liabilities as of September 30, 2019.

(Note): The Group adopted IFRS 16 since January 1, 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

### (b) Amounts recognized in the statement of profit or loss

#### Depreciation charge for right-of-use assets

	For the three-month periods ended Sep. 30		For the nine-month periods ended Sep. 30	
	2019	2018 (Note)	2019	2018 (Note)
Land	\$3,808		\$11,419	
Buildings	2,567		7,793	
Transportation equipment	1,206		3,460	
Other equipment	15		687	
Total	<u>\$7,596</u>		<u>\$23,359</u>	

(Note): The Group adopted IFRS 16 since January 1, 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

### (c) Income and costs relating to leasing activities

	For the nine-month periods ended Sep. 30	
	2019	2018 (Note)
The expenses relating to short-term leases	\$7,730	
The expenses relating to leases of low-value assets (Not including the expenses relating to short-term leases of low-value assets)	2,625	

(Note): The Group adopted IFRS 16 since January 1, 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

(d) Cash outflow relating to leasing activities

During the nine-month period ended September 30, 2019, the Group's total cash outflows for leases amounting to \$33,830 thousand.

B. Operating lease commitments - Group as a lessee (applicable to the disclosure requirement in IAS 17)

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

According to the non-cancellable operating leases, the future minimum rentals payable as of September 30, 2019, December 31, 2018 and September 30, 2018 are as follows:

	Sep.30, 2019 (Note)	Dec. 31, 2018	Sep. 30, 2018
Within one year		\$13,135	\$13,135
After one year but not more than five years		35,425	35,462
More than five years		26,139	28,309
Total		<u>\$74,699</u>	<u>\$76,906</u>

Operating lease expenses recognized are as follows:

	For the nine-month periods ended Sep. 30	
	2019 (Note)	2018
Minimum lease payments		\$9,851

(Note): The Group adopted IFRS 16 since January 1, 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

C. Group as a lessor (applicable to the disclosure requirement in IFRS 16)

Leases of owned investment properties are classified as operating leases as they do not transfer substantially all the risks and rewards incidental to ownership of underlying assets.

	For the nine-month periods ended Sep. 30	
	2019	2018 (Note)
Lease income for operating leases		
Income relating to fixed lease payments and variable lease payments that depend on an index or a rate		<u>\$18,623</u>

(Note): The Group adopted IFRS 16 since January 1, 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

Please refer to Note 6.(7) for relevant disclosure of property, plant and equipment for operating leases under IFRS 16. For operating leases entered by the Group, the undiscounted lease payments to be received and a total of the amounts for the remaining years as of September 30, 2019 are as follow:

	Sep. 30, 2019	Dec. 31, 2018 (Note)	Sep. 30, 2018 (Note)
Not later than one year	\$24,557		
Later than one year but not later than two years	21,820		
Later than two years but not later than three years	18,601		
Later than three years but not later than four years	4,254		
Later than four years but not later than five years	4,254		
Later than five years	—		
Total	<u>\$73,486</u>		

(Note): The Group adopted IFRS 16 since January 1, 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

#### D. Operating lease commitments - Group as a lessor (applicable to the disclosure requirement in IAS 17)

The Group has signed non-cancellable operating leases. There are no restrictions placed upon the Group by entering into these leases. Future minimum rentals payable as at September 30, 2019, December 31, 2018 and September 30, 2018 are as follows:

	Sep. 30, 2019 (Note)	Dec. 31, 2018	Sep. 30, 2018
Not later than one year		\$24,557	\$21,715
Later than one year and not later than five years		64,182	65,793
Later than five years		3,191	4,254
Total		<u>\$91,930</u>	<u>\$91,762</u>

(Note): The Group adopted IFRS 16 since January 1, 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

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

	For the three-month periods ended September 30					
	2019			2018		
	Operating costs	Operating expenses	Total amount	Operating costs	Operating expenses	Total amount
Employee benefits expense						
Salaries	\$725,685	\$143,245	\$868,930	\$594,203	\$97,083	\$691,286
Pension	36,174	6,881	43,055	34,159	6,590	40,749
Labor and health insurance	74,390	11,450	85,840	66,822	10,744	77,566
Other employee benefits expense	41,615	14,037	55,652	38,298	12,811	51,109
Depreciation	351,753	23,065	374,818	338,472	15,417	353,889
Amortization	11,420	6,602	18,022	9,390	5,731	15,121

	For the nine-month periods ended September 30					
	2019			2018		
	Operating costs	Operating expenses	Total amount	Operating costs	Operating expenses	Total amount
Employee benefits expense						
Salaries	\$2,070,352	\$373,318	\$2,443,670	\$1,707,961	\$273,643	\$1,981,604
Pension	108,191	20,229	128,420	101,465	19,294	120,759
Labor and health insurance	223,074	33,995	257,069	191,401	31,517	222,918
Other employee benefits expense	124,851	40,868	165,719	112,930	37,564	150,494
Depreciation	1,055,756	67,964	1,123,720	1,008,450	45,581	1,054,031
Amortization	30,194	19,354	49,548	28,089	17,486	45,575

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

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

Based on the profit of the nine-month period ended September 30, 2019, the Company estimated the employees' compensation and remuneration to directors amounts to \$55,635 thousand and \$10,400, respectively, which are accounted for as salary expense.

As of December 31, 2018, the Company still had accumulated deficit. As a result the Company did not estimate the amounts of the employees' compensation and remuneration to directors.

As of September 30, 2019 and 2018, the total number of employees of the Group were 6,774 and 6,937, respectively.

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

## (22) NON-OPERATING INCOME AND EXPENSES

### (a) Other income

	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2019	2018	2019	2018
Rental income	\$6,173	\$6,228	\$18,623	\$18,994
Interest income	903	1,232	3,738	7,056
Other income	5,286	11,929	15,849	31,741
Total	<u>\$12,362</u>	<u>\$19,389</u>	<u>\$38,210</u>	<u>\$57,791</u>

### (b) Other gains and losses

	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2019	2018	2019	2018
Gains on disposal of property, plant and equipment	\$9,875	(\$187)	\$32,889	\$3,356
Foreign exchange gains, net	1,584	(1,171)	715	15,063
Gains on financial assets at fair value through profit or loss	—	—	—	7,371
Losses on impairment of property, plant and equipment	22	—	(2,159)	—
Other losses	(19)	(248)	(58)	(271)
Total	<u>\$11,462</u>	<u>(\$1,606)</u>	<u>\$31,387</u>	<u>\$25,519</u>

(c) Finance costs

	For the three-month periods ended		For the nine-month periods ended	
	September 30		September 30	
	2019	2018	2019	2018
Interest on borrowings				
from bank	(\$25,581)	(\$30,207)	(\$87,399)	(\$94,258)
Interest on borrowings				
from others	(6)	(152)	(23)	(876)
Interest on lease				
liabilities	(1,262)	(Note)	(3,894)	(Note)
Total	(\$26,849)	(\$30,359)	(\$91,316)	(\$95,134)

(Note): The Group adopted IFRS 16 since January 1, 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

(23) COMPONENTS OF OTHER COMPREHENSIVE INCOME

For the three-month periods ended September 30, 2019

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translating of foreign operation	(\$5,095)	—	(\$5,095)	\$1,019	(\$4,076)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	—	—	—	—	—
Total of other comprehensive income	(\$5,095)	—	(\$5,095)	\$1,019	(\$4,076)



For the three-month periods ended September 30, 2018

	Arising during the period	Reclassifica tion adjustments during the period	Other comprehens ive income, before tax	Income tax relating to components of other comprehens ive income	Other comprehens ive income, net of tax
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translating of foreign operation	(\$4,240)	—	(\$4,240)	\$848	(\$3,392)
Total of other comprehensive income	(\$4,240)	—	(\$4,240)	\$848	(\$3,392)

For the nine-month periods ended September 30, 2019

	Arising during the period	Reclassifica tion adjustments during the period	Other comprehens ive income, before tax	Income tax relating to components of other comprehens ive income	Other comprehens ive income, net of tax
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translating of foreign operation	\$3,417	—	\$3,417	(\$683)	\$2,734
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(277)	—	(277)	—	(277)
Total of other comprehensive income	\$3,140	—	\$3,140	(\$683)	\$2,457

For the nine-month periods ended September 30, 2018

	Arising during the period	Reclassifica tion adjustments during the period	Other comprehens ive income, before tax	Income tax relating to components of other comprehens ive income	Other comprehens ive income, net of tax
Items that will not be reclassified subsequently to profit or loss:					
Unrealized gains (losses) from equity instruments investment measured at fair value through other comprehensive income	—	—	—	(\$5,252)	(\$5,252)
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translating of foreign operation	\$12,649	—	\$12,649	(6,443)	6,206
Total of other comprehensive income	\$12,649	—	\$12,649	(\$11,695)	\$954

(24) INCOME TAX

Based on the amendments to the Income Tax Act announced on February 7, 2018, the Company's applicable corporate income tax rate for the year ended December 31, 2018 has changed from 17% to 20%. The corporate income surtax on undistributed retained earnings has changed from 10% to 5%.

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

(a) Income tax (expense) income recognized in profit or loss

	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2019	2018	2019	2018
Current income tax (expense) benefit :				
Current income tax charge	(\$480)	(\$2,113)	(\$5,103)	(\$6,930)
Adjustments in respect of current income tax of prior periods	—	—	(341)	(100)
Deferred tax (expense) income:				
Deferred tax (expense) relating to origination and reversal of temporary differences	(8,168)	(574)	(4,661)	(76,795)
Deferred tax income relating to origination and reversal of tax loss and tax credit	(54,370)	13,152	(128,637)	107,645
Deferred tax income relating to change in tax rate	—	—	—	255,338
Total income tax (expense) benefit	(\$63,018)	\$10,465	(\$138,742)	\$279,158

(b) Income tax relating to components of other comprehensive income

	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2019	2018	2019	2018
Deferred tax (expense):				
Exchange differences on translation of foreign operations	\$1,019	\$848	(\$683)	(\$2,529)
Deferred tax income relating to change in tax rate	—	—	—	(9,166)
Income tax relating to components of other comprehensive (expense) income	<u>\$1,019</u>	<u>\$848</u>	<u>(\$683)</u>	<u>(\$11,695)</u>

B. The assessment of income tax returns

As of September 30, 2019, the assessment of the income tax returns of the Company is as follows:

	<u>The assessment of income tax returns</u>
The Company	Assessed and approved up to 2017

(25) EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible bonds payable) by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

Basic earnings per share :

	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2019	2018	2019	2018
(a) Basic earnings (losses) per share				
Profit (Loss) attributable to ordinary equity holders of the Company (in thousand NT\$)	<u>\$250,516</u>	<u>(\$31,372)</u>	<u>\$542,045</u>	<u>(\$172,533)</u>
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	<u>552,329</u>	<u>552,329</u>	<u>552,329</u>	<u>552,329</u>
Basic earnings (losses) per share (NT\$)	<u>\$0.45</u>	<u>(\$0.06)</u>	<u>\$0.98</u>	<u>(\$0.31)</u>

	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2019	2018	2019	2018
(b) Diluted earnings (losses) per share				
Profit (Loss) attributable to ordinary equity holders of the Company (in thousand NT\$)	<u>\$250,516</u>	<u>(\$31,372)</u>	<u>\$542,045</u>	<u>(\$172,533)</u>
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	552,329	552,329	552,329	552,329
Effect of dilution:				
Employee compensation—stock (in thousands)	<u>1,265</u>	<u>—</u>	<u>3,197</u>	<u>—</u>
Weighted average number of ordinary shares outstanding after dilution (in thousands)	<u>553,594</u>	<u>552,329</u>	<u>555,526</u>	<u>552,329</u>
Diluted earnings (losses) per share (NT\$)	<u>\$0.45</u>	<u>(\$0.06)</u>	<u>\$0.98</u>	<u>(\$0.31)</u>

The Board of shareholders' meeting of the company agreed on June 29, 2018 to issue restricted stocks for employees, and it was declared effective by Financial Supervisory Commission on June 10, 2019. It is unimplemented before the release of the financial statements.

## 7. RELATED PARTY TRANSACTIONS

Information of the related parties that had transactions with the Group during the financial reporting period is as follows:

### Name and nature of relationship of the related parties

<u>Name of the related parties</u>	<u>Nature of relationship of the related parties</u>
ATP Electronics Taiwan Inc.(ATP)	Associate
INFOFAB, INC.(INFOFAB)	Associate
OSE PROPERTIES, INC.(PROPERTIES)	Associate
Phison Electronics Corporation(PHISON)	Legal Director of the Company
Longsys Electronics (TAIWAN) Co.,Ltd.(LONGSYS)	Legal Director of the Company(No longer listed as a related party in the third quarter in 2019)
Longsys Electronics (HK) Co., Ltd. (LONGSYS)	Associate of Legal Director of the Company(No longer listed as a related party in the third quarter in 2019)
ACTIONTEC ELECTRONICS,INC.(ACTIONTEC)	Other related party
InfoAction Technology,Inc.(InfoAction)	Other related party

(1) Significant transactions with related parties:

(a) Sales

	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2019	2018	2019	2018
Associates	\$48,063	\$57,003	\$167,905	\$133,676
PHISON	566,829	415,819	1,793,079	973,203
LONGSYS (Note)	—	284,956	748,726	625,831
Other related parties	5,441	—	14,086	—
Total	\$620,333	\$757,778	\$2,723,796	\$1,732,710

(Note) : No longer listed as a related party in the third quarter in 2019.

The sales price to the above related parties was determined through mutual agreement based on the market rates. The details of credit period are 30~60 days. The outstanding balance at September 30, 2019 and 2018 was unsecured, non-interest bearing and must be settled in cash. The receivables from the related parties were not guaranteed.

(b) Purchase

	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2019	2018	2019	2018
PHISON	—	—	\$74	—
InfoAction	\$3,499	—	5,470	—
Total	\$3,499	—	\$5,544	—

The purchase price to the above related parties was determined through mutual agreement based on the market rates. The payment terms from the related party suppliers are comparable with third party suppliers.

(c) Accounts Receivable

	Sep. 30, 2019	Dec. 31, 2018	Sep. 30, 2018
ATP	\$32,303	\$45,024	\$44,460
PHISON	268,327	343,356	312,057
LONGSYS (Note)	—	306,961	296,961
Other related parties	5,410	7	—
Less: loss allowance	(121)	(1,200)	(772)
Total	\$305,919	\$694,148	\$652,706

(Note) : No longer listed as a related party in the third quarter in 2019.

(d) Other Receivable

	Sep. 30, 2019	Dec. 31, 2018	Sep. 30, 2018
Associates	\$277	\$274	\$737
ATP	1,930	1,499	1,250
PHISON	287	79	63
LONGSYS (Note)	—	6,389	1,657
Other related parties	—	238	—
PROPERTIES	48,545	46,288	45,410
Total	<u>\$51,039</u>	<u>\$54,767</u>	<u>\$49,117</u>

(Note) : No longer listed as a related party in the third quarter in 2019.

(e) Accounts Payable

	Sep. 30, 2019	Dec. 31, 2018	Sep. 30, 2018
INFOFAB (Note)	\$77,574	\$48,889	\$6,276
Key management personnel of the Group	7	50	48
Associates	8	—	—
Other related parties	1,882	271	—
Total	<u>\$79,471</u>	<u>\$49,210</u>	<u>\$6,315</u>

(Note): The payments are the purchase of computer software and information system maintenance.

(f) Lease - related parties

Rental income

	For the three-month periods ended		For the nine-month periods ended	
	September 30		September 30	
	2019	2018	2019	2018
ATP	\$1,065	\$1,065	\$3,194	\$3,194
INFOFAB	735	735	2,205	2,205
Other related parties	11	11	32	32
Total	<u>\$1,811</u>	<u>\$1,811</u>	<u>\$5,431</u>	<u>\$5,431</u>

(g) Transaction of properties

For the nine-month periods ended September 30, 2019 :

<u>Counterparty</u>	<u>Property</u>	<u>Amount</u>	<u>Gain (loss) on sales of assets</u>	<u>The basis of transaction price</u>
<u>Purchase</u>				
INFOFAB	Other equipment	\$2,224	Not applicable	Negotiate
INFOFAB	Computer software	9,892	Not applicable	Negotiate
	Total	<u>\$12,116</u>		

For the three-month periods ended September 30, 2019 :

<u>Counterparty</u>	<u>Property</u>	<u>Amount</u>	<u>Gain (loss) on sales of assets</u>	<u>The basis of transaction price</u>
<u>Purchase</u>				
INFOFAB	Other equipment	\$448	Not applicable	Negotiate
INFOFAB	Computer software	1,563	Not applicable	Negotiate
	Total	<u>\$2,011</u>		

For the nine-month periods ended September 30, 2018:

<u>Counterparty</u>	<u>Property</u>	<u>Amount</u>	<u>Gain (loss) on sales of assets</u>	<u>The basis of transaction price</u>
<u>Purchase</u>				
INFOFAB	Other equipment	\$1,349	Not applicable	Negotiate
INFOFAB	Computer software	3,496	Not applicable	Negotiate
	Total	<u>\$4,845</u>		

For the three-month periods ended September 30, 2018:

<u>Counterparty</u>	<u>Property</u>	<u>Amount</u>	<u>Gain (loss) on sales of assets</u>	<u>The basis of transaction price</u>
<u>Purchase</u>				
INFOFAB	Other equipment	\$510	Not applicable	Negotiate
INFOFAB	Computer software	2,675	Not applicable	Negotiate
	Total	<u>\$3,185</u>		

(h) Intercompany borrowing

Sep. 30, 2019				
Related parties	Maximum amount	Amount	Interest rates	Interest income (expense)
Amount lent to: (included in long-term receivables-affiliates accounts)				
PROPERTIES	\$96,231	\$96,231		
	(USD 3,102 thousand)	(USD 3,102 thousand)	2.50%	\$1,797
Dec. 31, 2018				
Related parties	Maximum amount	Amount	Interest rates	Interest income (expense)
Amount lent to: (included in long-term receivables-affiliates accounts)				
PROPERTIES	\$95,300	\$95,300		
	(USD 3,102 thousand)	(USD 3,102 thousand)	2.50%	\$2,336
Sep. 30, 2018				
Related parties	Maximum amount	Amount	Interest rates	Interest income (expense)
Amount lent to: (included in long-term receivables-affiliates accounts)				
PROPERTIES	\$94,711	\$94,711		
	(USD 3,102 thousand)	(USD 3,102 thousand)	2.50%	\$1,743

(i) Compensation of key management personnel

	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2019	2018	2019	2018
Short-term employee benefits	\$8,066	\$9,941	\$27,393	\$25,741
Post-employment benefits	217	162	630	486
Total	\$8,283	\$10,103	\$28,023	\$26,227

For details of total compensation paid to the Company's key management personnel, please refer to the annual report for the Company.



(j) Other disclosures

- i. PROPERTIES had borrowed USD\$3,102 thousand from subsidiary and provided all of real estates to trust as the mortgage for financing bank.
- ii. As of September 30, 2019 and 2018, the Group paid \$40,425 thousand and \$82,156 thousand, \$92 thousand and \$6,425 thousand service fees to maintain information system of INFOFAB, respectively, which are accounted for as maintenance expenses and computer operating expenses. As of September 30, 2019 the unpaid maintenance expenses and computer operating expenses both amounted to \$0 thousand.

8. ASSETS PLEDGED AS SECURITY

The following table lists assets of the Group pledged as security:

Assets pledged as security	Carrying amount			Secured liabilities details
	Sep. 30, 2019	Dec. 31, 2018	Sep. 30, 2018	
Accounts Receivables–Short-term	—	\$224,523	\$190,579	Short-term borrowings
Other financial assets–current–time deposits	\$47,286	107,944	199,377	Short&Long-term borrowings
Other financial assets–current–deposits reserved for repayment	99,486	135,671	163,179	Short&Long-term borrowings
Investments accounted for using the equity method –ATP	381,329	389,474	368,899	Short-term borrowings
Property, plant and equipment–Buildings	867,978	890,776	898,386	Short&Long-term borrowings
Property, plant and equipment–Machinery and equipment	2,635,340	2,623,647	2,506,409	Short&Long-term borrowings
Property, plant and equipment–Leased assets	65	25,845	27,787	Short&Long-term borrowings
Property, plant and equipment–Assets leased to others–Buildings	140,862	145,777	147,415	Long-term borrowings
Refundable deposits-time deposits	131,500	163,704	183,698	Customs Guarantee or others
Total	\$4,303,846	\$4,707,361	\$4,685,729	

## 9. COMMITMENTS AND CONTINGENCIES

- (1) Guarantee given by the bank for the payment of input tax imposed for sales from a tax free zone to non-tax free zone amounted to \$400,000 thousand.
- (2) The Company issued promissory notes of \$8,622,272 thousand as guarantees for bank loans.
- (3) The Company issued promissory notes of \$970 thousand as guarantee for project.
- (4) The Company issued promissory notes of \$18,498 thousand as guarantee for payments of raw materials and machineries purchased.
- (5) The Company has acted as a subcontractor for processing electronic products and provided storage services for outsiders. As of September 30, 2019, the Company kept the processed electronic products of \$10,780,870 thousand and raw materials of \$454,256 thousand on custodian.
- (6) As of September 30, 2019, the Company had opened an unused letter of credit amounting to USD 89 thousand.

## 10. LOSSES DUE TO MAJOR DISASTERS

None.

## 11. SIGNIFICANT SUBSEQUENT EVENTS

None.

## 12. FINANCIAL INSTRUMENTS

- (1) Categories of financial instruments

### Financial assets

	<u>Sep. 30, 2019</u>	<u>Dec. 31, 2018</u>	<u>Sep. 30, 2018</u>
Financial assets at fair value through other comprehensive income	\$234,878	\$234,878	\$256,943
Financial assets measured at amortized cost :			
Cash and cash equivalents (exclude cash on hand)	1,191,922	762,085	929,576
Notes, accounts and other receivables	3,559,984	3,189,369	3,015,479
Other financial asset	146,772	243,615	362,557
Long-term receivables-Affiliates	96,231	95,300	94,711
Subtotal	<u>4,994,909</u>	<u>4,290,369</u>	<u>4,402,323</u>
Total	<u>\$5,229,787</u>	<u>\$4,525,247</u>	<u>\$4,659,266</u>

### Financial liabilities

	<u>Sep. 30, 2019</u>	<u>Dec. 31, 2018</u>	<u>Sep. 30, 2018</u>
Financial liabilities at amortized cost :			
Short-term borrowings	\$2,107,163	\$2,806,857	\$2,705,799
Short-term notes payable	199,561	349,610	399,058
Notes, accounts and other payable	4,735,348	4,398,185	4,807,920
Long-term loans (including current portion)	2,591,179	3,053,515	2,958,173
Lease payable (including current portion)	(Note)	2,610	10,205
Lease liabilities	221,381	(Note)	(Note)
Total	<u>\$9,854,632</u>	<u>\$10,610,777</u>	<u>\$10,881,155</u>

(Note): The Group adopted IFRS 16 since January 1, 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

## (2) Financial risk management objectives and policies

The Group's principal financial risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activities. The Group identifies measures and manages the aforementioned risks based on the Group's policy and risk appetite.

The Group has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant transactions, due approval process by the Board of Directors and Audit Committee must be carried out based on related protocols and internal control procedures. The Group complies with its financial risk management policies at all times.

## (3) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market prices comprise currency risk, interest rate risk and other price risk (such as equity risk).

In practice, it is rarely the case that a single risk variable will change independently from other risk variable, there is usually interdependencies between risk variables. However, the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

### (a) Foreign currency risk

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense are denominated in a different currency from the Group's functional currency) and the Group's net investments in foreign subsidiaries.

The Group has certain foreign currency receivables to be denominated in the same foreign currency with certain foreign currency payables, therefore natural hedge is received. The Group also uses forward contracts to hedge the foreign currency risk on certain items denominated in foreign currencies. Hedge accounting is not applied as they did not qualify for hedge accounting criteria. Furthermore, as net investments in foreign subsidiaries are for strategic purposes, they are not hedged by the Group.

The foreign currency sensitivity analysis of the possible change in foreign exchange rates on the Group's profit is performed on significant monetary items denominated in foreign currencies as at the end of the reporting period. The Group's foreign currency risk is mainly related to the volatility in the exchange rates for foreign currency USD and foreign currency JPY.

(b) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt instrument investments at variable interest rates, bank borrowings with fixed interest rates and variable interest rates.

The Group manages its interest rate risk by having a balanced portfolio of fixed and variable loans and borrowings and entering into interest rate swaps. Hedge accounting does not apply to these swaps as they do not qualify for it.

(c) Equity price risk

The Group's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group's listed equity securities are classified under held for trading financial assets or available-for-sale financial assets, while unlisted equity securities are classified as available-for-sale. The Group manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of Directors reviews and approves all equity investment decisions.

(d) Risks of pre-tax Sensitivity analysis are as follows:

For the nine-month periods ended September 30, 2019			
Key risk	Variation	Sensitivity of profit and loss	Sensitivity of equity
Foreign currency risk	NTD/USD Foreign currency +/- 1%	+/- 12,912 thousand	—
	NTD/JPY Foreign currency +/- 1%	+/- 738 thousand	—
Interest rate risk	Market rate +/- 10 fundamental proposition	+/- 4,698 thousand	—
	Market price +/- 10 fundamental proposition	—	+/- 2,349 thousand

For the nine-month periods ended September 30, 2018

Key risk	Variation	Sensitivity of profit and loss	Sensitivity of equity
Foreign currency risk	NTD/USD Foreign currency +/- 1%	+/- 10,176 thousand	—
	NTD/JPY Foreign currency +/- 1%	+/- 283 thousand	—
Interest rate risk	Market rate +/- 10 fundamental proposition	+/- 5,664 thousand	—
	Market price +/- 10 fundamental proposition	—	+/- 2,569 thousand

Please refer to Note 12.(7) for sensitivity analysis information of other equity instruments or derivatives that are linked to such equity instruments whose fair value measurement is categorized under Level 3.

#### (4) Credit risk management

Credit risk is the risk that a counterparty will not meet its obligations under a contract, leading to a financial loss. The Group is exposed to credit risk from operating activities (primarily for accounts receivables and notes receivables) and from its financing activities, including bank deposits and other financial instruments.

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit limits are established for all customers based on their financial position, rating from credit rating agencies, historical experience, prevailing economic condition and the Group's internal rating criteria etc. Certain customer's credit risk will also be managed by taking credit enhancing procedures, such as requesting for prepayment or insurance.

As of September 30, 2019, December 31, 2018 and September 30, 2018, amounts receivables from top ten customers represent 79.04%, 84.88% and 75.26% of the total accounts receivables of the Group, respectively. The credit concentration risk of other accounts receivables is insignificant.

Credit risk from balances with banks, fixed income securities and other financial instruments is managed by the Group's treasury in accordance with the Group's policy. The Group only transacts with counterparties approved by the internal control procedures, which are banks and financial institutions, companies and government entities with good credit rating and with no significant default risk. Consequently, there is no significant credit risk for these counter parties.

(5) Liquidity risk management

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents, highly liquid equity investments, bank borrowings, convertible bonds and finance leases. The table below summarizes the maturity profile of the Group's financial liabilities based on the contractual undiscounted payments and contractual maturity. The payment amount includes the contractual interest. The undiscounted payment relating to borrowings with variable interest rates is extrapolated based on the estimated interest rate yield curve as of the end of the reporting period.

Non-derivative financial instruments

	Less than 1 year	2 to 3 years	4 to 5 years	> 5 years	Total
<u>As of Sep. 30, 2019</u>					
Borrowings	\$3,436,157	\$1,230,321	\$35,789	—	\$4,702,267
Short-term notes payable	\$199,561	—	—	—	\$199,561
Lease liabilities	\$25,374	\$40,422	\$32,960	\$180,930	\$279,686
<u>As of Dec. 31, 2018</u>					
Borrowings	\$4,153,483	\$1,650,614	\$62,631	—	\$5,866,728
Short-term notes payable	\$349,610	—	—	—	\$349,610
Lease payable	\$2,617	—	—	—	\$2,617
<u>As of Sep. 30, 2018</u>					
Borrowings	\$4,058,257	\$1,608,761	—	—	\$5,667,018
Short-term notes payable	\$399,058	—	—	—	\$399,058
Lease payable	\$10,266	\$13	—	—	\$10,279

(6) Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities for the nine-month periods ended September 30, 2019:

	As of Jan. 1, 2019	Cash flows	Foreign exchange movement	Others	As of Sep. 30, 2019
Short-term borrowings	\$2,806,857	(\$699,788)	—	\$94	\$2,107,163
Long-term borrowings	\$3,053,515	(\$465,515)	—	\$3,179	\$2,591,179
Lease liabilities (Note)	\$241,426	(\$23,475)	\$814	\$2,616	\$221,381
Refundable deposits	\$3,522	(\$2)	—	—	\$3,520
Short-term notes payable	\$349,610	(\$150,049)	—	—	\$199,561

(Note): The beginning balance that the Group adopted IFRS 16 since January 1, 2019.

Reconciliation of liabilities for the nine-month periods ended Sep 30, 2018:

	As of Jan. 1, 2018	Cash flows	Foreign exchange movement	Others	As of Sep. 30, 2018
Short-term borrowings	\$2,192,678	\$512,834	\$603	(\$316)	\$2,705,799
Long-term borrowings	\$3,757,706	(\$805,579)	\$5,238	\$808	\$2,958,173
Lease payables	\$24,551	(\$514,346)	—	—	\$10,205
Refundable deposits	\$3,574	(\$53)	—	—	\$3,521
Short-term notes payable	\$398,938	\$120	—	—	\$399,058

(7) Fair values of financial instruments

(a) The methods and assumptions applied in determining the fair value of financial instruments:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used by the Group to measure or disclose the fair values of financial assets and financial liabilities:

- i. The carrying amount of cash and cash equivalents, accounts receivables, accounts payable and other current liabilities approximate their fair value due to their short maturities.
- ii. For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities, beneficiary certificates, bonds and futures etc.) at the reporting date.
- iii. Fair value of equity instruments without market quotations (including private placement of listed equity securities, unquoted public company and private company equity securities) are estimated using the market method valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information (for example, inputs such as discount for lack of marketability, P/E ratio of similar entities and Price-Book ratio of similar entities).
- iv. Fair value of debt instruments without market quotations, bank loans, bonds payable and other non-current liabilities are determined based on the counterparty prices or valuation method. The valuation method uses DCF method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instrument (such as yield curves published by the GreTai Securities Market, average prices for Fixed Rate Commercial Paper published by Reuters and credit risk, etc.)
- v. The fair value of derivatives which are not options and without market quotations, is determined based on the counterparty prices or discounted cash flow analysis using interest rate yield curve for the contract period. Fair value of option-based derivative financial instruments is obtained using on the counterparty prices or appropriate option pricing model (for example, Black-Scholes model) or other valuation method (for example, Monte Carlo Simulation).

(b) Fair value of financial instruments measured at amortized cost

Other than cash and cash equivalents, accounts receivables, accounts payable and other current liabilities whose carrying amount approximate their fair value, the fair value of the Group's financial assets and financial liabilities measured at amortized cost is listed in the table below:

	Carrying amount		
	Sep. 30, 2019	Dec. 31, 2018	Sep. 30, 2018
Financial assets			
Long-term receivables-affiliates	\$96,231	\$95,300	\$94,711
Financial liabilities			
Long-term borrowings	\$2,591,179	\$3,053,515	\$2,958,173
Lease payable	(Note)	\$2,610	\$10,205
Lease liabilities	\$221,381	(Note)	(Note)
	Fair Value		
	Sep. 30, 2019	Dec. 31, 2018	Sep. 30, 2018
Financial assets			
Long-term receivables-affiliates	\$96,231	\$95,300	\$94,711
Financial liabilities			
Long-term borrowings	\$2,591,179	\$3,053,515	\$2,958,173
Lease payable	(Note)	\$2,610	\$10,205
Lease liabilities	\$221,381	(Note)	(Note)

(Note): The Group adopted IFRS 16 since January 1, 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

(c) Fair value measurement hierarchy for financial instruments

Please refer to Note 12.(8) for fair value measurement hierarchy for financial instruments of the Group.

(8) Fair value measurement hierarchy

(a) Fair value measurement hierarchy:

All asset and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole. Level 1, 2 and 3 inputs are described as follows:



Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization at the end of each reporting period.

(b) Fair value measurement hierarchy of the Group's assets and liabilities:

The Group does not have assets that are measured at fair value on a non-recurring basis. Fair value measurement hierarchy of the Group's assets and liabilities measured at fair value on a recurring basis is as follows:

September 30, 2019

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Financial assets at fair value through other comprehensive income				
Equity instrument	—	—	\$234,878	\$234,878

December 31, 2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Financial assets at fair value through other comprehensive income				
Equity instrument	—	—	\$234,878	\$234,878

September 30, 2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Financial assets at fair value through other comprehensive income				
Equity instrument measured at fair value through other comprehensive income	—	—	\$256,943	\$256,943

Transfers between Level 1 and Level 2 during the period

During the nine-month periods ended September 30, 2019 and 2018, there were no transfers between Level 1 and Level 2 fair value measurements.

Reconciliation for fair value measurements in Level 3 of the fair value hierarchy for movements during the period is as follows:

	At fair value through other comprehensive income
	Stock
Beginning balance as of Jan. 1, 2019	\$234,878
Recognized in other comprehensive income	—
Transfer out of Level 3	—
Ending balance as of Sep. 30, 2019	\$234,878

	At fair value through other comprehensive income
	Stock
Beginning balance as of Jan. 1, 2018	\$257,134
Recognized in other comprehensive income	—
Transfer out of Level 3	—
Exchange differences	(191)
Ending balance as of Sep. 30, 2018	\$256,943

Information on significant unobservable inputs to valuation

Description of significant unobservable inputs to valuation of recurring fair value measurements categorized within Level 3 of the fair value hierarchy is as follows:

September 30, 2019

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity of the input to fair value
Financial assets :					
Financial assets at fair value through other comprehensive income					
Stocks	Option- Pricing Model	(1) Discount rate (2) Discount for lack of marketability	13%~19%	(1) The higher the discount rate, the lower the fair value of the stocks (2) The higher the discount for lack of marketability , the lower the fair value of the stocks	1% increase (decrease) in the discount for lack of marketability would result in (decrease) increase in the Company's equity by \$2,389 thousand.

December 31, 2018

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity of the input to fair value
Financial assets:					
Financial assets at fair value through other comprehensive income					
Stocks	Option-Pricing Model	(1)Discount rate (2)Discount for lack of marketability	13%~19%	(1) The higher the discount rate, the lower the fair value of the stocks  (2)The higher the discount for lack of marketability, the lower the fair value of the stocks	1% increase (decrease) in the discount for lack of marketability would result in (decrease) increase in the Company's equity by \$2,365 thousand.

September 30, 2018

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity of the input to fair value
Financial assets :					
Financial assets at fair value through other comprehensive income					
Stocks	Option-Pricing Model	(1)Discount rate (2)Discount for lack of marketability	13%~16%	(1) The higher the discount rate, the lower the fair value of the stocks  (2)The higher the discount for lack of marketability, the lower the fair value of the stocks	1% increase (decrease) in the discount for lack of marketability would result in (decrease) increase in the Company's equity by \$2,565 thousand.

(c) Fair value measurement hierarchy of the Group's assets and liabilities not measured at fair value but

for which the fair value is disclosed

September 30, 2019

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets not measured at fair value but for which the fair value is disclosed:				
Investment properties	—	—	\$508,387	\$508,387
Financial liabilities not measured at fair value but for which the fair value is disclosed:				
Long-term loans	—	\$2,591,179	—	\$2,591,179
Lease liabilities	—	\$221,381	—	\$221,381

December 31, 2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets not measured at fair value but for which the fair value is disclosed:				
Investment properties	—	—	\$503,470	\$503,470
Financial liabilities not measured at fair value but for which the fair value is disclosed:				
Long-term loans	—	\$3,053,515	—	\$3,053,515
Lease payable	—	\$2,610	—	\$2,610

September 30, 2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets not measured at fair value but for which the fair value is disclosed:				
Investment properties	—	—	\$500,356	\$500,356
Financial liabilities not measured at fair value but for which the fair value is disclosed:				
Long-term loans	—	\$2,958,173	—	\$2,958,173
Lease payable	—	\$10,205	—	\$10,205

(9) Significant assets and liabilities denominated in foreign currencies

Information regarding the significant assets and liabilities denominated in foreign currencies is listed below:

Sep. 30, 2019			
	Foreign currencies	Foreign exchange rate	NTD
<u>Financial assets</u>			
Monetary items:			
USD	\$137,428	31.02	\$4,263,017
JPY	\$537,858	0.2878	\$154,796
Non-monetary items:			
USD	\$7,652	31.02	\$237,365
<u>Financial liabilities</u>			
Monetary items:			
USD	\$95,803	31.02	\$2,971,809
JPY	\$281,502	0.2878	\$81,016

  

Dec. 31, 2018			
	Foreign currencies	Foreign exchange rate	NTD
<u>Financial assets</u>			
Monetary items:			
USD	\$119,977	30.72	\$3,685,693
JPY	\$220,238	0.2784	\$61,314
Non-monetary items:			
USD	\$7,652	30.72	\$235,069
<u>Financial liabilities</u>			
Monetary items:			
USD	\$92,433	30.72	\$2,839,542
JPY	\$527,327	0.2784	\$146,808

Sep. 30, 2018			
	Foreign currencies	Foreign exchange rate	NTD
<u>Financial assets</u>			
Monetary items:			
USD	\$132,011	30.53	\$4,030,296
JPY	\$469,800	0.2694	\$126,564
Non-monetary items:			
USD	\$8,479	30.53	\$258,864
RMB	\$1,000	4.438	\$4,438
<u>Financial liabilities</u>			
Monetary items:			
USD	\$107,160	30.53	\$3,271,595
JPY	\$364,845	0.2694	\$98,289

The above information is disclosed based on the carrying amount of foreign currency (after conversion to functional currency).

The Group's entities functional currencies are various, and hence are not able to disclose the information of exchange gains and losses of monetary financial assets and liabilities by each significant asset and liability denominated in foreign currencies. The foreign exchange gains (losses) were \$1,584 thousand, (\$1,171) thousand, \$715 thousand and \$15,063 thousand for the three-month and nine-month periods ended September 30, 2019 and 2018, respectively.

### 13. SEGMENT INFORMATION

For management purposes, the Company is organized into business units based on its products and services and has two reportable segments as follows:

- Semiconductor Group: Mainly provides IC packaging and testing services.
- EMS Group: Provides professional electronics manufacturing services.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, group finance costs, finance income and income taxes are managed on a group basis and are not allocated to operating segments.

The transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

For the three-month periods ended Sep. 30, 2019

	Semiconductor Group	EMS Group	Other	Adjustment and Eliminations (Note 1 and Note 2)	Consolidated
Revenue					
External customer	\$2,920,965	\$2,050,059	—	—	\$4,971,024
Inter-Segment	19,440	286,718	—	(\$306,158)	—
Total Revenue	\$2,940,405	\$2,336,777	—	(\$306,158)	\$4,971,024
Segment Profit	\$210,825	\$109,136	(\$106)	(\$6,321)	\$313,534

(Note 1) : Inter-segment revenues are eliminated on consolidation.

(Note 2) : The profit for each operating segment does not include income tax expense.

For the nine-month periods ended Sep. 30, 2019

	Semiconductor Group	EMS Group	Other	Adjustment and Eliminations (Note 1 and Note 2)	Consolidated
Revenue					
External customer	\$8,173,181	\$5,243,375	—	—	\$13,416,556
Inter-Segment	62,162	722,894	—	(\$785,056)	—
Total Revenue	\$8,235,343	\$5,966,269	—	(\$785,056)	\$13,416,556
Segment Profit	\$428,929	\$263,075	\$9,996	(\$21,213)	\$680,787

(Note 1) : Inter-segment revenues are eliminated on consolidation.

(Note 2) : The profit for each operating segment does not include income tax expense.

For the three-month periods ended Sep. 30, 2018

	Semiconductor Group	EMS Group	Other	Adjustment and Eliminations (Note 1 and Note 2)	Consolidated
Revenue					
External customer	\$2,415,145	\$1,697,173	—	—	\$4,112,318
Inter-Segment	14,620	185,609	—	(\$200,229)	—
Total Revenue	\$2,429,765	\$1,882,782	—	(\$200,229)	\$4,112,318
Segment Profit	(\$71,384)	\$52,956	\$12,526	\$35,935	(\$41,837)

(Note 1) : Inter-segment revenues are eliminated on consolidation.

(Note 2) : The profit for each operating segment does not include income tax expense.

For the nine-month periods ended Sep. 30, 2018

	Semiconductor Group	EMS Group	Other	Adjustment and Eliminations (Note 1 and Note 2)	Consolidated
Revenue					
External customer	\$6,378,210	\$4,603,456	—	—	\$10,981,666
Inter-Segment	39,370	469,251	—	(\$508,621)	—
Total Revenue	<u>\$6,417,580</u>	<u>\$5,072,707</u>	<u>—</u>	<u>(\$508,621)</u>	<u>\$10,981,666</u>
Segment Profit	<u>(\$551,648)</u>	<u>\$119,224</u>	<u>\$9,996</u>	<u>(\$296,054)</u>	<u>(\$451,691)</u>

(Note 1) : Inter-segment revenues are eliminated on consolidation.

(Note 2) : The profit for each operating segment does not include income tax expense.