# ITEQ Corporation

**Financial Statements for the**
**Years Ended December 31, 2018 and 2017 and**
**Independent Auditors' Report**

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
ITEQ Corporation

### Opinion

We have audited the accompanying financial statements of ITEQ Corporation (the "Company"), which comprise the balance sheets as of December 31, 2018 and 2017, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Assessment of Allowance for Doubtful Accounts

The Company evaluates the allowance for doubtful accounts periodically by performing aging analysis on receivables, reviewing its customers' credit ratings, the economic environment and so on and have the accounts factored or insured when necessary to reduce its credit risk.

When assessing the allowance for doubtful accounts, there is a level of uncertainty regarding the recoverable amount, and management's judgment may influence the appropriateness of the allowance valuation. Therefore, we identified it as a key audit matter. Refer to Notes 5 and 8 to the accompanying financial statements for disclosures of the relevant accounting estimates and uncertainties and other detailed information.

The audit procedures that we performed for allowance for doubtful accounts were as follows:

1. We understood and tested the design and implementation of the internal control related to the assessment of accounts receivable, including the monthly analysis and review of the receivables' aging analysis and the loss on bad debts which were accounted for after the approval by management.

2. We assessed the estimates used by management for the calculation of the allowance for doubtful accounts at the end of the year, including the accuracy of the aging report used as the basis for the calculation of the allowance for doubtful accounts, the aging and quota ratio comparison between the current and previous accounts receivable, the occurrence of bad debts, the consideration of the impact of factoring and insurance among other estimates, cash receipts after the inspection period in order to confirm the possibility of recovering receivables.

3. For amounts that were overdue and not yet recovered, we verified the appropriateness of the allowance by confirming whether the allowance was based on the customer's payment history or current financial status and whether there was credit insurance or bank guarantees.

**Assessment of Inventory**

The inventory of the Company may experience price fluctuations or become obsolete because of the changes in market demand for finished goods and raw material cost fluctuations. Management assessed impairment losses on inventory based on its historical stock sales, and market conditions may also influence the valuation of impairment losses for inventory. Therefore, we identified inventory as a key audit matter. Refer to Notes 5 and 10 to the financial statements for disclosures of the relevant accounting estimates and uncertainties and other detailed information.

The audit procedures that we performed for inventory were as follows:

1. We understood and tested the design and implementation of the internal control related to inventory, including evaluating the impairment of the inventory and the condition of obsolete inventory which are accounted for after the approval by management.

2. We tested the completeness and existence of the year-end inventory valuation and assessed the condition of inventory to evaluate the adequacy of inventory impairment provisions for obsolete and damaged goods by attending and observing the year-end inventory count.

3. We sampled and recalculated the year-end inventory in detail in order to confirm the accuracy of the net realizable value by testing raw material costs or the latest sales value and compared the net realizable value and book value to assess the accuracy of the inventory impairment provisions.

4. We obtained and corroborated both the slow-moving inventory and the aging report of inventory in detail, analyzed the difference between the current and prior years, and ensured the accuracy of the impairment of obsolete inventory by recalculation.

**Other Matter**

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including the audit committee and supervisors, are responsible for overseeing the Company's financial reporting process.

**Auditors' Responsibilities for the Audit of the Financial Statements**

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

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

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

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

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

6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision, and performance of the company audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Jui-Chan Huang and Po-Jen Weng.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 18, 2019

*Notice to Readers*

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

*For the convenience of readers, the independent auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and financial statements shall prevail.*

# ITEQ CORPORATION

**BALANCE SHEETS**
**DECEMBER 31, 2018 AND 2017**
**(In Thousands of New Taiwan Dollars)**

| | 2018 | | 2017 | |
|---|---|---|---|---|
| **ASSETS** | **Amount** | **%** | **Amount** | **%** |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Note 6) | $ 330,658 | 2 | $ 177,853 | 1 |
| Available-for-sale financial assets - current, net (Notes 7 and 24) | - | - | 177,782 | 1 |
| Notes receivable (Note 8) | 151,829 | 1 | 98,681 | 1 |
| Accounts receivable, net (Note 8) | 636,826 | 5 | 709,982 | 5 |
| Accounts receivable - related parties (Note 25) | 416,084 | 3 | 294,984 | 2 |
| Other receivables (Note 24) | 114,764 | 1 | 224,514 | 2 |
| Other receivables - related parties (Note 25) | 458,945 | 3 | 1,171,027 | 9 |
| Current tax assets (Note 20) | - | - | 14 | - |
| Inventories, net (Note 9) | 311,815 | 2 | 332,835 | 3 |
| Other current assets | 2,236 | - | 2,909 | - |
| Total current assets | 2,423,157 | 17 | 3,190,581 | 24 |
| NON-CURRENT ASSETS | | | | |
| Investment accounted for using the equity method (Note 10) | 10,703,125 | 76 | 9,160,979 | 68 |
| Property, plant and equipment (Note 11) | 816,832 | 6 | 989,036 | 7 |
| Deferred tax assets (Note 20) | 63,292 | - | 26,011 | - |
| Prepayments for equipment | 10,378 | - | 11,551 | - |
| Other non-current assets (Notes 13, 16, 22 and 25) | 147,854 | 1 | 143,401 | 1 |
| Total non-current assets | 11,741,481 | 83 | 10,330,978 | 76 |
| TOTAL | $ 14,164,638 | 100 | $ 13,521,559 | 100 |
| **LIABILITIES AND EQUITY** | | | | |
| CURRENT LIABILITIES | | | | |
| Short-term borrowings (Note 14) | $ 3,026,985 | 22 | $ 2,207,000 | 16 |
| Short-term bills payable, net (Note 14) | 389,827 | 3 | 499,765 | 4 |
| Notes payable | 570 | - | 1,426 | - |
| Accounts payable | 748,967 | 5 | 797,945 | 6 |
| Accounts payable - related parties (Note 25) | 145,644 | 1 | 399,656 | 3 |
| Other payables | 307,577 | 2 | 340,246 | 2 |
| Other payables - related parties (Note 25) | 101,046 | 1 | 3,551 | - |
| Current tax liabilities (Note 20) | 28,111 | - | 361,812 | 3 |
| Provisions - current (Note 15) | 987 | - | - | - |
| Current portion of long-term borrowings (Note 14) | 117,647 | 1 | 417,647 | 3 |
| Other current liabilities | 28,555 | - | 27,688 | - |
| Total current liabilities | 4,895,916 | 35 | 5,056,736 | 37 |
| NON-CURRENT LIABILITIES | | | | |
| Long-term borrowings, net of current portion (Note 14) | 905,882 | 6 | 823,529 | 6 |
| Deferred tax liabilities (Note 20) | 367,708 | 3 | 352,460 | 3 |
| Guarantee deposits received | 3,160 | - | 3,000 | - |
| Total non-current liabilities | 1,276,750 | 9 | 1,178,989 | 9 |
| Total liabilities | 6,172,666 | 44 | 6,235,725 | 46 |
| EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Note 17) | | | | |
| Share capital | 3,029,572 | 21 | 3,029,572 | 22 |
| Capital surplus | 653,239 | 5 | 653,239 | 5 |
| Retained earnings | | | | |
| Legal reserve | 1,194,845 | 8 | 1,070,375 | 8 |
| Unappropriated earnings | 3,319,996 | 24 | 2,439,520 | 18 |
| Total retained earnings | 4,514,841 | 32 | 3,509,895 | 26 |
| Other items in equity | (205,680) | (2) | 93,128 | 1 |
| Total equity | 7,991,972 | 56 | 7,285,834 | 54 |
| TOTAL | $ 14,164,638 | 100 | $ 13,521,559 | 100 |

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

# ITEQ CORPORATION

**STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| OPERATING REVENUE (Notes 18 and 25) | $ 4,042,620 | 100 | $ 3,524,331 | 100 |
| COST OF GOODS SOLD (Notes 9, 19 and 25) | 3,594,190 | 89 | 3,066,389 | 87 |
| GROSS PROFIT | 448,430 | 11 | 457,942 | 13 |
| UNREALIZED GAIN ON TRANSACTIONS WITH SUBSIDIARIES | (7,561) | - | (3,818) | - |
| REALIZED GAIN ON TRANSACTIONS WITH SUBSIDIARIES | 3,818 | - | 871 | - |
| REALIZED GROSS PROFIT | 444,687 | 11 | 454,995 | 13 |
| OPERATING EXPENSES (Notes 19 and 25) | | | | |
| Selling and marketing expenses | 66,747 | 2 | 79,993 | 2 |
| General and administrative expenses | 295,714 | 7 | 292,732 | 9 |
| Research and development expenses | 212,490 | 5 | 170,097 | 5 |
| Total operating expenses | 574,951 | 14 | 542,822 | 16 |
| LOSS FROM OPERATIONS | (130,264) | (3) | (87,827) | (3) |
| NON-OPERATING INCOME AND EXPENSES | | | | |
| Other income (Notes 19 and 25) | 103,852 | 2 | 103,916 | 3 |
| Finance costs | (42,967) | (1) | (48,584) | (1) |
| Other gains (Note 19) | 63,790 | 2 | 4,427 | - |
| Share of loss of subsidiaries (Note 10) | 1,813,768 | 45 | 1,456,578 | 41 |
| Total non-operating income and expenses | 1,938,443 | 48 | 1,516,337 | 43 |
| INCOME BEFORE INCOME TAX | 1,808,179 | 45 | 1,428,510 | 40 |
| INCOME TAX EXPENSE (Note 20) | (33,622) | (1) | (183,808) | (5) |
| NET INCOME FOR THE YEAR | 1,774,557 | 44 | 1,244,702 | 35 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | | |
| Remeasurement of defined benefit plans (Note 16) | 1,328 | - | (776) | - |
| Share of other comprehensive income of subsidiaries (Note 17) | 302 | - | 71,292 | 2 |
| | 1,630 | - | 70,516 | 2 |

(Continued)

# ITEQ CORPORATION

**STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| Items that may be reclassified subsequently to profit or loss: | | | | |
| Exchange differences on translation of financial statements of foreign operations (Note 17) | $ (163,097) | (4) | $ (262,169) | (7) |
| Unrealized gain on available-for-sale financial assets (Note 17) | - | - | 36,258 | 1 |
| Income tax relating to items that may be reclassified subsequently to profit or loss (Notes 17 and 20) | 35,382 | 1 | 44,569 | 1 |
| Items that may be reclassified subsequently to profit or loss, net of income tax | (127,715) | (3) | (181,342) | (5) |
| Other comprehensive loss for the year, net of income tax | (126,085) | (3) | (110,826) | (3) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | $ 1,648,472 | 41 | $ 1,133,876 | 32 |
| EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 21) | | | | |
| Basic | $ 5.86 | | $ 4.11 | |
| Diluted | $ 5.82 | | $ 4.08 | |

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

## ITEQ CORPORATION

**STATEMENTS OF CHANGES IN EQUITY**
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**
**(In Thousands of New Taiwan Dollars)**

| | | | | Retained Earnings (Note 19) | | Other Item Equity (Note 19) | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Shares (Thousands) | Share Capital (Note 19) | Capital Surplus (Note 19) | Legal Reserve | Unappropriated Earnings | Exchange Differences on Translation of Financial Statements of Foreign Operations | Unrealized Gain (Loss) on Available-for-sale Financial Assets | Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income | Total Equity |
| BALANCE AT JANUARY 1, 2017 | 302,957 | $ 3,029,572 | $ 653,239 | $ 975,179 | $ 2,048,183 | $ 141,171 | $ 62,007 | $ - | $ 6,909,351 |
| Appropriation of the 2016 earnings | | | | | | | | | |
| Legal reserve | - | - | - | 95,196 | (95,196) | - | - | - | - |
| Cash dividends | - | - | - | - | (757,393) | - | - | - | (757,393) |
| Net consolidated income for the year ended December 31, 2017 | - | - | - | - | 1,244,702 | - | - | - | 1,244,702 |
| Other comprehensive income (loss) for the year ended December 31, 2017 | - | - | - | - | (776) | (217,600) | 107,550 | - | (110,826) |
| Total comprehensive income (loss) for the year ended December 31, 2017 | - | - | - | - | 1,243,926 | (217,600) | 107,550 | - | 1,133,876 |
| BALANCE AT DECEMBER 31, 2017 | 302,957 | 3,029,572 | 653,239 | 1,070,375 | 2,439,520 | (76,429) | 169,557 | - | 7,285,834 |
| Effect of retrospective application | - | - | - | - | 168,228 | - | (169,557) | (1,838) | (3,167) |
| BALANCE AT JANUARY 1, 2018 AS RESTATED | 302,957 | 3,029,572 | 653,239 | 1,070,375 | 2,607,748 | (76,429) | - | (1,838) | 7,282,667 |
| Appropriation of the 2017 earnings | | | | | | | | | |
| Legal reserve | - | - | - | 124,470 | (124,470) | - | - | - | - |
| Cash dividends | - | - | - | - | (939,167) | - | - | - | (939,167) |
| Net consolidated income for the year ended December 31, 2018 | - | - | - | - | 1,774,557 | - | - | - | 1,774,557 |
| Other comprehensive income (loss) for the year ended December 31, 2018 | - | - | - | - | 1,328 | (127,715) | - | 302 | (126,085) |
| Total comprehensive income (loss) for the year ended December 31, 2018 | - | - | - | - | 1,775,885 | (127,715) | - | 302 | 1,648,472 |
| BALANCE AT DECEMBER 31, 2018 | 302,957 | $ 3,029,572 | $ 653,239 | $ 1,194,845 | $ 3,319,996 | $ (204,144) | $ - | $ (1,536) | $ 7,991,972 |

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

# ITEQ CORPORATION

**STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**
**(In Thousands of New Taiwan Dollars)**

| | 2018 | 2017 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | $ 1,808,179 | $ 1,428,510 |
| Adjustments for: | | |
| Depreciation expense | 204,976 | 203,920 |
| Amortization expense | - | 14,711 |
| Amortization of prepayments | 3,455 | 3,280 |
| Finance costs | 42,967 | 48,584 |
| Interest income | (1,368) | (666) |
| Dividend income | - | (8,442) |
| Share of loss of subsidiaries | (1,813,768) | (1,456,578) |
| Loss on disposal of property, plant and equipment | - | (200) |
| Net gain on fair value changes of financial assets at fair value through profit or loss | (39,926) | - |
| Net gain on disposal of available-for-sale financial assets | - | (27,125) |
| Unrealized gain on transactions with subsidiaries | 7,561 | 3,818 |
| Realized gain on the transactions with subsidiaries | (3,818) | (871) |
| (Gain) loss on foreign currency exchange | (15,907) | 3,117 |
| Reversal of provisions | 987 | (779) |
| Changes in operating assets and liabilities | | |
| Notes receivable | (53,148) | 41,890 |
| Accounts receivable | 75,611 | (132,926) |
| Accounts receivable - related parties | (118,061) | (68,295) |
| Other receivables | 109,751 | (16,606) |
| Other receivables - related parties | (13,781) | 7,684 |
| Inventories | 21,020 | (105,311) |
| Other current assets | 674 | 1,242 |
| Notes payable | (856) | (856) |
| Accounts payable | (52,756) | 77,530 |
| Accounts payable - related parties | (258,807) | 44,764 |
| Other payables | (33,008) | 67,168 |
| Other payables - related parties | 97,451 | (1,298) |
| Other current liabilities | (642) | (3,243) |
| Cash (used in) generated from operations | (33,214) | 123,022 |
| Interest paid | (42,633) | (48,236) |
| Income tax paid | (294,289) | (29,406) |
| Net cash generated from operating activities | (370,136) | 45,380 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of financial assets at fair value through profit or loss | (532) | - |
| Proceeds from disposal of available-for-sale financial assets | - | 65,593 |
| Proceeds from sale of financial assets at fair value through profit or loss | 218,240 | - |
| Proceeds from disposal of property, plant and equipment | - | 248 |
| Increase in refundable deposits | (202) | - |

(Continued)

# ITEQ CORPORATION

**STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**
**(In Thousands of New Taiwan Dollars)**

| | 2018 | 2017 |
|---|---|---|
| Increase in other non-current assets | $ (6,379) | $ (7,534) |
| Increase in prepayments for equipment | (31,599) | (116,904) |
| Interest received | 1,368 | 666 |
| Dividends received from subsidiaries | 788,652 | 1,173,666 |
| Other dividends received | - | 8,442 |
| Net cash used in investing activities | 969,548 | 1,124,177 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| (Decrease) increase in short-term borrowings | 819,985 | (423,000) |
| Decrease in short-term bills payable | (109,938) | (368,994) |
| Proceeds from long-term borrowings | 700,000 | 700,000 |
| Repayments of long-term borrowings | (917,647) | (474,824) |
| Increase in guarantee deposits received | 160 | 3,000 |
| Cash dividends paid | (939,167) | (757,393) |
| Net cash used in financing activities | (446,607) | (1,321,211) |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | 152,805 | (151,654) |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | 177,853 | 329,507 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | $ 330,658 | $ 177,853 |

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

## 1. GENERAL INFORMATION

ITEQ Corporation (the "Company") was incorporated on April 10, 1997. It manufactures and sells mass lamination boards, copper clad laminates, prepeg products and electronic components. The Company's shares have been listed on the Taiwan Stock Exchange (TWSE) since January 21, 2008.

The financial statements of the Company is presented in the Company's functional currency, the New Taiwan dollar.

## 2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors and authorized for issue on March 14, 2019.

## 3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC) and Interpretations of IAS (SIC) (collectively, the "IFRSs") endorsed and issued into effect by the FSC

Except for the following, whenever applied, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC would not have any material impact on the Company's accounting policies:

1) IFRS 9 "Financial Instruments" and related amendments

IFRS 9 supersedes IAS 39 "Financial Instruments: Recognition and Measurement", with consequential amendments to IFRS 7 "Financial Instruments: Disclosures" and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Refer to Note 4 for information relating to the relevant accounting policies.

<u>Classification, measurement and impairment of financial assets</u>

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

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

| | Measurement Category | | Carrying Amount | |
|---|---|---|---|---|
| **Financial Assets** | **IAS 39** | **IFRS 9** | **IAS 39** | **IFRS 9** |
| Equity securities | Available-for-sale | Mandatorily at FVTPL | $ 177,782 | $ 177,782 |

| **Financial Assets** | **IAS 39 Carrying Amount as of January 1, 2018** | **Reclassifi-cations** | **Remea-surements** | **IFRS 9 Carrying Amount as of January 1, 2018** | **Retained Earnings Effect on January 1, 2018** | **Other Equity Effect on January 1, 2018** |
|---|---|---|---|---|---|---|
| FVTPL | $ - | | | | | |
| Add: Reclassification from available-for-sale (IAS 39) | - | $ 177,782 | $ - | | | |
| | $ - | $ 177,782 | $ - | $ 177,782 | $ 69,312 | $ (69,312) |

The Company elected to designate equity investment previously classified as available-for-sale under IAS 39 as at fair value through other comprehensive income (FVTOCI) under IFRS 9. As a result, the related other equity - unrealized gain (loss) on available-for-sale financial assets of $69,312 thousand was reclassified to retained earnings.

| | **IAS 39 Carrying Amount as of January 1, 2018** | **Adjustments Arising from Initial Application** | **IFRS 9 Carrying Amount as of January 1, 2018** | **Retained Earnings Effect on January 1, 2018** | **Other Equity Effect on January 1, 2018** |
|---|---|---|---|---|---|
| Investments accounted for using the equity method | $ 9,160,979 | $ (3,627) | $ 9,157,352 | $ 98,916 | $ (102,083) |

As a result of the retrospective application of IFRS 9 by associates, there was a decrease in investments accounted for using the equity method of $3,627 thousand, a decrease in other equity - unrealized gain (loss) on available-for-sale financial assets of $100,245 thousand, a decrease in other equity - unrealized gain (loss) on financial assets at FVTOCI of $1,838 thousand and an increase in retained earnings of $98,916 thousand on January 1, 2018.

2) IFRS 15 "Revenue from Contracts with Customers" and related amendments

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers and supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations. Refer to Note 4 for related accounting policies.

The Company elected only to retrospectively apply IFRS 15 to contracts that were not complete as of January 1, 2018 and recognize the cumulative effect of the change in retained earnings on January 1, 2018.

b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the "IFRSs") endorsed by the FSC for application starting from 2019

| New, Amended or Revised Standards and Interpretations (the "New IFRSs") | Effective Date Announced by IASB (Note 1) |
|---|---|
| Annual Improvements to IFRSs 2015-2017 Cycle | January 1, 2019 |
| Amendments to IFRS 9 "Prepayment Features with Negative Compensation" | January 1, 2019 (Note 2) |
| IFRS 16 "Leases" | January 1, 2019 |
| Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" | January 1, 2019 (Note 3) |
| Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" | January 1, 2019 |
| IFRIC 23 "Uncertainty over Income Tax Treatments" | January 1, 2019 |

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The FSC permits the election for early adoption of the amendments starting from 2018.

Note 3: The Company shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

- IFRS 16 "Leases"

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and IFRIC 4 "Determining Whether An Arrangement Contains Leases" and a number of related interpretations.

Definition of a lease

Upon initial application of IFRS 16, the Company will elect to apply the guidance of IFRS 16 in determining whether contracts are, or contain, a lease only to contracts entered into on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 will not be reassessed and will be accounted for in accordance with the transitional provisions under IFRS 16.

The Company as lessee

Upon initial application of IFRS 16, the Company will recognize right-of-use assets, or investment properties if the right-of-use assets meet the definition of investment properties, and lease liabilities for all leases on the balance sheets except for those whose payments under low-value asset and short-term leases will be recognized as expenses on effective interest rate. On the statements of comprehensive income, the Company will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the statements of cash flows, cash payments for the principal portion of lease liabilities will be classified within financing activities; cash payments for the interest portion will be classified within operating activities. Currently, payments under operating lease contracts, including property interest qualified as investment properties, are recognized as expenses on a straight-line basis. Prepaid lease payments for land use rights of land are recognized as prepayments for leases. Cash flows for operating leases are classified within operating activities on the statements of cash flows. Leased assets and finance lease payables are recognized for contracts classified as finance leases.

The Company anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information will not be restated.

Leasehold building, which is currently accounted for as an operating lease under IAS 17, qualifies as an investment property. A lease liability for that leasehold building will be recognized and measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Related right-of-use assets will apply IAS 36 to assess impairment.

For leases currently classified as finance leases under IAS 17, the carrying amounts of right-of-use assets and lease liabilities on January 1, 2019 will be determined as at the carrying amounts of the respective leased assets and finance lease payables as of December 31, 2018.

Anticipated impact on assets, liabilities and equity

| | **Carrying Amount as of December 31, 2018** | **Adjustments Arising from Initial Application** | **Adjusted Carrying Amount as of January 1, 2019** |
|---|---|---|---|
| Right-of-use assets | $ - | $ 287,425 | $ 287,425 |
| Refundable deposits | 116,479 | (11,399) | 105,080 |
| Total effect on assets | $ 116,479 | $ 276,026 | $ 392,505 |
| Lease liabilities - current | $ - | $ 30,199 | $ 30,199 |
| Lease liabilities - non-current | - | 245,827 | 245,827 |
| Total effect on liabilities | $ | $ 276,026 | $ 276,026 |

In addition to the above effects, as of the date of publication of this individual financial report, the Company's assessment of other standards and interpretations will not have a significant impact on financial status and financial performance.

c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

| **New IFRSs** | **Effective Date Announced by IASB (Note 1)** |
|---|---|
| Amendments to IFRS 3 "Definition of a Business" | January 1, 2020 (Note 2) |
| Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture" | To be determined by IASB |
| IFRS 17 "Insurance Contracts" | January 1, 2021 |
| Amendments to IAS 1 and IAS 8 "Definition of Material" | January 1, 2020 (Note 3) |

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The Company shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 3: The Company shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

Except for the above impact, as of the date the financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of other standards and interpretations will have on the Company's financial position and financial performance and will disclose the relevant impact when the assessment is completed.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The parent company only financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed by the FSC.

b. Basis of preparation

The parent company only financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair value.

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, are described as follows:

1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

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

3) Level 3 inputs are unobservable inputs for the asset or liability.

When preparing the parent company only financial statements, the Company used the equity method to account for its investments in subsidiaries, associates and joint ventures. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same with the amounts attributable to the owners of the Company in its consolidated financial statements, adjustments arising from the differences in accounting treatments between the parent company only basis and the consolidated basis were made to investments using the equity method, the share of profit or loss of subsidiaries, associates and joint ventures, the share of other comprehensive income of subsidiaries, associates and joint ventures and the related equity items, as appropriate, in these parent company only financial statements.

c. Classification of current and non-current assets and liabilities

Current assets include:

1) Assets held primarily for the purpose of trading;

2) Assets expected to be realized within twelve months after the reporting period; and

3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;

2) Liabilities due to be settled within twelve months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorized for issue; and

3) Liabilities for which the Company does not have an unconditional right to defer settlement for at least twelve months after the reporting period.

Assets and liabilities that are not classified as current are classified as non-current.

d. Foreign currencies

In preparing the financial statements of each individual entity, transactions in currencies other than the entity's functional currency (i.e. foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Such exchange differences are recognized in profit or loss in the year in which they arise. Non-monetary items measured at fair value are translated using the prevailing exchange rates at the exchange day. Translation differences on non-monetary items measured at fair value are recognized in profit or loss of the current year. However, the translation differences are also recognized directly in the comprehensive income if the change in fair value is recognized in other comprehensive income.

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

For the purpose of preparing the financial statements, the assets and liabilities of the Company's foreign operations (including of the subsidiaries, associates, joint ventures or branches operations in other countries or currencies used different with the Company) are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising on the translation to the presentation currency are recognized in other comprehensive income.

e. Inventories

Inventories consist of raw materials, supplies, finished goods and work-in-process and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at weighted-average cost on the balance sheet date.

f. Investments in subsidiaries

The Company uses the equity method to account for its investments in subsidiaries.

A subsidiary is an entity (including a structured entity) that is controlled by the Company.

Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary. The Company also recognizes the changes in the Company's share of equity of subsidiaries.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognized immediately in profit or loss.

When the Company loses control of a subsidiary, it recognizes the investment retained in the former subsidiary at its fair value at the date when control is lost. The difference between the fair value of the retained investment plus any consideration received and the carrying amount of the previous investment at the date when control is lost is recognized as a gain or loss in profit or loss. Besides this, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Company had directly disposed of the related assets or liabilities.

Profits or losses resulting from downstream transactions are eliminated in full only in the parent company's financial statements. Profits and losses resulting from upstream transactions and transactions between subsidiaries are recognized only in the parent company's financial statements only to the extent of interests in the subsidiaries that are not related to the Company.

g. Intangible assets

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

h. Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use.

If the recoverable amount of an individual asset or cash-generating unit is lower than its carrying amount, the carrying amount shall be adjusted to its recoverable amount and the impairment loss is recognized in profit or loss.

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

i. Financial instruments

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

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

1) Financial assets

a) Measurement category

2018

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost and investments in debt instruments and equity instruments at FVTOCI.

i. Financial assets at FVTPL

Financial assets are classified as at FVTPL when such a financial asset is mandatorily classified or designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividends or interest earned on such a financial asset. Fair value is determined in the manner described in Note 26.

ii. Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

i) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

ii) 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.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, trade receivables at amortized cost, are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of such a financial asset, except for:

i) Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such financial assets; and

ii) Financial assets that are not credit impaired on purchase or origination but have subsequently become credit impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets in subsequent reporting periods.

Cash equivalents include time deposits and bank acceptances with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

iii. Investments in equity instruments at FVTOCI

On initial recognition, the Company may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, it will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

2017

The Company's financial assets are classified into the following categories: Available-for-sale financial assets and loans and receivables.

i. Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity financial assets or financial assets at FVTPL.

Available-for-sale financial assets are measured at fair value. Dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of or is determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and are presented in a separate line item as financial assets measured at cost. Such financial assets are subsequently remeasured at fair value when their fair value can be reliably measured, and the difference between the carrying amount and the fair value is recognized in other comprehensive income or in profit or loss if impairment arises.

ii. Loans and receivables

Loans and receivables (including cash and cash equivalent, notes receivable, accounts receivable, other financial assets and debt investments with no active market) are measured at amortized cost using the effective interest method, less any impairment, except for those short-term receivables with immaterial discounted effect.

Cash equivalent includes time deposits and bank acceptances with original maturities within three months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

b) Impairment of financial assets

2018

The Company recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including accounts receivables).

The Company always recognizes lifetime expected credit losses (ECLs) for accounts receivables. For all other financial instruments, the Company recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

Expected credit losses reflect the weighted average of credit losses with the respective risks of default occurring as the weights. Lifetime ECLs represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECLs represent the portion of lifetime ECLs that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

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

2017

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets measured at amortized cost, such as accounts receivable, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

For financial assets measured at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of its estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial assets at the date on which the impairment loss is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract, such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for that financial asset because of financial difficulties.

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

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When accounts receivable and other receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible accounts receivable that are written off against the allowance account.

c) Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Before 2018, on derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

Starting from 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

2) Equity instruments

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

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

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

3) Financial liabilities

a) Subsequent measurement

All financial liabilities are measured at amortized cost using the effective interest method, except:

Financial guarantee contracts.

<u>2018</u>

Financial guarantee contracts issued by the Company, if not designated as at FVTPL, are subsequently measured at the higher of:

i. The amount of the loss allowance reflecting expected credit losses; and

ii. The amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with the revenue recognition policies.

<u>2017</u>

Financial guarantee contracts issued by the Company are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of the best estimate of the obligation under the contract and the amount initially recognized less the cumulative amortization recognized.

b) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

j. Provisions

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. A provision is measured using the estimated cash flows to settle the present obligation.

k. Revenue recognition

2018

The Company identifies contracts with customers, allocates the transaction price to the performance obligations and recognizes revenue when performance obligations are satisfied.

For contracts entered into with the same customer (or related parties of the customer) at or near the same time, those contracts are accounted for as a single contract if the contracts are negotiated as a package with a single commercial objective.

For contracts where the period between the date on which the Company transfers a promised good or service to a customer and the date on which the customer pays for that good or service is one year or less, the Company does not adjust the promised amount of consideration for the effects of a significant financing component.

- Revenue from the sale of goods

  Revenue from the sale of goods comes from sales of prepeg products and copper clad laminates. Sales of prepeg products and copper clad laminates are recognized as revenue when the goods are shipped because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility for sales to future customers and bears the risks of obsolescence. Trade receivables are recognized concurrently.

  The Company does not recognize revenue on materials delivered to subcontractors because this delivery does not involve a transfer of control.

2017

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

1) Sale of goods

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

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

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

   c) The amount of revenue can be measured reliably;

   d) It is probable that the economic benefits associated with the transaction will flow to the Company; and

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

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

2) Dividend and interest income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established, provided that it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and the applicable effective interest rate.

l. Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

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

m. Government grants

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Company recognizes as expenses the related cost for which the grants are intended to compensate.

n. Employee benefits

Short-term employee benefits

Short-term employee benefits related liabilities are measured using non-discounted expected disbursement for services rendered.

Post-employment benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

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

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

o. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

According to the Income Tax Law, an additional tax of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

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

2) Deferred tax

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

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

3) Current and deferred taxes for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity respectively.

## 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

**Write-down of Inventories**

Since inventories are denominated in terms of cost and net realizable value, the Company uses the judgment and estimates to determine the net realizable value of the inventories at the end of the reporting period.

The Company assesses the amount of inventory lost due to normal wear and tear, obsolescence or no market sales value at the end of the period of the reporting period, and reduces the inventory cost to the net realizable value. This inventory assessment is based primarily on the estimated product demand for a specific period of time in the future and may result in significant changes.

## 6. CASH AND EQUIVALENTS

| | December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Cash on hand | $ 70 | $ 70 |
| Cash in banks | 177,013 | 177,783 |
| Cash equivalents | | |
| Time deposits | 153,575 | - |
| | $ 330,658 | $ 177,853 |

The market rate intervals of cash in banks at the end of the reporting period were as follows:

| | December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Cash in banks | 0.00%-0.50% | 0.00%-0.35% |
| Time deposits | 2.35%-3.10% | - |

## 7. AVAILABLE-FOR-SALE FINANCIAL ASSETS, NET - 2017

| | December 31, 2017 |
|---|---|
| Domestic publicly traded shares | $ 177,782 |

## 8. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE, NET

| | December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Notes receivable | | |
| At amortized cost | $ 151,829 | $ 98,681 |
| Accounts receivables | | |
| At amortized cost | | |
| Gross carrying amount | $ 640,782 | $ 713,938 |
| Less: Allowance for impairment loss | 3,956 | 3,956 |
| Accounts receivables, net | $ 636,826 | $ 709,982 |

2018

The average credit period on sales of goods is 120 days. The Company also has administrative measures to strengthen sales, finance and legal collection procedures for overdue receivables. The Company evaluates the credit quality, determines the credit limit of potential customers according to an internal ratings system, reviews the credit status of customers in order to adjust their credit limits every half year, and assigns a team responsible for the determination and approval of credit limits. The team continually reviews the financial condition of accounts receivable factoring and insurance, if necessary, in order to reduce the Company's credit risk.

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of economic conditions at the reporting date. As the Company's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished according to the Company's different customer base.

The Company writes off a accounts receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation, or when the trade receivables are over 90 days past due, whichever occurs earlier. For trade receivables that have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of trade receivables based on the Company's provision matrix.

December 31, 2018

| | **Not Past Due** | **Less than 30 Days** | **31 to 90 Days** | **Over 90 Days** | **Total** |
|---|---|---|---|---|---|
| Expected credit loss rate | 0.61% | 0.81% | 9.45% | 100.00% | |
| Gross carrying amount | $ 637,106 | $ 2,840 | $ 836 | $ - | $ 640,782 |
| Loss allowance (lifetime ECL) | (3,854) | (23) | (79) | - | (3,956) |
| Amortized cost | $ 633,252 | $ 2,817 | $ 757 | $ - | $ 636,826 |

The movements of the loss allowance of trade receivables were as follows:

| | 2018 |
|---|---|
| Balance at January 1, 2018 per IAS 39 | $ 3,956 |
| Adjustment on initial application of IFRS 9 | - |
| Balance at January 1, 2018 per IFRS 9 | 3,956 |
| Net remeasurement of loss allowance | - |
| Balance at December 31, 2018 | $ 3,956 |

2017

The credit policy of the Company in 2017 is the same as the credit policy in 2018. In determining the recoverability of accounts receivable, the Company considers any changes in the credit quality of an account receivable from the date that a credit was initially granted to the end of the reporting period. The Company evaluates the allowance for doubtful accounts periodically by performing accounts receivable aging analysis and by reviewing customer credit ratings, the economic environment and so on.

For accounts receivable balances that were past due at the end of the reporting period, the Company did not recognize an allowance for impairment loss because there was not a significant change in the credit quality, and the amounts were still considered recoverable. The Company neither held any collateral or other credit enhancements for these balances nor had the legal right to offset accounts receivable with the same counterparty.

The aging of receivables was as follows:

| | December 31, 2017 |
|---|---|
| Not past due | $ 713,549 |
| 1-30 days | 389 |
| | $ 713,938 |

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

The aging of receivables that were past due but not impaired were as follows:

| | December 31, 2017 |
|---|---|
| 1-30 days | $ 389 |

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

The movements of the allowance for doubtful accounts were as follows:

| | Individually Assessed for Impairment | Collectively Assessed for Impairment | Total |
|---|---|---|---|
| Balance at January 1, 2017 | $ 8 | $ 3,948 | $ 3,956 |
| Allowance (reversal of allowance) for doubtful accounts | (8) | 8 | - |
| Balance at December 31, 2017 | $ - | $ 3,956 | $ 3,956 |

The Company recognized impairment losses of $0 thousand on accounts receivable as of December 31, 2017, respectively. The Company did not hold any collaterals for these balances. To reduce credit risk, the Company had insured and factored its accounts receivable.

For information of factored accounts receivables, refer to Note 24.

## 9. INVENTORIES, NET

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Finished goods | $ 95,591 | $ 136,166 |
| Work in process | 1,066 | 3,331 |
| Raw materials | 215,158 | 193,338 |
| | $ 311,815 | $ 332,835 |

As of December 31, 2018 and 2017, the cost of inventories recognized as cost of goods sold was $3,594,190 thousand and $3,066,389 thousand, respectively.

## 10. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

**Investments in Subsidiaries**

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Non-public company | | |
| Bon-Mou Investment Co. | $ 704,595 | $ 533,582 |
| ITEQ International Ltd. | 9,998,530 | 8,627,397 |
| | $ 10,703,125 | $ 9,160,979 |

The proportion of ownership and voting rights of the Company to the subsidiaries on the balance sheet date are as follows:

| | Proportion of Ownership and Voting Rights | |
|---|---|---|
| | December 31 | |
| | 2018 | 2017 |
| Bon-Mou Investment Co. | 100% | 100% |
| ITEQ International Ltd. | 100% | 100% |

The investments in subsidiaries accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2018 and 2017 were based on the subsidiaries' financial statements which have been audited for the years then ended.

As discussed in Note 26, the Company provided financial guarantees for its subsidiary. As of December 31, 2018 and 2017, there were $14,432 thousand and $16,666 thousand included in the carrying amounts of investments in subsidiaries, respectively, due to the financial guarantees.

## 11. PROPERTY, PLANT AND EQUIPMENT

| | Equipment | Transport Equipment | Facilities | Leased Improvements | Other Equipment | Total |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| Balance at January 1, 2018 | $ 857,268 | $ 11,513 | $ 9,382 | $ 348,804 | $ 605,306 | $ 1,832,273 |
| Disposals | - | - | - | - | | |
| Reclassified | 7,110 | - | 488 | 4,694 | 20,480 | 32,772 |
| Balance at December 31, 2018 | $ 864,378 | $ 11,513 | $ 9,870 | $ 353,498 | $ 625,786 | $ 1,865,045 |
| Accumulated depreciation and impairment | | | | | | |
| Balance at January 1, 2018 | $ 378,799 | $ 8,831 | $ 7,709 | $ 149,008 | $ 298,890 | $ 843,237 |
| Depreciation expense | 85,987 | 1,339 | 1,117 | 41,644 | 74,889 | 204,976 |
| Disposals | - | - | - | - | - | - |
| Balance at December 31, 2018 | $ 464,786 | $ 10,170 | $ 8,826 | $ 190,652 | $ 373,779 | $ 1,048,213 |
| Net value | $ 399,592 | $ 1,343 | $ 1,044 | $ 162,846 | $ 252,007 | $ 816,832 |
| Cost | | | | | | |
| Balance at January 1, 2017 | $ 792,545 | $ 11,798 | $ 9,067 | $ 334,061 | $ 570,301 | $ 1,717,772 |
| Disposals | - | (285) | - | - | (3,890) | (4,175) |
| Reclassified | 64,723 | | 135 | 14,743 | 38,895 | 118,676 |
| Balance at December 31, 2017 | $ 857,268 | $ 11,513 | $ 9,382 | $ 348,804 | $ 605,306 | $ 1,832,273 |
| Accumulated depreciation and impairment | | | | | | |
| Balance at January 1, 2017 | $ 297,015 | $ 7,634 | $ 5,834 | $ 108,658 | $ 224,303 | $ 643,444 |
| Depreciation expense | 81,784 | 1,435 | 1,875 | 40,350 | 78,476 | 203,920 |
| Disposals | - | (238) | - | - | (3,889) | (4,127) |
| Balance at December 31, 2017 | $ 378,799 | $ 8,831 | $ 7,709 | $ 149,008 | $ 298,890 | $ 843,237 |
| Net value | $ 478,769 | $ 2,682 | $ 1,673 | $ 199,796 | $ 306,416 | $ 989,236 |

No impairment assessment was performed for the years ended December 31, 2018 and 2017 as there was no indication of impairment.

Depreciation costs of the property, plant and equipment are calculated on a straight-line basis over their estimated useful lives as shown in the following:

| | |
|---|---|
| Equipment | |
| Electromechanical power equipment | 5-12 years |
| Renovation | 2-5 years |
| Transportation equipment | 5-10 years |
| Facilities | |
| Computers | 3-10 years |
| Office furniture | 3-5 years |
| Other equipment | |
| Research and development equipment | 3-12 years |
| Pollution prevention equipment | 3-12 years |
| Miscellaneous equipment | 1-12 years |
| Leased improvements | 3-9 years |

## 12. INTANGIBLE ASSETS

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Royalties on patents (original cost was $94,158 thousand) | $ - | $ - |

Changes in accumulated amortization of royalties on patents are as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Balance at January 1 | $ - | $ 14,711 |
| Less: Amortization expense | - | (14,711) |
| Balance at December 31 | $ - | $ - |

The above items of other intangible assets are amortized on a straight-line basis over 8 years.

In February 2010, the Company signed a contract to obtain patents from a third-party company. According to the contract, the Company pays a fixed amount of royalties in three annual installments and pays additional quarterly royalties based on the sales of the commodities using the patents. The annual royalties paid should not be lower than a certain amount in the duration of the patent.

## 13. OTHER NON-CURRENT ASSETS

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Refundable deposits (Note 22) | $ 116,479 | $ 116,277 |
| Net defined benefit assets (Note 16) | 19,184 | 17,088 |
| Long-term prepayments | 6,497 | 5,419 |
| Others | 5,694 | 4,617 |
| | $ 147,854 | $ 143,401 |

## 14. BORROWINGS

a. Short-term borrowings

The weighted average effective interest rates on bank loans were 0.93%-1.10% and 0.92%-1.10% as of December 31, 2018 and 2017, respectively.

b. Short-term bills payable

Outstanding short-term bills payable were as follows:

| | December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Commercial paper | $ 390,000 | $ 500,000 |
| Less: Unamortized discounts on bills payable | 173 | 235 |
| | $ 389,827 | $ 499,765 |
| Interest rate | 1.04%-1.05% | 1.03%-1.05% |

c. Long-term borrowings

| | December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Credit loans | $ 1,023,529 | $ 1,241,176 |
| Less: Current portion | 117,647 | 417,647 |
| | $ 905,882 | $ 823,529 |
| Interest rate | 0.90%-1.04% | 0.90%-1.14% |

On June 29, 2018, the Company obtained a $500,000 thousand bank loan under a two-year revolving agreement with the KGI Commercial Bank. As of December 31, 2018, the Company had already accessed the loan fund of $500,000 thousand.

On July 6, 2018, the Company obtained a $200,000 thousand bank loan under a two-year revolving agreement with SinoPac Bank. As of December 31, 2018, the Company had already accessed the loan fund of $200,000 thousand. The bank loan agreement stipulated that:

1) The ratio of current assets to current liabilities shall not be lower than 100%.

2) The ratio of liabilities to net tangible assets shall not be higher than 175%.

3) Interest coverage shall not be lower than 400%.

4) The net value of tangible assets shall not be lower than $5,000,000 thousand.

On August 27, 2014, the Company obtained a $500,000 thousand bank loan under a seven-year revolving agreement with O-Bank. As of December 31, 2018, the Company had fully accessed the loan fund and the repaid loan fund of $176,471 thousand. The bank loan agreement stipulated that:

1) The ratio of current assets to current liabilities shall not be lower than 100%.

2) The ratio of liabilities to net tangible assets shall not be higher than 200%.

3) Interest coverage shall not be lower than 400%.

4) The net value of tangible assets shall not be lower than $5,000,000 thousand.

## 15. PROVISIONS - CURRENT

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Returns and allowances | $ 987 | $ - |

Changes in returns and allowances provisions were as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Balance at January 1 | $ - | $ 779 |
| Recognition (reversal) | 987 | (779) |
| Balance at December 31 | $ 987 | $ - |

The provision for customer returns and rebates was based on historical experience, management's judgments and other known reasons for occurrence of product returns and rebates for the year ended December 31, 2018. The provision was recognized as a reduction of operating income in the periods the related goods were sold.

## 16. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company adopted a pension plan under the Labor Pension Act (LPA), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

For the years ended December 31, 2018 and 2017, the Company recognized pension costs of $12,517 thousand and $12,540 thousand, respectively.

b. Defined benefit plans

The defined benefit plan adopted by the Company in accordance with the Labor Standards is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (the "Bureau") and the Company has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of the Company's defined benefit plans were as follows:

| | December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Present value of defined benefit obligation | $ 24,910 | $ 24,729 |
| Fair value of plan assets | (44,094) | (41,817) |
| Net defined benefit assets (part of other non-current assets) | $ (19,184) | $ (17,088) |

Movements in net defined benefit assets were as follows:

| | **Present Value of the Defined Benefit Obligation** | **Fair Value of the Plan Assets** | **Net Defined Benefit Asset** |
|---|---|---|---|
| Balance at January 1, 2017 | $ 25,320 | $ (40,774) | $ (15,454) |
| Prior service cost | (1,529) | - | (1,529) |
| Net interest expense (income) | 379 | (617) | (238) |
| Recognized in profit or loss | (1,150) | (617) | (1,767) |
| Remeasurement | | | |
| Return on plan assets (excluding amounts included in net interest) | - | 217 | 217 |
| Actuarial gain - changes in financial assumptions | 1,539 | - | 1,539 |
| Actuarial gain - changes in demographic assumptions | 189 | - | 189 |
| Actuarial loss - experience adjustments | (1,169) | - | (1,169) |
| Recognized in other comprehensive income | 559 | 217 | 776 |
| Contributions from the employer | - | (643) | (643) |
| Balance at December 31, 2017 | 24,729 | (41,817) | (17,088) |
| Net interest expense (income) | 246 | (421) | (175) |
| Recognized in profit or loss | 246 | (421) | (175) |
| Remeasurement | | | |
| Return on plan assets (excluding amounts included in net interest) | - | (1,263) | (1,263) |
| Actuarial gain - changes in demographic assumptions | 606 | - | 606 |
| Actuarial loss - experience adjustments | (671) | - | (671) |
| Recognized in other comprehensive income | (65) | (1,263) | (1,328) |
| Contributions from the employer | - | (593) | (593) |
| Balance at December 31, 2018 | $ 24,910 | $ (44,094) | $ (19,184) |

The amounts of defined benefit plans recognized in profit or loss by function were as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Administration profits | $ (175) | $ (1,767) |

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

1) Investment risk: The plan assets are invested in domestic/and foreign/equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau of Labor Funds, Ministry of Labor or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

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

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

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The principal assumptions used for the purposes of the actuarial valuations were as follows:

| | December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Discount rate | 1.00% | 1.00% |
| Expected rates of future salary increase | 2.00% | 2.00% |

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

| | **December 31, 2018** |
|---|---|
| Discount rate(s) | |
| 0.25% increase | $ (708) |
| 0.25% decrease | $ 738 |
| Expected rate(s) of salary increase | |
| 0.25% increase | $ 729 |
| 0.25% decrease | $ (703) |

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

As of December 31, 2018 and 2017, the expected contributions to the plan for the next year were $742 thousand and $786 thousand, respectively. The average duration of the defined benefit obligation was 11 years and 12 years.

## 17. EQUITY

a. Share capital

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Authorized shares (in thousands) | 400,000 | 400,000 |
| Authorized capital | $ 4,000,000 | $ 4,000,000 |
| Issued and paid shares (in thousands) | 302,957 | 302,957 |
| Issued capital | $ 3,029,572 | $ 3,029,572 |

b. Capital surplus

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| May be used to offset a deficit, distributed as cash dividends, or transferred to share capital | | |
| Shares premium from issuance | $ 653,239 | $ 653,239 |

The capital surplus arising from shares issued in excess of par value (including share premium from issuance of ordinary shares), and donations may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and once a year).

c. Retained earnings and dividends policy

Under the dividends policy as set forth in the amended Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for distribution of dividends and bonus to shareholders. For information on the accrual basis of the employees' compensation and remuneration of directors and supervisors and the actual appropriations, refer to Note 19-5, employee benefits expense.

The Company is currently in its growth stage; thus, the policy for distribution of dividends should reflect factors such as the current and future investment environment, fund requirements, domestic competition and capital budget, as well as benefits to be given out, balance in the distribution of shares and cash bonuses, and long-term financial planning. The Company's Articles of Incorporation stipulate that at least 20% of dividends to shareholders shall be distributed in cash.

Appropriation of earnings to legal reserve shall be made until the reserve equals the Company's paid-in capital. Legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

The appropriations from the earnings of 2017 and 2016 were approved in the shareholders' meetings on June 15, 2018 and June 15, 2017, respectively. The appropriations were as follows:

| | Appropriation of Earnings | | Dividends Per Share (NT$) | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Legal reserve | $ 124,470 | $ 95,196 | | |
| Cash dividends | 939,167 | 757,393 | $ 3.1 | $ 2.5 |

The appropriation of the 2018 earnings will be proposed by the Company's board of directors on March 14, 2019. The appropriations, including dividends per share, are as follows:

| | Appropriation of Earnings | Dividends Per Share (NT$) |
|---|---|---|
| Legal reserve | $ 177,455 | |
| Special reserve | 205,680 | |
| Cash dividends | 1,151,237 | $ 3.8 |

The appropriation of earnings for 2018 are subject to the resolution in the shareholders' meeting to be held on June 13, 2019.

Information on the bonus to employees, directors and supervisors proposed by the Company's board of directors is available on the Market Observation Post System website of the Taiwan Stock Exchange.

d. Other items of equity

1) Exchange differences on translation of financial statements of foreign operations

| | For the Year Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Balance at January 1 | $ (76,429) | $ 141,171 |
| Effect of change in tax rate | 2,763 | - |
| Recognized for the year | | |
| Exchange differences on translating the financial statements of foreign operations | (130,478) | (217,600) |
| Other comprehensive income recognized for the year | (127,715) | (217,600) |
| Balance at December 31 | $ (204,144) | $ (76,429) |

2) Unrealized gain on available-for-sale financial assets

| | For the Year Ended December 31 2017 |
|---|---|
| Balance at January 1, 2017 | $ 62,007 |
| Recognized for the year | |
| Unrealized gain on revaluation of available-for-sale financial assets | 62,274 |
| Share of (profit) loss of subsidiaries | 71,292 |
| Reclassification adjustment | |
| Disposal of available-for-sale financial assets | (26,016) |
| Balance at December 31, 2017 | $ 169,557 |
| Balance at December 31, 2017 | $ 169,557 |
| Adjustment on initial application of IFRS 9 | (169,557) |
| Balance at January 1, 2018 per IFRS 9 | $ - |

3) Unrealized gain (loss) on financial assets at FVTOCI

| | For the Year Ended December 31, 2018 |
|---|---|
| Balance at January 1 per IAS 39 | $ - |
| Adjustment on initial application of IFRS 9 | (1,838) |
| Balance at January 1 per IFRS 9 | (1,838) |
| Recognized for the year | |
| Unrealized gain/(loss) - equity instruments | 302 |
| Other comprehensive income recognized for the year | 302 |
| Balance at December 31 | $ (1,536) |

## 18. REVENUE

The following is an analysis of the Company's revenue from its major products:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Copper clad laminate | $ 2,500,131 | $ 2,340,031 |
| Prepeg | 1,512,324 | 1,140,610 |
| Others | 30,165 | 43,690 |
| | $ 4,042,620 | $ 3,524,331 |

## 19. NET INCOME (LOSS)

a. Other income

| | For the Year Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Interest income | $ 60,215 | $ 57,476 |
| Dividends | 6,428 | 16,923 |
| Government grant | - | 8,442 |
| Other income | 37,209 | 21,075 |
| | $ 103,852 | $ 103,916 |

b. Other gains and losses

| | For the Year Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Net foreign exchange losses | $ 33,239 | $ (22,742) |
| Financial assets at FVTPL | 39,926 | - |
| Gain on disposal of available-for-sale financial assets | - | 27,125 |
| Other gain (loss) | (9,375) | 44 |
| | $ 63,790 | $ 4,427 |

c. Depreciation and amortization

| | For the Year Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Property, plant and equipment | $ 204,976 | $ 203,920 |
| Prepayments | 3,455 | 3,280 |
| Intangible assets | - | 14,711 |
| | $ 208,431 | $ 221,911 |
| An analysis of depreciation by function | | |
| Operating costs | $ 166,880 | $ 160,871 |
| Operating expenses | 38,096 | 43,049 |
| | $ 204,976 | $ 203,920 |
| An analysis of amortization by function | | |
| Operating costs | $ 378 | $ 1,380 |
| Selling and marketing expenses | - | 14,711 |
| General and administrative expenses | 1,763 | 1,524 |
| Research and development expenses | 1,314 | 376 |
| | $ 3,455 | $ 17,991 |

d. Employee benefits expense

| | For the Year Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Short-term benefits | $ 438,463 | $ 424,759 |
| Post-employment benefits (Note 6) | | |
| Defined contribution plans | 12,517 | 12,540 |
| Defined benefit plans | (175) | (1,767) |
| | $ 450,805 | $ 435,532 |

| | For the Years Ended December 31 | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| | Classified as Operating Cost | Classified as Operating Expense | Total | Classified as Operating Cost | Classified as Operating Expense | Total |
| Analysis by function | | | | | | |
| Salaries and bonuses | $ 169,958 | $ 195,218 | $ 365,176 | $ 157,238 | $ 198,004 | $ 355,242 |
| Employees' insurance | 16,325 | 12,118 | 28,443 | 14,892 | 12,427 | 27,319 |
| Pension cost | 6,624 | 5,718 | 12,342 | 6,247 | 4,526 | 10,773 |
| Director's remuneration | - | 25,336 | 25,336 | - | 22,105 | 22,105 |
| Others | 14,095 | 5,413 | 19,508 | 15,492 | 4,601 | 20,093 |
| | $ 207,002 | $ 243,803 | $ 450,805 | $ 193,869 | $ 241,663 | $ 435,532 |

As of December 31, 2018 and 2017, the Company's number of employees were 437 and 397, respectively. The number of directors who have not served as employees is 8 and 6, respectively, and the calculation basis is consistent with the employee welfare expenses.

Articles of Incorporation of the Company stipulate to distribute employees' compensation and remuneration of directors and supervisors at the rates no less than 2% and no higher than 2%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The employees' compensation and remuneration of directors and supervisors in cash for the years ended December 31, 2018 and 2017 have been approved by the Company's board of directors on March 14, 2019 and March 14, 2018, respectively.

| | For the Year Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Employees' compensation - ratio | 4.28% | 4.00% |
| Remuneration of directors and supervisors - ratio | 1.50% | 2.00% |
| Employees' compensation - cash | $ 82,103 | $ 60,788 |
| Remuneration of directors and supervisors - cash | 28,786 | 30,394 |

If there is a change in the proposed amounts after the annual financial statements were authorized for issue, the differences are recorded as a change in accounting estimate and will be reflected in the following year.

There was no difference between the amounts of the bonus to employees and the remuneration of directors and supervisors approved in the shareholders' meetings and the amounts recognized in the financial statements for the years ended December 31, 2017 and 2016.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Company's board of directors in 2019 and 2018 are available on the Market Observation Post System website of the Taiwan Stock Exchange.

e. Gains (losses) on foreign currency exchange

| | For the Year Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Foreign exchange gains | $ 94,423 | $ 52,260 |
| Foreign exchange losses | (61,184) | (75,002) |
| Net losses | $ 33,239 | $ (22,742) |

## 20. INCOME TAXES

a. The major components of income tax expense recognized in profit or loss were as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Current tax | | |
| Current year | $ 5,405 | $ 406,585 |
| Additional 10% income tax on unappropriated earnings | 18,029 | 10,073 |
| Additional income tax under basic income | 4,814 | - |
| Prior year adjustments | (7,975) | (3,610) |
| | 20,273 | 413,048 |
| Deferred tax | | |
| Current year | (47,022) | (229,240) |
| Effect of change in tax rate | 60,371 | - |
| | 13,349 | (229,240) |
| Income tax expense recognized in profit or loss | $ 33,622 | $ 183,808 |

A reconciliation of accounting profit and income tax expense is as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Income before income tax from continuing operations | $ 1,808,179 | $ 1,428,510 |
| Income tax expense calculated at the statutory rate | $ 361,636 | $ 242,847 |
| Nondeductible expenses in determining taxable income | 16,230 | 12,248 |
| Tax-exempt income | (373,185) | (253,763) |
| Unrecognized deductible temporary differences | (46,298) | 176,013 |
| Additional income tax under the Alternative Minimum Tax Act | 4,814 | - |
| Additional 10% income tax on unappropriated earnings | 18,029 | 10,073 |
| Effect of change in tax rate | 60,371 | - |
| Adjustments for prior year's tax | (7,975) | (3,610) |
| Income tax expense recognized in profit or loss | $ 33,622 | $ 183,808 |

In 2017, the applicable corporate income tax rate used by the entities in the ROC is 17%. However, the Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%.

As the status of the 2019 appropriation of earnings is uncertain, the potential income tax consequences of the 2018 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income

| | For the Year Ended December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Deferred tax | | |
| Effect of change in tax rate | $ 2,763 | $ - |
| In respect of the current period | | |
| Translation of foreign operations | 32,619 | 44,569 |
| Total income tax recognized in other comprehensive income | $ 35,382 | $ 44,569 |

c. Current tax asset and liability

| | December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Current tax asset | | |
| Income tax refund receivable | $ - | $ 14 |
| Current tax liability | | |
| Income tax payable | $ 27,363 | $ 361,812 |

d. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2018

| | **Opening Balance** | **Recognized in Profit or Loss** | **Recognized in Other Comprehensive Income** | **Closing Balance** |
|---|---|---|---|---|
| Deferred tax assets | | | | |
| Write-down of inventories | $ 5,593 | $ 987 | $ - | $ 6,580 |
| Bad debt expense | 2,609 | 1,358 | - | 3,967 |
| Exchange differences on translation of financial statements of foreign operations | 15,653 | - | 35,382 | 51,035 |
| Others | 2,156 | (446) | - | 1,710 |
| | $ 26,011 | $ 1,899 | $ 35,382 | $ 63,292 |

(Continued)

| | Opening Balance | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Closing Balance |
|---|---|---|---|---|
| Deferred tax liabilities | | | | |
| Investments accounted for using equity method | $ 352,460 | $ 13,546 | $ - | $ 366,006 |
| Others | - | 1,702 | - | 1,702 |
| | $ 352,460 | $ 15,248 | $ - | $ 367,708 |

(Concluded)

For the year ended December 31, 2017

| | Opening Balance | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Closing Balance |
|---|---|---|---|---|
| Deferred tax assets | | | | |
| Unrealized sales allowance | $ 133 | $ (133) | $ - | $ - |
| Write-down of inventories | 5,593 | - | - | 5,593 |
| Bad debt expense | 2,850 | (241) | - | 2,609 |
| Others | - | - | 15,653 | 15,653 |
| Exchange differences on translation of financial statements of foreign operations | 222 | 1,934 | - | 2,156 |
| | $ 8,798 | $ 1,560 | $ 15,653 | $ 26,011 |
| Deferred tax liabilities | | | | |
| Investments accounted for using equity method | $ 580,140 | $ (227,680) | $ - | $ 352,460 |
| Exchange differences on translation of financial statements of foreign operation | 28,916 | - | (28,916) | - |
| | $ 609,056 | $ (227,680) | $ (28,916) | $ 352,460 |

e. The information of temporary differences associated with investments for which deferred tax liabilities have not been recognized

As of December 31, 2018 and 2017, the taxable temporary differences associated with subsidiaries for which no deferred tax liabilities have been recognized were $6,095,292 thousand and $4,489,406 thousand, respectively.

f. Income tax returns of the Company through 2015 had been examined and assessed by the tax authorities.

## 21. EARNINGS PER SHARE

**Unit: NT$ Per Share**

| | For the Year Ended December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Basic earnings per share | | |
| Basic earnings per share | $ 5.86 | $ 4.11 |
| Diluted earnings per share | | |
| Diluted earnings per share | $ 5.82 | $ 4.08 |

The net income and weighted average number of ordinary shares outstanding in calculating earnings per share were as follows:

**Net Income**

| | For the Year Ended December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Net income in computation of basic earnings per share | $ 1,774,557 | $ 1,244,702 |
| Net income in computation of diluted earnings per share | $ 1,774,557 | $ 1,244,702 |

**Ordinary shares**

**Unit: Thousand Shares**

| | For the Year Ended December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Weighted average number of ordinary shares in computation of basic earnings per share | 302,957 | 302,957 |
| Effect of potentially dilutive ordinary shares: | | |
| Employees' compensation or bonus to employees | 1,808 | 1,748 |
| Weighted average number of ordinary shares used in the computation of diluted earnings per share | 304,765 | 304,705 |

If the Company can settle the compensation to employees in cash or shares, the Company assumes the entire amount of the compensation would be settled in shares and the resulting potential shares are included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, if the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

## 22. OPERATING LEASE ARRANGEMENTS

The Company as lessee: Operating leases related to lease of land, factory, buildings and office with lease terms from August 2012 through December 2028. All operating lease contracts over 5 years contain clauses for 5-yearly market rental reviews. The Company does not have a bargain purchase option to acquire the leased land at the expiration of the lease periods. Refundable deposits of operating lease contracts amounted to $110,000 thousand (included in other non-current assets) as of December 31, 2018.

The future minimum lease payments of non-cancellable operating lease commitments as lessee are as follows:

| | December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Not later than 1 year | $ 30,469 | $ 29,488 |
| Later than 1 year and not later than 5 years | 150,972 | 123,968 |
| Later than 5 years | 117,233 | 205,374 |
| | $ 298,674 | $ 358,830 |

## 23. CAPITAL RISK MANAGEMENT

The Company manages its capital to ensure that entities in the Company will be able to continue as going concerns while maximizing the return to shareholders through the optimization of the debt and equity balance.

The capital structure of the Company consists of net debt (borrowings offset by cash and cash equivalents) and equity of the Company (comprising issued capital, capital surplus, retained earnings and other equity).

The Company is not subject to any externally imposed capital requirements.

Key management personnel of the Company review the capital structure quarterly. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. Under the recommendations of the key management personnel, to balance the overall capital structure, the Company may adjust the amount of dividends paid to shareholders and the number of new shares issued and repurchased.

## 24. DISCLOSURES FOR FINANCIAL INSTRUMENTS

a. Fair values of financial instruments that are measured at fair value

- Degree of fair value measurements

December 31, 2018

| | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Available-for-sale financial assets | | | | |
| Securities listed in ROC | | | | |
| Equity securities | $ 177,782 | $ - | $ - | $ 177,782 |

There were no transfers between Levels 1 and 2 in the current and prior periods.

b. Categories of financial instruments

| | December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Financial assets | | |
| Loans and receivables (1) | $ - | $ 2,759,971 |
| Available-for-sale financial assets, net (2) | - | 177,782 |
| Financial assets at amortized cost (3) | 2,206,634 | - |
| Financial assets at FVTOCI | - | - |
| Financial liabilities | | |
| Amortized cost (4) | 5,747,305 | 5,491,365 |
| Financial guarantee contracts | 14,432 | 16,666 |

1) The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, notes receivable, accounts receivable, portion of other receivables and refundable deposits.

2) The balances included the carrying amount of available-for-sale financial assets measured at cost.

3) The balances include financial assets measured at amortized cost, which comprise cash and cash equivalents, notes receivable, accounts receivable, portion of other receivables and refundable deposits.

4) The balances included financial liabilities measured at amortized cost, which comprise short-term and long-term loans, short-term bills payable, notes payable, accounts payable, other payables, current portion of long-term borrowings, and guarantee deposits received.

c. Financial risk management objective and policies

The Company monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Company's Finance Department seeks to manage the effect of these risks by using derivative financial instruments to hedge risk exposures under the policies approved by the board of directors. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. Compliance with policies and exposure limits is being reviewed by the internal auditors on a continuous basis.

1) Market risk

a) Foreign currency risk

The Company had foreign currency sales and purchases, which exposed the Company to foreign currency risk. For the years ended December 31, 2018 and 2017 approximately 57% and 75% of the Company's sales and almost 74% and 74% of costs, respectively were denominated in currencies other than the functional currency of the Company. Exchange rate exposures were managed within approved policy parameters utilizing forward foreign exchange contracts.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) and derivatives exposed to foreign currency risk at the end of the reporting period are set out in Note 27.

Sensitivity analysis

The Company was mainly exposure to U.S. dollars and analyzed the sensitivity to a $0.5 increase and decrease in New Taiwan dollars against one U.S. dollar. The sensitivity to a $0.5 change in New Taiwan dollars is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. A positive number below indicates an increase in pre-tax profit or other equity if U.S. dollars strengthened by $0.5 against the one New Taiwan dollar. For a $0.5 in U.S. dollars weakening of U.S. dollars against one New Taiwan dollar, there would be an equal and opposite impact on pre-tax profit or other equity and the balances below would be negative.

| | Currency USD | |
|---|---|---|
| | **2018** | **2017** |
| Profit or loss | $ (28,543) | $ 23,549 |

b) Interest rate risk

The Company was exposed to fair value interest rate risk because of fixed rate debt investments with short-term bills payable.

The Company was also exposed to cash flow interest rate risk because of demand deposits and floating rate bank borrowings.

The Company reviewed the interest level regularly and maintained the scope of interest rate stably. The Company will adopt hedging strategies in the cost-effective way, if necessary.

The carrying amounts of the Company's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows.

| | December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Fair value interest rate risk | | |
| Financial assets | $ 153,575 | $ - |
| Financial liabilities | 389,827 | 499,765 |
| Cash flow interest rate risk | | |
| Financial assets | 177,003 | 177,772 |
| Financial liabilities | 4,050,514 | 3,448,176 |

Sensitivity analysis

The sensitivity analyses have been determined based on the exposure to floating interest rates for financial assets and financial liabilities. A 25 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 25 basis points higher and all other variables were held constant, the Company's pre-tax profit for the years ended December 31, 2018 and 2017 would decrease by $9,684 thousand and $8,176 thousand, respectively.

c) Other price risk

The price changes in the Company's financial products, which are engaged in transactions or not for sale, will cause the fair value to change.

Sensitivity analysis

The Company reports the reasonable risk assessment of price changes to key management personnel assuming a hypothetical increase or decrease of 10% in equity prices. If equity prices increase by 10%, the other comprehensive income for the year ended December 31, 2017 would have increased by $17,778 thousand.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. As at the end of the reporting period, the Company's maximum exposure to credit risk which will cause a financial loss to the Company due to failure of counterparties to discharge an obligation and financial guarantees provided by the Company could arise from the carrying amount of the respective recognized financial assets as stated in the balance sheets.

The Company had assigned a team to be responsible for determine and approving credit line, and this team evaluated continuously financial situation, industries and region regarding customers generated accounts receivable. In order to reduce credit risk, the Company proceeded to factoring and insure accounts receivable if necessary. In addition, the Company reviewed monthly the overdue amount of each individual accounts receivable and further recovering strategy to ensure that adequate allowances are made for irrecoverable amounts at the balance sheet date. In this regard, management believes the Company's credit risk was significantly reduced.

The credit risk on liquid funds and derivatives was limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Company's concentration of credit risk of 69% and 67% of total accounts receivables as of December 31, 2018 and 2017, respectively, were related to the Company's ten largest customers. The concentration of credit risk for the remainder of accounts receivable were immaterial.

3) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate banking facilities and reserve borrowing facilities in capital market, and continuously monitoring forecast and actual cash flows as well as matching the maturity profiles of financial assets and liabilities. The detailed information of the Company's unused financing facilities as of December 31, 2018 and 2017 is further stated in (b) financing facilities below.

a) Liquidity risk tables for non-derivative financial liabilities

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables had been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Company can be required to pay. The tables included both interest and principal cash flows.

December 31, 2018

| | 180 Days | 181-270 Days | 271-360 Days | 361+ Days | Total |
|---|---|---|---|---|---|
| Non-derivative financial liabilities | | | | | |
| Short-term borrowings | $ 3,030,195 | $ - | $ - | $ - | $ 3,030,195 |
| Short-term bills payable | 390,000 | - | - | - | 390,000 |
| Notes payable and accounts payable | 749,537 | - | - | - | 749,537 |
| Accounts payable - related parties | 145,644 | - | - | - | 145,644 |
| Other payables | 307,577 | - | - | - | 307,577 |
| Other payables - related parties | 101,046 | - | - | - | 101,046 |
| Financial guarantee contracts | 14,432 | - | - | - | 14,432 |
| Long-term borrowings | 63,840 | 31,920 | 31,920 | 910,674 | 1,038,354 |
| | $ 4,802,271 | $ 31,920 | $ 31,920 | $ 910,674 | $ 5,776,785 |

December 31, 2017

| | 180 Days | 181-270 Days | 271-360 Days | 361+ Days | Total |
|---|---|---|---|---|---|
| Non-derivative financial liabilities | | | | | |
| Short-term borrowings | $ 2,209,361 | $ - | $ - | $ - | $ 2,209,361 |
| Short-term bills payable | 500,000 | - | - | - | 500,000 |
| Notes payable and accounts payable | 799,371 | - | - | - | 799,371 |
| Accounts payable - related parties | 399,656 | - | - | - | 399,656 |
| Other payables | 340,246 | - | - | - | 340,246 |
| Other payables - related parties | 3,551 | - | - | - | 3,551 |
| Financial guarantee contracts | 16,666 | - | - | - | 16,666 |
| Long-term borrowings | 65,110 | 32,555 | 329,706 | 836,258 | 1,263,629 |
| | $ 4,333,961 | $ 32,555 | $ 329,706 | $ 836,258 | $ 5,532,480 |

b) Financing facilities

Bank borrowings are a major source for the liquidity of the Company. The Company's financing facilities are as follows:

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Unsecured bank borrowings facility | | |
| Amount used | $ 4,653,969 | $ 4,389,963 |
| Amount unused | 2,760,325 | 3,077,773 |
| | $ 7,414,294 | $ 7,467,736 |

d. Transfers of financial assets

Factored trade receivables for the years ended December 31, 2018 and 2017 were as follows:

| Counterparties | Interest Rates on Advances Received (%) | Receivables Sold | Advances Received at Year-end | Amounts Collected | Credit Line |
|---|---|---|---|---|---|
| December 31, 2018 | | | | | |
| Taishin Bank (Note) | - | $ 88,993 | $ - | $ 88,993 | $ 220,504 |
| KGI Commercial Bank (Note) | - | 6,217 | - | 6,217 | 18,429 |
| Yuanta Bank (Note) | - | 1,130 | - | 1,130 | 20,000 |
| | | $ 96,340 | $ - | $ 96,340 | $ 258,933 |
| December 31, 2017 | | | | | |
| Taishin Bank | 2.25 | $ 87,998 | $ 2,353 | $ 85,645 | $ 284,124 |
| E. Sun Bank | 1.38-2.44 | 70,776 | 6,362 | 64,414 | 298,800 |
| KGI Commercial Bank (Note) | - | 11,099 | - | 11,099 | 17,856 |
| Ta Chong Bank (Note) | - | 26,385 | - | 26,385 | 168,800 |
| | | $ 196,258 | $ 8,715 | $ 187,543 | $ 769,580 |

Note: No advances received at year-end.

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

Pursuant to the Company's factoring agreements, losses from commercial disputes (such as sales returns and discounts) were borne by the Company, while losses from credit risk were borne by the banks. As of December 31, 2018 and 2017, the Company issued promissory notes with an aggregate amount of $494,575 thousand and $788,600 thousand to the banks as collateral, respectively.

## 25. TRANSACTIONS WITH RELATED PARTIES

Except as disclosed in other notes, details of transactions between the Company and other related parties are disclosed below.

a. Related party name and category

| Related Party Name | Related Party Category |
|---|---|
| Win Corporation | Related party in substance |
| ITEQ International | Subsidiary |
| IPL | Subsidiary |
| IIL | Subsidiary |
| ITEQ (WX) | Subsidiary |
| ITEQ (DG) | Subsidiary |
| Bon-Mou Investment Co. | Subsidiary |

b. Sales of goods

| Related Party Category/Name | For the Year Ended December 31 2018 | 2017 |
|---|---|---|
| ITEQ (DG) | $ 950,655 | $ 687,068 |
| ITEQ (WX) | 309,258 | 90,671 |
| Others | 10,090 | 14,040 |
| | $ 1,270,003 | $ 791,779 |

The sale price to the related party is based on the Company's purchase cost plus fixed profit.

c. Purchases of goods

| Related Party Category/Name | For the Year Ended December 31 2018 | 2017 |
|---|---|---|
| ITEQ (DG) | $ 565,000 | $ 497,405 |
| ITEQ (WX) | 323,184 | 258,119 |
| Others | 95,008 | 27,585 |
| | $ 983,692 | $ 783,109 |

The purchases price to the related party is based on the Company's purchase cost plus fixed profit.

d. Other income

| Related Party Category/Name | December 31 2018 | 2017 |
|---|---|---|
| ITEQ (WX) | $ 60,215 | $ 53,151 |

Technical service fee is charged to the other income of the related party.

e. Receivables from related parties (excluding loans to related parties and contract assets)

| Related Party Category/Name | December 31 2018 | 2017 |
|---|---|---|
| ITEQ International | $ 430,010 | $ 1,155,984 |
| ITEQ (DG) | 364,401 | 266,557 |
| Others | 80,618 | 43,470 |
| | $ 875,029 | $ 1,466,011 |

The outstanding trade receivables from related parties are unsecured. For the years ended December 31, 2018 and 2017, no impairment loss was recognized for trade receivables from related parties.

f. Payables to related parties (excluding loans from related parties)

| Related Party Category/Name | December 31 2018 | December 31 2017 |
|---|---|---|
| IPL | $ 74,547 | $ 279,042 |
| IIL | 71,637 | 121,964 |
| Others | 506 | 2,201 |
| | $ 246,690 | $ 403,207 |

The outstanding trade payables from related parties are unsecured.

g. Loans from related parties

| Related Party Category/Name | December 31 2018 | December 31 2017 |
|---|---|---|
| Bon-Mou Investment Co. | $ 100,000 | $ - |

h. The Company entered into an operating lease agreement for lease of land and plant with Win Corporation. The rental period is from January 1, 2013 through December 31, 2028 and the rental is payable monthly. For the years ended December 31, 2018 and 2017, the Company's rental expense were $30,364 thousand and $28,910 thousand, and refundable deposits was $110,000 thousand (classified as other non-current asset).

i. Compensation of key management personnel

| | For the Year Ended December 31 2018 | For the Year Ended December 31 2017 |
|---|---|---|
| Short-term employee benefits | $ 50,565 | $ 45,639 |
| Post-employment benefits | 733 | 763 |
| | $ 51,298 | $ 46,402 |

The remuneration of directors and key executives was determined by the remuneration committee based on the performance of individuals and market trends.

## 26. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Company as of December 31, 2018 and 2017 were as follows:

a. Significant commitments

1) Unused letters of credit amounted to $196,120 thousand.

2) Total contracted construction equipment fees not yet paid were $11,355 thousand.

b. Contingencies

Contingent liabilities

Contingent liabilities incurred by the Company arising from interests in subsidiaries were as follows:

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Financial guarantee for subsidiaries loans | | |
| Amount guaranteed | $ 3,548,641 | $ 2,224,262 |
| Amount utilized | 823,229 | 664,352 |

## 27. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the Company and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Foreign currency asset | | |
| Monetary item | | |
| USD | $ 55,337 | $ 72,305 |
| Exchange rate | 30.715 | 29.760 |
| Carrying amount | 1,699,676 | 2,151,797 |
| Foreign currency liabilities | | |
| Monetary item | | |
| USD | 112,422 | 25,207 |
| Exchange rate | 30.715 | 29.760 |
| Carrying amount | 3,453,042 | 750,160 |

| | For the Year Ended December 31 | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| | Exchange Rate | Net Foreign Exchange Gain (Loss) | Exchange Rate | Net Foreign Exchange Gain (Loss) |
| USD | 30.14 (USD:NTD) | $ 33,239 | 30.43 (USD:NTD) | $ (22,742) |

## 28. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and b. investees:

1) Financing provided to others. (Table 1)

2) Endorsements/guarantees provided. (Table 2)

3) Marketable securities held (excluding investment in subsidiaries, associates and joint controlled entities). (Table 3)

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

5) Acquisition of individual real estate at costs of at least NT$300 million or 20% of the paid-in capital. (None)

6) Disposal of individual real estate at prices of at least NT$300 million or 20% of the paid-in capital. (None)

7) Total purchases from or sales to related parties amounting to at least NT$100 million or 20% of the paid-in capital. (Table 4)

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital. (Table 5)

9) Trading in derivative instruments. (None)

10) Intercompany relationships and significant intercompany transactions. (Table 6)

c. Information on investments in mainland China

1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area. (Table 7)

2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses:

a) The amount and percentage of purchase: Note 25 and Table 4.

b) The amount and percentage of sales: Note 25, Tables 4 and 5.

c) The amount of assets disposed of and related gain or loss: None.

d) Endorsement/guarantee provided: Table 2.

e) Financing provided: Table 1.

f) Other transactions that significantly impacted current year’s profit or loss or financial position: None.

**TABLE 1**

# ITEQ CORPORATION

**FINANCING PROVIDED TO OTHERS**
**FOR THE YEAR ENDED DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| No. | Financing Company Name | Borrower | Financial Statement Account | Related Parties | Maximum Balance for the Period (In Thousands) | Ending Balance (In Thousands) | Transaction Amounts (In Thousands) | Interest Rate | Type of Financing | Business Transaction Amounts | Reasons for Short-term Financing | Allowance for Doubtful Accounts | Collateral | | Financing Limit for Each Borrowing Company (Notes 1 and 2) | Financing Amount Limits (Notes 1 and 2) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | | | Item | Value | | |
| 1 | IPL | Shining Era | Other receivables | Yes | US$ 999 thousand | US$ - thousand | US$ - thousand | - | Short-term financing | $ - | Operating capital | $ - | - | $ - | $ 109,468 | $ 109,468 |
| | | Eagle Great | Other receivables | Yes | US$ 303 thousand | US$ - thousand | US$ - thousand | - | Short-term financing | - | Operating capital | - | - | - | 109,468 | 109,468 |
| | | ESIC | Other receivables | Yes | US$ 1,318 thousand | US$ - thousand | US$ - thousand | - | Short-term financing | - | Operating capital | - | - | - | 109,468 | 109,468 |
| 2 | IIL | ITEQ (WX) | Other receivables | Yes | US$ 3,027 thousand | US$ 1,730 thousand | US$ 1,730 thousand | - | Short-term financing | - | Operating capital | - | - | - | 107,072 | 107,072 |
| 3 | Eagle Great | ITEQ (HJ) | Other receivables | Yes | US$ 737 thousand | US$ - thousand | US$ - thousand | - | Short-term financing | - | Operating capital | - | - | - | 1,480,124 | 1,480,124 |
| 4 | ITEQ (DG) | ITEQ (HJ) | Other receivables | Yes | RMB 39,032 thousand | RMB 10,500 thousand | RMB 10,500 thousand | - | Short-term financing | - | Operating capital | - | - | - | 1,480,124 | 1,480,124 |
| 5 | Bon Mou Investment Co. | ITEQ Corporation | Other receivables | Yes | NT$ 100,000 thousand | NT$ 100,000 thousand | NT$ 100,000 thousand | - | Short-term financing | - | Operating capital | - | - | - | 1,480,124 | 1,480,124 |

Note 1: Not exceeding 20% and 40% of the latest net assets of the Company reviewed by auditors.

Note 2: Lower of 600% of the latest net assets of ITEQ subsidiaries audited or reviewed by auditors or 20% of the latest audited or reviewed net assets of the Company.

**TABLE 2**

# ITEQ CORPORATION

**ENDORSEMENT/GUARANTEE PROVIDED**
**FOR THE YEAR ENDED DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| No. | Endorsement/ Guarantee Provider | Guaranteed Party | | Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party (Notes 1 and 2) | Maximum Balance for the Period | Ending Balance | Amount Actually Drawn | Amount of Endorsement/ Guarantee Collateralized by Property, Plant and Equipment | Ratio of Accumulated Endorsement/ Guarantee to Net Equity of the Latest Financial Statement | Maximum Endorsement/ Guarantee Amount Allowable (Notes 1 and 2) | Endorsement/ Guarantee Provided by Parent | Endorsement/ Guarantee Provided by Subsidiaries | Endorsement/ Guarantee Provided to Subsidiaries in Mainland China |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Name | Relationship | | | | | | | | | | |
| 0 | ITEQ Corporation | IIL | Indirect holding 100% by subsidiary | $ 7,400,620 | $ 1,272,875 (Note 3) | $ 1,182,528 | $ 334,904 | $ - | 15.98% | $ 9,990,837 | Y | N | N |
| | | IPL | Indirect holding 100% by subsidiary | 7,400,620 | 1,625,138 (Note 3) | 1,612,538 | 488,325 | - | 21.79% | 9,990,837 | Y | N | N |
| | | ITEQ (WX) | Indirect holding 100% by subsidiary | 7,400,620 | 154,775 (Note 3) | 153,575 | - | - | 2.08% | 9,990,837 | Y | N | Y |
| | | IIL, IPL | Indirect holding 100% by subsidiary | 7,400,620 | 300,000 (Note 3) | 300,000 | - | - | 4.05% | 9,990,837 | Y | N | N |

Note 1: 100% or 135% of the latest audited or reviewed equity of the Company.

Note 2: Not exceeding 300% of the latest net assets of ITEQ subsidiaries audited or reviewed by auditors

Note 3: Credit line of bank is made by issuing a short-term note.

**TABLE 3**

# ITEQ CORPORATION
**MARKETABLE SECURITIES HELD**
**DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Holding Company Name | Type and Name of Marketable Securities (Note 1) | Relationship with the Holding Company (Note 2) | Financial Statement Account | December 31, 2018 | | | | Note |
|---|---|---|---|---|---|---|---|---|
| | | | | Shares (Thousands) | Carrying Amount | Percentage of Ownership | Fair Value | |
| ITEQ Corporation | Shares | | | | | | | |
| | Bon-In Biologic Technology Company | - | Financial assets at FVTPL - non-current | 100 | $ - | 5.0 | $ - | |
| Bon Mou Investment Co. | Shares | | | | | | | |
| | Mortech Corporation | - | Financial assets measured at cost - non-current | 500 | - | 1.6 | - | |
| | Big Sun Energy Technology Inc. | - | Financial assets measured at cost - non-current | 887 | - | 0.5 | - | |
| | Ding Mou Corporation | - | Financial assets measured at cost - non-current | 100 | - | 0.4 | - | |
| | Gemtek Technology Co., Ltd. | Its director is the chairman of the Company | Available-for-sale financial - non-current | 2,440 | 55,998 | 0.7 | 55,998 | |
| | Taiwan Business Bank | - | Financial assets at FVTPL - current | 500 | 5,175 | - | 5,175 | |
| | Tong Hsing Electronic Industries, Ltd. | - | Financial assets at FVTPL - current | 163 | 17,523 | 0.1 | 17,523 | |
| | Grand Fortune Securities Co., Ltd. | - | Financial assets at FVTPL - current | 2,234 | 18,073 | 0.9 | 18,073 | |
| | TIEF Fund, L.P. | - | Financial assets at FVTOCI - current | - | 29,434 | 4.8 | 29,434 | |
| Mega Crown | Equity | | | | | | | |
| | Commerciale Internazionale Elettronica S.R.L | - | Financial assets at FVTPL - non-current | - | | 18.0 | - | |

Note 1: Marketable securities were shares, bonds, beneficiary certificates and others within the scope of IFRS 9 “Financial Instruments”.

Note 2: Refer to Tables 6 and 7 for the information on subsidiaries and associates.

**TABLE 4**

## ITEQ CORPORATION

**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL**
**FOR THE YEAR ENDED DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Buyer | Related Party | Relationship | Transaction Details | | | | Abnormal Transaction | | Notes/Accounts Receivable (Payable) | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Purchase/ Sale | Amount | % to Total | Payment Terms | Unit Price | Payment Terms | Ending Balance | % to Total | |
| ITEQ Corporation | ITEQ (DG) | Indirect holding 100% by subsidiary | Purchase | $ 565,500 | 16 | - | $ - | - | $ (54,360) | (8) | |
| ITEQ (DG) | ITEQ Corporation | Indirect holding 100% by subsidiary | Sale | (565,500) | (7) | - | - | - | 54,360 | 1 | |
| ITEQ Corporation | ITEQ (DG) | Indirect holding 100% by subsidiary | Sale | (950,655) | (24) | - | - | - | 364,401 | 30 | |
| ITEQ (DG) | ITEQ Corporation | Indirect holding 100% by subsidiary | Purchase | 950,655 | 14 | - | - | - | (364,401) | (27) | |
| ITEQ Corporation | ITEQ (WX) | Indirect holding 100% by subsidiary | Purchase | 323,184 | 15 | - | - | - | (70,976) | 0 | |
| ITEQ (WX) | ITEQ Corporation | Indirect holding 100% by subsidiary | Sale | (323,184) | (3) | - | - | - | 70,976 | 0 | |
| ITEQ Corporation | ITEQ (WX) | Indirect holding 100% by subsidiary | Sale | (309,258) | (8) | - | - | - | 51,043 | 4 | |
| ITEQ (WX) | ITEQ Corporation | Indirect holding 100% by subsidiary | Purchase | 309,258 | 3 | - | - | - | (51,043) | (2) | |
| ITEQ (DG) | ITEQ (GZ) | Same parent company | Sale | (1,156,531) | (15) | - | - | - | 241,088 | 9 | |
| ITEQ (GZ) | ITEQ (DG) | Same parent company | Purchase | 1,156,531 | 25 | - | - | - | (241,088) | (31) | |
| | ITEQ (DG) | Same parent company | Sale | (976,885) | (19) | - | - | - | 56,422 | 3 | |
| ITEQ (DG) | ITEQ (GZ) | Same parent company | Purchase | 976,885 | 14 | - | - | - | (56,422) | (4) | |
| ITEQ (GZ) | IPL | Same parent company | Sale | (384,599) | (8) | - | - | - | 73,313 | 4 | |
| IPL | ITEQ (GZ) | Same parent company | Purchase | 384,599 | 19 | - | - | - | (73,313) | (23) | |
| | ITEQ (GZ) | Same parent company | Sale | (502,706) | (24) | - | - | - | 112,369 | 24 | |
| ITEQ (GZ) | IPL | Same parent company | Purchase | 502,706 | 11 | - | - | - | (112,369) | (15) | |
| IPL | ITEQ (DG) | Same parent company | Sale | (925,978) | (44) | - | - | - | 287,445 | 61 | |
| ITEQ (DG) | IPL | Same parent company | Purchase | 925,978 | 13 | - | - | - | (287,445) | (21) | |
| | IPL | Same parent company | Sale | (541,351) | (7) | - | - | - | 32,119 | 1 | |
| IPL | ITEQ (DG) | Same parent company | Purchase | 541,351 | 26 | - | - | - | (32,119) | (10) | |

(Continued)

| Buyer | Related Party | Relationship | Transaction Details | | | | Abnormal Transaction | | Notes/Accounts Receivable (Payable) | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Purchase/ Sale | Amount | % to Total | Payment Terms | Unit Price | Payment Terms | Ending Balance | % to Total | |
| IIL | ITEQ (WX) | Same parent company | Sale | $ (1,819,115) | (70) | - | $ - | - | $ 737,136 | 84 | |
| ITEQ (WX) | IIL | Same parent company | Purchase | 1,819,115 | 20 | - | - | - | (737,136) | (27) | |
| | IIL | Same parent company | Sale | (765,972) | (7) | - | - | - | 102,200 | 3 | |
| IIL | ITEQ (WX) | Same parent company | Purchase | 765,972 | 30 | - | - | - | (102,200) | (24) | |
| ITEQ (WX) | ITEQ (DG) | Same parent company | Sale | (756,477) | (7) | - | - | - | 45,573 | 1 | |
| ITEQ (DG) | ITEQ (WX) | Same parent company | Purchase | 756,477 | 11 | - | - | - | (45,573) | (4) | |
| IIL | IPL | Same parent company | Sale | (181,972) | (7) | - | - | - | 44,408 | 5 | |
| IPL | IIL | Same parent company | Purchase | 181,972 | 9 | - | - | - | (44,408) | (14) | |

Note 1: The transactions with ITEQ (DG) were made through IPL. The transactions with ITEQ (WX) were made through IIL.

Note 2: The selling prices and collection terms for products sold to related parties were similar to those products sold to third parties.

(Concluded)

**TABLE 5**

# ITEQ CORPORATION

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20 OF THE PAID-IN CAPITAL**
**DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Company Name | Related Party | Relationship | Ending Balance (Note) | Turnover Rate | Overdue | | Amounts Received in Subsequent Period | Allowance for Impairment |
|---|---|---|---|---|---|---|---|---|
| | | | | | Amount | Actions Taken | | |
| ITEQ (DG) | ITEQ (HJ) | Same parent company | $ 175,565 | - | $ - | - | $ 79,436 | $ - |
| | ITEQ (GZ) | Same parent company | 241,088 | - | - | - | 186,978 | - |
| ITEQ (WX) | IIL | Same parent company | 102,200 | - | - | - | 86,840 | - |
| IPL | ITEQ (DG) | Same parent company | 287,445 | - | - | - | 287,445 | - |
| | ITEQ (GZ) | Same parent company | 112,369 | - | - | - | 112,369 | - |
| IIL | ITEQ (WX) | Same parent company | 737,136 | - | - | - | 263,514 | - |
| ITEQ Corporation | ITEQ (DG) | Same parent company | 364,401 | - | - | - | 270,954 | - |

**TABLE 6**

# ITEQ CORPORATION

**INFORMATION ON INVESTEES**
**FOR THE YEAR ENDED DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars or Foreign Currency)**

| Investor Company | Investee Company | Location | Main Businesses and Products | Investment Amount | | As of December 31, 2018 | | | Net Income (Loss) of the Investee | Share of Profits | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | December 31, 2018 | December 31, 2017 | Shares (Thousands) | % | Carrying Amount | | | |
| ITEQ Corporation | ITEQ International | Samoa | Investment | US$ 61,719 thousand | US$ 61,719 thousand | 18,500 | 100 | $ 9,998,530 | $ 1,593,173 | $ 1,593,173 | Note |
| | Bon Mou Investment Co. | Hsin Chu, Taiwan | Investment | 370,000 | 370,000 | 37,000 | 100 | 704,595 | 220,594 | 220,594 | |
| ITEQ International | ITEQ Holding | British Cayman Islands | Investment | US$ 61,719 thousand | US$ 61,719 thousand | 18,500 | 100 | US$ 318,156 thousand | US$ 52,670 thousand | US$ 52,670 thousand | |
| ITEQ Holding | ESIC | British Virgin Islands | Investment in PRC | US$ 13,000 thousand | US$ 13,000 thousand | 10,750 | 100 | US$ 125,476 thousand | US$ 10,343 thousand | US$ 10,343 thousand | |
| | IPL | Samoa | Import and export business | US$ 500 thousand | US$ 500 thousand | 500 | 100 | US$ 732 thousand | US$ 139 thousand | US$ 139 thousand | |
| | IIL | Samoa | Import and export business | US$ 1,000 thousand | US$ 1,000 thousand | 1,000 | 100 | US$ 6,084 thousand | US$ (497 thousand) | US$ (497 thousand) | |
| | Eagle Great | British Cayman Islands | Investment in PRC | US$ 8,499 thousand | US$ 8,499 thousand | 8,499 | 100 | US$ 12,230 thousand | US$ 2,415 thousand | US$ 2,415 thousand | |
| | Shining Era | Samoa | Investment | US$ 3,000 thousand | US$ 3,000 thousand | 3,000 | 100 | US$ 1,221 thousand | US$ (7 thousand) | US$ (7 thousand) | |
| | ITEQ (HK) | Hong Kong | Investment in PRC | US$ 24,200 thousand | US$ 24,200 thousand | 24,200 | 100 | US$ 145,801 thousand | US$ 40,282 thousand | US$ 40,282 thousand | |
| | Mega Crown | Samoa | Investment | US$ 223 thousand | US$ 223 thousand | 300 | 100 | US$ - thousand | US$ - thousand | - thousand | |

Note: Information on investees in mainland China is detailed in Table 7.

**TABLE 7**

# ITEQ CORPORATION

**INVESTMENTS ON INVESTMENTS IN MAINLAND CHINA**
**FOR THE YEAR ENDED DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars or Foreign Currency)**

| Investee Company | Main Businesses and Products | Paid-in Capital | Method of Investments | Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2018 | Investment Flows | | Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2018 | Net Income (Loss) of the Investee (Note 2) | % Ownership of Direct or Indirect Investment | Investment Gain (Loss) (Note 2) | Carrying Amount as of December 31, 2018 | Accumulated Repatriation of Investment Income as of December 31, 2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Outward | Inward | | | | | | |
| ITEQ (DG) | Produces and sells prepeg and copper clad lamination | US$ 20,000 thousand | Notes 1 and 4 | US$ 13,000 thousand | $ - | $ - | US$ 13,000 thousand | US$ 10,474 thousand | 100 | US$ 10,474 thousand | US$ 118,906 thousand | $ - |
| ITEQ (WX) | Produces and sells prepeg and copper clad lamination | US$ 41,000 thousand | Notes 1 and 4 | US$ 22,100 thousand | - | - | US$ 22,100 thousand | US$ 31,133 thousand | 100 | US$ 31,133 thousand | US$ 103,253 thousand | US$ 82,231 thousand |
| ITEQ (HJ) | Produces and sells mass lamination | US$ 8,499 thousand | Notes 1 and 4 | US$ 8,286 thousand | - | - | US$ 8,286 thousand | US$ 2,412 thousand | 100 | US$ 2,412 thousand | US$ 11,692 thousand | - |
| ITEQ (GZ) | Produces and sells prepeg and copper clad lamination | US$ 16,200 thousand | Note 1 | US$ 16,200 thousand | - | - | US$ 16,200 thousand | US$ 8,827 thousand | 100 | US$ 8,827 thousand | US$ 71,894 thousand | - |
| ITEQ (XT) | Produces and sells prepeg and copper clad lamination | US$ 1,800 thousand | Notes 1, 4 and 5 | - | - | - | - | US$ (22 thousand) | 100 | US$ (22 thousand) | US$ - thousand | - |
| ITEQ (JX) | Produces and sells prepeg and copper clad lamination | US$ 15,600 thousand | Notes 1 and 4 | - | - | - | - | US$ (48 thousand) | 100 | US$ (48 thousand) | US$ 14,976 thousand | - |

| Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2018 | Investment Amounts Authorized by Investment Commission, MOEA | Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA |
|---|---|---|
| US$59,586 thousand | US$80,400 thousand | $4,795,183 (Note 3) |

Note 1: Investment in China through incorporating an overseas company.

Note 2: Investment income (loss) was based on financial statements audited by the parent company's auditors.

Note 3: The Company's net asset value or 60% of the consolidated net asset value is based on the regulation issued on August 29, 2008 by the Investment Commission under the Ministry of Economic Affairs

Note 4: ITEQ Holding used its funds to invest in ITEQ (DG), ITEQ (WX), ITEQ (HJ), ITEQ (GZ), ITEQ (XT) through ITEQ (HK) and ITEQ (JX) used to invest in ESIC, ITEQ (DG), ITEQ (WX).

Note 5: ITEQ (XT) completed dissolution and liquidation in November 2018.

# ITEQ CORPORATION

## THE CONTENTS OF STATEMENTS OF MAJOR ACCOUNTING ITEMS

**STATEMENT 1**

# ITEQ CORPORATION

**STATEMENT OF CASH AND CASH EQUIVALENTS**
**DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Item | Remark | Amount |
|---|---|---|
| Cash | | $ 70 |
| Checking deposits | | 10 |
| Demand deposits | | 36,422 |
| Foreign currency deposits | US$4,496 thousand, exchange rate 30.72 | 138,102 |
| | EUR$62 thousand, exchange rate 35.12 | 2,185 |
| | HK$75 thousand, exchange rate 3.92 | 294 |
| Time deposits | | 153,575 |
| | | $ 330,658 |

# ITEQ CORPORATION

**STATEMENT OF FINANCIAL ASSETS AT FVTPL - CURRENT**
**DECEMBER 31, 2018**
**(Amounts in Thousands of NTD/Unit in Thousand)**

| | Balance, January 1, 2018 | | Additions | | Decrease | | Unrealized Gains or Losses for Financial Products | Balance, December 31, 2018 | |
|---|---|---|---|---|---|---|---|---|---|
| Financial Instruments | Share | Total | Share | Amount | Share | Amount | | Share | Total Amount |
| Mag Layers Scientific Technology | 2,849 | $ 177,782 | - | $ - | 2,849 | $ 177,782 | $ - | - | $ - |

**STATEMENT 3**

# ITEQ CORPORATION

**STATEMENT OF NOTES RECEIVABLE**
**DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars)**

| Client's Name | Amount |
|---|---|
| Non-related party | |
| Company A | $ 86,089 |
| Company B | 45,786 |
| Company C | 8,351 |
| Others (Note) | 11,603 |
| | $ 151,829 |

Note: The amount of each item does not exceed 5% of the account balance.

**STATEMENT 4**

# ITEQ CORPORATION

**STATEMENT OF ACCOUNTS RECEIVABLE**
**DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars)**

| Client's Name | Amount |
|---|---|
| Non-related party | |
| Company A | $ 124,545 |
| Company B | 48,308 |
| Company C | 46,416 |
| Company D | 44,357 |
| Company E | 37,293 |
| Company F | 35,324 |
| Company G | 29,660 |
| Others (Note) | 274,879 |
| | 640,782 |
| Less: Allowance for uncollectible accounts - accounts receivable | 3,956 |
| | $ 636,826 |

Note: The amount of each item does not exceed 5% of the account balance.

**STATEMENT 5**

# ITEQ CORPORATION

**STATEMENT OF OTHER RECEIVABLES**
**DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars)**

| Item | Amount |
|---|---|
| Other receivables - factored accounts receivables | |
| Taishin Bank | $ 88,993 |
| Yuanta Bank | 1,130 |
| KGI Commercial Bank | 6,217 |
| | 96,340 |
| Other receivables - others | 18,424 |
| | $ 114,764 |

**STATEMENT 6**

# ITEQ CORPORATION

**STATEMENT OF INVENTORIES**
**DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars)**

| Item | Amount | |
|---|---|---|
| | Book Value | Net Realizable Value |
| Finished goods | $ 132,239 | $ 95,591 |
| Work in process | 1,066 | 1,066 |
| Raw materials | 223,470 | 211,369 |
| Supplies | 3,789 | 3,789 |
| | $ 360,564 | $ 311,815 |

# ITEQ CORPORATION

**STATEMENT OF INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD**
**DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars)**

| Name | Balance, January 1, 2018 | | Decrease | | Changes in Other Item Equity | Investments Accounted for Using Equity Method | Recognize Subsidiary's Gain on Available for Financial Products | Financial Guarantee Contracts | Cumulative Translation Adjustment | Balance, December 31, 2018 | | | Fair Value | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share (In Thousands) | Amount | Share (In Thousands) | Amount | | | | | | Share (In Thousands) | Percentage of Ownership (%) | Amount | | |
| Bon Mou Investment Co. | 37,000 | $ 533,582 | - | $ (46,715) | $ (3,168) | $ 220,594 | $ 302 | $ - | $ - | 37,000 | 100 | $ 704,595 | $ 704,595 | |
| ITEQ International, Ltd. | 18,500 | 8,627,397 | - | (56,710) | - | 1,593,174 | - | (2,234) | (163,097) | 18,500 | 100 | 9,998,530 | 9,772,163 | Note3 |
| | | $ 9,160,979 | | $ (103,425) | $ (3,168) | $ 1,813,768 | $ 302 | $ (2,234) | $ (163,097) | | | $ 10,703,125 | $ 10,476,758 | |

Note 1: There is no pledge and mortgage in the equity investment.

Note 2: The equity was calculated based on the financial statements which have been audited during the same period.

Note 3: The difference between the book value and the equity was recognized as NT$ 14,432 thousand of financial guarantee contracts of endorsements/guarantees provided by the subsidiaries and NT$ 211,935 thousand of the estimated tax of the surplus repatriation.

Note 4: Decreasing amount in the current year is the declaration of dividends issued by the subsidiaries.

# ITEQ CORPORATION.

**STATEMENT OF SHORT-TERM AND LONG-TERM LOANS**
**DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars)**

| Loan Type and Creditor | Loan Period | Annual Rate (%) | Balance | Loan Commitments | Mortgage or Guarantee |
|---|---|---|---|---|---|
| Short-term debt | | | | | |
| Shin Kong Commercial Bank | 2018/12/07-2019/03/07 | 1.09 | $ 300,000 | $ 300,000 | NA |
| E. Sun Bank | 2018/12/07-2019/01/04 | 1.03 | 465,000 | 653,575 | NA |
| Hua Nan Bank | 2018/12/07-2019/02/01 | 1.05 | 195,000 | 200,000 | NA |
| Taishin Bank | 2018/12/03-2019/01/02 | 1.09 | 400,000 | 400,000 | NA |
| Bank SinoPac | 2018/12/28-2019/01/25 | 0.93 | 300,000 | 300,000 | NA |
| CTBC Bank | 2018/12/27-2019/03/27 | 1.02 | 300,000 | 300,000 | NA |
| Bank of Taiwan | 2018/11/02-2019/01/31 | 1.06 | 100,000 | 484,290 | NA |
| Yuanta Bank | 2018/11/02-2019/01/31 | 1.10 | 200,000 | 300,000 | NA |
| Cathay United Bank | 2018/12/06-2019/01/04 | 1.07 | 160,000 | 184,290 | NA |
| First Bank | 2018/12/07-2019/01/04 | 1.06 | 200,000 | 400,000 | NA |
| DBS Bank | 2018/12/27-2019/01/25 | 1.08 | 50,000 | 614,300 | NA |
| The Shanghai Commercial & Savings Bank | 2018/11/05-2019/02/03 | 1.10 | 16,805 | 245,720 | NA |
| The Shanghai Commercial & Savings Bank | 2018/12/05-2019/03/05 | 1.10 | 100,180 | 245,720 | NA |
| Citibank | 2018/12/28-2019/01/11 | 1.10 | 240,000 | 245,720 | NA |
| | | | $ 3,026,985 | | |
| Long-term debt (including within one year) | | | | | |
| O-Bank | 2014/08/29-2021/08/15 | 0.90 | $ 323,529 | 323,529 | NA |
| KGI Commercial Bank | 2018/06/29-2020/06/29 | 1.04 | 500,000 | 500,000 | NA |
| Bank SinoPac | 2018/08/16-2020/08/16 | 1.03 | 200,000 | 200,000 | NA |
| | | | $ 1,023,529 | | |

Note : The company has not exercised the credit limit at the amount of NT$196,120 thousand of the loan and performance guarantees for the year ended December 31, 2018.

**STATEMENT 9**

# ITEQ CORPORATION

**STATEMENT OF NOTES PAYABLE**
**DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars)**

| Client's Name | Amount |
|---|---|
| Company A | $ 570 |

**STATEMENT 10**

# ITEQ CORPORATION

**STATEMENT OF ACCOUNTS PAYABLE**
**DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars)**

| Client's Name | Amount |
|---|---|
| Non-related party | |
| Company A | $ 134,127 |
| Company B | 107,405 |
| Company C | 88,232 |
| Company D | 88,209 |
| Company E | 83,237 |
| Company F | 40,306 |
| Others (Note) | 207,451 |
| | $ 748,967 |

Note: The amount of each item does not exceed 5% of the account balance.

**STATEMENT 11**

# ITEQ CORPORATION

**STATEMENT OF OTHER PAYABLES**
**FOR THE YEAR ENDED DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars)**

| Item | Amount |
|---|---|
| Employees' compensation payable | $ 113,960 |
| Salaries and wages payable | 79,587 |
| Estimated expense payable | 28,277 |
| Compensation due to directors and supervisors | 28,786 |
| Payables on equipment | 1,926 |
| Others | 55,041 |
| | $ 307,577 |

**STATEMENT 12**

# ITEQ CORPORATION

## STATEMENT OF OTHER CURRENT LIABILITIES
## FOR THE YEAR ENDED DECEMBER 31, 2018
## (In Thousands of New Taiwan Dollars)

| Item | Amount |
|---|---|
| Financial guarantee contracts | $ 14,432 |
| Temporary receipts | 5,087 |
| Receipts under custody | 1,469 |
| Others | 7,567 |
| | $ 28,555 |

**STATEMENT 13**

# ITEQ CORPORATION

**STATEMENT OF OPERATING REVENUE**
**FOR THE YEAR ENDED DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars)**

| Item | Quantity (In Thousands) | Amount |
|---|---|---|
| Prepreg | 15,086 | $ 1,514,883 |
| Copper clad laminate | 4,951 | 2,517,776 |
| Others | 95 | 30,167 |
| | | 4,062,826 |
| Sales returns | | (1,123) |
| Sales discounts | | (19,083) |
| | | (20,206) |
| | | $ 4,042,620 |

**STATEMENT 14**

# ITEQ CORPORATION

**STATEMENT OF COST OF GOODS SOLD**
**FOR THE YEAR ENDED DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars)**

| Item | Amount |
|---|---|
| Direct and indirect material | |
| Material, beginning | $ 205,440 |
| Material purchased | 2,211,266 |
| Used material | (108,186) |
| Material, ending | (227,259) |
| | 2,081,261 |
| Direct labor | 112,532 |
| Manufacturing overhead | 449,682 |
| Manufacturing costs | 2,643,475 |
| Work in process, beginning | 3,331 |
| Work in process, ending | (1,066) |
| Finished goods costs | 2,645,740 |
| Finished goods, beginning | 156,963 |
| Purchased goods costs | 983,693 |
| Reclassified to sample expense | (15,700) |
| Used finished goods | (22,189) |
| Finished goods, ending | (116,388) |
| Others | (1,508) |
| | 3,630,611 |
| Revenue on sells the scraps | (36,421) |
| | $ 3,594,190 |

# ITEQ CORPORATION

## STATEMENT OF OPERATING COSTS
## FOR THE YEAR ENDED DECEMBER 31, 2018
## (In Thousands of New Taiwan Dollars)

| Item | Selling and marketing expenses | General and administrative expenses | Research and development expenses | Amount |
|---|---|---|---|---|
| Salaries and bonus | $ 8,477 | $ 143,385 | $ 43,356 | $ 195,218 |
| Commission expense | 9,346 | - | - | 9,346 |
| Amortization expense | - | 1,763 | 1,314 | 3,077 |
| Import and export expense | 11,397 | 1 | 105 | 11,503 |
| Sample expense | 3,127 | - | 12,661 | 15,788 |
| Rent expense | 2 | 16,126 | 2,534 | 18,662 |
| Inspection and test expense | - | 843 | 12,802 | 13,645 |
| Depreciation expense | 20 | 21,945 | 16,131 | 38,096 |
| Compensation due to directors and supervisors | - | 25,336 | - | 25,336 |
| Used material | 37 | 17 | 71,194 | 71,248 |
| Shipping expenses | 27,641 | 165 | 166 | 27,972 |
| Cleaning expense | - | 3,035 | - | 3,035 |
| Others (Note) | 6,700 | 83,098 | 52,227 | 142,025 |
| | $ 66,747 | $ 295,714 | $ 212,490 | $ 574,951 |

Note: The amount of each item does not exceed 5% of the amount of the account balance.