# E Ink Holdings Inc. and Subsidiaries

**Consolidated Financial Statements for the Three Months Ended March 31, 2019 and 2018 and Independent Auditors' Review Report**

Deloitte.

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# INDEPENDENT AUDITORS' REVIEW REPORT

The Board of Directors and Shareholders
E Ink Holdings Inc.

## Introduction

We have reviewed the accompanying consolidated financial statements of E Ink Holdings Inc. and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheets as of March 31, 2019 and 2018, the consolidated statements of comprehensive income, changes in equity and cash flows for the three months then ended, and the related notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements"). Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

## Scope of Review

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

## Basis for Qualified Conclusion

As disclosed in Note 12 to the consolidated financial statements, the financial statements of some non-significant subsidiaries included in the consolidated financial statements were not reviewed. As of March 31, 2019 and 2018, the combined total assets of these non-significant subsidiaries were NT$1,504,727 thousand and NT$1,628,625 thousand, respectively, representing 4% and 5%, respectively, of the consolidated total assets, and the combined total liabilities of these non-significant subsidiaries were NT$351,734 thousand and NT$256,324 thousand, respectively, representing 3% and 4%, respectively, of the consolidated total liabilities; for the three months ended March 31, 2019 and 2018, the amounts of combined comprehensive loss of these non-significant subsidiaries were NT$(11,042) thousand and NT$(20,349) thousand, respectively, representing 1% and 114%, respectively, of the consolidated total comprehensive income or loss. Furthermore, the related information of the abovementioned non-significant subsidiaries as disclosed in Note 32 to the consolidated financial statements for the same reporting periods as those of the Group were also not reviewed.

**Qualified Conclusion**

Based on our reviews, except for the adjustments, if any, as might have been determined to be necessary had the financial statements of the non-significant subsidiaries as described in the preceding paragraph and the related information of these non-significant subsidiaries as disclosed in Note 32 to the consolidated financial statements been reviewed, nothing has come to our attention that caused us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the three months then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 “Interim Financial Reporting” endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

The engagement partners on the reviews resulting in this independent auditors’ review report are Hui-Min Huang and Chih-Ming Shao.

Deloitte & Touche
Taipei, Taiwan
Republic of China

May 8, 2019

<u>*Notice to Readers*</u>

*The accompanying consolidated financial statements are intended only to present the consolidated 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 review such consolidated financial statements are those generally applied in the Republic of China.*

*For the convenience of readers, the independent auditors’ review report and the accompanying consolidated 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’ review report and consolidated financial statements shall prevail.*

## E INK HOLDINGS INC. AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS**
**(In Thousands of New Taiwan Dollars)**

| ASSETS | March 31, 2019 (Reviewed) Amount | % | December 31, 2018 (Audited) Amount | % | March 31, 2018 (Reviewed) Amount | % |
|---|---|---|---|---|---|---|
| CURRENT ASSETS | | | | | | |
| Cash and cash equivalents (Notes 4 and 6) | $ 8,023,030 | 20 | $ 7,695,106 | 21 | $ 11,463,845 | 33 |
| Financial assets at fair value through profit or loss (Notes 4 and 7) | 1,874,225 | 5 | 1,840,835 | 5 | - | - |
| Financial assets at amortized cost (Notes 4 and 9) | 4,381,366 | 11 | 3,860,537 | 10 | 331,475 | 1 |
| Contract assets (Notes 4 and 20) | 98,298 | - | 187,329 | 1 | 214,103 | - |
| Accounts receivable (Notes 4, 10 and 28) | 2,438,300 | 6 | 2,243,412 | 6 | 1,633,746 | 5 |
| Other receivables (Note 4) | 232,472 | - | 223,850 | 1 | 61,856 | - |
| Current tax assets (Note 4) | 43,772 | - | 44,850 | - | 323,351 | 1 |
| Inventories (Notes 4 and 11) | 2,231,264 | 5 | 1,926,990 | 5 | 2,437,797 | 7 |
| Prepayments (Note 28) | 269,705 | 1 | 318,982 | 1 | 236,999 | 1 |
| Other current assets (Notes 4 and 29) | 666,989 | 2 | 529,034 | 1 | 156,169 | - |
| Total current assets | 20,259,421 | 50 | 18,870,925 | 51 | 16,859,341 | 48 |
| NON-CURRENT ASSETS | | | | | | |
| Financial assets at fair value through other comprehensive income (Notes 4 and 8) | 3,976,205 | 10 | 3,431,736 | 9 | 3,173,605 | 9 |
| Investments accounted for using the equity method (Note 4) | 86,255 | - | 82,802 | - | 82,841 | - |
| Property, plant and equipment (Notes 4 and 13) | 4,443,294 | 11 | 4,521,441 | 12 | 4,676,340 | 14 |
| Right-of-use assets (Notes 4 and 14) | 1,848,456 | 5 | - | - | - | - |
| Goodwill (Notes 4 and 15) | 6,789,887 | 17 | 6,781,244 | 19 | 6,648,721 | 19 |
| Other intangible assets (Notes 4 and 15) | 1,672,472 | 4 | 1,744,809 | 5 | 1,774,601 | 5 |
| Deferred tax assets (Note 4) | 999,390 | 2 | 1,071,888 | 3 | 1,372,252 | 4 |
| Other non-current assets (Notes 28 and 29) | 398,931 | 1 | 409,263 | 1 | 244,041 | 1 |
| Total non-current assets | 20,214,890 | 50 | 18,043,183 | 49 | 17,972,401 | 52 |
| TOTAL | $ 40,474,311 | 100 | $ 36,914,108 | 100 | $ 34,831,742 | 100 |
| **LIABILITIES AND EQUITY** | | | | | | |
| CURRENT LIABILITIES | | | | | | |
| Short-term borrowings (Note 16) | $ 2,147,020 | 5 | $ 1,480,000 | 4 | $ 920,310 | 3 |
| Short-term bills payable (Note 16) | 659,747 | 2 | 564,722 | 2 | 250,000 | 1 |
| Contract liabilities (Notes 4 and 20) | 1,756,949 | 4 | 1,573,002 | 4 | 1,585,900 | 5 |
| Notes and accounts payable (Note 28) | 1,407,532 | 3 | 1,347,676 | 4 | 1,451,794 | 4 |
| Other payables (Notes 17 and 25) | 1,071,377 | 3 | 1,351,759 | 4 | 1,127,149 | 3 |
| Current tax liabilities (Note 4) | 168,606 | - | 128,343 | - | 168,062 | - |
| Other current liabilities (Notes 4, 7, 14, 16 and 28) | 209,935 | 1 | 123,615 | - | 188,585 | 1 |
| Total current liabilities | 7,421,166 | 18 | 6,569,117 | 18 | 5,691,800 | 17 |
| NON-CURRENT LIABILITIES | | | | | | |
| Contract liabilities (Notes 4 and 20) | 1,570,381 | 4 | 1,761,719 | 5 | 1,285,274 | 4 |
| Deferred tax liabilities (Note 4) | 109,594 | - | 110,299 | - | 31,398 | - |
| Lease liabilities (Notes 4, 14 and 28) | 1,801,722 | 5 | - | - | - | - |
| Net defined benefit liabilities (Note 4) | 81,926 | - | 80,770 | - | 70,185 | - |
| Other non-current liabilities (Notes 4, 16 and 28) | 51,811 | - | 77,759 | - | 72,940 | - |
| Total non-current liabilities | 3,615,434 | 9 | 2,030,547 | 5 | 1,459,797 | 4 |
| Total liabilities | 11,036,600 | 27 | 8,599,664 | 23 | 7,151,597 | 21 |
| EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4, 19 and 24) | | | | | | |
| Share capital | 11,404,677 | 28 | 11,404,677 | 31 | 11,404,677 | 33 |
| Capital surplus | 10,280,947 | 25 | 10,243,293 | 28 | 10,113,307 | 29 |
| Retained earnings | | | | | | |
| Legal reserve | 1,512,287 | 4 | 1,512,287 | 4 | 1,304,481 | 4 |
| Special reserve | 70,678 | - | 70,678 | - | 70,678 | - |
| Unappropriated earnings | 5,581,320 | 14 | 5,138,085 | 14 | 4,706,694 | 13 |
| Total retained earnings | 7,164,285 | 18 | 6,721,050 | 18 | 6,081,853 | 17 |
| Other equity | 368,216 | 1 | (255,475) | (1) | 68,165 | - |
| Treasury shares | (184,900) | - | (184,900) | - | (308,269) | (1) |
| Total equity attributable to owners of the Company | 29,033,225 | 72 | 27,928,645 | 76 | 27,359,733 | 78 |
| NON-CONTROLLING INTERESTS (Note 19) | 404,486 | 1 | 385,799 | 1 | 320,412 | 1 |
| Total equity | 29,437,711 | 73 | 28,314,444 | 77 | 27,680,145 | 79 |
| TOTAL | $ 40,474,311 | 100 | $ 36,914,108 | 100 | $ 34,831,742 | 100 |

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

(With Deloitte & Touche auditors' review report dated May 8, 2019)

# E INK HOLDINGS INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**
**(Reviewed, Not Audited)**

| | For the Three Months Ended March 31 | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | Amount | % | Amount | % |
| OPERATING REVENUE (Notes 4, 20 and 28) | $ 2,954,772 | 100 | $ 2,897,634 | 100 |
| OPERATING COSTS (Notes 11, 21 and 28) | 1,701,432 | 58 | 1,789,005 | 62 |
| GROSS PROFIT | 1,253,340 | 42 | 1,108,629 | 38 |
| OPERATING EXPENSES (Notes 21 and 28) | | | | |
| Selling and marketing expenses | 188,939 | 6 | 186,041 | 6 |
| General and administrative expenses | 621,843 | 21 | 692,610 | 24 |
| Research and development expenses | 550,057 | 19 | 493,871 | 17 |
| Total operating expenses | 1,360,839 | 46 | 1,372,522 | 47 |
| LOSS FROM OPERATIONS | (107,499) | (4) | (263,893) | (9) |
| NON-OPERATING INCOME AND EXPENSES | | | | |
| Interest income | 81,934 | 3 | 17,385 | 1 |
| Royalty income (Notes 4 and 20) | 448,735 | 15 | 446,140 | 15 |
| Other income (Note 28) | 38,672 | 1 | 23,494 | 1 |
| Interest expenses (Notes 13 and 28) | (18,559) | - | (2,721) | - |
| Net gain (loss) on foreign currency exchange (Note 31) | 124,044 | 4 | (58,730) | (2) |
| Net gain on fair value changes of financial assets at fair value through profit or loss | 60,260 | 2 | - | - |
| Other expenses | (22,687) | (1) | (42,848) | (2) |
| Total non-operating income and expenses | 712,399 | 24 | 382,720 | 13 |
| INCOME BEFORE INCOME TAX | 604,900 | 20 | 118,827 | 4 |
| INCOME TAX EXPENSE (Notes 4 and 22) | 145,290 | 5 | 69,772 | 2 |
| NET INCOME FOR THE PERIOD | 459,610 | 15 | 49,055 | 2 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | | |
| Unrealized gain on investments in equity instruments at fair value through other comprehensive income | 550,270 | 19 | 42,598 | 1 |
| Income tax relating to items that will not be reclassified subsequently to profit or loss (Notes 4 and 22) | - | - | 2,014 | - |
| | 550,270 | 19 | 44,612 | 1 |

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# E INK HOLDINGS INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**
**(Reviewed, Not Audited)**

| | For the Three Months Ended March 31 | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | Amount | % | Amount | % |
| Items that may be reclassified subsequently to profit or loss: | | | | |
| Exchange differences on translating the financial statements of foreign operations | $ 73,839 | 2 | $ (112,926) | (4) |
| Share of other comprehensive gain of associates and joint ventures accounted for using the equity method | 1,894 | - | 1,440 | - |
| | 75,733 | 2 | (111,486) | (4) |
| Other comprehensive income (loss) for the period | 626,003 | 21 | (66,874) | (3) |
| TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD | $ 1,085,613 | 36 | $ (17,819) | (1) |
| NET INCOME ATTRIBUTABLE TO: | | | | |
| Owners of the Company | $ 438,048 | 15 | $ 41,164 | 2 |
| Non-controlling interests | 21,562 | 1 | 7,891 | - |
| | $ 459,610 | 16 | $ 49,055 | 2 |
| TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO: | | | | |
| Owners of the Company | $ 1,066,926 | 36 | $ (22,933) | (1) |
| Non-controlling interests | 18,687 | - | 5,114 | - |
| | $ 1,085,613 | 36 | $ (17,819) | (1) |
| EARNINGS PER SHARE (Note 23) | | | | |
| Basic | $ 0.39 | | $ 0.04 | |
| Diluted | $ 0.39 | | $ 0.04 | |

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

(With Deloitte & Touche auditors' review report dated May 8, 2019) (Concluded)

## E INK HOLDINGS INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**(In Thousands of New Taiwan Dollars)**
**(Reviewed, Not Audited)**

| | Equity Attributable to Owners of the Company | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share Capital | | | Retained Earnings | | | Other Equity | | | | | | |
| | Shares (In Thousands) | Amount | Capital Surplus | Legal Reserve | Special Reserve | Unappropriated Earnings | Exchange Differences on Translating The Financial Statements of Foreign Operations | Unrealized Gain on Available-for-sale Financial Assets | Unrealized Gain (Loss) on Financial Assets at FVTOCI | Treasury Shares | Total | Non-controlling Interests | Total Equity |
| BALANCE AT JANUARY 1, 2018 | 1,140,468 | $ 11,404,677 | $ 10,108,119 | $ 1,304,481 | $ 70,678 | $ 4,246,203 | $ (242,623) | $ 349,232 | $ - | $ (308,269) | $ 26,932,498 | $ 294,397 | $ 27,226,895 |
| Effect of retrospective application | - | - | - | - | - | 417,313 | - | (349,232) | 376,899 | - | 444,980 | 20,901 | 465,881 |
| BALANCE AT JANUARY 1, 2018 AS RESTATED | 1,140,468 | 11,404,677 | 10,108,119 | 1,304,481 | 70,678 | 4,663,516 | (242,623) | - | 376,899 | (308,269) | 27,377,478 | 315,298 | 27,692,776 |
| Net income for the three months ended March 31, 2018 | - | - | - | - | - | 41,164 | - | - | - | - | 41,164 | 7,891 | 49,055 |
| Other comprehensive income (loss) for the three months ended March 31, 2018, net of income tax | - | - | - | - | - | 2,014 | (108,709) | - | 42,598 | - | (64,097) | (2,777) | (66,874) |
| Total comprehensive income (loss) for the three months ended March 31, 2018 | - | - | - | - | - | 43,178 | (108,709) | - | 42,598 | - | (22,933) | 5,114 | (17,819) |
| Share-based payments | - | - | 5,188 | - | - | - | - | - | - | - | 5,188 | - | 5,188 |
| BALANCE AT MARCH 31, 2018 | 1,140,468 | $ 11,404,677 | $ 10,113,307 | $ 1,304,481 | $ 70,678 | $ 4,706,694 | $ (351,332) | $ - | $ 419,497 | $ (308,269) | $ 27,359,733 | $ 320,412 | $ 27,680,145 |
| BALANCE AT JANUARY 1, 2019 | 1,140,468 | $ 11,404,677 | $ 10,243,293 | $ 1,512,287 | $ 70,678 | $ 5,138,085 | $ (181,328) | $ - | $ (74,147) | $ (184,900) | $ 27,928,645 | $ 385,799 | $ 28,314,444 |
| Net income for the three months ended March 31, 2019 | - | - | - | - | - | 438,048 | - | - | - | - | 438,048 | 21,562 | 459,610 |
| Other comprehensive income (loss) for the three months ended March 31, 2019, net of income tax | - | - | - | - | - | - | 78,608 | - | 550,270 | - | 628,878 | (2,875) | 626,003 |
| Total comprehensive income for the three months ended March 31, 2019 | - | - | - | - | - | 438,048 | 78,608 | - | 550,270 | - | 1,066,926 | 18,687 | 1,085,613 |
| Share-based payments | - | - | 37,654 | - | - | - | - | - | - | - | 37,654 | - | 37,654 |
| Disposal of investments in equity instruments at FVTOCI | - | - | - | - | - | 5,187 | - | - | (5,187) | - | - | - | - |
| BALANCE AT MARCH 31, 2019 | 1,140,468 | $ 11,404,677 | $ 10,280,947 | $ 1,512,287 | $ 70,678 | $ 5,581,320 | $ (102,720) | $ - | $ 470,936 | $ (184,900) | $ 29,033,225 | $ 404,486 | $ 29,437,711 |

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

(With Deloitte & Touche auditors' review report dated May 8, 2019)

# E INK HOLDINGS INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(In Thousands of New Taiwan Dollars)**
**(Reviewed, Not Audited)**

| | For the Three Months Ended March 31 | |
|---|---|---|
| | **2019** | **2018** |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | $ 604,900 | $ 118,827 |
| Adjustments for | | |
| Depreciation expenses | 194,947 | 177,661 |
| Amortization expenses | 113,066 | 99,603 |
| Expected credit loss reversed on accounts receivable | - | (52) |
| Net gain on fair value changes of financial assets at fair value through profit or loss | (60,260) | - |
| Interest expenses | 18,559 | 2,721 |
| Interest income | (81,934) | (17,385) |
| Compensation costs of share-based payments | 37,654 | 5,188 |
| Share of loss (gain) of associates and joint ventures accounted for using the equity method | (1,559) | 7,355 |
| Net gain on disposal of property, plant and equipment | (5,771) | (251) |
| Net loss on disposal of investments | - | 1,988 |
| Impairment loss recognized (reversed) | 16,526 | (119) |
| Write-downs of inventories | 45,471 | 64,369 |
| Net unrealized gain on foreign currency exchange | (4,954) | (16,972) |
| Changes in operating assets and liabilities | | |
| Financial assets mandatorily measured at fair value through profit or loss | 7,934 | - |
| Contract assets | 86,980 | 99,013 |
| Accounts receivable | (188,487) | 362,836 |
| Other receivables | 15,425 | 177,765 |
| Inventories | (342,775) | (413,026) |
| Prepayments | 49,859 | (20,306) |
| Other current assets | (142,393) | 4,235 |
| Contract liabilities | (17,867) | (199,458) |
| Notes and accounts payable | 67,840 | (750,999) |
| Other payables | (223,551) | (444,675) |
| Other current liabilities | 28,923 | (595,761) |
| Net defined benefit liabilities | 1,280 | 1 |
| Cash generated from (used in) operations | 219,813 | (1,337,442) |
| Income tax paid | (31,925) | (28,869) |
| Net cash generated from (used in) operating activities | 187,888 | (1,366,311) |

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# E INK HOLDINGS INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(In Thousands of New Taiwan Dollars)**
**(Reviewed, Not Audited)**

| | For the Three Months Ended March 31 | |
|---|---|---|
| | **2019** | **2018** |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of financial assets at fair value through other comprehensive income | $ - | $ (41,864) |
| Proceeds from disposal of financial assets at fair value through other comprehensive income | 6,718 | - |
| Proceeds from capital reduction of financial assets at fair value through other comprehensive income | - | 6,431 |
| Acquisition of financial assets at amortized cost | (4,079,665) | (23,237) |
| Proceeds from disposal of financial assets at amortized cost | 3,540,278 | 421,257 |
| Disposal of subsidiaries | - | (633) |
| Acquisition of property, plant and equipment | (131,404) | (169,714) |
| Proceeds from disposal of property, plant and equipment | 6,002 | 372 |
| Acquisition of other intangible assets | (38,134) | (5,896) |
| Decrease (increase) in other non-current assets | 4,382 | (2,930) |
| Interest received | 66,260 | 19,540 |
| Net cash generated from (used in) investing activities | (625,563) | 203,326 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase in short-term borrowings | 667,020 | 546,960 |
| Increase in short-term bills payable | 95,025 | 250,000 |
| Repayment of the principal portion of lease liabilities | (17,031) | - |
| Increase (decrease) in other non-current liabilities | (1,977) | 1,856 |
| Interest paid | (17,317) | (1,451) |
| Net cash generated from financing activities | 725,720 | 797,365 |
| EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES | 39,879 | (49,184) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 327,924 | (414,804) |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD | 7,695,106 | 11,878,649 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD | $ 8,023,030 | $ 11,463,845 |

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

(With Deloitte & Touche auditors' review report dated May 8, 2019) (Concluded)

## 1. GENERAL INFORMATION

E Ink Holdings Inc. (the "Company") was incorporated in June 1992 in the Hsinchu Science Park. The Company's shares have been listed on the Taipei Exchange (TPEx) Mainboard since March 30, 2004. The Company mainly researches, develops, manufactures and sells electronic paper display panels.

The consolidated financial statements of the Company and its subsidiaries, collectively referred to as the "Group", are presented in New Taiwan dollars, the functional currency of the Company.

## 2. AUTHORIZATION OF FINANCIAL STATEMENTS

The Group's consolidated financial statements were reported to the board of directors and issued on May 8, 2019.

## 3. APPLICATION OF NEW 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 SIC Interpretations (SIC) (collectively referred to as the "IFRSs") endorsed and issued into effect by the Financial Supervisory Commission (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 Group's accounting policies:

   <u>IFRS 16 "Leases"</u>

   IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessee and lessor. It supersedes IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", and a number of related interpretations. Please refer to Note 4 for information relating to the relevant accounting policies.

   <u>Definition of a lease</u>

   The Group elects to apply the guidance of IFRS 16 in determining whether contracts are, or contain, a lease only to contracts entered into (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 are not reassessed and are accounted for in accordance with the transitional provisions under IFRS 16.

The Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value asset and short-term leases are recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group presents 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 consolidated statements of cash flows, cash payments for the principal and interest portion of lease liabilities are classified within financing activities. Prior to the application of IFRS 16, payments under operating lease contracts were recognized as expenses on a straight-line basis. Cash flows for operating leases were classified within operating activities on the consolidated statements of cash flows.

The Group anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized in retained earnings on January 1, 2019. Comparative information is not restated.

Lease liabilities were recognized on January 1, 2019 for leases previously classified as operating leases with the application of IAS 17. Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liabilities. The Group applies IAS 36 to all right-of-use assets.

The Group also applies the following practical expedients:

1) The Group applies a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.

2) The Group accounts for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.

3) The Group excludes initial direct costs from the measurement of right-of-use assets on January 1, 2019.

4) The Group uses hindsight, such as in determining lease terms, to measure lease liabilities.

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 is 2.28%. The difference between the lease liabilities recognized and the future minimum lease payments of non-cancellable operating lease on December 31, 2018 is explained as follows:

| | |
|---|---|
| The future minimum lease payments of non-cancellable operating lease on December 31, 2018 | $ 1,033,653 |
| Less: Recognition exemption for short-term leases | (7,774) |
| Undiscounted amounts on January 1, 2019 | $ 1,025,879 |
| Discounted amounts using the incremental borrowing rate on January 1, 2019 | $ 915,733 |
| Add: Adjustments as a result of extension options | 976,612 |
| Lease liabilities recognized on January 1, 2019 | $ 1,892,345 |

The Group as lessor

The Group does not make any adjustments for leases in which it is a lessor, and it accounts for those leases with the application of IFRS 16 starting from January 1, 2019.

The impact on assets and liabilities as of January 1, 2019 from the initial application of IFRS 16 is set out as follows:

| | As Originally Stated on January 1, 2019 | Adjustments Arising from Initial Application | Restated on January 1, 2019 |
|---|---|---|---|
| Right-of-use assets | $ - | $ 1,865,084 | $ 1,865,084 |
| Other non-current assets | 409,263 | (864) | 408,399 |
| Total effect on assets | $ 409,263 | $ 1,864,220 | $ 2,273,483 |
| Other current liabilities | $ 123,615 | $ (3,019) | $ 120,596 |
| Lease liabilities - current | - | 103,943 | 103,943 |
| Other non-current liabilities | 77,759 | (25,106) | 52,653 |
| Lease liabilities - non-current | - | 1,788,402 | 1,788,402 |
| Total effect on liabilities | $ 201,374 | $ 1,864,220 | $ 2,065,594 |

b. The IFRSs issued by IASB but not yet endorsed and issued into effect by the FSC

| New, Amended or Revised Standards and Interpretations | 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 years beginning on or after their respective effective dates.

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

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

As of the date the consolidated financial statements were issued, the Group is continuously assessing the possible impact that the application of the above standards and interpretations will have on the Group's consolidated financial position and consolidated financial performance and will disclose the relevant impact when the assessment is completed.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

These interim consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IAS 34 “Interim Financial Reporting” endorsed and issued into effect by the FSC. Disclosure information included in these interim consolidated financial statements is less than the disclosure information required in a complete set of annual financial statements.

b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for the financial instruments which are measured at fair value and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

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 an 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 an asset or liability.

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 12 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 12 months after the reporting period.

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;

2) Liabilities due to be settled within 12 months after the reporting period; and

3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

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

d. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (i.e. its subsidiaries). Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of comprehensive income from the effective date of acquisition up to the effective date of disposal, as appropriate. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company. All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and any investment retained in the former subsidiary at its fair value at the date when control is lost and (ii) the assets and liabilities and any non-controlling interests of the former subsidiary at their carrying amounts at the date when control is lost. The Group accounts for all amounts recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

See Note 12 and Tables 7 and 8 for detailed information on subsidiaries (including the percentages of ownership and main business).

e. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized as expenses as they are incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of the measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value.

f. Foreign currencies

In preparing the financial statements of each individual group 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. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

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

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction and are not retranslated.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including subsidiaries, associates and joint ventures in other countries that use currencies that are different from the currency of the Company) are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income and attributed to the owners of the Company and non-controlling interests.

On a disposal of the Company's entire interest in a foreign operation or a disposal involving loss of significant influence over a subsidiary that includes a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

g. Inventories

Inventories consist of raw materials, semi-finished goods, finished goods and work in progress 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. The 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 the weighted-average cost on the balance sheet date.

h. Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor an interest in a joint venture. A joint venture is a joint arrangement whereby the Group and other parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The Group uses the equity method to account for its investments in associates and joint ventures.

Under the equity method, investments in an associate and a joint venture are initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associates and joint ventures. The Group also recognizes the changes in the Group's share of equity of associates and joint ventures attributable to the Group.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of an associate or a joint venture at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized.

When the Group subscribes for additional new shares of an associate and a joint venture at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate and joint venture. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in equity of associates and joint ventures accounted for using the equity method and investments accounted for using the equity method. If the Group's ownership interest is reduced due to the additional subscription of the new shares of the associate and joint venture, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate and joint venture is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for using the equity method is insufficient, the shortage is debited to retained earnings.

When the Group's share of losses of an associate and a joint venture equals or exceeds its interest in that associate and joint venture, the Group discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate and joint venture.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is not allocated to the goodwill and other assets that form part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate and a joint venture. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate and the joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate and the joint venture. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate and joint venture on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

When the Group transacts with its associates and joint ventures, profits and losses resulting from the transactions with the associates and joint ventures are recognized in the Group's consolidated financial statements only to the extent of interests in the associates and the joint ventures that are not related to the Group.

i. Property, plant and equipment

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

Property, plant and equipment in the course of construction are carried at cost, less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for their intended use.

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

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

j. Goodwill

Goodwill arising from the acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment loss.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units or groups of cash-generating units (referred to as "cash-generating units") that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributed goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual year, that unit shall be tested for impairment before the end of the current annual year. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal and is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

k. Intangible assets

1) Intangible assets acquired separately

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 lives, residual value, and amortization methods are reviewed at the end of each reporting period, with the effects of any changes in estimates accounted for on a prospective basis.

2) Internally-generated intangible assets - research and development expenditures

Expenditures on research activities are recognized as expenses in the period in which they are incurred.

An internally-generated intangible asset arising from the development phase of an internal project is recognized if, and only if, all of the following have been demonstrated:

a) The technical feasibility of completing the intangible asset so that it will be available for use or sale;

b) The intention to complete the intangible asset and use or sell it;

c) The ability to use or sell the intangible asset;

d) How the intangible asset will generate probable future economic benefits;

e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

f) The ability to measure reliably the expenditures attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditures incurred from the date when such an intangible asset first meets the recognition criteria listed above. Subsequent to initial recognition, such intangible assets are measured on the same basis as intangible assets that are acquired separately.

3) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date. Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

4) Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

l. Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group 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 Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the smallest group of cash-generating units on a reasonable and consistent basis of allocation.

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

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

m. Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. To meet the criteria for the sale being highly probable, the appropriate level of management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within 1 year from the date of classification.

Non-current assets (included in other current assets) classified as held for sale are measured at the lower of their previous carrying amount and fair value less cost to sell. Recognition of depreciation of those assets would cease.

n. Financial instruments

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

1) Financial assets

   All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

   a) Measurement category

      Financial assets are classified into the following categories: Financial assets at fair value through profit or loss (FVTPL), financial assets at amortized cost and investments in equity instruments at FVTOCI.

      i. Financial assets at FVTPL

         Financial assets at FVTPL include mutual funds and investments in equity instruments which are not designated as at FVTOCI and are mandatorily measured at fair value subsequently, with any dividends, interest and gains or losses on remeasurement recognized in non-operating income and expenses. Fair value is determined in the manner described in Note 27.

      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, accounts receivable and other receivables are measured at amortized cost, which equals to gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

         Cash equivalents include time deposits and repurchase agreements collateralized by bonds, 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 Group may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation 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 or loss 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, they will be transferred to retained earnings.

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

b) Impairment of financial assets and contract assets

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including accounts receivable) and contract assets.

The Group always recognizes lifetime Expected Credit Loss (ECLs) for accounts receivable and contract assets. For all other financial instruments, the Group 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 Group 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 a default occurring as the weights. Lifetime ECLs represents 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 represents 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 Group 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.

c) Derecognition of financial assets

The Group 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 party.

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. On derecognition of an investment in an equity instrument at FVTOCI, the cumulative gain or loss that had been recognized in other comprehensive income or loss is transferred directly to retained earnings, without reclassifying to profit or loss.

2) Equity instruments

The 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, issue or cancellation of the Company's own equity instruments.

3) Financial liabilities

a) Subsequent measurement

Except financial liabilities at FVTPL, all financial liabilities are carried at amortized cost using the effective interest method. Financial liabilities are classified as at FVTPL when such financial liabilities are held for trading and are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss.

b) Derecognition of financial liabilities

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

4) Derivative financial instruments

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

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately. When the fair value of a derivative financial instrument is positive, the derivative is recognized as a financial asset; when the fair value of a derivative financial instrument is negative, the derivative is recognized as a financial liability.

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of IFRS 9 are not separated; instead, the classification is determined in accordance with the entire hybrid contract. Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

o. Provisions

Provisions (included in other current liabilities) are measured at the best estimate of the discounted cash flows 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.

Provisions for the expected cost of warranty obligations to assure that products comply with agreed-upon specifications are recognized on the date of sale of the relevant products at the best estimate by the management of the Group of the expenditures required to settle the Group’s obligations.

p. Revenue recognition

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

1) Revenue from sale of goods

Sales of products are recognized as revenue when the goods are delivered to the customer’s specific location because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods. Revenue and accounts receivable are recognized concurrently.

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

2) Licensing revenue

If the patented technology licensed by the Group can remain functional without any updates or technical support and the Group is not obliged to undertake activities that will change the functionality of the licensed patented technology, the licensed patented technology has significant stand-alone functionality and the Group recognizes revenue at the point in time at which the license of patented technology transfers. If the Group is obliged to undertake activities that will change the functionality of the licensed patented technology, the licensed patented technology does not have significant stand-alone functionality and the Group recognizes revenue on a straight-line basis over the life of the agreements. Royalty agreements that are based on sales are recognized by reference to the underlying agreements. Royalties receivable that the Group does not have a present right to payment of the royalties is recorded as contract assets and reclassified to accounts receivable after the Group fulfills the remainder of the performance obligation. Proceeds of royalties received but which have not met the conditions of revenue recognition are recorded as contract liabilities, current and non-current, respectively, based on the remaining contract periods.

q. Leases

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At the inception of a contract, the Group assesses whether the contract is, or contains, a lease.

1) The Group as lessor

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Lease payments from operating leases are recognized as income on a straight-line basis over the terms of the relevant leases.

2) The Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the consolidated balance sheets.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities are initially measured at the present value of the lease payments. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee’s incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments, the Group remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the consolidated balance sheets.

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

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Operating lease payments are recognized as expenses on a straight-line basis over the lease term.

r. Borrowing costs

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

Other than stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

s. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related services.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as expenses when employees have rendered services 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 (including current service cost and past service cost) and net interest on the net defined benefit liabilities 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 it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year.

t. Share-based payment arrangements

The fair value at the grant date of share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. It is recognized as an expense in full at the grant date if vested immediately. The grant date of treasury shares transferred to employees is the date on which the board of directors approves the transaction.

At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expenses reflect the revised estimate, with a corresponding adjustment to capital surplus - employee share options.

u. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to expected total annual earnings. The effect of a change in tax rate resulting from a change in tax law is recognized in profit or loss or other comprehensive income or loss, consistent with the accounting for the transaction itself which gives rise to the tax consequence. Current tax and deferred tax is recognized in profit or loss, however, current tax and deferred tax related to other comprehensive income or loss is recognized in other comprehensive income or loss.

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 tax provision in the current period.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities 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 and unused loss carryforwards to the extent that it is probable that taxable profit 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 and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profit 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 profit will be available to allow all or part of the assets 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 liabilities are settled or the assets are 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 Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

In the application of the Group'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 estimations and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimations.

The estimations and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimations are recognized in the period in which the estimations are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The calculation of the value in use requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

## 6. CASH AND CASH EQUIVALENTS

| | March 31, 2019 | December 31, 2018 | March 31, 2018 |
|---|---|---|---|
| Cash on hand | $ 1,318 | $ 148,402 | $ 1,233 |
| Checking accounts and demand deposits | 1,534,555 | 2,003,246 | 7,970,623 |
| Cash equivalents (investments with original maturities of less than 3 months) | | | |
| Time deposits | 5,817,062 | 4,984,443 | 3,491,989 |
| Repurchase agreements collateralized by bonds | 670,095 | 559,015 | - |
| | $ 8,023,030 | $ 7,695,106 | $ 11,463,845 |

The market rate intervals of demand deposits, time deposits and repurchase agreements collateralized by bonds at the end of the reporting periods were as follows:

| | March 31, 2019 | December 31, 2018 | March 31, 2018 |
|---|---|---|---|
| Demand deposits | 0.01-1.15% | 0.01-1.15% | 0.01-1.15% |
| Time deposits | 0.35-4.33% | 0.35-4% | 0.2-2.82% |
| Repurchase agreements collateralized by bonds | 0.53-2.95% | 0.55-2.8% | - |

## 7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | March 31, 2019 | December 31, 2018 | March 31, 2018 |
|---|---|---|---|
| Non-derivative financial assets | | | |
| Mandatorily measured at FVTPL - mutual funds | $ 1,874,225 | $ 1,840,835 | $ - |
| Derivative financial liabilities (included in other current liabilities) | | | |
| Held for trading - foreign exchange forward contracts | $ - | $ 4,678 | $ - |

At the end of the reporting period, the outstanding foreign exchange forward contract not under hedge accounting was as follows:

| | Currency | Maturity Date | Notional Amount (In Thousands) |
|---|---|---|---|
| December 31, 2018 | | | |
| Buy | USD/KRW | 2019.03 | USD46,745/KRW52,434,480 |

The Group entered into foreign exchange forward contracts to manage exposures to exchange rate fluctuations of foreign currency denominated assets and liabilities. However, those contracts did not meet the criteria of hedge effectiveness and, therefore, were not accounted for using hedge accounting.

## 8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | March 31, 2019 | December 31, 2018 | March 31, 2018 |
|---|---|---|---|
| Investments in equity investments - non-current | | | |
| Domestic listed shares and emerging market shares | $ 3,288,691 | $ 2,923,732 | $ 2,878,135 |
| Overseas listed shares | 632,907 | 462,545 | - |
| Domestic unlisted shares | 37,459 | 35,351 | 36,324 |
| Overseas unlisted shares | 17,148 | 10,108 | 259,146 |
| | $ 3,976,205 | $ 3,431,736 | $ 3,173,605 |

The Group holds the above investments in equity instruments for long-term strategic purposes and expects to gain profit through long-term investments. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes.

## 9. FINANCIAL ASSETS AT AMORTIZED COST

| | March 31, 2019 | December 31, 2018 | March 31, 2018 |
|---|---|---|---|
| Current | | | |
| Time deposits with original maturities of more than 3 months (a) | $ 3,749,729 | $ 3,430,920 | $ 238,904 |
| Principal guaranteed wealth investment products (b) | 631,637 | 429,617 | 92,571 |
| | $ 4,381,366 | $ 3,860,537 | $ 331,475 |

a. The market rate intervals for time deposits with original maturities of more than 3 months were 2.6-4.57%, 0.84-3.55% and 2.4-3.3% per annum, as of March 31, 2019, December 31, 2018 and March 31, 2018, respectively.

b. Principal guaranteed wealth investment products bought from banks by the Group may not be redeemed in advance during the term of the contracts. The expected rate of return intervals were 4-4.2%, 3.9-4% and 4.5% per annum, as of March 31, 2019, December 31, 2018 and March 31, 2018, respectively.

## 10. ACCOUNTS RECEIVABLE

| | March 31, 2019 | December 31, 2018 | March 31, 2018 |
|---|---|---|---|
| Accounts receivable from related parties (Note 28) | $ 152,172 | $ 159,647 | $ 171,620 |
| Gross carrying amount of accounts receivable | 2,320,031 | 2,125,653 | 1,483,101 |
| Less: Loss allowance | (33,903) | (41,888) | (20,975) |
| | 2,286,128 | 2,083,765 | 1,462,126 |
| | $ 2,438,300 | $ 2,243,412 | $ 1,633,746 |

The Group recognizes impairment loss when there is actual credit loss from individual client. In addition, the Group recognizes impairment loss based on the rate of expected credit losses by reference to past default experience of the debtor, an analysis of the debtor's current financial position, general economic conditions of the industry in which the debtors operate and past due status.

The following table details the loss allowance of accounts receivable:

March 31, 2019

| | Not Past Due | Past Due in 1-90 Days | Past Due over 90 Days | Total |
|---|---|---|---|---|
| Gross carrying amount | $ 1,898,058 | $ 158,775 | $ 263,198 | $ 2,320,031 |
| Loss allowance | - | - | (33,903) | (33,903) |
| Amortized cost | $ 1,898,058 | $ 158,775 | $ 229,295 | $ 2,286,128 |

December 31, 2018

| | Not Past Due | Past Due in 1-90 Days | Past Due over 90 Days | Total |
|---|---|---|---|---|
| Gross carrying amount | $ 1,773,351 | $ 307,407 | $ 44,895 | $ 2,125,653 |
| Loss allowance | - | - | (41,888) | (41,888) |
| Amortized cost | $ 1,773,351 | $ 307,407 | $ 3,007 | $ 2,083,765 |

March 31, 2018

| | Not Past Due | Past Due in 1-90 Days | Past Due over 90 Days | Total |
|---|---|---|---|---|
| Gross carrying amount | $ 1,391,562 | $ 44,753 | $ 46,786 | $ 1,483,101 |
| Loss allowance | - | - | (20,975) | (20,975) |
| Amortized cost | $ 1,391,562 | $ 44,753 | $ 25,811 | $ 1,462,126 |

The movements of the loss allowance were as follows:

| | For the Three Months Ended March 31 | |
|---|---|---|
| | 2019 | 2018 |
| Balance at January 1 | $ 41,888 | $ 28,611 |
| Expected credit losses reversed | - | (52) |
| Amounts written off | (8,124) | (7,609) |
| Foreign exchange translation gains and losses | 139 | 25 |
| Balance at March 31 | $ 33,903 | $ 20,975 |

Accounts receivable of the Group were mainly concentrated to Customer A. The accounts receivable from Customer A were $708,682 thousand, $834,153 thousand and $562,722 thousand, as of March 31, 2019, December 31, 2018 and March 31, 2018, respectively.

## 11. INVENTORIES

| | March 31, 2019 | December 31, 2018 | March 31, 2018 |
|---|---|---|---|
| Finished goods | $ 398,480 | $ 415,364 | $ 546,946 |
| Semi-finished goods | 301,579 | 292,747 | 321,975 |
| Work in progress | 162,207 | 29,009 | 97,523 |
| Raw materials | 1,368,998 | 1,189,870 | 1,471,353 |
| | $ 2,231,264 | $ 1,926,990 | $ 2,437,797 |

The cost of inventories recognized as cost of goods sold for the three months ended March 31, 2019 and 2018, included write-downs of inventories of $45,471 thousand and $64,369 thousand, respectively.

## 12. SUBSIDIARIES

Subsidiaries included in the consolidated financial statements are as follows:

| | | | Proportion of Ownership (%) | | | |
|---|---|---|---|---|---|---|
| Investor | Investee | Main Business | March 31, 2019 | December 31, 2018 | March 31, 2018 | Remark |
| E Ink Holdings Inc. | PVI Global Corp. | Investment | 100.00 | 100.00 | 100.00 | |
| | E Ink Corporation | Manufacture and sale of electronic ink | 45.31 | 45.31 | 45.31 | |
| | Yuen Yu Investment Co., Ltd. | Investment | 100.00 | 100.00 | 100.00 | |
| | New Field e-Paper Co., Ltd. | Wholesale and sale of electronic parts | 100.00 | 100.00 | 100.00 | |
| | SiPix Technology Inc. | Manufacture and sale of electronic ink | 100.00 | 100.00 | 100.00 | |
| | Dream Universe Ltd. | Trading | 100.00 | 100.00 | 100.00 | |
| | Prime View Communications Ltd. | Trading | 100.00 | 100.00 | 100.00 | |
| | Tech Smart Logistics Ltd. | Trading | 0.09 | 0.09 | 0.09 | |
| | Hot Tracks International Ltd. | Trading | 100.00 | 100.00 | 100.00 | |
| New Field e-Paper Co., Ltd. | E Ink Corporation | Manufacture and sale of electronic ink | 12.88 | 12.88 | 12.88 | |
| | Tech Smart Logistics Ltd. | Trading | 99.91 | 99.91 | 99.91 | |
| Yuen Yu Investment Co., Ltd. | Lucky Joy Holdings Ltd. | Investment | 100.00 | 100.00 | 100.00 | |
| | Linfiny Corporation | Research, development and sale of electronic ink | 77.00 | 77.00 | 77.00 | |
| | YuanHan Materials Inc. | Manufacture and sale of electronic parts | 100.00 | 100.00 | 100.00 | a |
| SiPix Technology Inc. | Linfiny Corporation | Research, development and sale of electronic ink | 4.00 | 4.00 | 4.00 | |
| Linfiny Corporation | Linfiny Japan Inc. | Research and development of electronic ink | 100.00 | 100.00 | 100.00 | |
| E Ink Corporation | E Ink California, LLC | Research, development and sale of electronic ink | 100.00 | 100.00 | 100.00 | |
| | E Ink Japan Inc. | Development of electronics ink products | 100.00 | 100.00 | 100.00 | |
| | E Ink Systems, LLC | Research and development of application software | 100.00 | 100.00 | 100.00 | |
| PVI Global Corp. | PVI International Corp. | Trading | 100.00 | 100.00 | 100.00 | |
| | Ruby Lustre Ltd. | Investment | 100.00 | 100.00 | 100.00 | |
| | Dream Pacific International Corp. | Investment | 100.00 | 100.00 | 100.00 | |
| | Transyork Technology Yangzhou Ltd. | Assembly and sale of display panels | 55.61 | 55.61 | 55.61 | |
| | Transmart Electronics (Yangzhou) Ltd. | Research, development and sale of flat panels | 66.66 | 66.66 | 66.66 | |
| Tech Smart Logistics Ltd. | E Ink Corporation | Manufacture and sale of electronic ink | 41.81 | 41.81 | 41.81 | |
| Dream Universe Ltd. | Transyang Electronics (Yangzhou) Ltd. | Assembly and sale of display panels | 100.00 | 100.00 | 100.00 | |
| PVI International Corp. | Transcend Optronics (Yangzhou) Co., Ltd. | Assembly and sale of display panels | 100.00 | 100.00 | 100.00 | |
| Ruby Lustre Ltd. | Rich Optronics (Yangzhou) Co., Ltd. | Assembly and sale of display panels | 100.00 | 100.00 | 100.00 | |
| Dream Pacific International Corp. | Hydis Technologies Co., Ltd. | Research, development and licensing of monitors | 94.73 | 94.73 | 94.73 | |
| | Yangzhou Huaxia Integrated O/E System Co., Ltd. | Manufacture and sale of LED products | 24.19 | 24.19 | 24.19 | |
| Hydis Technologies Co., Ltd. | Hydis Shenzhen Ltd. | Sale of LCD monitor products | - | - | 100.00 | b |
| Transcend Optronics (Yangzhou) Co., Ltd. | Yangzhou Huaxia Integrated O/E System Co., Ltd. | Manufacture and sale of LED products | 75.81 | 75.81 | 75.81 | |
| | Transyork Technology Yanzhou Ltd. | Assembly and sale of display panels | 44.39 | 44.39 | 44.39 | |
| | Transmart Electronics (Yangzhou) Ltd. | Research, development and sale of flat panels | 33.34 | 33.34 | 33.34 | |

a. To simplify the Group’s organization management, integrate the utilization of the resources, and increase operational efficiency, the board of directors of the subsidiary, Yuen Yu Investment Co., Ltd., approved on April 19, 2019 to merge YuanHan Materials Inc. by absorption. The reference date of the merger was on June 1, 2019, with Yuen Yu Investment Co., Ltd. as the surviving company, which was renamed as YuanHan Materials Inc. after the merger.

b. Hydis Shenzhen Ltd. has completed its liquidation process in November 2018.

Subsidiaries included in the consolidated financial statements for the three months ended March 31, 2019 and 2018, were calculated based on the financial statements that have not been reviewed, except for E Ink Corporation, Hydis Technologies Co., Ltd., Dream Pacific International Corp., Tech Smart Logistic Ltd., PVI International Corp., PVI Global Corp., Prime View Communications Ltd., Transcend Optronics (Yangzhou) Co., Ltd., Rich Optronics (Yangzhou) Co., Ltd., Transyork Technology Yanzhou Ltd., Yuen Yu Investment Co., Ltd., New Field e-Paper Co., Ltd. and Sipix Technology, Inc. were calculated based on the financial statements that have been reviewed.

## 13. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Machinery | Other Equipment | Construction in Progress and Prepayments for Equipment | Total |
|---|---|---|---|---|---|
| Cost | | | | | |
| Balance at January 1, 2018 | $ 3,771,839 | $ 7,203,466 | $ 5,084,702 | $ 306,234 | $ 16,366,241 |
| Additions | 4,665 | 44,119 | 16,883 | 50,483 | 116,150 |
| Disposals | - | (8,485) | (34,221) | - | (42,706) |
| Reclassifications | (1,690) | (96,349) | 1,690 | - | (96,349) |
| Effects of foreign currency exchange differences | 26,321 | 39,571 | (5,890) | (5,999) | 54,003 |
| Balance at March 31, 2018 | $ 3,801,135 | $ 7,182,322 | $ 5,063,164 | $ 350,718 | $ 16,397,339 |
| Accumulated depreciation and impairment | | | | | |
| Balance at January 1, 2018 | $ 2,059,447 | $ 6,180,597 | $ 3,373,215 | $ - | $ 11,613,259 |
| Depreciation expenses | 30,056 | 73,903 | 73,702 | - | 177,661 |
| Impairment losses reversed | - | (77) | (42) | - | (119) |
| Disposals | - | (8,163) | (34,422) | - | (42,585) |
| Reclassifications | - | (75,192) | - | - | (75,192) |
| Effects of foreign currency exchange differences | 10,467 | 26,993 | 10,515 | - | 47,975 |
| Balance at March 31, 2018 | $ 2,099,970 | $ 6,198,061 | $ 3,422,968 | $ - | $ 11,720,999 |
| Carrying amount at March 31, 2018 | $ 1,701,165 | $ 984,261 | $ 1,640,196 | $ 350,718 | $ 4,676,340 |
| Cost | | | | | |
| Balance at January 1, 2019 | $ 3,906,019 | $ 7,163,257 | $ 4,999,769 | $ 439,597 | $ 16,508,642 |
| Additions | 42,705 | 6,926 | 18,544 | 3,945 | 72,120 |
| Disposals | - | (37,149) | (20,536) | - | (57,685) |
| Reclassifications | 28,875 | 121,281 | 10,232 | (162,089) | (1,701) |
| Effects of foreign currency exchange differences | 39,278 | 37,482 | 50,497 | 2,051 | 129,308 |
| Balance at March 31, 2019 | $ 4,016,877 | $ 7,291,797 | $ 5,058,506 | $ 283,504 | $ 16,650,684 |
| Accumulated depreciation and impairment | | | | | |
| Balance at January 1, 2019 | $ 2,163,142 | $ 6,304,365 | $ 3,519,694 | $ - | $ 11,987,201 |
| Depreciation expenses | 35,756 | 77,452 | 61,739 | - | 174,947 |
| Impairment losses recognized (reversed) | - | (253) | 16,779 | - | 16,526 |
| Disposals | - | (36,918) | (20,536) | - | (57,454) |
| Effects of foreign currency exchange differences | 18,655 | 24,911 | 42,604 | - | 86,170 |
| Balance at March 31, 2019 | $ 2,217,553 | $ 6,369,557 | $ 3,620,280 | $ - | $ 12,207,390 |
| Carrying amount at December 31, 2018 and January 1, 2019 | $ 1,742,877 | $ 858,892 | $ 1,480,075 | $ 439,597 | $ 4,521,441 |
| Carrying amount at March 31, 2019 | $ 1,799,324 | $ 922,240 | $ 1,438,226 | $ 283,504 | $ 4,443,294 |

Information about capitalized interest is as follows:

| | For the Three Months Ended March 31 | |
|---|---|---|
| | 2019 | 2018 |
| Capitalized interest | $ 303 | $ 54 |
| Capitalization rate intervals | 1.22-1.23% | 0.94-1.31% |

The above items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

| | |
|---|---|
| Buildings | |
| Main buildings | 20-56 years |
| Clean rooms and plumbing construction | 25-36 years |
| Employee dormitories | 20 years |
| Others | 2-16 years |
| Machinery | 1-10 years |
| Other equipment | 1-26 years |

## 14. LEASE ARRANGEMENTS - 2019

a. Right-of-use assets

| | March 31, 2019 |
|---|---|
| Carrying amounts | |
| Land | $ 856,998 |
| Buildings | 987,489 |
| Other equipment | 3,969 |
| | $ 1,848,456 |

| | For the Three Months Ended March 31, 2019 |
|---|---|
| Depreciation of right-of-use assets | |
| Land | $ 6,220 |
| Buildings | 13,265 |
| Other equipment | 515 |
| | $ 20,000 |

b. Lease liabilities

| | March 31, 2019 |
|---|---|
| Carrying amounts | |
| Current (included in other current liabilities) | $ 74,368 |
| Non-current | $ 1,801,722 |

Discount rate intervals for lease liabilities are as follows:

| | March 31, 2019 |
|---|---|
| Land | 1.56% |
| Buildings | 0.8-3.84% |
| Other equipment | 0.8-3.84% |

c. Material lease-in activities and terms

The Group leased certain land in the Hsinchu Science Park from the Hsinchu Science Park Bureau of the Ministry of Science and Technology from July 1, 2014 to December 31, 2033. The rental amount is calculated on the basis of the mutual agreement. The lessor may adjust the rent at any time on the basis of changes in announced land values and related laws and regulations. At the end of the lease terms, the Group has renewal options if the Group does not violate the lease agreements during the rental period.

The Group also leased certain land and buildings as its plants and offices, with the lease term from 2 to 20 years. The lease contract for land located in Taoyuan specifies that lease payments will be adjusted every year on the basis of changes in announced land values, with the adjusted limitation of 3% and renewal options at the end of the lease terms. The lease contract for buildings in the United States contains extension options, which provide more operational flexibility for the Group. These terms are not reflected in measuring lease liabilities if the options are not reasonably certain to be exercised.

The Group does not have bargain purchase options to acquire the leasehold land and buildings at the end of the lease terms. In addition, without the lessors' consent, the Group is prohibited from subleasing or transferring all or any portion of the underlying assets, changing their use, or using illegally.

d. Other lease information

| | For the Three Months Ended March 31, 2019 |
|---|---|
| Expenses relating to short-term leases | $ 3,777 |
| Total cash outflow for leases | $ 32,783 |

## 15. GOODWILL AND OTHER INTANGIBLE ASSETS

| | March 31, 2019 | December 31, 2018 | March 31, 2018 |
|---|---|---|---|
| Goodwill | $ 6,789,887 | $ 6,781,244 | $ 6,648,721 |
| Other intangible assets | | | |
| Patents | 1,524,011 | 1,619,156 | 1,749,784 |
| Others | 148,461 | 125,653 | 24,817 |
| | 1,672,472 | 1,744,809 | 1,774,601 |
| | $ 8,462,359 | $ 8,526,053 | $ 8,423,322 |

| | Goodwill | Patents | Others | Total |
|---|---|---|---|---|
| Balance at January 1, 2018 | $ 6,702,636 | $ 1,864,507 | $ 24,646 | $ 8,591,789 |
| Additions | - | 2,880 | 3,016 | 5,896 |
| Amortization expenses | - | (96,617) | (2,986) | (99,603) |
| Effects of foreign currency exchange differences | (53,915) | (20,986) | 141 | (74,760) |
| Balance at March 31, 2018 | $ 6,648,721 | $ 1,749,784 | $ 24,817 | $ 8,423,322 |
| Balance at January 1, 2019 | $ 6,781,244 | $ 1,619,156 | $ 125,653 | $ 8,526,053 |
| Additions | - | 4,214 | 33,920 | 38,134 |
| Amortization expenses | - | (101,816) | (11,250) | (113,066) |
| Effects of foreign currency exchange differences | 8,643 | 2,457 | 138 | 11,238 |
| Balance at March 31, 2019 | $ 6,789,887 | $ 1,524,011 | $ 148,461 | $ 8,462,359 |

Other intangible assets are amortized on a straight-line basis over their estimated useful lives as follows:

| | |
|---|---|
| Patents | 6-17 years |
| Others | 3-5 years |

## 16. BORROWINGS

a. Short-term borrowings

| | March 31, 2019 | December 31, 2018 | March 31, 2018 |
|---|---|---|---|
| Unsecured borrowings | $ 2,147,020 | $ 1,480,000 | $ 920,310 |
| Foreign currency included (in thousands of USD) | $ 11,000 | $ - | $ 22,000 |
| Interest rate intervals | 1-3% | 0.98-1.52% | 0.98-2.48% |

b. Short-term bills payable

| | March 31, 2019 | December 31, 2018 | March 31, 2018 |
|---|---|---|---|
| Commercial paper | $ 660,000 | $ 565,000 | $ 250,000 |
| Less: Discounts on bills payable | 253 | 278 | - |
| | $ 659,747 | $ 564,722 | $ 250,000 |
| Interest rate intervals | 0.61-1.04% | 0.61-1.03% | 0.56-0.8% |

c. Long-term borrowings (included in other current liabilities and other non-current liabilities, respectively, according to the liquidity)

| | March 31, 2019 | December 31, 2018 | March 31, 2018 |
|---|---|---|---|
| Long-term payables | $ 45,771 | $ 44,752 | $ 162,193 |
| Less: Current portions | - | - | 115,907 |
| Long-term borrowings | $ 45,771 | $ 44,752 | $ 46,286 |

Long-term payables included interest-free infrastructure funds that Yangzhou Huaxia Integrated O/E System Co., Ltd. lent from Yangzhou Economic and Technological Development Zone Administration Committee and redemption of unsecured corporate bonds issued by the subsidiary, Hydis Technologies Co., Ltd.

Hydis Technologies Co., Ltd. issued unsecured corporate bonds in the amount of KRW22,880,000 thousand in May 2008 and were acquired in equal parts by ALCO Electronics Limited and Varitronix International Limited with a coupon rate of 4% and quarterly-paid interest. The corporate bonds originally expired in May 2013. However, after several resolutions by the board of directors and creditors, the expiration of the corporate bonds was extended to January 2014 and the coupon rate was lowered to 3%. The corporate bonds were then redeemed by the subsidiaries, PVI Global Corp. and Dream Pacific International Corp., on December 31, 2013 at the price of US$20,000 thousand. These amount has been paid off in June 2018. As of March 31, 2018, the above payables included in the current portion of long-term borrowings was $115,907 thousand.

## 17. OTHER PAYABLES

| | March 31, 2019 | December 31, 2018 | March 31, 2018 |
|---|---|---|---|
| Payables for salaries or bonuses | $ 612,451 | $ 779,704 | $ 602,389 |
| Payables for construction and equipment | 68,711 | 127,906 | 32,805 |
| Payables for professional service fees | 47,821 | 45,911 | 53,542 |
| Payables for utilities | 29,509 | 30,018 | 71,645 |
| Others | 312,885 | 368,220 | 366,768 |
| | $ 1,071,377 | $ 1,351,759 | $ 1,127,149 |

## 18. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company and its subsidiaries, SiPix Technology Inc. and YuanHan Materials Inc., adopted a pension plan under the Labor Pension Act (the “LPA”), which is a state-managed defined contribution plan. Under the LPA, each entity makes monthly contributions to employees’ individual pension accounts at 6% of monthly salaries and wages.

The employees of the Group’s subsidiaries in China are members of a state-managed retirement benefit plan operated by the government of China.

b. Defined benefit plans

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government of the ROC. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 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"); the Company has no right to influence the investment policy and strategy.

The defined benefit plan adopted by Hydis Technologies Co., Ltd. in accordance with the law is operated by the government of South Korea.

Employee benefit expenses in respect of the Group's defined benefit retirement plans were $2,555 thousand and $2,484 thousand for the three months ended March 31, 2019 and 2018, respectively, which were calculated using the actuarially determined pension cost rate as of December 31, 2018 and 2017, respectively.

## 19. EQUITY

a. Ordinary shares

| | March 31, 2019 | December 31, 2018 | March 31, 2018 |
|---|---|---|---|
| Number of shares authorized (in thousands) | 2,000,000 | 2,000,000 | 2,000,000 |
| Amount of shares authorized | $ 20,000,000 | $ 20,000,000 | $ 20,000,000 |
| Number of shares issued and fully paid (in thousands) | 1,140,468 | 1,140,468 | 1,140,468 |
| Amount of shares issued | $ 11,404,677 | $ 11,404,677 | $ 11,404,677 |

b. Capital surplus

| | March 31, 2019 | December 31, 2018 | March 31, 2018 |
|---|---|---|---|
| May be used to offset a deficit, distributed as cash dividends or transferred to share capital (1) | | | |
| Issuance of shares | $ 9,494,322 | $ 9,494,322 | $ 9,494,322 |
| Conversion of bonds | 525,200 | 525,200 | 525,200 |
| Treasury share transactions | 95,922 | 95,922 | 20,106 |

(Continued)

| | March 31, 2019 | December 31, 2018 | March 31, 2018 |
|---|---|---|---|
| May only be used to offset a deficit | | | |
| Expired employee share options | $ 49,840 | $ 49,840 | $ 49,840 |
| Changes in percentage of ownership interests in associates (2) | 105 | 105 | 105 |
| Unclaimed dividends extinguished by prescription | 14 | 14 | - |
| May not be used for any purpose | | | |
| Employee share options | 115,544 | 77,890 | 23,734 |
| | $ 10,280,947 | $ 10,243,293 | $ 10,113,307 |

(Concluded)

1) Such capital surplus 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).

2) Such capital surplus arises from the effect of changes in ownership interest in associates resulting from equity transactions other than actual disposals or acquisitions, or from changes in capital surplus of associates accounted for using the equity method.

c. Retained earnings and dividends policy

Under the dividends policy as set forth in the Company's amended Articles of Incorporation, where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside a legal reserve of 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 at least 50% of 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 the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors after the amendment, refer to Note 21.

The Company's Articles of Incorporation also stipulate a dividends policy that allows previous accumulated undistributed earnings to be distributed. The distribution of dividends to shareholders is allowed to be in cash or by the issuance of shares. In principle, cash dividends should be at least 10% of the total dividends distributed.

An appropriation of earnings to a legal reserve shall be made until the legal reserve equals the Company's paid-in capital. The legal reserve may be used to offset deficits. If the Company has no deficits 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.

Items referred to under Rule No. 1010012865 issued by the FSC and in the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Company.

The appropriations of earnings for 2018 and 2017 approved by the board of directors on March 20, 2019 and in the shareholders' meetings on June 22, 2018, respectively, were as follows:

| | Appropriation of Earnings For the Year Ended December 31 | | Dividends Per Share (NT$) For the Year Ended December 31 | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Legal reserve | $ 261,367 | $ 207,806 | | |
| Special reserve | 184,797 | - | | |
| Cash dividends | 2,373,438 | 1,853,550 | $ 2.10 | $ 1.65 |

The appropriation of earnings for 2018 is subject to resolution in the shareholders' meeting to be held on June 18, 2019.

d. Special reserve

If a special reserve appropriated on the first-time adoption of IFRSs relates to exchange differences on translating the financial statements of foreign operations, the special reserve will be reversed proportionally on the Company's disposal of the foreign operations; on the Company's loss of significant influence, however, the entire special reserve will be reversed. An additional special reserve should be appropriated for the amount equal to the difference between the net debit balance of the reserves and the special reserve appropriated on the first-time adoption of IFRSs. Any special reserve appropriated may be reversed to the extent that the net debit balance reverses and may thereafter be distributed.

e. Other equity items

1) Exchange differences on translating the financial statements of foreign operations

| | For the Three Months Ended March 31 | |
|---|---|---|
| | **2019** | **2018** |
| Balance at January 1 | $ (181,328) | $ (242,623) |
| Exchange differences on translating the financial statements of foreign operations | 76,714 | (112,137) |
| Share of associates and join ventures accounted for using the equity method | 1,894 | 1,440 |
| Disposal of subsidiaries | - | 1,988 |
| Balance at March 31 | $ (102,720) | $ (351,332) |

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

| | For the Three Months Ended March 31 | |
|---|---|---|
| | **2019** | **2018** |
| Balance at January 1 | $ (74,147) | $ 376,899 |
| Unrealized gain on equity instruments | 550,270 | 42,598 |
| Cumulative unrealized loss of equity instruments transferred to retained earnings due to disposal | (5,187) | - |
| Balance at March 31 | $ 470,936 | $ 419,497 |

f. Non-controlling interests

| | For the Three Months Ended March 31 | |
|---|---|---|
| | 2019 | 2018 |
| Balance at January 1 | $ 385,799 | $ 315,298 |
| Share of profit for the period | 21,562 | 7,891 |
| Exchange differences on translating the financial statements of foreign operations | (2,875) | (2,777) |
| Balance at March 31 | $ 404,486 | $ 320,412 |

g. Treasury shares

| | For the Three Months Ended March 31 | |
|---|---|---|
| | 2019 | 2018 |
| Number of shares in thousands at the beginning and the end of the period | 10,259 | 17,104 |

The board of directors of the Company resolved to repurchase 20,000 thousand shares of treasury shares on June 13, 2016, which was completed in August 2016, for the purpose of transferring to employees. Under the Securities and Exchange Act, the Company shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as the rights to dividends and to vote.

## 20. REVENUE

a. Revenue from contracts with customers

| | For the Three Months Ended March 31 | |
|---|---|---|
| **Type of Revenue/Category by Product** | 2019 | 2018 |
| Revenue from sale of goods | | |
| Monitors | $ 2,342,489 | $ 2,200,907 |
| Electronic shelf labels | 608,302 | 611,148 |
| Others | 3,981 | 85,579 |
| | $ 2,954,772 | $ 2,897,634 |
| Royalty income | $ 448,735 | $ 446,140 |

b. Contract balances

| | March 31, 2019 | December 31, 2018 | March 31, 2018 |
|---|---|---|---|
| Accounts receivable (Note 10) | $ 2,438,300 | $ 2,243,412 | $ 1,633,746 |
| Contract assets - current | | | |
| Royalty | $ 98,298 | $ 187,329 | $ 214,103 |

(Continued)

| | March 31, 2019 | December 31, 2018 | March 31, 2018 |
|---|---|---|---|
| Contract liabilities | | | |
| Royalty | $ 1,367,516 | $ 1,423,203 | $ 1,468,985 |
| Sale of goods | 389,433 | 149,799 | 116,915 |
| Contract liabilities - current | 1,756,949 | 1,573,002 | 1,585,900 |
| Contract liabilities - non-current | | | |
| Royalty | 1,570,381 | 1,761,719 | 1,285,274 |
| | $ 3,327,330 | $ 3,334,721 | $ 2,871,174 |

(Concluded)

The changes in the balances of contract assets and contract liabilities primarily result from the timing difference between the satisfaction of performance obligation and the customer's payment. Revenue recognized for the period from the beginning balance of the contract liabilities is as follows:

| | For the Three Months Ended March 31 | |
|---|---|---|
| **Type of Revenue** | **2019** | **2018** |
| Royalty income | $ 419,207 | $ 421,994 |
| Revenue from sale of goods | 95,124 | 96,403 |
| | $ 514,331 | $ 518,397 |

## 21. NET INCOME

a. Depreciation and amortization

| | For the Three Months Ended March 31 | |
|---|---|---|
| | **2019** | **2018** |
| Property, plant and equipment | $ 174,947 | $ 177,661 |
| Other intangible assets | 113,066 | 99,603 |
| Right-of-use assets | 20,000 | - |
| | $ 308,013 | $ 277,264 |
| An analysis of depreciation by function | | |
| Operating costs | $ 84,179 | $ 96,084 |
| Operating expenses | 110,768 | 81,577 |
| | $ 194,947 | $ 177,661 |
| An analysis of amortization by function | | |
| Operating costs | $ 660 | $ 106 |
| Operating expenses | 112,406 | 99,497 |
| | $ 113,066 | $ 99,603 |

b. Employee benefits expense

| | For the Three Months Ended March 31 | |
|---|---|---|
| | 2019 | 2018 |
| Post-employment benefits (Note 18) | | |
| Defined contribution plans | $ 19,999 | $ 17,841 |
| Defined benefit plans | 2,555 | 2,484 |
| Share-based payments | 22,554 | 20,325 |
| Equity-settled | 37,654 | 5,188 |
| Other employee benefits | 921,290 | 825,092 |
| Total employee benefits expense | $ 981,498 | $ 850,605 |
| An analysis of employee benefits expense by function | | |
| Operating costs | $ 246,199 | $ 247,850 |
| Operating expenses | 735,299 | 602,755 |
| | $ 981,498 | $ 850,605 |

c. Employees' compensation and remuneration of directors

According to the Articles of Incorporation of the Company, the Company accrued employees' compensation at the rates of no less than 1% and no higher than 10% as well as remuneration of directors at the rates of no higher than 1%, respectively, of net income before income tax, employees' compensation and remuneration of directors, net of accumulated deficit, if any. The estimated employees' compensation and remuneration of directors for the three months ended March 31, 2019 and 2018, were as follows:

| | For the Three Months Ended March 31 | |
|---|---|---|
| | 2019 | 2018 |
| Employees' compensation | $ 5,750 | $ 200 |
| Remuneration of directors | $ 4,400 | $ - |

If there is a change in the amounts after the annual consolidated financial statements are authorized for issue, the differences are recorded as a change in the accounting estimate in the following year.

The employees' compensation and remuneration of directors for the years ended December 31, 2018 and 2017, which were approved by the Company's board of directors on March 20, 2019 and March 27, 2018, respectively, were as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Employees' compensation | $ 27,100 | $ 23,000 |
| Remuneration of directors | $ 12,238 | $ 13,000 |

There is no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2018 and 2017.

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

## 22. INCOME TAXES

a. Major components of income tax expense recognized in profit or loss:

| | For the Three Months Ended March 31 | |
|---|---|---|
| | 2019 | 2018 |
| Current tax | | |
| In respect of the current period | $ 73,552 | $ 30,460 |
| Adjustments for the prior years | - | 672 |
| | 73,552 | 31,132 |
| Deferred tax | | |
| In respect of the current period | 71,738 | 69,677 |
| Effect of tax rate changes | - | (31,037) |
| | 71,738 | 38,640 |
| Income tax expense recognized in profit or loss | $ 145,290 | $ 69,772 |

The Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%. The effect of the change in tax rate on deferred tax benefit is recognized in full in the period in which the change in tax rate occurs. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%. The applicable tax rates used by subsidiaries in China and the United States are 25% and 21%, respectively. Tax rates used by other group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

b. Income tax benefit recognized in other comprehensive income

| | For the Three Months Ended March 31 | |
|---|---|---|
| | 2019 | 2018 |
| Deferred tax - effect of tax rate changes | $ - | $ 2,014 |

c. Income tax assessments

Income tax assessments of the Group were as follows:

| Company | Latest Assessment Year |
|---|---|
| The Company | 2015 |
| Yuen Yu Investment Co., Ltd. | 2017 |
| New Field e-Paper Co., Ltd. | 2017 |
| SiPix Technology Inc. | 2017 |
| Linfiny Corporation | 2017 |
| YuanHan Materials Inc. | 2017 |

## 23. EARNINGS PER SHARE

**Unit: NT$ Per Share**

| | For the Three Months Ended March 31 | |
|---|---|---|
| | **2019** | **2018** |
| Basic earnings per share | $ 0.39 | $ 0.04 |
| Diluted earnings per share | $ 0.39 | $ 0.04 |

The earnings and weighted average number of ordinary shares outstanding used in the computation of earnings per share were as follows:

**Net Income for the Period**

| | For the Three Months Ended March 31 | |
|---|---|---|
| | **2019** | **2018** |
| Net income for the period attributable to owners of the Company | $ 438,048 | $ 41,164 |

**Number of Shares**

**Unit: Shares in Thousands**

| | For the Three Months Ended March 31 | |
|---|---|---|
| | **2019** | **2018** |
| Weighted average number of ordinary shares used in computation of basic earnings per share | 1,130,209 | 1,123,364 |
| Effect of potentially dilutive ordinary shares | | |
| Employees' compensation | 871 | 453 |
| Share-based payment arrangements | 4,344 | 2,668 |
| Weighted average number of ordinary shares used in the computation of diluted earnings per share | 1,135,424 | 1,126,485 |

If the Group offered to settle compensation paid to employees in cash or shares, the Group assumed the entire amount of the compensation will be settled in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares was included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

## 24. SHARE-BASED PAYMENT ARRANGEMENTS

The board of directors resolved on August 14, 2018, May 8, 2018 and March 22, 2017 to transfer treasury shares of 5,885 thousand shares, 8,097 thousand shares and 7,289 thousand shares, respectively, to qualified employees of the Company and its subsidiaries. In compliance with the Company's Regulations Governing Share Repurchase and Transfer to Employees, the transfer price for each arrangements is the average of the actual acquisition price of the treasury shares.

Information about treasury shares transferred to employees is as follows:

For the three months ended March 31, 2019

**Unit: Shares in Thousands**

| Grant Date | Transferable Shares | Shares Transferred for the Period | Accumulated Shares Transferred | Expired Shares | Shares at the End of the Period |
|---|---|---|---|---|---|
| August 14, 2018 | 5,885 | - | - | 16 | 5,869 |
| May 8, 2018 | 8,097 | - | 4,024 | 28 | 4,045 |
| March 22, 2017 | 7,289 | - | 5,717 | 1,372 | 200 |

For the three months ended March 31, 2018

| Grant Date | Transferable Shares | Shares Transferred for the Period | Accumulated Shares Transferred | Expired Shares | Shares at the End of the Period |
|---|---|---|---|---|---|
| March 22, 2017 | 7,289 | - | 2,896 | 242 | 4,151 |

Treasury shares transferred to employees were priced using a Black-Scholes pricing model. Compensation costs recognized were $37,654 thousand and $5,188 thousand for the three months ended March 31, 2019 and 2018, respectively. The inputs to the models are as follows:

| | August 2018 | May 2018 | March 2017 |
|---|---|---|---|
| Grant date share price (NT$) | $36.85 | $31.55 | $25.20 |
| Exercise price (NT$) | $18.02 | $18.02 | $18.02 |
| Expected volatility | 53.23% | 48.31-49.82% | 30.53-40.29% |
| Expected life | 0-1 year | 0-1 year | 0-2 years |
| Expected dividend yield | 2.46% | 2.46% | 2.34% |
| Risk-free interest rate | 0.91% | 0.6-1.04% | 0.63-1.08% |
| Weighted-average fair value of options granted (NT$) | $18.80 | $13.55 | $7.48 |

## 25. NON-CASH TRANSACTIONS

For the three months ended March 31, 2019 and 2018, the Group entered into the following non-cash investing activities:

| | For the Three Months Ended March 31 | |
|---|---|---|
| | 2019 | 2018 |
| Acquisition of property, plant and equipment | | |
| Increase in property, plant and equipment | $ 72,120 | $ 116,150 |
| Decrease in payables for construction and equipment (included in other payables) | 59,284 | 53,564 |
| Net cash paid | $ 131,404 | $ 169,714 |

## 26. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged in the future.

The Group's risk management committee reviews the capital structure on an annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. Based on the committee's recommendations, the Group expects to balance its capital structure through the payment of dividends, the issue of new shares and private ordinary shares or, the payment of old debt.

## 27. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments measured at fair value on a recurring basis

1) Fair value hierarchy

March 31, 2019

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets at FVTPL | | | | |
| Non-derivative financial assets - mutual funds | $ 1,874,225 | $ - | $ - | $ 1,874,225 |
| Financial assets at FVTOCI | | | | |
| Investments in equity instruments | | | | |
| Domestic and overseas listed shares | $ 3,288,691 | $ - | $ 632,907 | $ 3,921,598 |
| Domestic and overseas unlisted shares | - | - | 54,607 | 54,607 |
| | $ 3,288,691 | $ - | $ 687,514 | $ 3,976,205 |

December 31, 2018

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets at FVTPL | | | | |
| Non-derivative financial assets - mutual funds | $ 1,840,835 | $ - | $ - | $ 1,840,835 |

(Continued)

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets at FVTOCI | | | | |
| Investments in equity instruments | | | | |
| Domestic and overseas listed shares | $ 2,923,732 | $ - | $ 462,545 | $ 3,386,277 |
| Domestic and overseas unlisted shares | - | - | 45,459 | 45,459 |
| | $ 2,923,732 | $ - | $ 508,004 | $ 3,431,736 |
| Financial liabilities at FVTPL | | | | |
| Derivative financial liabilities - foreign exchange forward contracts | $ - | $ 4,678 | $ - | $ 4,678 |

(Concluded)

March 31, 2018

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets at FVTOCI | | | | |
| Investments in equity instruments | | | | |
| Domestic listed and emerging market shares | $ 2,878,135 | $ - | $ - | $ 2,878,135 |
| Domestic and overseas unlisted shares | - | - | 295,470 | 295,470 |
| | $ 2,878,135 | $ - | $ 295,470 | $ 3,173,605 |

There were no transfers between Levels 1 and 2 for the three months ended March 31, 2019 and 2018, respectively.

2) Reconciliation of Level 3 fair value measurements of investments in equity instruments at FVTOCI

| | For the Three Months Ended March 31 | |
|---|---|---|
| | 2019 | 2018 |
| Balance at January 1 | $ 508,004 | $ 264,501 |
| Recognized in other comprehensive income (loss) | | |
| Unrealized gain (loss) on equity instruments | 178,593 | (13,466) |
| Exchange differences on translating the financial statements of foreign operations | 917 | 2,571 |
| | 179,510 | (10,895) |
| Purchases | - | 41,864 |
| Balance at March 31 | $ 687,514 | $ 295,470 |

3) Valuation techniques and inputs applied for Level 2 fair value measurement

Derivatives - foreign exchange forward contracts were evaluated by the discounted cash flow method. Future cash flows are estimated based on observable forward exchange rates and contracted exchange rates at the end of the reporting period, discounted at a rate that reflects the credit risk of each counterparty.

4) Valuation techniques and inputs applied for Level 3 fair value measurement

a) Domestic and overseas unlisted shares were evaluated by the market approach, referring to the market share prices and situations of companies with similar conditions. Unobservable input used by the Group was discount for lack of marketability, which was 20% as of March 31, 2019, December 31, 2018 and March 31, 2018. If the discount for lack of marketability increased by 1% while all other variables were held constant, the fair value would have decreased $214 thousand, $126 thousand and $3,239 thousand, respectively.

b) Overseas listed private shares were evaluated by the market approach, referring to the closing prices at the end of the reporting periods with consideration of discount for lack of marketability. Unobservable input used by the Group was discount for lack of marketability, which was 16.6% as of March 31, 2019 and December 31, 2018. If the discount for lack of marketability increased by 1% while all other variables were held constant, the fair value would have decreased $7,589 thousand and $5,546 thousand, respectively.

b. Categories of financial instruments

| | March 31, 2019 | December 31, 2018 | March 31, 2018 |
|---|---|---|---|
| Financial assets | | | |
| FVTPL | $ 1,874,225 | $ 1,840,835 | $ - |
| Amortized cost (Note 1) | 15,075,168 | 14,022,905 | 13,490,922 |
| Equity instruments at FVTOCI | 3,976,205 | 3,431,736 | 3,173,605 |
| Financial liabilities | | | |
| FVTPL | - | 4,678 | - |
| Amortized cost (Note 2) | 5,331,447 | 4,788,909 | 3,911,446 |

Note 1: The balances include financial assets measured at amortized cost, which comprise cash and cash equivalents, accounts receivable and other receivables.

Note 2: The balances include financial liabilities measured at amortized cost, which comprise short-term borrowings, short-term bills payable, notes and accounts payable, other payables and long-term borrowings (including current portion and included in other current liabilities and other non-current liabilities, respectively).

c. Financial risk management objectives and policies

The Group's major financial instruments include equity and debt investments, accounts receivable, notes and accounts payable, borrowings and lease liabilities. The Group's Corporate Treasury function provides services to the business, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk, credit risk and liquidity risk.

1) Market risk

The Group's activities exposed it primarily to foreign currency risk, interest rate risk and other price risk.

There have been no changes to the Group's exposure to market risks or the manner in which these risks are managed and measured.

a) Foreign currency risk

Several subsidiaries of the Company had foreign-currency-denominated sales and purchases, which exposed the Group to foreign currency risk. Exchange rate exposures were managed within approved policy by utilizing foreign exchange forward contracts.

The carrying amounts of the Group's foreign-currency-denominated monetary assets and monetary liabilities (including those eliminated on consolidation) at the end of the reporting periods are set out in Note 31.

Sensitivity analysis

The Group was mainly exposed to the U.S. dollar (USD).

The following table details the Group's sensitivity to a 1% increase and decrease in the New Taiwan dollar (NTD), Renminbi (RMB) and South Korean Won (KRW) against USD. The sensitivity analysis included only outstanding foreign-currency-denominated monetary items and adjusts their translation at the end of the reporting periods for a 1% change in foreign currency rates. For a 1% strengthening of NTD, RMB and KRW against USD, pre-tax income would increase (decrease) as follows:

| | **NTD to USD** | | **RMB to USD** | | **KRW to USD** | |
|---|---|---|---|---|---|---|
| | **For the Three Months Ended March 31** | | **For the Three Months Ended March 31** | | **For the Three Months Ended March 31** | |
| | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** |
| Profit or loss | $ (17,611) | $ (1,250) | $ (8,196) | $ 1,850 | $ (75,760) | $ (66,785) |

b) Interest rate risk

The carrying amount of the Group's financial assets, financial liabilities and lease liabilities with exposure to interest rates at the end of the reporting periods were as follows:

| | March 31, 2019 | December 31, 2018 | March 31, 2018 |
|---|---|---|---|
| Fair value interest rate risk | | | |
| Financial assets | $ 10,868,523 | $ 9,403,995 | $ 3,823,464 |
| Financial liabilities | $ 2,852,538 | $ 2,089,474 | $ 1,186,978 |
| Lease liabilities | $ 1,876,090 | $ - | $ - |
| Cash flow interest rate risk | | | |
| Financial assets | $ 1,534,555 | $ 2,003,246 | $ 7,970,623 |
| Financial liabilities | $ - | $ - | $ 145,525 |

Sensitivity analysis

The sensitivity analysis below was determined based on the Group's exposure to interest rates for non-derivative instruments at the end of the reporting periods. For floating rate liabilities, the analysis was prepared assuming the amount of each liability outstanding at the end of the reporting periods was outstanding for the whole period. A 50 basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represented management's assessment of the reasonably possible change in interest rates. The effective interest rates of floating rate financial assets and financial liabilities will change when the market rates change, which will result in fluctuations in future cash flows.

If interest rates had been 50 basis points higher, the Group's pre-tax cash inflows for the three months ended March 31, 2019 and 2018, would increase $1,918 thousand and $9,963 thousand, respectively, which was attributable to the Group's floating rate on its financial assets, and if interest rates had been 50 basis points lower, there would be an equal and opposite impact on pre-tax cash flows.

If interest rates had been 50 basis points higher, the Group's pre-tax cash outflows for the three months ended March 31, 2018 would increase by $182 thousand, which was attributable to the Group's floating rate on its financial liabilities, and if interest rates had been 50 basis points lower, there would be an equal and opposite impact on pre-tax cash flows.

c) Other price risk

The Group was exposed to instrument price risk and equity price risk through its investments in mutual funds and equity securities. Equity investments are held for strategic rather than for trading purposes, and the Group does not actively trade these investments

Sensitivity analysis

The sensitivity analysis below was determined based on the exposure to price risks of mutual funds and equity securities at the end of the reporting periods.

If prices in mutual funds and equity securities had been 5% higher/lower, the income before income tax for the three months ended March 31, 2019, would have increased/decreased by $93,711 thousand, as a result of the changes in fair value of financial assets at FVTPL, and the other comprehensive income or loss before income tax for the three months ended March 31, 2019 and 2018, would have increased/decreased by $198,810 thousand and $158,680 thousand respectively, as a result of the changes in fair value of financial assets at FVTOCI.

The Group's sensitivity to investments in equity securities has not changed significantly from the prior year.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. As at the end of the reporting periods, the Group's maximum exposure to credit risk, which would cause a financial loss to the Group due to failure of counterparties to discharge an obligation and financial guarantees provided by the Group, could arise from:

a) The carrying amount of the respective recognized financial assets as stated in the consolidated balance sheets; and

b) The amount of contingent liabilities in relation to financial guarantees issued by the Group.

The Group adopted a policy of only dealing with creditworthy counterparties, evaluated potential customers through an internal credit rating system and set the credit limit of customers to grasp the credit status of the counterparties and effectively control the credit exposure.

3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As of March 31, 2019, December 31, 2018 and March 31, 2018, the Group's unutilized short-term bank borrowing facilities were $2,365,940 thousand, $3,221,445 thousand and $2,846,265 thousand, respectively.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay, including principal and estimated interest. Therefore, bank borrowings with a repayment on demand clause were included in the earliest time band regardless of the probability of the banks choosing to exercise their rights.

March 31, 2019

| | On Demand or Less than 1 Month | 1-3 Months | 3 Months to 1 Year | 1-5 Years | 5+ Years |
|---|---|---|---|---|---|
| Non-derivative financial liabilities | | | | | |
| Lease liabilities | $ 9,674 | $ 19,348 | $ 87,068 | $ 403,372 | $ 1,964,645 |
| Fixed interest rate liabilities | 2,809,273 | - | - | - | - |
| Non-interest bearing liabilities | - | - | - | - | 45,771 |
| | $ 2,818,947 | $ 19,348 | $ 87,068 | $ 403,372 | $ 2,010,416 |

Additional information about the maturity analysis for lease liabilities was as follows:

| | Less than 1 Year | 1-5 Years | 5-10 Years | 10-15 Years | 15-20 Years | 20+ Years |
|---|---|---|---|---|---|---|
| Lease liabilities | $ 116,090 | $ 407,372 | $ 442,605 | $ 414,507 | $ 414,507 | $ 693,025 |

December 31, 2018

| | On Demand or Less than 1 Month | 1-3 Months | 3 Months to 1 Year | 1-5 Years | 5+ Years |
|---|---|---|---|---|---|
| Non-derivative financial liabilities | | | | | |
| Fixed interest rate liabilities | $ 1,916,151 | $ 130,321 | $ - | $ - | $ - |
| Non-interest bearing liabilities | - | - | - | - | 44,752 |
| | $ 1,916,151 | $ 130,321 | $ - | $ - | $ 44,752 |

March 31, 2018

| | On Demand or Less than 1 Month | 1-3 Months | 3 Months to 1 Year | 1-5 Years | 5+ Years |
|---|---|---|---|---|---|
| Non-derivative financial liabilities | | | | | |
| Fixed interest rate liabilities | $ 881,406 | $ 146,126 | $ - | $ - | $ - |
| Floating interest rate liabilities | - | 146,271 | - | - | - |
| Non-interest bearing liabilities | - | - | 115,907 | - | 46,286 |
| | $ 881,406 | $ 292,397 | $ 115,907 | $ - | $ 46,286 |

## 28. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

a. Related party name and category

| Related Party Name | Related Party Category |
|---|---|
| NTX Electronics Yangzhou Co., Ltd. | Associate |
| Dihao Electronics (Yangzhou) Co., Ltd. | Associate |
| Yuen Foong Yu Biotech Co., Ltd. | Associate |
| YFY Inc. | Investor with significant influence over the Group |
| YFY Investment Co., Ltd. | Subsidiary of investor with significant influence over the Group |
| Eihoyo Shoji Co., Ltd. | Subsidiary of investor with significant influence over the Group |

(Continued)

| Related Party Name | Related Party Category |
|---|---|
| Yuen Foong Paper Co., Ltd. (Nanjing) | Subsidiary of investor with significant influence over the Group |
| Yuen Foong Yu Paper Mfg. Co., Ltd. (Yangzhou) | Subsidiary of investor with significant influence over the Group |
| Arizon RFID Technology (Yangzhou) Co., Ltd. | Subsidiary of investor with significant influence over the Group |
| YFY Packaging Inc. | Subsidiary of investor with significant influence over the Group |
| Yuen Foong Yu Consumer Products Co., Ltd. | Subsidiary of investor with significant influence over the Group |
| YFY Holding Management Co., Ltd. | Subsidiary of investor with significant influence over the Group |
| Yuen Foong Yu Consumer Products (Yangzhou) Co., Ltd. | Subsidiary of investor with significant influence over the Group |
| Yuen Foong Yu Blue Economy Natural Resources (Yangzhou) Co., Ltd. | Subsidiary of investor with significant influence over the Group |
| Yeon Technologies (Yangzhou) Co., Ltd. | Subsidiary of investor with significant influence over the Group |
| China Color Printing Co., Ltd. | Subsidiary of investor with significant influence over the Group |
| LiVEBRiCKS Inc. | Subsidiary of investor with significant influence over the Group |
| Yuen Foong Materials Co., Ltd. | Subsidiary of investor with significant influence over the Group |
| Syntax Communication (H.K.) Limited | Subsidiary of investor with significant influence over the Group |
| YFY Jupiter US, Inc. | Subsidiary of investor with significant influence over the Group |
| Jupiter Prestige Group North America Inc. | Subsidiary of investor with significant influence over the Group |
| Spectiv Brands, LLC | Subsidiary of investor with significant influence over the Group |
| Johnson Lee | Key management personnel |
| Yuen Foong Yu Biotech (Kunshan) Co., Ltd. | Substantive related party |
| Yuen Foong Paper Co., Ltd. | Substantive related party |
| SinoPac Securities Corp. | Substantive related party |
| Hsin Yi Enterprise Co., Ltd. | Substantive related party |
| TGKW Management Limited | Substantive related party |
| Hsin Fan Precision Electronics (Yangzhou) Co., Ltd. (Originally named Yuen Foong Precision Electronics (Yangzhou) Co., Ltd.) | Substantive related party |
| Foongtone Technology Co., Ltd. | Substantive related party |
| Shen's Art Print Co., Ltd. | Substantive related party |

(Concluded)

b. Sales of goods

| Related Party Category | For the Three Months Ended March 31 2019 | 2018 |
|---|---|---|
| Others | $ - | $ 12 |

c. Purchase of goods

| Related Party Category | For the Three Months Ended March 31 2019 | 2018 |
|---|---|---|
| Associate | $ 80,013 | $ 81,895 |
| Others | 1,698 | 1,492 |
| | $ 81,711 | $ 83,387 |

d. Manufacturing costs

| Related Party Category | For the Three Months Ended March 31 2019 | 2018 |
|---|---|---|
| Substantive related party | $ 13,643 | $ 11,643 |
| Others | 470 | 51 |
| | $ 14,113 | $ 11,694 |

e. Operating expenses

| Related Party Category | For the Three Months Ended March 31 2019 | 2018 |
|---|---|---|
| Substantive related party | $ 5,920 | $ 6,007 |
| Associate | 1,652 | 1,074 |
| Investor and its subsidiaries with significant influence over the Group | 1,551 | 2,015 |
| | $ 9,123 | $ 9,096 |

f. Non-operating income - other income

| Related Party Category | For the Three Months Ended March 31 2019 | 2018 |
|---|---|---|
| Subsidiary of investor with significant influence over the Group | $ 1,736 | $ 2,812 |
| Others | 1,730 | 1,698 |
| | $ 3,466 | $ 4,510 |

g. Accounts receivable from related parties (included in accounts receivable)

| Related Party Category | March 31, 2019 | December 31, 2018 | March 31, 2018 |
|---|---|---|---|
| Associate | $ 137,523 | $ 136,033 | $ 152,912 |
| Investor and its subsidiaries with significant influence over the Group | 14,627 | 23,536 | 18,708 |
| Substantive related party | 22 | 78 | - |
| | $ 152,172 | $ 159,647 | $ 171,620 |

The outstanding accounts receivable from related parties were unsecured. For the three months ended March 31, 2019 and 2018, no impairment loss was recognized for accounts receivable from related parties.

h. Accounts payable to related parties (included in notes and accounts payable)

| Related Party Category | March 31, 2019 | December 31, 2018 | March 31, 2018 |
|---|---|---|---|
| Substantive related party | $ 7,306 | $ 5,439 | $ 6,132 |
| Investor and its subsidiaries with significant influence over the Group | 4,820 | 3,716 | 5,095 |
| Associate | 888 | 5,962 | 53,420 |
| | $ 13,014 | $ 15,117 | $ 64,647 |

The outstanding accounts payable to related parties were unsecured.

i. Prepayments and refundable deposits (included in other non-current assets)

| Related Party Category/Name | March 31, 2019 | December 31, 2018 | March 31, 2018 |
|---|---|---|---|
| Substantive related party | | | |
| Yuen Foong Yu Biotech (Kunshan) Co., Ltd. | $ 51,629 | $ 50,480 | $ 52,210 |
| Associate | 11,491 | - | - |
| Subsidiary of investor with significant influence over the Group | 490 | 482 | 1,762 |
| | $ 63,610 | $ 50,962 | $ 53,972 |

j. Lease arrangements

The Group leased offices from a subsidiary of investor with significant influence over the Group, with the lease term for 4 years. The related amounts were as follows:

| Line Item | March 31, 2019 |
|---|---|
| Lease liabilities | |
| Current (included in other current liabilities) | $ 4,857 |
| Non-current | 4,489 |
| | $ 9,346 |

| Line Item | For the Three Months Ended March 31, 2019 |
|---|---|
| Interest expenses | $ 22 |

The lease contract between the Group and the related party was determined by reference to the market conditions and payment terms that were similar to those with the third parties.

k. Guarantee deposits received (included in other non-current liabilities)

| Related Party Category | March 31, 2019 | December 31, 2018 | March 31, 2018 |
|---|---|---|---|
| Key management personnel | $ 1,050 | $ 1,050 | $ 1,050 |
| Others | 69 | 67 | 222 |
| | $ 1,119 | $ 1,117 | $ 1,272 |

l. Compensation of key management personnel

| | For the Three Months Ended March 31 | |
|---|---|---|
| | 2019 | 2018 |
| Short-term employee benefits | $ 30,209 | $ 25,376 |
| Post-employment benefits | 428 | 305 |
| Share-based payments | 10,351 | 1,355 |
| | $ 40,988 | $ 27,036 |

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

## 29. ASSETS PLEDGED AS COLLATERAL

As of March 31, 2019, December 31, 2018 and March 31, 2018, the following demand deposits and time deposits included in other current assets and other non-current assets were provided as collateral for line of credit for derivative instrument trading, tariffs guarantee for imported inventories, lease deposits for plants and land, and deposits for provisional attachment:

| | March 31, 2019 | December 31, 2018 | March 31, 2018 |
|---|---|---|---|
| Current | $ 656,508 | $ 518,848 | $ 134,810 |
| Non-current | 154,329 | 155,486 | 3,252 |
| | $ 810,837 | $ 674,334 | $ 138,062 |

## 30. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

Guaranteed notes issued for long-term and short-term borrowings and lines of credit for derivative instrument trading were $5,390,500 thousand, $4,670,000 thousand and $4,160,000 thousand as of March 31, 2019, December 31, 2018 and March 31, 2018, respectively.

Letters of bank guarantees issued for tariff guarantee for imported inventories were $91,542 thousand, $89,506 thousand and $92,572 thousand as of March 31, 2019, December 31, 2018 and March 31, 2018, respectively.

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

The following information was aggregated by the foreign currencies other than functional currencies of the group entities 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:

March 31, 2019

| | Foreign Currency | Exchange Rate | Carrying Amount |
|---|---|---|---|
| Foreign currency assets | | | |
| Monetary items | | | |
| USD | $ 245,813 | 1,126.874 (USD:KRW) | $ 7,575,957 |
| USD | 195,759 | 30.82 (USD:NTD) | 6,033,292 |
| USD | 123,951 | 6.734 (USD:RMB) | 3,820,170 |
| USD | 32,961 | 7.85 (USD:HKD) | 1,015,858 |
| | | | $ 18,445,277 |
| Non-monetary items | | | |
| Mutual funds | | | |
| USD | 60,811 | 1,126.874 (USD:KRW) | $ 1,874,225 |
| Foreign currency liabilities | | | |
| Monetary items | | | |
| USD | 138,616 | 30.82 (USD:NTD) | $ 4,272,145 |
| USD | 97,359 | 6.734 (USD:RMB) | 3,000,604 |
| USD | 32,011 | 7.85 (USD:HKD) | 986,579 |
| | | | $ 8,259,328 |

December 31, 2018

| | Foreign Currency | Exchange Rate | Carrying Amount |
|---|---|---|---|
| Foreign currency assets | | | |
| Monetary items | | | |
| USD | $ 189,999 | 1,106.847 (USD:KRW) | $ 5,835,819 |
| USD | 183,199 | 30.715 (USD:NTD) | 5,626,957 |
| USD | 131,188 | 6.863 (USD:RMB) | 4,029,439 |
| USD | 34,289 | 7.834 (USD:HKD) | 1,053,187 |
| | | | $ 16,545,402 |
| Non-monetary items | | | |
| Mutual funds | | | |
| USD | 59,932 | 1,106.847 (USD:KRW) | $ 1,840,835 |
| Foreign currency liabilities | | | |
| Monetary items | | | |
| USD | 141,912 | 30.715 (USD:NTD) | $ 4,358,827 |
| USD | 89,275 | 6.863 (USD:RMB) | 2,742,082 |
| USD | 33,340 | 7.834 (USD:HKD) | 1,024,038 |
| | | | $ 8,124,947 |

March 31, 2018

| | Foreign Currency | Exchange Rate | Carrying Amount |
|---|---|---|---|
| Foreign currency assets | | | |
| Monetary items | | | |
| USD | $ 151,650 | 29.105 (USD:NTD) | $ 4,413,773 |
| USD | 101,968 | 6.288 (USD:RMB) | 2,967,779 |
| USD | 229,461 | 1,053.003 (USD:KRW) | 6,678,462 |
| USD | 25,072 | 7.849 (USD:HKD) | 729,721 |
| | | | $ 14,789,735 |
| Foreign currency liabilities | | | |
| Monetary items | | | |
| USD | 147,354 | 29.105 (USD:NTD) | $ 4,288,738 |
| USD | 108,324 | 6.288 (USD:RMB) | 3,152,770 |
| USD | 24,130 | 7.849 (USD:HKD) | 702,304 |
| | | | $ 8,143,812 |

The Group’s net realized and unrealized gain (loss) on foreign currency exchange were $124,044 thousand and $(58,730) thousand for the three months ended March 31, 2019 and 2018, respectively. It is impractical to disclose net gain or loss on foreign currency exchange by each significant foreign currency due to the variety of the foreign currency transactions and the functional currency of each entity in the Group.

## 32. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and 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 ventures) (Table 3)

4) Marketable securities acquired and disposed of at costs or prices of at least NT$300 million or 20% of the paid-in capital (Table 4)

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 5)

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital (Table 6)

9) Trading in derivative instruments (Note 7)

10) Intercompany relationships and significant intercompany transactions (Table 9)

11) Information on investees (Table 7)

b. Information on investments in mainland China (Table 8)

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, 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.

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 purchases and the balance and percentage of the related payables at the end of the period.

b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.

c) The amount of property transactions and the amount of the resultant gains or losses.

d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes.

e) The highest balance, ending balance, interest rate interval, and total interest for the current period with respect to financing of funds.

f) Other transactions that have a material effect on profit or loss for the period or on the financial position, such as the rendering or receipt of services.

## 33. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the breakdown by region. The Group's reportable segments were classified into the ROC, Asia and Americas according to their geographic locations.

The profit or loss from the Group's operating segments is primarily measured by the segment profit or loss, which is used for the basis for assessment of performance. In addition, there are no significant differences between the accounting standards applied by the segments and the summary of significant accounting policies as disclosed in Note 4.

The following was an analysis of the Group's revenue and results from operation by reportable segments:

| | Segment Revenue | Segment Profit (Loss) |
|---|---|---|
| For the three months ended March 31, 2019 | | |
| ROC | $ 3,191,424 | $ 79,634 |
| Asia | 2,157,684 | 117,491 |
| Americas | 975,034 | (199,295) |
| Adjustment and eliminations | (3,369,370) | - |
| | $ 2,954,772 | (2,170) |
| Administration cost and remunerations to directors | | (105,329) |
| Interest income | | 81,934 |
| Royalty income | | 448,735 |
| Interest expenses | | (18,559) |
| Net gain on foreign currency exchange | | 124,044 |
| Net gain on fair value changes of financial assets at FVTPL | | 60,260 |
| Other non-operating income and expenses, net | | 15,985 |
| Income before income tax | | $ 604,900 |
| For the three months ended March 31, 2018 | | |
| ROC | $ 3,224,702 | $ 255,951 |
| Asia | 2,024,305 | (182,765) |
| Americas | 842,276 | (222,973) |
| Adjustment and eliminations | (3,193,649) | - |
| | $ 2,897,634 | (149,787) |
| Administration costs and remuneration of directors | | (114,106) |
| Interest income | | 17,385 |
| Royalty income | | 446,140 |
| Interest expenses | | (2,721) |
| Net loss on foreign currency exchange | | (58,730) |
| Other non-operating income and expenses, net | | (19,354) |
| Income before income tax | | $ 118,827 |

Segment profit represents the income before income tax earned by each segment without allocation of central administration costs and remuneration of directors, interest income, royalty income, interest expenses, net gain (loss) on foreign currency exchange, net gain on fair value changes of financial assets at FVTPL, other non-operating income and expenses, and income tax expense, etc.

# E INK HOLDINGS INC. AND SUBSIDIARIES

**FINANCING PROVIDED TO OTHERS**
**FOR THE THREE MONTHS ENDED MARCH 31, 2019**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| No. | Financing Company | Counterparty | Financial Statement Account | Related Party | Maximum Balance (Note 1) | Ending Balance (Note 1) | Amount Actually Drawn (Note 1) | Interest Rate Intervals (%) | Nature of Financing | Business Transaction Amount | Reasons for Short-term Financing | Allowance for Impairment Loss | Collateral | | Financing Limit for Each Borrowing Company (Note 2) | Aggregate Financing Limit (Note 2) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | | | Item | Value | | |
| 1 | Transcend Optronics (Yangzhou) Co., Ltd. | Yangzhou Huaxia Integrated O/E System Co., Ltd. | Other receivables | Yes | $ 942,965 (RMB 205,022 thousand) | $ 938,409 (RMB 205,022 thousand) | $ 938,409 (RMB 205,022 thousand) | 3.915 | Short-term financing | $ - | Working capital | $ - | Right-of-use of land and buildings | $ 467,279 (RMB 102,090 thousand) | $ 1,244,722 (RMB 271,945 thousand) | $ 1,244,722 (RMB 271,945 thousand) |
| 2 | Sipix Technology Inc. | E Ink Holdings Inc. | Other receivables | Yes | 250,000 | 250,000 | 250,000 | 1 | Short-term financing | - | Working capital | - | - | - | 307,087 | 307,087 |

Note 1: The amounts are translated at the exchange rate of RMB1=NT$4.57711 on March 31, 2019, except the maximum balance that is translated at the highest exchange rate at the end of each month for the period.

Note 2: The amount shall not exceed 40% of the financing company's net equity per its latest financial statements.

Note 3: The above intercompany transactions have been eliminated upon consolidation.

## E INK HOLDINGS INC. AND SUBSIDIARIES

**ENDORSEMENTS/GUARANTEES PROVIDED**
**FOR THE THREE MONTHS ENDED MARCH 31, 2019**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| No. | Endorsement/Guarantee Provider | Endorsed/Guaranteed Party | | Limit on Endorsement/ Guarantee Amount Provided to Each Endorsed/ Guaranteed Party (Note 2) | Maximum Balance (Note 3) | Ending Balance (Note 3) | Amount Actually Drawn (Note 3) | Amount of Endorsement/ Guarantee Collateralized by Properties | Ratio of Accumulated Endorsement/ Guarantee to Net Equity per Latest Financial Statements (%) | Maximum Endorsement/ Guarantee Amount Allowable (Note 4) | Endorsement/ Guarantee Provided by Parent Company | Endorsement/ Guarantee Provided by Subsidiary | Endorsement/ Guarantee to Subsidiary in Mainland China |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Name | Relationship | | | | | | | | | | |
| 0 | E Ink Holdings Inc. | E Ink Corporation | (Note 1) | $ 7,258,306 | $ 862,960 (US$ 28,000 thousand) | $ 631,810 (US$ 20,500 thousand) | $ - | $ - | 2.18 | $ 29,033,225 | Yes | No | No |
| | | Yuen Yu Investment Co., Ltd. | (Note 1) | 7,258,306 | 800,000 | 800,000 | 348,000 | - | 2.76 | 29,033,225 | Yes | No | No |
| | | Linfiny Corporation | (Note 1) | 7,258,306 | 360,000 | 360,000 | 30,000 | - | 1.24 | 29,033,225 | Yes | No | No |

Note 1: Subsidiary.

Note 2: The amount shall not exceed 25% of the Company's net equity.

Note 3: The amounts are translated at the exchange rate of US$1=NT$30.82 on March 31, 2019, except the maximum balance that is translated at the highest exchange rate at the end of each month for the period.

Note 4: The amount shall not exceed the Company's net equity.

# E INK HOLDINGS INC. AND SUBSIDIARIES

**MARKETABLE SECURITIES HELD**
**MARCH 31, 2019**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Holding Company Name | Type and Name of Marketable Securities | Relationship with the Holding Company | Financial Statement Account | March 31, 2019 | | | | Note |
|---|---|---|---|---|---|---|---|---|
| | | | | Shares/Units (In Thousands) | Carrying Amount | Percentage of Ownership (%) | Fair Value | |
| E Ink Holdings Inc. | Ordinary shares | | | | | | | |
| | SinoPac Financial Holding Company Limited | Substantive related party | Financial assets at FVTOCI | 90,451 | $ 1,031,147 | 0.80 | $ 1,031,147 | |
| | YFY Inc. | Investor with significant influence over the Company | Financial assets at FVTOCI | 7,814 | 92,596 | 0.47 | 92,596 | |
| | Ultra Chip, Inc. | One of its director | Financial assets at FVTOCI | 2,710 | 123,831 | 4.27 | 123,831 | |
| | IGNIS INNOVATION INC. | - | Financial assets at FVTPL | 388 | - | 0.20 | - | |
| | New Medical Imaging Co., Ltd. | - | Financial assets at FVTPL | 109 | - | 2.37 | - | |
| Yuen Yu Investment Co., Ltd. | Ordinary shares | | | | | | | |
| | SinoPac Financial Holding Company Limited | Substantive related party | Financial assets at FVTOCI | 115,005 | 1,311,059 | 1.02 | 1,311,059 | |
| | YFY Inc. | Investor with significant influence over the parent company | Financial assets at FVTOCI | 16 | 190 | - | 190 | |
| | Netronix Inc. | One of its director | Financial assets at FVTOCI | 5,309 | 249,267 | 6.38 | 249,267 | |
| | SES-imagotag | - | Financial assets at FVTOCI | 867 | 632,907 | 6.03 | 632,907 | |
| | Fitipower Integrated Technology Inc. | - | Financial assets at FVTOCI | 2,689 | 122,332 | 1.65 | 122,332 | |
| | Formolight Technologies, Inc. | - | Financial assets at FVTOCI | 2,228 | 19,003 | 10.93 | 19,003 | |
| | Echem Solutions Corp. | - | Financial assets at FVTOCI | 707 | 13,661 | 1.27 | 13,661 | |
| | eCrowd Media Inc. | - | Financial assets at FVTOCI | 1,010 | 4,795 | 6.62 | 4,795 | |
| SiPix Technology Inc. | Ordinary shares | | | | | | | |
| | SinoPac Financial Holding Company Limited | Substantive related party | Financial assets at FVTOCI | 31,427 | 358,269 | 0.28 | 358,269 | |
| Transcend Optronics (Yangzhou) Co., Ltd. | Ordinary shares | | | | | | | |
| | Dalian DKE LCD Co., Ltd. | - | Financial assets at FVTOCI | 837 | RMB 3,747 thousand | 3.52 | RMB 3,747 thousand | |
| Hydis Technologies Co., Ltd. | Mutual funds | | | | | | | |
| | Term Liquidity Fund | - | Financial assets at FVTPL | 578 | KRW 68,328,063 thousand | - | KRW 68,328,063 thousand | |

Note: Please refer to Tables 7 and 8 for information on investments in subsidiaries and associates.

TABLE 4

## E INK HOLDINGS INC. AND SUBSIDIARIES

**MARKETABLE SECURITIES ACQUIRED AND DISPOSED AT COSTS OR PRICES OF AT LEAST NT$300 MILLION OR 20% OF THE PAID-IN CAPITAL**
**FOR THE THREE MONTHS ENDED MARCH 31, 2019**
**(In Thousands of Renminbi)**

| Company Name | Type and Name of Marketable Securities | Financial Statement Account | Counterparty | Relationship | Beginning Balance | | Acquisition | | Disposal | | | | Other Adjustments | Ending Balance | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Units (In Thousands) | Amount | Units (In Thousands) | Amount | Units (In Thousands) | Prices | Carrying Amount | Gain on Disposal | | Units (In Thousands) | Amount |
| Rich Optronics (Yangzhou) Co., Ltd. | Principal guaranteed wealth investment products | | | | | | | | | | | | | | |
| | Su-Yin-Xi structured | Financial assets at amortized cost | Bank of Jiangsu | - | - | $ 68,000 | - | $ 68,000 | - | $ 68,680 | $ 68,000 | $ 680 (Note) | $ - | - | $ 68,000 |

Note: Included in interest income.

# E INK HOLDINGS INC. AND SUBSIDIARIES

**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL**
**FOR THE THREE MONTHS ENDED MARCH 31, 2019**
**(In Thousands of New Taiwan Dollars)**

| Company Name | Related Party | Relationship | Transaction Details | | | | Abnormal Transaction | | Notes/Accounts Receivable (Payable) | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Purchase/ Sale | Amount | % of Total | Payment Terms | Unit Price | Payment Terms | Ending Balance | % of Total (Note 1) | |
| E Ink Holdings Inc. | Prime View Communications Ltd. | Subsidiary | Sale | $ (714,001) | (26) | By agreements | $ - | - | $ 986,319 | 27 | |
| | PVI International Corp. | Subsidiary | Sale | (801,030) | (29) | By agreements | - | - | 596,790 | 16 | |
| | E Ink Corporation | Subsidiary | Purchase | 879,269 | 40 | By agreements | - | - | (259,561) | (10) | |
| | SiPix Technology Inc. | Subsidiary | Sale | (218,343) | (8) | By agreements | - | - | 129,196 | 4 | |
| | Transcend Optronics (Yangzhou) Co., Ltd. | Subsidiary | Purchase | 254,252 | 11 | By agreements | - | - | (1,233,984) | (47) | |
| SiPix Technology Inc. | E Ink Holdings Inc. | Parent company | Purchase | 218,343 | 91 | By agreements | - | - | (129,196) | (91) | |
| Prime View Communications Ltd. | E Ink Holdings Inc. | Parent company | Purchase | 714,001 | 100 | By agreements | - | - | (986,319) | (100) | |
| PVI International Corp. | E Ink Holdings Inc. | Parent company | Purchase | 801,030 | 100 | By agreements | - | - | (596,790) | (100) | |
| Transcend Optronics (Yangzhou) Co., Ltd. | E Ink Holdings Inc. | Parent company | Sale | (254,252) | (100) | By agreements | - | - | 1,233,984 | 100 | |
| E Ink Corporation | E Ink Holdings Inc. | Parent company | Sale | (879,269) | (97) | By agreements | - | - | 259,561 | 82 | |
| | E Ink California, LLC | Subsidiary | Purchase | 114,851 | 42 | By agreements | - | - | (291,221) | (94) | |
| E Ink California, LLC | E Ink Corporation | Parent company | Sale | (114,851) | (100) | By agreements | - | - | 291,221 | 100 | |

Note 1: The calculation is based on each company's receivables from (payables to) related parties.

Note 2: The above intercompany transactions have been eliminated upon consolidation.

# E INK HOLDINGS INC. AND SUBSIDIARIES

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL**
**MARCH 31, 2019**
**(In Thousands of New Taiwan Dollars)**

| Company Name | Related Party | Relationship | Ending Balance | Turnover Rate (Times) | Overdue | | Amount Received in Subsequent Period | Allowance for Impairment Loss |
|---|---|---|---|---|---|---|---|---|
| | | | | | Amount | Actions Taken | | |
| E Ink Holdings Inc. | Prime View Communications Ltd. | Subsidiary | $ 986,319 | 2.84 | $ - | - | $ 357,833 | $ - |
| | PVI International Corp. | Subsidiary | 596,790 | 8.74 | - | - | 312,636 | - |
| | SiPix Technology Inc. | Subsidiary | 129,196 | 6.88 | - | - | 92,994 | - |
| | SiPix Technology Inc. | Subsidiary | 682,144 | (Note 2) | - | - | - | - |
| | Transcend Optronics (Yangzhou) Co., Ltd. | Subsidiary | 1,782,128 | (Note 1) | 320,134 | Collected | 614,990 | - |
| | NTX Electronics Yangzhou Co., Ltd. | Associate | 136,510 | (Note 1) | - | - | 24,971 | - |
| Tech Smart Logistics Ltd. | E Ink Holdings Inc. | Parent company | 662,400 | (Note 1) | 662,400 | In the process of collection | 15,421 | - |
| Dream Pacific International Corp. | Tech Smart Logistics Ltd. | Same ultimate parent company | 177,260 | (Note 1) | 177,260 | In the process of collection | 15,527 | - |
| PVI Global Corp. | Dream Pacific International Corp. | Subsidiary | 249,642 | (Note 2) | 249,642 | In the process of collection | 15,410 | - |
| Transcend Optronics (Yangzhou) Co., Ltd. | E Ink Holdings Inc. | Parent company | 1,233,984 | (Note 1) | 183 | In the process of collection | - | - |
| Transyork Technology Yangzhou Ltd. | E Ink Holdings Inc. | Parent company | 406,801 | (Note 1) | 322,124 | In the process of collection | - | - |
| E Ink Corporation | E Ink Holdings Inc. | Parent company | 259,561 | 15.48 | - | - | 92,667 | - |
| E Ink California, LLC | E Ink Corporation | Parent company | 291,221 | 1.7 | 176,254 | In the process of collection | 34,960 | - |

Note 1: Other receivables from materials delivered to subcontractors.

Note 2: Primarily cash dividends receivables.

Note 3: The above intercompany transactions have been eliminated upon consolidation, except transactions with NTX Electronics Yangzhou Co., Ltd.

# E INK HOLDINGS INC. AND SUBSIDIARIES

**INFORMATION ON INVESTEES**
**FOR THE THREE MONTHS ENDED MARCH 31, 2019**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Investor Company | Investee Company | Location | Main Business and Product | Original Investment Amount | | March 31, 2019 | | | Net Income (Loss) of Investee | Share of Profit (Loss) of Investee | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | March 31, 2019 | December 31, 2018 | Shares (In Thousands) | Percentage of Ownership (%) | Carrying Amount | | | |
| E Ink Holdings Inc. | PVI Global Corp. | British Virgin Islands | Investment | $ 3,090,254 | $ 3,090,254 | 99,413 | 100.00 | $ 11,779,867 | $ 609,536 | $ 609,536 | (Note) |
| | New Field e-Paper Co., Ltd. | Taoyuan, Taiwan | Wholesale and sale of electronics parts | 6,394,455 | 6,394,455 | 671,032 | 100.00 | 5,612,154 | (110,811) | (110,811) | (Note) |
| | E Ink Corporation | Boston, USA | Manufacture and sale of electronic ink | 4,911,303 | 4,911,303 | 1 | 45.31 | 4,222,260 | (21,296) | (91,509) | (Note) |
| | Yuen Yu Investment Co., Ltd. | Taipei, Taiwan | Investment | 5,015,000 | 5,015,000 | 152,433 | 100.00 | 2,166,130 | (28,880) | (28,880) | (Note) |
| | SiPix Technology Inc. | Taoyuan, Taiwan | Manufacture and sale of electronic ink | 1,405,230 | 1,405,230 | - | 100.00 | 1,521,725 | 160,950 | 160,950 | (Note) |
| | Dream Universe Ltd. | Mauritius | Trading | 128,710 | 128,710 | 4,050 | 100.00 | 375,402 | 430 | 430 | (Note) |
| | Prime View Communications Ltd. | Hong Kong | Trading | 18,988 | 18,988 | 3,570 | 100.00 | 28,053 | 218 | 218 | (Note) |
| | Enttek Co., Ltd. | Taichung, Taiwan | Manufacture and sale of consumer audio-visual systems | 34,547 | 34,547 | 2,203 | 47.07 | - | - | - | Under liquidation |
| | Tech Smart Logistics Ltd. | British Virgin Islands | Trading | 49,267 | 49,267 | 1,550 | 0.09 | 3,973 | (84,789) | (76) | (Note) |
| | Hot Tracks International Ltd. | British Virgin Islands | Trading | 1,735 | 1,735 | 50 | 100.00 | 42 | 6 | 6 | (Note) |
| New Field e-Paper Co., Ltd. | Tech Smart Logistics Ltd. | British Virgin Islands | Trading | 4,865,850 | 4,865,850 | 1,748,252 | 99.91 | 4,411,008 | (84,789) | (84,713) | (Note) |
| | E Ink Corporation | Boston, USA | Manufacture and sale of electronic ink | 1,618,500 | 1,618,500 | - | 12.88 | 1,200,236 | (21,296) | (26,012) | (Note) |
| Yuen Yu Investment Co., Ltd. | Linfiny Corporation | Taoyuan, Taiwan | Research, development and sale of electronic ink | 323,400 | 323,400 | 32,340 | 77.00 | 113,301 | (28,515) | (21,957) | (Note) |
| | YuanHan Materials Inc. | Taoyuan, Taiwan | Manufacture and sale of electronics parts | 100,000 | 100,000 | 10,000 | 100.00 | 44,642 | (718) | (4,722) | (Note) |
| | Lucky Joy Holdings Ltd. | Samoa | Investment | 36,117 | 36,117 | 1,098 | 100.00 | 12 | - | - | (Note) |
| | Yuen Foong Yu Biotech Co., Ltd. | Taipei, Taiwan | Cultivation, processing and sale of agriculture and restaurant management | 36,000 | 36,000 | 3,600 | 36.00 | - | (22,699) | - | |
| | Kyoritsu Optronics Co., Ltd. | Taipei, Taiwan | Technology development, transfer and licensing of flat panels | 18,860 | 18,860 | 1,050 | 25.65 | - | - | - | |
| SiPix Technology Inc. | Linfiny Corporation | Taoyuan, Taiwan | Research, development and sale of electronic ink | 16,800 | 16,800 | 1,680 | 4.00 | 5,886 | (28,515) | (1,140) | (Note) |
| Linfiny Corporation | Linfiny Japan Inc. | Tokyo, Japan | Research and development of electronic ink | 11,088 | 11,088 | 4 | 100.00 | 20,624 | 407 | 407 | (Note) |
| E Ink Corporation | E Ink California, LLC | California, USA | Research, development and sale of electronic ink | US$ 29,100 thousand | US$ 29,100 thousand | 27,400 | 100.00 | US$ 29,437 thousand | US$ 792 thousand | US$ 280 thousand | (Note) |
| | E Ink Japan Inc. | Tokyo, Japan | Development of electronic ink products | US$ 86 thousand | US$ 86 thousand | - | 100.00 | US$ 327 thousand | US$ 85 thousand | US$ 85 thousand | (Note) |
| | E Ink Systems, LLC | California, USA | Research and development of application software | US$ 337 thousand | US$ 337 thousand | - | 100.00 | US$ 802 thousand | US$ 31 thousand | US$ 31 thousand | (Note) |
| Tech Smart Logistics Ltd. | E Ink Corporation | Boston, USA | Manufacture and sale of electronic ink | US$ 152,875 thousand | US$ 152,875 thousand | 1 | 41.81 | US$ 127,471 thousand | US$ (691) thousand | US$ (2,751) thousand | (Note) |
| PVI Global Corp. | PVI International Corp. | British Virgin Islands | Trading | US$ 151,300 thousand | US$ 151,300 thousand | 151,300 | 100.00 | US$ 101,166 thousand | US$ 1,044 thousand | US$ 1,044 thousand | (Note) |
| | Dream Pacific International Corp. | British Virgin Islands | Investment | US$ 1,000 thousand | US$ 1,000 thousand | 26,000 | 100.00 | US$ 205,898 thousand | US$ 15,906 thousand | US$ 15,906 thousand | (Note) |
| | Ruby Lustre Ltd. | British Virgin Islands | Investment | US$ 30,000 thousand | US$ 30,000 thousand | 30,000 | 100.00 | US$ 26,672 thousand | US$ (21) thousand | US$ (21) thousand | (Note) |
| | North Diamond International Co., Ltd. | British Virgin Islands | Investment | US$ 1,750 thousand | US$ 1,750 thousand | 1,750 | 35.00 | - | - | - | |
| | Rock Pearl International Corp. | British Virgin Islands | Investment | US$ 1,540 thousand | US$ 1,540 thousand | 1,540 | 35.00 | - | - | - | |
| Dream Pacific International Corp. | Hydis Technologies Co., Ltd. | South Korea | Research, development and licensing of monitors | US$ 27,612 thousand | US$ 27,612 thousand | 3,783 | 94.73 | US$ 215,410 thousand | US$ 16,603 thousand | US$ 16,008 thousand | (Note) |

Note: All intercompany transactions have been eliminated upon consolidation.

# E INK HOLDINGS INC. AND SUBSIDIARIES

**INFORMATION ON INVESTMENTS IN MAINLAND CHINA**
**FOR THE THREE MONTHS ENDED MARCH 31, 2019**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Investee Company | Main Business and Product | Paid-in Capital (Note 1) | Method of Investment | Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2019 (Note 1) | Remittance of Funds | | Accumulated Outward Remittance for Investment from Taiwan as of March 31, 2019 (Note 1) | Net Income (Loss) of Investee (Note 2) | Direct or Indirect Percentage of Ownership (%) | Share of Profit (Loss) of Investee (Notes 2 and 3) | Carrying Amount as of March 31, 2019 (Note 1) | Accumulated Repatriation of Investment Income as of March 31, 2019 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Outward | Inward | | | | | | |
| Transcend Optronics (Yangzhou) Co., Ltd. | Assembly and sale of display panels | $ 4,663,066<br>(US$ 151,300 thousand) | The Company indirectly owns the investee through an investment company registered in a third region | $ 3,354,603<br>(US$ 108,845 thousand) | $ - | $ - | $ 3,354,603<br>(US$ 108,845 thousand) | $ 85,797<br>(US$ 2,783 thousand) | 100.00 | $ 32,062<br>(US$ 1,040 thousand) | $ 3,111,772<br>(US$ 100,966 thousand) | $ - |
| Rich Optronics (Yangzhou) Co., Ltd. | Assembly and sale of display panels | 924,600<br>(US$ 30,000 thousand) | The Company indirectly owns the investee through an investment company registered in a third region | 924,600<br>(US$ 30,000 thousand) | - | - | 924,600<br>(US$ 30,000 thousand) | (647)<br>(US$ (21) thousand) | 100.00 | (647)<br>(US$ (21) thousand) | 822,031<br>(US$ 26,672 thousand) | - |
| Transyork Technology Yangzhou Ltd. | Assembly and sale of display panels | 2,216,913<br>(US$ 71,931 thousand) | The Company indirectly owns the investee through an investment company registered in a third region | - | - | - | - | 114,746<br>(US$ 3,722 thousand) | 100.00 | 172,087<br>(US$ 5,582 thousand) | 1,939,903<br>(US$ 62,943 thousand) | - |
| Transyang Electronics (Yangzhou) Ltd. (Under liquidation) | Assembly and sale of display panels | 123,280<br>(US$ 4,000 thousand) | The Company indirectly owns the investee through an investment company registered in a third region | 123,280<br>(US$ 4,000 thousand) | - | - | 123,280<br>(US$ 4,000 thousand) | (1,603)<br>(US$ (52) thousand) | 100.00 | (1,603)<br>(US$ (52) thousand) | 112,863<br>(US$ 3,662 thousand) | - |
| Transmart Electronics (Yangzhou) Ltd. | Research, development and sale of flat panels | 305,611<br>(US$ 9,916 thousand) | The Company indirectly owns the investee through an investment company registered in a third region | 203,720<br>(US$ 6,610 thousand) | - | - | 203,720<br>(US$ 6,610 thousand) | 3,175<br>(US$ 103 thousand) | 100.00 | 3,175<br>(US$ 103 thousand) | 50,483<br>(US$ 1,638 thousand) | - |
| Yangzhou Huaxia Integrated O/E System Co., Ltd. | Manufacture and sale of LED products | 573,252<br>(US$ 18,600 thousand) | The Company indirectly owns the investee through an investment company registered in a third region | 92,460<br>(US$ 3,000 thousand) | - | - | 92,460<br>(US$ 3,000 thousand) | (12,856)<br>(US$ (417) thousand) | 100.00 | (12,856)<br>(US$ (417) thousand) | (922,628)<br>(US$ (29,936) thousand) | - |
| Dihao Electronics (Yangzhou) Co., Ltd. (Under liquidation) | Assembly of LCD backlight board display modules | 154,100<br>(US$ 5,000 thousand) | The Company indirectly owns the investee through an investment company registered in a third region | 53,935<br>(US$ 1,750 thousand) | - | - | 53,935<br>(US$ 1,750 thousand) | -<br>- | 35.00 | -<br>- | -<br>- | - |
| NTX Electronics Yangzhou Co., Ltd. | Manufacture and sale of flat panels | 183,084<br>(RMB 40,000 thousand) | The Company indirectly owns the investee through an investment company registered in a third region | - | - | - | - | 3,195<br>(RMB 699 thousand) | 49.00 | 1,559<br>(RMB 343 thousand) | 86,251<br>(RMB 18,844 thousand) | - |

(Continued)

| Accumulated Outward Remittance for Investment in Mainland China as of March 31, 2019 | Investment Amount Authorized by Investment Commission, MOEA (Note 1) | Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA |
|---|---|---|
| $ 4,752,598 (US$ 154,205 thousand) | $ 8,321,739 (US$ 270,011 thousand) | $ 18,719,613 |

Note 1: The amounts are translated at the exchange rate of US$1=NT$30.82 and RMB1=NT$4.57711 on March 31, 2019.

Note 2: The amounts are translated at the average exchange rate of US$1=NT$30.829 and RMB1=NT$4.57058 for the three months ended March 31, 2019.

Note 3: The carrying amount and related investment income or loss were calculated based on unreviewed financial statements of the corresponding period, except Transcend Optronics (Yangzhou) Co., Ltd., Rich Optronics (Yangzhou) Co., Ltd. and Transyork Technology Yangzhou Ltd.

Note 4: For information on the prices, payment terms and unrealized profit or loss of significant transactions with investee companies in mainland China, please refer to Tables 1, 5 and 6.

Note 5: The above intercompany transactions have been eliminated upon consolidation, except transactions with NTX Electronics Yangzhou Co., Ltd. and Dihao Electronics (Yangzhou) Co., Ltd.

(Concluded)

# E INK HOLDINGS INC. AND SUBSIDIARIES

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS**
**FOR THE THREE MONTHS ENDED MARCH 31, 2019**
**(In Thousands of New Taiwan Dollars)**

| No | Company Name | Related Party | Relationship | Transaction Details | | | |
|---|---|---|---|---|---|---|---|
| | | | | Financial Statement Account | Amount | Payment Terms | % of Total Sales or Assets |
| 0 | E Ink Holdings Inc. | Prime View Communications Ltd. | Subsidiary | Accounts receivable from related parties | $ 986,319 | By agreements | 2.4 |
| | | Prime View Communications Ltd. | Subsidiary | Sales | 714,001 | By agreements | 24.2 |
| | | PVI International Corp. | Subsidiary | Accounts receivable from related parties | 596,790 | By agreements | 1.5 |
| | | PVI International Corp. | Subsidiary | Sales | 801,030 | By agreements | 27.1 |
| | | Tech Smart Logistics Ltd. | Subsidiary | Accounts payable to related parties | 662,400 | By agreements | 1.6 |
| | | E Ink Corporation | Subsidiary | Cost of goods sold | 879,269 | By agreements | 29.8 |
| | | SiPix Technology Inc. | Subsidiary | Other receivables from related parties | 682,144 | By agreements | 1.7 |
| | | Transcend Optronics (Yangzhou) Co., Ltd. | Subsidiary | Accounts receivable from related parties | 1,782,128 | By agreements | 4.4 |
| | | Transcend Optronics (Yangzhou) Co., Ltd. | Subsidiary | Accounts payable to related parties | 1,233,984 | By agreements | 3.0 |
| 1 | Transcend Optronics (Yangzhou) Co., Ltd. | Yangzhou Huaxia Integrated O/E System Co., Ltd. | Subsidiary | Other receivables from related parties | 995,074 | By agreements | 2.5 |

Note 1: The above intercompany transactions have been eliminated upon consolidation.

Note 2: Transactions amounts of $500 million or more are disclosed in this table.