

**Phihong Technology Co., Ltd. and  
Subsidiaries**

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

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders  
Phihong Technology Co., Ltd.

### Opinion

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

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

### Basis for Opinion

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

### Key Audit Matters

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

Key audit matter for the Group's consolidated financial statements for the year ended December 31, 2018 is stated as follows:

The Authenticity of the Timing of Recognizing Revenue derived from the Warehouses

For the year ended December 31, 2018, the Group's revenue derived from the warehouses managed by the third party was approximately \$2,622,643 thousand, representing 22% of the total revenue. The status of inventory management and delivery to clients rely on reports provided by the warehouses' depositories. The Group recognizes revenue when client claims the inventory, and the ownership of the products transfers to the client. Due to the complexity of determining the timing of the transfer of risks and compensation, the recognition of revenue derived from the third-party warehouses is identified as a key audit matter. Refer to Note 4 to the accompanying consolidated financial statements for the related disclosures.

Our audit procedures in respect of the key audit matter include the following:

We carried out compliance tests to understand the Group's process for the recognition of revenue derived from the warehouse managed by the third party and the design and implementation of its controls over the process. We sample tested transactions, reviewed the records of correspondence and reviewed significant subsequent sales returns and allowances of designated revenue derived from the warehouse managed by the third party to determine whether the timing of the transfer of the risks matched the timing of revenue recognition.

**Other Matter**

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

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

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

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

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

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

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Ker-Chang Wu and Yi-Min Huang.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 15, 2019

Notice to Readers

*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 audit such consolidated financial statements are those generally applied in the Republic of China.*

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

# PHIHONG TECHNOLOGY CO., LTD. AND SUBSIDIARIES

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

ASSETS	2018		2017	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 4 and 6)	\$ 2,113,226	20	\$ 1,758,856	17
Financial assets at fair value through profit or loss - current (Notes 3, 4 and 7)	303,936	3	345,163	4
Trade receivables (Notes 4 and 10)	2,204,672	21	2,033,614	20
Trade receivables from related parties (Notes 4, 10 and 29)	-	-	9	-
Other receivables	56,606	-	123,733	1
Inventories (Notes 4 and 11)	2,109,182	20	1,557,917	15
Prepayment for lease (Notes 4 and 18)	2,728	-	2,778	-
Non-current assets held for sale (Notes 4 and 12)	-	-	962,236	9
Other financial assets - current (Notes 4 and 6)	201,113	2	3,868	-
Other current assets	<u>183,880</u>	<u>2</u>	<u>125,296</u>	<u>1</u>
Total current assets	<u>7,175,343</u>	<u>68</u>	<u>6,913,470</u>	<u>67</u>
<b>NON-CURRENT ASSETS</b>				
Financial assets at fair value through other comprehensive income - non-current (Notes 3, 4 and 8)	37,320	-	-	-
Financial assets measured at cost - non-current (Notes 3, 4 and 9)	-	-	43,936	1
Investments accounted for using equity method (Notes 4 and 14)	150,512	2	188,171	2
Property, plant and equipment (Notes 4 and 15)	2,840,379	27	2,923,572	28
Intangible assets (Notes 4 and 17)	32,145	-	28,416	-
Deferred tax assets (Notes 4 and 25)	46,037	1	46,465	1
Long-term prepayments for lease (Notes 4 and 18)	99,170	1	103,768	1
Other financial assets - non-current (Notes 4, 6 and 30)	25,450	-	25,450	-
Other non-current assets	<u>70,203</u>	<u>1</u>	<u>37,628</u>	<u>-</u>
Total non-current assets	<u>3,301,216</u>	<u>32</u>	<u>3,397,406</u>	<u>33</u>
<b>TOTAL</b>	<u>\$ 10,476,559</u>	<u>100</u>	<u>\$ 10,310,876</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Note 19)	\$ -	-	\$ 100,000	1
Trade payables	2,964,473	28	2,377,151	23
Trade payables to related parties (Note 29)	76,846	1	59,806	1
Other payables (Note 21)	820,525	8	847,764	8
Current tax liabilities (Notes 4 and 25)	21,354	-	75,875	1
Current portion of long-term borrowings (Note 19)	39,237	-	11,908	-
Other current liabilities	<u>130,888</u>	<u>1</u>	<u>146,114</u>	<u>1</u>
Total current liabilities	<u>4,053,323</u>	<u>38</u>	<u>3,618,618</u>	<u>35</u>
<b>NON-CURRENT LIABILITIES</b>				
Bonds payable (Notes 4 and 20)	998,929	10	998,453	10
Long-term borrowings (Note 19)	150,000	1	138,931	1
Deferred tax liabilities (Notes 4 and 25)	79,832	1	79,832	1
Net defined benefit liability - non-current (Notes 4 and 22)	99,016	1	95,614	1
Other non-current liabilities	<u>4,357</u>	<u>-</u>	<u>3,918</u>	<u>-</u>
Total non-current liabilities	<u>1,332,134</u>	<u>13</u>	<u>1,316,748</u>	<u>13</u>
Total liabilities	<u>5,385,457</u>	<u>51</u>	<u>4,935,366</u>	<u>48</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4 and 23)</b>				
Ordinary shares	<u>3,376,884</u>	<u>32</u>	<u>3,376,884</u>	<u>33</u>
Capital surplus	<u>1,044,017</u>	<u>10</u>	<u>1,044,017</u>	<u>10</u>
Retained earnings				
Legal reserve	1,113,185	11	1,113,185	11
Special reserve	230,859	2	230,859	2
Accumulated deficits	<u>(304,379)</u>	<u>(3)</u>	<u>(128,997)</u>	<u>(1)</u>
Total retained earnings	<u>1,039,665</u>	<u>10</u>	<u>1,215,047</u>	<u>12</u>
Other equity				
Exchange differences on translating the financial statements of foreign operations	(265,607)	(2)	(256,008)	(3)
Unrealized gain (loss) on financial assets at fair value through other comprehensive income (Note 3)	(94,266)	(1)	-	-
Unrealized (loss) gain on available-for-sale financial assets	-	-	4,825	-
Total other equity	<u>(359,873)</u>	<u>(3)</u>	<u>(251,183)</u>	<u>(3)</u>
Total equity attributable to owners of the Company	5,100,693	49	5,384,765	52
<b>NON-CONTROLLING INTERESTS (Note 23)</b>	<u>(9,591)</u>	<u>-</u>	<u>(9,255)</u>	<u>-</u>
Total equity	<u>5,091,102</u>	<u>49</u>	<u>5,375,510</u>	<u>52</u>
<b>TOTAL</b>	<u>\$ 10,476,559</u>	<u>100</u>	<u>\$ 10,310,876</u>	<u>100</u>

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

# PHIHONG TECHNOLOGY CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(In Thousands of New Taiwan Dollars, Except (Loss) Earnings Per Share)

	2018		2017	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4, 29 and 35)	\$ 12,138,723	100	\$ 11,283,520	100
OPERATING COSTS (Notes 4, 11 and 29)	<u>10,875,533</u>	<u>90</u>	<u>9,969,733</u>	<u>88</u>
GROSS PROFIT	<u>1,263,190</u>	<u>10</u>	<u>1,313,787</u>	<u>12</u>
OPERATING EXPENSES				
Sales and marketing expenses	552,372	4	471,229	4
General and administration expenses	470,153	4	474,494	5
Research and development expenses	598,699	5	574,023	5
Excepted credit loss	<u>2,667</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>1,623,891</u>	<u>13</u>	<u>1,519,746</u>	<u>14</u>
LOSS FROM OPERATIONS	<u>(360,701)</u>	<u>(3)</u>	<u>(205,959)</u>	<u>(2)</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 24)	152,735	1	145,594	1
Other gains and losses (Notes 12, 16 and 24)	45,811	1	161,978	2
Finance costs	(21,974)	-	(34,964)	-
Share of profit of associates (Notes 4 and 14)	<u>4,008</u>	<u>-</u>	<u>14,855</u>	<u>-</u>
Total non-operating income	<u>180,580</u>	<u>2</u>	<u>287,463</u>	<u>3</u>
(LOSS) PROFIT BEFORE INCOME TAX	(180,121)	(1)	81,504	1
INCOME TAX EXPENSE (Notes 4 and 25)	<u>(66,493)</u>	<u>(1)</u>	<u>(74,866)</u>	<u>(1)</u>
NET (LOSS) PROFIT FOR THE YEAR	<u>(246,614)</u>	<u>(2)</u>	<u>6,638</u>	<u>-</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 22)	(3,861)	-	(8,266)	-
Unrealized gain on investments in equity instruments at fair value through other comprehensive income (Note 23)	(557)	-	-	-
Share of the other comprehensive loss of associates accounted for using the equity method (Note 23)	(24,999)	-	-	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 25)	772	-	1,405	-

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# PHIHONG TECHNOLOGY CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(In Thousands of New Taiwan Dollars, Except (Loss) Earnings Per Share)

	2018		2017	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations (Note 23)	\$ (9,916)	-	\$ (163,786)	(1)
Share of the other comprehensive income (loss) of associates accounted for using the equity method (Note 23)	-	-	(52,625)	(1)
Total other comprehensive loss	(38,561)	-	(223,272)	(2)
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>	<u>\$ (285,175)</u>	<u>(2)</u>	<u>\$ (216,634)</u>	<u>(2)</u>
<b>NET (LOSS) PROFIT ATTRIBUTABLE TO:</b>				
Owners of the Company	\$ (246,595)	(2)	\$ 6,656	-
Non-controlling interests	(19)	-	(18)	-
	<u>\$ (246,614)</u>	<u>(2)</u>	<u>\$ 6,638</u>	<u>-</u>
<b>TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO:</b>				
Owners of the Company	\$ (284,839)	(2)	\$ (217,395)	(2)
Non-controlling interests	(336)	-	761	-
	<u>\$ (285,175)</u>	<u>(2)</u>	<u>\$ (216,634)</u>	<u>(2)</u>
<b>(LOSS) EARNINGS PER SHARE (Note 26)</b>				
Basic	<u>\$ (0.73)</u>		<u>\$ 0.02</u>	
Diluted			<u>\$ 0.02</u>	

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

(Concluded)



**PHIHONG TECHNOLOGY CO., LTD. AND SUBSIDIARIES**

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

	Equity Attributable to Owners of the Company					Other Equity			Total	Non-controlling Interests	Total Equity
	Ordinary Shares	Capital Surplus	Retained Earnings		Accumulated Deficits	Exchange Differences on Translating the Financial Statements of Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income			
			Legal Reserve	Special Reserve							
BALANCE, JANUARY 1, 2017	\$ 2,776,884	\$ 1,026,456	\$ 1,113,185	\$ 230,859	\$ (128,792)	\$ (91,443)	\$ 57,450	\$ -	\$ 4,984,599	\$ (10,016)	\$ 4,974,583
Net profit (loss) for the year ended December 31, 2017	-	-	-	-	6,656	-	-	-	6,656	(18)	6,638
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	-	(6,861)	(164,565)	(52,625)	-	(224,051)	779	(223,272)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	(205)	(164,565)	(52,625)	-	(217,395)	761	(216,634)
Issuance of ordinary shares for cash (Note 23)	600,000	10,430	-	-	-	-	-	-	610,430	-	610,430
Issuance of ordinary shares under employee share options (Note 23)	-	7,131	-	-	-	-	-	-	7,131	-	7,131
BALANCE, DECEMBER 31, 2017	3,376,884	1,044,017	1,113,185	230,859	(128,997)	(256,008)	4,825	-	5,384,765	(9,255)	5,375,510
Effect of retrospective application (Note 3)	-	-	-	-	74,302	-	(4,825)	(75,236)	(5,759)	-	(5,759)
BALANCE AT JANUARY 1, 2018 AS RESTATED	3,376,884	1,044,017	1,113,185	230,859	(54,695)	(256,008)	-	(75,236)	5,379,006	(9,255)	5,369,751
Net loss for the year ended December 31, 2018	-	-	-	-	(246,595)	-	-	-	(246,595)	(19)	(246,614)
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	-	(3,089)	(9,599)	-	(25,556)	(38,244)	(317)	(38,561)
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	(249,684)	(9,599)	-	(25,556)	(284,839)	(336)	(285,175)
Process from capital reduction of financial assets at fair value through other comprehensive income (Note 23)	-	-	-	-	-	-	-	6,526	6,526	-	6,526
BALANCE, DECEMBER 31, 2018	<u>\$ 3,376,884</u>	<u>\$ 1,044,017</u>	<u>\$ 1,113,185</u>	<u>\$ 230,859</u>	<u>\$ (304,379)</u>	<u>\$ (265,607)</u>	<u>\$ -</u>	<u>\$ (94,266)</u>	<u>\$ 5,100,693</u>	<u>\$ (9,591)</u>	<u>\$ 5,091,102</u>

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

# PHIHONG TECHNOLOGY CO., LTD. AND SUBSIDIARIES

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

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
(Loss) income before income tax	\$ (180,121)	\$ 81,504
Adjustments for:		
Depreciation expense	306,310	310,246
Amortization expense	21,450	23,322
Excepted credit loss recognized	2,667	-
Net gain on fair value change of financial assets designated as at fair value through profit or loss	(560)	(3,707)
Finance costs	21,974	34,964
Interest income	(35,052)	(15,966)
Dividend income	-	(5,874)
Compensation costs of employee share options	-	7,131
Share of profit of associates	(4,008)	(14,855)
Loss (gain) on disposal of property, plant and equipment	11,489	(11,258)
Gain on disposal of non-current assets held for sale	(68,394)	(113,218)
Gain on disposal of investment properties	(79,055)	(129,588)
Loss on disposal of intangible assets	242	180
Gain on disposal of investment	(12,809)	(16,966)
Gain on buy-back of bonds payable	-	(103)
Amortization of prepayments for leases	2,784	3,368
Net changes in operating assets and liabilities		
Trade receivables	(173,768)	630,118
Trade receivable from related parties	9	(9)
Other receivables	74,014	(45,899)
Inventories	(551,265)	(54,514)
Other current assets	(85,895)	8,166
Trade payables	587,322	(583,235)
Trade payables to related parties	17,040	(12,077)
Other payables	53,834	(71,798)
Other current liabilities	8,747	(47,177)
Net defined benefit liability	(459)	(605)
Cash used in operating activities	(83,504)	(27,850)
Interest paid	(21,072)	(20,690)
Interest received	28,165	31,789
Income tax paid	(119,814)	(68,620)
Net cash used in operating activities	<u>(196,225)</u>	<u>(85,371)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	6,827	-
Proceeds from sale of financial assets at fair value through profit or loss	54,567	72,485
Proceeds from capital reduction of financial assets measured at cost	-	10,258

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# PHIHONG TECHNOLOGY CO., LTD. AND SUBSIDIARIES

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

	2018	2017
Proceeds from capital reduction of investments accounted for using equity method	\$ 271	\$ 22,585
Proceeds from disposal of non-current assets held for sale	1,045,788	124,213
Payments for property, plant and equipment	(198,011)	(153,230)
Proceeds from disposal of property, plant and equipment	24,353	26,971
Payments for intangible assets	(25,191)	(14,158)
Increase in refundable deposits	(5,544)	-
Decrease in refundable deposits	-	454
Proceeds from disposal of investment properties	-	394,386
Increase in other financial assets	(197,245)	-
Decrease in other financial assets	-	582,675
Increase in prepayments for equipment	(128,003)	(29,815)
Dividends received	<u>16,427</u>	<u>19,685</u>
Net cash generated from investing activities	<u>594,239</u>	<u>1,056,509</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from short-term borrowings	-	3,160
Repayments of short-term borrowings	(100,000)	-
Repayments of convertible bonds	-	(1,171,839)
Proceeds from long-term borrowings	38,398	115,331
Increase in guarantee deposits received	439	-
Decrease in guarantee deposits received	-	(3,143)
Proceeds from issuance of ordinary shares	-	612,000
Payments for transaction costs attribute to issuance of ordinary shares	<u>-</u>	<u>(1,570)</u>
Net cash used in financing activities	<u>(61,163)</u>	<u>(446,061)</u>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES</b>		
	<u>17,519</u>	<u>(78,984)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>354,370</b>	<b>446,093</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<u>1,758,856</u>	<u>1,312,763</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<u>\$ 2,113,226</u>	<u>\$ 1,758,856</u>

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

(Concluded)

# PHIHONG TECHNOLOGY CO., LTD. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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### 1. GENERAL INFORMATION

Phihong Technology Co., Ltd. (“Phihong” or “the Company”), which was formerly known as Phihong Enterprise Co., Ltd. was incorporated on December 12, 1972 under the laws of the Republic of China (ROC). Under a resolution approved in the stockholders’ meeting in June 2003, Phihong changed its name to Phihong Technology Co., Ltd. Phihong primarily manufactures and sells AC/DC power adapters, charger bases, power supply modules, UPS (uninterruptible power supply) for computers, ballasts, etc.

In February 2000, Phihong was authorized to trade its stocks on the Taipei Exchange (TPEX) in Taiwan. In September 2001, Phihong’s stocks ceased to be traded on the TPEX, and Phihong later obtained the authorization to list its stocks on the Taiwan Stock Exchange.

The consolidated financial statements are presented in the Company’s functional currency, New Taiwan dollars.

### 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on March 15, 2019.

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

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

Except for the following, whenever applied, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC would not have any material impact on the accounting policies of the Company and its subsidiaries (collectively referred to as the “Group”):

- IFRS 9 “Financial Instruments” and related amendments

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

#### Classification, measurement and impairment of financial assets

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

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

Financial Assets	Measurement Category		Carrying Amount		Remark
	IAS 39	IFRS 9	IAS 39	IFRS 9	
Cash and cash equivalents	Loans and receivables	Amortized cost	\$ 1,758,856	\$ 1,758,856	
Mutual funds	Held-for-trading	Mandatorily at fair value through profit or loss (i.e. FVTPL)	345,163	345,163	1)
Equity securities	Available-for-sale	Fair value through other comprehensive income (i.e. FVTOCI) - equity instruments	43,936	38,177	2)
Time deposits with original maturity of more than 3 months	Loans and receivables	Amortized cost	3,868	3,868	3)
Trade receivables and other receivables	Loans and receivables	Amortized cost	2,157,356	2,157,356	3)
Refundable deposits	Loans and receivables	Amortized cost	18,554	18,554	3)
Financial assets pledged as collateral or for security	Loans and receivables	Amortized cost	25,450	25,450	3)

Financial Assets	IAS 39 Carrying Amount as of January 1, 2018	Reclassifications	Remeasurements	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
FVTOCI - equity instruments	\$ -	\$ 43,936	\$ (5,759)	\$ 38,177	\$ 74,302	\$ (80,061)	2)
Add: Reclassification from available-for-sale (IAS 39)	43,936	(43,936)	-	-	-	-	2)
	<u>\$ 43,936</u>	<u>\$ -</u>	<u>\$ (5,759)</u>	<u>\$ 38,177</u>	<u>\$ 74,302</u>	<u>\$ (80,061)</u>	

- 1) Mutual funds previously classified as held-for-trading under IAS 39 were classified mandatorily as at FVTPL under IFRS 9, because the contractual cash flows are not solely payments of principal and interest on the principal outstanding and they are not equity instruments.
- 2) The Group elected to designate all its investments in equity securities previously classified as available-for-sale under IAS 39 as at FVTOCI under IFRS 9, because these investments are not held for trading. As a result, the related other equity - unrealized gain (loss) on available-for-sale financial assets of \$4,825 thousand was reclassified to other equity - unrealized gain (loss) on financial assets at FVTOCI.

Investments in unlisted shares previously measured at cost under IAS 39 have been designated as at FVTOCI under IFRS 9 and were remeasured at fair value. Consequently, a decrease of \$5,759 thousand was recognized in both financial assets at FVTOCI and other equity - unrealized gain (loss) on financial assets at FVTOCI on January 1, 2018.

The Group recognized under IAS 39 impairment loss on certain investments in equity securities previously measured at cost and the loss was accumulated in retained earnings. Since those investments were designated as at FVTOCI under IFRS 9 and no impairment assessment is required, an adjustment was made that resulted in a decrease of \$74,302 thousand in other equity - unrealized gain (loss) on financial assets at FVTOCI and an increase of \$74,302 thousand in retained earnings on January 1, 2018.

- 3) Trade receivables, trade receivables from related parties, other receivables, refundable deposits and other financial assets that were previously classified as loans and receivables under IAS 39 were classified as measured at amortized cost with an assessment of expected credit losses under IFRS 9.

- b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs endorsed by the FSC for application starting from 2019

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

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

Note 2: The FSC permits the election for early adoption of the amendments starting from January 1, 2018.

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

- IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17, IFRIC 4 and a number of related interpretations.

#### Definition of a lease

Upon initial application of IFRS 16, the Group will elect 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 will not be reassessed and will be accounted for in accordance with the transitional provisions under IFRS 16.

#### The Group as lessee

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

Lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases with the application of IAS 17. Lease liabilities will be 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 will be measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. The Group will apply IAS 36 to all right-of-use assets.

The Group expects to apply the following practical expedients:

- 1) The Group will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- 2) The Group will account for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.
- 3) The Group will exclude initial direct costs from the measurement of right-of-use assets on January 1, 2019.

The Group as lessor

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

Anticipated impact on assets, liabilities and equity

	<b>Carrying Amount as of December 31, 2018</b>	<b>Adjustments Arising from Initial Application</b>	<b>Adjusted Carrying Amount as of January 1, 2019</b>
Prepayments for leases - current	\$ 2,728	\$ (2,728)	\$ -
Prepayments for leases - non-current	99,170	(99,170)	-
Right-of-use assets	<u>-</u>	<u>114,057</u>	<u>114,057</u>
Total effect on assets	<u>\$ 101,898</u>	<u>\$ 12,159</u>	<u>\$ 114,057</u>
Lease liabilities - current	\$ -	\$ 6,487	\$ 6,487
Lease liabilities - non-current	<u>-</u>	<u>5,672</u>	<u>5,672</u>
Total effect on liabilities	<u>\$ -</u>	<u>\$ 12,159</u>	<u>\$ 12,159</u>

Except for the above impacts, as of the date the consolidated financial statements were authorized for issue, the Group continues assessing other possible impacts that the application of the aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will have on the Group's financial position and financial performance and will disclose these other impacts when the assessment is completed.

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

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

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

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

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

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

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- a. Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and IFRSs as endorsed and issued into effect by the FSC.

- b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for 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, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; 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. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

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

d. Basis of consolidation

- Principles for preparing consolidated financial statements

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company.

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective dates of acquisitions up to the effective dates of disposals, 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 interests of the Group 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.

See Note 13 and Tables 9 and 10 for the detailed information of subsidiaries (including the percentage of ownership and main business).

e. Foreign currencies

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

At 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.

For the purpose of presenting consolidated financial statements, the functional currencies of the Group entities (including subsidiaries, associates, joint ventures and branches in other countries that use currencies which are different from the currency of the Company) are translated into the presentation currency - the New Taiwan dollar as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; 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 (attributed to the owners of the Company and non-controlling interests as appropriate).

f. Inventories

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

g. Investments in associates

An associate is an entity over which the Group has significant influence and that is not a subsidiary.

The Group uses the equity method to account for its investments in associates

Under the equity method, investments in an associate 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 associate. The Group also recognizes the changes in the Group's share of the equity of associates.

When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Group's net investment in the associate), 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.

The entire carrying amount of an 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 any asset, including goodwill, that forms 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.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate is recognized in the Group's consolidated financial statements only to the extent of interests in the associate of parties that are not related to the Group.

h. 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 of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. If the lease term is shorter than the useful lives, assets are depreciated over the lease term. 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.

i. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties also include land held for a currently undetermined future use.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognized using the straight-line method.

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

j. Intangible assets

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

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.

k. Impairment of tangible and intangible assets

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

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

The recoverable amount is the higher of fair value less costs to sell or 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 that would have been determined had no impairment loss been recognized on the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

l. 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 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 will cease.

m. Financial instruments

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

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

1) Financial assets

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

a) Measurement categories

2018

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

i. Financial assets at FVTPL

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

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividends or interest earned on such a financial asset. Fair value is determined in the manner described in Note 28.

ii. Financial assets at amortized cost

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

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

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

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset.

Cash equivalents include time deposits 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 as at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

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

## 2017

Financial assets are classified into the following categories: Financial assets at FVTPL, available-for-sale financial assets and loans and receivables.

### i. Financial assets at FVTPL

Financial assets are classified as at FVTPL when such financial assets are held for trading.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividends or interest earned on the financial asset. See Note 28 on financial instruments for re-measurement of fair value.

### ii. Available-for-sale financial assets

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

Available-for-sale financial assets are measured at fair value. Changes in the carrying amounts of available-for-sale monetary financial assets (relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments) are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when such investments are disposed of or are determined to be impaired.

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

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

### iii. Loans and receivables

Loans and receivables (including cash and cash equivalents, trade receivables, other receivables and other financial assets) are measured using the effective interest method at amortized cost less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalents include time deposits 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.

b) Impairment of financial assets

2018

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables), investments in debt instruments that are measured at FVTOCI, lease receivables, as well as contract assets.

The Group always recognizes lifetime expected credit loss (ECLs) for trade receivables, lease receivables 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 the 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 default occurring as the weights. Lifetime ECLs represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECLs represent the portion of lifetime ECLs that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The 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.

2017

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

For financial assets carried at amortized cost, such as trade receivables, such assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

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

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

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

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

Before 2018, on derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss. From 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in a debt instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss that had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

#### 2) Equity instruments

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

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

Repurchase of the Company's own equity instruments is recognized 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

All financial liabilities are measured at amortized cost using the effective interest method. The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.



#### 4) Convertible bonds

The component parts of compound instruments (convertible bonds) issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

On initial recognition, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or the instrument's maturity date. Any embedded derivative liability is measured at fair value.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to capital surplus - share premium. When the conversion option remains unexercised at maturity, the balance recognized in equity will be transferred to capital surplus - share premium.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component.

#### n. Provision

Provision is measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Provision for the expected cost of warranty obligations is recognized at the date of sale of the relevant products at the best estimate by the management of the Group of the expenditure required to settle the Group's obligations.

#### o. Revenue recognition

##### 2018

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

##### Revenue from sale of goods

Revenue from sale of goods comes from sales of power supply modules. Sales of power supply modules 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, has the primary responsibility for sales to future customers, and bears the risks of obsolescence. Trade receivable is recognized concurrently.

##### 2017

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced by the amount of estimated customer returns, rebates and other similar allowances. Allowances for sales returns and liabilities for returns are recognized at the time of sale based on the seller's reliable estimate of future returns and based on past experience and other relevant factors.

1) Sale of goods

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

- a) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- c) The amount of revenue can be measured reliably;
- d) It is probable that the economic benefits associated with the transaction will flow to the Group; and
- e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

2) Dividend and interest income

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

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

p. Leasing

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

1) The Group as lessor

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

2) The Group as lessee

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

q. Borrowing costs

Borrowing costs directly attributable to the 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 as stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

r. 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 service.

2) Retirement benefits

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

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

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

s. Taxation

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

1) Current tax

According to the Income Tax Law, unappropriated earnings is provided for as income tax in the year the shareholders approve to retain earnings. Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities 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, unused loss carryforward, research and development expenditure to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries 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 and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

3) Current tax and deferred tax for the year

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

## **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 estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

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

a. Estimated impairment of financial assets - 2018

The provision for impairment of trade receivables is based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and in selecting the inputs to the impairment calculation, based on the Group's historical experience, existing market conditions as well as forward looking estimates as of the end of each reporting period. For details of the key assumptions and inputs used, see Note 10. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

b. Estimated impairment of trade receivables - 2017

When there is objective evidence of impairment loss of receivables, the Group takes into consideration the estimation of the future cash flows of such assets. The amount of impairment loss is measured as the difference between such an asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

c. Write-down of inventories

The net realizable value of inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and disposal. The estimation of net realizable value is based on current market conditions and historical experience with product sales of a similar nature. Changes in market conditions may have a material impact on the estimation of the net realizable value.

## 6. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	<b>2018</b>	<b>2017</b>
Cash on hand	\$ 2,433	\$ 17,271
Checking accounts and demand deposits	2,032,213	1,712,938
Cash equivalent (investments with original maturities of less than 3 months)		
Time deposits	<u>78,580</u>	<u>28,647</u>
	<u>\$ 2,113,226</u>	<u>\$ 1,758,856</u>

As of December 31, 2018 and 2017, the time deposits with original maturities more than 3 months in the amount of \$201,113 thousand and \$3,868 thousand, respectively, had been reclassified to “other financial assets - current”.

As of December 31, 2018 and 2017, bank balance in the amount of \$25,450 thousand had been pledged to secure short-term debts and reclassified to “other financial assets - non-current”. Refer to Note 30.

The market rate intervals of cash in bank and time deposits at the end of the reporting period were as follows:

	<u>December 31</u>	
	<b>2018</b>	<b>2017</b>
Demand deposits and time deposits	0.001%-4.40%	0.001%-4.40%

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

	<u>December 31</u>	
	<b>2018</b>	<b>2017</b>
<u>Financial assets at FVTPL - current</u>		
Financial assets designated as at FVTPL		
Non-derivative financial assets		
Mutual funds	\$ -	\$ 345,163
Financial assets mandatorily classified as at FVTPL		
Non-derivative financial assets		
Mutual funds	<u>303,936</u>	<u>-</u>
	<u>\$ 303,936</u>	<u>\$ 345,163</u>

## 8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - 2018

	<b>December 31, 2018</b>
<u>Non-current</u>	
Investments in equity instruments at FVTOCI	
Domestic unlisted ordinary shares	<u>\$ 37,320</u>

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. 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. These investments in equity instruments were classified as available-for-sale under IAS 39. Refer to Note 3 and Note 9 for information relating to their reclassification and comparative information for 2017.

## 9. FINANCIAL ASSETS MEASURED AT COST - 2017

	<b>December 31, 2017</b>
<u>Non-current</u>	
Domestic unlisted common shares	<u>\$ 43,936</u>
<u>Classified according to financial assets measurement categories</u>	
Available-for-sale financial assets	<u>\$ 43,936</u>

Management believed that the above unlisted equity investments held by the Group had fair values which cannot be reliably measured, because the range of reasonable fair value estimates was so significant. Therefore, they were measured at cost less impairment at the end of reporting period.

## 10. TRADE RECEIVABLES

	<u>December 31</u>	
	<b>2018</b>	<b>2017</b>
<u>Trade receivables</u>		
At amortized cost		
Gross carrying amount	\$ 2,209,768	\$ 2,036,000
Less: Allowance for impairment loss	<u>(5,096)</u>	<u>(2,386)</u>
	<u>2,204,672</u>	<u>2,033,614</u>
<u>Trade receivables from related parties (Note 29)</u>		
At amortized cost		
Gross carrying amount	-	9
Less: Allowance for impairment loss	<u>-</u>	<u>-</u>
	<u>-</u>	<u>9</u>
	<u>\$ 2,204,672</u>	<u>\$ 2,033,623</u>

## Trade Receivable

### In 2018

The average credit period of sales of goods was 60 to 90 days. No interest was charged on trade receivables. The Group adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables.

The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position as well as the prospective conditions at the reporting date.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. For trade receivables that have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

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

### December 31, 2018

	Not Past Due	Less than 60 Days	61 to 90 Days	91 to 120 Days	Over 120 Days	Total
Expected credit loss rate	0.001%-0.63%	0.21%-14.84%	5.98%-12.74%	8.21%-21.67%	23.36%-100%	
Gross carrying amount	\$ 2,046,013	\$ 152,793	\$ 6,754	\$ 795	\$ 3,413	\$ 2,209,768
Loss allowance (Lifetime ECL)	(671)	(1,017)	(454)	(88)	(2,866)	(5,096)
Amortized cost	<u>\$ 2,045,342</u>	<u>\$ 151,776</u>	<u>\$ 6,300</u>	<u>\$ 707</u>	<u>\$ 547</u>	<u>\$ 2,204,672</u>

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

	December 31, 2018
Balance at January 1, 2018 per IAS 39	\$ 2,386
Adjustment on initial application of IFRS 9	<u>-</u>
Balance at January 1, 2018 per IFRS 9	2,386
Add: Net remeasurement of loss allowance	2,667
Foreign exchange gains and losses	<u>43</u>
Balance at December 31, 2018	<u>\$ 5,096</u>

The increase in loss allowance of \$2,710 thousand resulted from origination of new trade receivables net of those settled of \$173,759 thousand.

### In 2017

The Group applied the same credit policy in 2018 and 2017. Allowance for impairment loss was recognized against trade receivables based on estimated irrecoverable amounts determined by reference to credit risk level of the counterparties and an analysis of their current financial position.

For the trade receivables balances that were past due at the end of the reporting period, the Group did not recognize an allowance for impairment loss because there was no significant change in credit quality and the amounts were still considered recoverable. The Group did not hold any collateral or other credit enhancements for these balances.

The aging of receivables was as follows:

December 31, 2017

	<b>Total Receivables</b>	<b>Not Overdue</b>	<b>Overdue under 60 Days</b>	<b>Overdue 61 Days and Longer</b>
Not overdue and not impaired	\$ 1,981,439	\$ 1,981,439	\$ -	\$ -
Not overdue but impaired	1,477	1,477	-	-
Overdue and not impaired	52,184	-	30,670	21,514
Overdue and impaired	<u>909</u>	<u>-</u>	<u>-</u>	<u>909</u>
	<u>\$ 2,036,009</u>	<u>\$ 1,982,916</u>	<u>\$ 30,670</u>	<u>\$ 22,423</u>

The above aging schedule was based on the number of past due days from end of credit term.

The movements of the allowance for doubtful trade receivables were as follows:

	<b>Individual Impairment Losses</b>	<b>Groups Impairment Losses</b>	<b>Total</b>
Balance at January 1, 2017	\$ 813	\$ 1,698	\$ 2,511
(Reversed) impairment losses recognized on receivables	(813)	813	-
Foreign exchange translation gains and losses	<u>-</u>	<u>(125)</u>	<u>(125)</u>
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 2,386</u>	<u>\$ 2,386</u>

The Group did not hold any collateral over these balances.

## 11. INVENTORIES

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
Raw materials	\$ 715,704	\$ 618,924
Work-in-process	208,884	161,121
Finished goods	636,520	425,084
Merchandise	<u>548,074</u>	<u>352,788</u>
	<u>\$ 2,109,182</u>	<u>\$ 1,557,917</u>

As of December 31, 2018 and 2017, allowance of inventory value decline was \$338,559 thousand and \$345,590 thousand, respectively.

For the years ended December 31, 2018 and 2017, the cost of inventories recognized as cost of goods sold was \$10,875,533 thousand and \$9,969,733 thousand, respectively. The cost of goods sold included inventory write-downs of \$46,469 thousand in 2017.



## 12. NON-CURRENT ASSETS HELD FOR SALE

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
Phihong Electronics (Suzhou) Co., Ltd.'s investment properties, buildings and long-term prepayments for leases	\$ <u>          -</u>	\$ <u>962,236</u>

In 2017, the Group planned to dispose of Phihong Electronics (Suzhou) Co., Ltd.'s investment properties, buildings and long-term prepayments for leases. Therefore, the assets were reclassified to non-current assets held for sale and presented separately in the consolidated balance sheets. The proceeds of the disposals are expected to exceed the net carrying amount of the related net assets. Accordingly, no impairment was recognized in reclassifying the assets to assets held for sale. The Group completed the procedures for the disposal in the fourth quarter of 2018 and recognized gains on disposals of non-current assets for sale of \$68,394 thousand, which was presented under other gains and losses.

The investment properties, buildings and long-term prepayments for leases reclassified as non-current assets held for sale were as follows:

	<b>December 31, 2017</b>
Buildings	\$ 721,854
Investment properties	658,611
Less: Accumulated depreciation	<u>(442,300)</u>
	938,165
Long-term prepayments for leases	<u>24,071</u>
	<u>\$ 962,236</u>

## 13. SUBSIDIARIES

Investor	Investee	Nature of Activities	<b>Percentage of Ownership</b>		Notes
			<b>2018</b>	<b>2017</b>	
Phihong	Phihong International Corp. ("PHI")	Makes investments	100.00	100.00	
	Phitek International Co., Ltd. ("PHK")	Makes investments	100.00	100.00	
	Ascent Alliance Ltd. ("PHQ")	Makes investments	100.00	100.00	
	Phihong USA Corp.	Sells various power supplies	100.00	100.00	
	Phihong Technology Japan Co., Ltd.	Sells power components	100.00	100.00	
	Guang-Lai Investment Co., Ltd. ("Guang-Lai")	Makes investments	100.00	100.00	
Phihong International Corp.	Phihong (Dongguan) Electronics Co., Ltd.	Manufactures and sells various power supplies	100.00	100.00	
	Phihong Electronics (Suzhou) Co., Ltd.	Manufactures and sells various power supplies and ballasts	100.00	100.00	
	N-Lighten Technologies, Inc. ("N-Lighten")	Makes investments	58.45	58.45	
	Yanghong Trade (Shanghai) Co., Ltd.	Sells various lighting and Power supplies	100.00	100.00	
Phitek International Co., Ltd.	Dongguan Phitek Electronics Co., Ltd.	Manufactures and sells various power supplies	100.00	100.00	
Ascent Alliance Ltd.	Dongguan Shuang-Ying Electronics Co., Ltd.	Manufactures and sells electronic materials	100.00	100.00	
	Jin-Sheng-Hong (Jiangxi) Electronics Co., Ltd.	Manufactures and sells electronic materials	100.00	100.00	
Guang-Lai Investment Co., Ltd.	N-Lighten	Makes investments	19.78	19.78	

See Tables 9 and 10 for the information on places of incorporation and principal places of business.

#### 14. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Investments in associates:

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Associates that are not individually material	<u>\$ 150,512</u>	<u>\$ 188,171</u>
Aggregate information of associates that are not individually material:		
	<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
The Group's share of:		
Net profit for the year	\$ 4,008	\$ 14,855
Other comprehensive income (loss)	<u>(24,999)</u>	<u>(52,625)</u>
Total comprehensive loss for the year	<u>\$ (20,991)</u>	<u>\$ (37,770)</u>

The associates that are not individually material, Hao-Xuan Venture Capital Co., Ltd, have been liquidated in January 2018, and recognized gain \$29 thousand, which was presented under gain on disposal of investment.

Refer to Table 9 "Information on Investees" for the nature of activities, principal places of business and countries of incorporation of the associates.

#### 15. PROPERTY, PLANT AND EQUIPMENT

	<b>Freehold Land</b>	<b>Buildings</b>	<b>Machinery and Equipment</b>	<b>Other Equipment</b>	<b>Construction in Progress</b>	<b>Total</b>
<u>Cost</u>						
Balance at January 1, 2017	\$ 265,069	\$ 2,191,234	\$ 2,403,438	\$ 643,424	\$ 1,210,132	\$ 6,713,297
Additions	-	7,249	83,754	27,791	10,585	129,379
Disposals	(12,384)	-	(33,610)	(8,252)	-	(54,246)
Effect of foreign currency exchange differences	(4,788)	(39,307)	(45,690)	(6,036)	(24,453)	(120,274)
Reclassified as non-current assets held for sale	-	(721,854)	-	-	-	(721,854)
Reclassification	<u>-</u>	<u>1,187,839</u>	<u>13,335</u>	<u>5,599</u>	<u>(1,189,984)</u>	<u>16,789</u>
Balance at December 31, 2017	<u>\$ 247,897</u>	<u>\$ 2,625,161</u>	<u>\$ 2,421,227</u>	<u>\$ 662,526</u>	<u>\$ 6,280</u>	<u>\$ 5,963,091</u>

(Continued)

	Freehold Land	Buildings	Machinery and Equipment	Other Equipment	Construction in Progress	Total
<u>Accumulated depreciation</u>						
Balance at January 1, 2017	\$ -	\$ 734,339	\$ 1,794,482	\$ 455,744	\$ -	\$ 2,984,565
Disposals	-	-	(30,622)	(7,911)	-	(38,533)
Depreciation expense	-	73,659	147,649	65,470	-	286,778
Effect of foreign currency exchange differences	-	(13,647)	(33,210)	(4,671)	-	(51,528)
Reclassified as non-current assets held for sale	-	(141,763)	-	-	-	(141,763)
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 652,588</u>	<u>\$ 1,878,299</u>	<u>\$ 508,632</u>	<u>\$ -</u>	<u>\$ 3,039,519</u>
Carrying amounts at December 31, 2017	<u>\$ 247,897</u>	<u>\$ 1,972,573</u>	<u>\$ 542,928</u>	<u>\$ 153,894</u>	<u>\$ 6,280</u>	<u>\$ 2,923,572</u>
<u>Cost</u>						
Balance at January 1, 2018	\$ 247,897	\$ 2,625,161	\$ 2,421,227	\$ 662,526	\$ 6,280	\$ 5,963,091
Additions	-	3,247	100,061	57,584	34,675	195,567
Disposals	-	(5,731)	(119,494)	(45,316)	-	(170,541)
Effect of foreign currency exchange differences	2,423	(28,560)	(34,055)	(5,205)	(109)	(65,506)
Reclassification	-	6,516	92,896	830	(9,793)	90,449
Balance at December 31, 2018	<u>\$ 250,320</u>	<u>\$ 2,600,633</u>	<u>\$ 2,460,635</u>	<u>\$ 670,419</u>	<u>\$ 31,053</u>	<u>\$ 6,013,060</u>
<u>Accumulated depreciation</u>						
Balance at January 1, 2018	\$ -	\$ 652,588	\$ 1,878,299	\$ 508,632	\$ -	\$ 3,039,519
Disposals	-	(5,159)	(84,318)	(45,222)	-	(134,699)
Depreciation expense	-	85,367	154,527	66,416	-	306,310
Effect of foreign currency exchange differences	-	(7,062)	(23,874)	(4,257)	-	(35,193)
Reclassification	-	-	(3,256)	-	-	(3,256)
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ 725,734</u>	<u>\$ 1,921,378</u>	<u>\$ 525,569</u>	<u>\$ -</u>	<u>\$ 3,172,681</u>
Carrying amounts at December 31, 2018	<u>\$ 250,320</u>	<u>\$ 1,874,899</u>	<u>\$ 539,257</u>	<u>\$ 144,850</u>	<u>\$ 31,053</u>	<u>\$ 2,840,379</u>

(Concluded)

The above items of property, plant and equipment are depreciated on a straight-line basis over the following estimated useful life:

Buildings	
Main building	50 years
Engineering system	10 years
Machinery and equipment	3-10 years
Other equipment	3-5 years

Refer to Note 30 for the carrying amount of property, plant and equipment that had been pledged by the Group to secure long-term borrowings.

## 16. INVESTMENT PROPERTIES

<b>Investment Properties Measured at Cost</b>	<b>Total</b>
<u>Cost</u>	
Balance at January 1, 2017	\$ 961,026
Disposals	(281,688)
Reclassification	(658,611)
Effect of foreign currency exchange differences	<u>(20,727)</u>
Balance at December 31, 2017	<u>\$ -</u>
<u>Accumulated depreciation and impairment</u>	
Balance at January 1, 2017	\$ 379,719
Depreciation expense	23,468
Disposals	(94,830)
Reclassification	(300,537)
Effect of foreign currency exchange differences	<u>(7,820)</u>
Balance at December 31, 2017	<u>\$ -</u>
Carrying amount at December 31, 2017	<u>\$ -</u>

The investment properties are depreciated using the straight-line method over their estimated useful life as follows:

Main buildings	30 years
Others	10 years

The Group disposed of investment property in August 2017. The carrying amount of the investment property at the time of sale was \$186,858 thousand. As of June 2018 and August 2017, the disposal gains of \$79,055 thousand and \$129,588 thousand were recognized, respectively. The Group planned to dispose of the Phihong Electronics (Suzhou) Co., Ltd.'s investment property; therefore, the asset was reclassified to non-current assets held for sale in December 2017. Refer to Note 12.

## 17. OTHER INTANGIBLE ASSETS

	<b>Computer Software</b>
<u>Cost</u>	
Balance at January 1, 2017	\$ 111,363
Additions	14,158
Reclassification	3,441
Disposals	(1,795)
Effect of foreign currency exchange differences	<u>1,483</u>
Balance at December 31, 2017	<u>\$ 128,650</u>

(Continued)

	<b>Computer Software</b>
<u>Accumulated amortization</u>	
Balance at January 1, 2017	\$ 79,197
Amortization expense	23,322
Disposals	(1,615)
Effect of foreign currency exchange differences	<u>(670)</u>
Balance at December 31, 2017	<u>\$ 100,234</u>
Carrying amount at December 31, 2017	<u>\$ 28,416</u>
<u>Cost</u>	
Balance at January 1, 2018	\$ 128,650
Additions	25,191
Reclassification	545
Disposals	(26,277)
Effect of foreign currency exchange differences	<u>(368)</u>
Balance at December 31, 2018	<u>\$ 127,741</u>
<u>Accumulated amortization</u>	
Balance at January 1, 2018	\$ 100,234
Amortization expense	21,450
Disposals	(26,035)
Effect of foreign currency exchange differences	<u>(53)</u>
Balance at December 31, 2018	<u>\$ 95,596</u>
Carrying amount at December 31, 2018	<u>\$ 32,145</u>
The above items of intangible assets are amortized on a straight-line basis over estimated useful life of 2 to 5 years.	

## 18. PREPAYMENTS FOR LEASES

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Current (included in prepayments for leases)	\$ 2,728	\$ 2,778
Non-current	<u>99,170</u>	<u>103,768</u>
	<u>\$ 101,898</u>	<u>\$ 106,546</u>

Prepayments for leases are prepaid land use rights for land located in China.

Refer to Note 30 for the carrying amount of prepayments for lease that had been pledged by the Group to secure long-term borrowings.

## 19. BORROWINGS

### Short-term Borrowings

	<u>December 31</u>	
	2018	2017
<u>Secured loan</u>		
Bank borrowings	\$ -	\$ 100,000
Interest rate	-	1.14%

### Long-term Borrowings

	<u>December 31</u>	
	2018	2017
<u>Secured loan</u>		
Medium-term loan		
Repayable from December 22, 2017 to December 22, 2019; interest rate was 1.20% on December 31, 2018 and 2017. Interest is paid monthly and principal is due on December 22, 2019.	\$ 30,000	\$ 30,000
Repayable from December 14, 2018 to June 15, 2020; interest rate was 1.20% on December 31, 2018. Interest is paid monthly and principal is due on June 15, 2020.	50,000	-
Repayable from December 10, 2018 to December 10, 2020; interest rate was 1.24% on December 31, 2018. Interest is paid monthly and principal is due on December 10, 2020.	100,000	-
Repayable from December 27, 2017 to June 15, 2019; interest rate was 1.26% on December 31, 2017. Interest is paid monthly and principal is due on June 15, 2019. Principal was fully repaid in June 2018.	-	100,000
Repayable from July 19, 2016 to July 19, 2019; interest rates were 5.65188% and 4.60888% on December 31, 2018 and December 31, 2017, respectively. Principal was repaid quarterly beginning October 19, 2016.	9,237	20,839
	189,237	150,839
Less: Long-term loans payable - current portion	(39,237)	(11,908)
	<u>\$ 150,000</u>	<u>\$ 138,931</u>

For information on pledged properties and endorsements/guarantees, refer to Notes 29 and 30.

## 20. BONDS PAYABLE

	<u>December 31</u>	
	2018	2017
Unsecured domestic convertible bonds	\$ -	\$ -
Secured domestic bonds	998,929	998,453
	<u>\$ 998,929</u>	<u>\$ 998,453</u>

## Unsecured Domestic Convertible Bonds

On June 4, 2014, the Company issued 15 thousand units of \$100 thousand 0% NTD unsecured convertible bonds in Taiwan, with an aggregate principal of \$1,500,000 thousand, and proceeds from the issue was \$1,503,000 thousand.

The holder is entitled to convert each bond into ordinary shares of the Company at a conversion price of \$20.4 per share. If the Company changes its capital or pays cash dividends, the conversion price will be adjusted by the formula set up in the prospectus. After March 6, 2017, the conversion price has been adjusted to \$18.6 per share. Conversion may occur at any time between July 5, 2014 and May 25, 2017. If the bonds are not converted, they will be redeemed on June 4, 2017 at \$100 thousand each.

The convertible bonds contain both liability and equity components. The equity component was presented in equity under the heading of capital surplus. The effective interest rate of the liability component was 1.7% per annum on initial recognition.

Proceeds from issue (less transaction costs \$5,669 thousand)	\$ 1,497,331
Equity component (less transaction costs allocated to the equity component of \$272 thousand)	<u>(71,878)</u>
Liability component at the date of issue	1,425,453
Interest charged at an effective interest rate of 1.70%	13,944
Conversion to common shares	<u>(10,208)</u>
Liability component at December 31, 2014	<u>\$ 1,429,189</u>
Liability component at January 1, 2017	\$ 1,163,926
Interest charged at an effective interest rate of 1.70%	8,016
Redemption of bonds payable	<u>(1,171,942)</u>
Liability component at December 31, 2017	<u>\$ -</u>

The Company bought back 1,332 units of unsecured convertible bonds from the open market and recognized a gain on the buy-back of bonds payable of \$103 thousand for the year ended December 31, 2017, which was presented under other gains and losses. Moreover, the Company redeemed all of the expired unsecured convertible bonds on June 4, 2017, and reclassified \$56,175 thousand of “capital surplus - convertible bonds” to “capital surplus - treasury share transactions”; refer to Note 23.

## Secured Domestic Bonds

On April 1, 2016, the Company issued 100 units of \$10,000 thousand, 0.95% secured bonds in Taiwan, with an aggregate principal of \$1,000,000 thousand.

For information on pledged properties and endorsements/guarantees, refer to Notes 29 and 30.

## 21. OTHER PAYABLES

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Payables for salaries and bonuses	\$ 206,593	\$ 208,724
Payables for annual leave	40,829	39,533
Payables for purchases of equipment	8,409	10,853
Others	<u>564,694</u>	<u>588,654</u>
	<u>\$ 820,525</u>	<u>\$ 847,764</u>

## 22. RETIREMENT BENEFIT PLANS

### a. Defined contribution plans

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

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

	<u>December 31</u>	
	<b>2018</b>	<b>2017</b>
Present value of defined benefit obligation	\$ 137,254	\$ 137,526
Fair value of plan assets	<u>(38,238)</u>	<u>(41,912)</u>
Net defined benefit liability	<u>\$ 99,016</u>	<u>\$ 95,614</u>

Movements in net defined benefit liability (asset) were as follows:

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liability (Asset)</b>
Balance at January 1, 2017	<u>\$ 132,907</u>	<u>\$ (44,954)</u>	<u>\$ 87,953</u>
Service cost			
Current service cost	338	-	338
Net interest expense (income)	<u>1,827</u>	<u>(634)</u>	<u>1,193</u>
Recognized in profit or loss	<u>2,165</u>	<u>(634)</u>	<u>1,531</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	215	215
Actuarial (gain) loss - changes in demographic assumptions	2,207	-	2,207

(Continued)



	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liability (Asset)</b>
Actuarial (gain) loss - changes in financial assumptions	\$ 2,051	\$ -	\$ 2,051
Actuarial (gain) loss - experience adjustments	<u>3,793</u>	<u>-</u>	<u>3,793</u>
Recognized in other comprehensive income	<u>8,051</u>	<u>215</u>	<u>8,266</u>
Contributions from the employer	-	(2,136)	(2,136)
Benefits paid	<u>(5,597)</u>	<u>5,597</u>	<u>-</u>
Balance at December 31, 2017	<u>\$ 137,526</u>	<u>\$ (41,912)</u>	<u>\$ 95,614</u>
Balance at January 1, 2018	<u>\$ 137,526</u>	<u>\$ (41,912)</u>	<u>\$ 95,614</u>
Service cost			
Current service cost	383	-	383
Net interest expense (income)	<u>1,719</u>	<u>(538)</u>	<u>1,181</u>
Recognized in profit or loss	<u>2,102</u>	<u>(538)</u>	<u>1,564</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(1,139)	(1,139)
Actuarial (gain) loss - changes in demographic assumptions	7,736	-	7,736
Actuarial (gain) loss - changes in financial assumptions	1,896	-	1,896
Actuarial (gain) loss - experience adjustments	<u>(4,632)</u>	<u>-</u>	<u>(4,632)</u>
Recognized in other comprehensive income	<u>5,000</u>	<u>(1,139)</u>	<u>3,861</u>
Contributions from the employer	-	(2,023)	(2,023)
Benefits paid	<u>(7,374)</u>	<u>7,374</u>	<u>-</u>
Balance at December 31, 2018	<u>\$ 137,254</u>	<u>\$ (38,238)</u>	<u>\$ 99,016</u>

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

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

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

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
Discount rate(s)	1.125%	1.250%
Expected rate(s) of salary increase	3.5%	3.5%

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

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
Discount rate(s)		
0.25% increase	<u>\$ (4,039)</u>	<u>\$ (4,121)</u>
0.25% decrease	<u>\$ 4,210</u>	<u>\$ 4,297</u>
Expected rate(s) of salary increase		
0.25% increase	<u>\$ 4,047</u>	<u>\$ 4,134</u>
0.25% decrease	<u>\$ (3,905)</u>	<u>\$ (3,987)</u>

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

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
The expected contributions to the plan for the next year	<u>\$ 2,016</u>	<u>\$ 2,160</u>
The average duration of the defined benefit obligation	12 years	12.3 years

## 23. EQUITY

### Share Capital

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
Number of shares authorized (in thousands)	<u>600,000</u>	<u>600,000</u>
Shares authorized	<u>\$ 6,000,000</u>	<u>\$ 6,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>337,688</u>	<u>337,688</u>
Shares issued	<u>\$ 3,376,884</u>	<u>\$ 3,376,884</u>

Fully paid ordinary shares, which have a par value of NT\$10, carry one vote per share and carry a right to dividends.

On November 10, 2016, Phihong's board of directors resolved to issue 60,000 thousand ordinary shares, with a par value of NT\$10. On January 6, 2017, Phihong's board of directors resolved to issue 60,000 thousand ordinary shares for a consideration of NT\$10.2 per share, and increased the issued and fully paid share capital to \$3,376,884 thousand. The Company used the Black-Scholes model to evaluate the compensation costs of the options granted to employees on January 6, 2017 and increased the capital surplus by \$7,131 thousand. The January 6, 2017 issue of ordinary shares was approved by the FSC on December 15, 2016, and the board of directors set the subscription base date as at January 21, 2017.

### Capital Surplus

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital</u>		
Issuance of ordinary shares	\$ 244,117	\$ 244,117
Conversion of bonds	667,058	667,058
Treasury share transactions	48,234	48,234
Interest payable on bond conversion	13,243	13,243
<u>May be used to offset a deficit only</u>		
Treasury share transactions	<u>71,365</u>	<u>71,365</u>
	<u>\$ 1,044,017</u>	<u>\$ 1,044,017</u>

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

### Retained Earnings and Dividend Policy

Under the dividend policy as set forth in the amended Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 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 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 and supervisors after the amendment, refer to "Employees' compensation and remuneration of directors and supervisors" in Note 24-e.

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

Items referred to under Rule No. 1010012865, Rule No. 1010047490 and Rule No. 1030006415 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.

## Special Reserves

On the first-time adoption of IFRSs, the Company transferred to retained earnings unrealized revaluation increment and cumulative translation differences in the amounts of \$10,968 thousand and \$250,296 thousand, respectively. The increase in retained earnings that resulted from all IFRSs adjustments was smaller than the total revaluation and translation differences; therefore, the Company appropriated to the special reserve the amount of \$230,859 thousand, the increase in retained earnings that resulted from all IFRSs adjustments on transitions to IFRSs.

## Other Equity Items

- a. Exchange differences on translating the financial statements of foreign operations

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Balance at January 1	\$ (256,008)	\$ (91,443)
Exchange differences arising on translating the financial statements of foreign operations	<u>(9,599)</u>	<u>(164,565)</u>
Balance at December 31	<u>\$ (265,607)</u>	<u>\$ (256,008)</u>

- b. Unrealized gain (loss) on available for sale financial assets

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Balance at January 1	\$ 4,825	\$ 57,450
Adjustment on initial application of IFRS 9	(4,825)	-
Share of unrealized gain (loss) on revaluation of available-for-sale financial assets of associates accounted for using the equity method	<u>-</u>	<u>(52,625)</u>
Balance at December 31	<u>\$ -</u>	<u>\$ 4,825</u>

- c. Unrealized gain (loss) on financial assets at FVTOCI

	<b>For the Year Ended December 31, 2018</b>
Balance at January 1 per IAS 39	\$ -
Adjustment on initial application of IFRS 9	<u>(75,236)</u>
Balance at January 1 per IFRS 9	(75,236)
Recognized for the year	
Unrealized gain (loss) - equity instruments	(557)
Share from associates accounted for using the equity method	(24,999)
Reclassification adjustment	
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	<u>6,526</u>
Balance at December 31	<u>\$ (94,266)</u>

## Non-controlling Interests

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Balance at January 1	\$ (9,255)	\$ (10,016)
Attributable to non-controlling interests:		
Share of loss for the period	(19)	(18)
Exchange difference arising on translation of foreign entities	<u>(317)</u>	<u>779</u>
Balance at December 31	<u>\$ (9,591)</u>	<u>\$ (9,255)</u>

## 24. NET PROFIT FROM CONTINUING OPERATIONS

### a. Other income

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Interest income	\$ 35,052	\$ 15,966
Dividend income	-	5,874
Others	<u>117,683</u>	<u>123,754</u>
	<u>\$ 152,735</u>	<u>\$ 145,594</u>

### b. Other gains and losses

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
(Loss) gain on disposal of property, plant and equipment	\$ (11,489)	\$ 11,258
Gain on disposal of investment properties	79,055	129,588
Gain on disposal of non-current assets held for sale	68,394	113,218
Loss on disposal of intangible assets	(242)	(180)
Net foreign exchange losses	(2,955)	(86,165)
Gain on buy-back of bonds payable	-	103
Gain on disposal of investments	12,809	16,966
Fair value changes of financial assets and financial liabilities		
Financial assets mandatorily at FVTPL	560	-
Financial assets designated as at FVTPL	-	3,707
Others	<u>(100,321)</u>	<u>(26,517)</u>
	<u>\$ 45,811</u>	<u>\$ 161,978</u>

c. Depreciation and amortization

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Property, plant and equipment	\$ 306,310	\$ 286,778
Investment properties	-	23,468
Computer software	<u>21,450</u>	<u>23,322</u>
	<u>\$ 327,760</u>	<u>\$ 333,568</u>
 An analysis of depreciation by function		
Operating costs	\$ 151,883	\$ 144,193
Operating expenses	154,427	142,585
Non-operating expenses	<u>-</u>	<u>23,468</u>
	<u>\$ 306,310</u>	<u>\$ 310,246</u>
 An analysis of amortization by function		
Operating costs	\$ 2,244	\$ 1,812
Operating expenses	<u>19,206</u>	<u>21,510</u>
	<u>\$ 21,450</u>	<u>\$ 23,322</u>

d. Employee benefits expense

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Short-term employee benefits	\$ 2,444,000	\$ 2,286,250
Post-employment benefits (Note 22)		
Defined contribution plans	20,398	19,961
Defined benefit plans	<u>1,564</u>	<u>1,531</u>
	<u>\$ 2,465,962</u>	<u>\$ 2,307,742</u>
 An analysis of employee benefits expense by function		
Operating costs	\$ 1,671,773	\$ 1,513,016
Operating expenses	<u>794,189</u>	<u>794,726</u>
	<u>\$ 2,465,962</u>	<u>\$ 2,307,742</u>

e. Employees' compensation and remuneration to directors and supervisors

The Company accrued employees' compensation and remuneration of directors and supervisors at the rates no less than 10% and no higher than 2%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. For the years ended December 31, 2018 and 2017, because of accumulated deficits and operation loss, the Company did not estimate the bonus to employees and the remuneration to directors and supervisors.

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

There was no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the consolidated financial statements for the year ended December 31, 2017 and 2016.

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

- f. Gain or loss on foreign currency exchange

	<b><u>For the Year Ended December 31</u></b>	
	<b>2018</b>	<b>2017</b>
Foreign exchange gains	\$ 25,755	\$ 79,251
Foreign exchange losses	<u>(28,710)</u>	<u>(165,416)</u>
	<u>\$ (2,955)</u>	<u>\$ (86,165)</u>

## 25. INCOME TAXES RELATING TO CONTINUING OPERATIONS

- a. Income tax recognized in profit or loss

The major components of tax expense were as follows:

	<b><u>For the Year Ended December 31</u></b>	
	<b>2018</b>	<b>2017</b>
Current tax		
In respect of the current period	\$ <u>65,293</u>	\$ <u>69,226</u>
Deferred tax		
In respect of the current period	9,400	5,640
Adjustments to deferred tax attributable to change in tax rates and laws	<u>(8,200)</u>	<u>-</u>
	<u>1,200</u>	<u>5,640</u>
Total income tax expense recognized in profit or loss	<u>\$ 66,493</u>	<u>\$ 74,866</u>

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

	<b><u>For the Year Ended December 31</u></b>	
	<b>2018</b>	<b>2017</b>
(Loss) profit before tax	\$ <u>(180,121)</u>	\$ <u>81,504</u>
Income tax expense calculated at statutory rate (2018: 20%; 2017: 17%)	\$ 42,254	\$ 69,226
Unrecognized loss carryforwards	<u>23,039</u>	<u>-</u>
Current income tax expense	65,293	69,226
Deferred income tax assets (liabilities)		
Temporary difference	9,400	5,640
Effect of tax rate changes	<u>(8,200)</u>	<u>-</u>
Income tax expense recognized in profit or loss	<u>\$ 66,493</u>	<u>\$ 74,866</u>

In 2017, the applicable corporate income tax rate used by the group entities in the ROC is 17%. However, the Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%. The applicable tax rate used by subsidiaries in China is 25%. Tax rates used by other group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

b. Income tax recognized in other comprehensive income

	<b><u>For the Year Ended December 31</u></b>	
	<b>2018</b>	<b>2017</b>
<u>Deferred tax</u>		
In respect of the current year:		
Actuarial gains and losses on defined benefit plan	\$ 772	\$ 1,405
Total income tax recognized in other comprehensive income	<u>\$ 772</u>	<u>\$ 1,405</u>

c. Current tax liabilities

	<b><u>For the Year Ended December 31</u></b>	
	<b>2018</b>	<b>2017</b>
<u>Current tax liabilities</u>		
Income tax payable	<u>\$ 21,354</u>	<u>\$ 75,875</u>

d. Deferred tax assets and liabilities

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

For the year ended December 31, 2018

	<b>Opening Balance</b>	<b>Tax Rate Adjustments</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Compre- hensive Income</b>	<b>Closing Balance</b>
<u>Deferred tax assets</u>					
Temporary differences					
Allowance for inventory value decline loss	\$ 1,760	\$ 310	\$ 50	\$ -	\$ 2,120
Allowance for doubtful accounts	9,930	1,760	(9,920)	-	1,770
Unrealized gross profit	8,230	1,450	650	-	10,330
Deferred pension costs	10,470	1,850	90	-	12,410
Others	<u>16,075</u>	<u>2,830</u>	<u>(270)</u>	<u>772</u>	<u>19,407</u>
	<u>\$ 46,465</u>	<u>\$ 8,200</u>	<u>\$ (9,400)</u>	<u>\$ 772</u>	<u>\$ 46,037</u>
<u>Deferred tax liabilities</u>					
Temporary differences					
Unrealized gain on financial instruments	<u>\$ 79,832</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 79,832</u>



For the year ended December 31, 2017

	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Comprehensive Income</b>	<b>Closing Balance</b>
<u>Deferred tax assets</u>				
Temporary differences				
Allowance for inventory value decline loss	\$ 3,120	\$ (1,360)	\$ -	\$ 1,760
Allowance for doubtful accounts	9,930	-	-	9,930
Unrealized gross profit	10,280	(2,050)	-	8,230
Deferred pension costs	10,370	100	-	10,470
Others	<u>17,000</u>	<u>(2,330)</u>	<u>1,405</u>	<u>16,075</u>
	<u>\$ 50,700</u>	<u>\$ (5,640)</u>	<u>\$ 1,405</u>	<u>\$ 46,465</u>

Deferred tax liabilities

Temporary differences				
Unrealized gain on financial instruments	<u>\$ 79,832</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 79,832</u>

- e. Unused loss carryforwards for which no deferred tax assets has been recognized in the consolidated balance sheets

	<u>December 31</u>	
	<b>2018</b>	<b>2017</b>
Loss carryforwards	<u>\$ 115,196</u>	<u>\$ -</u>

- f. Income tax assessments

The Company's income tax returns through 2016 have been assessed by the tax authorities.

**26. (LOSS) EARNINGS PER SHARE**

**Unit: NT\$ Per Share**

	<u>For the Year Ended December 31</u>	
	<b>2018</b>	<b>2017</b>
Basic (loss) earnings per share	<u>\$ (0.73)</u>	<u>\$ 0.02</u>
Diluted earnings per share		<u>\$ 0.02</u>

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

**Net (Loss) Profit for the Period**

	<u>For the Year Ended December 31</u>	
	<b>2018</b>	<b>2017</b>
(Loss) earnings used in the computation of basic (loss) earnings per share	<u>\$ (246,595)</u>	<u>\$ 6,656</u>
Earnings used in the computation of diluted earnings per share		<u>\$ 6,656</u>

## Ordinary Shares Outstanding

	<u>For the Year Ended December 31</u>	
	2018	2017
Weighted average number of ordinary shares used in the computation of basic earnings per share	<u>337,688</u>	<u>326,675</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share		<u>326,675</u>

## 27. 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 stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged.

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

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

## 28. FINANCIAL INSTRUMENTS

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

- Fair value hierarchy

December 31, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Mutual funds	<u>\$ 303,936</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 303,936</u>
Financial assets at FVTOCI				
Investment in equity instruments at FVTOCI				
Unlisted shares	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,320</u>	<u>\$ 37,320</u>

December 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Mutual funds	<u>\$ 345,163</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 345,163</u>

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

b. Categories of financial instruments

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
<u>Financial assets</u>		
FVTPL		
Designated as at FVTPL	\$ -	\$ 345,163
Mandatorily at FVTPL	303,936	-
Loans and receivables (1)	-	3,964,084
Available-for-sale financial assets (2)	-	43,936
Financial assets at amortized cost (3)	4,625,165	-
Financial assets at FVTOCI		
Equity instruments	37,320	-
<u>Financial liabilities</u>		
Financial liabilities at amortized cost (4)	5,054,367	4,537,932

- 1) The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, trade receivables, trade receivables from related parties, other receivables, other financial assets and refundable deposits.
- 2) The balances included the carrying amount of available-for-sale financial assets measured at cost.
- 3) The balances include financial assets measured at amortized cost, which comprise cash and cash equivalents, trade receivables, other receivables, other financial assets and refundable deposits.
- 4) The balances included financial liabilities measured at amortized cost, which comprise short-term borrowings, trade payables, trade payables to related parties, other payables, bonds payable, long-term borrowings and guarantee deposits received.

c. Financial risk management objectives and policies

The Group's major financial instruments included cash and cash equivalents, trade receivables, trade receivables from related parties, other receivables, refundable deposits, short-term borrowings, trade payables, trade payables to related parties, other payables, bonds payable, long-term borrowings and guarantee deposits received. The Group's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, 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 (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

1) Market risk

The Group's operating activities expose it primarily to the financial risks of changes in foreign currency exchange rates (see a) below) and interest rates (see b) below).

a) Foreign currency risk

Several subsidiaries of the Company had foreign currency sales and purchases, which exposed the Group to foreign currency risk. The Group believed that its foreign currency assets and liabilities were not significantly exposed to foreign currency risk; thus, after assessing its balance of foreign currency assets and liabilities, it did not hedge the risk and did not adopt hedge accounting.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) and of the derivatives exposed to foreign currency risk at the end of the reporting period are set out in Note 33.

Sensitivity analysis

The Group was mainly exposed to the USD and CNY.

The following table details the Group's sensitivity to a 1% increase and decrease in New Taiwan dollars (the functional currency) against the relevant foreign currencies. The sensitivity analysis is for a 1% change in foreign currency rates and included only outstanding foreign currency denominated monetary items at the end of the reporting period. A positive number below indicates a decrease in pre-tax profit when New Taiwan dollars strengthen by 1% against the relevant currency. For a 1% weakening of New Taiwan dollars against the relevant currency, there would be an equal and opposite impact on pre-tax profit and the balances below would be negative.

	<b>USD Impact</b>	
	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Profit or loss	\$ 7,363	\$ 9,571

  

	<b>CNY Impact</b>	
	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Profit or loss	\$ 2,114	\$ 292

b) Interest rate risk

The Group was exposed to fair value interest rate risk and cash flow interest rate risk from short-term borrowings, long-term borrowings and bonds payable at both fixed and floating interest rates.

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

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
Fair value interest rate risk		
Financial liabilities	\$ 1,098,929	\$ 1,098,453
Cash flow interest rate risk		
Financial liabilities	89,237	150,839

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure to credit risk approximates the carrying amount of the respective recognized financial assets as stated in the consolidated balance sheets.

The Group adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management specialists annually.

Trade receivables consisted of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of customers in view of trade receivables and, where appropriate, credit guarantee insurance cover is purchased.

### 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 December 31, 2018 and 2017, the Group had available unutilized short-term bank loan facilities set out in (b) below.

#### a) Liquidity and interest risk tables for non-derivative financial liabilities

The following tables detail 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. The table included both interest and principal cash flows. Specifically, bank loans 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. The maturity dates for other non-derivative financial liabilities were based on the agreed repayment dates.

#### December 31, 2018

	<b>On Demand or Less than 1 Year</b>	<b>1 to 3 Years</b>	<b>Over 3 Years</b>	<b>Total</b>
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	\$ 3,861,844	\$ -	\$ -	\$ 3,861,844
Variable interest rate instrument	39,237	50,000	-	89,237
Fixed interest rate instrument	<u>-</u>	<u>1,098,929</u>	<u>-</u>	<u>1,098,929</u>
	<u>\$ 3,901,081</u>	<u>\$ 1,148,929</u>	<u>\$ -</u>	<u>\$ 5,050,010</u>

December 31, 2017

	<b>On Demand or Less than 1 Year</b>	<b>1 to 3 Years</b>	<b>Over 3 Years</b>	<b>Total</b>
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	\$ 3,284,721	\$ -	\$ -	\$ 3,284,721
Variable interest rate instrument	11,908	138,931	-	150,839
Fixed interest rate instrument	<u>100,000</u>	<u>-</u>	<u>998,453</u>	<u>1,098,453</u>
	<u>\$ 3,396,629</u>	<u>\$ 138,931</u>	<u>\$ 998,453</u>	<u>\$ 4,534,013</u>

b) Financing facilities

	<u>December 31</u>	
	<b>2018</b>	<b>2017</b>
Unsecured bank facilities:		
Amount used	\$ -	\$ -
Amount unused	<u>184,740</u>	<u>178,620</u>
	<u>\$ 184,740</u>	<u>\$ 178,620</u>
Secured bank facilities:		
Amount used	\$ 189,237	\$ 250,839
Amount unused	<u>2,109,221</u>	<u>2,031,324</u>
	<u>\$ 2,298,458</u>	<u>\$ 2,282,163</u>

## 29. RELATED-PARTY TRANSACTIONS

a. The Group's related parties and relationship

<u>Related Party</u>	<u>Relationship with the Group</u>
Heng Hui Co., Ltd.	Other related parties
Dongguan Song Xiang Metal Products Co., Ltd.	Other related parties
Hua Jung Co., Ltd.	Other related parties
Spring City Resort Co., Ltd.	Other related parties
Yao Yu Design Co., Ltd.	Other related parties
Hong Ding Educational Technology Co., Ltd.	Other related parties
Peter Lin	Phihong's chairman

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 were disclosed below:

b. Trading transactions

**For the Year Ended December 31**  
**2018                      2017**

Sales

Other related parties	\$ <u>295</u>	\$ <u>558</u>
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The prices of the finished goods sold by the Group are negotiated in consideration of the product type, cost and market price, etc.

**For the Year Ended December 31**  
**2018                      2017**

Purchase of goods

Other related parties	\$ <u>134,541</u>	\$ <u>130,903</u>
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The prices of the finished goods purchased by the Group are negotiated in consideration of the product type, cost and market price, etc.

**December 31**  
**2018                      2017**

Receivables from related parties

Other related parties	\$ <u>-</u>	\$ <u>9</u>
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Payables to related parties

Other related parties	\$ <u>76,846</u>	\$ <u>59,806</u>
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c. Compensation of key management personnel

The types and amounts of the remuneration of directors and other members of key management personnel were as follows:

**For the Year Ended December 31**  
**2018                      2017**

Short-term benefits	\$ 25,642	\$ 37,583
Post-employment benefits	432	540
Share-based payments	<u>-</u>	<u>938</u>
	<b>\$ <u>26,074</u></b>	<b>\$ <u>39,061</u></b>

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

d. Other transactions with related parties

The Company's chairman has guaranteed the payments of the loans of the Group. As of December 31, 2018 and 2017, the amounts of the guarantees were \$1,188,166 thousand and \$1,249,292 thousand, respectively.

### 30. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowings and secured domestic bonds:

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Pledge deposits	\$ 25,450	\$ 25,450
Freehold land	185,202	185,202
Land use rights	16,874	-
Buildings	<u>395,414</u>	<u>319,281</u>
	<u>\$ 622,940</u>	<u>\$ 529,933</u>

### 31. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

The Group's unrecognized commitments were as follows:

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Acquisition of property, plant and equipment	<u>\$ 194,755</u>	<u>\$ -</u>

### 32. SIGNIFICANT EVENTS AFTER REPORTING PERIOD

On November 9, 2018, the board of directors of the Company approved to establish a subsidiary in Vietnam. To meet the demand for funds, the Company will invest capital in stages following the investment process. The Company acquired the business license on February 16, 2019 and established a Vietnamese subsidiary, Phihong Vietnam Company Limited. The registered capital is US\$10,000 thousand, and the Company's shareholding ratio is 100%. As of March 15, 2019, the Company has invested \$207,615 thousand (or US\$6,728 thousand).



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

The Groups' significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies and the related exchange rates between foreign currencies and respective functional currencies were as follows:

December 31, 2018

	<b>Foreign Currencies (In Thousands)</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 69,851	30.79000	\$ 2,150,713
CNY	47,298	4.46918	211,382
<u>Financial liabilities</u>			
Monetary items			
USD	45,939	30.79000	1,414,463

December 31, 2017

	<b>Foreign Currencies (In Thousands)</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 72,913	29.77000	\$ 2,170,623
CNY	6,417	4.55115	29,203
<u>Financial liabilities</u>			
Monetary items			
USD	40,762	29.77000	1,213,481

### 34. 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. (Table 5)
  - 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 6)
  - 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 7)
  - 9) Trading in derivative instruments. (None)
  - 10) Intercompany relationships and significant intercompany transactions. (Table 8)
  - 11) Information on investees. (Table 9)
- b. Information on investments in mainland China
- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area. (Table 10)
  - 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: (Table 11)
    - 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, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds.
    - f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services.

### **35. SEGMENT INFORMATION**

The Group's power supply products segment is the only one reportable segment. The power supply products segment mainly engages in the manufacturing and selling of AC/DC power adapters, charger bases, and power supply modules for computers. The Group's other operating segments did not exceed the quantitative threshold so they are not disclosed as reportable segments. These segments mainly engage in manufacturing and selling of lighting supply and developing, manufacturing and selling monitors.

The Group adopted operating profits as the measurement threshold. There was no material inconsistency between the accounting policies of the operating segment and the accounting policies described in Note 4.

a. Segment revenues and results

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

	<b>Power Supply</b>	<b>Others</b>	<b>Total</b>
<u>For the year ended December 31, 2018</u>			
Revenues from external customers	<u>\$ 12,055,597</u>	<u>\$ 83,126</u>	<u>\$ 12,138,723</u>
Segment losses	<u>\$ (324,168)</u>	<u>\$ (36,533)</u>	\$ (360,701)
Other income			152,735
Other gains and losses			45,811
Finance costs			(21,974)
Share of profit of associates			<u>4,008</u>
Loss before income tax			<u>\$ (180,121)</u>
<u>For the year ended December 31, 2017</u>			
Revenues from external customers	<u>\$ 11,082,236</u>	<u>\$ 201,284</u>	<u>\$ 11,283,520</u>
Segment losses	<u>\$ (180,938)</u>	<u>\$ (25,021)</u>	\$ (205,959)
Other income			145,594
Other gains and losses			161,978
Finance costs			(34,964)
Share of profit of associates			<u>14,855</u>
Profit before income tax			<u>\$ 81,504</u>

b. Segment assets and liabilities

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
Power supply segment assets	\$ 9,890,933	\$ 9,575,476
Other assets	<u>585,626</u>	<u>735,400</u>
Total assets	<u>\$ 10,476,559</u>	<u>\$ 10,310,876</u>
Power supply segment liabilities	\$ 5,281,233	\$ 4,813,297
Other liabilities	<u>104,224</u>	<u>122,069</u>
Total liabilities	<u>\$ 5,385,457</u>	<u>\$ 4,935,366</u>

c. Revenue from major products and services

The following is an analysis of the Group's revenue from continuing operations from its major products and services:

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Power supply	\$ 12,055,597	\$ 11,082,236
Other assets	<u>83,126</u>	<u>201,284</u>
	<u>\$ 12,138,723</u>	<u>\$ 11,283,520</u>

d. Geographical information

The Group operates in three principal geographical areas - Asia, Americas and Europe.

The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of assets are detailed below.

	<b>Revenue from External Customers</b>		<b>Non-current Assets</b>	
	<b>For the Year Ended December 31</b>		<b>December 31</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Asia	\$ 9,041,084	\$ 7,781,106	\$ 2,921,909	\$ 2,973,794
USA	1,803,955	1,785,627	119,988	119,590
Europe	1,234,840	1,644,745	-	-
Others	<u>58,844</u>	<u>72,042</u>	<u>-</u>	<u>-</u>
	<u>\$ 12,138,723</u>	<u>\$ 11,283,520</u>	<u>\$ 3,041,897</u>	<u>\$ 3,093,384</u>

e. Information about major customers

Included in revenues from direct sales of \$12,138,723 thousand and \$11,283,520 thousand in 2018 and 2017 respectively, are revenues of approximately \$6,694,681 thousand and \$5,018,469 thousand which represent sales to the Group's main customers.

Single customers that contributed 10% or more to the Group's total revenue were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Customer A	\$ 1,916,264	\$ 2,165,074
Customer B	1,772,006	NA (Note)
Customer C	1,517,510	1,728,548
Customer D	<u>1,488,901</u>	<u>1,124,847</u>
	<u>\$ 6,694,681</u>	<u>\$ 5,018,469</u>

Note: Revenue less than 10% of the Group's revenue.

No other single customers contributed 10% or more to the Group's total revenue for both 2018 and 2017.

## PHIHONG TECHNOLOGY CO., LTD. AND SUBSIDIARIES

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

No. (Note 1)	Lender	Borrower	Financial Statement Account	Related Party	Highest Balance for the Period	Ending Balance	Actual Borrowing Amount	Interest Rate	Nature of Financing (Note 2)	Business Transaction Amount	Reasons for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower (Notes 3 and 4)	Aggregate Financing Limit (Notes 3 and 4)	Note
													Item	Value			
1	Phihong (Dongguan) Electronics Co., Ltd.	Dongguan Phitek Electronics Co., Ltd.	Other receivables from related parties	Yes	\$ 1,027,911 (CNY 230,000,000)	\$ 446,918 (CNY 100,000,000)	\$ -	4.35%	b	\$ -	Capital movement	\$ -	-	\$ -	\$ 1,652,005	\$ 1,652,005	
2	Phihong International Corp.	Phihong (Dongguan) Electronics Co., Ltd.	Other receivables from related parties	Yes	36,948 (US\$ 1,200,000)	36,948 (US\$ 1,200,000)	9,237	5.00%	b	-	Capital movement	-	-	-	3,197,805	3,197,805	
3	Phihong Electronics (Suzhou) Co., Ltd.	Dongguan Phitek Electronics Co., Ltd.	Other receivables from related parties	Yes	1,139,642 (CNY 255,000,000)	759,761 (CNY 170,000,000)	759,761	4.35%	b	-	Capital movement	-	-	-	1,581,764	1,581,764	
		Phihong (Dongguan) Electronics Co., Ltd.	Other receivables from related parties	Yes	312,843 (CNY 70,000,000)	312,843 (CNY 70,000,000)	-	4.35%	b	-	Capital movement	-	-	-	1,581,764	1,581,764	

Note 1: The parent company and its subsidiaries are coded as follows:

- The parent company is coded "0".
- The subsidiaries are coded consecutively beginning from "1" in the order presented in the table above.

Note 2: Reasons for financing are as follows:

- Business relationship.
- The need for short-term financing.

Note 3: According to the Company's policy, the aggregated financing amount provided to others shall not exceed 40% of its net worth, which is based on the latest audited or reviewed parent-company-only financial statements. The maximum amount permitted to a single borrower is listed based on the types of financing reasons as follow:

- Business relationship: Each of the financing amounts shall not exceed the higher amount of the total purchases from or sales to a borrower in the most recent year or in the current year.
- The need for short-term financing: Each of the financing amounts shall not exceed 20% of the Company's net worth, which is based on the latest audited or reviewed parent-company-only financial statements.

Note 4: The aggregate financing amount between subsidiaries shall not exceed the net worth of the lending subsidiary's latest financial statements, according to the subsidiary's procedures for the management of loans to others.

## PHIHONG TECHNOLOGY CO., LTD. AND SUBSIDIARIES

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

No. (Note 1)	Endorser/Guarantor	Endorsee/Guarantee		Limit on Endorsement/ Guarantee Given on Behalf of Each Party (Notes 2 and 3)	Maximum Amount Endorsed/ Guaranteed During the Period	Outstanding Endorsement/ Guarantee at the End of the Period	Actual Borrowing Amount	Amount Endorsed/ Guaranteed by Collateral	Ratio of Accumulated Endorsement/ Guarantee to Net Equity in Latest Financial Statements (%)	Aggregate Endorsement/ Guarantee Limit (Notes 2 and 3)	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China	Note
		Name	Relationship											
0	Phihong Technology Co., Ltd.	Phihong International Corp.	Subsidiary of the Company	\$ 1,530,208	\$ 36,948 (US\$ 1,200,000)	\$ 36,948 (US\$ 1,200,000)	\$ 9,237	\$ -	0.73	\$ 2,550,347	Y	N	N	
		Phihong USA Corp.	Subsidiary of the Company	1,530,208	153,950 (US\$ 5,000,000)	153,950 (US\$ 5,000,000)	-	-	3.02	2,550,347	Y	N	N	
1	Phihong (Dongguan) Electronics Co., Ltd.	Dongguan Phitek Electronics Co., Ltd.	Sister company	1,652,005	223,459 (CNY50,000,000)	223,459 (CNY50,000,000)	-	-	13.53	1,652,005	N	N	Y	

Note 1: The parent company and its subsidiaries are coded as follows:

- a. The parent company is coded "0".
- b. The subsidiaries are coded consecutively beginning from "1" in the order presented in the table above.

Note 2: According to the Company's procedures for the Management of Endorsements and Guarantees, the aggregate amount of endorsements/guarantees provided by the Company shall not exceed 50% of its net worth. Meanwhile, the amount of endorsements/guarantees provided by the Company for any single entity shall not exceed 30% of the Company's net worth. The net worth is based on the Company's latest parent-company-only financial statements.

Note 3: According to the Company's subsidiary to subsidiary procedures for the Management of Endorsements and Guarantees, the aggregate amount of endorsements/guarantees between subsidiaries shall not exceed the endorser/guarantor's net worth, which is based on the latest financial statements.

Note 4: On May 6, 2016, the board of directors approved that the Company's endorsements/guarantees amount to its subsidiary Phihong International Corp. is US\$1.2 million.

Note 5: On August 11, 2017, the board of directors approved that the Company's endorsements/guarantees amount to its subsidiary Phihong USA Corp. is US\$5 million.

Note 6: On August 30, 2018, the board of directors approved that Phihong (Dongguan) Electronics Co., Ltd.'s endorsements/guarantees amount to Dongguan Phitek Electronics Co., Ltd. is CNY50 million.

## PHIHONG TECHNOLOGY CO., LTD. AND SUBSIDIARIES

## MARKETABLE SECURITIES HELD

DECEMBER 31, 2018

(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	December 31, 2018				Note
				Number of Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value	
Phihong Technology Co., Ltd.	<u>Ordinary shares</u> Pao- Dian Venture Capital Co., Ltd.	None	Financial assets at FVTOCI - non-current	270,565	\$ 3,163	10.49	\$ 3,163	
	Zhong-Xuan Venture Capital Co., Ltd.	None	Financial assets at FVTOCI - non-current	2,500,000	26,359	8.62	26,359	
Guang-Lai Investment Co., Ltd.	<u>Ordinary shares</u> Yong-Li Investment Co., Ltd.	None	Financial assets at FVTOCI - non-current	403,226	-	8.06	-	
	Taiwan Cultural & Creativity No. 1 Co., Ltd.	None	Financial assets at FVTOCI - non-current	3,000,000	7,798	10.83	7,798	
Phihong (Dongguan) Electronics Co., Ltd.	<u>Fund</u> Agricultural Bank of China Ben-Li-Feng Financial Products	None	Financial assets at FVTPL - current	15,000,000	67,516	-	67,516	
Phihong Electronics (Suzhou) Co., Ltd.	<u>Fund</u> Shanghai Pudong Development Bank Principal and Income Protected Financial Products	None	Financial assets at FVTPL - current	52,900,000	236,420	-	236,420	

Note 1: The marketable securities stated here is related to shares debentures and beneficiary certificates and the derivative products caused by those of "IFRS 9 Financial Instruments".

Note 2: For information on the investments in subsidiaries and associates, refer to Tables 9 and 10.

## PHIHONG TECHNOLOGY CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2018  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Type and Name of Marketable Securities (Note 1)	Financial Statement Account	Counterparty (Note 2)	Relationship (Note 2)	Beginning Balance		Acquisition (Note 3)		Disposal (Note 3)				Ending Balance	
					Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Carrying Amount	Gain (Loss) on Disposal	Number of Shares	Amount
Phihong (Dongguan) Electronics Co., Ltd.	CR Yuanta Fund	Financial assets at FVTPL - current	Noah Upright (Shanghai) Fund Investment	None	-	\$ -	68,000,000	\$ 315,976 (CNY 68,000,000)	68,000,000	\$ 317,394 (CNY 68,312,296)	\$ 315,976 (CNY 68,000,000)	\$ 1,418 (CNY 312,296)	-	\$ -
	Agricultural Bank of China Ben-Li-Feng Financial Products	Financial assets at FVTPL - current	Agricultural Bank of China	None	-	-	205,000,000	917,483 (CNY205,107,029)	190,000,000	852,643 (CNY190,601,115)	849,967 (CNY190,000,000)	2,676 (CNY 601,115)	15,000,000	67,516 (CNY 15,107,029)
Dongguan Phitek Electronics Co., Ltd.	CR Yuanta Fund	Financial assets at FVTPL - current	Noah Upright (Shanghai) Fund Investment	None	-	-	85,500,000	395,960 (CNY 85,500,000)	85,500,000	396,326 (CNY 85,579,478)	395,960 (CNY 85,500,000)	366 (CNY 79,478)	-	-
	Agricultural Bank of China Ben-Li-Feng Financial Products	Financial assets at FVTPL - current	Agricultural Bank of China	None	-	-	472,000,000	2,121,194 (CNY472,000,000)	472,000,000	2,125,103 (CNY472,874,484)	2,121,194 (CNY472,000,000)	3,909 (CNY 874,484)	-	-
Phihong Electronics (Suzhou) Co., Ltd.	CR Yuanta Fund	Financial assets at FVTPL - current	Noah Upright (Shanghai) Fund Investment	None	-	-	114,500,000	450,781 (CNY114,500,000)	114,500,000	452,218 (CNY114,811,103)	450,781 (CNY114,500,000)	1,437 (CNY 311,103)	-	-
	Shanghai Pudong Development Bank Principal and Income Protected Financial Products	Financial assets at FVTPL - current	Shanghai Pudong Development Bank	None	-	-	92,550,000	414,447 (CNY 92,550,000)	39,650,000	179,265 (CNY 39,926,826)	178,027 (CNY 39,650,000)	1,238 (CNY 276,826)	52,900,000	236,420 (CNY 52,900,000)

Note 1: The marketable securities stated here include shares, debentures and beneficiary certificates and the derivative products caused by those.

Note 2: Investors whose marketable securities accounted for using the equity method are required to be disclosed.

Note 3: The marketable securities acquired and disposed of shall be calculated separately at market value in order to determine whether the amount reaches \$300 million or 20% of the paid-in capital.

Note 4: The paid-in capital amount is the paid-in capital of the parent company. If the issued share has no face value or the face value is not NT\$10 per share, in regard to the 20% of the paid-in capital transaction rule, then the marketable securities acquired and disposed of shall be calculated separately at market value in order to determine whether the amount reaches 10% of the equity attributable to owners of the Company.



## PHIHONG TECHNOLOGY CO., LTD. AND SUBSIDIARIES

DISPOSAL OF INDIVIDUAL REAL ESTATE AT PRICES OF AT LEAST \$300 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Seller	Property	Event Date	Original Acquisition Date	Carrying Amount	Transaction Amount	Collection	Gain (Loss) on Disposal	Counterparty	Relationship	Purpose of Disposal	Price Reference	Other Terms
Phihong Electronics (Suzhou) Co., Ltd.	Plant and land use right in Suzhou	December 1, 2017 (Note 1)	May 2007	\$ 945,421 (CNY 211,427,020)	\$ 1,045,788 (CNY 234,000,000)	Full collection	\$ 68,394 (Note 2)	Suzhou Gaoxin District Fengqiao Industrial Co., Ltd.	Non-related party	Disposal of idle assets	Professional certification report and market price	-

Note 1: The contract date.

Note 2: Deduction of estimated relevant expenses and after-tax costs.

**PHIHONG TECHNOLOGY CO., LTD. AND SUBSIDIARIES**

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

Buyer	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
Phihong Technology Co., Ltd.	Phihong USA Corp.	Subsidiary of the Company	Sale	\$ (3,068,359)	(37.66)	No significant difference	-	-	\$ 178,643	16.39	
	Phihong Technology Japan Co., Ltd.	Subsidiary of the Company	Sale	(412,675)	(5.07)	No significant difference	-	-	50,003	4.59	
	Phihong (Dongguan) Electronics Co., Ltd.	Subsidiary of the Company	Purchase	7,518,931	99.62	No significant difference	-	-	-	-	
Phihong USA Corp.	Phihong Technology Co., Ltd.	Parent entity	Purchase	3,068,359	100.00	No significant difference	-	-	(178,643)	(84.08)	
Phihong Technology Japan Co., Ltd.	Phihong Technology Co., Ltd.	Parent entity	Purchase	412,675	88.54	No significant difference	-	-	(50,003)	(99.03)	
Phihong (Dongguan) Electronics Co., Ltd.	Phihong Technology Co., Ltd.	Parent entity	Sale	(7,518,931)	(98.26)	No significant difference	-	-	-	-	

**PHIHONG TECHNOLOGY CO., LTD. AND SUBSIDIARIES**

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

**DECEMBER 31, 2018**

**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Company Name	Related Party	Relationship	Financial Statement Account and Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Actions Taken		
Pihong Technology Co., Ltd.	Pihong USA Corp.	Subsidiary of the Company	Trade receivables of \$178,643	14.81	\$ -	-	\$ 178,637	\$ -
	Dongguan Phitek Electronics Co., Ltd.	Subsidiary of the Company	Other receivables of \$110,599	-	-	-	65,803	-
Pihong Electronics (Suzhou) Co., Ltd.	Dongguan Phitek Electronics Co., Ltd.	Sister Company	Other receivables of \$782,649	-	-	-	507,953	-

**PHIHONG TECHNOLOGY CO., LTD. AND SUBSIDIARIES**

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS  
FOR THE YEAR ENDED DECEMBER 31, 2018  
(In Thousands of New Taiwan Dollars)**

No. (Note 1)	Investee Company	Counterparty	Relationship	Transaction Details			
				Financial Statement Accounts	Amount	Payment Terms	% to Total Sales or Assets
0	Phihong	Phihong USA Corp.	1	Sale	\$ 3,068,359	No significant difference	25
		Phihong Technology Japan Co., Ltd.	1	Sale	412,675	No significant difference	3
		Phihong (Dongguan) Electronics Co., Ltd.	1	Purchase	7,518,931	No significant difference	62
		Phihong USA Corp.	1	Trade receivable	178,643	-	2
		Phihong (Dongguan) Electronics Co., Ltd.	1	Other receivable	83,378	-	1
		Dongguan Phitek Electronics Co., Ltd.	1	Other receivable	110,599	-	1
1	Phihong Electronics (Suzhou) Co., Ltd.	Dongguan Phitek Electronics Co., Ltd.	3	Other receivable	782,649	-	7

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

- a. The Company is coded "0".
- b. The subsidiaries are coded consecutively beginning from "1" in the order presented in the table above.

Note 2: Nature of relationship is as follows:

- a. From the Parent Company to its subsidiary: 1.
- b. From a subsidiary to its Parent Company: 2.
- c. Between subsidiaries: 3.

Note 3: The percentage calculation is based on the consolidated total operating revenue or total assets. For balance sheet items, each item's period-end balance is shown as a percentage to consolidated total assets as of December 31, 2018. For profit or loss items, cumulative amounts are shown as a percentage to consolidated total operating revenue for the year ended December 31, 2018.

## PHIHONG TECHNOLOGY CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTEEES  
FOR THE YEAR ENDED DECEMBER 31, 2018  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2018			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				December 31, 2018	December 31, 2017	Shares	%	Carrying Amount			
Phihong Technology Co Ltd	Phihong International Corp.	British Virgin Islands	Makes investments	\$ 3,448,270	\$ 3,386,218	111,061,351	100.00	\$ 3,166,809	\$ 48,610	\$ 47,506	Hao Xuan Venture Capital Co., Ltd. was put into liquidation in January 2018
	Phihong USA Corp.	California, USA	Sells various power supplies	207,203	207,203	3,100,000	100.00	974,201	36,905	36,905	
	Phitek International Co., Ltd.	British Virgin Islands	Makes investments	314,956	314,956	10,200,000	100.00	(181,707)	(94,807)	(95,523)	
	Ascent Alliance Ltd.	British Virgin Islands	Makes investments	352,043	424,619	12,012,600	100.00	190,997	(59,413)	(58,542)	
	Guang-Lai Investment Co., Ltd.	Taiwan	Makes investments	139,758	139,758	13,975,828	100.00	130,895	(8,250)	(8,250)	
	Hao-Xuan Venture Capital Co., Ltd.	Taiwan	Makes investments	-	18,253	-	-	-	-	-	
	H&P Venture Capital Co., Ltd.	Taiwan	Makes investments	31,707	31,707	3,170,682	32.26	47,489	29,751	12,246	
	Phihong Technology Japan Co., Ltd.	Japan	Sells power components	191,738 (JPY 550,000,000)	191,738 (JPY 550,000,000)	7,000	100.00	136,140	10,090	10,090	
Phihong International Corp.	N-Lighten Technologies, Inc.	California, USA	Makes investments	409,851	409,851	110,834,223	58.45	(25,752)	(88)	(51)	Phihong International Corp. and Guang-Lai Investment Co., Ltd. holds 78.23%
Guang-Lai Investment Co., Ltd.	Spring City Resort Co., Ltd.	Taiwan	Hotel and restaurant	190,000	190,000	2,837,343	25.33	21,232	(21,916)	(5,208)	Phihong International Corp. and Guang-Lai Investment Co., Ltd. holds 78.23%
	Han-Yu Venture Capital Co., Ltd.	Taiwan	Makes investments	100,000	100,000	10,000,000	22.22	81,791	(16,351)	(3,030)	
	N-Lighten Technologies, Inc.	California, USA	Makes investments	206,084	206,084	37,498,870	19.78	(8,715)	(88)	(17)	

Note: Information on investees in mainland China, refer to Table 10.

## PHIHONG TECHNOLOGY CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA  
FOR THE YEAR ENDED DECEMBER 31, 2018  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company	Main Businesses and Products	Paid-in Capital	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2018	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2018	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 4)	Carrying Amount as of December 31, 2018	Accumulated Repatriation of Investment Income as of December 31, 2018	Note
					Outward	Inward							
Phihong (Dongguan) Electronics Co., Ltd.	Manufactures and sells various power supplies	\$ 1,813,724 (HK\$ 451,600,000)	Indirect investment in mainland China through PHI	\$ 1,677,679 (HK\$ 419,000,000)	\$ -	\$ -	\$ 1,677,679 (HK\$ 419,000,000)	\$ (8,430)	100.00	\$ (8,430)	\$ 1,652,005	\$ -	
Phitek (Tianjin) Electronics Co., Ltd.	Manufactures and sells various power supplies	-	Indirect investment in mainland China through PHI	25,327 (US\$ 255,127)	-	-	25,327 (US\$ 255,127)	-	-	-	-	-	Note 1
Phihong Electronics (Suzhou) Co., Ltd.	Manufactures and sells various power supplies	1,343,033 (US\$ 40,600,000)	Indirect investment in mainland China through PHI	1,343,033 (US\$ 40,600,000)	-	-	1,343,033 (US\$ 40,600,000)	143,978	100.00	143,978	1,581,764	-	Note 2
Yanghong Trade (Shanghai) Co., Ltd.	Sells various lighting and power supplies	26,291 (US\$ 880,000)	Indirect investment in mainland China through PHI	63,934 (US\$ 2,140,000)	-	-	63,934 (US\$ 2,140,000)	(8,518)	100.00	(8,518)	3,790	-	
Dongguan Phitek Electronics Co., Ltd.	Manufactures and sells various power supplies	362,042 (US\$ 11,500,000)	Indirect investment in mainland China through PHK	315,258 (US\$ 10,000,000)	-	-	315,258 (US\$ 10,000,000)	(94,898)	100.00	(94,898)	(184,962)	-	
Dongguan Shuang-Ying Electronics Co., Ltd.	Manufactures and sells electronic materials	39,678 (HK\$ 9,000,000)	Indirect investment in mainland China through PHQ	39,678 (HK\$ 9,000,000)	-	-	39,678 (HK\$ 9,000,000)	13,928	100.00	13,928	70,473	-	
Jin-Sheng-Hong (Jiangxi) Electronics Co., Ltd.	Manufactures and sells electronic materials	360,124 (US\$ 11,500,000)	Indirect investment in mainland China through PHQ	360,124 (US\$ 11,500,000)	-	-	360,124 (US\$ 11,500,000)	(65,240)	100.00	(65,240)	118,618	-	
N-Lighten (Shanghai) Trading Inc.	Develops, manufactures and sells various equipment and monitors	-	Indirect investment in mainland China through N-Lighten	387,406 (US\$ 12,366,400)	-	-	387,406 (US\$ 12,366,400)	-	-	-	-	-	Note 3

Note 1: Phitek (Tianjin) Electronics Co., Ltd. was put into liquidation on March 24, 2017.

Note 2: Phihong Electronics (Suzhou) Co., Ltd. merged with Phihong Electronics (Shanghai) Co., Ltd., with Phihong Electronics (Suzhou) Co. as the surviving entity. The merger took effect on January 23, 2007. The surviving company was officially renamed as Phihong Electronics (Suzhou) Co., Shanghai Branch on February 27, 2007. Hence, the initial investment of US\$3 million in Phihong Electronics (Shanghai) Co., Ltd. was merged into Phihong Electronics (Suzhou) Co.

Note 3: N-Lighten (Shanghai) Trading Inc. was put into liquidation on June 18, 2015.

Note 4: The amount was recognized based on audited financial statements.

Note 5: The foreign currencies in this table are converted into New Taiwan dollars using exchange rates of the investment date, except for income and expense items which are translated at the average exchange rates for the period.

(Continued)

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2018	Investment Amount Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
\$4,212,439	\$4,967,615	Note

Note: In accordance with the provisions of the “Regulations Governing Permission for Investment or Technical Cooperation in the Mainland Area” passed on June 26, 2018, the Company has acquired the Business Operation Headquarter Certificate issued by the Industrial Development Bureau of the Ministry of Economic Affairs, which exempts the Company from the limitation of the amount of investment in mainland China.

(Concluded)

**PHIHONG TECHNOLOGY CO., LTD. AND SUBSIDIARIES**

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

Investee Company	Transaction Type	Purchase/Sale		Price	Transaction Details		Notes/Accounts Receivable (Payable)		Unrealized (Gain) Loss	Note
		Amount	%		Payment Term	Comparison with Normal Transaction	Ending Balance	%		
Phihong (Dongguan) Electronics Co., Ltd.	Purchase	\$ 7,518,931	99.62	No significant difference	No significant difference	-	\$ -	-	\$ -	