POLYTRONICS TECHNOLOGY CORP. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND

REPORT OF INDEPENDENT ACCOUNTANTS

December 31, 2018 AND 2017

For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

PWCR 18000241

To Polytronics Technology Corp.

Opinion

We have audited the accompanying consolidated balance sheets of Polytronics Technology Corp. and its subsidiaries (the "Polytronics Technology Group") as at December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and 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 at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

Key audit matters of Polytronics Technology Corp. during the year 2018 are as follows:

Cut-off of revenue recognition

Description

For accounting policies regarding revenue recognition, please refer to Note 4(29). The Group's sales can be divided into two categories, products shipped to clients directly and products for pick-up at outsourced warehouse, depending on sales terms and shipment term. For pick-ups, the revenue is recognised whenever risk and rewards are transferred. However, for the other category, because sales terms vary and shipping destinations include different continents, this category of sales is recognised based on the documents of client acknowledgement to determine the time of ownership and risk transfer. However, these sales categories involve significant manual processes that could lead to inappropriate revenue recognition and misstatement of inventory. Considering that the impact is material, we assessed this as one of the key audit matters.

How our audit addressed the matter

Our procedures in relation to the cut-off risk of revenue recognition included:

1. Evaluated the rationality of revenue recognition.
2. Obtained an understanding and tested relevant controls concerning revenue recognition. Tested the effectiveness of such controls.
3. Tested the sales after the balance sheet date, including inspecting the shipping notice and documents replied by clients to ensure that the sales revenue is recorded in the proper time.
4. Assessed and tested the appropriateness of internal controls over cut-off of hub sales revenue for a specific time prior to and after the balance sheet date, including agreeing to respective supporting documents provided by hub custodians, and validated the proper timing of recognising movements of inventories and respective transfer of cost of goods sold.

Inventory reserve – allowance for valuation loss

Description

Please refer to Notes 4(13), 5(2), and 6(4) of the consolidated financial statements for the accounting policies on inventories, critical accounting judgements and estimates and the details of inventories.

The Group is primarily engaged in manufacturing and selling Polymeric Positive Temperature Coefficient that is used in smart phones, mobile devices and other eletronic products. This type of product has a short lifespan and is especially susceptible to market price fluctuations, which could lead to the risk of loss on decline in market value and of obsolescence. Inventories are evaluated at the lower of cost and net realisable value, and the allowance of inventory is evaluated and recognised individually depending on the aging status and the risk of obsolescence. The net realisable value is determined by past experience. Considering the evaluation and recognition of allowance of inventory has a significent impact on the fair presentation of the financial statements, we assessed this as one of the key audit matters.

How our audit addressed the matter

Our procedures in relation to the provision for inventory valuation losses for individually obsolete or damaged inventories included:

1. Ensured consistent application of accounting policies in relation to allowance for inventory valuation losses and assessed the reasonableness of these policies.
2. Validated the appropriateness of system logic of inventory aging report utilised by management to ensure proper classification of inventories aged over a certain period of time.
3. Evaluated the reasonableness of inventories individually identified as obsolete or damaged with supporting documents, and agreed to information obtained from physical inventory.
4. Discussed with management the net realisable value of inventories aged over a certain period of time and individually identified as obsolete or damaged, validated respective supporting documents and reperformed the calculation.

Other matter – Parent company only financial reports

We have audited and expressed an unmodified opinion on the parent company only financial statements of Polytronics Technology Corp. as at and for the years ended December 31, 2018 and 2017.

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 "Rules Governing the Preparation of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal control as the 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 the management either intends to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

Auditor's 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 auditor's 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 ROC GAAS 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 ROC GAAS, we exercise professional judgement 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 auditor’s 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 auditor’s 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 appropriate audit evidence regarding the financial information of the 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 of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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.

For and on behalf of PricewaterhouseCoopers, Taiwan
March 15, 2019

POLYTRONICS TECHNOLOGY CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

	Assets	Notes	December 31, 2018 AMOUNT	%	December 31, 2017 AMOUNT	%
	Current assets					
1100	Cash and cash equivalents	6(1)	$ 897,160	34	$ 812,988	34
1110	Financial assets at fair value through profit or loss - current	6(2) and 12(4)	-	-	229	-
1136	Current financial assets at amortised cost, net	8	3,190	-	-	-
1150	Notes receivable, net	6(3)	87,374	3	119,565	5
1170	Accounts receivable, net	6(3)	249,564	9	276,352	12
1180	Accounts receivable - related parties	6(3) and 7	65,811	3	57,382	2
1200	Other receivables		11,888	-	1,580	-
130X	Inventories, net	6(4)	303,799	12	255,552	11
1410	Prepayments		28,682	1	31,950	1
1470	Other current assets	8	958	-	8,092	-
11XX	**Total current assets**		1,648,426	62	1,563,690	65
	Non-current assets					
1535	Non-current financial assets at amortised cost, net	8	6,826	-	-	-
1600	Property, plant and equipment, net	6(5)	825,775	31	709,609	29
1760	Investment property, net	6(6)	116,643	5	99,441	4
1780	Intangible assets		3,112	-	4,101	-
1840	Deferred income tax assets	6(21)	15,103	1	13,290	1
1900	Other non-current assets	8	21,691	1	30,327	1
15XX	**Total non-current assets**		989,150	38	856,768	35
1XXX	**Total assets**		$ 2,637,576	100	$ 2,420,458	100

(Continued)

POLYTRONICS TECHNOLOGY CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

	Liabilities and Equity	Notes	December 31, 2018 AMOUNT	%	December 31, 2017 AMOUNT	%
	Current liabilities					
2100	Short-term borrowings	6(7)	$ 76,758	3	$ -	-
2130	Current contract liabilities	6(15)	1,588	-	-	-
2150	Notes payable		7,446	-	2,998	-
2170	Accounts payable	6(8)	84,462	3	93,626	4
2200	Other payables	6(9)	204,655	8	173,214	7
2230	Current income tax liabilities		98,936	4	90,185	4
2300	Other current liabilities	6(15)	990	-	1,381	-
21XX	**Total current liabilities**		474,835	18	361,404	15
	Non-current liabilities					
2600	Other non-current liabilities	6(10)	37,442	1	28,097	1
25XX	**Total non-current liabilities**		37,442	1	28,097	1
2XXX	**Total liabilities**		512,277	19	389,501	16
	Equity					
	Equity attributable to owners of parent					
	Share capital	6(11)				
3110	Share capital - common stock		800,018	30	800,018	33
	Capital surplus	6(12)				
3200	Capital surplus		235,900	10	235,900	10
	Retained earnings	6(13)				
3310	Legal reserve		446,786	17	414,015	17
3320	Special reserve		35,563	1	11,982	-
3350	Unappropriated retained earnings		657,399	25	604,605	25
3400	Other equity interest	6(14)	(50,367)	(2)	(35,563)	(1)
31XX	**Equity attributable to owners of the parent**		2,125,299	81	2,030,957	84
3XXX	**Total equity**		2,125,299	81	2,030,957	84
	Significant contingent liabilities and unrecognised contract commitments	9				
	Significant events after the balance sheet date	11				
3X2X	**Total liabilities and equity**		$ 2,637,576	100	$ 2,420,458	100

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

POLYTRONICS TECHNOLOGY CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars, except earnings per share amounts)

	Items	Notes	2018 AMOUNT	2018 %	2017 AMOUNT	2017 %
4000	**Operating revenue**	6(15)	$ 1,668,641	100	$ 1,530,374	100
5000	**Operating costs**	6(4)	(876,037)	(53)	(789,674)	(51)
5950	**Net operating margin**		792,604	47	740,700	49
	Operating expenses	6(19)(20)				
6100	Selling expenses		(114,281)	(6)	(100,261)	(7)
6200	General and administrative expenses		(148,130)	(9)	(138,590)	(9)
6300	Research and development expenses		(131,695)	(8)	(112,519)	(7)
6450	Reversal of expected credit losses		2,460	-	-	-
6000	**Total operating expenses**		(391,646)	(23)	(351,370)	(23)
6900	**Operating profit**		400,958	24	389,330	26
	Non-operating income and expenses					
7010	Other income	6(16)	39,187	2	42,180	3
7020	Other gains and losses	6(17)	(5,158)	-	(37,306)	(3)
7050	Finance costs	6(18)	(1,946)	-	(78)	-
7000	**Total non-operating income and expenses**		32,083	2	4,796	-
7900	**Profit before tax**		433,041	26	394,126	26
7950	Income tax expense	6(21)	(83,006)	(5)	(69,234)	(5)
8200	**Profit for the year**		$ 350,035	21	$ 324,892	21

(Continued)

POLYTRONICS TECHNOLOGY CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars, except earnings per share amounts)

	Items	Notes	2018 AMOUNT	2018 %	2017 AMOUNT	2017 %
	Other comprehensive (loss) income					
	Components of other comprehensive income that will not be reclassified to profit or loss					
8311	Actuarial loss on defined benefit plan	6(10)	($ 1,103)	-	($ 1,910)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(21)	220	-	325	-
8310	**Components of other comprehensive income that will not be reclassified to profit or loss**		(883)	-	(1,585)	-
	Components of other comprehensive income that will be reclassified to profit or loss					
8361	Cumulative translation differences of foreign operations	6(14)	(14,804)	(1)	(9,913)	(1)
8360	**Components of other comprehensive income that will be reclassified to profit or loss**		(14,804)	(1)	(9,913)	(1)
8300	**Other comprehensive loss for the year**		($ 15,687)	(1)	($ 11,498)	(1)
8500	**Total comprehensive income for the year, net of tax**		$ 334,348	20	$ 313,394	20
	Profit attributable to:					
8610	Owners of the parent		$ 350,035	21	$ 327,709	21
8620	Non-controlling interests		-	-	(2,817)	-
	Profit for the year		$ 350,035	21	$ 324,892	21
	Comprehensive income attributable to:					
8710	Owners of the parent		$ 334,348	20	$ 316,211	20
8720	Non-controlling interests		-	-	(2,817)	-
	Total comprehensive income for the year		$ 334,348	20	$ 313,394	20
9750	**Basic earnings per share**	6(22)	$ 4.38		$ 4.10	
9850	**Diluted earnings per share**	6(22)	$ 4.32		$ 4.04	

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

POLYTRONICS TECHNOLOGY CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

		Equity attributable to owners of the parent										
			Capital Surplus			Retained Earnings						
	Notes	Share capital - common stock	Additional paid-in capital	Treasury stock transactions	Employee stock warrants	Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Total	Non-controlling interest	Total equity
For the year ended December 31, 2017												
Balance at January 1, 2017		$ 800,018	$ 203,343	$ 14,924	$ 17,633	$ 373,487	$ 11,982	$ 683,017	($ 25,650)	$2,078,754	$ 33,068	$2,111,822
Profit (loss) for the year		-	-	-	-	-	-	327,709	-	327,709	(2,817)	324,892
Other comprehensive loss for the year	6(14)	-	-	-	-	-	-	(1,585)	(9,913)	(11,498)	-	(11,498)
Total comprehensive income (loss) for the year		-	-	-	-	-	-	326,124	(9,913)	316,211	(2,817)	313,394
Distribution of 2016 earnings												
Legal reserve	6(13)	-	-	-	-	40,528	-	(40,528)	-	-	-	-
Cash dividends	6(13)	-	-	-	-	-	-	(364,008)	-	(364,008)	-	(364,008)
Changes in non-controlling interests	6(23)	-	-	-	-	-	-	-	-	-	(30,251)	(30,251)
Balance at December 31, 2017		$ 800,018	$ 203,343	$ 14,924	$ 17,633	$ 414,015	$ 11,982	$ 604,605	($ 35,563)	$2,030,957	$ -	$2,030,957
For the year ended December 31, 2018												
Balance at January 1, 2018		$ 800,018	$ 203,343	$ 14,924	$ 17,633	$ 414,015	$ 11,982	$ 604,605	($ 35,563)	$2,030,957	$ -	$2,030,957
Profit for the year		-	-	-	-	-	-	350,035	-	350,035	-	350,035
Other comprehensive loss for the year	6(14)	-	-	-	-	-	-	(883)	(14,804)	(15,687)	-	(15,687)
Total comprehensive income (loss) for the year		-	-	-	-	-	-	349,152	(14,804)	334,348	-	334,348
Distribution of 2017 earnings:												
Legal reserve	6(13)	-	-	-	-	32,771	-	(32,771)	-	-	-	-
Special reserve	6(13)	-	-	-	-	-	23,581	(23,581)	-	-	-	-
Cash dividends	6(13)	-	-	-	-	-	-	(240,006)	-	(240,006)	-	(240,006)
Balance at December 31, 2018		$ 800,018	$ 203,343	$ 14,924	$ 17,633	$ 446,786	$ 35,563	$ 657,399	($ 50,367)	$2,125,299	$ -	$2,125,299

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

POLYTRONICS TECHNOLOGY CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

	Notes	Years ended December 31 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		$ 433,041	$ 394,126
Adjustments			
Adjustments to reconcile profit (loss)			
Net profit on financial assets at fair value through profit or loss		-	(229)
Impairment loss	6(3)	-	2,100
Reversal of expected credit losses		(2,460)	-
Reversal for bad debt expense		-	(1,947)
Depreciation (including investment property)	6(17)(19)	92,723	95,917
Amortisation	6(19)	2,711	2,157
Interest expense	6(18)	1,946	78
Interest income	6(16)	(6,220)	(4,682)
Loss on disposal of property, plant and equipment	6(17)	393	5,160
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable, net		30,246	(6,683)
Accounts receivable, net		26,143	(4,054)
Accounts receivable, net - related parties		(8,429)	7,624
Other receivables		(10,308)	29
Inventories		(48,247)	30,423
Prepayments		3,268	(1,568)
Other current assets		(3,191)	(4,829)
Changes in operating liabilities			
Financial liabilities at fair value through profit or loss - current		229	(386)
Current contract liabilities		1,588	-
Notes payable		4,448	1,552
Accounts payable		(9,164)	(55,476)
Other payables		7,318	(10,125)
Other current liabilities		(391)	(1,856)
Defined benefit liabilities		293	(802)
Cash inflow generated from operations		515,937	446,529
Interest paid		(1,946)	(78)
Interest received		6,220	4,682
Income tax paid		(75,627)	(82,742)
Net cash flows from operating activities		444,584	368,391

(Continued)

POLYTRONICS TECHNOLOGY CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

	Notes	Years ended December 31 2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in financial assets at amortised cost, net		($ 90)	$ -
Proceeds from disposal of financial assets at cost		-	900
Decrease (increase) in other non-current assets		1,866	(6,962)
Acquisition of property, plant and equipment	6(25)	(203,089)	(53,818)
Proceeds from disposal of property, plant and equipment		4,320	11,327
Acquisition of intangible assets		(1,738)	(3,065)
Decrease in deposits - out		-	9
Net cash flows used in investing activities		(198,731)	(51,609)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in short-term borrowings	6(7)	177,576	-
Decrease in short-term borrowings		(107,015)	-
Increase (decrease) in guarantee deposits received		7,948	(5,771)
Changes in non-controlling interests		-	(30,251)
Cash dividends paid	6(13)	(240,006)	(364,008)
Net cash flows used in financing activities		(161,497)	(400,030)
Effect of exchange rate		(184)	(8,678)
Net increase (decrease) in cash and cash equivalents		84,172	(91,926)
Cash and cash equivalents at beginning of year		812,988	904,914
Cash and cash equivalents at end of year	6(1)	$ 897,160	$ 812,988

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

POLYTRONICS TECHNOLOGY CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANISATION

Polytronics Technology Corporation (the "Company") was incorporated on December 18, 1997 and commenced operations on August 1, 1999. The Company and its subsidiaries (collectively referred herein as the "Group") are primarily engaged in the research, development, manufacturing and sale of Polymeric Positive Temperature Coefficient, Overvoltage protection element and its production related semi-finished goods, modules, heat conductive substrate, thermal module, heat dispersing materials, and LED lightings and modules.

2. THE DATE OF AUTHORISATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORISATION

These consolidated financial statements were authorised for issuance by the Board of Directors on March 15, 2019.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 2, 'Classification and measurement of share-based payment transactions'	January 1, 2018
Amendments to IFRS 4, 'Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts'	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Amendments to IFRS 15, 'Clarifications to IFRS 15 Revenue from contracts with customers'	January 1, 2018
Amendments to IAS 7, 'Disclosure initiative'	January 1, 2017
Amendments to IAS 12, 'Recognition of deferred tax assets for unrealised losses'	January 1, 2017

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IAS 40, 'Transfers of investment property'	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

A. IFRS 9, 'Financial instruments'

(a) Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset at amortised cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present subsequent changes in the fair value of an investment in an equity instrument that is not held for trading in other comprehensive income.

(b) The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognise 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Group shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.

(c) The amended general hedge accounting requirements align hedge accounting more closely with an entity's risk management strategy. Risk components of non-financial items and a group of items can be designated as hedged items. The standard relaxes the requirements for hedge effectiveness, removing the 80-125% bright line, and introduces the concept of 'rebalancing'; while its risk management objective remains unchanged, an entity shall rebalance the hedged item or the hedging instrument for the purpose of maintaining the hedge ratio.

(d) The Group has elected not to restate prior period financial statements using the modified retrospective approach under IFRS 9. For details of the significant effect as at January 1, 2018, please refer to Notes 12(4)B and C.

B. IFRS 15, 'Revenue from contracts with customers' and amendments

(a) IFRS 15, 'Revenue from contracts with customers' replaces IAS 11, 'Construction contracts', IAS 18, 'Revenue' and relevant interpretations. According to IFRS 15, revenue is recognised when a customer obtains control of promised goods or services. A customer obtains control of goods or services when a customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify contracts with customer

Step 2: Identify separate performance obligations in the contract(s)

Step 3: Determine the transaction price

Step 4: Allocate the transaction price.

Step 5: Recognise revenue when the performance obligation is satisfied.

Further, IFRS 15 includes a set of comprehensive disclosure requirements that requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

(b) The Group has elected not to restate prior period financial statements and recognised the cumulative effect of initial application as retained earnings at January 1, 2018, using the modified retrospective approach under IFRS 15. The Group applied retrospectively IFRS 15 only to incomplete contracts as of January 1, 2018, by adopting an optional transition expedient. The significant effects of adopting the modified transition as of January 1, 2018.

C. Amendments to IAS 7, 'Disclosure initiative'

This amendment requires that an entity shall provide more disclosures related to changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group expects to provide additional disclosure to explain the changes in liabilities arising from financing activities.

When adopting the new standards endorsed by the FSC effective from 2018, the Group will apply the new rules under IFRS 9 retrospectively from January 1, 2018, with the practical expedients permitted under the statement. The impact is not material as of January 1, 2018.

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

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 9, 'Prepayment features with negative	January 1, 2019
IFRS 16, 'Leases'	January 1, 2019
Amendments to IAS 19, 'Plan amendment, curtailment or settlement'	January 1, 2019
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
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

IFRS 16, 'Leases'

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognise a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

The Group expects to recognise the lease contract of lessees in line with IFRS 16. However, the Group does not intend to restate the financial statements of prior period (collectively referred herein as the "modified retrospective approach"), and the effects will be adjusted on January 1, 2019. It is expected that 'right-of-use asset' and lease liability will be increased by $223,125 and $223,125, respectively.

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

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendment to IAS 1 and IAS 8, 'Disclosure Initiative-Definition of Material'	January 1, 2020
Amendments to IFRS 3, 'Definition of a business'	January 1, 2020
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 International Accounting Standards Board
IFRS 17, 'Insurance contracts'	January 1, 2021

The above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group’s assessment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

These consolidated financial statements of the Group have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”, the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”).

(2) Basis of preparation

A. Except for the following items, the consolidated financial statements have been prepared under the historical cost convention:

(a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

(b) Defined benefit liabilities recognized based on the net amount of pension fund assets less present value of defined benefit obligation.

B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the impact is not material for the Group. The financial statements for the year ended December 31, 2017 were prepared in compliance with International Accounting Standard 39 (‘IAS 39’), International Accounting Standard 18 (‘IAS 18’) and related financial reporting interpretations. Please refer to Notes 12(4) and (5) for details of significant accounting policies and details of significant accounts.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

(a) All subsidiaries are included in the Group’s consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.

(b) Inter-company transactions, balances and unrealized gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

(c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(d) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. 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.

(e) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognized in profit or loss. All amounts previously recognized in other comprehensive income in relation to the subsidiary are reclassified to profit or loss, on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognized in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

(Blank below)

B. Subsidiaries included in the consolidated financial statements:

			Ownership (%)	
Name of Investor	Name of Subsidiaries	Main Business Activities	December 31, 2018	December 31, 2017
Polytronics Technology Corporation	Polytronics (B.V.I.) Corporation	Investments and general business operations	100	100
Polytronics (B.V.I.)	P-Circuit Corporation	Investments and general business	100	100
P-Circuit Corporation	Polystar Electronics Co., Ltd.	Production and sale of varistor and potentiometer	100	100
Polystar Electronics Co.,	Hanpu (Kunshan)	Wholesale, import and export business	100	100
Polystar Electronics Co., Ltd.	Polystar Senchip Microelectronics, Inc.	Production and sale of resistors, discrete semiconductor devices and other resistive elements	100	100

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Significant restrictions: None.

F. Subsidiaries that have non-controlling interests that are material to the Group: None.

(4) Foreign currency translation

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The consolidated financial statements are presented in New Taiwan dollars, which is the Company’s functional and the Group’s presentation currency.

A. Foreign currency transactions and balances

(a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.

(b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss.

(c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss as part of the fair value gain or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

(d) All foreign exchange gains and losses are presented in the statement of comprehensive income within 'other gains and losses'.

B. Translation of foreign operations

The operating results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;

(b) Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and

(c) All resulting exchange differences are recognized in other comprehensive income.

(5) Classification of current and non-current items

A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

(a) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;

(b) Assets held mainly for trading purposes;

(c) Assets that are expected to be realized within twelve months from the balance sheet date;

(d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.

B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

(a) Liabilities that are expected to be settled within the normal operating cycle;

(b) Liabilities arising mainly from trading activities;

(c) Liabilities that are to be settled within twelve months from the balance sheet date;

(d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. 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.

(6) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

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

A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortised cost or fair value through other comprehensive income.

B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.

C. At initial recognition, the Group measures the financial assets at fair value and recognises the transaction costs in profit or loss. The Group subsequently measures the financial assets at fair value, and recognises the gain or loss in profit or loss.

D. The Group recognises the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(8) Financial assets at amortised cost

A. Financial assets at amortised cost are those that meet all of the following criteria:

(a) The objective of the Group's business model is achieved by collecting contractual cash flows.

(b) The assets' contractual cash flows represent solely payments of principal and interest.

B. On a regular way purchase or sale basis, financial assets at amortised cost are recognised and derecognised using trade date accounting.

C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. Interest income from these financial assets is included in finance income using the effective interest method. A gain or loss is recognised in profit or loss when the asset is derecognised or impaired.

D. The Group's time deposits which do not fall under cash equivalents are those with a short maturity period and are measured at initial investment amount as the effect of discounting is immaterial.

(9) Accounts and notes receivable

A. Accounts and notes receivable entitle the Group a legal right to receive consideration in exchange for transferred goods or rendered services.

B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(10) Impairment of financial assets

For debt instruments measured at fair value through other comprehensive income and financial assets at amortised cost including accounts receivable or contract assets that have a significant financing component, lease receivables, loan commitments and financial guarantee contracts, at each reporting date, the Group recognises the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognises the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable or contract assets that do not contain a significant financing component, the Group recognises the impairment provision for lifetime ECLs.

(11) Derecognition of financial assets

The Group derecognizes a financial asset when one of the following conditions is met:

A. The contractual rights to receive cash flows from the financial asset expire.

B. The contractual rights to receive cash flows of the financial asset have been transferred and the Group has transferred substantially all risks and rewards of ownership of the financial asset.

C. The contractual rights to receive cash flows of the financial asset have been transferred, however, the Group has not retained control of the financial asset.

(12) Operating leases (lessor)

Lease income from an operating lease (net of any incentives given to the lessee) is recognized in profit or loss on a straight-line basis over the lease term.

(13) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (allocated based on normal operating capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(14) Property, plant and equipment

A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.

B. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.

D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change.

The estimated useful lives of property, plant and equipment are as follows:

Buildings	3 ~ 50 years
Machinery and equipment	3 ~ 10 years
Office equipment	3 ~ 5 years
Others	2 ~ 10 years

(15) Investment property

An investment property is stated initially at its cost and measured subsequently using the cost model. Except for land, investment property is depreciated on a straight-line basis over its estimated useful life of 50 years.

(16) Intangible assets

Intangible assets consist of software costs on a straight-line basis over its estimated useful life of 1 to 10 years.

(17) Impairment of non-financial assets

The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist, the impairment loss shall be reversed. The increased carrying amount due to reserval should not be more than what the depreciated or amortized historical cost would have been if the impairment had not been recognized.

(18) Borrowings

Borrowings comprise long-term and short-term bank borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

(19) Notes and accounts payable

A. Accounts payable are liabilities for purchases of raw materials, goods or services and notes payable are those resulting from operating and non-operating activities.

B. The short-term notes and accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(20) Financial liabilities at fair value through profit or loss

A. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorised as financial liabilities held for trading unless they are designated as hedges.

B. At initial recognition, the Group measures the financial liabilities at fair value. All related transaction costs are recognised in profit or loss. The Group subsequently measures these financial liabilities at fair value with any gain or loss recognised in profit or loss.

C. If the credit risk results in fair value changes in financial liabilities designated as at fair value through profit or loss, they are recognised in other comprehensive income in the circumstances other than avoiding accounting mismatch or recognising in profit or loss for loan commitments or financial guarantee contracts.

(21) Derecognition of financial liabilities

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

(22) Non-hedging derivatives

Non-hedging derivatives are initially recognised at fair value on the date a derivative contract is entered into and recorded as financial assets or financial liabilities at fair value through profit or loss. They are subsequently remeasured at fair value and the gains or losses are recognised in profit or loss.

(23) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognized as expense in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

For defined contribution plans, the contributions are recognized as pension expense when they are due on an accrual basis. Prepaid contributions are recognized as an asset to the extent of a cash refund or a reduction in the future payments.

(b) Defined benefit plans

i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized past service costs. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability; when there is no deep market in high-quality corporate bonds, the Group uses interest rates of government bonds (at the balance sheet date) instead.

ii. Remeasurements arising on defined benefit plans are recognized in other comprehensive income in the period in which they arise and are recorded as retained earnings.

iii. Past service costs are recognised immediately in profit or loss.

C. Employees' and directors' remuneration

Employees' and directors' remuneration are recognized as expense and liability, provided that such recognition is required under legal obligation or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is paid by shares, the Group calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(24) Employee share-based payment

For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognized as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. Ultimately, the amount of compensation cost recognized is based on the number of equity instruments that eventually vest.

(25) Income tax

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

B. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

C. Deferred income tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

D. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred income tax assets are reassessed.

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

(26) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.

(27) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are resolved by the Company's shareholders. Cash dividends are recorded as liabilities; stock dividends are reclassified to ordinary shares on the effective date of new shares issuance.

(28) Operating leases (lessee)

Payments made under an operating lease (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the lease term.

(29) Revenue recognition

Sales of goods

The Group manufactures and sells Polymeric Positive Temperature Coefficient device and its production related semi-finished goods, modules, heat conductive substrate, thermal module, and heat dispersing materials, and LED lightings and modules. Sales are recognised when control of the products has transferred. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.

(30) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Group's chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

(1) Critical judgements in applying the Group's accounting policies:

None.

(2) Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Group must determine the net realizable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Group evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realizable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation.

As of December 31, 2018, the carrying amount of inventories was $303,799.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2018	December 31, 2017
Cash on hand and revolving funds	$ 661	$ 629
Checking accounts and demand deposits	342,598	255,401
Time deposits	503,901	512,310
Cash equivalents-short-term notes	50,000	44,648
Total	$ 897,160	$ 812,988

A. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B. Details of cash and cash equivalents pledged as collaterals (show as 'other current assets' and 'other non-current asset') are provided in Note 8.

(2) Financial assets/liabilities at fair value through profit or loss

Items	December 31, 2018
Current items:	
Financial assets held for trading	
Derivative instrument-forward foreign exchange contracts	$ -

A. The Group recognized net profit (loss) of ($2,308) on financial assets (liabilities) held for trading for year ended December 31, 2018.

B. Information relating to credit risk of financial asset at fair value through profit or loss is provided in Note 12(2)

C. Information on financial asset at fair value through profit or loss as of December 31, 2017 is provided in Note 12(4)

(3) Notes and accounts receivable

	December 31, 2018	December 31, 2017
Notes receivable	$ 87,374	$ 119,565
Accounts receivable	$ 249,954	$ 279,218
Accounts receivable-related parties	65,811	57,382
Less: Allowance for bad debts	(390)	(2,866)
	$ 315,375	$ 333,734

A. The ageing analysis of accounts receivable and notes receivable that were past due but not impaired is as follows:

	December 31, 2018		December 31, 2017	
	Accounts receivable	Notes receivable	Accounts receivable	Notes receivable
Not past due	$ 263,890	$ 87,374	$ 289,006	$ 119,565
Up to 30 days	38,819	-	31,190	-
31 to 90 days	12,086	-	13,281	-
91 to 180 days	528	-	565	-
Over 180 days	442	-	2,558	-
	$ 315,765	$ 87,374	$ 336,600	$ 119,565

The above ageing analysis was based on past due date.

B. As at December 31, 2018 and 2017, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the Group's notes and accounts receivable were $87,374 and $119,565；$315,765 and $336,600, respectively.

C. Information relating to credit risk of accounts receivable and notes receivable is provided in Note 12(2).

(4) Inventories

	December 31, 2018	December 31, 2017
Raw materials	$ 91,735	$ 86,282
Work-in-progress	95,290	85,491
Finished goods	116,774	83,779
Total	$ 303,799	$ 255,552

The cost of inventories recognized as expense for the period:

	Year ended December 31, 2018	Year ended December 31, 2017
Cost of goods sold	$ 835,500	$ 746,851
Recognised as expenses	35,820	26,927
Loss on decline in market value	4,717	15,904
Gain on physical inventory	-	(8)
	$ 876,037	$ 789,674

(Blank below)

(5) Property, plant and equipment

	Buildings	Machinery	Office equipment	Transportation equipment	Computer and communication equipment	Leasehold improvements	Construction in progress	Others	Total
At January 1, 2018									
Cost	$ 664,556	$ 567,122	$ 8,271	$ 9,261	$ 9,911	$ 32,389	$ 277	$ 129,569	$ 1,421,356
Accumulated depreciation and impairment	(219,421)	(363,317)	(5,078)	(6,928)	(8,026)	(32,007)	-	(76,970)	(711,747)
	$ 445,135	$ 203,805	$ 3,193	$ 2,333	$ 1,885	$ 382	$ 277	$ 52,599	$ 709,609
2018									
Opening net book amount	$ 445,135	$ 203,805	$ 3,193	$ 2,333	$ 1,885	$ 382	$ 277	$ 52,599	$ 709,609
Additions	65,267	49,048	898	619	1,516	3,371	81,811	24,682	227,212
Disposals	-	(3,994)	(43)	(58)	-	-	-	(618)	(4,713)
Reclassifications (Note)	(19,404)	1,549	-	-	-	-	(1,168)	6,788	(12,235)
Depreciation charge	(28,288)	(37,940)	(1,373)	(709)	(820)	(499)	-	(20,892)	(90,521)
Net exchange differences	(1,773)	(2,052)	(58)	104	-	-	(1,423)	1,625	(3,577)
Closing net book amount	$ 460,937	$ 210,416	$ 2,617	$ 2,289	$ 2,581	$ 3,254	$ 79,497	$ 64,184	$ 825,775
At December 31, 2018									
Cost	$ 704,539	$ 580,059	$ 8,360	$ 8,080	$ 10,746	$ 19,666	$ 79,497	$ 158,742	$ 1,569,689
Accumulated depreciation and impairment	(243,602)	(369,643)	(5,743)	(5,791)	(8,165)	(16,412)	-	(94,558)	(743,914)
	$ 460,937	$ 210,416	$ 2,617	$ 2,289	$ 2,581	$ 3,254	$ 79,497	$ 64,184	$ 825,775

	Buildings	Machinery	Office equipment	Transportation equipment	Computer and communication equipment	Leasehold improvements	Construction in progress	Others	Total
At January 1, 2017									
Cost	$ 665,084	$ 585,356	$ 8,156	$ 9,330	$ 9,100	$ 32,133	$ 1,507	$ 106,102	$ 1,416,768
Accumulated depreciation and impairment	(191,465)	(347,385)	(4,173)	(6,421)	(7,635)	(31,816)	-	(63,738)	(652,633)
	$ 473,619	$ 237,971	$ 3,983	$ 2,909	$ 1,465	$ 317	$ 1,507	$ 42,364	$ 764,135
<u>2017</u>									
Opening net book amount	$ 473,619	$ 237,971	$ 3,983	$ 2,909	$ 1,465	$ 317	$ 1,507	$ 42,364	$ 764,135
Additions	2,235	23,190	1,337	-	1,193	256	273	21,786	50,270
Disposals	-	(15,592)	(803)	-	-	-	-	(92)	(16,487)
Reclassifications	-	1,462	-	-	-	-	(1,462)	3,880	3,880
Depreciation charge	(29,067)	(46,495)	(1,253)	(686)	(773)	(191)	-	(15,320)	(93,785)
Net exchange differences	(1,652)	3,269	(71)	110	-	-	(41)	(19)	1,596
Closing net book amount	$ 445,135	$ 203,805	$ 3,193	$ 2,333	$ 1,885	$ 382	$ 277	$ 52,599	$ 709,609
At December 31, 2017									
Cost	$ 664,556	$ 567,122	$ 8,271	$ 9,261	$ 9,911	$ 32,389	$ 277	$ 129,569	$ 1,421,356
Accumulated depreciation and impairment	(219,421)	(363,317)	(5,078)	(6,928)	(8,026)	(32,007)	-	(76,970)	(711,747)
	$ 445,135	$ 203,805	$ 3,193	$ 2,333	$ 1,885	$ 382	$ 277	$ 52,599	$ 709,609

Note: Reclassifications to investment real property for the years ended December 31, 2018 and 2017 amounted to $19,404 and $0, respectively.

1. For the years ended December 31, 2018 and 2017, there was no capitalization of borrowing interests attributable to the property, plant and equipment.
2. Information about the property, plant and equipment that were pledged to others as collaterals is provided in Note 8.

(6) Investment property

	2018	2017
	Buildings	Buildings
At January 1		
Cost	$ 108,725	$ 108,725
Accumulated depreciation	(9,284)	(7,152)
	$ 99,441	$ 101,573
Opening net book amount	$ 99,441	$ 101,573
Reclassifications	19,404	-
Depreciation charge	(2,202)	(2,132)
Closing net book amount	$ 116,643	$ 99,441
At Deceptember 31		
Cost	$ 130,238	$ 108,725
Accumulated depreciation	(13,595)	(9,284)
	$ 116,643	$ 99,441

A. Rental income from investment property and direct operating expenses arising from investment property are shown below:

	Years ended December 31	
	2018	2017
Rental income from investment property	$ 18,232	$ 11,091
Direct operating expenses arising from the investment property that generated rental income during the period	$ 3,144	$ 2,677

B. The fair value of investment property held by the Company as of December 31, 2018 and 2017 were $238,688 and $199,263, respectively. The fair value is estimated using the valuation method frequently used by market participants. The valuation is based on evidence of similar trading prices.

C. There were no borrowing costs capitalized as part of investment property.

D. Information about the investment property that were pledged to others as collaterals is provided in Note 8.

(7) Short-term borrowings

Type of borrowings	December 31, 2018	Interest rate range	Collateral
Bank borrowings			
Unsecured borrowings	$ 76,758	3.17%	None

Interest expense recognised in profit or loss amounted to $1,837 for the year ended December 31, 2018.

(8) Accounts payable

	December 31, 2018	December 31, 2017
Accounts payable	$ 80,974	$ 82,130
Estimated accounts payable	3,488	11,496
	$ 84,462	$ 93,626

(9) Other payables

	December 31, 2018	December 31, 2017
Wages and salaries payable	$ 76,262	$ 75,566
Employee bonus and directors' remuneration payable	47,255	49,241
Payables on machinery and equipment	28,089	3,966
Others	53,049	44,441
	$ 204,655	$ 173,214

(10) Pensions

A.(a) The Company and its domestic subsidiaries have a defined benefit pension plan in accordance with the Labor Standards Act, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Act. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company and its domestic subsidiaries contribute monthly an amount equal to 2.5% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company and its domestic subsidiaries would assess the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company and its domestic subsidiaries will make contributions for the deficit by next March.

(b) The amounts recognized in the balance sheet are as follows:

	December 31, 2018	December 31, 2017
Present value of defined benefit obligations	($ 61,891)	($ 57,843)
Fair value of plan assets	35,841	31,872
Net defined benefit liability	($ 26,050)	($ 25,971)

(c) Movements in net defined benefit liabilities are as follows:

	Present value of defined beneft obligations	Fair value of plan assets	Net defined benefit liability
2018			
Balance at January 1	($ 57,843)	$ 31,872	($ 25,971)
Current service cost	(1,395)	-	(1,395)
Interest (expense) income	(694)	383	(311)
	(59,932)	32,255	(27,677)
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	856	856
Change in financial assumptions	(1,185)	-	(1,185)
Experience adjustments	(774)	-	(774)
	(1,959)	856	(1,103)
Pension fund contribution	-	2,730	2,730
Paid pension	-	-	-
Balance at December 31	($ 61,891)	$ 35,841	($ 26,050)

	Present value of defined beneft obligations	Fair value of plan assets	Net defined benefit liability
2017			
Balance at January 1	($ 53,863)	$ 29,005	($ 24,858)
Current service cost	(1,407)	-	(1,407)
Interest (expense) income	(808)	435	(373)
	(56,078)	29,440	(26,638)
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	(145)	(145)
Change in financial assumptions	(1,763)	-	(1,763)
Experience adjustments	(2)	-	(2)
	(1,765)	(145)	(1,910)
Pension fund contribution	-	2,577	2,577
Paid pension	-	-	-
Balance at December 31	($ 57,843)	$ 31,872	($ 25,971)

(d) The Bank of Taiwan was commissioned to manage the Fund of the Company’s and domestic subsidiaries’ defined benefit pension plan in accordance with the Fund’s annual investment and utilization plan and the “Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund” (Article 6: The scope of utilization for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitisation products, etc.). With regard to the utilization of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company and domestic subsidiaries have no right to participate in managing and operating that fund and hence the Company and domestic subsidiaries are unable to disclose the classification of plan assets fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2018 and 2017 is given in the Annual Labor Retirement Fund Utilization Report announced by the government.

(e) The principal actuarial assumptions used were as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
Discount rate	1%	1.2%
Future salary increases	4%	4%

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience in Taiwan.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

	Discount rate		Future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
December 31, 2018				
Effect on present value of defined benefit obligation	($ 1,475)	$ 1,544	$ 1,382	($ 1,331)
December 31, 2017				
Effect on present value of defined benefit obligation	($ 1,475)	$ 1,544	$ 1,356	($ 1,304)

The sensitivity analysis above is based on one assumption, which changed while the other conditions remain unchanged. In practice, more than one assumption may change all at once. The method of analyzing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

(f) Expected contributions to the defined benefit pension plans of the Group for the year ending December 31, 2019 amount to $2,787.

(g) As of December 31, 2018, the weighted average duration of the retirement plan is 11 years.

B. (a) Effective July 1, 2005, the Company and its domestic subsidiaries have established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company and its domestic subsidiaries contribute monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.

(b) The Company's Mainland China subsidiaries, Polystar Electronics Co., Ltd., Hanpu (Kunshan) Trading Co., Ltd. and Polystar Senchip Microelectronics, Inc., have a defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People's Republic of China (PRC) are based on a certain percentage of employees' monthly salaries and wages. Other than the monthly contributions, the Group has no further obligations.

(c) The pension costs under the defined contribution pension plans of the Group for the years ended December 31, 2018 and 2017 were $17,696 and $15,440, respectively.

C. In addition, effective in 2018, in order to provide for the pension of appointed managers, the Company has made provision for the pension at 4% of their total paid salaries monthly. Pension payments shall be taken from the provision when the managers actually retire. However, if such provision is insufficient, the deficiency shall be recognised as expenses for the year. Provision for appointed managers amounted to $1,100 for the year.

(11) Share capital

As of December 31, 2018, the Company's authorised capital was $1,000,000, consisting of 100 million shares of ordinary stock (including 5 million shares reserved for employee stock options), and the paid-in capital was $800,018 with a par value of $10 (in dollars) per share. All proceeds from shares issued have been collected.

Movements in the number of the Company's ordinary shares outstanding are as follows (in thousands of shares):

	2018	2017
At January 1 / At December 31	80,002	80,002

(12) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Act requires that the amount of capital surplus to be capitalized mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(13) Retained earnings

A. Under the Company’s Articles of Incorporation, the current year’s earnings, if any, shall first be used to pay all taxes and offset prior years’ operating losses and then 10% of the remaining amount shall be set aside as legal reserve, then setting aside or reversing special reserve according to the resolution of shareholders during their meeting or the request by competent authorities. Appropriation of remainder shall be proposed by the Board of Directors and resolved by the stockholders.

B. Dividend policy: As the Company is in a rapidly changing industry and in the growing stage, and considering the Company’s long-term financial plans, shareholders’ long-term profit and stabilizing performance target, cash dividend distribution shall not be lower than 10% of the total dividend distribution.

C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company’s paid-in capital.

D. (a) In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

(b) The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently.

E. The appropriations for 2017 and 2016 that had been resolved at the shareholders’ meeting on June 22, 2018 and June 22, 2017 were as follows:

	2017		2016	
	Amount	Dividends per share (in NT dollars)	Amount	Dividends per share (in NT dollars)
Legal reserve	$ 32,771	$ -	$ 40,528	$ -
Special reserve	23,581	-	-	-
Cash dividends	240,006	3.00	364,008	4.55
Total	$ 296,358	$ 3.00	$ 404,536	$ 4.55

The appropriation of 2017 and 2016 earnings were the same as that approved by the Board of Directors on March 16, 2018 and March 16, 2017, respectively.

F. The appropriations for 2018 earnings proposed by the Board of Directors on March 15, 2019, is as follows:

	2018	
	Amount	Dividends per share (in NT dollars)
Legal reserve	$ 35,003	$ -
Special reserve	14,804	-
Cash dividends	300,007	3.75
Total	$ 349,814	$ 3.75

As of March 15, 2019, the proposal of appropriation has not been resolved at the shareholders' meeting.

G. For information relating to employees' compensation and directors' remuneration, please refer to Note 6(20).

(14) Other equity items

	Currency translation
At January 1, 2018	($ 35,563)
Currency translation differences	(14,804)
At December 31, 2018	($ 50,367)

	Currency translation
At January 1, 2017	($ 25,650)
Currency translation differences	(9,913)
At December 31, 2017	($ 35,563)

(15) Operating revenue

	Year ended December 31, 2018
Sales revenue	$ 1,668,641

A. Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines and geographical regions:

Year ended December 31, 2018	China	Taiwan	USA	Others	Total
Sales revenue	$ 1,077,301	$ 167,706	$ 300,474	$ 123,160	$ 1,668,641
Timing of revenue recognition					
At a point in time	$ 1,077,301	$ 167,706	$ 300,474	$ 123,160	$ 1,668,641

B. Contract assets and liabilities

(a)The Group has recognised the following revenue-related contract assets and liabilities:

		December 31, 2018
Contract assets:		
Contract assets	$	-
Contract liabilities:		
Contract liabilities – Advance sales receipts	$	1,587

(b) Revenue recognised that was included in the contract liability balance at the beginning of the year:

		Year ended December 31, 2018
Revenue recognised that was included in the contract liability balance at the beginning of the year	$	400

(16) Other income

		Year ended December 31, 2018		Year ended December 31, 2017
Interest income：				
Interest income from bank deposits	$	6,220	$	4,682
Rent income		18,232		11,091
Other income- others		14,735		26,407
	$	39,187	$	42,180

(17) Other gains and losses

		Year ended December 31, 2018		Year ended December 31, 2017
Losses on disposals of property, plant and equipment	($	393)	($	5,160)
Foreign exchange gains (losses)		5,344	(	24,342)
(Losses) gains on financial assets at fair value through profit or loss	(	2,308)		1,449
Depreciation charge-investment property	(	2,202)	(	2,132)
Other losses	(	5,599)	(	7,121)
	($	5,158)	($	37,306)

(18) Finance costs

	Year ended December 31, 2018	Year ended December 31, 2017
Interest expense	$ 1,946	$ 78

(19) Expenses by nature

	Year ended December 31, 2018	Year ended December 31, 2017
Employee benefit expenses	$ 349,521	$ 319,848
Depreciation charges on property, plant and equipment (including investment property)	92,723	95,917
Amortisation charges on intangible assets	2,711	2,157
Total	$ 444,955	$ 417,922

(20) Employee benefit expenses

	Year ended December 31, 2018	Year ended December 31, 2017
Wages and salaries	$ 279,470	$ 257,892
Labor and health insurance fees	14,127	13,710
Pension costs	20,502	17,220
Other personnel expenses	35,422	31,026
	$ 349,521	$ 319,848

A. In accordance with Articles of Incorporation of the Company, a ratio of distributable profit of the current year, after covering accumulated losses, shall be distributed as employees' compensation and directors' remuneration. The ratio shall not be lower than 6% for employees' compensation and shall not be higher than 1.5% for directors' remuneration.

B. For the years ended December 31, 2018 and 2017, employees' compensation was accrued at $40,954 and $38,342, respectively; while directors' remuneration was accrued at $6,301 and $5,899, respectively. The aforementioned amounts were recognized in salary expenses.

The employees' compensation and directors' remuneration were estimated and accrued based on distributable profit of current year as of the end of reporting period, the estimated ratios are 8.87% and 1.36%, respectively.

Employees' compensation and directors' remuneration for 2017 as resolved by the Board of Directors were in agreement with those amounts recognized in the 2017 financial statements.

Information about the employees' compensation and directors' remuneration of the Company as resolved by the Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(21) Income tax

A. Income tax expense

(a) Components of income tax expense:

	Year ended December 31, 2018	Year ended December 31, 2017
Current tax:		
Current tax on profits for the period	$ 84,599	$ 73,249
Prior year income tax overestimation	-	-
Total current tax	84,599	73,249
Deferred tax:		
Origination and reversal of temporary differences	1,968	(4,015)
Impact of change in tax rate	(3,561)	-
Total deferred tax	(1,593)	(4,015)
Income tax expense	$ 83,006	$ 69,234

(b) The income tax (charge)/credit relating to components of other comprehensive income is as follow:

	Year ended December 31, 2018	Year ended December 31, 2017
Remeasurement of defined benefit obligations	($ 220)	($ 325)

B. Reconciliation between income tax expense and accounting profit:

	Year ended December 31, 2018	Year ended December 31, 2018
Tax calculated based on profit before tax and statutory tax rate (note)	$ 101,491	$ 78,639
Expenses disallowed by tax regulation	(16,640)	(9,918)
Changes in reassessment of deferred tax assets	1,716	513
Impact of change in tax rate	(3,561)	-
Income tax expense	$ 83,006	$ 69,234

Note: The basis for computing the applicable tax rate is the rate applicable in the parent company’s country.

C. Amounts of deferred tax assets or liabilities as a result of temporary differences are as follows:

	2018			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Deferred tax assets				
- Temporary differences				
Inventory - allowance for the valuation loss	$ 13,437	$ 2,371	$ -	$ 15,808
Others	(147)	(778)	220	(705)
Total	$ 13,290	$ 1,593	$ 220	$ 15,103

	2017			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Deferred tax assets				
- Temporary differences				
Inventory - allowance for the valuation loss	$ 10,632	$ 2,805	$ -	$ 13,437
Others	(1,682)	1,210	325	(147)
Total	$ 8,950	$ 4,015	$ 325	$ 13,290

D. The amounts of deductible temporary difference that are not recognized as deferred tax assets are as follows:

	December 31, 2018	December 31, 2017
Deductible temporary differences	$ 27,364	$ 25,967

E. Under local regulations, Mainland China subsidiaries are subject to business income tax rate of 15% for 2017 and 2016. If companies generate losses, losses can be carried forward to offset future taxable income. However, the limit of the loss carryforward is 5 years from the year of loss occurrence.

F. The Company's income tax returns through 2014 have been assessed and approved by the Tax Authority.

G Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Group has assessed the impact of the change in income tax rate.

(22) Earnings per share

	Year ended December 31, 2018		
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to ordinary shareholders of the parent	$ 350,035	80,002	$ 4.38
Diluted earnings per share			
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	1,022	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	$ 350,035	81,024	$ 4.32

	Year ended December 31, 2017		
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to ordinary shareholders of the parent	$ 327,709	80,002	$ 4.10
Diluted earnings per share			
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	1,049	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	$ 327,709	81,051	$ 4.04

(23) Transactions with non-controlling interest

Acquisition of additional equity interest in a subsidiary

On March 31, 2017, the Group acquired an additional 25.71% of shares of its subsidiary—Polystar Senchip Microelectronics Inc. for a total cash consideration of $28,607. The carrying amount of non-controlling interest in Polystar Senchip Microelectronics Inc. was $28,607 at the acquisition date. This transaction resulted in a decrease in the non-controlling interest by $28,607 and an increase in the equity attributable to owners of the parent by $28,607. The effect of changes in interests in Polystar Senchip Microelectronics Inc. on the equity attributable to owners of the parent for the year ended December 31, 2017 is shown below:

	Year ended December 31, 2017
Carrying amount of non-controlling interest acquired	$ 28,607
Consideration paid to non-controlling interest	(28,607)
Capital surplus - difference between proceeds on actual acquisition of or disposal of equity interest in a subsidiary and its carrying amount	$ -

(24) Operating leases

The Group leases land and plants under non-cancellable operating lease agreements. These leases have terms expiring between 5 and 20 years and have renewable right at the end of the lease period. Rent will be increased in accordance with lease agreements depending on market rents. Rents of $14,209 and $14,070 were recognized for these leases for the years ended December 31, 2018 and 2017, respectively. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	December 31, 2018	December 31, 2017
Not later than one year	$ 11,514	$ 7,749
Later than one year but not later than five years	46,056	24,619
Later than five years	33,407	37,046
	$ 90,977	$ 69,414

(25) Supplemental cash flow information

Investing activities with partial cash payments:

	Year ended December 31, 2018	Year ended December 31, 2017
Purchase of property, plant, and equipment	$ 227,212	$ 50,270
Net change of payable on machinery and equipment	(24,123)	3,548
Cash paid during the period	$ 203,089	$ 53,818

(26) Changes in liabilities from financing activities

	Short-term borrowings	Total liabilites from financing activites
At January 1, 2018	$ -	$ -
Changes in cash flow from financing	76,758	76,758
At December 31, 2018	$ 76,758	$ 76,758

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

Names of related parties	Relationship with the Group
Littelfuse, Inc.	A Board of Director of the Parent Company

(2) Significant related party transactions and balances

A. Operating revenue

	Year ended December 31, 2018	Year ended December 31, 2017
Sales of goods:		
Other associates	$ 300,070	$ 268,636

There are no significant differences in sales prices and collection terms between related parties and third parties.

B. Accounts receivable

	December 31, 2018	December 31, 2017
Accounts receivable		
Other associates	$ 65,811	$ 57,382

The receivables from related parties arise mainly from sale transactions. The receivables are due 60 days after the date of sale. The receivables are unsecured in nature and bear no interest. There are no provisions held against receivables from related parties.

(3) Key management compensation

	2018	2017
Short-term employee benefits	$ 43,530	$ 45,225
Termination benefits	1,345	781
Total	$ 44,875	$ 46,006

8. PLEDGED ASSETS

The Group's assets pledged as collateral are as follows:

	Book value		
Pledged asset	December 31, 2018	December 31, 2017	Purpose
Time deposit (recorded under ' current financial assets at amortised cost')	$ 3,190	$ -	Guarantee for duty paid after customs release
Time deposit (recorded under ' non-current financial assets at amortised cost')	6,826	-	Guarantee for land lease in science park
Time deposit (recorded under 'other current assets')	-	3,156	Guarantee for duty paid after customs release
Time deposit (recorded under 'other non-current assets')	-	6,770	Guarantee for land lease in science park
Building construction and investment real estate	205,879	-	Guarantee for short-term borrowing credit line

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) Contingencies

None.

(2) Commitments

A. Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	December 31, 2018	December 31, 2017
Property, plant and equipment	$ 31,820	$ 26,666

B. Operating lease agreement

Please refer to Note 6(24).

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

Please refer to Note 6 (13) for the appropriation for 2018 as proposed by the Board of Directors on March 15, 2019.

12. OTHERS

(1) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure. The Group may adjust the amount of dividends paid to shareholders, return capital or issue new shares to achieve the optimal capital structure.

(2) Financial instruments

A. Financial instruments by category

	December 31, 2018	December 31, 2017
Financial assets		
Financial assets measured at fair value through profit or loss		
Financial assets designated as at fair value through profit or loss	$ -	$ 229
Financial assets at cost	-	-
Financial assets at amortised cost/Loans and receivables		
Cash and cash equivalents	897,160	812,988
Financial assets at amortised cost	10,016	-
Notes receivable	87,374	119,565
Accounts receivable (including related parties)	315,375	333,734
Other accounts receivable	11,888	1,580
Guarantee deposits paid	3,536	3,536
Other financial assets	-	9,926
	$ 1,325,349	$ 1,281,558
Financial liabilities		
Financial liabilities measured at fair value through profit or loss		
Financial liabilities designated as at fair value through profit or loss	$ -	$ -
Financial liabilities at amortised cost		
Notes payable	7,446	2,998
Accounts payable	84,462	93,626
Other accounts payable	204,655	173,214
Guarantee deposits received	10,078	2,130
	$ 306,641	$ 271,968

B. Financial risk management policies

(a) The Group’s activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. To minimise any adverse effects on the financial performance of the Group, derivative financial instruments, such as foreign exchange forward contracts and foreign currency option contracts are used to hedge certain exchange rate risk, and interest rate swaps are used to fix variable future cash flows. Derivatives are used exclusively for hedging purposes and not as trading or speculative instruments.

(b) Risk management is carried out by a central treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group’s operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(c) Information about derivative financial instruments that are used to hedge certain exchange rate risk are provided in Note 6(2).

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

i. The Group operates internationally and is exposed to foreign exchange risk arising from the transactions of the Company and its subsidiaries used in various functional currency, primarily with respect to the USD and RMB. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

ii. Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The companies are required to hedge their entire foreign exchange risk exposure with the Group treasury. Exchange rate risk is measured through a forecast of highly probable USD and RMB expenditures. Forward foreign exchange contracts are adopted to minimise the volatility of the exchange rate affecting cost of forecast inventory purchases.

iii. The Group hedges foreign exchange rate by using forward exchange contracts. However, the Group does not adopt hedging accounting. Details of financial assets or liabilities at fair value through profit or loss are provided in Note 6(2).

iv. The Group's businesses involve some non-functional currency operations (the Company's functional currency: NTD; other certain subsidiaries' functional currency: USD and RMB). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

	December 31, 2018				
	Foreign currency amount (In thousands)		Exchange rate	Book value (NTD)	
(Foreign currency: functional currency)					
Financial assets					
Monetary items					
USD:NTD	USD	6,637	30.715	$	203,868
USD:RMB	USD	1,026	6.866		31,503
RMB:NTD	RMB	5,166	4.472		23,102
Non-monetary items: None.					
Financial liabilities					
Monetary items					
USD:NTD	USD	4,265	30.715	$	131,006
Non-monetary items: None.					

	December 31, 2017			
	Foreign currency amount (In thousands)		Exchange rate	Book value (NTD)
(Foreign currency: functional currency)				
Financial assets				
Monetary items				
USD:NTD	USD	7,094	29.76	$ 211,115
USD:RMB	USD	375	6.512	11,152
RMB:NTD	RMB	10,340	4.565	47,203
Non-monetary items: None.				
Financial liabilities				
Monetary items				
USD:NTD	USD	280	29.76	$ 8,319
USD:RMB	USD	1,880	6.512	12,240
Non-monetary items: None.				

v. The total exchange gain (loss), including realised and unrealised arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2018 and 2017, amounted to $5,344 and ($24,342), respectively.

vi. Analysis of foreign currency market risk arising from significant foreign exchange variation:

	Year ended December 31, 2018		
	Sensitivity analysis		
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD:NTD	1%	$ 2,039	$ -
USD:RMB	1%	315	-
RMB:NTD	1%	231	-
Non-monetary items: None.			
Financial liabilities			
Monetary items			
USD:NTD	1%	($ 1,310)	$ -
Non-monetary items: None.			

	Year ended December 31, 2017		
	Sensitivity analysis		
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD:NTD	1%	$ 2,111	$ -
USD:RMB	1%	112	-
RMB:NTD	1%	472	-
Non-monetary items: None.			
Financial liabilities			
Monetary items			
USD:NTD	1%	($ 83)	$ -
USD:RMB	1%	(122)	-
Non-monetary items: None.			

Price risk

The Group's equity securities, which are exposed to price risk, are the held financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and available-for-sale financial assets. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

(b) Credit risk

i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the contract cash flows of debt instruments stated at amortised cost, at fair value through profit or loss and at fair value through other comprehensive income.

ii. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored.

iii. The Group adopts the assumptions under IFRS 9, the default occurs when the contract payments are past due over 90 days.

iv. The Group adopts following assumptions under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition:

If the contract payments were past due over 60 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.

v. If the credit rating grade of an investment target degrades two scales, there has been a significant increase in credit risk on that instrument since initial recognition.

vi. The Group classifies customers' accounts receivable, contract assets and rents receivable in accordance with customer types. The Group applies the simplified approach using provision matrix to estimate expected credit loss under the provision matrix basis.

vii. The following indicators are used to determine whether the credit impairment of debt instruments has occurred:

(i) It becomes probable that the issuer will enter bankruptcy or other financial reorganization due to their financial difficulties;

(ii) The disappearance of an active market for that financial asset because of financial difficulties;

(iii) Default or delinquency in interest or principal repayments;

(iv) Adverse changes in national or regional economic conditions that are expected to cause a default.

viii. The Group used the forecastability to adjust historical and timely information to assess the default possibility of accounts receivable, contract assets and lease payments receivable. On December 31, 2018 and 2017, the provision matrix is as follows:

	Without past due (within 30 days)	30 to 180 days	Up to 181 days	Total
At December 31, 2018				
Expected loss rate	0%	0~20%	30~100%	
Total book value	$ 302,709	$ 12,614	$ 442	$ 315,765
Loss allowance	$ -	$ 183	$ 207	$ 390
At December 31, 2017				
Expected loss rate	0%	0~20%	30~100%	
Total book value	$ 320,196	$ 13,846	$ 2,558	$ 336,600
Loss allowance	$ -	$ 1,648	$ 1,218	$ 2,866

xi. Movements in relation to the group applying the simplified approach to provide loss allowance for accounts receivable is as follows:

	2018	
	Accounts receivable	Notes receivable
At January 1_IAS 39	$ 2,866	$ -
Adjustments under new standards	-	-
At January 1_IFRS 9	$ 2,866	$ -
Reversal of impairment loss	(2,460)	-
Effect of foreign exchange	(16)	-
At December 31	$ 390	$ -

	2017	
	Accounts receivable	Notes receivable
At January 1_IAS 39	$ 4,914	$ -
Reversal of impairment loss	(1,947)	-
Effects of foreign exchange	(101)	-
At December 31	$ 2,866	$ -

(c) Liquidity risk

i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, and compliance with internal balance sheet ratio targets.

ii. The Group has the following undrawn borrowing facilities:

	December 31, 2018	December 31, 2017
Floating rate:		
Expiring within one year	$ 456,150	$ 352,786

The facilities expiring within one year are annual facilities subject to review at various dates during 2018.

iii. The table below analyzes the Group's non-derivative financial liabilities and net-settled or ross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities:

December 31, 2018	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Notes payable	$ 7,051	$ 395	$ -	$ -	$ -
Accounts payable	-	84,462	-	-	-
Other payables	-	204,655	-	-	-

Non-derivative financial liabilities:

December 31, 2017	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Notes payable	$ 2,998	$ -	$ -	$ -	$ -
Accounts payable	-	93,626	-	-	-
Other payables	-	173,214	-	-	-

Derivative financial assets:

December 31, 2018	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Foreign exchange contracts	$ -	$ -	$ -	$ -	$ -

Derivative financial assets:

December 31, 2017	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Foreign exchange contracts	$ 229	$ -	$ -	$ -	$ -

(3) Fair value information

A. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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

Level 3: Unobservable inputs for the asset or liability.

B. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities is as follows:

December 31, 2018 Recurring fair value measurement of assets	Level 1	Level 2	Level 3	Total
Assets: None				
Liabilities: None.				

December 31, 2017 **Assets:** Recurring fair value measurement of assets	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss-forward foreign exchange contracts	$ -	$ 229	$ -	$ 229
Liabilities: None.				

C. The methods and assumptions the Group used to measure fair value are as follows:

(a) The valuation of derivative financial instruments is based on valuation model widely accepted by market participants, such as present value techniques and option pricing models. Forward exchange contracts are usually valued based on the current forward exchange rate.

(b) Under "Regulations Governing the Preparation of Financial Reports by Securities Issuers", the Group makes self-assessment using the income approach to calculate the fair value of investment property. Related assumption and information of inputs are as follows:

i. Cash flow: Cash flow shall be evaluated on the basis of existing lease contracts, rent at local market rates, or current market rents for similar comparable properties in the same location and condition, and overvalued and undervalued comparable properties shall be excluded. If there is a period-end value, the discounted present period-end value may be added.

ii. Analysis period: When there is no specified period for the income, the analysis period in principle shall not be longer than 10 years; when there is a specified period for the income, the income shall be estimated for the remainder of the specified period.

iii. Discount rate: The discount rate shall be determined using the risk premium approach only, with the calculation based on a certain interest rate, plus the estimate for the individual characteristics of the investment property. The phrase "certain interest rate" means the interest rate may not be lower than the floating interest rate on a 2-year time deposit of a small amount, as posted by the Chunghwa Post Co. Ltd., plus 0.75 percentage points.

(c) The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Group's financial and non-financial instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs, for example, model risk or liquidity risk and etc. In accordance with the Group’s management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial and non-financial instruments at the consolidated balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.

(d) The Group takes into account adjustments for credit risks to measure the fair value of financial and non-financial instruments to reflect credit risk of the counterparty and the Group’s credit quality.

D. For the years ended December 31, 2018 and 2017, there was no transfer between Level 1 and Level 2.

(4) <u>Effects on initial application of IFRS 9, and information on application of IAS 39 in 2017</u>

A. Summary of adopting significant accounting policies adopted in 2017:

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

i. They are financial assets held for trading or financial assets designated as at fair value through profit or loss on initial recognition. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets held for trading unless they are designated as hedges. Financial assets that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:

(i) Hybrid (combined) contracts; or

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

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

ii. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.

(b) Loans and receivables

i. Accounts receivable

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. They are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

ii. Investment in debt instrument without active market

(i)Investments in debt instrument without active market are loans and receivables not originated by the entity. They are bond investments with fixed or determinable payments that are not quoted in an active market, and also meet all of the following conditions:

a. Not designated on initial recognition as at fair value through profit or loss;

b. Not designated on initial recognition as available-for-sale;

c. Not for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

(ii) On a regular way purchase or sale basis, investments in debt instrument without active market are recognised and derecognised using trade date accounting.

(iii) They are initially recognised at fair value on the trade date plus transaction costs and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Amortisation of a premium or a discount on such assets is recognised in profit or loss.

(iv) Investments in debt instrument without active market held by the Group are those time deposits with a short maturity period but do not qualify as cash equivalents, and they are measured at initial investment amount as the effect of discounting is immaterial.

(c) Impairment of financial assets

i. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

ii. The criteria that the Group uses to determine whether there is objective evidence of an impairment, loss is as follows:

(i) Significant financial difficulty of the issuer or debtor;

(ii) A breach of contract, such as a default or delinquency in interest or principal payments;

(iii) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;

(iv)It becomes probable that the borrower will enter bankruptcy or other financial reorganisation; and

(v)The disappearance of an active market for that financial asset because of financial difficulties.

iii. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:

(i) Financial assets at amortised cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognised in profit or loss. 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 loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost that would have been at the date of reversal had the impairment loss not been recognised previously. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(ii) Financial assets at cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at current market return rate of similar financial asset, and is recognised in profit or loss. Impairment loss recognised for this category shall not be reversed subsequently. Impairment loss is recognised by adjusting the carrying amount of the asset directly.

B. The carrying amount of financial assets transferred from December 31, 2017, IAS 39, to January 1, 2018, IFRS 9, were not different.

C. The significant accounts as for the year ended December 31, 2017, are as follows:

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

Items	December 31, 2017
Current items:	
Financial assets (liabilities) held for trading	
Derivative instrument-forward foreign exchange contracts	$ -
Valuation adjustment	229
	$ 229

i. The Group recognised net profit amounting to $1,449 on financial assets (liabilities) held for trading for the year ended December 31, 2017.

ii. The non-hedging derivative instruments transaction and contract information are as follows:

	December 31, 2017	
Derivative instruments	Contract amount (notional principal)	Contract period
Forward foreign exchange	USD 1,000	2017/12/13~2018/1/31

The Group entered into forward foreign exchange contracts to hedge exchange rate risk of proceeds. However, these forward foreign exchange contracts are not accounted for under hedge accounting.

(b) Financial assets at cost

Items	December 31, 2017
Non-current items:	
Non-listed companies stocks	$ -

According to the Group's intention, its investment in the unlisted stocks should be classified as 'available-for-sale financial assets'. However, as the unlisted stocks are not traded in active market, and no sufficient industry information of companies similar to the unlisted stocks or the unlisted stock's financial information cannot be obtained, the fair value of the investment in unlisted stocks cannot be measured reliably. The Group classified those stocks as 'financial assets measured at cost'.

D. Credit risk information for year ended December 2017 are as follows:

(a) Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables.

(b) As of December 31, 2017, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.

(c) The credit quality of accounts receivable that were neither past due nor impaired was in the following categories based on the Group's Credit Quality Control Policy:

	December 31, 2017
Group 1	$ 117,480
Group 2	171,526
	$ 289,006

Group 1: Listed companies or customers who are considered to have good credit conditions.

Group 2: Non-listed companies or customers whose credit conditions are considered to be inferior than Group 1 customers.

(d) The ageing analysis of accounts receivable that were past due but not impaired is as follows:

	December 31, 2017
Up to 30 days	$ 29,368
31 to 90 days	13,106
91 to 180 days	253
Over 181 days	2,001
	$ 44,728

(e) Movement analysis of financial assets that were impaired is as follows:

i. As of December 31, 2017, the Group's accounts receivable that were impaired amounted to $2,866.

ii. Movement in the provision for impairment of accounts receivable are as follows:

	2017		
	Individual provision	Group provision	Total
At January 1	$ 96	$ 4,818	$ 4,914
Provision for impairment	(80)	(1,867)	(1,947)
Effects of foreign exchange	-	(101)	(101)
At December 31	$ 16	$ 2,850	$ 2,866

(5) Effects of initial application of IFRS 15 and information on application of IAS 11 and IAS 18 in 2017

A. The significant accounting policies applied on revenue recognition for the year ended December 31, 2017 are set out below:

Sales of goods

The Group manufactures and sells Polymeric Positive Temperature Coefficient device and its production related semi-finished goods, modules, heat conductive substrate, thermal module, and heat dispersing materials, and LED lightings and modules. Revenue is measured at the fair value of the consideration received or receivable taking into account of value-added tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Company's activities. Revenue arising from the sales of goods is recognized when the Company has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

B. The revenue recognised by using above accounting policies for the year ended December 31, 2017 are as follows:

	Year ended December 31, 2017
Sales revenue	$ 1,530,374

C. The effects of current balance sheet and statement of comprehensive income items if the Group continues adopting above accounting policies are immaterial for the year ended December 31, 2018.

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

A. Loans to others: Please refer to table 1.

B. Provision of endorsements and guarantees to others: Please refer to table 2.

C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): None.

D. Acquisition or sale of the same security with the accumulated cost exceeding $300 million or 20% of the Company's paid-in capital: None.

E. Acquisition of real estate reaching $300 million or 20% of paid-in capital or more: None.

F. Disposal of real estate reaching $300 million or 20% of paid-in capital or more: None.

G. Purchases or sales of goods from or to related parties reaching $100 million or 20% of paid-in capital or more: Please refer to table 3.

H. Receivables from related parties reaching $100 million or 20% of paid-in capital or more: None.

I. Trading in derivative instruments undertaken during the reporting periods: Please refer to Notes 6(2) and 12.

J. Significant inter-company transactions during the reporting periods: Please refer to table 4.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China)：Please refer to table 5.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 6.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 7.

14. SEGMENT INFORMATION

1. General information

The Group mainly operates in a single industry. The Chief Operating Decision-Maker reviews the Group's reporting to assess performance and allocate resources. The Group mainly has a single reportable segment.

2. Segment information

The Group's Chief Operating Decision-Maker evaluates the performance of operating segments based on the consolidated financial statements. The accounting policies of the operating segments are in accordance with the significant accounting policies summarized in Note 4.

3. Information about segment profit or loss, assets and liabilities

	Year ended December 31, 2018	Year ended December 31, 2017
Revenue from external customers	$ 1,668,641	$ 1,530,374
Inter-segment revenue	$ -	$ -
Segment income	$ 433,041	$ 394,126
Segment assets	$ 2,637,576	$ 2,420,458

4. Reconciliation for segment income (loss), assets and liabilities

None.

5. Information on products and services

Composition of revenue for the years ended December 31, 2018 and 2017 is as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
Circuit Protection Component	$ 1,273,490	$ 1,244,197
Others	395,151	286,177
Total	$ 1,668,641	$ 1,530,374

6. Geographical information

Geographical information for the years ended December 31, 2018 and 2017 is as follows:

	Year ended December 31, 2018		Year ended December 31, 2017	
	Revenue	Non-current assets	Revenue	Non-current assets
Taiwan	$ 167,706	$ 615,571	$ 195,416	$ 555,429
China	1,077,301	351,650	914,352	288,049
America	300,474	-	270,235	-
Others	123,160	-	150,371	-
Total	$ 1,668,641	$ 967,221	$ 1,530,374	$ 843,478

7. Major customer information

Major customer information of the Group for the years ended December 31, 2018 and 2017 is as follows:

	Year ended December 31, 2018		Year ended December 31, 2017	
	Revenue	Segment	Revenue	Segment
Littelfuse, Inc.	300,070	Company and subsidiary	268,636	Company and subsidiary

Polytronics Technology Corp.

Loans to others

For the year ended December 31, 2018

Table 1

Expressed in thousands of NTD

(Except as otherwise indicated)

No.	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding balance during the year ended December 31, 2018	Balance at December 31, 2018	Actual amount drawn down	Interest rate	Nature of loan	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral		Limit on loans granted to a single party	Ceiling on total loans granted
													Item	Value		
0	Polytronics Technology Corp.	Polystar Electronics Co., Ltd.	Other receivables - related party	Y	$ 281,160	$ 268,320	$ -	4.35%	Reason for short-term financing	$ -	Operational need	$ -	$ -	$ -	$ 425,059	$ 850,119
1	Hanpu (Kunshan) Trading Co., Ltd	Polystar Electronics Co., Ltd.	Short-term	Y	28,116	26,832	24,596	4.35%	Reason for short-term financing	-	Operational need	-	-	-	425,059	425,059

Note 1: Follow the group policy “Procedure for Provision of Loans”.

Polytronics Technology Corp.

Provision of endorsements and guarantees to others

For the year ended December 31, 2018

Table 2

Expressed in thousands of NTD

(Except as otherwise indicated)

		Party being endorsed/guaranteed											
Number	Endorser/ guarantor	Company name	Relationship with the endorser/ guarantor	Limit on endorsements/ guarantees provided for a single party	Maximum outstanding endorsement/ guarantee amount as of December 31, 2018	Outstanding endorsement/ guarantee amount at December 31, 2018	Actual amount drawn down	Amount of endorsements/ guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company	Ceiling on total amount of endorsements/ guarantees provided (Note 1)	Provision of endorsements/ guarantees by parent company to subsidiary (Note 1)	Provision of endorsements /guarantees by subsidiary to parent company (Note 1)	Provision of endorsements/ guarantees to the party in Mainland China (Note 1)
0	Polytronics Technology Corp.	Polytronics (B.V.I.) Corporation	100%, owned subsidiary	$ 531,324	$ 160,178	$ 111,430	$ -	$ -	5.24	$ 1,062,649	Y	N	N
0	Polytronics Technology Corp.	Polystar Electronics Co., Ltd.	100%, owned subsidiary	531,324	244,840	229,010	76,788	-	10.78	1,062,649	Y	N	Y

Note 1: Follow the corporation policy “Procedure for Provision of Endorsements and Guarantees to Others”.

Polytronics Technology Corp.

Purchases or sales of goods from or to related parties reaching NT$100 million or 20% of paid-in capital or more

For the year ended December 31, 2018

Table 3

Expressed in thousands of NTD

(Except as otherwise indicated)

			Transaction				Differences in transaction terms compared to third party transactions		Notes/accounts receivable (payable)		
Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	Footnote
Polytronics Technology Corp.	Liffelfuse, Inc.	Director's parent company	Sales	($ 300,070)	26%	Net 60 days	Note 1	Note 1	$ 65,811	27%	
Polytronics Technology Corp.	Polystar Electronics Co., Ltd.	Subsidiary	Sales	(306,381)	27%	Net 60 days	Note 1	Note 1	59,658	24%	
Polystar Electronics Co., Ltd.	Polytronics Technology Corp.	Ultimate parent company	Purchases	306,381	57%	Net 60 days	Note 1	Note 1	(59,658)	33%	

Note 1: With the general payment term.

Polytronics Technology Corp.

Significant inter-company transactions during the reporting periods

For the year ended December 31, 2018

Table 4

Expressed in thousands of NTD

(Except as otherwise indicated)

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction: General ledger account	Transaction: Amount	Transaction: Transaction terms	Transaction: Percentage of consolidated total operating revenues or total assets
0	Polytronics Technology Corp.	Polytronics (B.V.I) Corporation	1	Processing charges	$ 81,250	Net 45 days	5%
0	"	"	1	Accounts payable	55,209	〃	2%
0	"	"	1	Endorsements and guarantees	111,430	Note 6	4%
0	"	Polystar Electronics Co.,Ltd.	1	Sales	306,381	Net 60 days	18%
0	"	"	1	Purchases	15,839	Net 45 days	1%
0	"	"	1	Accounts receivable	59,658	Net 60 days	2%
0	"	"	1	Accounts payable	4,576	Net 45 days	0%
0	"	"	1	Other receivables	3,134	Note 4	0%
0	"	"	1	Interest revenue	2,409	Note 4	0%
0	"	Polystar Senchip Microelectronics Inc.	1	Purchases	1,784	Net 60 days	0%
1	Polytronics (B.V.I) Corporation	P-Circuit Corp.	3	Other receivables	5,686	Note 5	0%
1	"	Polystar Electronics Co., Ltd.	3	Processing charges	81,074	Net 45 days	5%
1	"	"	3	Accounts payable	55,209	〃	2%
2	Polystar Electronics Co., Ltd.	Polystar Senchip Microelectronics Inc.	3	Sales	15,352	Net 45 days	1%
2	"	"	3	Purchases	46,979	〃	3%
2	"	"	3	Accounts receivable	2,794	〃	0%
2	"	"	3	Accounts payable	52,329	〃	2%
2	"	Hanpu (Kunshan) Trading Co., Ltd.	3	Other payables	24,697	Note 4	1%

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:
(1) Parent company is ‘0’.
(2) The subsidiaries are numbered in order starting from ‘1’.

Note 2: Relationship between transaction company and counterparty is classified into the following three categories; fill in the number of category each case belongs to (If transactions between parent company and subsidiaries or between subsidiaries refer to the same transaction, it is not required to disclose twice. For example, if the parent company has already disclosed its transaction with a subsidiary, then the subsidiary is not required to disclose the transaction; for transactions between two subsidiaries, if one of the subsidiaries has disclosed the transaction, then the other is not required to disclose the transaction.):
(1) Parent company to subsidiary.
(2) Subsidiary to parent company.
(3) Subsidiary to subsidiary.

Note 3: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.

Note 4: Interest payable of parent loan to subsidiary.

Note 5: Pay temporary debits for subsidiary.

Note 6: Follow the policy “Procedure for Provision of endorsements and guarentees to others”.

Polytronics Technology Corp.

Information on investees

For the year ended December 31, 2018

Table 5

Expressed in thousands of NTD

(Except as otherwise indicated)

				Initial investment amount		Shares held as at December 31, 2018			Net profit (loss) of the investee for the year ended	Investment income (loss) recognised by the Company for the year ended	
Investor	Investee	Location	Main business activities	Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares	Ownership (%)	Book value	December 31, 2018	December 31, 2018	Footnote
Polytronics Technolgy Corp.	Polytronics (B.V.I) Corporation	British Virgin Islands	Investment and general business operations	$ 211,431	$ 211,431	2,644	100	$ 740,344	$ 83,201	$ 83,201	Subsidiary
Polytronics (B.V.I) Corporation	P-Circuit Corp.	America	Investment and general business operations	218,077	216,728	2	100	719,670	83,374	83,374	Subsidiary

Polytronics Technology Corp.

Information on investments in Mainland China

For the year ended December 31, 2018

Table 6

Expressed in thousands of NTD

(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018 (Note 1)	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2018		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Net income of investee as of December 31, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2018	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Footnote
					Remitted to Mainland China	Remitted back to Taiwan							
Polystar Electronics Co., Ltd.(Note 2)	Production and sale of varistor and potentiometer	$ 617,510	Through investing in an existing company in the third area, which then invested in the investee in Mainland China.	$ 198,419	$ -	$ -	$ 198,419	$ 88,245	100	$ 88,245	$ 725,324	$ -	
Hanpu (Kunshan) Trading Co., Ltd.	Wholesale, import and export business	4,474	Other ways to invest in Mainland China.	-	-	-	-	1,176	100	1,176	26,875	-	
Polystar Senchip Microelectronics Inc.	Production and sale of resistors, discrete semiconductor devices and other resistive elements	156,577	Other ways to invest in Mainland China.	-	-	-	-	(1,154)	100	(1,154)	103,100	-	

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA
Polytronics Technology Corp.	$ 198,419	$ 617,510	$ 1,275,179

Note 1: During 2001~2002, the Company remitted US$360,000 for investment in Polytronics (B.V.I) Corporation in British Virgin Islands. In 1991, Polytronics (B.V.I) Corporation took this amount along with its own US$640,000, totalling US$1,000,000 to invest in P-Circuit Corp. in U.S. P-Circuit Corp. then used this US$1,000,000 to invest in Polystar Electronics Co., Ltd. in Mainland China. During 2003~2010, the Company remitted US$1,500,000, US$510,000, US$1,000,000, US$1,000,000 and US$2,100,000, respectively, to Polytronics (B.V.I) Corporation for investment. The cumulative investment amount was US$6,470,000. Then Polytronics (B.V.I) Corporation's remitted US$1,500,000, US$510,000, US$1,000,000, US$990,000 and US$2,100,000, respectively to P-Circuit Corp. for investment. P-Circuit Corp. then remitted this amount to Polystar Electronics Co., Ltd.in Mainland China The cumulative investment amount in Polystar Electonics Co., Ltd. through P-Circuit Corp. was US$6,460,000.

Note 2: Including retained earnings capitalized of RMB$89,286 (In thousands of dollars).

Note 3:The financial statements were not audited by R.O.C. parent company's CPA.

Note 4: Under 'Regulations Governing the Permission of Investment or Technical Cooperation in Mainland Area', amendment to Jing-Shen-Zi No. 09704604680 of Ministry of Economic Affairs, effective August 2008, ceiling of accumulated investment in Mainland China may not exceed 60% of the net assets and the ceiling is effective from August 1.

Note 5: Mainland China's investees information are translated using the exchange rates of USD:NTD = 1:30.715 for recognised investment income (loss) and remaining using the exchange rates of USD:NTD=1:30.715.

Polytronics Technology Corp.

Significant transactions conducted with investees in Mainland China directly or indirectly through other companies in the third areas

For the year ended December 31, 2018

Table 7

Expressed in thousands of NTD

(Except as otherwise indicated)

Investee in Mainland China	Sale (purchase)		Accounts receivable (payable)		Financing				Others-processing charges	
	Amount	%	Balance at December 31, 2018	%	Maximum balance during the year ended December 31, 2018	Balance at December 31, 2018	Interest rate	Interest during the year ended December 31, 2018	Balance at December 31, 2018	%
Polystar Electronics Co., Ltd.	$ 305,565	18.31%	$ 59,658	17.71%	$ 281,160	$ 268,320	4.35%	$ 3,349	$ 81,250	52.00%
Polystar Electronics Co., Ltd.	(16,419)	1.8%	(59,785)	70.78%	-	-	-	-	-	-