

**GCS HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED FINANCIAL STATEMENTS AND**  
**REVIEW REPORT OF INDEPENDENT**  
**ACCOUNTANTS**  
**SEPTEMBER 30, 2018 AND 2017**

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For the convenience of readers and for information purpose only, the review report of independent accountants 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 review report of independent accountants and financial statements shall prevail.



資誠

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS

PWCR18000109

To GCS Holdings, Inc.

**Introduction**

We have reviewed the accompanying consolidated balance sheets of GCS Holdings, Inc. and subsidiaries (the “Group”) as of September 30, 2018 and 2017, and the related consolidated statements of comprehensive income for the three-month and nine-month periods then ended, as well as the consolidated statements of changes in equity and of cash flows for the nine-month periods then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

**Scope of our review**

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

**Conclusion**

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as of September 30, 2018 and 2017, and of its consolidated financial performance for the three-month and nine-month periods then ended and its consolidated cash flows for the nine-month periods then ended in accordance with “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission.

LI, TIEN-YI

Li, Tien-Yi

Chih-Cheng Hsieh

Hsieh, Chih-Cheng

For and on behalf of PricewaterhouseCoopers, Taiwan

November 2, 2018

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the review of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

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**GCS HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)  
(THE BALANCE SHEETS AS OF SEPTEMBER 30, 2018 AND 2017 ARE REVIEWED, NOT AUDITED)

Assets	Notes	September 30, 2018		December 31, 2017		September 30, 2017		
		AMOUNT	%	AMOUNT	%	AMOUNT	%	
<b>Current assets</b>								
1100	Cash and cash equivalents	6(1)	\$ 1,392,649	42	\$ 1,119,712	38	\$ 1,102,027	36
1150	Notes receivable, net		69	-	594	-	317	-
1170	Accounts receivable, net	6(2)	282,365	9	296,921	10	316,790	10
1200	Other receivables		16,398	1	15,254	-	20,550	1
1220	Current income tax assets		12,576	-	1,791	-	-	-
130X	Inventories	6(3)	327,667	10	329,834	11	371,005	12
1410	Prepayments		12,469	-	7,590	-	9,196	-
1470	Other current assets	8	91,999	3	29,760	1	30,444	1
11XX	<b>Total current assets</b>		<u>2,136,192</u>	<u>65</u>	<u>1,801,456</u>	<u>60</u>	<u>1,850,329</u>	<u>60</u>
<b>Non-current assets</b>								
1550	Investment accounted for using equity method	6(4)	-	-	14,520	-	14,930	1
1600	Property, plant and equipment	6(5) and 8	711,777	22	700,655	24	638,352	21
1780	Intangible assets	6(6)(27)	183,647	5	183,654	6	185,926	6
1840	Deferred income tax assets		155,701	5	164,924	6	199,687	6
1900	Other non-current assets	6(7) and 8	90,412	3	116,146	4	197,622	6
15XX	<b>Total non-current assets</b>		<u>1,141,537</u>	<u>35</u>	<u>1,179,899</u>	<u>40</u>	<u>1,236,517</u>	<u>40</u>
1XXX	<b>Total assets</b>		<u>\$ 3,277,729</u>	<u>100</u>	<u>\$ 2,981,355</u>	<u>100</u>	<u>\$ 3,086,846</u>	<u>100</u>

(Continued)

**GCS HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)  
( THE BALANCE SHEETS AS OF SEPTEMBER 30, 2018 AND 2017 ARE REVIEWED, NOT AUDITED)

Liabilities and Equity	Notes	September 30, 2018		December 31, 2017		September 30, 2017		
		AMOUNT	%	AMOUNT	%	AMOUNT	%	
<b>Current liabilities</b>								
2100	Short-term borrowings	6(8)	\$ 20,000	1	\$ 20,000	1	\$ 20,000	1
2120	Financial liabilities at fair value through profit or loss, current	6(9)	-	-	31,204	1	23,782	1
2130	Current contract liabilities	6(20)	19,434	1	-	-	-	-
2170	Accounts payable		9,293	-	17,867	-	39,202	1
2200	Other payables	6(12)	147,941	4	139,249	5	267,070	9
2230	Current income tax liabilities		-	-	2,469	-	781	-
2320	Long-term borrowings, current portion	6(10)(11)	20,479	1	79,372	3	129,394	4
2399	Other current liabilities	6(13)	6,841	-	33,498	1	37,211	1
21XX	<b>Total current liabilities</b>		<u>223,988</u>	<u>7</u>	<u>323,659</u>	<u>11</u>	<u>517,440</u>	<u>17</u>
<b>Non-current liabilities</b>								
2540	Long-term borrowings	6(11)	62,314	2	75,797	3	82,061	2
2570	Deferred income tax liabilities		55,393	1	39,466	1	57,396	2
2600	Other non-current liabilities	6(13)	1,501	-	4,864	-	6,807	-
25XX	<b>Total non-current liabilities</b>		<u>119,208</u>	<u>3</u>	<u>120,127</u>	<u>4</u>	<u>146,264</u>	<u>4</u>
2XXX	<b>Total liabilities</b>		<u>343,196</u>	<u>10</u>	<u>443,786</u>	<u>15</u>	<u>663,704</u>	<u>21</u>
<b>Equity</b>								
<b>Equity attributable to owners of the parent</b>								
<b>Share capital</b>								
3110	Common stock	6(16)	821,691	25	804,389	27	794,604	26
<b>Capital surplus</b>								
3200	Capital surplus	6(17)	1,087,366	34	958,751	32	910,121	29
<b>Retained earnings</b>								
3320	Special reserve	6(18)	6,821	-	6,821	-	6,821	-
3350	Unappropriated retained earnings		1,091,540	33	902,702	30	822,516	27
<b>Other equity interest</b>								
3400	Other equity interest	6(19)	4,685	-	( 44,224)	( 1)	( 20,050)	-
3500	Treasury stocks	6(16)	( 90,870)	( 3)	( 90,870)	( 3)	( 90,870)	( 3)
31XX	<b>Equity attributable to owners of the parent</b>		<u>2,921,233</u>	<u>89</u>	<u>2,537,569</u>	<u>85</u>	<u>2,423,142</u>	<u>79</u>
36XX	<b>Non-controlling interest</b>	6(27)	<u>13,300</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
3XXX	<b>Total equity</b>		<u>2,934,533</u>	<u>90</u>	<u>2,537,569</u>	<u>85</u>	<u>2,423,142</u>	<u>79</u>
<b>Significant contingent liabilities and unrecognised contract commitments</b>								
<b>Significant events after the reporting period</b>								
3X2X	<b>Total liabilities and equity</b>		<u>\$ 3,277,729</u>	<u>100</u>	<u>\$ 2,981,355</u>	<u>100</u>	<u>\$ 3,086,846</u>	<u>100</u>

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

**GCS HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT EARNINGS PER SHARE AMOUNTS)  
(REVIEWED, NOT AUDITED)

Items	Notes	Three-month periods ended September 30				Nine-month periods ended September 30			
		2018		2017		2018		2017	
		AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
4000		\$ 514,359	100	\$ 529,100	100	\$ 1,516,044	100	\$ 1,399,020	100
5000	6(20)	( 267,045)	( 52)	( 305,541)	( 58)	( 798,209)	( 52)	( 740,074)	( 53)
5900	6(3)(23)	<u>247,314</u>	<u>48</u>	<u>223,559</u>	<u>42</u>	<u>717,835</u>	<u>48</u>	<u>658,946</u>	<u>47</u>
6100	6(23)(24)	( 10,742)	( 2)	( 14,556)	( 3)	( 37,203)	( 3)	( 42,046)	( 3)
6200									
6300		( 72,477)	( 14)	( 67,378)	( 12)	( 214,171)	( 14)	( 176,346)	( 12)
6450		( 46,433)	( 9)	( 40,939)	( 8)	( 137,349)	( 9)	( 123,729)	( 9)
6000	12(2)	<u>606</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 204)</u>	<u>-</u>	<u>-</u>	<u>-</u>
6900		( 129,046)	( 25)	( 122,873)	( 23)	( 388,927)	( 26)	( 342,121)	( 24)
		<u>118,268</u>	<u>23</u>	<u>100,686</u>	<u>19</u>	<u>328,908</u>	<u>22</u>	<u>316,825</u>	<u>23</u>
7010		1,173	-	771	-	4,929	-	2,945	-
7020	6(21)	338	-	28,286	5	914	-	13,678	1
7050	6(22)	( 1,081)	-	( 4,990)	( 1)	( 4,126)	-	( 18,900)	( 1)
7060	6(4)								
7000		( 765)	-	( 303)	-	( 756)	-	( 303)	-
7900		( 335)	-	23,764	4	961	-	( 2,580)	-
7950	6(25)	117,933	23	124,450	23	329,869	22	314,245	23
8200		( 26,172)	( 5)	( 11,848)	( 2)	( 61,971)	( 4)	( 37,384)	( 3)
		<u>\$ 91,761</u>	<u>18</u>	<u>\$ 112,602</u>	<u>21</u>	<u>\$ 267,898</u>	<u>18</u>	<u>\$ 276,861</u>	<u>20</u>
8361	6(19)	\$ 2,496	-	( \$ 10,701)	( 2)	\$ 62,837	4	( \$ 128,852)	( 9)
8362	6(19)	-	-	( 35,381)	( 7)	-	-	( 23,542)	( 2)
8399	6(19)(25)								
8300		-	-	14,092	3	-	-	9,376	1
		<u>\$ 2,496</u>	<u>-</u>	<u>( \$ 31,990)</u>	<u>( 6)</u>	<u>\$ 62,837</u>	<u>4</u>	<u>( \$ 143,018)</u>	<u>( 10)</u>
8500		<u>\$ 94,257</u>	<u>18</u>	<u>\$ 80,612</u>	<u>15</u>	<u>\$ 330,735</u>	<u>22</u>	<u>\$ 133,843</u>	<u>10</u>
8610		\$ 91,761	18	\$ 112,602	21	\$ 267,898	18	\$ 276,861	20
8620		-	-	-	-	-	-	-	-
		<u>\$ 91,761</u>	<u>18</u>	<u>\$ 112,602</u>	<u>21</u>	<u>\$ 267,898</u>	<u>18</u>	<u>\$ 276,861</u>	<u>20</u>
8710		\$ 94,257	18	\$ 80,612	15	\$ 330,735	22	\$ 133,843	10
8720		-	-	-	-	-	-	-	-
		<u>\$ 94,257</u>	<u>18</u>	<u>\$ 80,612</u>	<u>15</u>	<u>\$ 330,735</u>	<u>22</u>	<u>\$ 133,843</u>	<u>10</u>
9750	6(26)								
9850		\$ 1.14		\$ 1.49		\$ 3.36		\$ 3.76	
		<u>\$ 1.14</u>		<u>\$ 1.47</u>		<u>\$ 3.32</u>		<u>\$ 3.72</u>	

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

**GCS HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)**  
**(REVIEWED, NOT AUDITED)**

	Notes	Equity Attributable To Owners of The Parent										Non-Controlling Interest	Total
		Retained Earnings					Other Equity Interest						
		Common Stock	Capital Surplus	Special Reserve	Unappropriated Retained Earnings	Financial Statements Translation Differences of Foreign Operations	Unrealised Gains (Loss) on Available-for-Sale Financial Assets	Unearned Compensation Costs	Treasury Stocks	Total			
<b>Nine-month period ended September 30, 2017</b>													
		\$ 744,023	\$ 644,626	\$ 6,821	\$ 618,930	\$ 122,002	\$ 14,166	(\$ 3,548)	(\$ 77,915)	\$ 2,069,105	\$ -	\$ 2,069,105	
	6(19)	-	-	-	276,861	( 128,852)	( 14,166)	-	-	276,861	-	276,861	
		-	-	-	276,861	( 128,852)	( 14,166)	-	-	( 143,018)	-	( 143,018)	
		-	-	-	276,861	( 128,852)	( 14,166)	-	-	133,843	-	133,843	
		-	-	-	( 73,275)	-	-	-	-	( 73,275)	-	( 73,275)	
	6(18)	-	15,593	-	-	-	-	3,765	-	19,358	-	19,358	
	6(15)(17)(19)	1,800	11,604	-	-	-	-	( 13,417)	-	( 13)	-	( 13)	
	6(15)(16)(17)	4,151	13,769	-	-	-	-	-	-	17,920	-	17,920	
	6(16)(17)	44,630	224,529	-	-	-	-	-	-	269,159	-	269,159	
	6(16)	-	-	-	-	-	-	-	( 12,955)	( 12,955)	-	( 12,955)	
		\$ 794,604	\$ 910,121	\$ 6,821	\$ 822,516	(\$ 6,850)	\$ -	(\$ 13,200)	(\$ 90,870)	\$ 2,423,142	\$ -	\$ 2,423,142	
<b>Nine-month period ended September 30, 2018</b>													
		\$ 804,389	\$ 958,751	\$ 6,821	\$ 902,702	(\$ 35,464)	\$ -	(\$ 8,760)	(\$ 90,870)	\$ 2,537,569	\$ -	\$ 2,537,569	
		-	-	-	267,898	-	-	-	-	267,898	-	267,898	
	6(19)	-	-	-	-	62,837	-	-	-	62,837	-	62,837	
		-	-	-	267,898	62,837	-	-	-	330,735	-	330,735	
		-	-	-	( 79,060)	-	-	-	-	( 79,060)	-	( 79,060)	
	6(18)	-	16,288	-	-	-	-	21,199	-	37,487	-	37,487	
	6(15)(17)(19)	4,260	31,259	-	-	-	-	( 35,519)	-	-	-	-	
	6(15)(16)(17)(19)	( 50)	342	-	-	-	-	392	-	-	-	-	
	6(16)(17)(19)	2,231	3,707	-	-	-	-	-	-	5,938	-	5,938	
	6(16)(17)	10,861	77,703	-	-	-	-	-	-	88,564	-	88,564	
	6(27)	-	-	-	-	-	-	-	-	13,300	-	13,300	
		\$ 821,691	\$ 1,087,366	\$ 6,821	\$ 1,091,540	\$ 27,373	\$ -	(\$ 22,688)	(\$ 90,870)	\$ 2,921,233	\$ 13,300	\$ 2,934,533	

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

**GCS HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)  
(REVIEWED, NOT AUDITED)

	Notes	Nine-month periods ended September 30	
		2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		\$ 329,869	\$ 314,245
Adjustments			
Adjustments to reconcile profit (loss)			
Bad debt expense	12(4)	-	83
Net impairment loss on financial assets	12(2)	204	-
Depreciation	6(5)(23)	83,987	56,021
Amortisation	6(6)(23)	4,092	5,950
Interest expense	6(22)	4,126	18,900
Interest income		( 4,102 )	( 2,710 )
Compensation cost of share-based payment	6(15)	37,487	19,358
Net gain on financial liabilities at fair value through profit or loss	6(9)(21)	( 2,322 )	( 10,211 )
Gain on disposal of investments	12(4)	-	( 29,381 )
Share of net loss of associates and joint ventures accounted for using equity method	6(4)	756	303
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		525	( 317 )
Accounts receivable		22,487	( 69,609 )
Other receivables		( 744 )	-
Inventories		9,612	32,025
Prepayments		( 4,600 )	( 1,454 )
Other current assets		( 400 )	-
Changes in operating liabilities			
Contract liabilities		( 5,233 )	-
Accounts payable		( 8,808 )	18,489
Other payables		3,181	35,807
Other current liabilities		( 1,612 )	6,362
Cash inflow generated from operations		468,505	393,861
Interest received		4,102	2,710
Interest paid		( 3,367 )	( 4,340 )
Income tax paid		( 47,491 )	( 49,142 )
Net cash flows from operating activities		421,749	343,089
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of investment accounted for using equity method	6(4)	-	( 14,906 )
Acquisition of property, plant and equipment	6(29)	( 116,726 )	( 161,120 )
Proceeds from disposal of property, plant and equipment		35	-
Acquisition of intangible assets	6(6)	( 3,118 )	( 1,455 )
Acquisition of a subsidiary	6(27)	( 2,442 )	( 395,070 )
Proceeds from disposal of available-for-sale financial assets		-	37,016
Decrease in refundable deposits		-	5
Increase in other current assets		-	( 30,416 )
Decrease in other non-current assets		131	-
Cash inflows from business combination	6(27)	27,263	-
Net cash flows used in investing activities		( 94,857 )	( 565,946 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from short-term borrowings		20,000	20,000
Repayments of short-term borrowings		( 20,000 )	-
Repayments of bonds payable	6(10)(30)	( 2,800 )	-
Repayments of long-term borrowings	6(30)	( 14,536 )	( 14,250 )
Payments of cash dividends	6(29)	( 79,060 )	-
Proceeds from exercise of employee stock options		5,938	17,920
Treasury stocks repurchased		-	( 12,955 )
Net cash flows (used in) from financing activities		( 90,458 )	10,715
Effect of changes in exchange rates		36,503	( 67,725 )
Net increase (decrease) in cash and cash equivalents		272,937	( 279,867 )
Cash and cash equivalents at beginning of period	6(1)	1,119,712	1,381,894
Cash and cash equivalents at end of period	6(1)	\$ 1,392,649	\$ 1,102,027

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

GCS HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,  
EXCEPT AS OTHERWISE INDICATED)  
(REVIEWED, NOT AUDITED)

1. HISTORY AND ORGANISATION

GCS Holdings Inc. (the “Company”) was incorporated in the Cayman Islands on November 30, 2010, as a holding company for the purpose of registering its shares with the Taipei Exchange. The Company was approved by the Financial Supervisory Commission to be listed on the Taipei Exchange. The Company's common shares have been traded on the Taipei Exchange since September 15, 2014.

The Company and subsidiaries (collectively referred herein as the “Group”) are engaged in the manufacturing of compound semiconductor wafer and foundry related services as well as licensing of intellectual property. The Company and its subsidiaries are also engaged in the research, development, manufacture and sales of advanced optoelectronics technology products.

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

These consolidated financial statements were reported to the Board of Directors for issuance on November 2, 2018.

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 FSC effective from 2018 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board (“IASB”)
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 International Accounting Standards (“IASs”) 7, ‘Disclosure initiative’	January 1, 2017



New Standards, Interpretations and Amendments	Effective date by IASB
Amendments to IAS 12, 'Recognition of deferred tax assets for unrealised losses'	January 1, 2017
Amendments to IAS 40, 'Transfers of investment property'	January 1, 2018
International Financial Reporting Interpretations Committee ("IFRICs") 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' ("IFRS 9")

- (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 in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.
- (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 Group has elected not to restate prior period financial statements using the modified retrospective approach under IFRS 9. Since the Group does not hold any debt instruments or equity instruments, the application of this requirement is not expected to materially impact the Group's financial condition and financial performance. Further, the Group has a completed assessment in respect of the expected credit loss for trade receivables under IFRS 9, and the application of this requirement has no material impact on the Group's accounts receivable and unappropriated retained earnings as of January 1, 2018.

B. IFRS 15, 'Revenue from contracts with customers' ("IFRS 15") 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. In line with the regulations of IFRS 15, the Group changed the presentation of certain accounts in the balance sheets as of January 1, 2018 as follows:
- i. Under IFRS 15, refund liabilities in relation to expected sales discounts and allowances were previously presented as accounts receivable - allowance for sales discounts in the balance sheet. As of January 1, 2018, the balance amounted to \$888.
  - ii. Under IFRS 15, liabilities in relation to contracts with customers are recognised as contract liabilities, but were previously presented as advance sales receipts in the balance sheet. As of January 1, 2018, the balance amounted to \$24,149.

- (c) Please refer to Note 12(5) for other disclosures in relation to the first application of IFRS 15.

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.

Please refer to Note 6(30) for additional disclosures to explain the changes in liabilities arising from financing activities.

(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 2019 are as follows:

New Standards, Interpretations and Amendments	Effective date by IASB
Amendments to IFRS 9, 'Prepayment features with negative compensation'	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. The quantitative impact will be disclosed when the assessment is complete.

IFRS 16, 'Leases'

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and Standing Interpretations Committee ("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.

In the first quarter of 2018, the Group reported to the Board of Directors that IFRS 16 has no material impact to the Group.

(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 IASB
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 IASB
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 adopted are consistent with Note 4 in the consolidated financial statements for the year ended December 31, 2017, except for the compliance statement, basis of preparation, basis of consolidation and additional policies as set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

##### (1) Compliance statement

- A. The consolidated financial statements of the Group have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Accounting Standard 34, ‘Interim financial reporting’ as endorsed by the FSC.
- B. These consolidated financial statements are to be read in conjunction with the consolidated financial statements for the year ended December 31, 2017.

##### (2) Basis of preparation

- A. Except for the financial liabilities at fair value through profit or loss and available-for-sale financial assets measured at fair value, the consolidated financial statements have been prepared under the historical cost convention.
- 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 Group has elected to apply modified retrospective approach whereby the cumulative impact of the adoption was recognized as retained earnings or other equity as of January 1, 2018 and the financial statements for the third quarter of 2017 were not restated. The financial statements for the third quarter of 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 unrealised 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.

B. Subsidiaries included in the consolidated financial statements:

Name of investor	Name of subsidiary	Main business activities	Ownership (%)			Note
			September 30, 2018	December 31, 2017	September 30, 2017	
The Company	Global Communication Semiconductors, LLC	1. Manufacturing of compound semiconductor wafer and foundry related services as well as granting royalty rights for intellectual property 2. Manufacturing and selling of advanced optoelectronics technology products	100%	100%	100%	-
The Company	GCS Device Technologies, Co., Ltd.	Product design and research development services	100%	100%	100%	-
The Company	Xiamen Global Advanced Semiconductor Co., Ltd.	Developing, manufacturing and selling of mobile phone radio frequency, filter, optical communication chip, power management and optical fiber	51%	-	-	(Note)
Global Communication Semiconductors, LLC	D-Tech Optoelectronics, Inc.	Developing, manufacturing and selling of positive, intrinsic, negative components and avalanche photo diodes for telecommunication systems and data communication networks	100%	100%	100%	-
D-Tech Optoelectronics, Inc.	D-Tech Optoelectronics (Taiwan) Corporation	Manufacturing and selling of optical chips	100%	100%	100%	-

Note: The Group completed the acquisition of an additional 2% shareholding of Xiamen Global Advanced Semiconductor Co., Ltd. ('Xiamen Global') in September 2018. Through the completion of the acquisition, the Group has obtained control over Xiamen Global, therefore, Xiamen Global was included in the Group's consolidated financial statements.

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) Accounts and notes receivable

A. In accordance with contracts, 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.

(5) Impairment of financial assets

For financial assets at amortised cost, 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 that do not contain a significant financing component, the Group recognises the impairment provision for lifetime ECLs.

(6) Income tax

- A. The interim period income tax expense is recognised based on the estimated average annual effective income tax rate expected for the full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.
- B. If a change in tax rate is enacted or substantively enacted in an interim period, the Group recognises the effect of the change immediately in the interim period in which the change occurs. The effect of the change on items recognised outside profit or loss is recognised in other comprehensive income or equity while the effect of the change on items recognised in profit or loss is recognised in profit or loss.

(7) Revenue recognition

Sales of goods

- (a) The Group engages in the manufacturing and selling of compound semiconductor wafer and advanced optoelectronics technology products. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. 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.
- (b) Revenue from these sales is recognised based on the price specified in the contract. A refund liability is recognised for expected sales discounts and allowances payable to customers in relation to sales made through the end of the reporting period.
- (c) A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Service revenue

- (a) The Group provides transfer services of wafer manufacturing process to the customers. Revenue from providing services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided. This is determined based on the actual cost relative to the total expected cost. The customer pays at the time specified in the payment schedule. If the services rendered exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.

- (b) Some contracts include multiple deliverables. As the services provided by the Group are highly correlated and not distinct, they are identified to be one performance obligation.
- (c) The Group's estimate about revenue, costs and progress towards completion of a performance obligation is subject to revision whenever there is a change in circumstances. Any increase or decrease in revenue or costs due to an estimate revision is reflected in profit or loss during the period when management becomes aware of the changes in circumstances.

#### Royalty revenue

Some contracts require sales-based royalty in exchange for a licence of intellectual property. The Group recognises revenue when the performance obligation has been satisfied and the subsequent sale occurs.

#### Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

### 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) Critical accounting estimates and assumptions

The Group makes estimates and assumptions based on the expectation of future events that are believed to be reasonable under the circumstances at the end of the reporting period. The resulting accounting estimates might be different from the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

##### Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Group must determine the net realisable 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 realisable value. Such an evaluation of inventories is principally based on the selling prices of sales orders. Therefore, there might be material changes to the evaluation.

As of September 30, 2018, the carrying amount of inventories was \$327,667

## 6. DETAILS OF SIGNIFICANT ACCOUNTS

### (1) Cash and cash equivalents

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Cash on hand	\$ 130	\$ 117	\$ 135
Checking accounts and demand deposits	<u>1,392,519</u>	<u>1,119,595</u>	<u>1,101,892</u>
	<u>\$ 1,392,649</u>	<u>\$ 1,119,712</u>	<u>\$ 1,102,027</u>

A. The Group transacts with a variety of financial institutions with high credit quality to disperse credit risk and expects that the probability of counterparty default is remote. The Group's maximum exposure to credit risk at balance sheet date is the carrying amount of all cash and cash equivalents.

B. The Group has no cash and cash equivalents pledged to others.

### (2) Accounts receivable

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Accounts receivable	\$ 283,719	\$ 298,926	\$ 324,160
Less: Allowance for uncollectible accounts	( 1,354)	( 1,117)	( 4,374)
Allowance for sales returns and discounts	<u>-</u>	<u>( 888)</u>	<u>( 2,996)</u>
	<u>\$ 282,365</u>	<u>\$ 296,921</u>	<u>\$ 316,790</u>

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

### (3) Inventories

	<u>September 30, 2018</u>		
	<u>Cost</u>	<u>Allowance</u>	<u>Book value</u>
Raw materials	\$ 134,388	(\$ 27,667)	\$ 106,721
Work in progress	197,473	( 40,509)	156,964
Finished goods	<u>69,803</u>	<u>( 5,821)</u>	<u>63,982</u>
	<u>\$ 401,664</u>	<u>(\$ 73,997)</u>	<u>\$ 327,667</u>
	<u>December 31, 2017</u>		
	<u>Cost</u>	<u>Allowance</u>	<u>Book value</u>
Raw materials	\$ 146,696	(\$ 33,957)	\$ 112,739
Work in progress	197,836	( 37,208)	160,628
Finished goods	<u>67,519</u>	<u>( 11,052)</u>	<u>56,467</u>
	<u>\$ 412,051</u>	<u>(\$ 82,217)</u>	<u>\$ 329,834</u>



	September 30, 2017		
	Cost	Allowance	Book value
Raw materials	\$ 172,849	(\$ 32,699)	\$ 140,150
Work in progress	207,261	( 42,753)	164,508
Finished goods	77,044	( 10,697)	66,347
	<u>\$ 457,154</u>	<u>(\$ 86,149)</u>	<u>\$ 371,005</u>

Expenses and costs incurred as cost of operating revenue for the three-month and nine-month periods ended September 30, 2018 and 2017 were as follows:

	Three-month periods ended September 30,	
	2018	2017
Cost of inventories sold	\$ 273,804	\$ 316,427
Loss on (recovery of) market price decline	4,454	( 3,174)
Revenue from sale of scraps	( 11,213)	( 7,712)
	<u>\$ 267,045</u>	<u>\$ 305,541</u>

	Nine-month periods ended September 30,	
	2018	2017
Cost of inventories sold	\$ 835,769	\$ 757,874
(Recovery of) loss on market price decline	( 6,489)	7,936
Revenue from sale of scraps	( 31,071)	( 25,736)
	<u>\$ 798,209</u>	<u>\$ 740,074</u>

The Group recognised recovery of loss on market price decline for the nine-month period ended September 30, 2018 and for the three-month period ended September 30, 2017 because some of the inventories previously written down were sold.

(4) Investment accounted for using equity method

	2018	2017
At January 1	\$ 14,520	\$ -
Acquisition of investment accounted for using equity method	-	14,906
Share of net loss of investment accounted for using equity method	( 756)	( 303)
Translation differences of foreign operation	( 2,363)	327
Disposal of investment accounted for using equity method	( 11,401)	-
At September 30	<u>\$ -</u>	<u>\$ 14,930</u>

A. The basic information of the joint venture that is material to the Group is as follows:

Company name	Principal place of business	Shareholding ratio (Note)			Nature of relationship	Method of measurement
		September 30, 2018	December 31, 2017	September 30, 2017		
		Xiamen Global Advanced Semiconductor Co., Ltd.	Xiamen City, Fujian Province, China	-		

Note: In September 2018, the Company obtained the control over Xiamen Global Advanced Semiconductor Co., Ltd, through acquisition of an additional 2% shareholding of Xiamen Global Advanced Semiconductor Co., Ltd in cash, and amendment of the original Joint Venture Agreement entered into with Xiamen San'an Integrated Circuit Co., Ltd. Please refer to Note 6(27).

B. The summarised financial information of the joint venture that is material to the Group is as follows:

Balance sheet

	Xiamen Global Advanced Semiconductor Co., Ltd.		
	September 30, 2018	December 31, 2017	September 30, 2017
Cash and cash equivalents	\$ -	\$ 29,642	\$ 30,479
Current assets	-	29,642	30,479
Total assets	-	29,642	30,479
Other current liabilities	-	10	10
Current liabilities	-	10	10
Total liabilities	-	10	10
Total net assets	\$ -	\$ 29,632	\$ 30,469
Share in joint venture's net assets	\$ -	\$ 14,520	\$ 14,930
Carrying amount of the joint venture	\$ -	\$ 14,520	\$ 14,930

Statement of comprehensive income

		Xiamen Global Advanced Semiconductor Co., Ltd.	
		Three-month period ended September 30, 2018 (Note)	Three-month period ended September 30, 2017
Administrative expenses	\$	2,138	\$ 211
Interest income	(	12)	( 13)
Net foreign exchange (gains) losses	(	568)	308
Other losses		4	-
Net loss / total comprehensive loss	\$	1,562	\$ 506
Dividends received from joint venture	\$	-	\$ -

		Xiamen Global Advanced Semiconductor Co., Ltd.	
		Nine-month period ended September 30, 2018 (Note)	Nine-month period ended September 30, 2017
Administrative expenses	\$	2,324	\$ 219
Interest income	(	39)	( 13)
Net foreign exchange (gains) losses	(	754)	413
Other losses		12	-
Net loss / total comprehensive loss	\$	1,543	\$ 619
Dividends received from joint venture	\$	-	\$ -

Note: Please refer to Note 6(27) that Xiamen Global Advanced Semiconductor Co., Ltd, became a subsidiary of the Group in September 2018, and was included in the Group's consolidated financial statements from the date the Group obtains control over it.

(5) Property, plant and equipment

	Land	Buildings	Machinery equipment	Computer and communication equipment	Research equipment	Office equipment	Leased assets	Leasehold improvements	Total
At January 1, 2018									
Cost	\$ 137,045	\$ 91,363	\$ 1,020,035	\$ 10,103	\$ 116,587	\$ 11,545	\$ 41,826	\$ 292,911	\$ 1,721,415
Accumulated depreciation	-	( 6,308)	( 725,444)	( 7,081)	( 33,730)	( 8,156)	( 23,265)	( 216,776)	( 1,020,760)
	<u>\$ 137,045</u>	<u>\$ 85,055</u>	<u>\$ 294,591</u>	<u>\$ 3,022</u>	<u>\$ 82,857</u>	<u>\$ 3,389</u>	<u>\$ 18,561</u>	<u>\$ 76,135</u>	<u>\$ 700,655</u>
Nine-month period ended September 30, 2018									
Opening net book amount	\$ 137,045	\$ 85,055	\$ 294,591	\$ 3,022	\$ 82,857	\$ 3,389	\$ 18,561	\$ 76,135	\$ 700,655
Acquired through business combination	-	-	-	52	-	-	-	-	52
Additions	-	-	74,700	434	2,164	-	-	424	77,722
Reclassifications	-	-	42,338	-	( 42,338)	-	-	-	-
Depreciation charges	-	( 1,968)	( 58,382)	( 961)	( 5,782)	( 829)	( 4,505)	( 11,360)	( 83,987)
Net exchange differences	3,546	2,160	8,349	59	1,072	24	388	1,737	17,335
Closing net book amount	<u>\$ 140,591</u>	<u>\$ 85,247</u>	<u>\$ 361,396</u>	<u>\$ 2,606</u>	<u>\$ 37,973</u>	<u>\$ 2,584</u>	<u>\$ 14,444</u>	<u>\$ 66,936</u>	<u>\$ 711,777</u>
At September 30, 2018									
Cost	\$ 140,591	\$ 93,727	\$ 1,155,795	\$ 10,763	\$ 75,564	\$ 11,709	\$ 42,908	\$ 299,066	\$ 1,830,123
Accumulated depreciation	-	( 8,480)	( 794,399)	( 8,157)	( 37,591)	( 9,125)	( 28,464)	( 232,130)	( 1,118,346)
	<u>\$ 140,591</u>	<u>\$ 85,247</u>	<u>\$ 361,396</u>	<u>\$ 2,606</u>	<u>\$ 37,973</u>	<u>\$ 2,584</u>	<u>\$ 14,444</u>	<u>\$ 66,936</u>	<u>\$ 711,777</u>

	Land	Buildings	Machinery equipment	Computer and communication equipment	Research equipment	Office equipment	Leased assets	Leasehold improvements	Total
At January 1, 2017									
Cost	\$ 148,511	\$ 99,008	\$ 780,103	\$ 11,852	\$ 57,524	\$ 5,346	\$ 45,325	\$ 218,033	\$ 1,365,702
Accumulated depreciation	-	(4,008)	(620,858)	(7,356)	(29,790)	(3,468)	(18,736)	(194,183)	(878,399)
	<u>\$ 148,511</u>	<u>\$ 95,000</u>	<u>\$ 159,245</u>	<u>\$ 4,496</u>	<u>\$ 27,734</u>	<u>\$ 1,878</u>	<u>\$ 26,589</u>	<u>\$ 23,850</u>	<u>\$ 487,303</u>
Nine-month period ended September 30, 2017									
Opening net book amount	\$ 148,511	\$ 95,000	\$ 159,245	\$ 4,496	\$ 27,734	\$ 1,878	\$ 26,589	\$ 23,850	\$ 487,303
Acquired through business combination	-	-	47,781	-	-	2,495	-	52,891	103,167
Additions	-	-	116,024	125	18,379	28	-	-	134,556
Depreciation charges	-	(2,009)	(33,855)	(1,040)	(4,426)	(505)	(4,599)	(9,587)	(56,021)
Net exchange differences	(9,164)	(5,844)	(10,702)	(232)	(1,403)	(106)	(1,599)	(1,603)	(30,653)
Closing net book amount	<u>\$ 139,347</u>	<u>\$ 87,147</u>	<u>\$ 278,493</u>	<u>\$ 3,349</u>	<u>\$ 40,284</u>	<u>\$ 3,790</u>	<u>\$ 20,391</u>	<u>\$ 65,551</u>	<u>\$ 638,352</u>
At September 30, 2017									
Cost	\$ 139,347	\$ 92,898	\$ 1,003,132	\$ 10,779	\$ 72,712	\$ 11,849	\$ 42,528	\$ 281,394	\$ 1,654,639
Accumulated depreciation	-	(5,751)	(724,639)	(7,430)	(32,428)	(8,059)	(22,137)	(215,843)	(1,016,287)
	<u>\$ 139,347</u>	<u>\$ 87,147</u>	<u>\$ 278,493</u>	<u>\$ 3,349</u>	<u>\$ 40,284</u>	<u>\$ 3,790</u>	<u>\$ 20,391</u>	<u>\$ 65,551</u>	<u>\$ 638,352</u>

A. Amount of borrowing costs capitalised as part of property, plant and equipment for the nine-month periods ended September 30, 2018 and 2017: None.

B. Information about the property, plant and equipment that were pledged to others as collateral is provided in Note 8.

(6) Intangible assets

	<u>Software</u>	<u>Goodwill</u>	<u>Total</u>
<u>At January 1, 2018</u>			
Cost	\$ 56,744	\$ 176,569	\$ 233,313
Accumulated amortisation and impairment	( 49,659)	-	( 49,659)
	<u>\$ 7,085</u>	<u>\$ 176,569</u>	<u>\$ 183,654</u>
<u>2018</u>			
At January 1	\$ 7,085	\$ 176,569	\$ 183,654
Additions	3,118	-	3,118
Amortisation charges	( 4,092)	-	( 4,092)
Net exchange differences	153	814	967
At September 30	<u>\$ 6,264</u>	<u>\$ 177,383</u>	<u>\$ 183,647</u>
<u>At September 30, 2018</u>			
Cost	\$ 60,328	\$ 177,383	\$ 237,711
Accumulated amortisation and impairment	( 54,064)	-	( 54,064)
	<u>\$ 6,264</u>	<u>\$ 177,383</u>	<u>\$ 183,647</u>
	<u>Software</u>	<u>Goodwill</u>	<u>Total</u>
<u>At January 1, 2017</u>			
Cost	\$ 58,774	\$ -	\$ 58,774
Accumulated amortisation and impairment	( 44,103)	-	( 44,103)
	<u>\$ 14,671</u>	<u>\$ -</u>	<u>\$ 14,671</u>
<u>2017</u>			
At January 1	\$ 14,671	\$ -	\$ 14,671
Acquired through business combination	-	176,569	176,569
Additions	1,455	-	1,455
Amortisation charges	( 5,950)	-	( 5,950)
Net exchange differences	( 819)	-	( 819)
At September 30	<u>\$ 9,357</u>	<u>\$ 176,569</u>	<u>\$ 185,926</u>
<u>At September 30, 2017</u>			
Cost	\$ 56,650	\$ 176,569	\$ 233,219
Accumulated amortisation and impairment	( 47,293)	-	( 47,293)
	<u>\$ 9,357</u>	<u>\$ 176,569</u>	<u>\$ 185,926</u>

Details of amortisation on intangible assets are as follows:

	Three-month period ended September 30, 2018	Three-month period ended September 30, 2017
Cost of operating revenue	\$ 1,233	\$ 2,040
General and administrative expenses	50	50
	<u>\$ 1,283</u>	<u>\$ 2,090</u>

  

	Nine-month period ended September 30, 2018	Nine-month period ended September 30, 2017
Cost of operating revenue	\$ 3,944	\$ 5,802
General and administrative expenses	148	148
	<u>\$ 4,092</u>	<u>\$ 5,950</u>

(7) Non-current assets

Item	September 30, 2018	December 31, 2017	September 30, 2017
Time deposits (Note)	\$ 311	\$ 59,828	\$ 60,520
Prepayments for equipment	86,716	52,857	133,602
Refundable deposits	3,289	3,234	3,270
Other non-current assets	96	227	230
	<u>\$ 90,412</u>	<u>\$ 116,146</u>	<u>\$ 197,622</u>

Note: Please refer to Note 8 for the information of the Group's pledged assets.

(8) Short-term borrowings

Type of borrowings	September 30, 2018	December 31, 2017	September 30, 2017	Interest rate range	Collateral
Bank borrowings					
Secured borrowings	\$ 20,000	\$ 20,000	\$ 20,000	Floating interest rate	Time deposit (Note)

Note: Please refer to Note 8 for the information of the Group's assets pledged to secured borrowings.

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

Item	September 30, 2018	December 31, 2017	September 30, 2017
Current items:			
Financial liabilities held for trading			
Call options, put options and conversion options embedded in convertible bonds	\$ -	\$ 10,565	\$ 19,963
Valuation adjustment	-	20,639	3,819
	<u>\$ -</u>	<u>\$ 31,204</u>	<u>\$ 23,782</u>

- A. The Group recognised net gains of \$0, \$2,400, \$2,322 and \$10,211, respectively, on financial liabilities at fair value through profit or loss for the three-month and nine-month periods ended September 30, 2018 and 2017.
- B. In accordance with Article 9 of the "Regulations For Issuance of Secured Convertible Bonds in the R.O.C." and Article 9 of the "Regulations For Issuance of Unsecured Convertible Bonds in

the R.O.C.", the Group announced that the last conversion date for bondholders to exercise conversion right was March 15, 2018 in preparation for holding the Group's 2018 shareholders' meeting. As of September 30, 2018, the Group recognised the remaining unconverted balances of financial liabilities at fair value through profit or loss by last conversion date as net profit (loss).

(10) Bonds payable

<u>Item</u>	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Convertible bonds			
First secured convertible bonds	\$ 300,000	\$ 300,000	\$ 300,000
Second unsecured convertible bonds	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>
	600,000	600,000	600,000
Less: Bonds converted	( 597,200)	( 538,500)	( 485,400)
Less: Repayment of principal at maturity	( 2,800)	-	-
Less: Discount on bonds payable	<u>-</u>	<u>( 1,494)</u>	<u>( 4,698)</u>
	-	60,006	109,902
Less: Current portion (Note)	<u>-</u>	<u>( 60,006)</u>	<u>( 109,902)</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Note: The bondholders may request the Company to redeem the bonds, in whole or in part, with an added interest rate on the carrying amount as the premium after two years from the issue date. As a result, the convertible bonds are recognised as "Long-term borrowings, current portion".

- A. On May 13, 2015, the Company issued the first secured domestic convertible bonds. Key terms and conditions of bonds are as follows:
- (a) Issue amount: \$300,000
  - (b) Issue price: Issued at 100% of par value; \$100
  - (c) Issue period: Three years; from May 13, 2015 to May 13, 2018
  - (d) Coupon rate: 0% per annum
  - (e) Repayment date and method: The bonds will be redeemed at par at maturity if the bonds are not converted into common stocks at maturity, or redeemed early by the Company, or resold early to the Company by the bondholders, or redeemed from the Company's underwriter and cancelled by the Company.
  - (f) Conversion period: Except that the bonds are in the lock-up period, or redeemed early by the Company, the conversion right can be exercised at any time from June 14, 2015 through May 13, 2018 in accordance with the terms of the bonds and relevant regulations.
  - (g) Conversion price and price reset: The conversion price was set at NT\$79.3 (in dollars) per share on the issue date. The conversion price is subject to adjustments on the ex-right date of new shares issuance based on the formula specified in the terms of the bonds, due to changes in the number of the Company's common shares. The conversion price was subsequently adjusted to NT\$53.6 (in dollars) per share due to aforementioned rationale.



- (h) The converted shares have the same rights as common shares.
  - (i) Call options of the Company: The bonds may be called, in whole or in part, at the option of the Company after one month from the issue date (June 14, 2015) to forty days before the maturity date (April 3, 2018) at 100% of their principal amount, provided the closing price of the Company's common shares on the Taipei Exchange exceeds 130% (inclusive) of the then-current conversion price of the bonds over 30 (inclusive) trading days during 30 consecutive trading days, or when over 90% (inclusive) of the bonds have been redeemed, converted, called and retired.
  - (j) Put options of the holders: The bondholders may request the Company to redeem the bonds, in whole or in part, with an added interest rate on the carrying amount as the premium, which is equivalent to 102.516% (real yield rate is 1.25%) of their principal amount, after two years from the issue date. The non-equity conversion options, call options, put options embedded in bonds payable were separated from their host contracts and were recognised in "financial assets or liabilities at fair value through profit or loss" in net amount in accordance with IAS 39 because the economic characteristics and risks of the embedded derivatives were not closely related to those of the host contracts. The effective interest rate of the bonds payable after such separation was 7.2%.
  - (k) Through September 30, 2018, convertible bonds amounting to \$297,600 was converted to 5,300,002 ordinary shares.
  - (l) Please refer to Note 8 for the information of the Group's assets pledged for secured domestic convertible bonds.
- B. On May 14, 2015, the Company issued the second unsecured domestic convertible bonds. Key terms and conditions of bonds are as follows:
- (a) Issue amount: \$300,000
  - (b) Issue price: Issued at 100% of par value; \$100
  - (c) Issue period: Three years; from May 14, 2015 to May 14, 2018
  - (d) Coupon rate: 0% per annum
  - (e) Repayment date and method: The bonds will be redeemed at par at maturity if the bonds are not converted into common stocks at maturity, or redeemed early by the Company, or resold early to the Company by the bondholders, or redeemed from the Company's underwriter and cancelled by the Company.
  - (f) Conversion period: Except that the bonds are in the lock-up period, or redeemed early by the Company, the conversion right can be exercised at any time from June 15, 2015 through May 14, 2018 in accordance with the terms of the bonds and relevant regulations.
  - (g) Conversion price and price reset: The conversion price was set at NT\$81.2 (in dollars) per share on the issue date. The conversion price is subject to adjustments on the ex-right date of new shares issuance based on the formula specified in the terms of the bonds, due to changes in the number of the Company's common shares. The conversion price was subsequently adjusted to NT\$54.9 (in dollars) per share due to the aforementioned rationale.
  - (h) The converted shares have the same rights as common shares.
  - (i) Call options of the Company: The bonds may be called, in whole or in part, at the option of the Company after one month from the issue date (June 15, 2015) to forty days before the maturity date (April 4, 2018) at 100% of their principal amount, provided the closing price of the Company's common shares on the Taiwan Exchange exceeds 130% (inclusive) of the

then-current conversion price of the bonds during 30 consecutive trading days, or when over 90% (inclusive) of the bonds have been redeemed, converted, called and retired.

- (j) Put options of the holders: The bondholders may request the Company to redeem the bonds, in whole or in part, with an added interest rate on the carrying amount as the premium, which is equivalent to 103.023% (real yield rate is 1.5%) of their principal amount, after two years from the issue date. The non-equity conversion options, call options, and put options embedded in bonds payable were separated from their host contracts and were recognised in “financial assets or liabilities at fair value through profit or loss” in net amount in accordance with IAS 39 because the economic characteristics and risks of the embedded derivatives were not closely related to those of the host contracts. The effective interest rate of the bonds payable after such separation was 5.66%.
- (k) Through September 30, 2018, convertible bonds amounting to \$299,600 was converted to 4,948,016 ordinary shares.

(11) Long-term borrowings

Type of borrowings	Borrowing period and repayment term	Interest rate	Collateral	September 30, 2018	December 31, 2017	September 30, 2017
Long-term bank borrowings Secured borrowings (Note 1)	(Note 2)	4%	Land and buildings (Note 3)	\$ 82,793	\$ 95,163	\$ 101,553
Less: Current portion				( 20,479)	( 19,366)	( 19,492)
				<u>\$ 62,314</u>	<u>\$ 75,797</u>	<u>\$ 82,061</u>

Note 1: According to the secured loan contract, the Group was required to comply with certain financial covenants by maintaining certain financial ratios, such as debt coverage ratio, on an annual basis. As of September 30, 2018, December 31, 2017 and September 30, 2017, the Group had not violated any of the required financial covenants.

Note 2: Borrowing period is from August 6, 2015 to August 6, 2022; interest and principal are repayable monthly.

Note 3: Please refer to Note 8 for the information of the Group’s assets pledged for secured borrowings.

(12) Other payables

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Accrued salaries and bonuses	\$ 51,539	\$ 46,811	\$ 47,979
Dividends payable	-	-	73,275
Accrued employees' compensation and directors' remuneration	27,407	31,761	38,565
Accrued unused compensated absences	24,869	25,171	24,623
Payables for equipment	7,882	5,703	18,083
Accrued outsourcing manufacturing services charges	2,849	7,373	6,912
Accrued utilities	2,612	2,101	2,989
Accrued professional service fees	1,536	464	369
Accrued rental expenses	471	269	147
Accrued miscellaneous tools	-	1,611	5,903
Other accrued expenses	28,776	17,985	48,225
	<u>\$ 147,941</u>	<u>\$ 139,249</u>	<u>\$ 267,070</u>

(13) Finance lease liabilities

The Group leases machinery equipment under finance lease. Based on the terms of the lease contracts, the Group has the option to purchase the leased machinery equipment at a price which is expected to be sufficiently lower than fair value at the date the option becomes exercisable when the leases expire. Future minimum lease payments are as follows:

	<u>September 30, 2018</u>		
	<u>Total finance lease liabilities</u>	<u>Future finance charges</u>	<u>Present value of finance lease liabilities</u>
<u>Current</u>			
No later than one year (shown as "Other current liabilities")	\$ 5,511	(\$ 146)	\$ 5,365
<u>Non-current</u>			
Later than one year but not later than five years (shown as "Other non-current liabilities")	1,191	( 8)	1,183
	<u>\$ 6,702</u>	<u>(\$ 154)</u>	<u>\$ 6,548</u>

	December 31, 2017		
	Total finance lease liabilities	Future finance charges	Present value of finance lease liabilities
<u>Current</u>			
No later than one year (shown as "Other current liabilities")	\$ 9,684	(\$ 360)	\$ 9,324
<u>Non-current</u>			
Later than one year but not later than five years (shown as "Other non-current liabilities")	4,643	( 95)	4,548
	<u>\$ 14,327</u>	<u>(\$ 455)</u>	<u>\$ 13,872</u>
	September 30, 2017		
	Total finance lease liabilities	Future finance charges	Present value of finance lease liabilities
<u>Current</u>			
No later than one year (shown as "Other current liabilities")	\$ 10,847	(\$ 469)	\$ 10,378
<u>Non-current</u>			
Later than one year but not later than five years (shown as "Other non-current liabilities")	6,642	( 152)	6,490
	<u>\$ 17,489</u>	<u>(\$ 621)</u>	<u>\$ 16,868</u>

(14) Pension plan

- A. The Company's US subsidiary has established a 401(K) pension plan (the "Plan") covering substantially all employees. The Plan provides voluntary salary reduction contributions by eligible participants in accordance with Section 401(K) of the Internal Revenue Code (IRC), as well as discretionary matching contributions below 15% of employees' salaries from the Company's subsidiary to its employees' individual pension accounts.
- B. The Company's Taiwan 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's Taiwan 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.

C. The pension costs under the above pension plans of the Group for the three-month and nine-month periods ended September 30, 2018 and 2017 amounted to \$4,957, \$4,389, \$14,811 and \$12,243, respectively.

(15) Share-based payment-employee compensation plan

A. Through September 30, 2018 and 2017, the Company's share-based payment transactions are set forth below:

<u>Type of arrangement</u>	<u>Grant date</u>	<u>Quantity granted</u>	<u>Contract period</u>	<u>Vesting condition</u>
Employee stock options	April 2013	1,538,000 shares	10 years	(Note 1)
Employee stock options	August 2013	7,830 shares	10 years	(Note 1)
Employee stock options	October 2013	538,000 shares	10 years	(Note 1)
Employee stock options	February 2014	60,000 shares	10 years	(Note 1)
Employee stock options	November 2014	75,000 shares	10 years	(Note 1)
Employee stock options	January 2015	30,000 shares	10 years	(Note 1)
Employee stock options	February 2015	652,200 shares	10 years	(Note 1)
Employee stock options	March 2016	5,000 shares	10 years	(Note 1)
Employee stock options	August 2016	895,000 shares	10 years	(Note 1)
Employee stock options	November 2016	34,000 shares	10 years	(Note 1)
Employee stock options	February 2017	15,000 shares	10 years	(Note 1)
Employee stock options	August 2017	215,000 shares	10 years	(Note 1)
Employee stock options	January 2018	13,000 shares	10 years	(Note 1)
Employee stock options	February 2018	355,000 shares	10 years	(Note 1)
Employee stock options	August 2018	27,000 shares	10 years	(Note 1)
Restricted stocks to employees (Note 3)	July 2015	297,300 shares	2 years	(Note 2)
Restricted stocks to employees (Note 3)	November 2015	22,000 shares	2 years	(Note 2)
Restricted stocks to employees (Note 3)	January 2016	93,700 shares	2 years	(Note 2)
Restricted stocks to employees (Note 3)	March 2016	8,000 shares	2 years	(Note 2)
Restricted stocks to employees (Note 3)	August 2017	180,000 shares	2 years	(Note 2)
Restricted stocks to employees (Note 3)	February 2018	398,000 shares	2 years	(Note 2)
Restricted stocks to employees (Note 3)	September 2018	28,000 shares	2 years	(Note 2)

Note 1: Some employee stock options shall be vested and become exercisable up to 50% of the shares after fulfilling two years of service, and in accordance with the agreement, the remaining 50% of such options will be vested ratably in equal installments as of the last day of each of the succeeding 24 months.

Note 2: Some restricted stocks to employees shall be vested up to 50% of the shares after one

year of service, and the remaining 50% of such shares to be vested after fulfilling two years of service.

Note 3: The restricted stocks to employees are restricted from transferring within vesting period, but are allowed for voting rights and rights to receive dividends. The Company will recover restricted stocks at no consideration and cancel registration if employees resign or die not due to occupational hazards. However, employees do not need to return dividends already received.

B. Details of the employee stock options are set forth below:

<u>Nine-month period ended September 30, 2018</u>			
	<u>No. of options</u>	<u>Currency</u>	<u>Weighted average exercise price</u>
			(in dollars)
Options outstanding at beginning of the period	1,912,541	NTD	\$ 50.44
Options granted	395,000	NTD	82.36
Options exercised	( 223,084)	NTD	26.49
Options forfeited	( 50,000)	NTD	80.03
Options outstanding at end of the period	<u>2,034,457</u>	NTD	58.54
Options exercisable at end of the period	<u>1,039,182</u>	NTD	46.79
<u>Nine-month period ended September 30, 2017</u>			
	<u>No. of options</u>	<u>Currency</u>	<u>Weighted average exercise price</u>
			(in dollars)
Options outstanding at beginning of the period	2,178,139	NTD	\$ 44.84
Options granted	230,000	NTD	65.89
Options exercised	( 415,138)	NTD	28.42
Options forfeited	( 49,043)	NTD	56.84
Options outstanding at end of the period	<u>1,943,958</u>	NTD	50.30
Options exercisable at end of the period	<u>643,888</u>	NTD	26.54

- C. The weighted-average stock price of stock options at exercise dates for the nine-month periods ended September 30, 2018 and 2017 was \$80.22 (in dollars) and \$61.30 (in dollars), respectively.
- D. As of September 30, 2018, December 31, 2017 and September 30, 2017, the range of exercise prices of stock options outstanding are as follows:

Grant date	Expiry date	September 30, 2018		
		No. of Shares	Currency	Stock options exercise price (in dollars)
April 2013	April 2023	170,396	NTD	\$ 11.35
October 2013	October 2023	33,335	NTD	17.63
November 2014	November 2024	54,188	NTD	32.65
January 2015	January 2025	7,500	NTD	42.09
February 2015	February 2025	313,038	NTD	41.21
March 2016	March 2026	5,000	NTD	71.01
August 2016	August 2026	840,000	NTD	65.73
November 2016	November 2026	26,000	NTD	64.40
February 2017	February 2027	15,000	NTD	57.10
August 2017	August 2027	215,000	NTD	66.50
January 2018	January 2028	13,000	NTD	86.70
February 2018	February 2028	315,000	NTD	83.60
August 2018	August 2028	27,000	NTD	64.00
		<u>2,034,457</u>		

December 31, 2017				
Grant date	Expiry date	No. of Shares	Currency	Stock options exercise price  (in dollars)
April 2013	April 2023	224,896	NTD	\$ 11.35
October 2013	October 2023	95,002	NTD	17.63
February 2014	February 2024	7,500	NTD	19.20
November 2014	November 2024	58,667	NTD	32.65
January 2015	January 2025	10,000	NTD	42.09
February 2015	February 2025	405,476	NTD	41.21
March 2016	March 2026	5,000	NTD	71.01
August 2016	August 2026	850,000	NTD	65.73
November 2016	November 2026	26,000	NTD	64.40
February 2017	February 2027	15,000	NTD	57.10
August 2017	August 2027	215,000	NTD	66.50
		<u>1,912,541</u>		

September 30, 2017				
Grant date	Expiry date	No. of Shares	Currency	Stock options exercise price  (in dollars)
April 2013	April 2023	225,896	NTD	\$ 11.35
October 2013	October 2023	95,002	NTD	17.63
February 2014	February 2024	7,500	NTD	19.20
November 2014	November 2024	58,667	NTD	32.65
January 2015	January 2025	12,500	NTD	42.09
February 2015	February 2025	413,393	NTD	41.21
March 2016	March 2026	5,000	NTD	71.01
August 2016	August 2026	870,000	NTD	65.73
November 2016	November 2026	26,000	NTD	64.40
February 2017	February 2027	15,000	NTD	57.10
August 2017	August 2027	215,000	NTD	66.50
		<u>1,943,958</u>		



E. Details of the restricted stocks to employees are set forth below:

Employee restricted stocks	Nine-month periods ended September 30,	
	2018	2017
	No. of shares	No. of shares
Outstanding at beginning of the period	215,850	244,850
Granted (Notes 1 and 2)	426,000	180,000
Vested	( 125,850)	( 185,000)
Retired	( 3,000)	( 11,000)
Outstanding at end of the period	<u>513,000</u>	<u>228,850</u>

Note 1: For the restricted stocks granted with the compensation cost accounted for using the fair value method, the fair values on the grant date are calculated based on the closing price on the grant date.

Note 2: The fair value of restricted stocks granted in February and September 2018 was \$83.60 (in dollars) and \$55.4 (in dollars), respectively.

F. For the stock options granted with the compensation cost accounted for using the fair value method, their fair value on the grant date is estimated using the Black-Scholes option-pricing model and discounted cash flow valuation. The parameters used in the estimation of the fair value are as follows:

Type of arrangement	Grant date	Currency	Fair value (in dollars)	Exercise price (in dollars)	Expected price volatility	Expected option period (years)	Expected dividend yield rate	Risk-free interest rate	Weighted average fair value (in dollars)
Employee stock options	February 2017	NTD	\$ 57.98	\$ 57.10	34.41%	6.26	1.00%	1.19%	\$ 29.14
Employee stock options	August 2017	NTD	64.90	66.50	36.37%	6.26	1.00%	1.10%	32.53
Employee stock options	January 2018	NTD	86.43	86.70	42.83%	6.26	1.00%	0.97%	45.74
Employee stock options	February 2018	NTD	84.61	83.60	45.43%	6.26	1.00%	0.97%	46.31
Employee stock options	August 2018	NTD	67.41	64.00	32.93%	6.26	1.00%	0.90%	38.38

G. Expenses incurred on share-based payment transactions are shown below:

	Three-month periods ended September 30,	
	2018	2017
Equity-settled	<u>\$ 13,491</u>	<u>\$ 7,599</u>
	Nine-month periods ended September 30,	
	2018	2017
Equity-settled	<u>\$ 37,487</u>	<u>\$ 19,358</u>

(16) Common stock

- A. As of September 30, 2018, the Company's paid-in capital was \$821,691, consisting of 82,169,126 shares with a par value of \$10 (in dollars) per share.

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

Unit: Numbers of shares

	2018	2017
At January 1	79,059,886	73,275,266
Exercise of employee stock options	223,084	415,138
Conversion of convertible bonds	1,086,156	4,463,039
Issuance of restricted stocks to employees	426,000	180,000
Retirement of restricted stocks to employees (	3,000)	-
Purchase of treasury stocks	-	(250,000)
At September 30	<u>80,792,126</u>	<u>78,083,443</u>

- B. On May 15, 2015, the shareholders adopted a resolution to issue 600,000 employee restricted stocks with par value of \$10 (in dollars) per share, with the effective date set on July 13, 2015. The subscription price is \$0 (in dollar) per share. The employee restricted stocks issued are subject to certain transfer restrictions before their vesting conditions are met. Other than these restrictions, the rights and obligations of these shares issued are the same as other issued ordinary shares. On July 27, 2015, November 5, 2015, January 14, 2016 and March 2, 2016, the Board of Directors adopted resolutions to grant 297,300, 22,000, 93,700 and 8,000 employee restricted stocks, respectively. For the years ended December 31, 2017 and 2016, the Company had retrieved 13,000 and 16,000 employee restricted stocks, respectively, due to the employees' resignation and the retrieved shares have been retired.
- C. On June 1, 2017, the shareholders adopted a resolution to reserve 1,000,000 shares for the purpose of granting employee restricted stocks with par value of \$10 (in dollars) per shares, with the effective date filed with the regulator on August 8, 2017. The subscription price is \$0 (in dollar) per share. The employee restricted stocks issued are subject to certain transfer restrictions before their vesting conditions are met. Other than these restrictions, the rights and obligations of these shares issued are the same as other issued ordinary shares. On August 21, 2017 and February 27, 2018, the Board of Directors adopted a resolution to grant 180,000 and 398,000 employee restricted stocks, respectively. Further, in April 2018, the Company retrieved an additional 3,000 employee restricted stocks due to the employees' resignation, which have not been retired.
- D. On May 15, 2018, the shareholders adopted a resolution to reserve 1,000,000 shares for the purpose of granting employee restricted stocks with par value of \$10 (in dollars) per shares, with the effective date filed with the regulator on August 16, 2018. The subscription price is \$0 (in dollar) per share. The employee restricted stocks issued are subject to certain transfer restrictions before their vesting conditions are met. Other than these restrictions, the rights and obligations of these shares issued are the same as other issued ordinary shares. On August 2, 2018, the Board of Directors adopted a resolution to grant 28,000 employee restricted stocks.

E. Treasury stocks

(a) Reason for share repurchase and the number of the Company's treasury stocks are as follows:

		<u>September 30, 2018</u>	
<u>Name of company holding the shares</u>	<u>Reason for repurchase</u>	<u>Number of shares</u>	<u>Carrying amount</u>
The Company	To be reissued to employees	1,377,000	\$ 90,870

		<u>December 31, 2017</u>	
<u>Name of company holding the shares</u>	<u>Reason for repurchase</u>	<u>Number of shares</u>	<u>Carrying amount</u>
The Company	To be reissued to employees	1,377,000	\$ 90,870

		<u>September 30, 2017</u>	
<u>Name of company holding the shares</u>	<u>Reason for repurchase</u>	<u>Number of shares</u>	<u>Carrying amount</u>
The Company	To be reissued to employees	1,377,000	\$ 90,870

- (b) Pursuant to the R.O.C. Securities and Exchange Act, the number of shares repurchased as treasury shares should not exceed 10% of the number of the Company's issued and outstanding shares and the amount bought back should not exceed the sum of retained earnings, paid-in capital in excess of par value and realised capital surplus.
- (c) Pursuant to the R.O.C. Securities and Exchange Act, treasury stocks should not be pledged as collateral and is not entitled to dividends before it is reissued.
- (d) Pursuant to the R.O.C. Securities and Exchange Act, treasury stocks should be reissued to the employees within three years from the date of repurchase, and shares not reissued within the three-year period are to be retired. Treasury stocks to enhance the Company's credit rating and the shareholders' equity should be retired within six months of repurchase.

(17) Capital surplus

Capital surplus can be used to cover accumulated deficit or distributed as dividend as proposed by the Board of Directors and resolved by the shareholders.

	2018				
	Share premium	Employee stock options	Employee restricted stocks	Others	Total
At January 1	\$ 843,765	\$ 46,693	\$ 37,550	\$ 30,743	\$ 958,751
Compensation costs of share-based payment	-	16,288	-	-	16,288
Issuance of restricted stocks to employees	-	-	31,259	-	31,259
Restricted stocks to employees vested	30,020	-	( 30,020)	-	-
Retrieve restricted stocks from employees	-	-	( 342)	-	( 342)
Exercise of employee stock options	12,755	( 9,048)	-	-	3,707
Conversion of convertible bonds	77,703	-	-	-	77,703
Forfeiture of employee stock options	-	( 803)	-	803	-
At September 30	<u>\$ 964,243</u>	<u>\$ 53,130</u>	<u>\$ 38,447</u>	<u>\$ 31,546</u>	<u>\$ 1,087,366</u>

	2017				
	Share premium	Employee stock options	Employee restricted stocks	Others	Total
At January 1	\$ 541,476	\$ 46,850	\$ 26,588	\$ 29,712	\$ 644,626
Compensation costs of share-based payment	-	15,593	-	-	15,593
Issuance of restricted stocks to employees	-	-	11,604	-	11,604
Exercise of employee stock options	31,249	( 17,480)	-	-	13,769
Conversion of convertible bonds	224,529	-	-	-	224,529
Forfeiture of employee stock options	-	( 845)	-	845	-
At September 30	<u>\$ 797,254</u>	<u>\$ 44,118</u>	<u>\$ 38,192</u>	<u>\$ 30,557</u>	<u>\$ 910,121</u>

(18) 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 losses incurred in previous years and then a special reserve as required by the applicable securities authority under the applicable public company rules in Taiwan. After combining accumulated undistributed earnings in the previous years and setting

aside a certain amount of remaining profits of such financial year as a reserve or reserves for development purposes as the Board of Directors may from time to time deem appropriate, subject to the compliance with the Cayman Islands Companies Law, the Company shall distribute no less than 10% of the remaining profit as dividends to the shareholders.

- B. The Company's dividend policy is as follows: As the Company operates in a capital intensive industry and in the stable growth stage, the residual dividend policy is adopted taking into consideration the Company's operation scale, cash flow demand and future expansion plans, and cash dividends shall account for at least 10% of the total dividends distributed.
- C. On May 15, 2018 and June 1, 2017, the shareholders at the annual shareholders' meetings resolved the appropriations of 2017 and 2016 earnings, respectively. Details are summarised below:

	2017		2016	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Cash dividends	<u>\$ 79,060</u>	<u>\$ 1.00</u>	<u>\$ 73,275</u>	<u>\$ 1.00</u>

- D. For the information relating to employees' compensation and directors' remuneration, please refer to Note 6(24).

(19) Other equity interest

	2018		
	Currency translation differences	Unearned employee compensation	Total
At January 1	(\$ 35,464)	(\$ 8,760)	(\$ 44,224)
Currency translation differences	62,837	-	62,837
Compensation costs of share-based payment	-	21,199	21,199
Issuance of restricted stocks to employees	-	( 35,519)	( 35,519)
Retrieve restricted stocks from employees	-	392	392
At September 30	<u>\$ 27,373</u>	<u>(\$ 22,688)</u>	<u>\$ 4,685</u>

	2017			
	Currency translation differences	Unearned employee compensation	Available-for-sale financial assets	Total
At January 1	\$ 122,002	(\$ 3,548)	\$ 14,166	\$ 132,620
Currency translation differences	( 128,852)	-	-	( 128,852)
Compensation costs of share-based payment	-	3,765	-	3,765
Issuance of restricted stocks to employees	-	( 13,417)	-	( 13,417)
Changes of fair value in financial instruments				
- Transfer out of revaluation - gross	-	-	( 31,103)	( 31,103)
- Transfer out of revaluation - tax	-	-	12,388	12,388
- Revaluation - gross	-	-	7,561	7,561
- Revaluation - tax	-	-	( 3,012)	( 3,012)
At September 30	<u>(\$ 6,850)</u>	<u>(\$ 13,200)</u>	<u>\$ -</u>	<u>(\$ 20,050)</u>

(20) Operating revenue

	Three-month period ended September 30, 2018	Nine-month period ended September 30, 2018
Revenue from contracts with customers	\$ <u>514,359</u>	\$ <u>1,516,044</u>

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:

	Three-month period ended September 30, 2018			
	Sales revenue	Service revenue	Royalty revenue	Total
China	\$ 242,459	\$ 3,835	\$ 19	\$ 246,313
United States	181,833	-	-	181,833
Taiwan	57,226	-	6,538	63,764
Others	22,449	-	-	22,449
	<u>\$ 503,967</u>	<u>\$ 3,835</u>	<u>\$ 6,557</u>	<u>\$ 514,359</u>
	Nine-month period ended September 30, 2018			
	Sales revenue	Service revenue	Royalty revenue	Total
China	\$ 746,679	\$ 11,220	\$ 1,467	\$ 759,366
United States	525,132	-	-	525,132
Taiwan	162,213	-	24,056	186,269
Others	45,277	-	-	45,277
	<u>\$ 1,479,301</u>	<u>\$ 11,220</u>	<u>\$ 25,523</u>	<u>\$ 1,516,044</u>

B. Contract liabilities

The Group has recognised the following revenue-related contract liabilities:

	<u>September 30, 2018</u>
Contract liabilities – advance sales receipts	\$ <u>19,434</u>
Revenue recognised that was included in the contract liability balance at the beginning of the period	

	<u>Three-month period ended September 30, 2018</u>	<u>Nine-month period ended September 30, 2018</u>
Contract liabilities – advance sales receipts	\$ <u>4,406</u>	\$ <u>17,862</u>

C. Related disclosures for operating revenue for the three-month and nine-month periods ended September 30, 2017 are provided in Note 12(5) B.

(21) Other gains and losses

	<u>Three-month periods ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Gain on disposal of investments	\$ -	\$ 28,024
Net currency exchange gains (losses)	290	( 2,138)
Net gains on financial liabilities at fair value through profit or loss	-	2,400
Other income	48	-
	<u>\$ 338</u>	<u>\$ 28,286</u>

	<u>Nine-month periods ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Gain on disposal of investments	\$ -	\$ 29,381
Net currency exchange losses	( 458)	( 25,914)
Net gains on financial liabilities at fair value through profit or loss	2,322	10,211
Other losses	( 950)	-
	<u>\$ 914</u>	<u>\$ 13,678</u>

(22) Finance costs

	<u>Three-month periods ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Interest expense	\$ <u>1,081</u>	\$ <u>4,990</u>

	<u>Nine-month periods ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Interest expense	\$ <u>4,126</u>	\$ <u>18,900</u>

(23) Expenses by nature

	Three-month periods ended September 30,	
	2018	2017
Employee benefit expense	\$ 190,951	\$ 175,940
Depreciation charges on property, plant and equipment	\$ 28,383	\$ 23,101
Amortisation charges on intangible assets (recognised as cost of operating revenue and operating expenses)	\$ 1,283	\$ 2,090

	Nine-month periods ended September 30,	
	2018	2017
Employee benefit expense	\$ 571,526	\$ 485,601
Depreciation charges on property, plant and equipment	\$ 83,987	\$ 56,021
Amortisation charges on intangible assets (recognised as cost of operating revenue and operating expenses)	\$ 4,092	\$ 5,950

(24) Employee benefit expense

	Three-month periods ended September 30,	
	2018	2017
Wages and salaries	\$ 156,062	\$ 148,338
Compensation costs of share-based payment	13,491	7,599
Insurance expenses	15,704	14,772
Pension costs	4,957	4,389
Other personnel expenses	737	842
	\$ 190,951	\$ 175,940

	Nine-month periods ended September 30,	
	2018	2017
Wages and salaries	\$ 470,746	\$ 412,300
Compensation costs of share-based payment	37,487	19,358
Insurance expenses	46,048	40,212
Pension costs	14,811	12,243
Other personnel expenses	2,434	1,488
	\$ 571,526	\$ 485,601



- A. According to the Articles of Incorporation of the Company, when distributing earnings, an amount equal to the 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 higher than 15% and lower than 5% for employees' compensation, and shall not be higher than 2% for directors' remuneration.
- B. For the three-month and nine-month periods ended September 30, 2018 and 2017, employees' compensation was accrued at \$6,396, \$6,658, \$17,735 and \$16,812, respectively; directors' remuneration was accrued at \$2,558, \$2,663, \$7,093 and \$6,725, respectively. The aforementioned amounts were recognised in wages and salaries. The employees' compensation and directors' remuneration were estimated and accrued based on 5% and 2% of distributable profit of current period from January 1 to September 30, 2018. Employees' compensation and directors' remuneration of 2017 as resolved by the Board of Directors were in agreement with those amount recognised in the 2017 financial statements. The employees' compensation will be distributed in the form of cash.
- C. Information about employees' compensation and directors' remuneration of the Company as proposed by the Board of Directors and resolved by the shareholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(25) Income tax

A. Income tax expense

(a) Components of income tax expense:

	<u>Three-month periods ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Current tax:		
Current tax on profit for the period	\$ 17,567	\$ 11,323
Effect from alternative minimum tax	-	2,395
Tax on undistributed surplus earnings	-	-
Prior year income tax (over) under estimation	( 59)	5
Total current tax	<u>17,508</u>	<u>13,723</u>
Deferred tax:		
Origination and reversal of temporary differences	8,664	( 1,875)
Impact of change in tax rate	-	-
Total deferred tax	<u>8,664</u>	<u>( 1,875)</u>
Income tax expense	<u>\$ 26,172</u>	<u>\$ 11,848</u>

	<u>Nine-month periods ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Current tax:		
Current tax on profit for the period	\$ 38,659	\$ 33,159
Effect from alternative minimum tax	-	6,501
Tax on undistributed surplus earnings	776	-
Prior year income tax over estimation	( 4,738)	( 401)
Total current tax	<u>34,697</u>	<u>39,259</u>
Deferred tax:		
Origination and reversal of temporary differences	28,773	( 1,875)
Impact of change in tax rate	( 1,499)	-
Total deferred tax	<u>27,274</u>	<u>( 1,875)</u>
Income tax expense	<u>\$ 61,971</u>	<u>\$ 37,384</u>

(b) The income tax charged relating to components of other comprehensive income is as follows:

	<u>Three-month periods ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Unrealised gain / loss on valuation of available-for-sale financial assets	<u>\$ -</u>	<u>\$ 4,716</u>

  

	<u>Nine-month periods ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Unrealised gain / loss on valuation of available-for-sale financial assets	<u>\$ -</u>	<u>\$ 9,376</u>

B. As of September 30, 2018, the assessment of income tax returns of the Taiwan subsidiaries are as follows:

<u>Name of subsidiary</u>	<u>Assessment of income tax returns</u>
Global Device Technologies, Co., Ltd.	Assessed and approved up to 2016
D-Tech Optoelectronics (Taiwan) Corporation	Assessed and approved up to 2015

C. 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.

(26) Earnings per share (EPS)

The basic EPS is determined by the net income divided by the weighted average number of outstanding stocks. The diluted EPS is under the assumption that all potential ordinary stocks have been converted into ordinary stocks at the beginning of the period. The revenue and expense generated from the conversion shall be included in the computation.

	<u>Three-month period ended September 30, 2018</u>		
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	<u>\$ 91,761</u>	<u>80,261</u>	<u>\$ 1.14</u>
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 91,761	80,261	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	115	
Employee stock options	-	265	
Employee restricted stocks	-	136	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 91,761</u>	<u>80,777</u>	<u>\$ 1.14</u>

Three-month period ended September 30, 2017			
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 112,602	75,338	\$ 1.49
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 112,602	75,338	
Assumed conversion of all dilutive potential ordinary shares			
Convertible bonds	1,918	2,124	
Employees' bonus	-	138	
Employee stock options	-	400	
Employee restricted stocks	-	40	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 114,520	78,040	\$ 1.47

	<u>Nine-month period ended September 30, 2018</u>		
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	<u>\$ 267,898</u>	<u>79,741</u>	<u>\$ 3.36</u>
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 267,898	79,741	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	407	
Employee stock options	-	341	
Employee restricted stocks	-	<u>182</u>	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 267,898</u>	<u>80,671</u>	<u>\$ 3.32</u>

	Nine-month period ended September 30, 2017		
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 276,861	73,714	\$ 3.76
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 276,861	73,714	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	294	
Employee stock options	-	359	
Employee restricted stocks	-	39	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 276,861	74,406	\$ 3.72

(27) Business combinations

The Acquisition of D-Tech Optoelectronics, Inc.

A. The Company's Board of Directors approved on July 13, 2017 for its wholly owned subsidiary, Global Communication Semiconductors, LLC, to enter into an Acquisition Agreement with D-Tech Optoelectronics, Inc. ("D-Tech") to acquire all of the outstanding shares of D-Tech at an aggregate consideration of US\$13 million in cash. The above acquisition transaction has been completed on July 20, 2017 (USA time). With the completion of the acquisition, the Company acquired 100% shareholding of the wholly-owned subsidiary of D-Tech, D-Tech Optoelectronics (Taiwan) Corporation. The Group expects that the acquisition will allow the Group and D-Tech to further integrate research technology, manufacturing capabilities and workforce to enhance their product offering at an accelerated pace, optimise their product integration, and provide customers with better services and products. The main goal of the acquisition is to gain a competitive advantage, and enhance market and margin expansion opportunities with greater scale.

B. The following table summarises the consideration paid for D-Tech and the fair values of the assets acquired and liabilities assumed at the acquisition date:

	<u>July 20, 2017</u>
Consideration	
Cash paid (US\$ 13 million)	\$ <u>395,070</u>
Fair value of the identifiable assets acquired and liabilities assumed	
Notes receivable and accounts receivable	65,216
Other receivables and prepayments	3,828
Other current assets	308
Inventories	71,621
Property, plant and equipment	103,167
Other non-current assets	9,329
Accounts payable	( 16,216)
Other payables	( 18,270)
Other current liabilities	( 174)
Other non-current liabilities	( 308)
Total identifiable net assets	<u>218,501</u>
Goodwill (US\$ 5.81 million)	\$ <u>176,569</u>

C. The operating revenue and profit before income tax included in the 2017 consolidated statement of comprehensive income since July 20, 2017 contributed by D-Tech was \$154,615 and \$10,232, respectively. Had D-Tech been consolidated from January 1, 2017, the consolidated statement of comprehensive income would show an increase in operating revenue of \$412,544 and a decrease in profit before income tax of \$11,455.

D. Goodwill is tested annually for impairment. The recoverable amount is determined based on the value in use.

As of September 30, 2018, the Group's assumptions used for impairment testing did not change significantly. Please refer to Note 6(27) for the goodwill impairment testing in the consolidated financial statements for the year ended December 31, 2017.

#### The Acquisition of Xiamen San'an Integrated Circuit Co., Ltd.

A. The Company's Board of Directors approved on June 23, 2018 that the Company enter into an Equity Interest Transfer Agreement (the "Agreement") with Xiamen San'an Integrated Circuit Co., Ltd. ("San'an") to acquire the 2% shareholding of Xiamen Global Advanced Semiconductor Co., Ltd. ("Xiamen Global") in the amount of US\$80 thousand. After the completion of the transfer, Xiamen Global became a subsidiary of the Group. After the 2% shareholding of Xiamen Global was transferred to the Company, the Company will invest US\$204 million and San'an will invest US\$196 million in Xiamen Global, which represents 51% and 49% of the registered capital, respectively. The purpose of this equity transfer is to speed up the manufacturing transfer process, enabling the Group to accelerate the application of advanced production process in connection with 5th generation wireless system and other smartphones.

B. The following table summarises the consideration paid for Xiamen Global and the fair values of the assets acquired and liabilities assumed at the acquisition date:

	<u>September 30, 2018</u>
Consideration	
Cash paid (US\$80 thousand)	\$ 2,442
	<u>2,442</u>
Fair value of equity interest in Xiamen Global held before the business combination	11,401
Fair value of the non-controlling interest	<u>13,300</u>
	<u>27,143</u>
Fair value of the identifiable assets acquired and liabilities assumed	
Cash	27,263
Property, plant and equipment	52
Other payables	( 168)
Other current liabilities	( 4)
Total identifiable net assets	<u>27,143</u>
Goodwill	<u>\$ -</u>

C. The identifiable net assets recognised in the consolidated financial statements as of September 30, 2018 were based on a provisional assessment of fair value. The result of this valuation is subject to adjustment through goodwill upon finalising the valuation report.

D. The operating revenue and profit before income tax included in the consolidated statement of comprehensive income since September 2018 contributed by Xiamen Global were both \$0. Had Xiamen Global been consolidated from January 1, 2018, the consolidated statement of comprehensive income would show an increase in operating revenue of \$0 and a decrease in profit before income tax of \$1,543.

(28) Operating lease commitments

The Group leases property and plant under non-cancellable operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Not later than one year	\$ 11,595	\$ 9,897	\$ 8,853
Later than one year but not later than five years	<u>29,582</u>	<u>26,486</u>	<u>28,762</u>
	<u>\$ 41,177</u>	<u>\$ 36,383</u>	<u>\$ 37,615</u>



(29) Supplemental cash flow information

A. Investing activities with partial cash payments:

	<u>Nine-month periods ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Acquisition of property, plant and equipment	\$ 77,722	\$ 134,556
Add: Ending balance of prepayments for equipment (Note)	86,716	133,602
Less: Beginning balance of prepayments for equipment (Note)	( 52,857)	( 120,552)
Less: Prepayments for equipment - Acquired through business combinations	-	( 7,443)
Less: Ending balance of finance lease liabilities	( 6,548)	( 16,868)
Add: Beginning balance of finance lease liabilities	13,872	26,636
Less: Ending balance of payables for equipment	( 7,882)	( 18,083)
Add: Beginning balance of payables for equipment	5,703	29,272
Cash paid during the period	<u>\$ 116,726</u>	<u>\$ 161,120</u>

Note: Shown as "Other non-current assets".

B. Financing activities with no cash flow effect:

	<u>Nine-month periods ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Convertible bonds being converted to capital stocks	<u>\$ 58,700</u>	<u>\$ 241,900</u>
Dividends payable (Note)	<u>\$ -</u>	<u>\$ 73,275</u>

Note: Shown as "Other payables"

(30) Changes in liabilities from financing activities

	<u>Short-term borrowings</u>	<u>Bonds payable</u>	<u>Long-term borrowings (Note)</u>	<u>Liabilities from financing activities</u>
At January 1, 2018	\$ 20,000	\$ 60,006	\$ 95,163	\$ 175,169
Changes in cash flow from financing activities	-	( 2,800)	( 14,536)	( 17,336)
Bonds converted	-	( 58,700)	-	( 58,700)
Discount on bonds payable	-	1,494	-	1,494
Impact of changes in foreign exchange rate	-	-	2,166	2,166
At September 30, 2018	<u>\$ 20,000</u>	<u>\$ -</u>	<u>\$ 82,793</u>	<u>\$ 102,793</u>

Note: Current portion is included.

## 7. RELATED PARTY TRANSACTIONS

### Key management compensation

	Three-month periods ended September 30,	
	2018	2017
Salaries and other short-term employee benefits	\$ 19,193	\$ 13,946
Post-employment benefits	499	438
Compensation costs of share-based payment	4,993	2,801
	<u>\$ 24,685</u>	<u>\$ 17,185</u>

  

	Nine-month periods ended September 30,	
	2018	2017
Salaries and other short-term employee benefits	\$ 71,177	\$ 50,923
Post-employment benefits	2,245	1,793
Compensation costs of share-based payment	15,498	8,841
	<u>\$ 88,920</u>	<u>\$ 61,557</u>

## 8. PLEDGED ASSETS

As of September 30, 2018, December 31, 2017 and September 30, 2017, the Group's assets pledged as collateral were as follows:

Assets	September 30, 2018	December 31, 2017	September 30, 2017	Purpose
Land	\$ 140,591	\$ 137,045	\$ 139,347	Long-term borrowings
Buildings	85,247	85,055	87,147	Long-term borrowings
Time deposits (Shown as "Other current assets")	30,939	29,760	30,568	Short-term borrowings
Time deposits (Shown as "Other non-current assets")	311	59,828	60,520	Custom guarantee for imported goods and secured convertible bonds
Refundable deposits (Shown as "Other non-current assets")	3,289	3,234	3,270	Deposits for office rental and waste water treatment

## 9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) Please refer to Note 6(28) for the operating lease commitments.

(2) Capital expenditures contracted for at the balance sheet date but not yet incurred and are cancellable without cause are as follows:

	September 30, 2018	December 31, 2017	September 30, 2017
Property, plant and equipment	<u>\$ 86,966</u>	<u>\$ 15,590</u>	<u>\$ 22,569</u>

## 10. SIGNIFICANT DISASTER LOSS

None.

## 11. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

None.

## 12. OTHERS

### (1) Capital management

In order to safeguard the Group's ability to adapt to the changes in the industry and to accelerate the new product development, the Group's objective when managing capital is to maintain the sufficient financial resources to support the operating capital, capital expenditures, research and development activities, repayment of debts and dividend paid to shareholders, etc.

### (2) Financial instruments

#### A. Financial instruments by category

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
<u>Financial assets</u>			
Financial assets at amortised cost			
/Loans and receivables			
Cash and cash equivalents	\$ 1,392,649	\$ 1,119,712	\$ 1,102,027
Notes receivable	69	594	317
Accounts receivable	282,365	296,921	316,790
Other receivables	16,398	15,254	20,550
Guarantee deposits paid	3,289	3,234	3,270
Time deposits (over three-month period)	92,310	89,588	91,088
	<u>\$ 1,787,080</u>	<u>\$ 1,525,303</u>	<u>\$ 1,534,042</u>
<u>Financial liabilities</u>			
Financial liabilities measured at fair value through profit or loss			
	<u>\$ -</u>	<u>\$ 31,204</u>	<u>\$ 23,782</u>
Financial liabilities at amortised cost			
Short-term borrowings	\$ 20,000	\$ 20,000	\$ 20,000
Accounts payable	9,293	17,867	39,202
Other payables	147,941	139,249	267,070
Finance lease liabilities (including current portion)	6,548	13,872	16,868
Bonds payable (including current portion)	-	60,006	109,902
Long-term borrowings (including current portion)	82,793	95,163	101,553
	<u>\$ 266,575</u>	<u>\$ 346,157</u>	<u>\$ 554,595</u>

#### B. Financial risk management policies

- a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk.
- b) Risk management is carried out by the Group's finance team under policies approved by

the Board of Directors. The Group's finance team identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units.

C. Significant financial risks and degrees of financial risks

a) Market risk

Foreign exchange risk

The Group's businesses are mainly conducted in its functional currency. Therefore, the foreign exchange risk is deemed minimal.

Cash flow and fair value interest rate risk

- i. The Group's interest rate risk arises from short-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash and cash equivalents held at variable rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During the nine-month periods ended September 30, 2018 and 2017, the Group's borrowings at variable rate were denominated in the NTD.
- ii. Based on the simulations performed, the impact on post-tax profit of a 1% shift, with all other variables held constant, would be a maximum increase or decrease of \$120 and \$125 for the nine-month periods ended September 30, 2018 and 2017, respectively, as a result of the decrease or increase in interest expense which is affected by variable rates.

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 credit risk of financial assets at amortised cost.
- ii. The Group manages their credit risk taking into consideration the entire group's concern. For banks and financial institutions, only independently rated parties with a minimum rating of 'BBB+' are accepted. 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 does not hold any collateral as security for notes receivable and accounts receivable. As of September 30, 2018, with no collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the the Group's notes receivable was \$69, and the maximum exposure to credit risk in respect of the Group's accounts receivable was \$283,719.
- iv. The Group adopts the assumption under IFRS 9, that is, the default occurs when the contract payments are past due over 90 days.
- v. The Group wrote off the financial assets, which cannot be reasonably expected to be recovered, after initiating recourse procedures. However, the Group will continue executing the recourse procedures to secure their rights.

- vi. The Group classifies customers' notes receivable and accounts receivable in accordance with credit risk on trade. The Group applies the simplified approach using loss rate methodology to estimate expected credit loss.
- vii. The Group used the forecastability of external research report to adjust historical and timely information for a specific period to assess the default possibility of notes receivable and accounts receivable. On September 30, 2018, the loss rate methodology is as follows:

Notes Receivable	Not past due				
<u>At September 30,</u>					
Expected loss rate	0%				
Total book value	\$	69			
Loss allowance	\$	-			
		Less than			
		Less than	180 days and	More than	
Accounts Receivable	Not	90 days past	more than 90	180 days	
<u>At September 30,</u>	past due	due	days past due	past due	Total
Expected loss rate	0%~1%	1%~15%	16%~31%	31%~75%	
Total book value	\$ 245,106	\$ 36,959	\$ 159	\$ 1,495	\$ 283,719
Loss allowance	\$ 25	\$ 370	\$ 25	\$ 934	\$ 1,354

- viii. Movements in relation to the Group applying the simplified approach to provide loss allowance for notes and accounts receivable was as follows:

	2018	
	Notes and accounts receivable	
At January 1_IAS 39	\$	1,117
Adjustments under new standards		-
At January 1_IFRS 9		1,117
Provision for impairment		204
Effect of foreign exchange		33
At September 30	\$	1,354

ix. Credit risk information at December 31, 2017 and September 30, 2017 is provided in Note 12(4).

c) Liquidity risk

- i. Cash flow forecasting is performed by the operating entities of the Group and aggregated by the Group's finance team. The Group's finance team monitors rolling forecasts of the Group's liquidity requirements to ensure the Group has sufficient cash to meet operational needs. Such forecasting takes into consideration the Group's debt financing plans, compliance with internal balance sheet ratio targets and, if applicable, external regulatory or legal requirements.
- ii. Surplus cash held by the operating entities over and above balance required for working capital management are managed for investment appropriately. The instruments chose would be with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts.
- iii. The Group has the following undrawn borrowing facilities:

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Floating rate:			
Expiring within one year	\$ <u>20,000</u>	\$ <u>178,560</u>	\$ <u>211,560</u>

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

- iv. The table below analyses the Group's non-derivative financial liabilities and net-settled or gross-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.

	<u>Less than 1 year</u>	<u>Over 1 year</u>
<u>Non-derivative financial liabilities:</u>		
September 30, 2018		
Short-term borrowings	\$ 20,121	\$ -
Accounts payable	9,293	-
Other payables	147,941	-
Finance lease liabilities (including current portion)	5,511	1,191
Long-term borrowings (including current portion)	23,458	68,007

	<u>Less than 1 year</u>	<u>Over 1 year</u>
<u>Non-derivative financial liabilities:</u>		
December 31, 2017		
Short-term borrowings	\$ 20,062	\$ -
Accounts payable	17,867	-
Other payables	139,249	-
Finance lease liabilities (including current portion)	9,684	4,643
Bonds payable (including current portion and financial liabilities at fair value through profit or loss)	91,210	-
Long-term borrowings (including current portion)	22,867	83,442
	<u>Less than 1 year</u>	<u>Over 1 year</u>
<u>Non-derivative financial liabilities:</u>		
September 30, 2017		
Short-term borrowings	\$ 20,146	\$ -
Accounts payable	39,202	-
Other payables	267,070	-
Finance lease liabilities (including current portion)	10,847	6,642
Bonds payable (including current portion and financial liabilities at fair value through profit or loss)	133,684	-
Long-term borrowings (including current portion)	23,251	90,656

### (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 takes 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. Financial instruments not measured at fair value

- (a) Except for the item listed in the table below, the carrying amounts measured at amortised cost approximate the fair values of the Group's financial instruments, including cash and cash equivalents, notes receivable, accounts receivable, other receivables, guarantee deposits paid, time deposits (over three-month period), short-term borrowings, current contract liabilities, accounts payable, other payables, finance lease liabilities (accounted for under 'Other current liabilities' and 'Other non-current liabilities') and long-term borrowings (including current portion):

As of September 30, 2018, the Group had no financial instruments not measured at fair value.

		December 31, 2017		
		Fair value		
	Book value	Level 1	Level 2	Level 3
Bonds payable	\$ 60,006	\$ -	\$ -	\$ 61,342

  

		September 30, 2017		
		Fair value		
	Book value	Level 1	Level 2	Level 3
Bonds payable	\$ 109,902	\$ -	\$ -	\$ 109,902

- (b) The methods and assumptions of fair value measurement are as follows:

Convertible bonds payable: Regarding the convertible bonds issued by the Group, the fair value is estimated using Binomial Model.

- C. 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 are as follows:

- (a) The related information of natures of the assets and liabilities is as follows:

As of September 30, 2018, the Group had no financial and non-financial instruments measured at fair value.

	Level 1	Level 2	Level 3
December 31, 2017			
<b>Liabilities</b>			
<u>Recurring fair value measurements</u>			
Financial liabilities at fair value through profit or loss	\$ -	\$ -	\$ 31,204



	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
September 30, 2017			
<b>Liabilities</b>			
<u>Recurring fair value measurements</u>			
Financial liabilities at fair value through profit or loss	\$ -	\$ -	\$ 23,782

For the nine-month period ended September 30, 2018, year ended December 31, 2017 and nine-month period ended September 30, 2017, there were no non-recurring fair value measurement financial instruments.

- D. For the nine-month periods ended September 30, 2018 and 2017, there was no transfer between Level 1 and Level 2 financial instruments.
- E. The following chart is the movement of Level 3 financial instruments for the nine-month periods ended September 30, 2018 and 2017:

	<u>Financial liabilities at fair value through profit or loss</u>	
	<u>2018</u>	<u>2017</u>
At January 1	\$ 31,204	\$ 69,504
Converted during the period	( 28,961)	( 35,736)
Effect of foreign exchange	79	225
Gain recognised in profit or loss	( 2,322)	( 10,211)
At September 30	<u>\$ -</u>	<u>\$ 23,782</u>

- F. The following is the quantitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

As of September 30, 2018, the Group had no financial instruments measured in Level 3 fair value measurement.

	Fair value at December 31, 2017	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of input to fair value
Call options, put options and conversion options embedded in convertible bonds	\$ 31,204	Binomial model	Stock price volatility	41.53%	The higher the volatility, the higher the fair value
	Fair value at September 30, 2017	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of input to fair value
Call options, put options and conversion options embedded in convertible bonds	\$ 23,782	Binomial model	Stock price volatility	39.17%	The higher the volatility, the higher the fair value

- G. The Group has carefully assessed the valuation models and assumptions used to measure fair value. However, use of different valuation models or assumptions may result in different measurement. The following is the effect of profit or loss or of other comprehensive income from financial assets and liabilities categorised within Level 3 if the inputs used to valuation models have changed:

As of September 30, 2018, the Group had no financial liabilities at fair value through profit or loss.

	Input	Change	September 30, 2017	
			Recognised in profit or loss	
			Favourable change	Unfavourable change
Financial liabilities				
Financial liabilities at fair value through profit or loss	Stock price	± 1%	\$ 147	(\$ 147)
	volatility	± 5%	\$ 494	(\$ 415)

(4) Effects on initial application of IFRS 9 and information on application of IAS 39 in 2017

- A. Please refer to Note 4 in the consolidated financial statements for the year ended December 31, 2017 for the significant accounting policies adopted for the year ended December 31, 2017 and the third quarter of 2017.

- B. The significant accounts as of December 31, 2017 and September 30, 2017 are as follows:

As of December 31, 2017 and September 30, 2017, the Group had no available-for-sale financial assets.

- (a) The Group recognised (\$4,278) and \$7,561 in other comprehensive (loss) income for fair value change for the three-month and nine-month periods ended September 30, 2017, respectively.
- (b) The Group reclassified \$18,203 and \$18,715 from equity to profit or loss and recognised \$28,024 and \$29,381 in gain on disposal of available-for-sale financial assets for the three-month and nine-month period ended September 30, 2017, respectively.
- C. Credit risk information for the year ended December 31, 2017 and for the nine-month period ended September 30, 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, deposits with banks and financial institutions, as

well as outstanding receivables.

- (b) As of December 31, 2017 and September 30, 2017, the Group's maximum credit risk exposure is mainly from the carrying amount of financial asset recognised in the consolidated balance sheet.
- (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:

	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Group 1	\$ 127,182	\$ 145,589
Group 2	113,919	119,114
Group 3	8,197	5,855
	<u>\$ 249,298</u>	<u>\$ 270,558</u>

Group 1: Annual sales transactions exceeding US\$2.5 million.

Group 2: Annual sales transactions exceeding US\$100 thousand, but less than US\$2.5 million.

Group 3: Annual sales transactions below US\$100 thousand.

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

	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Up to 30 days	\$ 34,544	\$ 33,766
31 to 60 days	8,269	6,849
61 to 90 days	445	1,129
Over 90 days	4,365	4,488
	<u>\$ 47,623</u>	<u>\$ 46,232</u>

- (e) Analysis of movement of impaired accounts receivable:

i. As of December 31, 2017 and September 30, 2017, the Group's accounts receivable that were impaired amounted to \$1,117 and \$4,374, respectively.

ii. Movements on the Group's provision for impairment of accounts receivable are as follows:

	<u>2017</u>		
	<u>Individual provision</u>	<u>Group provision</u>	<u>Total</u>
At January 1	\$ 20,910	\$ -	\$ 20,910
Acquired through business combination	-	4,301	4,301
Provision for impairment	-	73	73
Write-offs during the period	( 20,910)	-	( 20,910)
At September 30	<u>\$ -</u>	<u>\$ 4,374</u>	<u>\$ 4,374</u>

(5) Effects of initial application of IFRS 15 and information in relation to the adoption of IAS 18 in 2017

A. Please refer to Note 4 in the consolidated financial statements for the year ended December 31,

2017 for the significant accounting policies adopted for the year ended December 31, 2017 and the third quarter of 2017.

B. The operating revenue recognised by using previous accounting policies for the three-month and nine-month periods ended September 30, 2017 are as follows:

	Three-month period ended September 30, 2017	Nine-month period ended September 30, 2017
Sales revenue	\$ 517,444	\$ 1,364,287
Service revenue	3,783	11,453
Royalty revenue	7,873	23,280
	<u>\$ 529,100</u>	<u>\$ 1,399,020</u>

C. The effects and description of current balance sheet items if the Group continues adopting above accounting policies as of and for the nine-month period ended September 30, 2018 are as follows:

		September 30, 2018		
		Balance by using		
Balance sheet items	Description	Balance by using IFRS 15	previous accounting policies	Effects from changes in accounting policy
Accounts receivable	Note 1	\$ 282,365	\$ 281,458	\$ 907
Refund liabilities	Note 1	( 907)	-	( 907)
Contract liabilities	Note 2	( 19,434)	-	( 19,434)
Advance sales receipts	Note 2	-	( 19,434)	19,434

Note 1: Under IFRS 15, refund liabilities in relation to expected sales discounts and allowances were previously presented as accounts receivable - allowance for sales discounts in the balance sheet.

Note 2: Under IFRS 15, liabilities in relation to contracts with customers are recognised as contract liabilities, but were previously presented as advance sales receipts in the balance sheet.

### 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: None.
- (h) Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: None.
- (i) Derivative financial instruments undertaken during the nine-month period ended September 30, 2018: Please refer to Notes 6(9) and 6(10).
- (j) Significant inter-company transactions during the nine-month period ended September 30, 2018: Please refer to table 9.

#### (2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China): Please refer to table 10.

#### (3) Information on investments in Mainland China

Please refer to table 11.

#### 14. SEGMENT INFORMATION

##### (1) General information

The Group operates business only in a single industry. The Chief Operating Decision-Maker, who allocates resources and assesses performance of the Group as a whole, has identified that the Group has only one reportable operating segment.

##### (2) Segment information

The segment information provided to the Chief Operating Decision-Maker for the reportable segments is as follows:

	Nine-month periods ended September 30,	
	2018	2017
Revenue from external customers	\$ 1,516,044	\$ 1,399,020
Inter-segment revenue	-	-
Total segment revenue	<u>\$ 1,516,044</u>	<u>\$ 1,399,020</u>
Segment income (Note)	<u>\$ 329,869</u>	<u>\$ 314,245</u>
Segment assets	<u>\$ 3,277,729</u>	<u>\$ 3,086,846</u>
Segment liabilities	<u>\$ 343,196</u>	<u>\$ 663,704</u>

Note: Exclusive of income tax.

##### (3) Reconciliation for segment income (loss)

The Company and subsidiaries engage in a single industry. The Chief Operating Decision-Maker assesses performance and allocates resources of the whole group. The Company is regarded as a single operating segment. Therefore, there is no inter-segment revenue. The revenue from external parties reported to the Chief Operating Decision-Maker is measured in a manner consistent with that in the statement of comprehensive income. The amount provided to the Chief Operating Decision-Maker with respect to total assets is measured in a manner consistent with that in the balance sheet.

GCS HOLDINGS, INC.

Loans to others

For the nine-month period ended September 30, 2018

Table 1

Expressed in thousands of NTD  
(Except as otherwise indicated)

No. (Note 1)	Creditor	Borrower	General ledger account	Is a related party	Balance at September 30, 2018	Actual amount drawn down	Interest rate	Nature of loan (Note 2)	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral		Limit on loans granted to a single party (Note 3)	Ceiling on total loans granted (Note 3)	Footnote
												Item	Value			
1	Global Communication Semiconductors, Inc. LLC	D-Tech Optoelectronics, Inc.	Other receivable - related party	Yes	\$ 61,440	\$ 61,060	-	Settle by contract	2	-	\$ -	None	\$ -	292,123	\$ 1,168,493	-

Note 1: The numbers filled in for the loans provided by the Company or subsidiaries are as follows:

(1) The Company is '0'.

(2) The subsidiaries are numbered in order starting from '1'.

Note 2: The column of 'Nature of loan' shall fill in 'Business transaction or 'Short-term financing'.

(1) The business transaction is '1'.

(2) The short-term financing is '2'.

Note 3: According to the Company's "Procedures for Lending Funds to Other Parties", the total amount available for lending purpose shall not exceed forty percent (40%) of the net worth of the Company. The total amount for lending to a company having business relationship with the Company shall not exceed the total transaction amount between the parties during the period of twelve (12) months prior to the time of lending (For the purpose of this Procedure, the "transaction amount" shall mean the sales or purchasing amount between the parties, whichever is higher), and shall not exceed ten percent (10%) of the net worth of the Company. The total amount for lending to a company for funding for a short-term period shall not exceed ten percent (10%) of the net worth of the Company. In addition, the total amount lendable to any one borrower shall be no more than thirty percent (30%) of the borrower's net worth, provided that this restriction will not apply to subsidiaries whose voting shares are 100% owned, directly or indirectly, by the Company. The total amount for fund-lending between the subsidiaries whose voting shares are 100% owned, directly or indirectly, by the Company will not be subject to the limit of forty percent (40%) of the net worth of the lending subsidiary.

GCS HOLDINGS, INC.

Provision of endorsements and guarantees to others

For the nine-month period ended September 30, 2018

Expressed in thousands of NTD  
(Except as otherwise indicated)

Table 2

Number (Note 1)	Endorser/ guarantor	Company name	Relationship with the endorser/ guarantor (Note 2)	Limit on endorsements/ guarantees provided for a single party (Note 3)	Maximum outstanding endorsement/ guarantee amount for the nine-month period ended September 30, 2018	Outstanding endorsement/ guarantee amount at September 30, 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 3)	Provision of endorsements/ guarantees by parent company to subsidiary	Provision of endorsements/ guarantees by subsidiary to parent company	Provision of endorsements/ guarantees to the party in Mainland China	Footnote
0	GCS Holdings, Inc.	GCS Device Technologies, Co., Ltd.	2	\$ 1,168,493	\$ 30,720	\$ 30,530	\$ 20,000	\$ 30,530	1.04%	\$ 1,168,493	Y	N	N	-
1	Global Communication Semiconductors, LLC	GCS Holdings, Inc.	4	1,168,493	175,170	-	-	-	-	1,168,493	N	Y	N	-

Note 1: The numbers filled in for the endorsements/guarantees provided by the Company or subsidiaries are as follows:

(1)The Company is '0'.

(2)The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between the endorser/guarantor and the party being endorsed/guaranteed is classified into the following seven categories; fill in the number of category each case belongs to:

(1)Having with which it does business.

(2)The endorser/guarantor parent company owns directly or indirectly more than 50% voting shares of the endorsed/guaranteed subsidiary.

(3)The endorser/guarantor parent company owns directly or indirectly more than 50% voting shares of the endorsed/guaranteed company.

(4)The endorsed/guaranteed parent company owns directly or indirectly more than jointly 90% voting shares of the endorser/guarantor company.

(5)Mutual guarantee of the trade or co-contractor as required by the construction contract.

(6)Due to joint venture, mutual shareholder provides endorsements/guarantees to the endorsed/guaranteed company in ratio to its ownership.

(7)Companies in the same industry provide among themselves joint and several security for a performance guarantee of sales contract for pre-construction homes pursuant to the Consumer Protection Act for each other.

Note 3: According to the Company's "Procedures for Endorsement and Guarantee", the total amount of endorsement/guarantee provided by the Company is limited to forty percent (40%) of the Company's net worth,

and the total amount of the guarantee provided by the Company to any individual entity is limited to ten percent of the Company's net worth. The total amount of the guarantee provided by the Company to any subsidiary whose voting shares are 100% owned, directly or indirectly, by the Company shall not exceed forty percent (40%) of the Company's net worth.

The aggregate total amount of endorsement/guarantee provided by the Company and its subsidiaries shall not exceed fifty percent (50%) of the Company's net worth.



GCS HOLDINGS, INC.

Significant inter-company transactions during the reporting period  
For the nine-month period ended September 30, 2018

Expressed in thousands of NTD  
(Except as otherwise indicated)

Table 9

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction		Percentage of consolidated total operating revenues or total assets (Note 3)
				General ledger account	Amount	
1	D-Tech Optoelectronics, Inc.	Global Communication Semiconductors, LLC	3	Sales revenue	\$ 42,664	2.81%
1	D-Tech Optoelectronics, Inc.	Global Communication Semiconductors, LLC	3	Other receivable - related party	4,975	0.15%
2	D-Tech Optoelectronics (Taiwan) Corporation	D-Tech Optoelectronics, Inc.	3	Service revenue	48,162	3.18%
2	D-Tech Optoelectronics (Taiwan) Corporation	D-Tech Optoelectronics, Inc.	3	Other receivable - related party	2,827	0.09%

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: The Company may decide to disclose or not to disclose transaction details in this table based on the Materiality Principle.

GCS HOLDINGS, INC.

Information on investees (not including investees in Mainland China)

For the nine-month period ended September 30, 2018

Table 10

Expressed in thousands of NTD  
(Except as otherwise indicated)

Investor	Investee (Note 1 - 2)	Location	Main business activities	Initial investment amount		Shares held as at September 30, 2018	Ownership (%)	Book value	Net profit (loss) of the investee for the nine- month period ended September 30, 2018 (Note 2(2))	Investment income (loss) recognised by the Company for the nine-month period ended September 30, 2018 (Note 2(3))	Footnote
				Balance as at September 30, 2018	Balance as at December 31, 2017						
GCS Holdings, Inc.	Global Communication Semiconductors, LLC	Los Angeles, USA	1. Manufacturing of high-end radio frequency ICs, optoelectronic device compound semiconductor wafer and foundry related services as well as granting royalty rights for intellectual property. 2. Manufacturing and selling of advanced optoelectronics technology products	\$ 403,975	\$ 403,975	-	100%	\$ 2,390,351	\$ 294,181	\$ 294,181	-
GCS Holdings, Inc.	GCS Device Technologies, Co., Ltd.	Taiwan	Product design and research development services	12,000	12,000	-	100%	27,857	416	416	-
Global Communication Semiconductors, Inc. LLC	D-Tech Optoelectronics, Inc.	Los Angeles, USA	Developing, manufacturing and selling of positive, intrinsic, negative components and avalanche photo diodes for telecommunication systems and data communication networks	393,380	393,380	360,000	100%	411,710	14,198	14,198	-
D-Tech Optoelectronics, Inc.	D-Tech Optoelectronics (Taiwan) Corporation	Taiwan	Manufacturing and selling of optical chips	89,840	89,840	5,800,000	100%	76,521	11,454	11,454	-

Note 1: If a public company is equipped with an overseas holding company and takes consolidated financial report as the main financial report according to the local law rules, it can only disclose the information of the overseas holding company about the disclosure of related overseas investee information.

Note 2: If situation does not belong to Note 1, fill in the columns according to the following regulations:

- (1) The columns of 'Investee', 'Location', 'Main business activities', 'Initial investment amount' and 'Shares held as at September 30, 2018' should fill orderly in the Company's (public company's) information on investees and every directly or indirectly controlled investee's investment information, and note the relationship between the Company (public company) and its investee each (ex. direct subsidiary or indirect subsidiary) in the 'footnote' column.
- (2) The 'Net profit (loss)' of the investee for the nine-month period ended September 30, 2018' column should fill in amount of net profit (loss) of the investee for this period.
- (3) The 'Investment income (loss) recognised by the Company for the nine-month period ended September 30, 2018' column should fill in the Company (public company) recognised investment income (loss) of its direct subsidiary and recognised investment income (loss) of its investee accounted for under the equity method for this period. When filling in recognised investment income (loss) of its direct subsidiary, the Company (public company) should confirm that direct subsidiary's net profit (loss) for this period has included its investment income (loss) which shall be recognised by regulations.

GCS HOLDINGS, INC.  
Information on investments in Mainland China  
For the nine-month period ended September 30, 2018

Expressed in thousands of NTD  
(Except as otherwise indicated)

Table 11

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Amount remitted from Taiwan to Mainland China/		Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Net income of investee for the nine- month period ended September 30, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the nine-month period ended September 30, 2018	Book value of investments in Mainland China as of September 30, 2018	Accumulated amount of investment income remitted back to Taiwan as of September 30, 2018
				Remitted to Mainland China	Remitted back to Taiwan						
Xiamen Global Advanced Semiconductor Co., Ltd.	Developing, manufacturing and selling of mobile phone radio frequency, filter, optical communication chip, power management and optical fiber	30,633	2	\$ -	\$ -	\$ -	1,543	51% (\$ -)	756	\$ 13,843	\$ -
											(Note 4)

Note 1: Investment methods are classified into the following three categories; fill in the number of category each case belongs to:

- (1) Directly invest in a company in Mainland China.
- (2) Through investing in an existing company in the third area, which then invested in the investee in Mainland China.
- (3) Others

Note 2: In the "Investment income (loss) recognised by the Company for the six-month period ended June 30, 2018" column:  
(1) It should be indicated if the investee was still in the incorporation arrangements and had not yet any profit during this period.  
(2) Indicate the basis for investment income (loss) recognition in the number of one of the following three categories:

- A. The financial statements that are audited and attested by international accounting firm which has cooperative relationship with accounting firm in R.O.C.
- B. The financial statements that are audited and attested by R.O.C. parent company's CPA.
- C. Others.

Note 3: The numbers in this table are expressed in New Taiwan Dollars.

Note 4: The Company was incorporated in Cayman Islands and investment amount of \$14,906 was transferred from the Company's U.S. bank account to Mainland China on June 23, 2017. In addition, the company acquired the additional 2% shareholding of Xiamen Global Advanced Semiconductor Co., Ltd. in the amount of US\$ 80 thousands (NTS 2,442 thousands) in September 2018.