

EPISTAR

Epistar Corporation

2018 Annual Report

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Notice to readers

This English-version annual report is a summary translation of the Chinese version and is not an official document of the shareholders' meeting. If there is any discrepancy between the English and Chinese versions, the Chinese version shall prevail.

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Deputy Spokesperson

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Fab F1

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3. Common Share Transfer Agent and Registrar

Company: The Transfer Agency Department of
Horizon Securities Co., Ltd.
ADD: 3F., No.236, Sec. 4, Xinyi Rd., Xinyi Dist.,
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Website: <http://srd.honsec.com.tw>
TEL: +886-2-2326-8818

4. Auditors

Auditors: Cheng Ya-Huei, Chin-Cheng Hsieh
Company: Pricewaterhouse Coopers, Taiwan
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Dist., Taipei City 105, Taiwan, R.O.C.
Website: <http://www.pwc.com.tw>
TEL: +886-2-2729-6666

5. Overseas Securities Exchange

Bourse de Luxembourg Stock Exchange
Website: <http://www.bourse.lu>

6. Corporate Website

Website: <http://www.epistar.com>

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1. Letter to Shareholders

Dear Shareholders,

I. Introduction

In the past year, the production capacity expanded by peer companies in the LED industry remarkably caused the oversupply of LED in the world. Besides, given the overall demand less than expectation in the market, the market competition became more and more intensively and the price declined significantly. All of the Company's staff worked hard to cut the operating costs; however, it was still impossible for them to remedy the loss caused by the price decline. As a result, the Company's consolidated net operating revenue (about NT\$20.306 billion) declined by 19.64% from 2017, and operating loss was about NT\$679 million and net loss after tax was about NT\$506 million.

II. 2018 Business Report

A. Implementation results of the Group's consolidated business plan

1. Net operating revenue

The net operating revenue was NT\$20,306,412 thousand in 2018, and the operating revenue was NT\$25,270,616 thousand in 2017.

2. Net operating profit and loss

The net operating loss in 2018 was NT\$678,843 thousand. The net profit in 2017 was NT\$2,307,150 thousand.

3. Loss-current period

In 2018, in consideration of the poor demand for Mini LED and III-V Semiconductor Foundry business invested by the Company resulting in the declination of utilization rate and price, the Company's capital expenditure was NT\$3,168,197 thousand, increased by NT\$962,176 thousand from 2017, and R&D expenses increased by NT\$383,460 thousand from 2017. Meanwhile, due to the increase in disposition of idle equipment and provision of impairment on assets in 2018 from 2017, the Company generated the loss after tax, NT\$505,864 thousand.

B. Capital Structure Analysis & Profitability Analysis

Item (Consolidated Entities)		2018	2017
Capital Structure Analysis	Debts Ratio (%)	18.86	20.90
	Long-term Fund to Property, Plant and Equipment (%)	239.01	235.40
Profitability Analysis	Return on Total Assets (%)	(0.49)	2.78
	Return on Equity (%)	(0.97)	3.24
	Net Margin (%)	(2.49)	6.67
	Basic Earnings Per Share (NT\$)	(0.42)	1.55

C. Research and Development

The Company continues to invest on Research and Development. In 2018, Research and Development costs were about NTD \$1.96 billion which focused on the development of new products and enhancement of the value of existing products and so on. Our above acts then achieved favorable results. Besides from winning the 2018 Taiwan Excellence Award from Ministry of Economic Affairs, the Company has made a good progress in the patent acquirement such as the number of patent certificates increased by 162 (2018) and the total number of patent certificates has reached 4,049. The Company has earned recognition in implementation of corporate social responsibility. In addition to “The British Standards Institution CSR certification statement” issued to us, we also obtained the 2018 Taiwan Enterprise Sustainability Report Award and BSI Award.

Meanwhile, in response to market promotion of our VCSEL foundry service, and there has been significant increase in sales of VCSEL epitaxy wafer for datacom application. Therefore, the Company set up the subsidiary, Unikon, in Oct., 2018 to promote the related foundry business and R&D for the market of sensing and 5G application this year.

III. The Company’s future development strategy, effect of external competition, legal environment, overall business environment, and a summary of 2019 business plan
Prospecting the upcoming year of 2019 in the LED industry, the market is still over supplied and competition is intense. However, due to global issues on energy-saving and emphasis on environmental protection and the newly developed LED application, the LED market has potential to continue to grow.

The Company was used to focusing on the development of the LED industry only. In the future, the Company will keep developing the LED market and also apply its core technology to the other III-V Semiconductor foundry business to enable the Company to develop toward different fields. Meanwhile, the Company will engage in patent or technology cooperation or strategic cooperation with the customers of the Company’s product application to accelerate the virtual vertical integration of industries, expand the product marketing channels and co-develop products & markets. In 2019, the Company’s shipment of LED chips is expected to be 626,221 million pcs. The Company will continue to launch new products, improve efficiency of resource operations, increase the products’ additional value and optimize the product portfolio to strive for more high quality orders, in hopes of turning from losses into profits this year. In addition to focusing on the development of product & technology and maximization of shareholders’ interest, the Company also fulfills its corporate social responsibility actively, uses its best efforts to well found the corporate governance, and work with the upstream and downstream dealers in the supply chain closely to upgrade the industry’s social responsibility jointly.

I wish everyone good health and prosperity.

Chairman Biing-Jye Lee

2. An Introduction to EPISTAR

2.1 Date of Incorporation: September 19, 1996.

2.2 Company History

August 1996	Admitted to the Park by Science Park Steering Commission of National Science Council.
September 1996	Incorporated the Company and acquire the company license, with registered capital, NT\$320 million and paid-in capital, NT\$220 million.
March 1997	Rented the standard factory premises, and stationed in the Park.
June 1997	Completed renovation of the factory premises and installation of new equipment and commissioning of the existing systems.
July 1997	Passed the pre-operational check and start the pilot production & trial marketing.
October 1997	Increased capital by NT\$100 million to achieve the paid-in capital amounting to NT\$320 million.
November 1997	Launched product and start mass production officially.
March 1998	Added two units of standard factory premises.
September 1998	Increased capital by NT\$100 million to achieve the registered capital, NT\$520 million, and paid-in capital, NT\$420 million.
December 1998	Increased capital by NT\$80 million to achieve the paid-in capital amounting to NT\$500 million.
February 1999	Passed UL ISO 9002 certification.
May 1999	Awarded the accreditation certificate by Chinese Taipei Electronic Components Certification Board and identified as one of IEQC qualified plants.
July 1999	Acquired the land of Hsinchu Science Park Phase-3 Development Project. Recapitalized earnings and capital surplus to achieve paid-in capital, NT\$615 million.
March 2000	Groundbreaking ceremony of the Phase-3 Development Project.
March 2000	Passed UL ISO 9001 certification.
June 2000	Increased capital by NT\$150 million to achieve the registered capital, NT\$1.2 billion, and paid-in capital, NT\$765 million.
March 2001	Acquired occupation permit for the new factory built under Phase-3 Development Project.
May 2001	Officially trade stock on TWSE.
October 2001	Awarded the Distinction Award in Technology Development of 9 th term.
October 2002	Increased capital in cash by NT\$115 million to achieve the registered capital, NT\$1.7 billion, and paid-in capital, NT\$998.575 million.
December 2002	Awarded the Innovative Product Award: High Intensity InGaN LED by Hsinchu Science Park Bureau.
July 2003	Recapitalized earnings, NT\$195.318 million Paid-in capital amounting to NT\$1.193893 billion.
October 2003	Merged Inforcomm Semiconductor Corporation Paid-in capital amounting to NT\$1.251366260 billion.

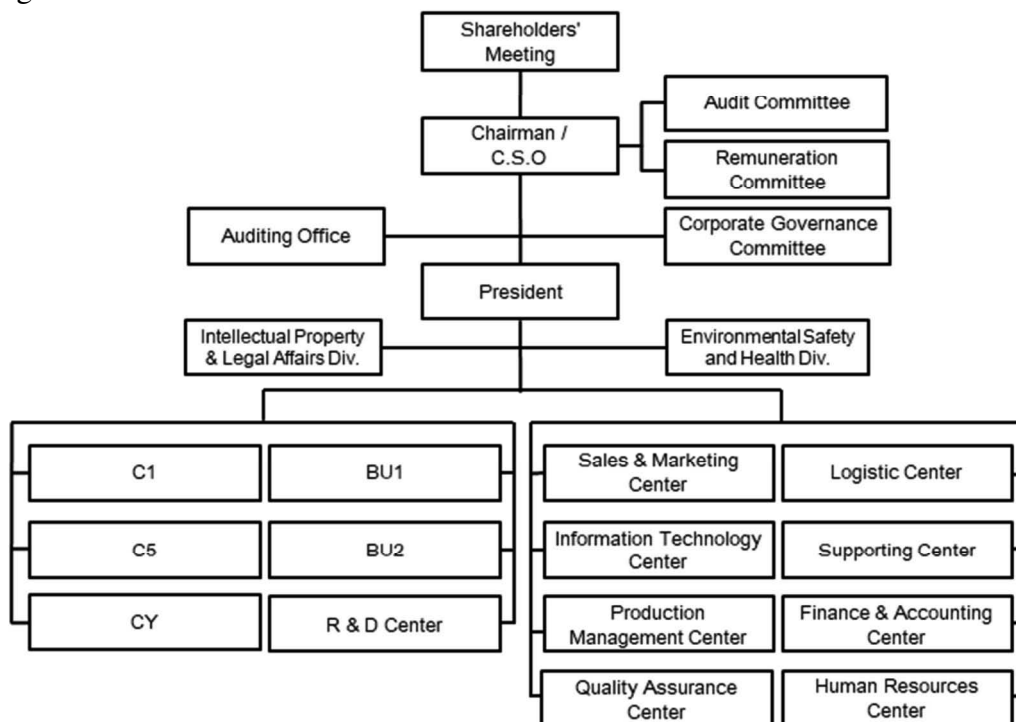
December 2003	Offered 1st overseas convertible corporate bonds amounting to US\$300 million.
April 2004	Acquired the new Lixing 1st Rd. factory built under Phase-3 Development Project.
July 2004	Succeed to shares of Itcompound Semiconductor Corporation by offering new shares Paid-in capital amounting to NT\$1.284962650 billion.
September 2004	Recapitalized earnings amounting to NT\$152.115920 million Paid-in capital amounting to NT\$1.437078570 billion.
August 2005	Recapitalized earnings amounting to NT\$255.561780 million Paid-in capital amounting to NT\$1.69264350 billion.
October 2005	Passed the motion for merger of the Company with United Epitaxy Company, Ltd. at the special shareholders' meeting.
December 2005	Merged United Epitaxy Company, Ltd. and set December 30, 2005 as the record date for merger.
January 2006	Increased capital upon the merger & conversion of overseas convertible bonds into common stock in Q4 of 2005, totaling NT\$1.609167270 billion to achieve the paid-in capital amounting to NT\$3.301807620 billion upon the capital increase.
July 2006	Conversion of overseas corporate bonds into common stock, conversion of employee stock warrants, and recapitalization of earnings Paid-in capital amounting to NT\$3.607220630 billion.
October 2006	Offered 1st domestic unsecured convertible corporate bonds in the amount of NT\$2 billion.
November 2006	Passed the motion for merger of the Company with Epitech Technology Corporation and Highlink Technology Corporation at the special shareholders' meeting.
March 2007	Merged Epitech Technology Corporation and Highlink Technology Corporation, and set March 1, 2007 as the record date for merger.
March 2007	Increased capital upon the merger by issuing new shares in the amount of NT\$1.479727911 billion Increase capital to achieve the paid-in capital in the amount of NT\$5.099411390 billion.
October 2007	Offered 3rd domestic unsecured convertible corporate bonds in the amount of NT\$1.96560 billion.
November 2007	Increased capital by NT\$600 million to achieve the paid-in capital in the amount of NT\$6.139286320 billion.
September 2008	Recapitalized the earnings in the amount of NT\$124.048780 million Paid-in capital amounting to NT\$6.330614550 billion.
September 2009	Increased capital in cash by issuing the common stock totaling 135 million shares to participate in the offering of overseas depository receipt, and to achieve the paid-in capital in the amount of NT\$7.681183150 billion.
November 2009	Awarded the Industrial Excellence Award 2009 by Industrial Development Bureau.
July 2010	Succeeded shares of HUGA Optotech Inc. by offering new shares Paid-in capital amounting to NT\$8.474636260 billion.
January 2011	Offered 3rd overseas unsecured convertible corporate bonds amounting to US\$280 million.
December 2012	Swap shares by issuing new shares to acquire 100% of shares of HUGA Optotech Inc. Paid-in capital amounting to NT\$9.176495760 billion.

August 2013	Offer 4 th overseas convertible corporate bonds amounting to US\$250 million.
December 2014	Swap shares by issuing new shares to acquire 100% of shares of Formosa Epitaxy Incorporation Paid-in capital amounting to NT\$11.31787340 billion
February 2015	Purchased 97.29% of shares of TSMC Solid State Lighting Ltd. in cash to acquire the factory premises, facilities and production lines which meet LED production requirements, and introduce diversified human resource and information management system
June 2015	Merged CHIP STAR Ltd. (formerly known as TSMC Solid State Lighting Ltd.), and set June 29, 2015 as the record date for merger.
May 2016	Sign the syndicated loan agreement effective for three years for NT\$4 billion and US\$20 million with 7 financial organizations including Land Bank of Taiwan.
September 2016	Merged HUGA Optotech Inc. and Formosa Epitaxy Incorporation, and set September 29, 2016 as the record date for merger.
May 2018	Ranked in the top 5% companies of the 4th term "Corporate Governance Evaluation" of TWSE.
October 2018	Established Unikorn Semiconductor Corporation, wholly owned by the Company after the division on October 1, 2018, to launch into the semiconductor foundry market and provide integrated foundry services.

3. Corporate Governance Report

3.1 Organization

3.1.1 Organization Chart



3.1.2 Major Corporate Functions

Department	Functions
Chairman’s Office	In supervision of various business targets, development roadmap, and the relevant matters about holding directors’ meetings.
President’s Office	Responsible for setting up company business strategies to achieve the annual business goals expected by the Board of Directors.
Corporate Governance Committee	To promote corporate governance and to effectively unleash the function of directors, to deepen the culture of corporate governance and corporate social responsibility, enhance the quality of information disclosure and strengthen compliance with relevant laws and regulations.
Audit Office	Responsible for the inspection of and response to the deficiencies in the internal control system, and provide suggestions for corrections and produce follow-up reports on a regular basis.
Intellectual Property & Legal Affairs Div.	Responsible for the application for and maintenance of patents and intellectual property rights internally and the planning and implementation of relevant management system; carry out drafting, review of all contracts internally and externally, handle lawsuits, and provide legal consultation to all staff of the Company.

Department	Functions
Sales & Marketing Center	Responsible for product sale and customer service, and preparation and documentation of specifications and product catalogue available to the public, documentation of information about new products for customers and peer companies, collection and analysis of market and application information, and assess the possibility of development.
Finance & Accounting Center	Responsible for accounting, taxation, fund procurement, credit control, budget control, preparation of financial statements, and management of fixed assets and shareholders' service.
Information Technology Center	Responsible for systemization of various operational processes, information security (IT) design and control, establishment of network communication system, computer hardware management and maintenance.
Human Resources Center	Plan and execute suggestions and various functions about HR strategies, organizational development and care for employees, and responsible for enactment of ethical management policy and prevention programs, supervise execution, help the operations of Worker Welfare Commission, and act as the unit dedicated to boosting corporate social responsibility.
Production Management Center	Responsible for the production planning, scheduling and tracing, formulation and tracing of various production indicators, assessment and analysis of upgrading production and operational efficiency.
Quality Assurance Center	Setting up quality goals in accordance with the Company's quality policy to promote various quality system operations.
Supporting Center	Responsible for maintenance and management of the routine operation for rsvh factory's FAB service system; carry out the project plan for improvement and expansion of the plant for each factory's FAB service matters; plan and provide the promotion and management of each factory's administrative affairs.
Research & Development Center	Research of new products and technologies, and execution of the new product and technology plans.
Logistics Center	Responsible for procurement of raw materials, spare parts, machinery and equipment, and factory engineering; contract awarding and invoicing, and procurement strategy planning, and management of purchase requisitions and warehousing; planning and implementation of imported/exported equipment, raw materials, spare parts, finished goods and semi-finished goods; bonded business control.
Environmental Safety and Health Div.	Responsible for the operation and maintenance of environmental protection (ISO 14001), safety, and health system (OHSAS 18001) to enhance the performance of environmental safety and health of all employees.

Department	Functions
BU1	Responsible for establishment of the standard operating procedures for development and improvement, production and mass production of epitaxy wafer structure of various nitride products, upgrading of the output rate thereof, and upgrading of production, engineering and process technology of nitride chips, and quality control.
BU2	Responsible for establishment of the standard operating procedures for development and improvement, production and mass production of quaternary chips, upgrading of the output rate thereof, and upgrading of production, engineering and process technology of quaternary chips, and quality control.
C1	Responsible for planning and implementation of chips mass production.
C5	Responsible for planning and implementation of epitaxy wafer and chips mass production.
CY	Responsible for planning and implementation of epitaxy wafer and chips mass production.

3.2 Information about Directors, supervisors, president, vice presidents, assistant vice presidents, and department and branch managers
3.2.1 Information about directors and supervisors

February 28, 2019

Title	Nationality or Place of Registration	Name	Gender	Date Elected	Term (Year)	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse & Minor Shareholding		Experience & Education	Current Positions at EPiSTAR and Other Companies	Managers, directors or supervisors who are spouses or relatives within the second degree of kinship		
							Shares	%	Shares	%	Shares	%			Title	Name	Relationship
Chairman	R.O.C.	Bing-Jye Lee	Male	2016.06.17	3	1996.09.09	1,704,495	0.15%	2,164,495	0.20%	882,596	0.08%	Note 1	None	None	None	
Director	R.O.C.	Fon Tain Belon Co., Ltd. Representative: Chih-Yuan Chen	NA	2016.06.17	3	2006.03.02	4,455,569	0.41%	4,455,569	0.41%	0	0.00%	NA	None	None	None	
Director	R.O.C.	Everlight Electronics Co., Ltd.	Male	2016.06.17	3	2006.03.02	0	0.00%	0	0.00%	0	0.00%	Note 2	None	None	None	
Director	R.O.C.	Representative: Huei-Chen Fu	Female	2018.05.02	1	1996.09.09	19,800,175	1.80%	10,000,175	0.92%	0	0.00%	NA	None	None	None	
Director	R.O.C.	United Microelectronics Corp.	NA	2016.06.17	3	2007.06.13	10,714,991	0.97%	10,714,991	0.98%	0	0.00%	NA	None	None	None	
Director	R.O.C.	Representative: Shan-Chieh Chien	Male	2017.06.27	2	2017.06.27	0	0.00%	0	0.00%	0	0.00%	Note 3	None	None	None	
Director	R.O.C.	Yi Te Optoelectronics Co., Ltd.	NA	2016.06.17	3	2006.03.02	3,134,741	0.29%	3,134,741	0.29%	0	0.00%	NA	None	None	None	
Director	R.O.C.	Representative: Nan Yang Wu	Male	2016.06.17	3	2006.03.02	0	0.00%	0	0.00%	0	0.00%	Note 4	None	None	None	
Director	R.O.C.	Ming-Jiunn Jou	Male	2016.06.17	3	2000.08.16	866,667	0.08%	1,466,667	0.13%	0	0.00%	Note 5	None	None	None	
Independent Director	R.O.C.	Wei-Min Sheng	Male	2016.06.17	3	2013.06.14	0	0.00%	0	0.00%	0	0.00%	Note 6	None	None	None	
Independent Director	R.O.C.	Feng-Shang Wu	Male	2016.06.17	3	2013.06.14	0	0.00%	0	0.00%	0	0.00%	Note 7	None	None	None	

Title	Nationality or Place of Registration	Name	Gender	Date Elected	Term (Year)	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse & Minor Shareholding		Experience & Education	Current Positions at EPiSTAR and Other Companies	Managers, directors or supervisors who are spouses or relatives within the second degree of kinship		
							Shares	%	Shares	%	Shares	%			Shares	%	Title	Relationship
Independent Director	R.O.C.	Chi-Yen Liang	Male	2016.06.17	3	2014.06.19	0	0.00%	0	0.00%	0	0.00%	Executive vice president of China Development Venture Hewlett-Packard (HP) Business Marketing Manager Soochow University Department of Business Administration lecturer Master of Chengchi University Institute of Business Administration Bachelor of Chemical Engineering Department of Tsinghua University	Note 8	None	None	None

Remark: The current shareholding refers to the actual shareholding available on February 28, 2019.

Note:

1. Biing-Jye Lee:

The Chairman of Epistar JV Holding (BVI) Co., Ltd., the Chairman of Yenrich Technology Corporation, the Chairman of Unikorn Semiconductor Corporation, the Director of LiteStar JV Holding (BVI) Co., Ltd., the Director of Epicrystal (Hong Kong) Co., Ltd., the Chairman of Country Lighting (BVI) Co., Ltd., the Director of Epicrystal Corporation (ChangZhou) Ltd., the Director of Kaistar Lighting (Xiamen) Co., Ltd., and the Director of FormoLight Technologies, Inc. Said companies are directly or indirectly invested by Epistar.

2. Chih-Yuan Chen:

The Chairman of Yeong Yi Asia Corp., the Chairman of Yi-Yuan Enterprise Co., Ltd., the Chairman of Yi Te Optoelectronics Co., Ltd., the Chairman of Yi-Yang Technology Co., Ltd., the Chairman of Sun Shilin Development Co., Ltd., the Vice Chairman of Taiwan Insurance Co., Ltd. (Public offering: 2863), the Vice Chairman of Taiwan Air Cargo Terminal Limited, the Director of Taiwan Air Cargo Terminal Limited (TWSE: 2610), the Director of Shihlin Paper Corporation (TWSE: 1903), the Director of Nan Ya Photonics Inc., the Director of Yi-Chao Enterprise Co., Ltd., the Director of Yi-Xiang Enterprise Co., Ltd., the Director of Ravenel Ltd., the Director of Hanlin Incubation Co., Ltd., the Director of Ruihua Art Co., Ltd., the Director of Xin Su Transportation Warehousing Co., Ltd., and the Supervisor of Taiquan Investment Co., Ltd..

3. Huei-Chen Fu:

The Senior Vice President of Everlight Electronics Co., Ltd.(TWSE: 2393), the Supervisor of Tekcore Co., Ltd. (TPEX: 3339), the Director of Evlrite Electronics Co., Ltd., the Director of Everlight Electronics(Zhongshan) Co., Ltd., the Director of Guangzhou Yiliang Trading Co., Ltd., the Director of Everlight Electronic India Private Limited, the Director of Everlight Japan Corporation, the Director of Forever Investment Co., Ltd., the Supervisor of Everlight Intelligence Technology Co., Ltd., the Supervisor of Evervision Electronics (China) Co., Ltd., the Supervisor of Everlight Lighting (China) Co., Ltd., the Supervisor of Evervision Electronics (Fujian) Co., Ltd., the Director of Evervision Electronics (Guangzhou) Co., Ltd., the Supervisor of Everlight Lighting Management Consulting (Shanghai) Co., Ltd., the Supervisor of Everlight Uj-Yao Technology (Shanghai) Ltd., the Supervisor of Zhongshan Everlight Lighting Co., Ltd., the Chairman of Eralite Optoelectronics (Jiangsu) Co., Ltd., the Director of Pai-ye Investment Co., Ltd., the Supervisor of Everlight Intelligence Technology Co., Ltd., the Director of Bei Ke Zhi Xing Venture Capital Co., Ltd., and the Supervisor of Eleocom Inc..

4. Shan-Chieh Chien:

The Director & President United Microelectronics Corp. (TWSE: 2303), the Director of Fortune Venture Capital Corp. the Director of Tlc Capital Co., Ltd., the Director of united semiconductor (xiamen) Co., Ltd., the Director of Wavetek Microelectronics Corporation, the Director of UMC Capital Corp. and the Director of UMC Science and Culture Foundation .

5. Nan Yang Wu:
The Director of Edison Opto Corporation(TWSE: 3591), the Director of ProLight Opto Technology Corporation.(Emerging stock: 5277), the Director of Wafer works Corporation (TPEX: 6182), the Chairman of Fon Tain Belon Co., Ltd., the Chairman of Tai E Trading Co., Ltd., the Director of Yeong Yi Asia Corp., the Director of Yi-Yang Technology Co., Ltd.and the Director ofYi-Xiang Enterprise Co., Ltd., the Director of Xinan Transportation Co., Ltd. and the Director of Gangdu Industrial Co., Ltd.
6. Ming-Jiunn Jou:
The Director of Luxlite (Shenzhen) Corporation Limited, the Director of Crystaluxx SARL, the Director of Jiangsu Canyang Optoelectronics Ltd., the Director of Nan Ya Photonics Inc. , and the Chairman of AllureLux Inc.. Said companies are directly or indirectly invested by Epistar.
7. Wei-Min Sheng:
The Supervisor of Elite Semiconductor Memory Technology Inc.(TWSE: 3006), The Independent Director of Epasil-Precision Inc. (TWSE: 3016), The Independent Director & the member of Remuneration Committee of Advanced Lithium Electrochemistry (KY) Co., Ltd.(TPEX: 5227) and the member of Remuneration Committee of Dong Xun Co., Ltd.(TWSE: 2321).
8. Chi-Yen Liang:
The Chairman of Tainet Communication System Corp. (TPEX: 4905), the Director of Flexium Interconnect Inc.(TWSE: 6269), the Independent Director of Excellence MOS Corp. (Emerging stock: 5299), the member of Remuneration Committee of Sesoda Corporation (TWSE: 1708), the member of Remuneration Committee of Shinkong Textile Co., Ltd (TWSE: 1419), the Chairman of Lianchuang Investment Co., Ltd., the Chairman of Lian Rui Investment Co., Ltd., the Supervisor of Wah-Wo Cultural and Creative & Consulting , Management Limited and the Supervisor of CSR Community International Limited. and the Supervisor of Bei Ke Zhi Xing Venture Capital Co., Ltd..

Major Shareholder of the institutional shareholder:	
Name of institutional shareholder	Major Shareholder of the institutional shareholder
Fon Tain Belon Co., Ltd.	<p>Skyway Industrial Limited (52.36%) (Samoa) Smithson Crowford Murray Capital (21.92%) Yeong Yi Asia Corp. (5.01%) Yi-Yuan Enterprise Co., Ltd. (5.01%) Yi-Chao Enterprise Co., Ltd. (4.93%) Yi-Xiang Enterprise Co., Ltd. (4.93%) Chih-Yuan Chen (2.23%) Kang Tu Industrial Co., Ltd. (1.31%) Hsin Feng Corp. (1.31%) Zhi-Chao Chen (0.50%)</p>
Everlight Electronics Co., Ltd. (Shareholders record date: August 3, 2018)	<p>Cathay United Bank acting in its capacity as depository and representative to the Yi Ren investment account (4.69%) Yin-Fu Yeh (4.11%) Fubon Life Insurance Co., Ltd. (3.84%) Public service pension fund Management Committee (3.84%) Chuan Investment Corp. (2.21%) Nan Shan Life Insurance Co., Ltd. (1.91%) Mercuries Life Insurance Co., Ltd. (1.77%) Bo-Wen Zhou (1.72%) Vanguard Emerging Markets Stock Index Fund, A Series Of Vanguard International Equity Index Funds (1.45%) Norges Bank, Norway (1.40%)</p>
United Microelectronics Corp. (Shareholders record date: July 22, 2018)	<p>JPMorgan Chase Bank, N.A. acting in its capacity as depository and representative to the holders of ADRs (5.70%) JPMorgan Chase Bank N.A. Taipei Branch in custody for Capital World Growth and Income Fund (3.58%) Hsun Chieh Investment Co., Ltd. (3.50%) Silicon Integrated Systems Corp. (2.50%) Silchester International Investors International Value Equity Trust (1.70%) Prudential Assurance Company Ltd. (1.44%) Yann Yuan Investment Co., Ltd. (1.36%) Cathay Life Insurance Co., Ltd. (1.27%) Taiwan Life Insurance Co., Ltd. (1.23%) JPMorgan Chase Bank N.A. Taipei Branch in custody for EuroPacific Growth Fund (1.19%)</p>
Yi Te Optoelectronics Co., Ltd.	<p>Chih-Yuan Chen (99.91%) Yeong Yi Asia Corp. (0.09%)</p>

Major shareholders of the major shareholders that are juridical persons:

Name of juridical persons	Major shareholder of the juridical persons
Skyway Industrial Limited	CCS Co., Ltd. (100.00%)
(Samoa) Smithson Crowford Murray Capital	CCS Co., Ltd. (100.00%)
Yeong Yi Asia Corp.	(Samoa) Smithson Crowford Murray Capital (32.17%) Hsin Feng Corp. (25.57%) Fon Tain Belon Co., Ltd. (24.52%) Skyway Industrial Limited (4.92%) Yi-Chao Enterprise Co., Ltd. (4.14%) Chen-Yung Foundation (3.44%) Zhi-Chao Chen (1.95%) Sui Shih Sung Crop. (1.73%) Kang Tu Industrial Co., Ltd. (0.68%) Yi-Yuan Enterprise Co., Ltd. (0.55%)
Yi-Yuan Enterprise Co., Ltd.	Skyway Industrial Limited (22.62%) Yeong Yi Asia Corp. (18.85%) Fon Tain Belon Co., Ltd. (18.85%) Hsin Feng Corp. (18.85%) Chih-Yuan Chen (16.70%) Sui Shih Sung Crop. (2.00%) Meng-Li Zou (1.89%) Yu_An Chen (0.20%) Yun-Yun Chang (0.04%) Zha-Heng Chen (0.03%)
Yi-Chao Enterprise Co., Ltd.	Zhi-Chao Chen (49.89%) Skyway Industrial Limited (30.44%) Fon Tain Belon Co., Ltd. (11.59%) Hsin Feng Corp. (8.04%) Chih-Yuan Chen (0.01%) Zha-Heng Chen (0.01%) Yun-Yun Chang (0.01%) Shao-Ning Chang (0.01%)

Name of juridical persons	Major shareholder of the juridical persons
Yi-Xiang Enterprise Co., Ltd.	Skyway Industrial Limited (34.21%) Hsin Feng Corp. (18.42%) Yeong Yi Asia Corp. (18.42%) Fon Tain Belon Co., Ltd. (13.16%) Yi-Yuan Enterprise Co., Ltd. (9.21%) Yi-Chao Enterprise Co., Ltd. (3.95%) Zhi_Xiang Chen (2.50%) Yun-Yun Chang (0.03%) Zha-Heng Chen (0.03%) Zhi-Chao Chen (0.03%)
Kang Tu Industrial Co., Ltd.	Yeong Yi Asia Corp. (35.60%) Hsin Feng Corp. (18.63%) Zha-Heng Chen (9.50%) Zhi_Xiang Chen (9.29%) Yun-Yun Chang (8.49%) Fon Tain Belon Co., Ltd. (6.40%) Yi-Xiang Enterprise Co., Ltd. (6.10%) Zhi-Chao Chen (4.04%) Meng-Li Zou (0.89%) Chih-Yuan Chen (0.69%)
Hsin Feng Corp.	Skyway Industrial Limited (83.33%) Yi-Yuan Enterprise Co., Ltd. (3.73%) Yi-Chao Enterprise Co., Ltd. (3.53%) Yi-Xiang Enterprise Co., Ltd. (3.53%) Chih-Yuan Chen (2.60%) Zhi_Xiang Chen (1.26%) Zhi-Chao Chen (1.22%) Yun-Yun Chang (0.79%)
Fubon Life Insurance Co., Ltd.	Fubon Financial Holding Co., Ltd. (100.00%)
Chuan Investment Corp.	Chuan Corp. (B.V.I.) (100.00%)

Name of juridical persons	Major shareholder of the juridical persons
<p>Nan Shan Life Insurance Co., Ltd. (Shareholders record date: February 28, 2019)</p>	<p>First Commercial Bank Trustee Account For Representative of Ruen Chen Investment Holding Co., Ltd. (68.17%) Ruen Chen Investment Holding Co., Ltd. (22.46%) Y. T. Du (3.25%) Ruen Hua Dyeing & Weaving Co., Ltd. (0.28%) Ruentex Leasing Co., Ltd. (0.13%) Chi-Pin Investment Company (0.11%) Boon-Teik Koay (0.10%) Pou Chi Investments Co., Ltd. (0.05%) Pou Yih Investments Co., Ltd. (0.05%) Pou Hwei Investments Co., Ltd. (0.05%) Pou Hwang Investments Co., Ltd. (0.05%)</p>
<p>Mercuries Life Insurance Co., Ltd. (Shareholders record date: February 28, 2019)</p>	<p>Mercuries & Associates Holding Ltd. (41.51%) ShangLin Investment Co., Ltd. (6.02%) ShuRen Investment Co., Ltd. (5.36%) Mercuries Fu Bao Ltd. (2.69%) Labor retirement fund (New system) (1.21%) Mingrong Xu (0.77%) Norges Bank, Norway (0.74%) Vanguard Emerging Markets Stock Index Fund, A Series Of Vanguard International Equity Index Funds (0.72%) Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds (0.66%) Napoli Co., Ltd. (0.58%)</p>
<p>Hsun Chieh Investment Co.</p>	<p>Hsieh Yong Capital Co., Ltd. (63.48%) United Microelectronics Corp. (36.49%)</p>

Name of juridical persons	Major shareholder of the juridical persons
Silicon Integrated Systems Corp. (Shareholders record date: April 10, 2018)	United Microelectronics Corp. (19.70%) Standard Chartered Bank acting in its capacity as depository and representative to CA Indosuez (Switzerland) SA investment account (1.65%) Mu-Chuan Lin (1.46%) Hsun Chieh Investment Co. (1.46%) Xing-Sen Liu (1.36%) Vanguard Emerging Markets Stock Index Fund, A Series Of Vanguard International Equity Index Funds (1.33%) Bi-ling Li (1.31%) Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds (0.91%) Fang-Long Huang (0.84%) Liang Xun Investment Co., Ltd. (0.60%) Cathay Financial Holding Co., Ltd. (100.00%)
Cathay Life Insurance Co.,Ltd.	Siliconware Investment Co., Ltd. (32.21%)
Yann Yuan Investment Co., Ltd.	United Microelectronics Corp. (30.87%) Unimicron Technology Corp. (16.78%) King Yuan Electronics Co., Ltd. (13.42%) Sigurd Microelectronics Corp. (6.71%)
Taiwan Life Insurance Co., Ltd.	CTBC Financial Holding Co., Ltd. (100.00%)

Directors'/Supervisors' Professional Qualifications and Independence Analysis:

Criteria/Name	Meet the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Criteria (Note 1)										Number of Other Taiwanese Public Companies Concurrently Serving as an Independent Director
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialists Who Has Passed a National Examination and Been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Area of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
Biing-Jye Lee			✓			✓	✓	✓	✓	✓	✓	✓	✓	-
Chih-Yuan Chen			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Huei-Chen Fu			✓	✓	✓	✓	✓			✓	✓	✓		-
Shan-Chieh Chien			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		-
Nan Yang Wu			✓	✓		✓	✓	✓	✓	✓	✓	✓		-
Ming-Jiunn Jou			✓			✓	✓	✓	✓	✓	✓	✓	✓	-
Wei-Min Sheng	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Feng-Shang Wu	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Chi-Yen Liang			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1

Note: Directors/supervisors, during the two years before being elected and during the term of office, meet any of the following situations, please tick the appropriate corresponding boxes:

- Not an employee of the company or any of its affiliates;
- Not a director or supervisor of the company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the company, its parent company, or any subsidiary, as appointed in accordance with the laws of Taiwan or with the laws of the country of the parent company or subsidiary;
- Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the company or ranks as one of its top ten shareholders;
- Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the above persons in the preceding three subparagraphs;
- Not a director, supervisor, or employee of a corporate/institutional shareholder that directly holds five percent or more of the total number of issued shares of the company or ranks as of its top five shareholders;
- Not a director, supervisor, officer, or shareholder holding five percent or more of the shares of a specified company or institution that has a financial or business relationship with the company;
- Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the company or to any affiliate of the company, or a spouse thereof, provided that this restriction does not apply to any member of the Remuneration Committee who exercises powers pursuant to Article 7 of the "Regulations Governing the Establishment and Exercise of Powers of Remuneration Committees of Companies whose Stock is Listed on the TWSE or Traded on the TPEX";
- Not having a marital relationship, or a relative within the second degree of kinship to any other director of the company;
- Not been a person of any conditions defined in Article 30 of the Company Law;
- Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

Board diversity policy (directive) and status of implementation thereof

The Company's Board of Directors of 9th term consists of 9 directors, including 3 independent directors. There are no directors who are spouses or relatives within the second degree of kinship with each other.

1. The board members are all nationals of the R.O.C..
2. The directors who are also employees of the Company account for 22%, independent directors 33%, and female directors 11%.
3. Three independent directors hold the position for 6 years averagely, provided that they do not hold the position for more than 9 years consecutively.
4. Four directors are at the age of 51~60 years old, and 5 directors are at the age of 61~70 years old.
5. Mr. Biing-Jye Lee serves as the CSO of the Company. Notwithstanding, none of the other directors hold any position in the Company concurrently. Therefore, the requirement that directors who hold the position as manager of the Company shall be no more than one-third of the whole directors is satisfied.
6. All of the Board members possess the knowledge, skills, literacy, and abundant experience and expertise in finance, commerce and management required to perform their jobs. All of the independent directors may exercise their powers objectively and satisfy the conditions about independence and qualifications required by laws:

Title	condition		1	2	3	4	5	6	7	8
	Name	male/female								
Chairman	Biing-Jye Lee	male	✓	✓	✓	✓	✓	✓	✓	✓
Director	Chih-Yuan Chen	male	✓	✓	✓	✓	✓	✓	✓	✓
Director	Huei-Chen Fu	female		✓	✓					
Director	Shan-Chieh Chien	male	✓	✓	✓	✓	✓	✓	✓	✓
Director	Nan Yang Wu	male	✓	✓			✓	✓		
Director	Ming-Jiunn Jou	male	✓	✓	✓	✓	✓	✓	✓	✓
Independent Director	Wei-Min Sheng	male	✓	✓	✓	✓			✓	
Independent Director	Feng-Shang Wu	male	✓	✓	✓	✓	✓	✓	✓	✓
Independent Director	Chi-Yen Liang	male	✓	✓	✓	✓	✓	✓	✓	✓

Note: meet any of the following situations, please tick the appropriate corresponding boxes:

1. Ability to make operational judgments.
2. Ability to perform accounting and financial analysis.
3. Ability to conduct management administration.
4. Ability to conduct crisis management.
5. Knowledge of the industry.
6. An international market perspective.
7. Ability to lead.
8. Ability to make policy decisions.

Successor cultivation planning for key management

With the support from shareholders and Board of Directors, the successor cultivation planning for professional managers or administrators requires not only outstanding ability but also the value satisfying the Company's requirement, in addition to such personal characters as honest, integrity, commitment, innovation, and ability to win customers' trust.

Epistar 1.0 has appointed two presidents. For the former one decade, the president was acted by the current Chairman of Board, Dr. Biing-Jye Lee. For the latter one decade, the president was acted by Ming-Jiunn Jou, who was responsible for the Company's operations. The president of Epistar 2.0 is Mr. Chin-Yung Fan instead. Mr. Chin-Yung Fan acted as the vice president of Operation and Marketing Center of Epistar, who has worked in Epistar for more than 2 decades and held the positions as supervisor of the Company's AlGaInP and Nitride business units, quality control and marketing business and, therefore, has held very abundant and complete work experience. He is one of the senior management trained by the Company permanently. With his outstanding leadership, he will play a very important role in Epistar 2.0 responsible for managing the Company and leading the development of LED and long-wavelength laser epi and chip businesss, achieve a seamless takeover, open a new world for Epistar and make the Company's performance hit record again.

Dr. Ming-Jiunn Jou was one of Epistar's founders. However, due to family factors, he already applied for retirement in April 2019 with the Board of Directors. Therefore, in the name list of candidates for director of 10th term nominated by the Board of Directors this year, Mr. Chin-Yung Fan has already been nominated as one of the candidates.

3.2.2 Information Regarding Management Team

Title	Nationality	Name	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		EPISTAR Shareholding by Nominee Arrangement		Experience & Education	Other Position	Managers who are Spouses or Within Two Degrees of Kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relationship
Chief Strategy officer	R.O.C.	Bling-Jye Lee	Male	2009.01.01	2,164,495	0.20%	882,596	0.08%	0	0.00%	Research fellow/supervisor, Institute of Photonics Technologies in Industrial Technology Research Institute (ITRI) Ph. D., Institute of Chemical Engineering, National Tsing Hua University	Note 1	None	None	None
President	R.O.C.	Chin-Yung Fan	Male	2018.07.16 (Note 10)	267,012	0.02%	124,337	0.01%	0	0.00%	Special assistant, Vice President, Epistar Corporation M.A., Institute of Physics, National Central University	Note 2	None	None	None
Vice President	R.O.C.	Jen-Chau Wu	Male	2005.12.30	237,155	0.02%	0	0.00%	0	0.00%	Vice President, United Epitaxy Company, Ltd. M.A., Institute of Electrical Engineering, National Tsing Hua University	Note 3	None	None	None
Vice President	R.O.C.	Rong-Yih Hwang	Male	2007.03.01	140,918	0.01%	0	0.00%	0	0.00%	Associate Vice President, United Epitaxy Company, Ltd. M.A., Institute of Photonics Technologies, National Chiao Tung University	Note 4	None	None	None
Vice President	R.O.C.	Min-Hsun Hsieh	Male	2007.03.01	50,674	0.00%	0	0.00%	0	0.00%	Supervisor, Highlight Optoelectronics Inc. Ph. D., Institute of Power Mechanical Engineering, National Tsing Hua University	Note 5	None	None	None
Vice President	R.O.C.	Shih-Shien Chang	Male	2007.03.01	802,265	0.07%	0	0.00%	0	0.00%	Manager, Finance Department, Wei Chuan Foods Corporation B.A., Department of Business Administration, National Cheng Kung University	Note 6	None	None	None
Vice President	R.O.C.	Chen Ou	Male	2014.09.01 (Note 9)	3,084	0.02%	98	0.00%	0	0.00%	Director, Epistar Corporation Ph. D., National Chiao Tung University	None	None	None	None
Vice President	R.O.C.	Ming-Da Jin	Male	2014.09.01 (Note 9)	200,000	0.02%	0	0.00%	0	0.00%	Director, Epistar Corporation M.A., Institute of Electrophysics, National Chiao Tung University	None	None	None	None
Vice President	R.O.C.	Lin-Tien Yang	Male	2014.09.01 (Note 9)	20,797	0.00%	0	0.00%	0	0.00%	Associate Vice President, Epitech Technology Corporation M.A., Institute of Management, National Chiao Tung University	Note 7	None	None	None
Vice President	R.O.C.	Wei-Shih	Male	2018.07.16 (Note 11)	157,701	0.01%	0	0.00%	0	0.00%	Director, Information Technology Center, Epistar Corporation M.A., Institute of Electrical Engineering, University of Southern California (USC), USA	None	None	None	None
Senior Director	R.O.C.	Li-Cheng Hung	Female	2012.01.01	20,000	0.00%	0	0.00%	0	0.00%	Director, Production Management Center, Epistar Corporation B.A., Department of Electrical and Electronics Engineering, Kun Shan College	Note 8	None	None	None

Title	Nationality	Name	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		EPISTAR Shareholding by Nominee Arrangement		Experience & Education	Other Position	Managers who are Spouses or Within Two Degrees of Kinship	
					Shares	%	Shares	%	Shares	%			Title	Name	Relationship
Senior Director	R.O.C.	Feng-Sheng Qiu	Male	2014.09.01	165,000	0.02%	213	0.00%	0	0.00%	Special assistant to the President office, Epistar Corporation Associate Vice President, Logistic center, Huga Optotech Inc./Formosa Epitaxy Incorporation Associate degree, Department of business management, China University of Technology	None	None	None
Senior Director	R.O.C.	Yi-Chang Hong	Male	2016.11.24	50,459	0.00%	0	0.00%	0	0.00%	Manager, Department of management, Hiti Sheng Industrial Corporation BA, Department of Engineering Science, National Cheng Kung University	None	None	None

The current shareholding refers to the actual shareholding available on February 28, 2019.

Since January 1, 2018, all position title of Associate Vice President had been transferred to Senior Directors to flatten organization structure. Managers who are essentially equivalent to the "Association-level equivalents" in the articles of the Securities Trading Law shall remain the identity of insider's declaration status.

Note:

1. Biing-Jye Lee:

The Chairman of Epistar JV Holding (BVI) Co., Ltd., the Chairman of Yenrich Technology Corporation., the Chairman of Unikorn Semiconductor Corporation., the Director of LiteStar JV Holding (BVI) Co., Ltd., the Director of Epicrystal (Hong Kong) Co., Ltd., the Chairman of Country Lighting (BVI) Co., Ltd., the Director of Epicrystal Corporation (ChangZhou) Ltd., the Director of Kaistar Lighting (Xiamen) Co., Ltd., and the Director of FormoLight Technologies, Inc.. Said companies are directly or indirectly invested by Epistar.

2. Chin-Yung Fan:

The Chairman of Lighting Investment Corp., The Director of Luxlite (Shenzhen) Corporation Limited, the Chairman of Lighting Investment Ltd., the Chairman of Luxlite (HK) Corporation Limited, the Director of HUGA Holding (Samoa) Limited, the Director of Crystaluxx SARM, the Director of LEDOLUX Sp. Z. O., the Director of Jiangsu Canyang Optoelectronics Ltd., the Chairman of EPIRICH (Guangzhou) Co.Ltd., the Director of TE OPTO Corporation, the Director of Evertop (Fujian) optoelectronics Co., Ltd, the Director of Episky (Hong Kong) Ltd., the Director of Luxlite (HK) Corporation Limited, the Director of allureLux Corporation, the Director of AllureLux Inc., the Director of Epistar (Hong Kong) Limited and the Director of Can Yang Investments Limited. Said companies are directly or indirectly invested by Epistar.

3. Jen-Chau Wu:

The Chairman of Episky Corporation (Xiamen) Ltd., the Chairman of Epicrystal Corporation (ChangZhou) Ltd., the Executive Director of United LED Shan Dong Corporation, the Director of EPISKY Corporation (Changzhou) Ltd., the Chairman of Ningbo Formosa Epitaxy Incorporation, the Chairman of Jiangsu Canyang Optoelectronics Ltd., the Director of Epicrystal (Hong Kong) Co., Ltd., the Chairman of United LED Corporation Hong Kong Limited and the Chairman of Can Yang Investments Limited. Said companies are directly or indirectly invested by Epistar.

4. Rong-Yih Hwang:

The Director of Episky Corporation (Xiamen) Ltd., the Director of Luxlite (Shenzhen) Corporation Limited, the Director of Luxlite (HK) Corporation Limited., and the Director of iReach Corporation. Said companies are directly or indirectly invested by Epistar.

5. Min-Hsun Hsieh:
The Director of Lighting Investment Corp., the Director of Yenrich Technology Corporation, the Director of Nan Ya Photonics Inc., the Director of GaN Ventures Co., Limited Cooperation, and the Director of GV Semiconductor Inc.. Said companies are directly or indirectly invested by Epistar.
6. Shih-Shien Chang:
The Director & President of Yenrich Technology Corporation, the Supervisor of Episky Corporation (Xiamen) Ltd., the Director of Luxlite (Shenzhen) Corporation Limited, the Director of LEDOLUX Sp. Zo. O., the Director of iReach Corporation, the Director of Play Nitride Inc., the Director of Chi Lin Optoelectronics Co., Ltd, and the Director of Luxlite (HK) Corporation Limited. Said companies are directly or indirectly invested by Epistar.
7. Lin-Tien Yang:
The Director of Epicrystal Corporation (ChangZhou) Ltd., the Director & President of SH Optotech Co., Ltd., the Director of Epicrystal (Hong Kong) Co., Ltd., the President of Luxlite (Shenzhen) Corporation Limited, the Director of United LED Corporation Hong Kong Limited, and the Director of Can Yang Investments Limited. Said companies are directly or indirectly invested by Epistar.
8. Li-Cheng Hung:
The Chairman of EPISKY Corporation (Changzhou) Ltd.. Said companies are directly or indirectly invested by Epistar.
9. Chen Ou, Ming-Da Jin and Lin-Tien Yang held the position on March 1, 2007 initially, and were promoted from Associate Vice President to Vice President on September 1, 2014.
10. Chin-Yung Fan held the position on March 2, 2015 initially, and was promoted from Vice President to President on July 16, 2018.
11. Wei Shih held the position on October 2, 2012 initially, and was promoted from Senior Director to Vice President on July 16, 2018.

3.2.3 Remuneration Paid to Directors, General Manager and Vice President in the most recent year
3.2.3.1 Remuneration Paid to Directors

Title	Name	Director Remuneration						Compensation Earned by a Director Who is an Employee of Epistar or of Epistar's Consolidated Entities						Total		Compensation Paid to Directors from Non-consolidated Affiliates						
		Base Compensation (A)		Severance Pay and Pensions (B)		Compensation to Directors (C)		Allowances (D)		Total Remuneration (A+B+C+D) as a % of Net Loss after tax		Base Compensation, Bonuses, and Allowances (E)		Severance Pay and Pensions (F)			Employees' Profits Sharing Bonus (G)		Compensation (A+B+C+D+E+F+G) as a % of Net Loss after tax			
		From Epistar		From All Consolidated Entities		From Epistar		From All Consolidated Entities		From Epistar		From All Consolidated Entities		From Epistar			From All Consolidated Entities		From Epistar		From All Consolidated Entities	
		From Epistar	From All Consolidated Entities	From Epistar	From All Consolidated Entities	From Epistar	From All Consolidated Entities	From Epistar	From All Consolidated Entities	From Epistar	From All Consolidated Entities	From Epistar	From All Consolidated Entities	Cash	Stock (Fair Market Value)		From Epistar	From All Consolidated Entities	From Epistar	From All Consolidated Entities	From Epistar	From All Consolidated Entities
Chairman	Bing-Jye Lee	0	0	0	0	0	0	60	60	0.01	0.01	14,579	14,579	125	125	0	0	0	0	3.24	3.24	0
Director	Fon Tain Belon Co., Ltd. Rep: Chih-Yuan Chen	0	0	0	0	0	0	0	0	0.00	0.00	0	0	0	0	0	0	0	0	0.00	0.00	0
Director	Everlight Electronics Co., Ltd. Rep: Yin-Fu Yeh (Note 1)	0	0	0	0	0	0	60	60	0.01	0.01	0	0	0	0	0	0	0	0	0.01	0.01	0
Director	United Microelectronics Corp. Rep: Huei-Chen Fu (Note 1)	0	0	0	0	0	0	0	0	0.00	0.00	0	0	0	0	0	0	0	0	0.00	0.00	20
Director	Rep: Shan-Chieh Chien	0	0	0	0	0	0	60	60	0.01	0.01	0	0	0	0	0	0	0	0	0.01	0.01	0
Director	Yi Te Optoelectronics Co., Ltd. Rep: Nian Yang Wu	0	0	0	0	0	0	0	0	0.00	0.00	0	0	0	0	0	0	0	0	0.00	0.00	0
Director	Ming-Jiunn Jou	0	0	0	0	0	0	60	60	0.01	0.01	9,820	9,820	170	170	0	0	0	0	2.20	2.20	4
Independent Director	Wei-Min Sheng	720	720	0	0	0	0	60	60	0.17	0.17	0	0	0	0	0	0	0	0	0.01	0.01	0
Independent Director	Feng-Shang Wu	720	720	0	0	0	0	60	60	0.17	0.17	0	0	0	0	0	0	0	0	0.01	0.01	0
Independent Director	Chi-Yen Liang	720	720	0	0	0	0	60	60	0.17	0.17	0	0	0	0	0	0	0	0	0.01	0.01	0

Note 1: The representative was changed from Mr. Yin-Fu Yeh to Mr. Huei-Chen Fu on May 2, 2018.

Note 2: The Company's directors did not hold any position other than director or employee of the companies consolidated into the financial statements (namely, the Company or subsidiaries) and, therefore, no compensation paid to directors from non-consolidated companies was available.

A: Remuneration to directors in 2018 (including director's salary, duty allowance, severance pay, bonus and reward, et al.)

B: The contributed amount.

C: Allocation of remuneration to directors approved by the board in 2018

D: Professional practice expenses related to directors in 2018 (including transportation allowance, special allowance, various allowances and provision of dormitory and car).

E: Received by directors who were also employees in 2018 (including those concurrently holding the position as president, vice president, manager and employee), including salary, duty allowance, severance pay, bonus, reward, transportation allowance, special allowance, various allowances, and provision of dormitory and car, and salary stated according to IFRS 2 "Share-Based Payment".

F: The contributed amount.

G: Allocation of remuneration to employees approved by the board in 2018, and calculation of the remuneration to be allocated this year based on the actual allocation of remuneration last year.

Net Profit: The net operating loss after tax, NT\$456,146 thousand, identified in the individual financial statement 2018.

Remuneration Paid to Directors

Range of Remuneration	Name of Directors			
	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)	
	From EPISTAR	From All Consolidated Entities	From EPISTAR	From All Consolidated Entities and Non-Consolidated Affiliates
NT\$0- NT\$ 2,000,000	Bing-Jye Lee Fon Tain Belon Co., Ltd. Chih-Yuan Chen Everlight Electronics Co., Ltd. Yin-Fu Yeh Huei-Chen Fu United Microelectronics Corp. Shan-Chieh Chien Yi Te Optoelectronics Co., Ltd. Nan Yang Wu Ming-Jiunn Jou Wei-Min Sheng Feng-Shang Wu Chi-Yen Liang	Bing-Jye Lee Fon Tain Belon Co., Ltd. Chih-Yuan Chen Everlight Electronics Co., Ltd. Yin-Fu Yeh Huei-Chen Fu United Microelectronics Corp. Shan-Chieh Chien Yi Te Optoelectronics Co., Ltd. Nan Yang Wu Ming-Jiunn Jou Wei-Min Sheng Feng-Shang Wu Chi-Yen Liang	Fon Tain Belon Co., Ltd. Chih-Yuan Chen Everlight Electronics Co., Ltd. Yin-Fu Yeh Huei-Chen Fu United Microelectronics Corp. Shan-Chieh Chien Yi Te Optoelectronics Co., Ltd. Nan Yang Wu Wei-Min Sheng Feng-Shang Wu Chi-Yen Liang	Fon Tain Belon Co., Ltd. Chih-Yuan Chen Everlight Electronics Co., Ltd. Yin-Fu Yeh Huei-Chen Fu United Microelectronics Corp. Shan-Chieh Chien Yi Te Optoelectronics Co., Ltd.
NT\$2,000,001 ~ NT\$5,000,000	None	None	None	None
NT\$5,000,001 ~ NT\$10,000,000	None	None	None	None
NT\$10,000,001 ~ NT\$15,000,000	None	None	Bing-Jye Lee Ming-Jiunn Jou	Bing-Jye Lee Ming-Jiunn Jou
NT\$15,000,001 ~ NT\$30,000,000	None	None	None	None
NT\$30,000,001 ~ NT\$50,000,000	None	None	None	None
NT\$50,000,001 ~ NT\$100,000,000	None	None	None	None
Over NT\$100,000,000	None	None	None	None
Total	14	14	14	14

3.2.3.2 Remuneration Paid to Supervisor: N/A.
3.2.3.3 Remuneration Paid to President and Vice Presidents

Title	Name	Salary (A)		Severance Pay and Pensions (B)		Bonuses and Allowances (C)		Employees' Profit Sharing Bonus (D)				Total Compensation as a % of 2017 Net Profit (A+B+C+D)		Compensation Received from Non-consolidated From EPISTAR Affiliates
		From EPISTAR	From All Consolidated Entities	From EPISTAR	From All Consolidated Entities	From EPISTAR	From All Consolidated Entities	From EPISTAR	From All Consolidated Entities	From EPISTAR	From All Consolidated Entities	From EPISTAR	From All Consolidated Entities	
Strategy officer	Biing-Iye Lee													
President	Chin-Yung Fan (Note1)													
President	Ming-Jiunn Jou (Note1)													
Vice President	Jen-Chau Wu													
Vice President	Rong-Yih Hwang													
Vice President	Min-Hsun Hsieh	39,616	42,390	2,014	2,014	48,776	48,776	0	0	0	0	19.85	20.45	4
Vice President	Shih-Shien Chang													
Vice President	Chen Ou													
Vice President	Ming-Da Jin													
Vice President	Lin-Tien Yang													
Vice President	Wei-Shih													

A: Salary, duty allowance and severance pay paid to presidents and vice presidents in 2018.

B: The contributed amount.

C: Received by in 2018 (including those concurrently holding the position as president, vice president), including bonus, reward, transportation allowance, special allowance, various allowances and provision of dormitory and car, and salary stated according to IFRS 2 "Share-Based Payment".

D: Allocation of remuneration to employees approved by the board in 2018, and calculation of the remuneration to be allocated this year based on the actual allocation of remuneration last year. Net Loss: The net operating Profit after tax, NT\$456,146 thousand, identified in the individual financial statement 2018.

Note 1 : Chin-Yung Fan was promoted as the president on July 16, 2018. Ming-Jiunn Jou was discharged from the position as president on the same day.

Remuneration Paid to President and Vice President

Range of Remuneration	Name of President and Vice President	
	From EPISTAR	From All Consolidated Entities and Non-Consolidated Affiliates
NT\$0 ~ NT\$ 2,000,000	None	None
NT\$2,000,001 ~ NT\$5,000,000	None	None
NT\$5,000,001 ~ NT\$10,000,000	Jen-Chau Wu, Rong-Yih Hwang, Min-Hsun Hsieh, Shih-Shien Chang, Chin-Yung Fan, Chen Ou, Ming-Da Jin, Lin-Tien Yang, Wei-Shih	Jen-Chau Wu, Rong-Yih Hwang, Min-Hsun Hsieh, Shih-Shien Chang, Chin-Yung Fan, Chen Ou, Ming-Da Jin, Lin-Tien Yang, Wei-Shih
NT\$10,000,001 ~ NT\$15,000,000	Biing-Jye Lee, Ming-Jiunn Jou	Biing-Jye Lee, Ming-Jiunn Jou
NT\$15,000,001 ~ NT\$30,000,000	None	None
NT\$30,000,001 ~ NT\$50,000,000	None	None
NT\$50,000,001 ~ NT\$100,000,000	None	None
Over NT\$100,000,000	None	None
Total	11	11

3.2.3.4 Employees' Profit Sharing Bonus Paid to Management Team

Title	Title and Name		Stock (Fair Market Value)	Cash	Total Employees' Profit Sharing Bonus	Total Employees' Profit Sharing Bonus Paid to Management Team as a % of Net Loss
	Name	Title					Name
Strategy officer	Biing-Jye Lee	Vice President				
President	Chin-Yung Fan	Vice President				
Vice President	Jen-Chau Wu	Vice President				
Vice President	Rong-Yih Hwang	Senior Director	0	0	0	0.00%
Vice President	Min-Hsun Hsieh	Senior Director				
Vice President	Shih-Shien Chang	Senior Director				
Vice President	Chen Ou					

Dec. 31, 2018 Unit: NT\$ thousand; Shares k

Note 1: Allocation of remuneration to employees approved by the board in 2018, and calculation of the remuneration to be allocated this year based on the actual allocation of remuneration last year.

Note 2: Net Profit means the net operating Loss after tax, NT\$456,146 thousand, identified in the individual financial statement 2018.

3.2.4 Comparison of Remuneration for Directors, Supervisors, President and Vice Presidents in the Most Recent Two Fiscal Years and Remuneration Policy for Directors, Supervisors, President and Vice Presidents

1. Remuneration Paid to Directors

The motion for remuneration to directors was proposed by Remuneration Commission and submitted to the Board of Directors for resolution. The remuneration to directors was allocated by the Board of Directors based on the percentage defined in the Articles of Incorporation (i.e. 2% of the earnings of the given year), and subject to approval by a majority of the directors present at a board of directors meeting attended by two-thirds of the whole directors, and was reported to the shareholders' meeting. The remuneration to the other directors refers to such fixed remuneration as transportation allowance and attendance fees, while no other floating remuneration was allocated.

In order to upgrade the profundity of the Company's corporate governance, the Company assigned the corporate governance unit, which will establish the regulations governing evaluation on performance of the Board of Directors and various functional committees this year, in order to conduct self-assessment or peer review on the Board of Directors, individual directors or functional committees each year and take the performance evaluation result into account when determining payable remuneration.

2. Remuneration Paid to President and Vice President

The motion for remuneration to presidents and vice presidents, including salary, bonus and employee remuneration, et al., was handled in accordance with the Company's personnel regulations and proposed by Remuneration Committee and submitted to the Board of Directors for resolution. The remuneration to employees was allocated by the Board of Directors based on the percentage defined in the Articles of Incorporation (i.e. 10%~20% of the earnings of the given year, based on 15% for the time being.), and subject to approval by a majority of the directors present at a board of directors meeting attended by two-thirds of the whole directors, and was reported to the shareholders' meeting. The treasury stock transferred to employees in the year, if any, was allocated and transferred in accordance with the "Regulations Governing Repurchase and Transfer of Shares to Employees" passed by the Board of Directors. Notwithstanding, with respect to the part involving managers, it is necessary for the Remuneration Committee to pose suggestions and have the suggestions discussed and authorized by the Board of Directors.

The "annual profit" means the current year pre-tax profit (excluding other benefits or losses, such as the put option right, the call option rights, the conversion rights and the redeem of overseas convertible bonds) before the deduction of the staff remuneration and director remuneration.

Title	The ratio of total remuneration paid by the Company and by all companies included in the consolidated financial statements for the two most recent fiscal years to directors, President and vice presidents of the Company, to the net loss & Profit.			
	2017		2018	
	From EPISTAR	From All Consolidated Entities	From EPISTAR	From All Consolidated Entities
Directors	2.69	2.69	(0.59)	(0.59)
President and Vice President	5.29	5.40	(19.85)	(20.45)

Note: (1) The net operating Profit after tax, NT\$1,649,913 thousand, identified in the individual financial statement 2017. (2) The net operating Loss after tax, NT\$456,146 thousand, identified in the individual financial statement 2018.

3.3 Implementation of Corporate Governance

3.3.1 Board of Directors Meeting Status

A total of 6 (A) meetings of the Board of Directors were held in 2018. The directors' attendance status is as follows.

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) 【B/A】	Remarks
Chairman	Biing-Jye Lee	6	0	100.0%	
Director	Fon Tain Belon Co., Ltd. Rep: Chih-Yuan Chen	6	0	100.0%	
Director	Everlight Electronics Co., Ltd. Rep: Yin-Fu Yeh	0	1	0.0%	Discharged on May 2, 2018
Director	Everlight Electronics Co., Ltd. Rep: Huei-Chen Fu	4	1	80.0%	Re-appointed on May 2, 2018
Director	United Microelectronics Corp. Rep: Shan-Chieh Chien	6	0	100.0%	
Director	Yi Te Optoelectronics Co., Ltd. Rep: Nan Yang Wu	5	1	83.3%	
Director	Ming-Jiunn Jou	6	0	100.0%	
Independent director	Wei-Min Sheng	5	1	83.3%	
Independent director	Feng-Shang Wu	6	0	100.0%	
Independent director	Chi-Yen Liang	6	0	100.0%	

Note: [Total actual attendance rates/total attendance rates to be fulfilled] of all directors attained 92.6% in 2018.

2018 Independent Directors' Attendance Status:

V: In person ○: By proxy X: Absence

2018	March 15	May 3	June 25	August 13	November 12	December 13
Wei-Min Sheng	V	V	V	V	V	○
Feng-Shang Wu	V	V	V	V	V	V
Chi-Yen Liang	V	V	V	V	V	V

Other special disclosure:

- Where the Board of Directors' operation meets any of the following circumstances, please clearly state the directors' meeting date, term, contents of motions and resolution thereof, opinions of all independent directors and the Company's handling of said opinions:

(1) Securities and Exchange Act §14-3 resolutions:

Term/___st/nd/rd/th time Date	Contents of motion	Independent director's opinion	The Company's handling of independent director's opinion	Resolution
9-11 2018.03.15	To release the Directors Ming-Jiunn Jou, Nan Yang Wu and Shan-Chieh Chien non-competition	None.	N/A	In relation to the individual's interest conflicts, each of the directors temporarily left and

Term/___st/nd/rd/th time Date	Contents of motion	Independent director's opinion	The Company's handling of independent director's opinion	Resolution
	restrictions.			avoided each other, and did not participate in the discussion and voting. The other directors had no objection to the approval and the shareholders' meeting passed the proposal on June 21, 2018.
9-11 2018.03.15	Capital injection by issuance of 165 million shares of common stocks through private placement has been terminated before the expiry date on 21 June 2017.	None.	N/A	Approved as proposed and re-proposing.
9-12 2018.05.03	The issuance of new common shares for cash to sponsor issuance of the global depository receipt and/or issuance of new common shares for cash in private placement.	None.	N/A	The motion was approved, and submitted to the general shareholders' meeting for discussion on June 21, 2018 and had been terminated by the resolution of the Board of directors meeting on 14 March 2019, due to lack of qualified strategic investor can be found before the expiry date on 21 June 2018.
9-12 2018.05.03	Endorsement of Episky Corporation (Xiamen) Ltd. and Jiangsu Canyang Optoelectronics Ltd.	None.	N/A	It was approved and as per the resolution was executed.
9-13 2018.06.25	EPISTAR Board of Directors resolved to spin-off and transferred its existing Semiconductor Foundry business to a newly established and 100% owned subsidiary.	None.	N/A	It was approved and as per the resolution was executed.

Term/___st/nd/rd/th time Date	Contents of motion	Independent director's opinion	The Company's handling of independent director's opinion	Resolution
9-14 2018.08.13	Evaluate the independence, eligibility, and contents of service and remuneration 2018 about appointment of Ya-Huei Cheng and Chih-Cheng. Hsieh, CPAs.	None.	N/A	As the case involved the CPA's conflict of interest, Ya-Huei Cheng and Wilson Wang, CPAs left the meeting temporarily to rescue himself from the discussion. The motion was approved ultimately.
9-14 2018.08.13	Endorsement of Episky Corporation (Xiamen) Ltd.	None.	N/A	It was approved and as per the resolution was executed.
9-14 2018.08.13	The total amount of the company's fund which lending to subsidiary Episky Corporation (Xiamen) Ltd. shall not exceed RMB\$200 million in total (or the equivalent amount in RMB).	None.	N/A	It was approved and as per the resolution was executed.
9-14 2018.08.13	The total amount of the company's fund which lending to subsidiary Jiangsu Canyang Optoelectronics Ltd. shall not exceed RMB\$100 million in total (or the equivalent amount in RMB).	None.	N/A	It was approved and as per the resolution was executed.
9-14 2018.08.13	Motion for allocation of 2017 remuneration to the Company's directors.	As Director Wei-Min Sheng, Director Feng-Shang Wu and Director Chi-Yen Liang had conflict of interest with each other, all of them recused themselves from the discussion and voting. The motion was submitted to the Board of Directors for discussion and resolution.	As Director Wei-Min Sheng, Director Feng-Shang Wu and Director Chi-Yen Liang recused themselves from the discussion and voting about the motion for remuneration to them.	The general directors and independent directors have successively recused themselves from discussion and voting for conflict of interest. The motion was approved by the present directors and independent directors in turn.

Term/___st/nd/rd/th time Date	Contents of motion	Independent director's opinion	The Company's handling of independent director's opinion	Resolution
9-14 2018.08.13	Motion for remuneration to the Company's directors	As Director Wei-Min Sheng, Director Feng-Shang Wu and Director Chi-Yen Liang had conflict of interest with each other, all of them recused themselves from the discussion and voting. The motion was submitted to the Board of Directors for discussion and resolution.	As Director Wei-Min Sheng, Director Feng-Shang Wu and Director Chi-Yen Liang recused themselves from the discussion and voting about the motion for remuneration to them.	The general directors and independent directors have successively recused themselves from discussion and voting for conflict of interest. The motion was approved by the present directors and independent directors in turn.
9-14 2018.08.13	Allocation of 2017 employee remuneration to managers and/or directors who were also employees.	None.	N/A	The employee remuneration to be allocated to the director who was also an employee, Mr. Biing-Jye Lee, was approved by the 7 present directors (the proxy, Director Huei-Chen Fu, was excluded from exercise of the voting right). The employee remuneration to be allocated to the director who was also an employee, Mr. Ming-Jiunn Jou, was approved by the 8 present directors. The remaining employee remuneration to be allocated to managers was approved by the whole present directors unanimously.
9-16 2018.12.13	Amendments to "Statement of Declaration on Internal Control" in part.	None.	N/A	It was approved and as per the resolution was executed.

(2) There were no other written or otherwise recorded resolutions on which an independent director had a dissenting opinion or qualified opinion in 2018.

2. Recusals of Directors due to conflicts of interests in 2018:

Term/___st/nd/rd/th time Date	Contents of motion	Persons recusing themselves	Status
9-11 2018.03.15	To release the Directors Ming-Jiunn Jou, Nan Yang Wu and Shan-Chieh Chien from the non-competition restrictions.	Three directors , Ming-Jiunn Jou, Nan Yang Wu and Shan-Chieh Chien	In relation to the individual's interest conflicts, each of the directors temporarily left and avoided each other, and did not participate in the discussion and voting. The other directors had no objection to the approval and the shareholders' meeting passed the proposal on June 21, 2018.
9-14 2018.08.13	Motion for allocation of 2017 remuneration to the Company's directors.	Three independent directors, including Wei-Min Sheng, Feng-Shang Wu and Chi-Yen Liang	The general directors and independent directors have successively recused themselves from discussion and voting for conflict of interest. The motion was approved by the present directors and independent directors in turn.
9-14 2018.08.13	Motion for remuneration to the Company's directors	Three independent directors, including Wei-Min Sheng, Feng-Shang Wu and Chi-Yen Liang	For the remuneration to independent directors, the directors, other than Director Wei-Min Sheng, Director Feng-Shang Wu and Director Chi-Yen Liang, who left the meeting temporarily and recused themselves from the discussion and voting for conflict of interest, approved the motion unanimously.
9-14 2018.08.13	Allocation of 2017 employee remuneration to managers and/or directors who were also employees.	Mr Biing-Jye Lee and the voting right represented by him; two independent directors, including Mr. Ming-Jiunn Jou.	The employee remuneration to be allocated to the director who was also an employee, Mr. Biing-Jye Lee, was approved by the 7 present directors (the proxy, Director Huei-Chen Fu, was excluded from exercise of the voting right). The employee remuneration to be allocated to the director who was also an employee, Mr. Ming-Jiunn Jou, we approved by the 8 present directors. The remaining employee remuneration to be allocated to managers were approved by the whole present directors unanimously.

3. Measures taken to strengthen the functionality of the Board:

The Company has set up the Audit Committee and Remuneration Committee, each consisting of 3 independent directors. Both committees' chairpersons would report the committees' activities and actions to the Board of Directors periodically. The external auditors would be invited to attend all meetings called by the Board of Directors, and the Company would communicate with the external auditors about the audit on the quarterly financial reports or audit results and other requirements under the related laws and regulations to seek the external auditor's comments.

3.3.2 Audit Committee Meeting Status

A total of 6 (A) Audit Committee meetings were held in 2018. The independent directors' attendance status is as follows.

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) 【B/A】	Remarks
Independent Director	Wei-Min Sheng	5	1	83.3%	Chair
Independent Director	Feng-Shang Wu	6	0	100.0%	
Independent Director	Chi-Yen Liang	6	0	100.0%	

Other special disclosure:

1. The motions subject to review by Audit Committee and 2018 missions primarily include the following:
 - (1) Audit on financial statements and accounting policy and procedure
 - (2) Effective implementation of internal control system and related policies and procedures
 - (3) Material assets or derivatives trading
 - (4) Significant lending and endorsement/guarantee
 - (5) Placement or offering of securities
 - (6) Matters involving directors' private interest
 - (7) Compliance with related laws and regulations, and control over the Company's existing or potential risks
 - (8) CPA's qualifications, independence, appointment, dismissal or remuneration
 - (9) Appointment and dismissal of financial, accounting or internal audit officers
2. Where the Audit Committee's operation meets any of the following circumstances, please clearly state the directors' meeting date, term, contents of motions and resolution of the Audit Committee, and the Company's handling of the Audit Committee's opinions:

(1) Resolutions related to Securities and Exchange Act §14-5:

Term/___st/nd/rd/th time Date	Contents of motion	Resolution of Audit Committee	the Company's (the board of directors') handling of Audit Committee's opinion
2-12 2018.03.15	Preparation of 2017 Financial Report.	The motion was approved unanimously.	The motion was approved by all present directors unanimously, and submitted to the general shareholders' meeting for discussion on June 21, 2018.
2-12 2018.03.15	To release the Directors Ming-Jiunn Jou and Nan Yang Wu from the non-competition restrictions.	The motion was approved unanimously.	The motion was approved by all present directors unanimously, and submitted to the general shareholders' meeting for discussion on June 21, 2018.
2-12 2018.03.15	Capital injection by issuance of 165 million shares of common stocks through private placement has been terminated before the expiry date at 21 June 2017.	The motion was approved unanimously.	The motion was unanimously agreed and executed by all present directors.
2-12 2018.03.15	Endorsement of Episky Corporation (Xiamen) Ltd. and Jiangsu Canyang Optoelectronics Ltd.	The motion was approved unanimously.	The motion was unanimously agreed and executed by all present directors.
2-13 2018.05.03	The issuance of new common shares for cash to sponsor issuance of the global depository receipt and/or issuance of new common shares for cash in private placement.	The motion was approved unanimously.	The motion was approved, and submitted to the general shareholders' meeting for discussion on June 21, 2018.

Term/___st/nd/rd/th time Date	Contents of motion	Resolution of Audit Committee	the Company's (the board of directors') handling of Audit Committee's opinion
2-13 2018.05.03	Endorsement of Episky Corporation (Xiamen) Ltd. and Jiangsu Canyon Optoelectronics Ltd.	The motion was approved unanimously.	The motion was unanimously agreed and executed by all present directors.
2-14 2018.06.25	III-V Semiconductor Foundry business split resolution.	The motion was approved unanimously.	The motion was unanimously agreed and executed by all present directors.
2-14 2018.06.25	Endorsement of Episky Corporation (Xiamen) Ltd. and Jiangsu Canyon Optoelectronics Ltd.	The motion was approved unanimously.	The motion was unanimously agreed and executed by all present directors.
2-15 2018.08.13	Prepare the 2018 semi-annual Financial Report.	The motion was approved unanimously.	The motion was unanimously agreed and executed by all present directors.
2-15 2018.08.13	Evaluate the independence, eligibility, and contents of service and remuneration 2018 about appointment of Ya-Huei Cheng and Chih-Cheng.Hsieh, CPAs.	The motion was approved unanimously.	As the case involved the CPA's conflict of interest, Ya-Huei Cheng, CPA left the meeting temporarily to rescue himself from the discussion. The motion was approved by all present directors ultimately.
2-15 2018.08.13	Endorsement of Episky Corporation (Xiamen) Ltd.	The motion was approved unanimously.	The motion was unanimously agreed and executed by all present directors.
2-15 2018.08.13	Approved the total amount of the Company's fund which was lent to subsidiary Episky Corporation (Xiamen) Ltd. shall not exceed RMB\$200 million in total (or the equivalent amount in USD)	The motion was approved unanimously.	The motion was unanimously agreed and executed by all present directors.
2-15 2018.08.13	Approved the total amount of the Company's fund which was lent to subsidiary Jiangsu Canyon Optoelectronics Ltd. shall not exceed RMB\$100 million in total (or the equivalent amount in USD)	The motion was approved unanimously.	The motion was unanimously agreed and executed by all present directors.
2-17 2018.12.13	Amendments to "Statement of Declaration on Internal Control" in part.	The motion was approved unanimously.	The motion was unanimously agreed and executed by all present directors.

(2) There were no other resolutions that were not approved by the Audit Committee but were approved by two thirds or more of all directors in 2018.

3. There were no recusals of independent directors due to conflicts of interests in 2018.

4. Descriptions of the communications between the independent directors, the internal auditors, and the independent auditors in 2018:

(1) Mode of communication

A. The Company's internal audit officer would report the audit affairs to independent directors at the Audit Committee meeting periodically, and communicate with the committee members about the audit results and status of his follow-up report.

B. The Company's external auditor would report to independent directors on the result of review or audit on the financial statements of the Company and its domestic/foreign subsidiaries and status of audit on internal control at the Audit Committee's quarterly meeting.

(2) Summary of the communication between independent directors and internal audit officer

The Company's independent directors had fair communication about status and result of the audit affairs. The communication in 2018 was outlined as following:

Date	Points of communication	Communication result
2018.03.15	1. Internal audit report of Q4 in 2017 2. "Statement of Declaration on Internal Control System" 2017	None
2018.05.03	Internal audit report of Q1 in 2018	None
2018.08.13	Internal audit report of Q2 in 2018	None
2018.11.12	1. Internal audit report of Q3 in 2018 2. Audit plan in 2019	None
2018.12.13	Amendments to "Statement of Declaration on Internal Control System" in part.	None

(3) Summary of the communication between independent directors and the external auditor

The Company's independent directors had fair communication with the external auditor. The communication in 2018 was outlined as following:

Date	Points of communication	Communication result
2018.03.15	1. The report on the audit result of the Company's consolidated and individual financial statements and audit on internal control in 2017. 2. Overview of the new external auditor's report and notes to key audit matter (KAM). 3. Communication with the corporate governance unit. 4. CPA responds and explains the problems of the audit committee. 5. External auditor's independence.	The financial statements have been passed by the Audit Committee, submitted to the Board of Directors for approval, and made public as scheduled and reported to the competent authority.
2018.05.03	1. The report on the audit result of the Company's consolidated financial statements and audit on internal control of Q1 in 2018. 2. Overview of the new external auditor's report and notes to key audit matter (KAM). 3. Communication with the corporate governance unit at the stage of completion. 4. CPA responds and explains the problems of the audit committee. 5. External auditor's independence.	The financial statements have been passed by the Audit Committee, submitted to the Board of Directors for approval, and made public as scheduled and reported to the competent authority.
2018.06.25	Invite the external auditor and CPA to attend the meeting and give the suggestion.	Explain in terms of the taxation on patent & technology transfer.
2018.08.13	1. The report on the audit result of the Company's consolidated a financial statements and audit on internal control of Q2 in 2018. 2. Overview of the new external auditor's report and notes to key audit matter (KAM). 3. Communication with the corporate governance unit. 4. CPA responds and explains the problems of the audit committee. 5. External auditor's independence.	The financial statements have been passed by the Audit Committee, submitted to the Board of Directors for approval, and made public as scheduled and reported to the competent authority.

Date	Points of communication	Communication result
2018.11.12	<ol style="list-style-type: none"> 1. The report on the audit result of the Company's consolidated financial statements and audit on internal control of Q3 in 2018. 2. Overview of the new external auditor's report and notes to key audit matter (KAM). 3. Communication with the corporate governance unit. 4. CPA responds and explains the problems of the audit committee. 5. External auditor's independence. 	The financial statements have been passed by the Audit Committee, submitted to the Board of Directors for approval, and made public as scheduled and reported to the competent authority.
2018.12.13	Amendments to "Statement of Declaration on Internal Control System" in part.	Already passed by the Audit Committee and submitted to the Board of Directors for approval.

3.3.3 Status of corporate governance, departures from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons for such departures

Assessment Item	Implementation Status		Departures from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons for such departures
	YES	NO	
1. Does the Company follow "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies" to establish and disclose its corporate governance principles?	✓		None
2. Shareholding Structure & Shareholders' Rights (1) Does Company have Internal Operation Procedures for handling shareholders' suggestions, concerns, disputes and litigation matters. If yes, has these procedures been implemented accordingly? (2) Does Company possess a list of major shareholders and beneficial owners of these major shareholders? (3) Has the Company built and executed a risk management system and "firewall" between the Company and its affiliates? (4) Has the Company built and executed a risk management system and "firewall" between the Company and its affiliates?	✓ ✓ ✓ ✓		None None None None
3. Composition and Responsibilities of the Board of Directors (1) Has the Company established a diversification policy for the composition of its Board of Directors, and has it been implemented accordingly? (2) Other than the Remuneration Committee and the Audit Committee that are required by law, does the Company plan to set up other Board committees? (3) Has the Company established methodology for evaluating the performance of its Board of Directors, on an annual basis?	✓ ✓ ✓		None Same as explanation. Same as explanation.

Assessment Item	Implementation Status		Departures from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons for such departures
	YES	NO	
(4) Does the Company regularly evaluate its external auditors' independence?	✓		<p>3. The directors' degree of participation in the Company's operations.</p> <p>4. The directors' management of internal relationships and communication.</p> <p>5. The directors' professionalism and continuing professional education.</p> <p>6. Internal control</p> <p>Meanwhile, with respect to the Company's related annual policies, Remuneration Committee would periodically review the policies, systems, standards, and structures for performance evaluation and remuneration for directors and managerial officers. The employee performance evaluation system should be combined with corporate social responsibility policies. The remuneration to directors, presidents and insiders would be reviewed by the Committee periodically each year and submitted to the board of directors for discussion and resolution.</p> <p>The motion for evaluation on the independence, eligibility, and contents of service and remuneration 2018 about appointment of Ya-Huei Cheng and Chih-Cheng Hsieh, CPAs conducted by the Company once a year was approved upon resolution of the Audit Committee and board of directors on August 13, 2018.</p> <p>The evaluation procedure for independence and eligibility is summarized as following:</p> <ol style="list-style-type: none"> 1. The CPA has no direct or indirect financial interest relationship with the Company. 2. The CPA has no financing or guarantee relationship with the Company or the Company's directors. 3. The CPA has no close business relationship and potential employment relationship with the Company. 4. The CPA and its audit team members do not hold, or didn't hold in the most recent two years, the position as director or managerial officer of the Company or any position that has significant influence on the audit. 5. The CPA doesn't provide any non-auditing services that might affect the audit directly. 6. The CPA doesn't act as a broker of the stock or other securities issued by the Company. 7. The CPA doesn't act as the Company's advocate, or settle the dispute between the Company and a third party on behalf of the Company. 8. The CPA has no kinship relationship with any of the Company's directors or managerial officers, or any persons who hold the position that might affect the audit materially. <p>The corporate governance unit would maintain the fair two-way communication with the team delegated by the CPA firm and related unit periodically. The CPA's audit/review also complies with the independence requirements defined in the Bulletin of Norm of Professional Ethics for Certified Public Accountant of the Republic of China No. 10 to ensure reliability of the public financial information, communicate the auditors' work, and verify the Company's material risk and the management's approaches to mitigate risk.</p>
			None

Assessment Item	Implementation Status		Departures from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons for such departures
	YES	NO	
4. Does the Company established a full- (or part-) time corporate governance unit or personnel to be in charge of corporate governance affairs (including but not limited to furnish information required for business execution by directors, handle matters relating to board meetings and shareholders' meetings according to laws, handle corporate registration and amendment registration, produce (or record?) minutes of board meetings and shareholders meetings, etc.	✓		<p>Since the Company's "Corporate Governance Best-Practice Principles" passed by the Board of Directors on August 6, 2015, Mr. Shih-Shieh Chang has held the position as the Company Governance Officer concurrently. Upon approval of the Board of Directors on March 14, 2019, the Company assigned the corporate governance unit officially and appointed VP Shih-Shieh Chang to hold the position as Company Governance Officer concurrently. All of the staff dedicated in processing related affairs hold the experience in holding the position as the management at the legal affairs, finance, shareholders service or corporate governance units in securities, financial and futures firms or public companies for at least three years, which afford to ensure their effective exercise of duties about corporate governance free from any conflict of interest or violations of the internal control system. In 2018, the relevant practices include the following, which were all held complying with laws:</p> <ol style="list-style-type: none"> 1. Conducting the related matters of board meeting and shareholders meeting according to the law. 2. Taking the meeting minutes of board meeting and shareholders meeting. 3. Assisting the directors in onboarding and continuous education. 4. Providing the directors with the information relating to perform the duties. 5. Assisting the directors to comply with the law and regulation. 6. Other matters listed in articles of incorporation or contracts. <p>To assist in reminding directors when they execute the business or approving a formal resolution during Board of Directors meeting, they should comply with the laws and regulations and related suggestions. Responsible for reviewing the important information releasing issues over vital resolutions of the board of directors meeting and ensure the lawfulness and correctness of the published contents in a timely manner after the board of directors meeting to protect investors' right on equivalence of transaction information.</p> <p>VP Shih-Shieh Chang will continue to attend the continuing education and training about corporate governance. For details, please refer to Page 67 herein. The additional details, if any, will be disclosed on the Company's official website.</p>
5. Has the Company established a means of communicating with its Stakeholders or created a Stakeholders Section on its Company website? Does the Company respond to stakeholders' questions on corporate responsibilities?	✓		<p>The Company's has set up the stakeholder section on its official website. The up-stream suppliers or contractors outside the organization may verify the laws and regulations related to products through procurement. Customers may verify the status of the Company and products via the customer service mailbox/hotline/sales representatives. The other stakeholders, such as investors/banks/government authorities, may follow up the Company's latest financial information or other information via the Company's official website, TV interview and media report.</p> <p>The stakeholders may contact the Company via the following website: https://www.epistar.com/EpistarTw/contact</p>
6. Has the Company appointed a professional registrar for its Shareholders' Meetings?	✓		<p>The professional shareholder service agent, Horizon Securities, was appointed to handle the affairs related to shareholders' meetings on behalf of the Company. Shareholder Service Agency department of Horizon Securities is also commissioned to tally and verify the proxies on behalf of the Company.</p>

Assessment Item	Implementation Status		Departures from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons for such departures
	YES	NO	
7. Information Disclosure (1) Has the Company established a corporate website to disclose information regarding its financials, business and corporate governance status? (2) Does the Company use other information disclosure channels (e.g. maintaining an English-language website, designating staff to handle information collection and disclosure, appointing spokespersons, webcasting investors conference etc.)?	✓		None
	✓		None
8. Has the Company disclosed other information to facilitate a better understanding of its corporate governance practices (e.g. including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors)?	✓		None
			None

Assessment Item	Implementation Status		Departures from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons for such departures
	YES	NO	
			<p>● With respect to health and safety of the product, marketing communication, customers' satisfaction, compliance with laws and customers' privacy, the customers may utilize questionnaire, customer service email box, customers' satisfaction survey and the Company's official website, et al. Meanwhile, the operating center's staff may visit customers or attend related fairs from time to time to facilitate a better understanding of customers and the market development orientation.</p> <p>For the Company's purchase of product liability insurance for directors and other important information to facilitate a better understanding of the Company's corporate governance practices, please see Pages 66~69 of the annual report, or access the information in the following manner: IR: rider@epistar.com, robin_yu@epistar.com CSR: csr@epistar.com Customer service: sales@epistar.com</p>
<p>9. The improvement status for the result of Corporate Governance Evaluation announced by Taiwan Stock Exchange:</p> <p>(1) According to the result of Corporate Governance Evaluation of the 4th term announced by Taiwan Stock Exchange, the Company was held one of the companies ranking the first 5%. Notwithstanding, the result of Corporate Governance Evaluation of 5th term has not yet been announced before the date of publication of the annual report.</p> <p>(2) The Company has assigned the corporate governance unit. Vice President Shih-Shieh Chang holds the position as Company Governance Officer responsible for supervising the unit. All of the staff dedicated in processing related affairs held the experience in managing legal affairs, finance and shareholders service in public companies for at least three years.</p> <p>(3) All of the directors have completed the continuing education of the hours required under the "Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEX Listed Companies" in 2018.</p> <p>(4) The directors' meeting called by the Company will be pre-arranged annually. Where it is impossible for any directors to attend the meeting, the director may still communicate and understanding the related motion in advance and issue a proxy to express his/her opinion. Where the directors' meeting date is changed temporarily, the Company will try its best to set the meeting on the date on which the director might be available to raise the whole directors' attendance rate.</p> <p>(5) For the time being, the Company only prepares the English annual report audited by the external auditor, while the English annual financial statements of Q1-Q3 will be prepared, if necessary.</p> <p>(6) In response to the time trend, 4G network and prevalence of smart phones, the Company revised the interface of the Company's official website significant last year, in order to make the homepage appear to be more active and energetic.</p>			

3.3.4 Remuneration Committee

3.3.4.1 Remuneration Committee Members' Professional Qualifications and Independent Analysis

According to the relevant requirements set by Taiwan's Securities and Futures Bureau, the professional qualifications and independence status of the Company's Remuneration Committee members are listed in the table below.

Name Title/Criteria	Meet the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Criteria (Note)								Number of Other Taiwanese Public Companies Concurrently Serving as a Remuneration Committee Member in Taiwan
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialists Who Has Passed a National Examination and Been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Area of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	
Feng-Shang Wu Independent Director	✓			✓	✓	✓	✓	✓	✓	✓	✓	0
Wei-Min Sheng Independent Director	✓			✓	✓	✓	✓	✓	✓	✓	✓	2
Chi-Yen Liang Independent Director			✓	✓	✓	✓	✓	✓	✓	✓	✓	2

Note: Remuneration Committee Members, during the two years before being elected or during the term of office, meet any of the following situations, please tick the appropriate corresponding boxes:

1. Not an employee of the company or any of its affiliates;
2. Not a director or supervisor of the company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the company, its parent company, or any subsidiary, as appointed in accordance with the laws of Taiwan or with the laws of the country of the parent company or subsidiary;
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the company or ranks as one of its top ten shareholders;
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the above persons in the preceding three subparagraphs;
5. Not a director, supervisor, or employee of a corporate/institutional shareholder that directly holds five percent or more of the total number of issued shares of the company or ranks as of its top five shareholders;
6. Not a director, supervisor, officer, or shareholder holding five percent or more of the shares of a specified company or institution that has a financial or business relationship with the company;
7. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the company or to any affiliate of the company, or a spouse thereof;
8. Not been a person of any conditions defined in Article 30 of the Company Law.

3.3.4.2 Remuneration Committee Meeting Status

- (1) The Company's Remuneration Committee consists of 3 members for the time being, who are all independent directors.
- (2) The current members shall hold the position from June 23, 2016 until June 16, 2019 (same as the Board of Directors of 9th term). In 2018, the Remuneration Committee has held 3 (A) meetings. The members' attendance is stated as following:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate in Person (%) (B/A)	Note
Chair	Feng-Shang Wu	3	0	100.0%	
Member	Wei-Min Sheng	2	1	66.7%	
Member	Chi-Yen Liang	3	0	100.0%	

- (3) Important resolutions and status thereof

Term/____st/nd/rd/th time Date	Contents of motion	Independent director's opinion	the Company's handling of independent director's opinion
3-7 2018.03.15	Motion for proportion of allocation of remuneration to directors and employees in 2018. 【2% for remuneration to directors; 15% for remuneration to employees】	Approved by the whole members unanimously.	Approved by the Board of Directors.
3-8 2018.08.13	<ul style="list-style-type: none"> ● Allocation of remuneration to directors in 2017. ● Salary and remuneration to directors. ● Suggestion on calculation of salary payable to President Chin-Yung Fan. ● Suggestion on salary and remuneration to the promoted manager, Wei-Shih. ● Allocation of 2017 employee remuneration to managers and/or directors who were also employees. 	Approved by the whole members unanimously.	Approved by the Board of Directors.
3-9 2018.12.13	Suggestions on raise and reward policy for managers in 2019.	Approved by the whole members unanimously.	Approved by the Board of Directors.

Annotation :

- There was no recommendation of the Remuneration Committee that was not adopted or was modified by the Board of Directors.
- There were no written or otherwise recorded resolutions on which a member of the Remuneration Committee had a dissenting opinion or qualified opinion.

3.3.5 Status of corporate social responsibility

Assessment Item	Implementation Status		Departures from the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and reasons for such departures
	YES	NO	
<p>1. Implementation of Corporate Governance</p> <p>(1) Does the Company have a corporate social responsibility policy and evaluate its implementation?</p>	✓		None
<p>(2) Does the Company hold regular CSR training?</p>	✓		None

Assessment Item	Implementation Status		Departures from the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and reasons for such departures
	YES	NO	
(3) Does the Company have a dedicated (or ad-hoc) CSR organization with Board of Directors authorization for senior management, which reports to the Board of Directors?	✓		None
(4) Does the Company set a reasonable compensation policy, integrate employee appraisal with CSR policy, and set clear and effective incentive and disciplinary policies?	✓		None

Assessment Item	Implementation Status		Departures from the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and reasons for such departures
	YES	NO	
			any, as the remuneration to employees. The receivers of such remuneration shall include the employees of the Company's subsidiaries who meet certain specific requirements. In 2018 financial statement, it was estimated as 15%. Notwithstanding, as the Company suffered loss in 2018 and, therefore, no such remuneration was allocated. The Company will take the salary level and economic trend in the market into account when adjusting employees' salary based on the Company's operating performance and personal performance each year. In the past, the range of raise was used to being higher than the market value, in order to shorten the gap between the market value and benchmark price. Nonetheless, since the gap has been shortened, the range of raise was suggested to be based on the market value in 2018. Meanwhile, the incentive compensation for variability was provided as the incentive tool, and a raise would be offered at the same time when any employee was promoted in order to encourage excellent talents.
2. Environmentally Sustainable Development (1) Is the Company committed to improving resource efficiency and to the use of renewable materials with low environmental impact?	✓		None Since the Company was founded, it has upheld the life cycle idea about environmental management system, and voluntarily and continuously made improvements at the stages of use, production, circulation and waste of raw materials and supplies in order to mitigate the effect and impact produced to the environment. Meanwhile, the Company introduced the latest pollution prevention technology at the stage of construction of factory premises. The Company also upgrades the efficiency of energy utilization, builds comfortable living environment and pursues sustainable operations by the 3R model (Reduce, Reuse and Recycle), and approves the first motion for reuse of ammonia in Taiwan.

Assessment Item	Implementation Status		Departures from the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and reasons for such departures
	YES	NO	
(2) Has the Company set an Environmental management system designed to industry characteristics?	✓		<p>We are committed to improving the energy efficiency both in factories and in offices through specific energy-saving measures such as energy-saving lighting, air-pressure equipment, air-conditioning equipment and power equipment to reduce operating costs and environmental impact. We also support the products and services inherent energy efficiency through procurement of improved energy performance designs, and implements energy management to continuously improve energy efficiency.</p> <p>The Company continues to upgrade the management result of the EMS. In addition to ISO 14001 EMS certification (since 2006 until now), ISO14064-1 verification by association organization level (from 2006 to 2018), and internal self-inspection since 2016, the Company also completed introduction and certification of PAS 2050 standards on carbon footprint of V45H chip in 2011.</p> <p>Since 2011, the Company has introduced the environmental accounting management system under guidance of Environmental Protection Administration. By virtue of environmental classification and code, the Company demonstrated its concrete achievement in environmental protection in detail and completely. The data analysis output from the system may also serve as the basis for investment or management to enable the Company to consider the entire environmental management performance comprehensively, in hopes of achieving the purpose of environmental protection sustainability in the most economic and effective manner.</p>
			None

Assessment Item	Implementation Status		Departures from the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and reasons for such departures
	YES	NO	
(3) Does the Company track the impact of climate change on operations, carry out greenhouse gas inventories, and set energy conservation and greenhouse gas reduction strategy?	✓		<p>The Company values environmental protection very much. "Prevention of pollution, upgrading of energy utilization efficiency and creation of sustainable operation, and fulfillment of corporate social responsibility" will be the Company's first priority to execute merger and reduction, upgrading of efficiency, continuous improvement, recycling and reuse, low-carbon management and green procurement. Since 2008, the Company has participated the (GHG) project of TOSIA, and followed ISO 14064-1 standard procedure to inspect the greenhouse gas emission of the Company's factory premises, and also passed the certification organization's inspection procedure and acquire the GHG emission certificate. Meanwhile, the Company continues to work with TOSIA to update GHG inspection information, with the tools in ready. In order to further measure and manage greenhouse gas emission to reduce the operational impact brought by climate change, the Company had planned to complete the disclosure of Carbon Disclosure Project (CDP) voluntarily within three years. The Company responds to the energy-saving and carbon-reduction policy boosted by the government and deepens its awareness toward environmental protection by setting ten major key performance indicators for environmental protection and completing 2018 EPSTAR environmental protection performance baseline to discuss the descriptions about impact to environment by factory and draft the management programs to keep improving. The Company's countermeasures:</p> <ul style="list-style-type: none"> ● Aspect of environmental protection expenditure: In 2018, responded to Company's Fab N2/H1 environmental protection regulations or the increasing demand of production capacity, building or modifying environmental protection facilities; responded to Company's Fab N3 being restarting after

Assessment Item	Implementation Status		Departures from the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and reasons for such departures
	YES	NO	
			<p>recovering from fire damaged, improved environmental protection facilities and expenses of pollution control activities.</p> <ul style="list-style-type: none"> ● Prevention of flood and increase recycled water volume: ● Compliance with the water usage plan applicable during drought period, and the energy-saving and carbon-reduction plan. The proportion of recovered water accounted for 27.6% of total water consumption in 2018. ● GHG in 2018: As a result of production capacity increased, the GHG emission strength in 2018 was declined by 14.9% from 2012, and the total GHG emission in 2018 was increased by 23.3% from 2012. ● The water usage strength in 2018 was declined by 55.7% from 2012. ● Aspect of pollution prevention: <ul style="list-style-type: none"> ● The sewage disposal strength in 2018 was declined by 40% from 2012; the amount of waste per unit output in 2018 was increased by 59.3% from 2012, but was increased by 23.4% from 2017, mainly due to treatment of Company's Fab N3 fire-damaged waste and Company's Fab HI/SI temporarily stacked waste caused by lacking corresponding waste cooperative companies. ● Green products: <ul style="list-style-type: none"> ● 100% compliance with Restriction of Hazardous Substances (RoHS) and Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) Substances of Very High Concern (SVHC); establishment of Hazardous Substance Process Management (HSPM) system; acquisition of SONY Green Partner (GP) and ISO 14001 certification.

Assessment Item	Implementation Status		Departures from the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and reasons for such departures
	YES	NO	
<p>3. Promotion of Social Welfare</p> <p>(1) Does the Company set policies and procedures in compliance with regulations and internationally recognized human rights principles?</p>	✓		None
<p>(2) Has the Company established appropriately managed employee appeal procedures?</p>	✓		None

The Company has stipulated rules and regulations to be followed for business partners of suppliers/contractors under the supplier management procedures and regulations governing safety & health management, so that suppliers/contractors are required to comply with the relevant human rights provisions under Labor Standards Law, including the prohibition of child labor and forced labor. PLS refer to CSR report for reference.

The Company values relationship with employees very much. Employee Relations department will organize the labor-management meeting periodically, and communication meetings and various events from time to time. Employees may file a complaint against any misconduct (including corruption) and unethical conduct via such complaining channels as speech list at the labor-management meeting and dedicated mailbox of Employee Relations department and Audit Office. Employees may state their opinion via the following channels. The relevant complaining channels and procedures on the Company's intranet and official website. Any complaint would be kept in confidence to protect whistleblowers from being treated improperly for their whistleblowing and, therefore, the fair two-way communication and exchange may be achieved.

- Immediate supervisors
- Employee Relations Department
- Labor-management meeting
- Audit Office
- Alternatively, the "Contact for Stakeholders".

Assessment Item	Implementation Status		Departures from the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and reasons for such departures
	YES	NO	
(3) Does the Company provide employees with a safe and healthy working environment, with regular safety and health training?	✓	<p>The Company has established an Emergency Response Team. We hold various response trainings and drills to ensure employees' knowledge regarding industrial safety and to decrease the loss of accidents. We also hold various health precaution activities, and promote customized and risk control programs through health risk indicators to improve the quality of health services. We've cooperated with the Xingzhi International Business Management Consultation Company to promote employees assistance service with confidentiality and professional services for employees to deal with their daily life's problems.</p> <p>The Company has a sound communication platform, regular questionnaires, annual strategic planning meeting, monthly management, two-way communication meeting and staff meetings. In the meeting, we not only get clear and correct information of the Company, but also achieve a good two-way communication and exchange.</p> <p>The Company has passed the following ESH system certification and would continue to maintain the certification:</p> <ul style="list-style-type: none"> ● OHSAS 18001 occupational safety and health management system certification ● TOSHMS/CNS 15506 Taiwan occupational safety and health management system certification <p>The Company has a comprehensive learning program. Employees are encouraged to attend professional courses or irregular English program on-line in our "Chan Gin Que" website. Employees' learning records shall be duly recorded and employees may log on to check whose own learning history.</p>	None
(4) Has the Company established a mechanism for regular communication with employees and use reasonable measures to notify employees of operational changes, which may cause significant impact to employees?	✓		None
(5) Has the Company established effective career development training plans?	✓		None

Assessment Item	Implementation Status		Departures from the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and reasons for such departures
	YES	NO	
(6) Has the Company set polices and consumer appeal procedures in its R&D, purchasing, production, operations, and service processes?	✓		None
(7) Does the Company follow regulations and international standards in the marketing and labeling of its products and services?	✓		None
(8) Does the company evaluate environmental and social track records before engaging with potential suppliers?	✓		None
(9) Does the Company's contract with major suppliers include termination clauses if they violate CSR policy and cause significant environmental and social impact?	✓		None
4. Enhanced Information Disclosure Does the Company disclose relevant and reliable CSR information on its website and the Taiwan Stock Exchange website?	✓		None

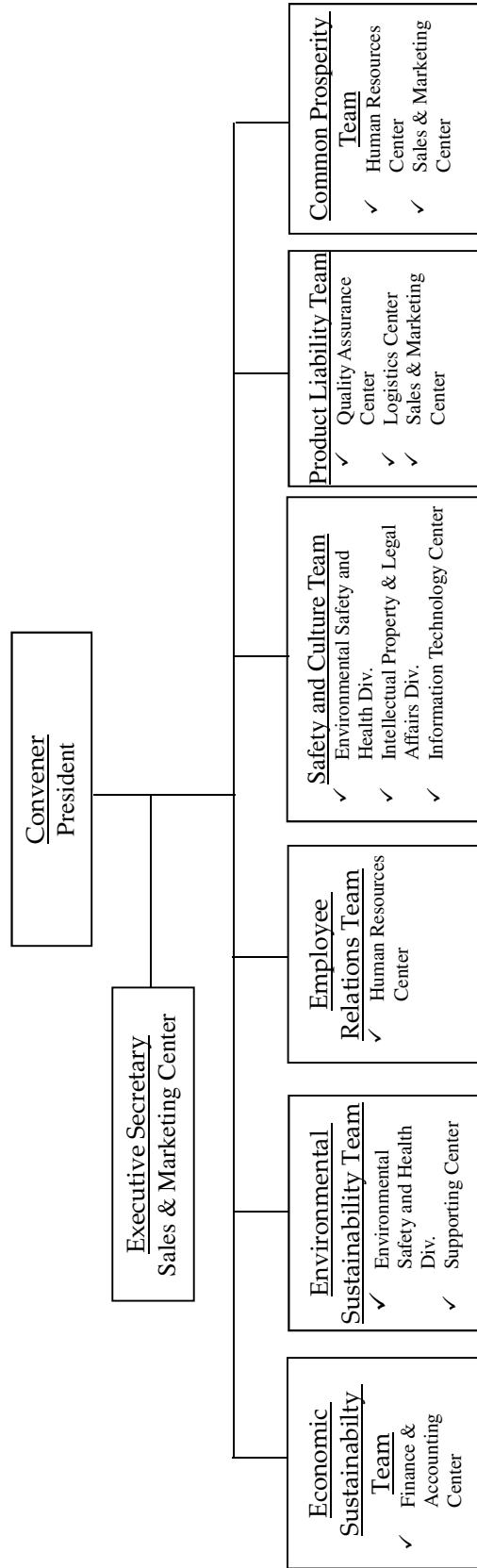
Assessment Item	Implementation Status		Departures from the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and reasons for such departures
	YES	NO	
<p>5. If the Company has established its corporate social responsibility code of practice according to “Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies”, please describe the operational status and differences.</p> <p>Since the establishment of EPiSTAR, our core business has been “Actualizing LED Potential”. We continue to advance our research and develop new products, focusing on environmentally friendly products and optimizing chip process technology, allowing our LED to be applicable in various applications.</p> <p>【Economic】</p> <p>In the past year, the production capacity expanded by peer companies in the LED industry remarkably caused the oversupply of LED in the world. Besides, given the overall demand less than expectation in the market, the market price declined significantly. As a result, the Company’s consolidated operating revenue declined by 19.64% in 2018 from 2017. Looking forward to 2019, the LED industry still suffers from the excessive capacity. All of the Company’s staff will continue to use their best efforts to cut the operating costs and promote the foundry business and R&D of the VCSEL and 5G applied to sensors, in hopes of achieving better performance. The entire operating activities are closely related to stakeholders, which serve as the basis for the Company’s sustainability. The stakeholders may engage in effective communication with the Company via various channels.</p> <p>【Corporate Governance】</p> <p>EPiSTAR advocates and acts upon the principles of operational transparency and respect for shareholders’ rights. We believe that one basis for successful corporate governance is a sound and effective Board of Directors. In line with this principle, the EPiSTAR Board of Directors delegates various responsibilities and authority to the two Board Committees, namely Audit Committee and Remuneration Committee. Each Committee has a written charter approved by the Board of Directors. Each Committee’s chairperson regularly reports to the Board of Directors on the activities and actions of the relevant committee. The Audit Committee and Remuneration Committee consist solely of independent directors.</p> <p>The Company also assigned one Company Governance Officer on March 14, 2019, who shall be responsible for supervising the corporate governance affairs.</p>	Summary		

Assessment Item	Implementation Status		Departures from the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and reasons for such departures
	YES	NO	
		Summary	
<p>【Environment】 EPiSTAR is the leading manufacturer of LED chips; therefore, we regard the environmental protection issue very seriously. Our energy consumption, raw material usage, water resource, greenhouse gas and many more all follow the P-D-C-A (Plan-Do-Check-Action) management mode and we continuously implement and improve environment protection programs. Energy conservations through lighting, air pressure and air conditioning and electric equipment all contribute to lower operating costs and in turn lowers impact on the environment. We hope that through energy conservation and process improvement, we can effectively lower our raw materials and energy consumption, increase energy efficiency and in turn create a sustainable corporate environment and protect the earth for our future generations. Approved by the Board, we have allocated yearly budget, and in 2018, our expenditure was NTD3.17 billion. The Company has set the goal for energy saving and carbon reduction since 2012. The Company expects to reduce the emission of CO2e by 11,000 tons in 2020, equivalent to the carbon fixation of 1,100,000 trees for one year. By continuing to promote the energy saving and carbon reduction policy, the Company may attain the reduction of CO2e emission set by it, and also cut the operating cost in terms of corporate sustainability at the same time. Until the end of 2018, the Company has attained the reduction of CO2e emission by 9,291 tons, namely 84.5%.</p> <p>【Society】 EPiSTAR provides competitive income, benefits, training, and planning for our employee's career development. We held many activities which promotes family relationships, exercise and health, and continuously to find balance between work and living, allowing our employees to be "happy at work, enjoy living". In 2018, the Company's social public welfare program focused on the three major aspects, namely rural education, care for children and fostering of industrial development. The Company not only maintains the existing economic support but also hopes to lead more employees and other institutions to participate in the social public welfare to enhance the synergy of contribution to the society, in a manner like spreading spot lights.</p>			
6. Other important information to facilitate better understanding of the Company's implementation of corporate social responsibility:	<p>The Company's social participation is briefed as follows:</p> <ul style="list-style-type: none"> ● We were invited to participate in Hsinchu Science Park Bureau "Occupational safety & health expert team— man-made hazard preventive consultation" and worked as leader and consultant in 2018. We helped 3 companies, and 6 sessions in total. ● As a social citizen, we give back to the society and care for the community. We've participated in charitable events in low-profile including charitable donation of NT\$1.05 million, 500 X' mas gifts for children in rural areas, and Epistar volunteer club activities record. 		

Assessment Item	Implementation Status		Departures from the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and reasons for such departures
	YES	NO	
	Summary		

The organization, members and functions of the Corporate Social Responsibility Team are stated as following:

Organization of Corporate Social Responsibility Team



Assessment Item	Implementation Status		Departures from the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and reasons for such departures
	YES	NO	
	Summary		

Department	Functions
Sales & Marketing Center	Marketing and communication compliance, corporate social responsibility management, marketing media relations management, and social public welfare
Finance & Accounting Center	Social economic compliance, Risk management and disclosure of finance, capital, tax strategy, dividend policy, etc., and investor relations maintenance
Human Resources Center	Labor standards compliance, employees' codes of ethical conduct, human resource recruitment, training and career development, labor-management relations, and promotion of social public welfare
Environmental Safety and Health Div.	Environmental protection and occupational safety compliance, green production, environmental protection expenditure, occupational safety, culture and responsibility, and pollution prevention
Supporting Center	Energy saving and carbon reduction, cleaner production
Sales & Marketing Center	Social economic compliance, green products, service market, and Customers' privacy
Logistics Center	Social economic compliance, procurement policy, overview of supply chain, and management of materials and supply chain
Quality Assurance Center	RoHS, REACH, international environmental protection regulations and product quality compliance, customer service and satisfaction, product safety and quality management
Intellectual Property & Legal Affairs Div.	Social economic compliance, codes of ethical conduct, legal counseling, intellectual property right management, and the Company's confidential information
Information Technology Center	Information security compliance, customers' privacy, and information security

Human Resources Center has reported the status of fulfillment of corporate social responsibility and ethical management in 2018 to the Board of Directors on December 13, 2018.

1. In order to promote the corporate social responsibility, the president acts as the convener. In 2018, Sales & Marketing Center acted as the executive secretary and disclosed the status of corporate social responsibility in the CSR report and on the Company's official website.
2. For the ethical management, Human Resources Center is responsible for planning and executing the various functions and reporting the result and status of budget executed by it. The president also assigns related units to help establish the ethical management policy and prevention program from time to time, and disclose the status thereof in the CSR report and on the Company's official website.

Assessment Item	Implementation Status		Departures from the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and reasons for such departures
	YES	NO	
<p>7. Other information regarding “Corporate Responsibility Report” which is verified by certifying bodies:</p> <ul style="list-style-type: none"> ● Passed Corporate Social Responsibility Report verified by the British Standards Institution (BSI) and issued an independent assurance statement of opinion in 2016. ● Obtained Taiwan Corporate Sustainability Awards (TCSA) Corporate Sustainability Report-Silver Award of Electronic Information Manufacturing Group in 2017 and 2018. ● Obtained BSI Sustainability Award in 2017 and 2018. ● Ranked top 5% of the fourth Corporate Governance Evaluation. ● The Company acquires the following quality system certification and continues maintaining the same: ISO 9001 Certificate of Quality Management System ISO/TS 16949 Certificate of Automotive Industry Quality Management System SONY Green Partner Certification. ● The Company acquires the following ESH system certification and continues maintaining the same: Environmental management system-ISO 14001:2004 Greenhouse Gases Emissions-ISO 14064-1 Occupational health & safety management system-OHSAS 18001 Taiwan Occupational health & safety management system-TOSHMS/CNS 15506 		Summary	

3.3.6 Status of corporate social responsibility, and implementation measures

Assessment Item	Implementation Status		Departures from the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies and reasons for such departures
	YES	NO	
<p>1. Establishment of Corporate Conduct and Ethics Policy and Implementation Measures</p> <p>(1) Does the Company have bylaws and publicly available documents addressing its corporate conduct and ethics policy and measures, and the commitment regarding implementation of such policy from the Board of Directors and the management team?</p> <p>(2) Does the Company establish relevant policies that are duly enforced to prevent unethical conduct and provide implementation procedures, guidelines, consequence of violation and complaint procedures in such policies?</p> <p>(3) Does the Company establish appropriate compliance measures for the business activities prescribed in Paragraph 2, Article 7 of the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies and any other such activities associated with high risk of unethical conduct?</p>	<p>✓</p> <p>✓</p> <p>✓</p>		<p>None</p> <p>None</p> <p>None</p>

Assessment Item	Implementation Status		Departures from the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies and reasons for such departures
	YES	NO	
<p>2. Ethic Management Practice</p> <p>(1) Does the Company assess the ethics records of whom it has business relationship with and include business conduct and ethics related clauses in the business contracts?</p>	✓		None
<p>(2) Does the Company set up a unit, which is dedicated to or tasked with promoting the Company's ethical standards, and reports directly to the Board of Directors with periodical updates on relevant matters?</p>	✓		None
<p>(3) Does the Company establish policies to prevent conflict of interests, provide appropriate communication and complaint channels and implement such policies properly?</p>	✓		None

Assessment Item	Implementation Status		Departures from the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies and reasons for such departures
	YES	NO	
(4) To implement relevant policies on ethical conducts, does the company establish effective accounting and internal control systems that are audited by internal auditors or CPA periodically?	✓		The Company has established an effective accounting and internal control system and operated smoothly. Internal audit members conduct regular audit as the planned schedule and make audit reports. Audit reports are sent for directors and independent directors for inspection so as to prevent corruption.
(5) Does the Company provide internal and external ethical conduct training programs on a regular basis?	✓		Epistar will have a complete plan for employee development, we have a training roadmap according to each functional skill and position, and the employees can study through eLearning or participate in the internal training courses or register for external training courses through the training system. All employees could check detailed training records by themselves in the system. For the details about educational training on ethical management, please see Page 112~113.
3. Implementation of Complaint Procedures (1) Does the Company establish specific complaint and reward procedures, set up conveniently accessible complaint channels, and designate responsible individuals to handle the complaint received?	✓		The Company sets up the independent email box and hotline available to complainants at the Company's internal portal website and official website. Any person who suspects or finds any violation of laws or ethical code may report the case to any of the following units and also provide sufficient information. If necessary, the Company will form a dedicated committee in confidential manner. The process of investigation and information related to the committee members, concerned parties shall be kept confidential, and the complainants' safety must be secured. The process shall also be reported to the Chairman of Board. 1. Immediate supervisor 2. Audit dept. supervisor, Human Resources Center/Employee Relations department supervisor or legal office & intellectual property right supervisor 3. The opinion response mechanism set up by the Company internally

Assessment Item	Implementation Status		Departures from the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies and reasons for such departures
	YES	NO	
(2) Does the Company establish standard operation procedures for investigating the complaints received and ensuring such complaints are handled in a confidential manner?	✓		None
			<p>4. The channel available to stakeholders</p> <p>5. or other eligible personnel</p> <p>The opinion response mechanism not only offers the employees' complaining hotline but also sets up the opinion mailbox exclusive for employees. Employee Relations department acts as the dedicated unit responsible for organizing seminars for employees periodically, setting up the "being harassed while performing duties" hotline and mailbox, and organizing the "Heart Communication Meeting" chaired by President from time to time. Additionally, the complaint may be filed with Audit Department. Investor relations mailbox, CSR mailbox, customer service mailbox or channel available to stakeholders may serve as the external communication channel. The Company establishes ESH communication and consultation management procedure to enable the ESH management system to reach the consensus within the Company, and also establishes the ESH consultation and communication channel available to the Company's external stakeholders. Any complaint will be processed as a special case promptly, and the process thereof will be reported to the Chairman of Board. Given this, the Company's complaining channels are considered perfect.</p> <p>Employee complaints and reports for offense are investigated in accordance with the relevant internal control procedures and the investigation committee is responsible for conducting investigations on relevant matters in a confidential manner and strictly protecting the reporters; unless otherwise provided by laws, the personal data and reporting materials provided by the reporters shall be kept confidential and we'll provide appropriate protective measures in accordance with the law to confirm that it has been dealt with by relevant protection mechanisms.</p>

Assessment Item	Implementation Status		Departures from the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies and reasons for such departures
	YES	NO	
(3) Does the Company adopt proper measures to prevent a complainant from retaliation for his/her filing a complaint?	✓	Strictly keep the complainant's identity, the process of investigation and related information confidential; if necessary, form a dedicated committee to conduct the related investigation. The members of investigation committee and relevant persons involved are required to keep confidential of the investigation process and related materials, and do their utmost to protect the safety of the reporters, and report the situation to the Chairman.	None
4. Information Disclosure Does the Company disclose its guidelines on business ethics as well as information about implementation of such guidelines on its website and Market Observation Post System ("MOPS")?	✓	The Company discloses the information related to the Company in the investor service section and stakeholder section on the Company's official website at: http://www.epistar.com	None
5. If the Company has established corporate governance policies based on "the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies", please describe any discrepancy between the policies and their implementation: None.			

Departures from the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies and reasons for such departures	Implementation Status		Assessment Item				
Summary	YES NO		<p>6. Other important information to facilitate better understanding of the Company's corporate conduct and ethics compliance practices (e.g., review the company's corporate conduct and ethics policy):</p> <p><u>Whistleblowing system and whistleblower's protection</u> Epistar forbids corruption and any forms of malpractice. When any person suspects or finds any violation of laws & regulations (including corruption) or unethical conduct, please inform the Company via the independent whistleblowing mailbox or hotline, subject to the type of accused party, to help the Company assign the case to the relevant management level effectively.</p> <table border="1" data-bbox="646 436 986 1870"> <tr> <td data-bbox="646 436 710 1870">Communication for outsiders/Contact for stakeholders</td> <td data-bbox="646 996 986 1870"> <ul style="list-style-type: none"> ● Shareholders/investors, government agencies, trade associations/media, financial institutions ● Corporate customers ● Suppliers ● Contractors ● Employees ● Corporate social responsibility mailbox ● Whistleblowing mailbox for violations of the code of business ethics </td> </tr> <tr> <td data-bbox="710 436 774 1870">Communication channel for internal personnel (employees)/Feedback mechanism</td> <td data-bbox="710 996 986 1870"> <ul style="list-style-type: none"> ● Immediate supervisors ● Employee Relations Department ● Labor-management meeting ● Audit Office ● Alternatively, the "Contact for Stakeholders". </td> </tr> </table> <p>Epistar is used to keeping in confidence the information from internal channels or external channels. Any accused case will be treated as one special case to be resolved by formation of the dedicated committee, adoption of the protection measures against the whistleblower pursuant to laws, protection of the whistleblower's identity and accusation, and undertaking to prevent the whistleblower from being treated improperly.</p> <p>6.1 The whistleblower shall at least provide the following information:</p> <p>6.1.1 The whistleblower's name, and address, Tel. No. and email address accessible to the whistleblower;</p> <p>6.1.2 The accused party's name, or any other information sufficient to identify the accused party's identity or characteristics;</p> <p>6.1.3 Concrete fact and evidence investigable.</p>	Communication for outsiders/Contact for stakeholders	<ul style="list-style-type: none"> ● Shareholders/investors, government agencies, trade associations/media, financial institutions ● Corporate customers ● Suppliers ● Contractors ● Employees ● Corporate social responsibility mailbox ● Whistleblowing mailbox for violations of the code of business ethics 	Communication channel for internal personnel (employees)/Feedback mechanism	<ul style="list-style-type: none"> ● Immediate supervisors ● Employee Relations Department ● Labor-management meeting ● Audit Office ● Alternatively, the "Contact for Stakeholders".
Communication for outsiders/Contact for stakeholders	<ul style="list-style-type: none"> ● Shareholders/investors, government agencies, trade associations/media, financial institutions ● Corporate customers ● Suppliers ● Contractors ● Employees ● Corporate social responsibility mailbox ● Whistleblowing mailbox for violations of the code of business ethics 						
Communication channel for internal personnel (employees)/Feedback mechanism	<ul style="list-style-type: none"> ● Immediate supervisors ● Employee Relations Department ● Labor-management meeting ● Audit Office ● Alternatively, the "Contact for Stakeholders". 						

Assessment Item	Implementation Status		Departures from the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies and reasons for such departures
	YES	NO	
<p>6.2 Dedicated committee members The Audit Office, Intellectual Property & Legal Affairs Div., Human Resources Center and 9 senior officers shall act as the members, and 5 out of them shall be elected to form the dedicated committee for each individual case upon exclusion of the concerned parties' supervisors (members).</p> <p>6.3 Operating procedures adopted by the dedicated committee</p> <p>6.3.1 The accusation involving general employees shall be submitted to the department head. The accusation involving directors or senior management shall be reported to the Chairman of Board and independent directors.</p> <p>6.3.2 The dedicated committee and the management or personnel referred to in the subparagraph shall verify the truth immediately, and ask the related department or such external unit as attorney-at-law and CPA firms for assistance, if necessary.</p> <p>6.3.3 Where it is proven that the accused party does violate the related laws or the Company's ethical management policy and requirements, the Company shall ask the accused party to cease the relevant activity immediately and also take appropriate measures, and claim damages through legal actions to maintain the Company's goodwill, interest and right, if necessary.</p> <p>6.3.4 The acceptance and investigation of accusation and the investigation result shall be recorded in writing and the written record may be maintained in an electronic form for five years. Where any legal action involving the accusation is initiated prior to expiration of the written record, the related information shall be maintained until the legal action is concluded.</p> <p>6.3.5 Where the accusation is proven to be true, the Company shall order the Company's related units to review the relevant internal control system and operating procedures, and propose the corrective action plan to stop the relevant incident from taking place again.</p> <p>6.3.6 The dedicated committee shall report the accusation, resolution thereof and followup on corrective actions to the Chairman of Board, and report the same to the Board of Directors, subject to the materiality of the case.</p> <p>6.3.7 Where it is proven to violate the Company's regulations, systems and ethical management requirements, the Company will render the punishment pursuant to the relevant management regulations, and disclose the person's job title and name, contents of the violation and resolution on the intranet or the Bulletin. Where the case is considered material, the Company shall take necessary legal actions, dismiss the person and also never hire the same person again.</p> <p>6.3.8 Respond to the whistleblower about the resolution on the accusation.</p> <p>6.4 Operating procedures for handling employees' complaints and accusation</p> <p>6.4.1 The complaint filed by any employee shall specify the following information.</p> <p>6.4.2 Subject to the case, a dedicated committee will be formed in a confidential manner to conduct the relevant investigation and report the resolution to the Board of Directors.</p>		Summary	

Assessment Item	Implementation Status		Departures from the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies and reasons for such departures
	YES	NO	
6.4.3	Where the accusation against the specific person's corruption or acceptance of bribe, if any, is proven to be true, the Company will provide the whistleblower with incentive rewards and also take appropriate protection measures to undertaking that the whistleblower would not be treated improperly due to the accusation and related protection mechanism is adopted. Notwithstanding, where the whistleblower is found fabricating the truth and making misrepresentation for grievance, or defaming others intentionally, the whistleblower shall bear the legal liability for perjury or false accusation solely, and the Company will bring the whistleblower into justice pursuant to laws, and render punishment on the whistleblower pursuant to the Company's internal regulations.		
6.4.4	For the other procedures, please apply the "Operating Procedures of Dedicated Committees".		

3.3.7 Disclosure of and search for corporate governance best-practice principles and related bylaws

Major Internal Policies	Mode of Disclosure & Search
<ul style="list-style-type: none"> ● Articles of Incorporation ● Rules for the Procedures of the Shareholders' Meeting ● Rules for Elections of Directors and Supervisors ● Rules for the Procedures of the Board of Directors' Meeting ● Audit Committee Charter ● Remuneration Committee Charter ● Acquisition or Disposal Procedures of Asset ● Procedures for Endorsements and Guarantees ● Procedures for Loaning Funds to Other Parties ● Corporate Governance Best Practice Principles ● Ethical Corporate Management Best Practice Principles ● Rules Governing the Scope of Powers of Independent Directors ● Corporate Social Responsibility Best Practice Principles ● Procedures for Preventing Insider Trading ● Procedure for halt and resumption applications 	<p>M.O.P.S.: http:// mops.twse.com.tw Search in Basic information section/E-book/Annual report and information about shareholders' meeting or corporate governance section/Establishment of corporate governance best-practice principles.</p> <p>Company's website: http://www.epistar.com Search in the IR/Corporate Governance/ Major Internal Policies.</p>

3.3.8 Other important information to facilitate better understanding of the Company's implementation of corporate governance:
3.3.8.1 Continuing Education/Training of Directors in 2018

Title	Name	Date	Host by	Training Title	Duration
Chairman	Biing-Jye Lee	2018.11.12	Taiwan Corporate Governance Association	Remarks and analysis on latest amendments to the Company Act	3.0
Chairman	Biing-Jye Lee	2018.11.12	Taiwan Corporate Governance Association	EU GDPR and enterprises' response	3.0
Director	Ming-Jiunn Jou	2018.11.12	Taiwan Corporate Governance Association	Remarks and analysis on latest amendments to the Company Act	3.0
Director	Ming-Jiunn Jou	2018.11.12	Taiwan Corporate Governance Association	EU GDPR and enterprises' response	3.0
Director	Huei-Chen Fu	2018.08.15	Accounting Research and Development Foundation	Directors' fiduciary duty and business judgment guidelines	4.0
Director	Huei-Chen Fu	2018.11.14	Accounting Research and Development Foundation	How enterprises to respond to the modern white-collar crime	4.0
Director	Chih-Yuan Chen	2018.01.08	Taiwan Institute of Directors	Digital transformation-Starting from enhancement of the digital abilities of Board of Directors	3.0
Director	Chih-Yuan Chen	2018.07.03	Taiwan Institute of Directors	2018 Annual meeting of the Board of Directors	3.0
Director	Chih-Yuan Chen	2018.11.09	Taian Insurance co., Ltd.	Directors' and senior management's anti-money laundering and countering of terrorism financing training	2.0
Director	Nan Yang Wu	2018.07.10	Securities & Futures Institute	TWSE listed companies' insider equity trading legal compliance promotion presentation	3.0
Director	Nan Yang Wu	2018.07.25	Taipei Exchange(TPEX)	TPEX listed companies' and emerging stock companies' insider equity trading promotion presentation	3.0
Director	Shan-Chieh Chien	2018.03.07	Taiwan Corporate Governance Association	Board of Directors' performance evaluation	3.0
Director	Shan-Chieh Chien	2018.10.23	Taiwan Corporate Governance Association	Interpretation of focus of amendments to the Company Act	3.0
Independent Director	Feng-Shang Wu	2018.07.24	Securities & Futures Institute	TWSE listed companies' insider equity trading legal compliance promotion presentation	3.0
Independent Director	Feng-Shang Wu	2018.11.12	Taiwan Corporate Governance Association	Remarks and analysis on latest amendments to the Company Act	3.0

Title	Name	Date	Host by	Training Title	Duration
Independent Director	Feng-Shang Wu	2018.11.12	Taiwan Corporate Governance Association	EU GDPR and enterprises' response	3.0
Independent Director	Wei-Min Sheng	2018.05.14	Securities & Futures Institute	Introduction to latest tax laws and major shareholders' equity tax planning	3.0
Independent Director	Wei-Min Sheng	2018.08.10	Securities & Futures Institute	Effect of amendments to the Company Act and response thereto	3.0
Independent Director	Chi-Yen Liang	2018.03.15	Taiwan Listed Company Association	Corporate management benefiting others and achieving common prosperity	2.0
Independent Director	Chi-Yen Liang	2018.04.11	Taiwan Academy of Banking and Finance	Corporate governance and corporate sustainability	3.0
Independent Director	Chi-Yen Liang	2018.04.16	Taiwan Listed Company Association	Role and function of corporate governance in the capital market	2.0

Note: All of the active directors have completed the continuing education of the hours required under the "Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE/TPEX Listed Companies".

3.3.8.2 Continuing Education/Training of Management in 2018

Title	Name	Date	Host by	Training Title	Duration
Accounting Officer	Shih-Shien Chang	2018.11.12	Taiwan Corporate Governance Association	Remarks and analysis on latest amendments to the Company Act	3.0
Accounting Officer	Shih-Shien Chang	2018.11.12	Taiwan Corporate Governance Association	EU GDPR and enterprises' response	3.0
Accounting Officer	Shih-Shien Chang	2018.12.06 ~ 2018.12.07	Accounting Research and Development Foundation	Study on requirements to be met by CPA retained by enterprises for "audit on financial statements"	3.0
Accounting Officer	Shih-Shien Chang	2018.12.06 ~ 2018.12.07	Accounting Research and Development Foundation	Legal liability to be borne by "co-principal offenders", "instigators" and "abettors" in an economic crime, and case study	3.0
Accounting Officer	Shih-Shien Chang	2018.12.06 ~ 2018.12.07	Accounting Research and Development Foundation	Financial tax effect of employee reward system on enterprises, and practices thereof	3.0
Accounting Officer	Shih-Shien Chang	2018.12.06 ~ 2018.12.07	Accounting Research and Development Foundation	Interpretation on laws & regulations, practices and latest trends related to CSR report	3.0

Title	Name	Date	Host by	Training Title	Duration
Acting Accounting Officer	Tao-jung Lin	2018.12.20 ~ 2018.12.21	Accounting Research and Development Foundation	the Continuing Education Course for the Accounting Supervisor from Issuer or Securities Dealer	12.0
Internal Audit Officer	Tzu-Hsiang Tai	2018.06.27	Accounting Research and Development Foundation	Internal audit/internal control practices under IFRS 16 Lease	6.0
Internal Audit Officer	Tzu-Hsiang Tai	2018.07.02	Accounting Research and Development Foundation	Internal auditors shall verify the latest moement, compliance directions and case study related to the cross-strait taxation laws.	6.0

Note1: Said persons meet Regulations Governing the Qualification Requirements and Professional Development of Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges, Regulations Governing Establishment of Internal Control Systems by Public Companies, and Article 29 of the Company's corporate governance best-practice principles related to continuing education requirements. The accountants engaged in preparation of financial statements shall also take the relevant continuing education for 6 hours or more each year.

Note2: The Company's "Corporate Governance Best-Practice Principles" were passed by the Board of Directors on August 6, 2015, and Mr. Shin-Shien Chang has held the position as the Company Governance Officer concurrently until now. Meanwhile, the Company set the corporate governance unit officially upon approval of the Board of Directors on March 14, 2019, and Mr. Shih-Shien Chang was appointed to hold the position as the Company Governance Officer concurrently. All of the staff dedicated in processing related affairs hold the experience in holding the position as the management at the legal affairs, finance, shareholders service or corporate governance units in securities, financial and futures firms or public companies for at least three years, which afford to ensure their effective exercise of duties about corporate governance free from any conflict of interest or violations of the internal control system. Mr. Shih-Shien Chang will attend the continuing education related to corporate governance for 18 hours within one year after he is appointed, and then for 12 hours each year thereafter. The status shall be disclosed on the Company's official website.

3.3.8.3 Status of liability insurance maintained by EPISTAR for its directors and officers

Objects	Company	Amount	Duration
All Directors	Insurance Company of North America, Taiwan Branch	US\$15,000,000	August 25, 2017 ~ August 25, 2018
All Directors	Insurance Company of North America, Taiwan Branch	US\$15,000,000	August 25, 2018 ~ August 25, 2019

Note: The motion for the insured value, coverage, and premium of the renewed directors'/supervisors' liability insurance was submitted to the Board of Directors on November 12, 2018.

3.3.9 Implementation of Internal Control System

3.3.9.1 Statement of Declaration on Internal Control System: See Appendix 1.1 (Page 158).

3.3.9.2 Where a CPA has been hired to carry out a special audit on the internal control system, furnish the CPA audit report: None.

3.3.10 For the most recent fiscal year or during the current fiscal year up to the date of printing of the annual report, disclose any sanctions imposed in accordance with the law upon the Company or its internal personnel. Sanctions imposed by the Company upon its internal personnel for violations of internal control system provisions, principal deficiencies, and the state of any efforts to make improvements:

The Board of Directors resolved on November 12, 2018 to repurchase the treasury stock and transfer the same to employees. The buyback period started from November 13, 2018 to January 12, 2019. However, because the personnel dedicated to order placement wasn't familiar with the operation and operated negligently, the order was placed in the stock exchange by 9:00AM on November 16, 2018 and, therefore, breached Article 28-2 of the Securities and Exchange Act. As a result, the Company was fined NT\$240,000 by Securities and Futures Bureau of FSC. Notwithstanding, the Company bought back the treasury stock only in order to transfer the stock to employees, so as to maintain the shareholders' interest and right and retain talents for the Company, and definitely had no intent to manipulate or attempt to affect the stock price.

3.3.11 Major Decisions of Shareholders' Meeting and Board Meetings

During the 2017 calendar year or during the current fiscal year up to the date of printing of the annual report, major resolutions approved at Shareholder' Meeting and Board meetings and implementation thereof are summarized below:

3.3.11.1 Shareholder' Meeting

(1) Approved the 2017 Business Report and Financial Statements.

The Group's consolidated operating revenue was NT\$25,270,616 thousand, net operating profit NT\$2,307,150 thousand, and Net profit after tax of NT\$1,686,213 thousand in 2017. The profit was NT\$ 1.55 per share.

(2) Ratification of the motion for allocation of 2017 earnings

In 2017, the entity's net profit after tax was NT\$1,649,913 thousand, and legal reserve, NT\$161,423 thousand, and special reserve, NT\$703,607 thousand, were provided. The cash bonus, NT\$749,196 thousand, was allocated at NT\$0.6881559 per share.

(3) Ratification of the allocation of capital surplus to shareholders in cash

The capital surplus at NT\$0.1118441 per share, plus the interest on earnings at NT\$0.6881559 per share, is scheduled to be allocated at NT\$0.8 per share.

(4) Approved the issuance of new common shares for cash to sponsor issuance of the global depository receipt and/or issuance of new common shares for cash in private placement.

Approved the issuance of no more than 160 million common shares, provided that the motion have not yet been executed as no investors were found before the date of publication of the annual report.

(5) Approved of releasing the newly elected directors from the non-competition restrictions.

Name	Positions in Other Companies	Engage business
Ming-Jiunn Jou	The director of GaN Ventures Co., Limited	Investment & sales of electronic components.
	The Chairman of GV Semiconductor Inc.	Research and design of Semiconductors and seller of technology components
Nan-Yang Wu (Yi Te Optoelectronics Co., Ltd. Rep)	The director of GaN Ventures Co., Limited	Investment & sales of electronic components.
	The director of GV Semiconductor Inc.	Research and design of Semiconductors and seller of technology components.
	The director of APT Electronics Co Ltd.	R&D, production, sales of Light emitting diode (LED) and Lighting system.
Shan-Chieh Chien (United Microelectronics Corp. Rep)	The director and General Manager of UMC	IC OEM/ODM/Foundry
	The director of Wavetek Microelectronics Corporation	the foundry business of III-V Epitaxial semiconductors

3.3.11.2 Board meetings

Date	Major Resolutions	Review on status
2018.03.15	<ol style="list-style-type: none"> (1) Approved the motion for remuneration to the Company's directors and employees 2018. (2) Approved 2018 financial report and business report. (3) Approved 2018 Resolution on dividend distribution. (4) Resolved to discontinue the motion for issuance of common shares in private placement approved at the general shareholders' meeting 2018. (5) Approved lifting of the non-competition restrictions on the Company's directors. (6) Approved the time, location and cause of the general shareholders' meeting 2018. (7) Approved the Statement of Declaration for Internal Control System 2018. (8) Approved the competition engaged in by the Company's managerial officers. (9) Approved the application for endorsement of facility granted by bank to the subsidiary. (10) Approved the application with financial organization for renewal of the facility. (11) Approved to obtain the inventory and fixed assets of 100% owned subsidiary Zheng-Yi Technology Corporation. (12) Approved to dispose the shares of re-investment company Evertop (Fujian) optoelectronics Co., Ltd. (13) Approved to dispose the shares of re-investment company Tops Electrical Technology Co., Ltd. (14) Approved the Company sell Longtan and Pingjhen plant buildings. (15) Approved the motion for remuneration ratio to the Company's directors and employees 2018. (16) Approved managerial officers' raise 2018. 	<p>It is resolved that to propose in the next board of directors' meeting that cash dividend will be paid to shareholders from capital reserve of the company; the Chairman will be authorized to process the Longtan Factory and the Pingzhen Factory, if appropriate buyers are solicited; the impairment on accessory equipment will be conducted depending on the sale status. The Chairman is authorized to dispose of the shares of Evertop (Fujian) optoelectronics Co., Ltd and Tops Electrical Technology Co., Ltd. reinvested by the Company. In 2018, the proportion of remuneration to directors and employees remained 2% and 15%, respectively. The competition engaged in by the managerial officers was posted on the M.O.P.S and the Company's website. The 160 million shares private placement or issuance of GDR approved by shareholders' meeting on June 21, 2018 were not executed for absence of proper strategic investor.</p>

Date	Major Resolutions	Review on status
2018.05.03	<ul style="list-style-type: none"> (1) Approved 2018 financial report of Q1. (2) Approved the allocation for capital surplus to shareholders in cash. (3) Approved the issuance of new common shares for cash to sponsor issuance of the global depository receipt and/or issuance of new common shares for cash in private placement. (4) Approved the amendments to partial provisions of the “Corporate Governance Best-Practice Principles”. (5) Approved the application for endorsement of facility granted by bank to the subsidiary. (6) Approved the application with financial organization for increase in and renewal of derivatives trading facility. 	<p>The Private equity issuance of common stock had been approved by shareholders meeting of 2017. It was re-proposed during the shareholders’ meeting of 2018, for absence of proper strategic investor.</p>
2018.06.25	<ul style="list-style-type: none"> (1) Approved to spin-off and transfer its existing Semiconductor Foundry business (2) Approved the establishment of Articles of Incorporation of Unikorn Semiconductor Corporation. (3) Approved the election of directors/supervisors of Unikorn Semiconductor Corporation. (4) Approved the transfer of President. (5) Approved the change of the registered office address of the Company. (6) Approved the application for endorsement of facility granted by bank to the subsidiary. (7) Approved the application with financial organization for increase in and renewal of derivatives trading facility. 	<p>Proceed with the spin-off pursuant to Article 36 of Business Mergers And Acquisitions Act, and set the record date for spin-off on October 1, 2018, and the new company named as Unikorn Semiconductor Corporation; the president, Ming-Jiunn Jou, was transferred to Unikorn Semiconductor Corporation in order to use his best effort to promote the Company’s transformation, and Chin-Yung Fan was promoted as the Company’s president at the same time, whose promotion took effective from July 16, 2018; the Company’s registration address was changed from Li-hsin 5th Road to No. 21 Li-hsin Road.</p>
2018.08.13	<ul style="list-style-type: none"> (1) Approved 2018 financial report of Q2. (2) Approved the evaluation on independence, eligibility, and contents of service and remuneration 2018 about appointment of the CPAs, Ya-Huei Cheng and Chin-Cheng Hsieh. (3) Approved the application for endorsement of facility granted by bank to the subsidiary. (4) Approved the total amount of the Company's fund which was lent to the subsidiary, Episky Corporation (Xiamen) Ltd., shall not exceed RMB\$200 million in total (or the equivalent amount in USD) (5) Approved the total amount of the Company's fund which was lent to the subsidiary, Jiangsu Canyang Optoelectronics Ltd., shall not exceed RMB\$100 million in total (or the equivalent amount in USD). 	<p>To obtain the authorization from the Board of Directors to assess the capital increase in subsidiaries in mainland China.</p>

Date	Major Resolutions	Review on status
	<ul style="list-style-type: none"> (6) Approved the allocation of remuneration to directors in 2018. (7) Approved the motion for remuneration to the Company's directors. (8) Suggestion on calculation of salary payable to the president. (9) Suggestion on salary and remuneration to the promoted manager. (10) Approved the allocation of 2018 employee remuneration to managers and/or directors who were also employees. 	
2018.11.12	<ul style="list-style-type: none"> (1) Report on renewal of directors'/supervisors' liability insurance. (2) Approved 2018 financial report of Q3. (3) Approved the 1st buyback of the Company's shares in 2018. (4) Approved the investment in GCS Holdings, Inc. (5) Approved the audit plan 2019. (6) Approved the application for termination of overseas deposit receipts at London Stock Exchange in the form of IOB. (7) Approved the application with financial organization for renewal of the facility. 	The overseas deposit receipts traded in the form of IOB which was published by London Stock Exchange on November 26, 2018 was delisted on December 28, 2018.
2018.12.13	<ul style="list-style-type: none"> (1) Report the implementation of corporate social responsibility and integrity management. (2) Approved 2019 business plan and budget. (3) Approved Yenrich Technology Corporation increase investment NT\$920 million and sold the shares of ProLight Opto Technology Corporation. (4) Approved the amendments to "Statement of Declaration on Internal Control System" in part. (5) Approved the application with financial organization for renewal of the facility. (6) Approved the motion for managerial officers' raise 2019. 	Until December 5, 2018, the treasury stock actually bought back has totaled 3,085 thousand shares, at the price of NT\$24.59 per share averagely. The others were executed per the resolution.
2019.03.14	<ul style="list-style-type: none"> (1) Approved 2018 financial report and business report. (2) Approved 2018 Loss make-up proposal. (3) Allocation of capital surplus to shareholders in cash. (4) Resolved to discontinue the motion for issuance of common shares in private placement approved at the general shareholders' meeting 2018. (5) Approved the issuance of new common shares for cash to sponsor issuance of the global depository receipt and/or issuance of new common shares for cash in private placement. (6) Approved the amendments to "Articles of Incorporation" in part. (7) Approved the amendments to "Procedures for Loaning Funds to Other Parties", "Procedures 	The treasury stock bought back totaled 7,800 thousand shares, at the price of NT\$24.4 per share averagely, i.e. execution rate 52%; in order to upgrade the profundity of the Company's corporate governance, the Company assigned the corporate governance unit and appointed one Company Governance Officer, and the Board of Directors of 10 th term increased the number of independent directors as 5 independent directors, a majority of the whole director; due to family factors,

Date	Major Resolutions	Review on status
	<p>for Endorsements and Guarantees”, “Acquisition or Disposal Procedures of Assets”, “Rules for the Procedures of the Board of Directors’ Meeting”, “Corporate Governance Best Practice Principles” in part, and abolishment of the “Regulations Governing Long-term/Short-term Investment”.</p> <p>(8) Approved the time, location and cause of the general shareholders’ meeting 2019.</p> <p>(9) Approved the motion for election of 10th term directors and candidates for director nominated by the Board of Directors.</p> <p>(10) Motion for termination of the non-competition restrictions on the Company’s new directors of 10th term.</p> <p>(11) Permitted the Company’s managers to hold another position concurrently and engage in competition.</p> <p>(12) Approved the donation of proceeds from disposition of the equity in Crystalrich (Hong Kong) Co., Limited to Episky Corporation (Xiamen) Ltd., a company wholly owned by the Company.</p> <p>(13) Approved the Statement of Declaration on Internal Control System 2018.</p> <p>(14) Approved the application for endorsement of facility granted by bank to the subsidiary.</p> <p>(15) Approved the application with financial organization for renewal of the facility and increase in and renewal of derivatives trading facility.</p> <p>(16) Established the “Regulations Governing Retirement of Employees Holding Positions as Managers and Directors Concurrently”.</p> <p>(17) Ming-Jiunn Jou filed a retirement application.</p> <p>(18) Approved the motion for remuneration ratio to the Company’s directors and employees 2019.</p> <p>(19) Approved designation of the Company’s Governance Officer.</p> <p>(20) Approved managerial officers’ raise 2019.</p>	<p>Ming-Jiunn Jou applied for retirement on April 30, 2019; in 2019, the proportion of remuneration to directors and employees remained 2% and 15%, respectively. The competition engaged in by the managerial officers was posted on the M.O.P.S and the Company’s website. The other matters were executed as per the resolution made at the general shareholders’ meeting on June 20, 2019.</p>

3.3.12 Major Issues of Record or Written Statements Made by Any Director Dissenting to Important Resolutions Passed by the Board of Directors during the 2018 Calendar Year and as of the Date of this Annual Report: None.

3.3.13 Resignation or Dismissal of Chairman, General Manager, and Heads of Accounting, Finance, Internal Audit and R&D during the 2018 Calendar Year and as of the Date of this Annual Report:

Title	Name	Date of Appointment	Date of Dismissal	Cause of Resignation or Dismissal
President	Ming-Jiunn Jou	2008.12.25	2018.07.16	In order to promote the Company's transformation, Ming-Jiunn Jou was transferred to Unikorn Semiconductor Corporation, wholly owned by the Company, and Chin-Yuan Fan was promoted as the Company's president at the same time.

3.4 Audit Fee

Unit: NT\$ thousand

Accounting Firm	Name of CPA	Audit Fee	Non-audit Fee				Subtotal	Audit Period
			System Design	Company Registration	Human Resource	Others (Note 1)		
PricewaterhouseCoopers, Taiwan	Cheng Ya-Huei and Chih-Cheng Hsieh	12,800	0	0	0	4,730	4,730	2018.01.01 ~ 2018.12.31

Note 1: The professional service fees for TP and laws & taxation consulting, NT\$3,830 thousand and service fees of Semiconductor Foundry Business Dept., NT\$900 thousand.

Note 2: When the Company changes its accounting firm and the audit fees paid for the fiscal year in which such change took place are lower than those for the previous fiscal year, the amounts of the audit fees before and after the change and the reasons shall be disclosed: NA

Note 3: When the audit fees paid for the current fiscal year are lower than those for the previous fiscal year by 15 percent or more, the reduction in the amount of audit fees, reduction percentage, and reason(s) therefor shall be disclosed: NA

3.5 Replacement of CPAs: None.

3.6 Information on the Company's Chairman, President, or any managerial officer in charge of finance or accounting matters has in the most recent year held a position at the accounting firm of its certified public accountant or at an affiliated enterprise of such accounting firm: None.

3.7 Any transfer / pledge / Changes in Shareholding of Directors, Supervisors, Managers, and Major Shareholders holding a stake of greater than 10 percent

3.7.1 Changes in Shareholding of Directors, Supervisors, Managers and Major Shareholders

Unit: Share

Title	Name	2018		January 1, 2019 ~ February 28, 2019	
		Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged
Chairman & CSO	Biing-Jye Lee	20,000	0	0	0
Director	Fon Tain Belon Co., Ltd.	0	0	0	0
	Rep: Chih-Yuan Chen	0	0	0	0
Director	Everlight Electronics Co., Ltd.	0	0	0	0
	Rep: Yin-Fu Yeh(Note 2)	0	0	NA	NA
	Rep: Huei-Chen Fu(Note 3)	0	0	0	0
Director	United Microelectronics Corp.	0	0	0	0
	Rep:Shan-Chieh Chien	0	0	0	0
Director	Yi Te Optoelectronics Co., Ltd.	0	0	0	0
	Rep: Nan Yang Wu	0	0	0	0
Director	Ming-Jiunn Jou	320,000	0	0	0
Independent Director	Wei-Min Sheng	0	0	0	0
Independent Director	Feng-Shang Wu	0	0	0	0
Independent Director	Chi-Yen Liang	0	0	0	0
President	Chin-Yung Fan	25,000	0	0	0

Unit: Share

Title	Name	2018		January 1, 2019 ~ February 28, 2019	
		Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged
Vice President	Min-Hsun Hsieh	(42,000)	0	0	0
Vice President	Jen-Chau Wu	130,000	0	0	0
Vice President	Rong-Yih Hwang	(70,918)	0	0	0
Vice President & CFO & Company's Governance Officer	Shih-Shien Chang	220,000	0	0	0
Vice President	Chen Ou	(2,400)	0	0	0
Vice President	Ming-Da Jin	(20,000)	0	0	0
Vice President	Lin-Tien Yang	(60,000)	0	0	0
Vice President	Wei-Shih	95,000	0	(10,000)	0
Senior Director	Li-Cheng Hung	20,000	0	0	0
Senior Director	Feng-Sheng Qiu	80,000	0	0	0
Senior Director	Yi-Chang Hong	50,000	0	0	0

Note 1: The information about the change of equity refers to that disclosed until the time of discharge.

Note 2: Discharged on May 2, 2018.

Note 3: Re-elected and discharged on May 2, 2018.

3.7.2 Stock Traded with Related Party:

Name	Cause of Equity Transfer	Date	Trading Counterpart	Relationship between the trading counterpart and the Company, director, and shareholder with more than 10% shareholding	Shares	Trading Price (NTD)
Biing-Jye Lee	Disposition (gift)	2018.09.07	Chia-Ren Hu	Spouse	600,000	NA

3.7.3 Stock Pledged with Related Party: None.

3.8 Relationship among the Top Ten Shareholders

	Name	Current Shareholding		Spouse and Minor Shareholding		EPISTAR Shareholding by Nominee Arrangement		Name and Relationship between EPISTAR's Shareholders	
		Shares	%	Shares	%	Shares	%	Name	Relationship
1	Nomura International Co., Ltd.	79,878,000	7.34%	NA	NA	NA	NA	None	None
2	UBS Limited	57,459,018	5.28%	NA	NA	NA	NA	None	None
3	Merrill Lynch International	30,791,526	2.83%	NA	NA	NA	NA	None	None
4	SinoPac Asset Management (Asia) Limited	28,050,000	2.58%	NA	NA	NA	NA	None	None
5	The 2nd-tier new labor pension plan	26,632,000	2.45%	NA	NA	NA	NA	None	None
6	Mercuries Life Insurance Co., Ltd.	16,925,000	1.56%	NA	NA	NA	NA	None	None
	Chairman: Xiang-Yu Chen	0	0.00%	0	0.00%	0	0.00%	None	None
7	Vanguard Emerging Markets Stock Index Fund, A Series Of Vanguard International Equity Index Funds	14,737,180	1.35%	NA	NA	NA	NA	None	None
8	Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds	13,682,760	1.26%	NA	NA	NA	NA	None	None
9	Taili Industrial Co., Ltd.	13,627,487	1.25%	NA	NA	NA	NA	None	None
	Chairman: Hon-Gji Luo	0	0.00%	0	0.00%	0	0.00%	None	None
10	Fubon Life Insurance Co., Ltd.	12,500,000	1.15%	NA	NA	NA	NA	None	None
	Chairman: Ming-xing Cai	0	0.00%	0	0.00%	0	0.00%	None	None

Note1: The stock transfer was not suspended before the date of publication of the annual report; therefore, said record date was intended for the quantity of shares held before the latest suspension of stock transfer (namely July 24, 2018).

3.9 The total number of shares and total equity stake held in any single enterprise by the Company, its directors and supervisors, managers, and any companies controlled either directly or indirectly by the Company

As of December 31, 2018

88Long-term Investment	Ownership by EPISTAR		Ownership by Directors, Managers and Directly/Indirectly Owned Subsidiaries		Total Ownership	
	Shares	%	Shares	%	Shares	%
Lighting Investment Corp.	251,478,518	100.00	0	0.00	251,478,518	100.00
Epistar JV Holding (BVI) Co., Ltd.	48,278	100.00	0	0.00	48,278	100.00
Yenrich Technology Corporation	60,000,000	100.00	0	0.00	60,000,000	100.00
Full Star Enterprises Ltd.	8,660,000	100.00	0	0.00	8,660,000	100.00
Ecoled Venture Co., Limited	7,189,668	51.99	6,638,461	48.01	13,828,129	100.00
GaN Ventures Co., Limited	18,000,000	59.02	1,500,000	4.92	19,500,000	63.94
SH Optotech Co., Ltd.	3,179,176	49.00	0	0.00	3,179,176	49.00
Nan Ya Photonics Inc.	18,239,448	40.80	1,101,184	2.46	19,340,632	43.26
Te Opto Corporation	920,000	40.00	0	0.00	920,000	40.00
Tekcore Co., Ltd	20,247,828	21.05	2,616,932	2.72	22,864,760	23.77
ProLight Opto Technology Corporation	7,450,000	12.71	18,228,234	31.11	25,678,234	43.82
iReach Corporation	7,000,000	100.00	0	0.00	7,000,000	100.00
Unikorn Semiconductor Corporation	100,000,000	100.00	0	0.00	100,000,000	100.00

Note: EPISTAR's long-term investment using the equity method.

4. Capital Overview

4.1 Capital and Shares

4.1.1 Capitalization

Unit: k share / NT\$ thousand

Month/ Year	Issue Price (Per Share)	Authorized Share Capital		Capital Stock		Remark		
		Shares	Amount	Shares	Amount	Sources of Capital	Capital Increase by Assets Other than Cash	Other (Note)
11/2017	10	1,300,000	13,000,000	1,088,701	10,887,014	Capital reduction for cancellation of treasury shares	None	2

Note 1: Said information refers to that available until the date of publication, March 14, 2019.

Note 2: Chu-Shang-Tze No. 1060032105 dated November 29, 2017.

Unit: Share

Type of Stock	Authorized Share Capital (Listed Stock)		
	Outstanding shares (Note)	Unissued Shares	Total
Common Stock	1,088,701,410	211,298,590	1,300,000,000

Note: Said information refers to that available until the date of publication, including the treasury stock held by the parent company and subsidiaries, totaling 10,364,755 shares.

Shelf Registration: None.

4.1.2 Composition of Shareholders

Type of Shareholders	Government Agencies	Financial Institutions	Other Juridical Persons	Foreign Institutions and Natural Persons	Domestic Natural Persons	Total
Number of Shareholders	6	56	212	360	118,163	118,797
Shareholding	57,232,000	84,993,052	92,251,392	332,782,723	521,442,243	1,088,701,410
Holding Percentage (%)	5.26	7.80	8.47	30.57	47.90	100.00

Note: The stock transfer was not suspended before the date of publication of the annual report; therefore, said record date was intended for the quantity of shares held and issued shares before the latest suspension of stock transfer (namely July 24, 2018).

4.1.3 Distribution Profile of Share Ownership

4.1.3.1 Common Share

Per Share Issue Price is NT\$10

Shareholder Ownership (Unit: Share)	Number of Shareholders	Ownership	Ownership (%)
1~999	36,813	7,183,779	0.66
1,000~10,000	73,462	214,165,108	19.67
10,001~20,000	4,567	68,880,132	6.33
20,001~30,000	1,475	38,015,421	3.49
30,001~50,000	1,128	45,412,962	4.17
50,001~100,000	721	50,864,611	4.67
100,001~200,000	308	44,557,697	4.09
200,001~400,000	157	43,690,522	4.01
400,001~600,000	53	25,853,892	2.37

Per Share Issue Price is NT\$10

Shareholder Ownership (Unit: Share)	Number of Shareholders	Ownership	Ownership (%)
600,001~800,000	15	10,068,236	0.93
800,001~1,000,000	15	13,657,779	1.26
Over 1,000,001	83	526,351,271	48.35
Total	118,797	1,088,701,410	100.00

Note: The stock transfer was not suspended before the date of publication of the annual report; therefore, said record date was intended for the quantity of shares held and issued shares before the latest suspension of stock transfer (namely July 24, 2018).

4.1.3.2 Preferred Share: None.

4.1.4 Major Shareholders

Unit: share

Shareholders	Total Shares Owned	Ownership (%)
Nomura International Co., Ltd.	79,878,000	7.34
UBS Limited	57,459,018	5.28
Merrill Lynch International	30,791,526	2.83
SinoPac Asset Management (Asia) Limited	28,050,000	2.58
The 2nd-tier new labor pension plan	26,632,000	2.45
Mercuries Life Insurance Co., Ltd.	16,925,000	1.56
Vanguard Emerging Markets Stock Index Fund, A Series Of Vanguard International Equity Index Funds	14,737,180	1.35
Vanguard Total International Stock Index Fund, A series of Vanguard Star Funds	13,682,760	1.26
Taili Industrial Co., Ltd.	13,627,487	1.25
Fubon Life Insurance Co., Ltd.	12,500,000	1.15

Note: The stock transfer was not suspended before the date of publication of the annual report; therefore, said record date was intended for the quantity of shares held and issued shares before the latest suspension of stock transfer (namely July 24, 2018). It will be posted to the official website of the company after the date of stop transfer for shareholders at 20 April 2019.

4.1.5 Market Price, Net Worth, Earnings, and Dividends Per Common Share

Unit: NTD

Item	Year		2017	2018	01/01/2019 ~03/14/2019
Market Price Per Share	Highest Market Price		67.30	57.60	28.40
	Lowest Market Price		23.00	22.80	23.30
	Average Market Price		40.70	39.52	26.27
Net Worth Per Share	Before Distribution		47.76	45.57	Note 4
	After Distribution		46.95	not allocated yet	Note 4
Earnings Per Share	Weighted Average Shares (thousand shares)		1,067,492	1,084,686	Note 4
	EPS		1.55	(0.42)	Note 4
Dividends Per Share	Cash Dividends		0.80	(Note 5) 0.30	—
	Stock Dividends	Share Dividend	0	0	—
		Capital Surplus stock dividend	0	0	—
	Accumulated Undistributed Dividend		0	0	—

Unit: NTD

Item		Year	2017	2018	01/01/2019 ~03/14/2019
Return on Investment	Price/Earnings Ratio (Note 1)		26.26	(94.10)	—
	Price/Dividend Ratio (Note 2)		50.87	—	—
	Cash Dividend Yield (%)(Note 3)		1.97	—	—

Note 1: Price/Earnings Ratio = Average Market Price/ Diluted Earnings Per Share

Note 2: Price/Dividend Ratio = Average Market Price/Cash Dividends Per Share

Note 3: Cash Dividend Yield = Cash Dividends Per Share/Average Market Price

Note 4: As of the publication date of the annual report, the financial report for the first quarter of 2019 has not yet been completed, so it does not apply.

Note 5: The cash dividend allocated from the capital surplus, NT\$0.3 per share, refers to the amount imputed by the Board of Directors. The actual amount will be decided upon resolution made by the general shareholder's meeting in 2019.

4.1.6 Dividend Policy and Implementation Status

4.1.6.1 Dividend Policy

In consideration of the Company's current and future development strategy, investment environment, funding need, and competition, domestically and overseas, as well as the shareholders' equity and capital adequacy ratio, the board of directors is authorized to set 50% of the earnings after tax to be allocated as stock dividends, unless in special circumstances, in which the cash dividends to shareholders shall be no less than 10% of the total stock dividends to be allocated.

4.1.6.2 Proposed Distribution of Dividend

Unit: NTD

Year	Date for Board of Directors to approve Distribution of Dividend	Shareholders Meeting		
		Cash Dividend	Capital Surplus (in cash)	Share Dividend
2018	March 14, 2019	\$0 (NT\$ 0 per share)	\$324,270,423 (NT\$ 0.3 per share)	\$0 (NT\$ 0 per share)

4.1.6.3 Expected dividend policy will have a significant change in circumstances:

In response to the amendments to the Company Act, the Board of Directors proposed a motion for amendments to the dividend policy on March 14, 2019. Upon approval by the general shareholders' meeting on June 20, 2019, the Board of Directors will continue adopting the stable dividend policy. In other words, after the Company takes the Company's overview of operation into account, retain adequate cash and set aside 10% legal reserve or special reserve, the retained earnings, if any, will be allocated on a quarterly basis insofar as no special circumstances are required to be met. In the first three quarters, the dividends shall be allocated at 30%~40% of the earnings basically, and the total dividends to be allocated through the year shall remain 50%~60% of the earnings after tax for the given year. Meanwhile, the Board of Directors is authorized to resolve whether cash dividend shall be allocated from earnings, subject to the overview of business in each quarter. The cash dividends for any given quarter had scheduled to be allocated within 6 months upon approval of the meeting of the Board of Directors in next quarter.

4.1.7 Impact to 2019 Business Performance and EPS Resulting from Stock Dividend Distribution: Not applicable.

4.1.8 Remuneration to Directors and Profit Sharing Bonus to Employees

4.1.8.1 Information Relating to Employee Bonus and Directors' and Supervisors' Remuneration in the Articles of Incorporation

Item	Rang
Employee's Profit Sharing Bonus (Cash)	i.e. 10%~20% of the earnings of the given year, and 15% applies for the time being. Said employees' bonus will be distributed in shares or cash. The employees of EPISTAR's subsidiaries who fulfill specific requirements stipulated by the Board of Directors may be granted such bonus.
Remuneration to Directors (Cash)	2 % of annual profit as for the remuneration to directors. Directors may only receive the remuneration in cash.

Note1: The "annual profit" in first paragraph means the current year pre-tax profit (excluding other benefits or losses, such as the put option right, the call option rights, the conversion rights and the redeemed of overseas convertible bonds) before the deduction of the staff remuneration and director remuneration.

Note2: EPISTAR may, by a resolution adopted by a majority vote at a meeting of the Board of Directors attended by two-thirds of the total number of directors, distribute the aforementioned employees' and director's compensation and report to the stockholders' meeting for such distribution.

4.1.8.2 The basis for estimating the amount of remuneration to employees, directors and supervisors, for calculating the number of shares to be distributed as employee compensation, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated figure, for the current period:

The Company estimated the amounts of the remuneration to employees and directors and recognizes them in the profit or loss during the periods when earned for the years ended December 31, 2017 and 2018. The Board of Directors estimated the amount by taking into consideration the amendment of the Articles of Incorporation, government regulations and industry averages. If the Board of Directors resolves to distribute the remuneration to employees through stock, the number of stock distributed is calculated based on total remuneration to employees divided by the closing price of the day before the Board of Directors meeting. If the Board of Directors subsequently modifies the estimates significantly, the Company will recognize the change as an adjustment in the profit or loss in the subsequent period. The difference between the estimation and the resolution of the shareholders' meeting will be recognized in profit or loss in the subsequent year.

4.1.8.3 2018 Remuneration to Directors and Employees' Profit Sharing Bonus

Item	Board Resolution (March 14, 2019)	Unit: NT\$ thousands
Remuneration to Directors (Cash)		0
Employee's Profit Sharing Bonus (Cash)		0
Total		0

Note: The proposed amount of the remuneration to employees, directors and supervisors is the same as the estimated amount of the year when the remuneration were recognized.

4.1.8.4 2017 Remuneration to Directors and Employees' Profit Sharing Bonus

Unit: NT\$

Item	Actual Result (June 21,2018)	Board Resolution (March 15, 2018)	Variance	Cause of variance
Remuneration to Directors (Cash)	41,672	41,672	0	None
Employee's Profit Sharing Bonus (Cash)	312,528	312,528	0	None
Total	354,200	354,200	0	None

4.1.9 Buyback of Treasury Stock:

Batch Order	The 2nd Batch, 2018
Purpose of buy-back	Transfer to Employees
Timeframe of buy-back	November 13, 2018~January 12, 2019
Price range(Note1)	NT\$25~NT\$40
Class, quantity of shares buy back	7,800,000 shares
Value of shares bought-back (in NT\$ thousands)	190,327
Shares sold/transferred	0 share
Accumulated number of company shares held	7,800,000 shares
Percentage of total company shares held (%) (Note2)	0.72%

Note 1: In the event of the buyback price range is less than the minimum price, NT\$25, the buyback may be continued.

Note 2: Calculated according to issued shares on March 14, 2019 (1,088,701,410 shares).

4.2 Issuance of Corporate Bonds: None.

4.3 Preferred Shares: None.

4.4 Issuance of Overseas Depositary Shares

Issuing Date	September 22, 2009		
Issuance and Listing	Bourse de Luxembourg		
Total Amount (US\$)	351,000,000		
Offering Price Per GDR (US\$)	13.00		
Units Issued	27,000,000		
Underlying Securities	EPICSTAR Common Shares from Selling Shareholders		
Common Shares Represented	135,000,000		
Rights and Obligations of GDR Holders	Same as those of Common Share Holders		
Trustee	Not Applicable		
Depository Bank	Citibank, N.A.		
Custodian Bank	Citibank, N.A. – Taipei Branch		
GDRs Outstanding	As of February 28, 2019, total number of outstanding GDRs was 6,023		
Apportionment of Expenses for Issuance and Maintenance	The issuance-related expenses were borne by the issuer and underwriter, while the expenses incurred during the surviving period were borne by the Company.		
Terms and Conditions in the Deposit Agreement and Custody Agreement	See Deposit Agreement and Custody Agreement for Details		
Closing Price Per GDR (US\$)	2018	High	9.37
		Low	3.74
		Average	6.33
	01/01/2019 ~ 02/28/2019	High	4.51
		Low	3.87
		Average	4.20

4.5 Status of Employee Stock Option Plan: None.

4.6 Status of New Restricted Employee Shares: None.

4.7 Status of New Shares Issuance in Connection with Mergers and Acquisitions: None.

4.8 Financing Plans and Implementation: None.

5. Operational Highlights

5.1 Business Activities

5.1.1 Business Scope

5.1.1.1 Main areas of business operations

Research, development, manufacturing, and sale of the following products:

- (1) AlGaInP Epi Wafer & Chips
- (2) AlGaAs Epi Wafer & Chips
- (3) InGaN Epi Wafer & Chips
- (4) PHEMT
- (5) InP-based HBT
- (6) GaAsP Wafer & Chips
- (7) GaP Wafer & Chips
- (8) AlGaInN Wafer & Chips
- (9) GaInAsP Wafer & Chips
- (10) Optoelectronic detection components
- (11) Wafer for microwave communications
- (12) Wafer & Chips for fiber-optics communications
- (13) LED and its mold
- (14) System and application parts for the above products
- (15) Phosphor powders

5.1.1.2 Revenue distribution

Consolidated		Unit: NT\$ thousands
Item	Total Sales in Year 2018	(%) of Sales
Chip	18,923,582	93.19
Epi Wafer	848,548	4.18
The Others	534,282	2.63
Total	20,306,412	100.00

Note: Based on IFRS

5.1.1.3 Current Products (Services)

Epistar's current main commodities are AlGaInP, Epi Wafer, Chip, InGaN Epi Wafer & Chip and AlGaAs Epi Wafer & Chip. According to different emission colors and materials, its product range as follows:

Color of emitting light	Material	Product Category.
High Brightness Red	AlGaInP	Epitaxial Wafer, Die
High Brightness Orange	AlGaInP	Epitaxial Wafer, Die
High Brightness Amber	AlGaInP	Epitaxial Wafer, Die
High Brightness Yellow Green	AlGaInP	Epitaxial Wafer, Die
High Brightness Blue	InGaN	Epitaxial Wafer, Die
High Brightness Green	InGaN	Epitaxial Wafer, Die
Ultra Violet	InGaN	Epitaxial Wafer, Die
Infrared VCSEL	AlGaAs	Epitaxial Wafer, Die (Foundry)

5.1.1.4 Plan of new product (service) development

- (1) Proximity sensor/emitting diode-related products for portable and wearable devices
- (2) LED chip products for facial recognition and biometric detection adapted in portable device /notebook
- (3) Infrared LED chip products for in-cabin driver's awareness sensing system
- (4) LED chip products with SpO₂ measurement function adapted in portable and wearable device
- (5) LED chip products for industrial automation equipment /Robot sensing
- (6) Developing ultra-high brightness and ultra-high current density vertical type red, blue and green LED dies for projector application
- (7) Ultra-high wall plug efficiency LED chip for horticultural lighting application
- (8) Ultra-high brightness red and yellow LED chip products for special lighting applications
- (9) Ultra-high efficiency red LED chip products of all chip size for automotive tail lamp
- (10) New small-chip design for more compact and smaller size of package
- (11) LED chip products for electronic sports application
- (12) Ultra-high brightness and current-density LED chip products for projector application
- (13) Developing near-infrared LED new products with wavelength ranging from 1100nm to 1600nm
- (14) Developing new blue/green horizontal product
- (15) Developing high efficiency blue LED for high efficiency lighting application
- (16) Developing low-current-driven LED dies for display application
- (17) Developing green and longer-wavelength blue LED for outdoor lighting project
- (18) The Mini LED development for display
- (19) Developing mini LED for BLU of mobile phone and tablet
- (20) The Mini LED development for TV BLU
- (21) The high performance/high quality flip-chip GaN LED
- (22) The high efficiency vertical UV LED development for 365nm application
- (23) The mini flip-chip LED development for ultra-thin cell phone panel
- (24) The high-end white light LED development for flash light module
- (25) The high voltage flip-chip LED development for TV BLU application
- (26) The high voltage flip-chip LED development for general lighting application
- (27) Development of UVC LED chip
- (28) Development of high power edge emitting blue laser diode
- (29) Development of new LED CSP for ultra-thin and high contrast LCD BLU
- (30) Development of white LED CSP for high-end flash applications
- (31) Development of high efficiency CSP technique for lighting application
- (32) Development of LED CSP for high color gamut BLU applications
- (33) Development of LED CSP for Direct type BLU with high color gamut
- (34) Development of high power white LED CSP for lighting
- (35) Development of high voltage white LED CSP
- (36) Development of high reliable white LED CSP for Automotive application
- (37) Development of LED CSP at UV wavelength
- (38) Development of side emitting BLD chip
- (39) Developing D Mode (normally on) power device on 6" GaN on Si wafer
- (40) Development of GaN-on-Si power device for LED general lighting application

- (41) Developing of 15A 650V GaN on Si cascode MIS-HEMT
- (42) Developing high voltage IoT IC with HEMT
- (43) Development of switching mode power supply for adapter under 100W

5.1.2 Industry Overview

5.1.2.1 The current status and development of the industry

It's been 30 years since the LED industry developed and grew from 1990. The LED components were used firstly as indicators in home appliances, then in cell phone starting 2002, Netbook BLU from 2007... etc. Since 2010 LED had become the only light sources BLUs of every Notebook and Tablet. With Samsung's leading launch of Edge-lit LED BLU LCDTV in 2009, and Direct-lit LED BLU LCD in 2012, the LEDs not only had reached penetration rate of 90% in TV application since 2014, but also support the LCD display industry for superior design and performance.

LEDs also penetrate into other applications including architecture lighting, outdoor lighting, and indoor lighting due to its advantages of high efficacy, low power consumption, low greenhouse emission, mercury-free, and coming in multi-color. In terms of efficiency, we expect LEDs to continue to improve annually, which already met the US DOE's 2015 target of 150 Lm/W and 200 Lm/W of 2020 too. Meanwhile the DOE's "\$10/kLm cost target in 2015 to challenge CFLs" was also met in the second half of 2014 by both LED's technology innovation and supply chain's integration and co-work. With the industry's efforts and government's policies on carbon-emissions, incandescent-banning, street-lamp updating, the worldwide leading lighting branders are expecting LED lighting penetration to reach 70% in 2020. On the basis of the ongoing promotion of the public projects concerning the policies on incandescent light ban, carbon emission and street lighting replacement from different governments, LED lighting is now one of the most important mega trends globally.

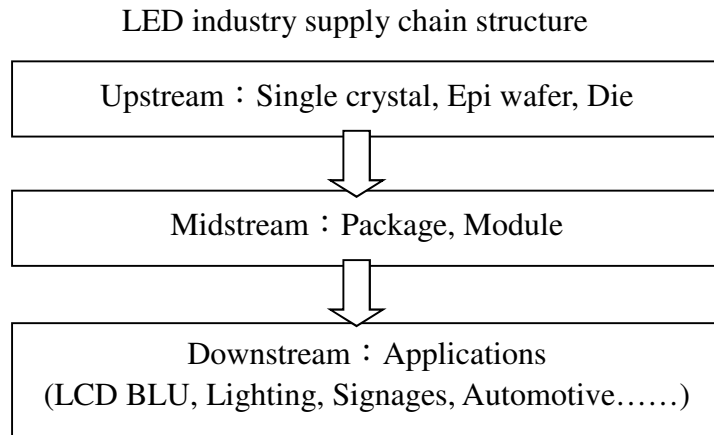
The fast-turn-on property of LED lights is very important for automotive lighting & signaling, and so LEDs were adopted in the Center-High-Mount-Stop-Lamp (CHMSL) in the late-1980s. Nowadays, HB LEDs are also used as indicators and lightings both internally and externally, examples like dash board indicators, CHMSL, tail lamp, turning lamp, daytime-running-light, headlight...etc. The All-LED trend is getting popular in both premium and mainstream models.

The high brightness and high purity properties make LEDs the best fit for the indoor and outdoor signage market. The large size RGB LED digital signage displays are used in outdoor commercials, event broadcasting, traffic controls & notifications... and keep expanding. Meanwhile, fine-pitch high-density LED displays provide premium picture quality due to its high pixel density, detailed greyscale, high contrast, and seamless screen. These superior properties make it a better choice over LCDs, PDPs and DLPs in the military and governmental control-room, broadcasting center, event commercials...etc.

Moreover, LEDs also make many special applications possible including horticulture, bio-medicine, security & surveillance, wireless communication, smart-home lighting, etc. The superior properties of LEDs like small-size, multi-wavelength, fast response time, and better efficacy make it not only fit in many applications, but also help create more possibilities.

5.1.2.2 Upstream Downstream supply chain relation

After 20 years of development, Taiwan's LED industries are now structured into three segments. We can plot it as below including Single Crystal / Epi Wafer / Die the Upstream, package and module assembly the mid-stream, and all kinds of application in the downstream.



5.1.2.3 Application developing trend of LED products

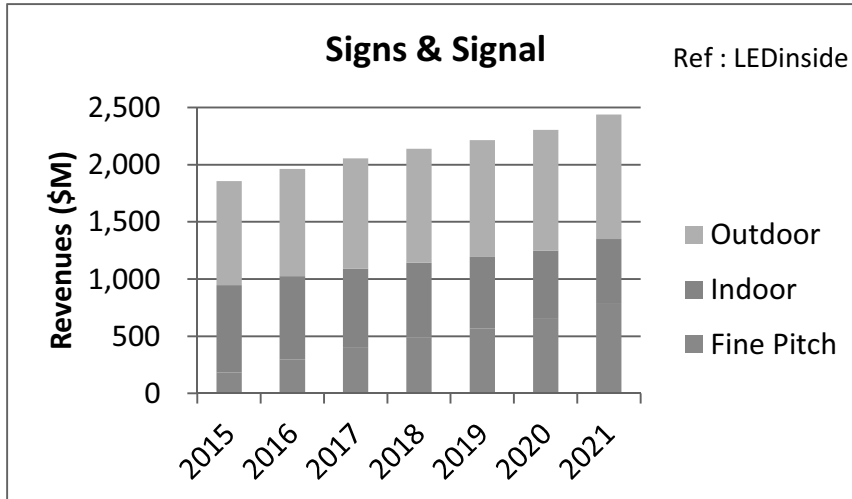
(1) Indicators and LED Display

“Ultra-High-Brightness” and “Full-color” are major trends of Visible-LED development. UHB LEDs can provide significantly better contrast and readability for outdoor application like traffic signs, indicators in vehicles, and outdoor LED display under sunlight conditions.

LED displays are an essential medium for bringing real-time information and conveniences to people in all kinds of commercial activities like the Olympic series from 2008, many World Expos, and FIFA World cups. The broad adaption brings fabulous video performances that attract more viewing audiences. As the technology and cost evolves, we can expect the Display application to keep the growing trend.

As the SMD and module technology improved, outdoor LED displays have crossed the 5mm bottle-neck to allow for designs like those with a 3.x and 4.x mm pitch. Moreover, <1.0mm pitch indoor displays are also in production. The indoor applications have evolved from long-distance advertisement to detail information like in the airport flight schedule, replacing traditional display tech like PDP / LCD / Rear Projection “Fine-pitch” is officially the new industry mainstream for both indoor and outdoor LED displays.

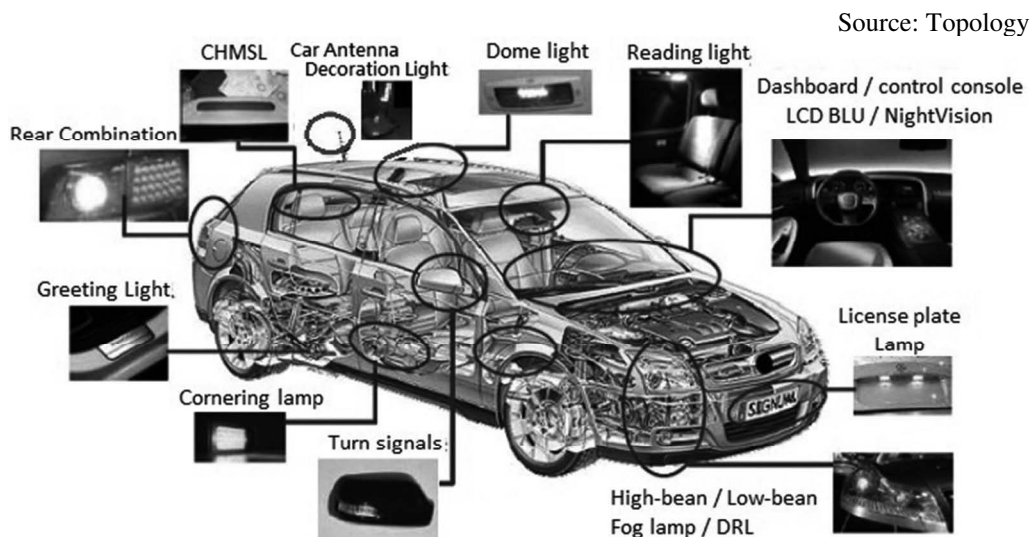
LED revenue in Signs & Signal and Display market, 2015-2021



(2) Automotive Lighting

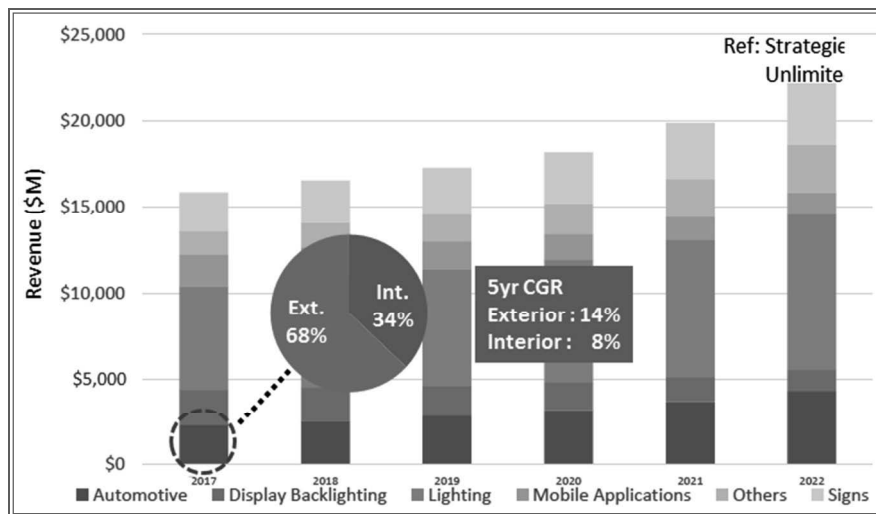
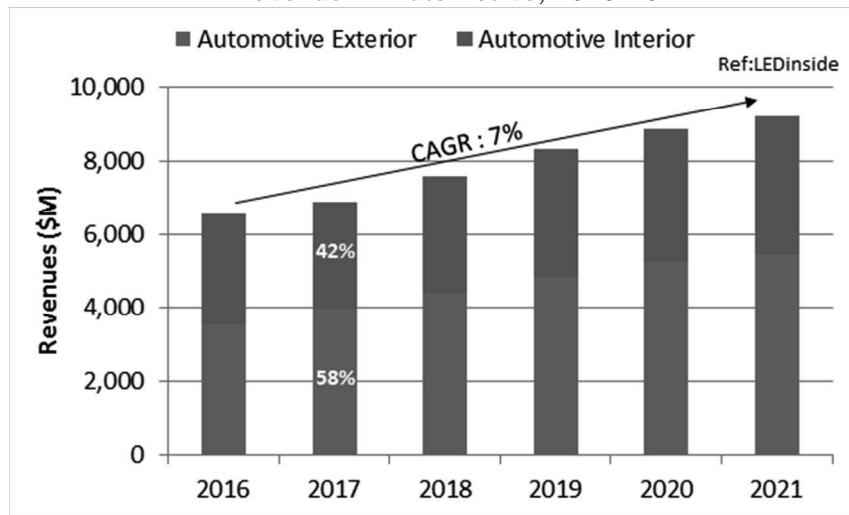
High reliability, energy saving, and instant response make HB LEDs the best light source in both interior and exterior automotive applications. Interior applications include light sources in dashboard and control console, reading light, interior dome light, trunk light, and doorway light. Exterior applications include lighting for visibility (like headlamp, fog lamp, and license plate lamp) and lighting for signaling (like stop lamp, turning lamp, tail lamp, CHMSL, reversing lamp, and DRL). LED light sources are becoming standard equipment in not only premium models but also mainstream models. Meanwhile “Lightsource for communication” also emerge as OEM and headlamp maker developing projector-type and matrix-type headlamp. These new headlamps can “talk” to surroundings with pixel-level accurate pattern while maintaining the illumination function. Both large-area LED and mini-LED could grow in such premium design long-term-wise.

LED light sources in automotive application



Beyond the above interior & exterior lighting, more optoelectronic devices are designed into ADAS or Auto-driving system. The integration of infrared camera and smart headlamp, and the range-finding sensor fusion of Radar & Lidar & Ultrasonic devices also expand the automotive related market. As the autonomous-driving function matures, in-cabinet displays are expected to grow, the flat or curve displays leave more opportunities for mini-LED BLUs. As vehicle cabinet functions as another living space for work and leisure, high quality and RGB tunable illumination are now crucial for creating atmosphere to match each scenario.

LED revenue in Automotive, 2016-2021

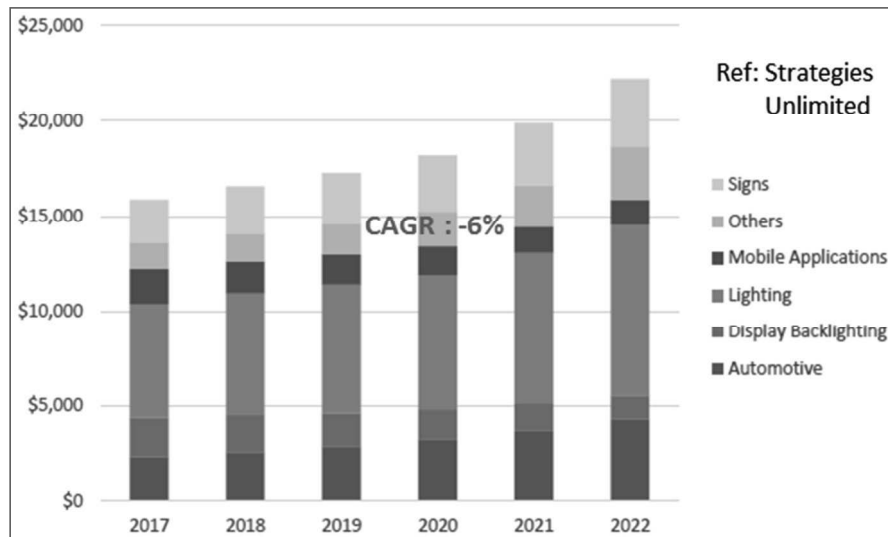
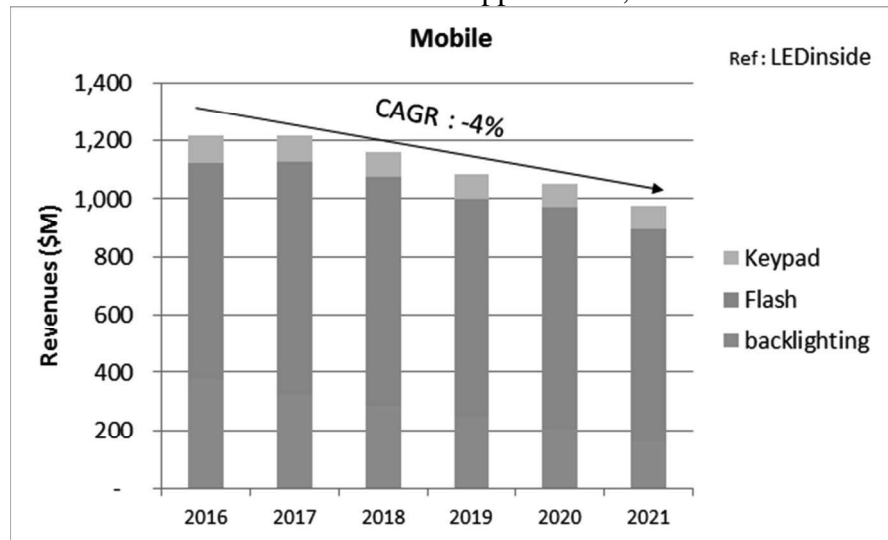


(3) BLU for cellphone and portable handheld devices

The “thin and lightweight” requirement for hand-held consumer electronics like cell phones and GPS make LEDs the best choice for keypads and LCD backlights due to LED’s advantages in both size and weight. As Apple’s iPhone led smartphone growth since 2010, their annual sales grew from 1 billion units in 2013 to 1.3 billion units in 2014. Though the quantity growth was slowing in 2016, the trend of increasing size and higher resolution remains. The LED number per phone increased from 6 in 3.5” to 8 in 4” to 12~16 in 5”+. Performance requirements like high brightness and low voltage also drives LED technology advances. Moreover, the flash LED for rear cameras also increased from 2 to 4 in

iPhone 7s. We believe this trend will expand the push by other brands to follow suit. Overall the LED revenue in handheld devices could remain flat. Due to the very high driving current and flux requirement of flash applications, CSP types of LEDs are being gradually adapted. Over the long-term, LEDs still could be impacted by the OLED trend in handheld device. Therefore, LED industries are also developing super-thin HDR (High-Dynamic-Range) features by utilizing direct-type mini-LED which is even smaller than current side view LED in edge-BLU. With these thousands of mini-LED, the BLU can perform 2D-local-dimming to very fine zones so reaching super-high contrast, while maintaining excellent power consumption and thickness. In the premium tablet and gaming NB/PC market, the demand for premium picture quality and power consumption also push for mini-LED design to take-off.

LED revenue in handheld applications, 2016-2021



(4) Mid to large size BLU for LCD

In 2009, LEDs began to replace CCFL as light source for Netbook PC's BLU. Following Sony's launch of large-size LCDTVs with LED BLU in 2004, in 2009 Samsung was the first to use the Edge-lit BLU structure to lower the LED number and BLU thickness. The smaller price gap with CCFL counterpart made it a big

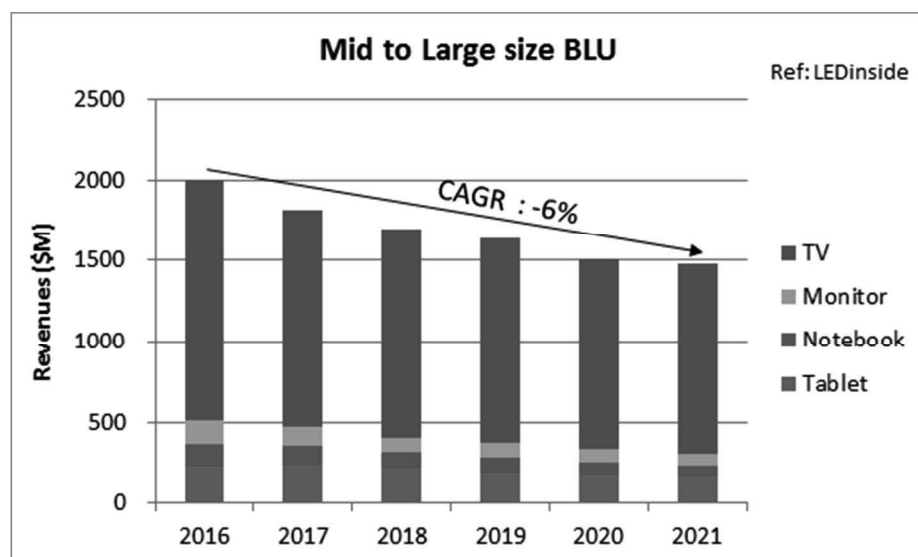
hit in the consumers market in 2010. Many TV branders then further brought the price to almost CCFL levels by introducing directly lit BLU structure LCD TVs, which pushed the LED penetration rate to 70% with the help of China's subsidies for energy-efficient appliances. After 2015, the overall LED penetration rate of all mid-to-large LCD BLUs were almost 100%, so it's generally believed that the LED revenue had reached the peak for this type of application.

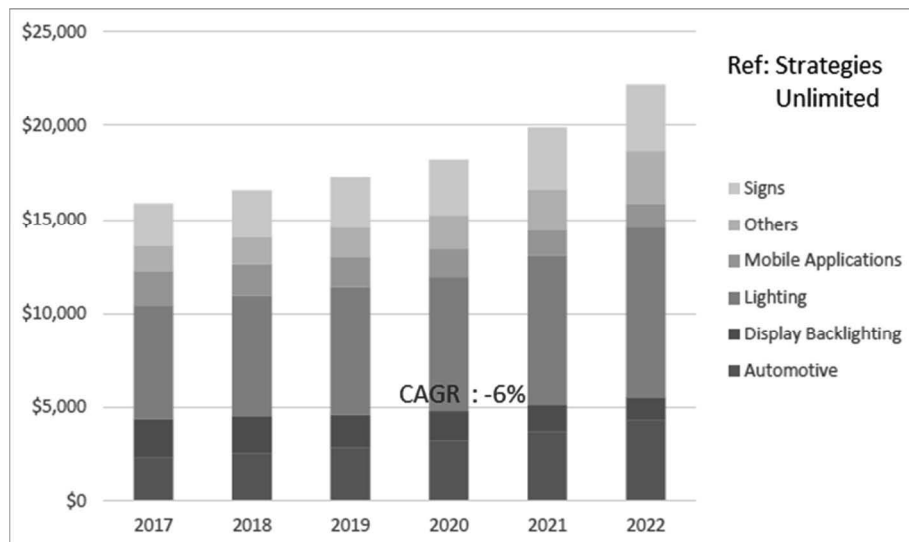
Nevertheless, there are some positive factors for this application including:

- A. Trend for average size-up every year. 41.4"@2015,43.6"@2016, 45"@2017 and 46"@2018. A 5% increase in panel size and LED count in yearly average can be observed.
- B. Trend to UHD (4k2k). 30%~50% more LED per TV comparing to FHD
- C. Trend to High Color Gamut. The CG target increased from 70% ~ 72%NTSC @2009 to 90~95%, which requires more LED for to compensate the brightness loss by different phosphor. The introduction of Quantum Dot also helped pushing CG to 100% NTSC while the lower conversion efficiency calls for more LED in BLU design. QD-based design also requires lower driving current to avoid heating, and that means more LED per TV too.
- D. High Dynamic Range. To compete with OLED in terms of contrast, the mini-LED for HDR BLU design uses multiple-times of LED per TV will boost the contrast performance, and also LED usage in BLU applications.

Combining all that, although the LED penetration rate is almost saturated, the positive factors like size-up, UHD, HCG, and HDR can still stimulate mid-to-high-end LED revenue. The CSP type of LED is also an important trend for large size BLU. CSP's high driving current capability is a plus for direct-lit BLU, it's smaller geometry also fits in thinner light guide plate for new edge-lit BLU design. The CSP design has become one of the major trends in the 2017 model, spreading from Korean brands to others. Mini-LED-BLU is another trend in premium monitors design. The benefit of meeting both HDR and slim design make mini-LED a perfect choice to grow with premium monitors.

LED revenue in mid to large size BLU, 2016-2021

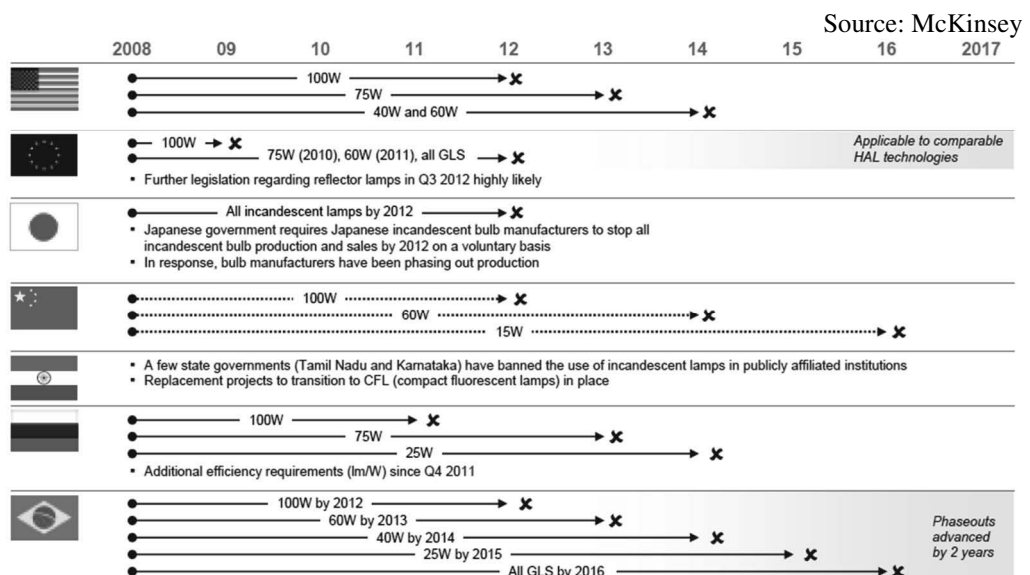




(5) Solid-state lighting market

According to OECD, global lighting electricity consumption accounts for about 19% of total electricity consumption. In recent years, due to the global warming, energy shortages, high oil prices and other issues, the global awareness of energy conservation have been gradually increasing. Generally estimated, if the LED light sources replace existing conventional lighting, about 1,325 TWH savings will be made per year, corresponding to 50% energy savings, savings approximately equal to the amount of 132 nuclear power plants (set 10 TWH as annual electricity generation per nuclear power plant). Therefore, integrating considerations including environmental protection, energy conservation and safety, governments have embarked on to ban incandescent lamp, and LED lighting is undoubtedly an important solution.

The policy of ban on incandescent lamp



Lighting industry has two main market segments, one for the replacing light source market, and another one for the luminaries. From the cumulative installed capacity of global illumination (the number of sockets) point of view, LED lighting penetration rate in 2013 and 2014 were only about 2% and 4% respectively. A period of rapid growth officially began in 2014, and the next five to seven years therefore will be the fastest growing and most exciting stage of the LED lighting industry.

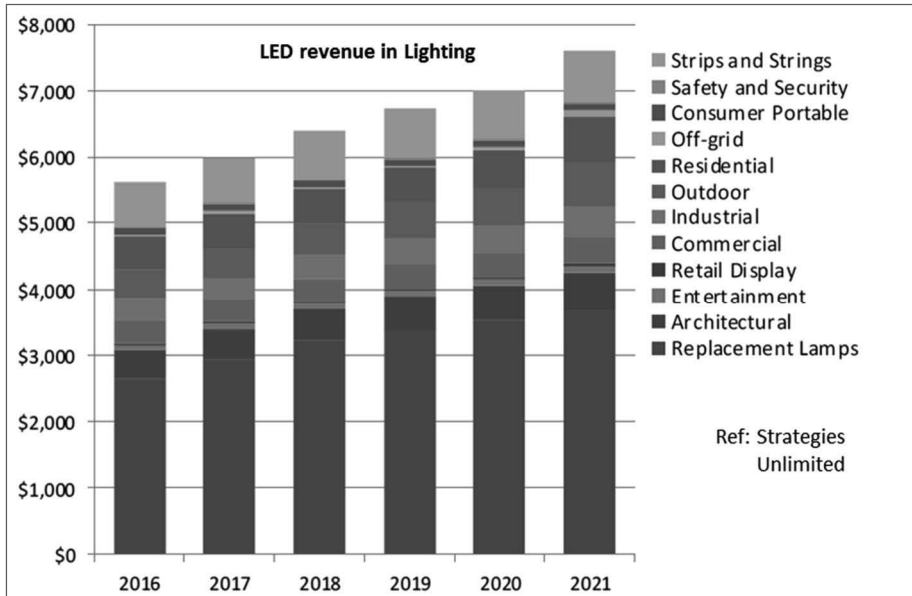
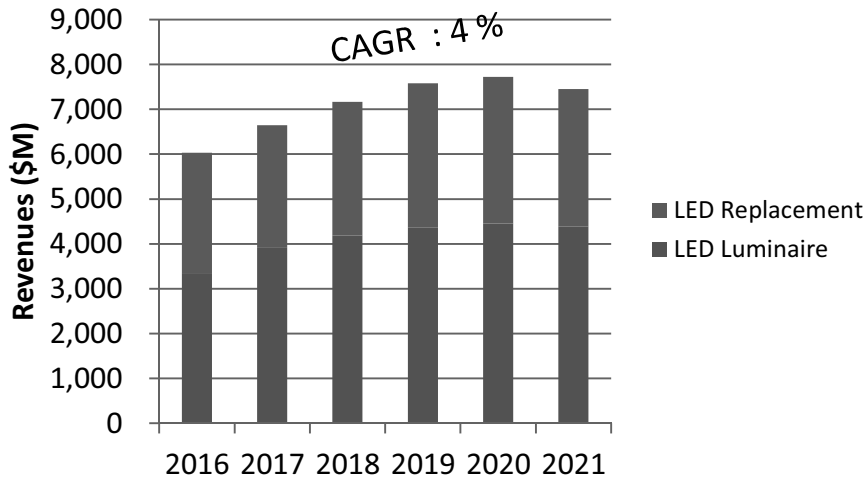
Outdoor street lighting market is the fastest growing category of solid-state lighting applications. Taiwan's government first launched the CNS-15233 LED lights standard in late 2008 to properly define product specifications and market rules, and in 2011 budget 2.768 billion TWD for the replacement of 326,000 streetlights with LEDs. Subsequently, from the US American Recovery and Reinvestment Act (ARRA) providing subsidies for LED streetlights, to China's 12th Five-Year Plan to promote the "10 cities with ten thousand lights" and "lighting every village" initiatives, to the EU's 20-20-20 plan, streetlight markets have been key projects for governments. In 2011, the International Energy Agency (IEA) surveyed that about 160 to 180 million existing streetlights, LED lights in 2011 penetration rate was only about 5%. In 2016 the penetration rate already reach 50% and then reached 65% in 2018, with a total demand amounting to more than 100 million LED lights.

In 2014, changes in indoor alternate lighting sources started due to the complete specifications and the arrival of a pricing sweet spot. This allows for a large number of solid-state lighting started penetrating into the consumer market. The US government officially banned the production and import of 40-watt and 60-watt incandescent bulbs in 2014. The EU's policy from 2013 gradually regulated and guided the replacement of low energy efficiency incandescent halogen lamps with efficient LED bulbs. In the United States, state governments and power companies subsidize the purchase of Energy Star certified LED light sources, making the US Department of Energy in advance to reach 2015 target of 1000 lumens/10 USD in the second half of 2014, following by the market penetration rate highly growing year by year. The installed penetration rate is 13% in 2016, and growing to 20% in 2017, forecasted to be over 50% in 2021. Product-wise the LED filament bulbs also gain much popularity among branders and consumers, due to the classic appearance and energy-efficient features.

Besides the consumer lighting market, some niche lighting application also grows faster than average. The horticultural lighting can help both in shortening harvest-time and increase plant density per area. Horticultural LED lighting had been implemented in many high-value plant farms. The LED luminaries for horticulture are forecasted to grow to \$2B in 2022.

LED revenue in Lighting

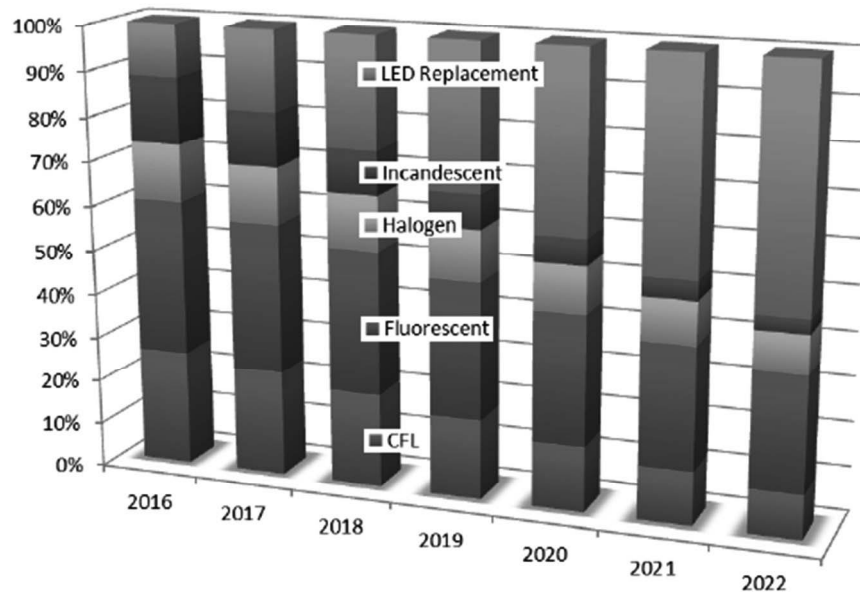
Ref: LEDinside



Device amount in global retrofit light source market, 2016-2022 (unit: million)

Source: Strategies in Light 2017

Global lamp Installed Base %



(6) Sensing application

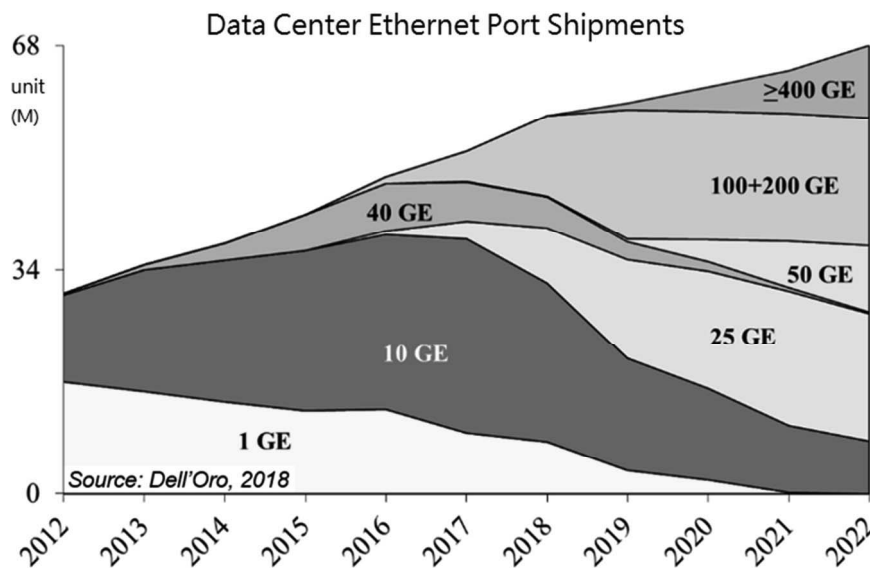
Sensing functions are now applied in many scenarios. The Infrared LED and Camera pair had been used for Facial Biometric Recognition in many IT devices, replacing the routine Password-setting / key-in/ re-new...etc. The lower-power consumption and wavelength-customization-capability are also very favorable in smartphone authentication. The uniqueness and accuracy of Iris tissue has made Iris-Recognition a very popular authentication method. Wearable devices like wristband are widely used in health-monitoring and sport-tracking, with pulse-tracking function that enabled by different absorption-spectrum of blood and vessel tissue. By combining visible and infrared spectrum, the tracking device can provide best S/N ratio of bio-information for the user to judge. Other than just pulse-rate, important bio-metrics like SpO₂, blood glucose level are available by using multiple-wavelength Infrared LED. Besides measurement, many Photodynamic Therapies are also under-developing. Infrared LEDs have been used to improve life qualities in terms of Security, Recognition, HealthCare, BioMedical.

VCSEL (Vertical Cavity Surface Emitting Laser) is an important key component in the 3D sensing application. In the past, it was mainly used in the optical communications market. Its 'collimated and coherent' features enable high accuracy, miniaturization, low power consumption, reliability, and excellent response speed. These all contribute to precision distance measurement and recognition. As 3D sensing architecture such as time-of-flight and structured light mature, plus the rapid development of algorithms, major manufacturers gradually introduces 3D sensing technology to mobile devices in response to the demand for new features of consumer electronics products. Since the high-end flagship

devices began to accommodate 3D sensing capabilities in 2017, the number of VCSEL shipped for consumer electronics products has exceeded VCSEL for existing optical communications market. Market research institutes expect VCSELS used on smart phones will reach 5 times the demand for optical communications in 2019. In the future, 3D sensing with VCSEL as an important component can also be extended to new applications such as vacuum-cleaner robots, AR/VR, automotive applications like drones and self-driving cars, or biomedical sensing.

(7) Optical Communication

Data Center traffic has been growing fast as the smart handhelds and internet services getting popular, spurred by cloud and 5G infrastructure implementation. The Data Center Interconnect (DCI) is a key sector of optical communication market. Transceiver module made by Multi-mode VCSEL grows the most in the <2km “inside DC interconnect” due to its high performance and lower cost and power consumption. 10Gbps VCSEL is mainstream now, while 25Gbps are the foundation of 100G(4×25Gbps)Ethernet switch. 25G per channel can be the building block to reach 100G and 200G switch. This flexibility make VCSEL demand grows with healthy DCI market.



5.1.2.4 Current situation in industry competition

Domestic and foreign LED mega manufacturers have unique advantages with LED structures, elements, epitaxy, and technology on process technology. With reference to the public information published by the enterprises, the important technical items are described as follows:

- (1) PHILIPS LUMILEDS performs high efficiency and high power LED with technical advantages of transparent substrate and the flip-chip technologies.
- (2) NICHIA invested in developing InGaN LED technology very early and has advantages on high-efficiency LED technology.
- (3) OSRAM OPTO SEMICONDUCTOR invested in developing Buried Micro - Reflector Type LED and Thin-GaN LED technology and has advantages on high-efficiency LED technology.
- (4) CREE uses vertical adhesive technology and integrated packaging technology on high power InGaN dies, and breaks the records of luminous efficiency frequently.

All enterprises each have leading and dominant technologies in different aspects. While along with rapid changes in technology, companies are able to communicating, research and develop various new LED structure, component, and process technology by using different technology platforms. Then based on considerations including each company's technologies, transferable production, and ROI rate etc., profits will be reduced, and companies will gradually lose competitiveness. Therefore, they will only survive in this strict market if they continually improve their LED technological innovations. The LED industry is a technology-intensive industry, and patents are a key indicator of competitiveness. By the end of 2018, Epistar acquired 4,872 domestic and foreign patents, and has been deemed as the manufacturer with the most key patents in the domestic upstream LED epitaxy / dies in the industry.

5.1.3 Research and Development

5.1.3.1 Research and Development Expenses

Consolidated		Unit: NT\$ thousands
Year	Research and Development Expenses	Revenues (%)
2018	1,959,743	9.65

Note: Based on IFRS

5.1.3.2 Successfully developed technologies or products as of the publication of this annual report

- (1) High power 810nm/850nm/940nm wavelength infrared dual junction chip products for facial and iris recognition function adapted in portable device /notebook
- (2) Infrared LED chip for automotive night vision and Advanced Driver Assistance System(ADAS)
- (3) Ultra-high brightness red LED chip products for vehicles rear lamp assembly
- (4) Proximity sensor and biometric detection related products for portable and wearable device
- (5) Wall plug efficiency (WPE) >70% red LED chip for horticultural lighting application
- (6) Small size red flip chip for electronic sports application
- (7) Red PEC-chip (Pad extended chip) for display
- (8) 850nm VCSEL Epi for 4 Gbits and 10 Gbits datacom
- (9) RGB LED chip for high brightness projector, lumen reaches 630lm@1.4A driving, current-density reaches 3.5A/mm²
- (10) The high brightness horizontal GaN LED technology development
- (11) Development of horizontal GaN LED for automotive console, cluster, reading lamp and daytime running lamp
- (12) The high voltage flip-chip LED development for CSP package. Suitable for all kinds of BLU module and down size LED PKG dimension
- (13) The Mini LED development for ultra fine-pitch display application
- (14) Development of mini LED for mobile phone 、 tablet and TV BLU
- (15) The high voltage (9V-18V) LED development for general lighting application
- (16) Development of high efficiency flip-chip LED development for automotive, the brightness reaches 380lm at 1000mA.
- (17) The UV flip-chip LED development for 365-420nm application
- (18) The ultra-high brightness B/G GaN LED for pico projector application.
- (19) The ultra-high brightness vertical UV (365nm) LED.

- (20) Development of ultra-low voltage horizontal LED for mobile phone sideview BLU application
- (21) The mini flip-chip LED development for ultra-thin cell phone panel application
- (22) The white light technology development for cell phone flash module
- (23) The short wavelength UV LED technology development
- (24) Development of UVC (280nm) chip
- (25) Development of ultra-thin and high color gumut LED CSP for Edge-lit of LCD BLU
- (26) Development of wide angle of LED CSP for ultra-thin and high contrast LCD BLU
- (27) Development of high power and high color gumut LED CSP for BLU
- (28) Development of new LED CSP technique for flash application
- (29) Development of high optical density of LED CSP in lighting applications
- (30) Development of 6 inch GaN on Silicon Epi wafer technology for high breakdown voltage application
- (31) Development of high current and high voltage GaN on Si power device
- (32) Development of GaN-on-Si power device for LED general lighting application
- (33) Package and modulation technology for power supply application
- (34) Development of edge-emitting blue laser diode with 4W radiant power
- (35) Development of 4 W radiant power edge-emitting blue laser diode COS (Chip On Submount)
- (36) Development of high voltage IOT IC with HEMT

5.1.3.3 Ongoing Research and Development Projects and Expenses

Future R&D plans and estimates of R&D expense. The R&D expense of the company in 2019 is roughly 1.994 billion. The R&D items are shown as follows:

- (1) Efficiency improvement of near infrared LED with wavelength ranging from 1100nm to 1600nm
- (2) Mini RGB package for small pitch display
- (3) Develop new flip chip product with high efficiency for lighting market
- (4) Launch/receive device development for biometric detection and recognition
- (5) Ultra-high wall plug efficiency LED chip for horticultural lighting application
- (6) Ultra-high efficiency/Stable reliability LED chip for automotive application
- (7) Ultra-high brightness and current-density RGB chip products for projector application
- (8) Mini LED product development & performance improvement
- (9) Develop ultra-thin Mini-LED
- (10) Develop mini-LED for automotive applications
- (11) Develop high efficiency & quality high-voltage flip chip LED product
- (12) High efficiency & high voltage flip-chip LED product development and performance improvement
- (13) Develop high efficiency/high voltage lateral type LED
- (14) Develop high lumen flip chip, 400lm at 1000mA, for automotive headlight market
- (15) Develop high current density blue/green vertical GaN LED for pico projector and efficiency improvement
- (16) High efficiency B/G LED development and performance improvement for fine-pitch display application
- (17) High efficiency vertical UV (365-405nm) LED development and performance improvement for industrial or commercial application

- (18) High efficiency UV (410-420nm) LED development and performance improvement for high color gamut lighting applications
- (19) Development of high competitive product with white light LED apply for BLU, general lighting and high-end flash module
- (20) Improvement of UVC (280nm) LED
- (21) Development of Blue laser diode
- (22) Development of new LED CSP for BLU, lighting and high-end flash applications
- (23) Development of LED CSP for headlamp for automotives
- (24) Development of LED CSP array with different wavelength
- (25) Design of 2nd lens for LED CSP optimization
- (26) Develop E Mode (normally off) power device on 6" GaN on Si wafer
- (27) Development of integrated GaN-on-Si power device for LED general lighting application
- (28) Development of power supply system for operation over 100W and beyond 1 MHz over 100W operated higher than 1MHz power supply
- (29) Development of GaN power electronics device/circuitry/system for LiDAR application
- (30) Develop high current and high voltage GaN on Si power device
- (31) Develop high voltage IoT IC for smart home
- (32) Develop mini LED PAM (Pitch Adjusted Module)

5.1.4 Long- term and Short-term Business Development Plans

5.1.4.1 Short-term Business Development Plans

- (1) Focus on visible light, UV light, infrared light LED technology development LED wafers and dies, in order to improve product performance and increase profits.
- (2) Provide LED products with high light intensity and cost advantages, high Lm / \$ core competencies to meet specific customer.
- (3) Expand the China, Europe, America, Japan, Korea, and other regional marketing channels, improve the proportion of exports and increase international market share.
- (4) Rapid response to customer demand, adjust the product combination to meet the rapidly changing market.
- (5) Create a virtual vertical integration (VVI) service, to improve the efficiency of cooperation lighting supply chain, improve the popularity of LED lighting. Fastening the adaption of mini-LED and micro-LED solutions by working closely with LCD customer and also supply chains of all display types.

5.1.4.2 Long- term Business Development Plans

- (1) Improve the company's own research and development capabilities, launch technical cooperation with domestic and foreign research institutions and customers, and arrange high proportion of investment in R & D resources to raise liters of long-term international competitiveness.
- (2) Develop long-wavelength infrared light and short-wavelength UV light technology to provide a full spectrum LED product line.
- (3) To become the world's leading LED manufacturer continues to develop new products, improve the efficiency of LED and relevant applications in order to actualize unlimited LED potentials.
- (4) Continually thick technical design capability and enhance patent portfolio basis.

- (5) Continually optimize production technology, lower production costs, and establish a more cost-competitive production capacity.
- (6) Optimize production capacity and complete quality certification system, continuing to improve product quality, shorten product delivery to provide customers with the most satisfactory services.
- (7) To enhance the transferable efficiency of LED products, reduce the heat and thus save energy; committed to the development of other III - V semiconductors technology applications, such as the power element to conserve energy, to develop new applications and VCSEL foundry OEM business.

5.2 Market and Sales Overview

5.2.1 Market Analysis

5.2.1.1 Sales (Service) Region

Consolidated		Unit: NT\$ thousands	
Area	Sales	Sales %	
Taiwan	3,643,086	17.94	
Asia	16,438,605	80.95	
Others	224,721	1.11	
Total	20,306,412	100.00	

Note: Based on IFRS

5.2.1.2 Market Share, Supply and Demand, and Future Growth.

Epistar's main products are two categories of epi wafers/LED chips: AlGaInP and InGaN. According to statistics, the total revenue of 7 LED chip manufactures in Taiwan (including publicly traded companies in LED industry) was around 31.1 billion NTD. Epistar's revenue in 2018 was around 20.3 billion NTD. The market share is about 65.4% in 2018.

Source: MOPS

Ranking	Company	2018 Consolidated Revenue (NTD million)	%
1	Epistar	20,306	65.4%
2	Optotech *	5,365	17.3%
3	Tyntek *	2,428	7.8%
4	Epileds	1,177	3.8%
5	Genesis	902	2.9%
6	Tekcore	692	2.2%
7	Arima	185	0.6%

*: consolidated revenue including non-Epi wafer and non-chip product

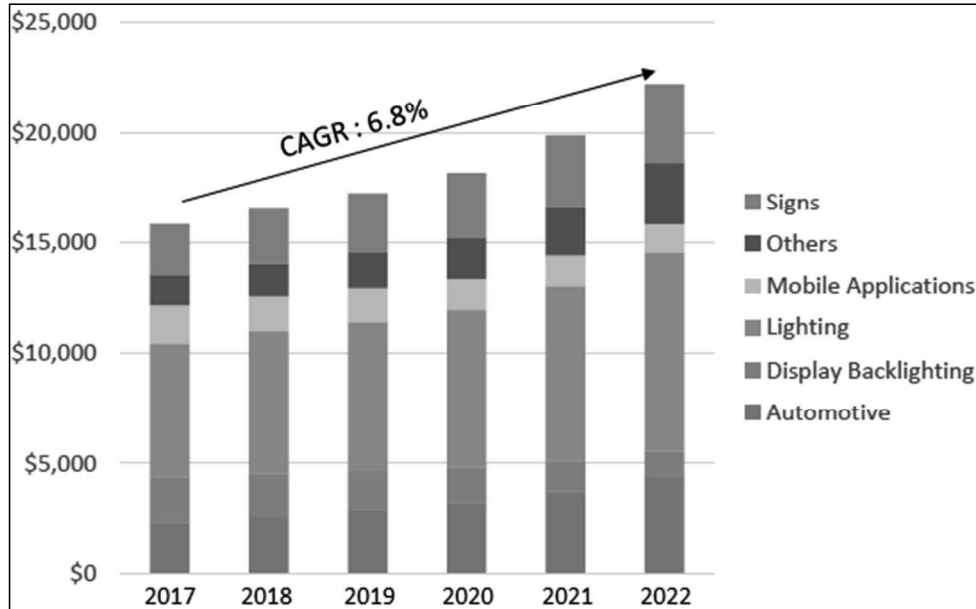
Starting in 2009, China's government subsequent 11th and 12th 5-year plan subsidized and encouraged Chinese manufacturers to purchase MOCVDs, create joint ventures, or new companies. Many new industry players were created and the market became highly-competitive, and the supply and demand became out-of-balance. The price went down and some players went bankrupt. As a result, the annual revenue of 2015 declined 2~3%.

In spite of the needs of solid state lighting having increased, the consuming habit for general lighting focuses on the "cost / performance ratio" and this factor makes revenue increase quickly but profits sharply decrease. However, the applications like automotive, medical, horticulture, security, and wearable devices are still growing up.

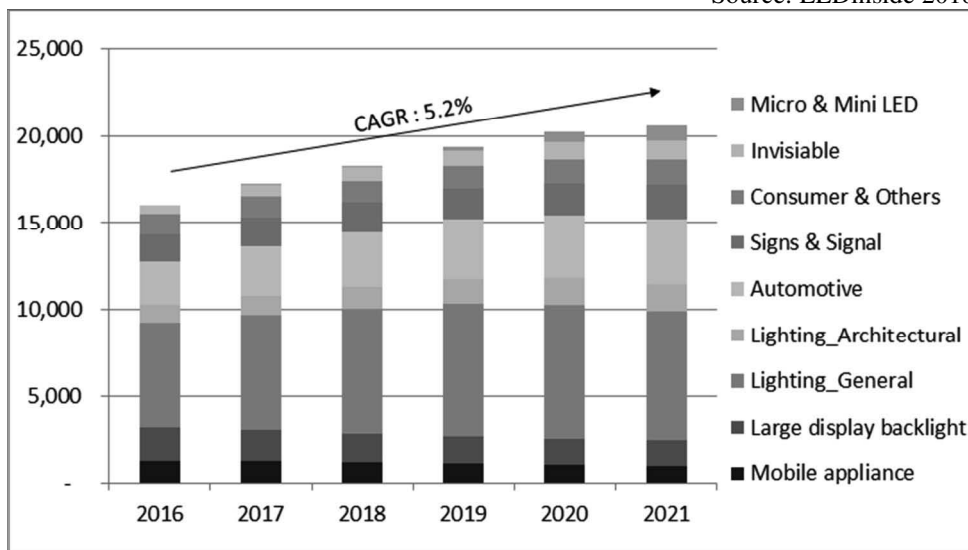
We believe that the players equipped with effective production and strong abilities will be bigger and survive in the market after supply and demand is balanced. There are two research companies' points of view about the estimation of the LED market.

LED revenue in all applications, 2017-2022

Source: Strategies Unlimited 2017



Source: LEDinside 2018



5.2.1.3 Competitiveness

(1) Full spectrum product portfolio.

Epistar's AlGaInP product series provides yellow-green, yellow, orange, and red high brightness epi wafers and chips. Epistar's InGaN product series provide purple, blue, and green epi wafers and chips. Epistar also has ultraviolet and infrared products. From 365nm to 940nm, features of full spectrum product portfolio and one-stop shopping satisfy all kinds of needs for all kinds of applications.

- (2) Concentrate on epi wafers and chips manufacturing.
For the 23 years after its founding, Epistar has remained focused on epi wafers and chips, dedicated to the optimization of chip manufacturing technologies. Instead of vertical integration, Epistar chooses horizontal expansion and looks for cooperation in patents, seeks a wide variety of products and depth of technologies.
- (3) Adjust product portfolio and meet market needs rapidly.
Except for high brightness LEDs and AC LEDs, Epistar started mass production of high voltage LEDs in 2011. The high voltage product series was TAIWAN EXCELLENCE certificated in 2014. It saves driver cost for client and creates more design ability by using high voltage LEDs. The combination of blue and red high voltage LEDs also provides high quality and high CRI warm-white light sources. Epistar also began mass production of pad extension chip (PEC) in 2012. PEC is especially for high operating current and there's no need of the wire bonding process. The PEC also enables higher package density and satisfies the needs for high lumen output in lighting market. Furthermore, Epistar has developed UV LED, infrared ED, and automotive LEDs for a long time. Take niche projector application as an example, in emerging market of portable projectors, it needs extremely high quality and high reliability red, green, and blue light source. Epistar is able to provide one-stop shopping for projector clients. This case embodies the technology and quality value of Epistar.
- (4) Excellent R&D ability with complete IP portfolio.
Started from establishment, Epistar has been always dedicated to improve manufacturing technologies and develop for innovations. There are over 240 people in R&D Center (EPISTAR LAB) and over 1,400 people in engineering, research, and development. Most of them form Electronic and Optoelectronic System Research Laboratories of ITRI, experts overseas, and domestic professional talents. They are experienced in LED R&D and manufacturing to optimize the technologies of manufacturing LED chips and make LED chips apply to different applications. In 2018, Epistar has 4,872 patents, including patents issued or pending.

For many years, Epistar has been devoted to develop all kinds of technologies for different applications, like "InGaN Blue LED Project" (1999), "InGaN Green LED and White LED Development Project" (2001), "Key Technologies of High Efficiency and High Power Emitting Components Development Project" (2003), "Next Generation Lighting Project" (2003), "Advanced Flat Display Material and Component Integration Project" (2005), "Key Technologies of CPV Solar Cell Development Project" (2007), "Full Color Outdoor Display Development Project" (2014), and "HV LED Application Project" (2014). All of them are key to Epistar's competitiveness.

- (5) Comprehensive and reliable quality and ESH management system.
Epistar has devoted to improve its product quality since establishing. Epistar was certified by ISO 9001 in March, 2009. In order to further improve product quality to meet the needs of automotive industries, the Company started to introduce TS 16949 and obtained its certification in January, 2006; obtained SONY GP certification in 2009; continued to implement ISO 9001: 2015 and International Automotive Task Force (IATF) 16949: 2016 new edition certification. Besides, in

order to strengthen customers' trust in quality of the Company's products, eliminate measurement disputes and enhance corporate image, the Company found its measurement laboratory in 2012 and obtained ISO 17025 certification in the same year.

Epistar also considerably values environmental protection and occupational health and safety, therefore, it obtained not only ISO 14001 certification in July, 2006, but also OHSAS 18001 and CNS 15506 system certification in 2008 and 2009. Epistar also carried out ESH management system (ISO 14001/OHSAS 18001/CNS 15506) three-year re-examination and completed ISO 14001: 2015 revision certification in 2018; besides, in response to the official release of the Occupational Health and Safety Management System ISO 45001:2018, Epistar started planning for it, and implementing the conversion of system standard in the fourth season of 2018, and planned to convert OHSAS 18001 system into ISO 45001 in 2020; it's sufficient to show that Epistar strives in emphasizing and being strict with management of ESH.

5.2.1.4 Favorable factors and unfavorable factors in futures and counter measures.

(1) Favorable factors

- A. Products are widely used to all kinds of applications and has great potential
High brightness LED wafers and chips are widely applied because of several advantages derived from their small dimensions, low electricity consumption, less heat, and long lifetime. Main applications are outdoor display, traffic information display, and light source for automotive lighting, like indicators in interior and third brake light, fog light, tail light, directional light in exterior. Traffic light, traffic signs, light sources for backlight modules in displays, cellphones, and notebooks are also included. For saving energy, LEDs are also widely used for general lighting and streetlights.
- B. LED supply chain is completed and channels are clear and smooth
Taiwan LED industry has developed for over 20 years and it is well-constructed. Mature and effective manufacturing technologies make Taiwan LED industry an important role in global market. This is a favorable factor for up-stream makers. In addition, Epistar started to develop overseas customers very early and owns abundant down-stream resources. Therefore, forming alliances with downstream customers is one of the important characteristic of Epistar. By work specialization and alliance strategy, Epistar is able to catch market trend and adjust product portfolio to improve competitiveness.
- C. Future application of MOVPE core competence
MOVPE technology is utilized to manufacture HB-LED and LD due to its strong controls over material purity, epi-layer thickness, and superior uniformity than LPE and VPE technologies. It's also the major technology in manufacturing devices of fibercom and RF front-end module. Those devices include LD & VCSEL in fibercom, CPV Solar cell, HBT in wireless communication. Epistar's management and technology team have years of intensive experiences in both MOVPE epitaxy technology development and MOVPE system design and modification. This expertise brings competence in possible future possible in fibercom and RF related device manufacturing.

(2) Unfavorable factors and counter measures.

A. Risk of patent infringement

After Nichia Corporation successfully developed InGaN blue and green led chips, 5 main suppliers formed patent alliance. Patent infringement became the common issue for development of LED's all spectrum manufacturing.

Counter measures:

Epistar owns a large number of patents of high brightness AlGaInP LED and InGaN LED and dedicates to increase the wideness and deepness of patents by endless research and development. Epistar also signed cross-license agreement with name brands, like TOYODA GOSEI (Japan) in September 2010. Two companies are able to use patents own by others, including InGaN LED and AlGaInP LED technologies. Epistar also signed cross-license agreement with PHILIPS in February 2014 and with CREE in 2015. The cross-license agreement with CREE focuses on InGaN LED technologies.

B. There are great opportunities in LED lighting market. Many players emerged and increased competition.

The price of traditional LED lighting dropped. Future directions tend to focus on high brightness and full color applications. Most of the players target high brightness LEDs. In addition, Asia manufacturers usually earn business by lowering price. It makes market competition get worse.

Counter measures:

Epistar's strategies are focusing on research and development, improving manufacturing technologies and yield rate, strengthening product reliability, and creating manufacturing scale. Through these strategies, Epistar is not only able to reduce cost but also maintain quality to maintain our competitive advantages. Furthermore, Epistar also develops new products, like UV LEDs and AlGaInP LEDs for datalink applications with all the latest technologies.

In addition to effort spent in research and development and yield rate improvement, Epistar also tries to optimize the human resource system, co-work with clients closely, and strengthen customer relationship to get closer to end market needs. Epistar also deepens the management and operation in China by setting up joint ventures and subsidiaries.

5.2.2 Important applications and process of main products

5.2.2.1 Important applications

LED epi wafers and chips produced by EPICSTAR featured with advantages like small dimension, less electricity consumption, less heat, long life-time. Epistar's chips are widely used for different applications.

(1) Outdoor display, traffic signs, traffic information display

(2) Automotive

Interior: backlight source for meter board, indicators, map light.

Exterior: third brake light, fog light, tail lamp, directional light, day running light.

(3) Consumer products

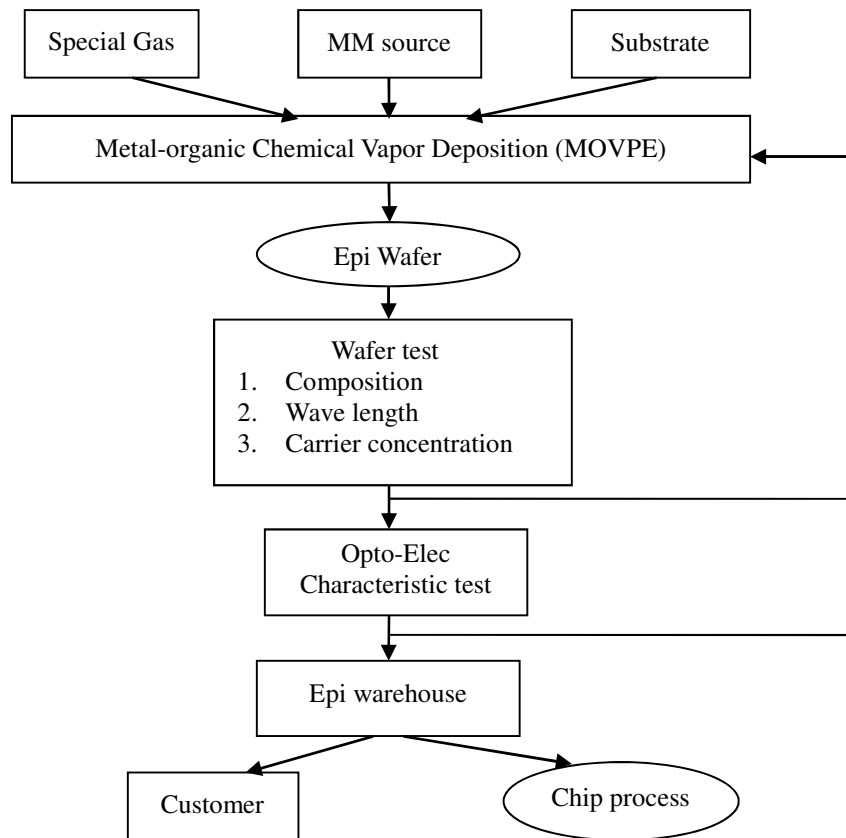
Indicators, 7 segment for all kinds of consumer products.

- (4) Communications industry
Backlight source, flashlight, and distance measuring in all kinds of cellphones.
- (5) IT industry
Indicators in all kinds of computer related equipment, backlight source of small display, scan light source of photocopier, CIS light source of fax machine.
- (6) Indicators and display for industry and instruments.
- (7) Light sources for large TV backlight module and projectors.
- (8) Lighting applications like landscape lighting, streetlight, general lighting, commercial lighting, industrial lighting.
- (9) Special lightings like horticulture lighting, medical lighting, and UV.
- (10) Infrared emitting diode for facial and iris recognition in biometric authentication.
- (11) Infrared emitting diode for biomedical sensing in wearable device.

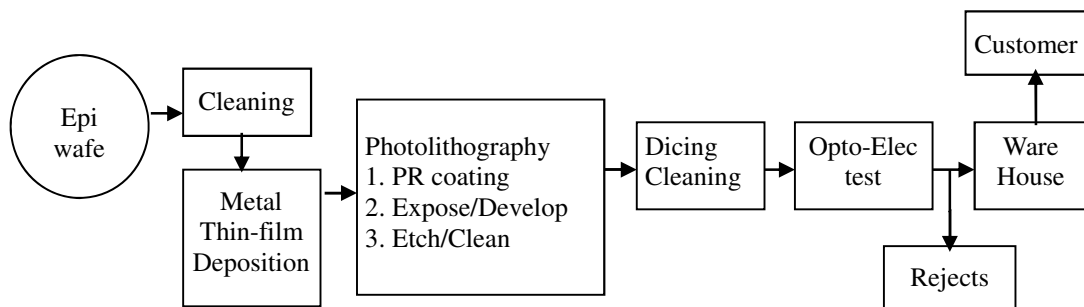
5.2.2.2 Manufacturing process

The major process can be categorized as Epi Process and Chip Process

(1) Epi Process



(2) Chip Process



5.2.3 Supply status of major raw materials

Material	Vendor	From	Status
Substrate	Crystalwise Technology Inc. Rigidtech Microelectronics Corp. Sinopatt Technology Co., Ltd.	China and Taiwan	Smooth
MO source	Laminar advanced material Co. Ltd. SAFC Hitech Taiwan Co., Ltd.	Taiwan	Smooth
Special Gas	Taiyo Nippon Sanso Taiwan, Inc. Praxair Chemax Semiconductor Materials Co., Ltd. Versum Materials Taiwan Co., Ltd	Taiwan	Smooth
Metal	Matsuda Sangyo Co., Ltd	Japan	Smooth

5.2.4 Major Suppliers and Clients

5.2.4.1 Major Clients

Unit: NT\$ thousand

Customer	2017			2018			
	Net Revenue	As % of 2017 Total Net Revenue	Relation to EPISTAR	Customer	Net Revenue	As % of 2018 Total Net Revenue	Relation to EPISTAR
A	2,685,924	10.63	The company's CFO of Board acts as the Company's director.	A	1,716,675	8.45	The Company's corporate shareholder
B	2,583,691	10.22	None	B	2,063,267	10.16	None
Others	20,001,001	79.15	None	Others	16,526,470	81.39	None
Total Net Revenue	25,270,616	100.00		Total Net Revenue	20,306,412	100.00	

Note: Adoption of IFRSs (consolidated entities)

Notes to cause of increase/decrease:

The operating revenue from Customer A and Customer B has varied by no more than 3% and 1% for the most recent two years. Therefore, no significant effect was produced.

5.2.4.2 Major Suppliers

Unit: NT\$ thousand

Supplier	2017			2018			
	Procurement Amount	As % of 2017 Total Net Procurement	Relation to EPISTAR	Supplier	Procurement Amount	As % of 2018 Total Net Procurement	Relation to EPISTAR
D	1,429,530	11.50	None	D	1,465,878	13.05	None
Others	10,997,761	88.50	None	E	1,172,803	10.44	None
Total Net Procurement	12,427,291	100.00		Others	8,594,838	76.51	None
				Total Net Procurement	11,233,519	100.00	

Note: Adoption of IFRSs (consolidated entities)

Notes to cause of increase/decrease:

To be in line with planning and adjustment of the Company's production and marketing.

5.2.5 Production capacity/output value in the Last Two Years

Unit: Square inch, in the case of chips; thousand pieces, in the case of dies; NT\$ thousand

Year	2017			2018		
	Capacity	Output	Amount	Capacity	Output	Amount
Major Products						
Chips	564,121,921	434,588,231	25,689,344	1,119,707,571	981,873,425	26,201,439
Epi Wafer	52,159,994	319,563	93,659	68,466,582	245,350	91,882
Total	—	—	25,783,003	—	—	26,293,321

Note: Adoption of IFRSs (consolidated entities)

5.2.6 Consolidated Shipments and Net Revenue in the Last Two Years

Unit: Square inch, in the case of chips; thousand pieces, in the case of dies; NT\$ thousand

Year	2017						2018					
	Local			Export			Local			Export		
Major Products	Quantity	Net Revenue	Quantity	Net Revenue	Quantity	Net Revenue	Quantity	Net Revenue	Quantity	Net Revenue	Quantity	Net Revenue
Chip	20,291,657	4,988,139	394,920,327	18,684,379	14,536,210	3,580,564	615,515,713	15,343,018				
Epi Wafer	29,507	40,884	409,398	294,521	23,302	44,694	6,109,123	803,854				
Others	—	2,261	—	1,260,432	—	17,828	—	516,454				
Total	20,321,164	5,031,284	395,329,725	20,239,332	14,559,512	3,643,086	621,624,836	16,663,326				

Note: Adoption of IFRSs (consolidated entities)

5.3 Human Resources

Year		2017	2018	FEB. 28, 2019
Number of Employees	Management	517	449	435
	R&D and Technician	1,385	1,340	1,319
	Direct	2,135	1,862	1,808
	Total	4,037	3,651	3,562
Average Age		34.8	35.6	35.8
Average Years of Service		7.0	7.8	8.0
Education	Ph.D.	1.9	1.9	1.9
	Masters	19.1	20.2	20.1
	Bachelor's Degree	42.1	42.6	43.0
	Senior High School & Below Senior High School	36.9	35.3	35.0

Note: Adoption of IFRSs (consolidated entities)

5.4 Environmental Protection Expenditure

5.4.1 The loss or penalty caused by environmental pollution during the latest year and up to the printing date of this annual report:

The Company did not suffer any loss or receive indemnity for environmental pollution in 2018. Notwithstanding, the audit result showed that the Company's Fab N1 violated Item 2, Article 24 of the Air Pollution Control Act, and the Company was fined NT\$200,000 by the competent authority.

5.4.2 Countermeasures and Possible Expenditure

As a member of the global village, since the Company was founded, it has upheld the life cycle idea about Environmental Management System (EMS), and voluntarily and continuously makes improvements at the stages of use, production, circulation, and waste of raw materials and supplies in order to mitigate the effect and impact produced to the environment. Meanwhile, the Company introduced the latest pollution prevention technology at the stage of construction of factory premises. The Company also upgrades the efficiency of energy utilization, builds comfortable living environment, and pursues sustainable operations by the 3R model (Reduce, Reuse and Recycle). In order to continue to upgrade the management result of EMS, the Company maintained its ISO 14001 EMS certification since 2006, and implemented ISO14064-1 verification by association organization level every year until now, and also completed introduction and certification of PAS 2050 standards on carbon footprint of V45H chip in 2011. Furthermore, since 2016, the Company has actively worked with Taiwan Optoelectronic Semiconductor Industry Association (TOSIA) members in research of environmental laws and regulations and countermeasures, also jointly audited the waste disposal with member companies. Through TOSIA member companies' power, the Company regularly discussed with member companies to reduce the impact of environmental protection brought by environmental protection establishing or revising, and hoped to jointly enhance the performance of environmental protection and safety.

With respect to the management of expenditure in prevention of pollution and environmental protection, since 2011, the Company has introduced the environmental accounting management system under guidance of the Environmental Protection Administration. By virtue of environmental classification and code, the Company demonstrated its concrete achievement in environmental protection in detail and completely. The data analysis output from the system may also serve as the basis for

investment or management to enable the Company to consider the entire environmental management performance comprehensively, in hopes of achieving the purpose of environmental protection sustainability in the most economic and effective manner. Meanwhile, the statistics show that the expenditure spent in the entire EMS maintenance and operation was about NT\$346,000,000, primarily for responding to Company's Fab N2/H1 environmental protection regulations or demand of increasing production capacity, building or modifying environmental protection facilities, covering to the fire damage restarting expenses spent in the Company's Fab N3's adoption of improved environmental protection facilities and organization of pollution control activities, fab repairing and maintenance, and payment of government fees in 2018.

The Company also spared no effort to invest in green production. Since 2014, the optoelectronic semiconductor industry has promoted the implementation of the Cleaner Production Evaluation System to promote cleaner production.

In 2015, the Company's Southern Taiwan Science Park Fab 3 passed the cleaner production and obtained the Cleaner Production Certificate (validity period: 2016/02/01 ~ 2019/01/31). In order to continuously promote and maintain validity of the certificate, the Company submitted the application for extension in September, 2018, and carried out on-site certification in December of the same year. For the time being, it is under examination by the review unit.

With top-level support from the Company and efforts by various departments, there are continuous many source reduction environmental protection projects that have produced outstanding results and achieved remarkable results. The total reduction benefits of the entire Group amounted to NT\$10,980,000 in 2018.

In order to fulfill corporate social responsibility, the Company also actively participated in the related groups' SHE operations, e.g. participated in the event organized by Health, Safety and Environmental Protection Commission of the Allied Association for Science Park Industries, participated in Taiwan Occupational Safety and Health Management System (TOSHMS) North District Association serving as a cadre, participated in environmental education partners of Hsinchu Science Park Bureau (since 2015), participated in Environmental Protection Development and Promotion Foundation of the Southern Taiwan Science Park, supported the environmental protection sustainability boosting by TOSIA Environmental and Safety Sustainable Development Commission, cooperated with public sectors to boost policies, submitted the suggestions about enactment of environmental protection laws and regulations to governmental departments, and shared the experience in boosting industrial safety and environmental protection work.

There are numerous goals worth pursuing with respect to the safety and environmental protection. In the future, the Company will continue to move forward toward the enterprise's sustainable development and fulfillment of corporate social responsibility, and be dedicated to achieving stakeholders' expectations toward the Company.

5.5 Labor Relations

5.5.1 Planning and implementation of employee benefit plans, continuing education, training, retirement systems; negotiation of labor relations and various safeguarding measures of employee's rights and interests.

The Company has emphasized maintenance of fair labor-management relations. We supply generous remuneration packages, a flexible leave system, and a complete insurance system to provide a healthy and friendly work environment to prevent the loss of employees and retain talents.

5.5.1.1 Employee Benefit Plans

For the purpose of safeguarding employees and their conditions of daily life, the company not only has provided basic guarantee, but also assisted and sponsored various benefit plans, and help organizing the employee welfare committee for implementing and planning all kinds of matters of employee benefits. PLS refer to the current measures below:

- (1) Employee bonus plan.
- (2) Three important Chinese holiday bonus, incentive bonus, employee patent application reward, employee proposal bonus.
- (3) Entitled to labor insurance, health insurance, and group insurance.
- (4) Wedding presents, funeral ceremony, birth subsidy, hospitalization & consolation money, etc.
- (5) Year-end party, birthday gathering, social clubs subsidy, domestic & overseas traveling subsidy, newspapers & magazines, various sports events and leisure activities.
- (6) New staff members' wage is higher than the minimum wage under Labor Standards Law no matter the gender.

For the full protection of employees health; healthy "body", satisfaction in "mind" and joyful "spirit". We've introduced three elements of healthy "body", satisfaction in "mind" and joyful "spirit" into our employee health care project. It's from healthy body and knowledge, satisfaction in "mind", and self-mind dialogue, connecting the health activities in our FAB and extending to family to create a complete, good, and healthy workplace to reach a balanced and healthy physical, mental, social and spiritl. PLS refer to below situations how we take care of our staff:

(1) Physical checkup management:

There is employee in-service physical checkup (including abdominal ultrasonography) twice a year. Special operation and transference checkups are done according to the law. The rate of completion of checkup is 100%.

For the implementation of checkup abnormality management, we keep track of employees who have abnormal checkup records through health education or doctor consultation in our FAB to strengthen the awareness of the healthcare provided. We also supply customized health care project for those who with higher health risks and give health care advice according to the severity levels to carry out the prevention of illness in workplace.

- (2) Health promotion programs:
To develop the staff's healthcare self-management attitude and action and strengthen employees' ability of healthcare self-management; and from the passive way of healthcare to the active way of 『preventive medicine』 .
Starting from 2016 we've cooperated with the hospitals to offer free low-dosage computed tomography scan, a total of 204 persons (204 persons were eligible for the program) participated the program in 2018, the participation rate is 100%. If we compute the hospital checkup fee NT\$6,000 per person, the total derivative benefit is NT\$1,224,000. Moreover, for the purpose of diversity of health promotion events, courses of lectures, exercise, charitable blood donation, thematic activities on special occasion were also included in 2018. A total of 14,978 people participated in the healthcare events in 2018.
- (3) Operational health risk prevention and management:
We formulated human factors hazard prevention SOP in 2015, and carried it out for all staff. We also conducted hazard assessments for those stations that have higher hazard risk. We may reduce human factors through the improvement of working environment and workmanship.
- (4) Infectious disease management:
We've assigned an in-charge unit for monitoring constantly and based on the condition of epidemic to draw up workplace epidemic preventive program, and from the experience accumulated to avoid over-reaction or inappropriate response. In addition to epidemic materials preparation and vaccination (influenza vaccine, hepatitis Type A vaccine for those who relocated to Mainland China), we also promote the knowledge about epidemic prevention through posters, announcements, e-mails, and lectures to strengthen and encourage employees to apply it at workplace and in the family to take care of themselves, family and prevent group infection. We also provide epidemic prevention facemasks, thermometers, record sheets for those who travelling on business when it's necessary.
- (5) Occupational injured employee health care:
When employees reinstate from injury or other physical and mental reasons; to prevent frustration from work performance due to their health issue or the original work may worsen their health and result in worries of work safety; through the support from relevant departments, we would carry out healthcare assistance and reinstatement mechanisms to give essential care to the reinstated employees.
- (6) Maternal protection & healthy workplace:
We've set up a maternal protection SOP in 2016 to build an appropriate pregnancy notification mechanism to carry out maternal care and risk prevention control. There were 50 maternal persons to be taken care of in 2018 and 50 maternal persons were taken care of with a 100% participation rate.

Every plant has a breast-feeding room equipped with comfortable couches, disinfected pots, and other relevant breast-feeding items. Cleaning lady does disinfection on a regular basis. The cleanliness has won the hearts and praises from breast-feeding moms. We also won breast-feeding room certification issued

from city/county government. In addition, we have chair for pregnant woman only in production line and priority car parking space in the Company.

To encourage and remind prospective female employees to take the initiative to inform and participate in the protection measure and receive relevant information about pregnancy, childbirth, childcare, we've drawn up "smooth childbirth hand book" and particularly provided maternal employees care gifts, so that they shall be embraced by the caring rendered by the Company and practice a maternal friendly workplace.

(7) A great diversity of activities and soft lectures:

To promote and keep the balance of work and life, we've planned various activities and soft lectures monthly or irregularly. We design activities based on different ages and needs, including sports events of basketball, badminton, volleyball, swimming, and road running, as well as health lectures, soul-elevating seminars and parent-child lectures. Meanwhile, there are movies, craft lessons, family day, and parent-child day. We encourage the spirit of teamwork through such activities. We also design activities that enable family members to join in and to thank them for their support, and the special activities combined holidays like Valentine's Day, Mother's Day, and Christmas. Through a wide range of activities, we build up connections between colleagues outside of work, which enhances the Company's coherence. Also, we hold charitable events to enable employees and families to participate in social care and services.

5.5.1.2 Employees' continuing education and training

In order to achieve the Company's business objectives, the Company continues to develop employees' work performance, and develop the training roadmap to launch a series of training programs based on the training structure, including the management human resources series, quality series, technical profession series, environment, safety and health series, functional profession courses and orientation training, etc.. Meanwhile, in order to assure the Company's product quality and safety, all new employees shall attend the orientation training, and specific employees shall pass specific qualification evaluation and undergo re-evaluation periodically to ensure that the employees hold the competency to satisfy the qualifications required for the specific duty.

Further, in order to practice the ethical management, the Company discloses its ethical management best-practice principles on the official website and organizes the internal/external educational training related to ethical management issues, including compliance with laws & regulations on ethical management, prevention of insider trading, safety & health management, accounting system and internal control. Among the other things, the Company spares no efforts to protect trade secrets, intellectual property rights and information security, in order to ensure the staff's painstaking results and the Company's competitiveness, and to prevent the Company's important information from being disclosed. Accordingly, the Company establishes the strict regulations governing "information grading and protection" to help the staff cultivate the habit to protect documents routinely, and as the basis for access to and processing, communication and utilization of related documents. The Company also establishes the "Information Security Management Review Committee" to upgrade the information security goal. Each of the staff shall accept the information security

educational training to satisfy the expectations from related laws, technology and stakeholders, and integrate with the business strategies. All of the employees shall comply with the “Regulations Governing Information Grading and Protection” and fulfill the responsibility as a good administrator. To this end, the new staff shall complete the online courses about “Introduction to Intellectual Property Rights” and “Epistar Information Security Policy”. Meanwhile, the Company produced the additional online course for “Confidential Information Grading” in 2018 to enable all of the staff to understand the Company’s policy and control requirements, in hopes of achieving the promotional education and strengthening the staff’s awareness toward intellectual property rights and prevention of confidential information disclosure.

The total number of people participated in training in 2018 was about 17,000 and the total training hours were about 80,000 hours, and the total training expense was NT\$ 5.66 million. The results of the training are stated as follows:

Unit: NT\$ thousand

Items of 2018	Attendee count	Hours of advanced studies	Cost of advanced studies
Series of management talents	218	1,159	5,664
Series of quality	1,100	3,979	
Series of professionalism	2,429	5,988	
Series of environment/safety/health (ESH)	6,573	53,692	
Various series of professionalism	2,910	11,172	
Orientation (including compliance with ethical management-related laws & regulations)	354	3,638	
Compliance with laws and regulations on intellectual property right, protection of trade secrets and ethical management	203	50	
Information security policy	216	54	
Information confidentiality classification	3,526	882	
Total	17,529	80,614	

Said courses are primarily intended to conduct the educational propagation to the staff. The staff shall perform their duties with due diligence as a good administrator to protect the Company’s interest and right from being injured and satisfy the various stakeholders’ expectation. During the orientation training for new employees, the Company strengthens the propagation, and the new employees may review the online courses at any time in the “Crystal Collections” section on the Company’s intranet.

5.5.1.3 Retirement Systems

In order to fulfill the social responsibility and stabilize the retired employees’ life, the Company and its domestic subsidiaries all established their own “Regulations Governing Retirement of Employees Holding Positions as Managers and Directors Concurrently” and “Regulations Governing Retirement of Employees” in accordance with the “Labor Standard Law” and “Labor Pension Act”. Said regulations are reviewed and approved by the Remuneration Committee, and implemented upon approval of the Board of Directors. Meanwhile, the pension fund is contributed on a monthly basis pursuant to laws.

Pension system	Old System	New System
Applicable laws	Labor Standard Law	Labor Pension Act
Contribution	The Company will contribute 2% of the total salary as the pension fund on a monthly basis, and deposit the same in the account maintained at “Bank of Taiwan” in the name of “Labor Pension Supervision Commission”.	The Company will contribute 6% of the salary as the labor pension and deposit the same to the employee’s personal account maintained at Bureau of Labor Insurance on a monthly basis.
Contributed amount	Balance of the labor pension, NT\$257,354 thousand	The pension cost recognized in 2018 was NT\$185,082 thousand.

The subsidiaries in Mainland China were enrolled into the social insurance programs managed and handled by the local governmental authorities in Mainland China. The programs refer to the defined contribution plan. The Company paid the social insurance premium under the social insurance programs managed by the governments. The important requirements under the “Regulations Governing Retirement of Employees” are summarized as following:

Old system:

(1) Retirement conditions:

A. Voluntary retirement

- a. Where the worker attains the age of 60 years old (inclusive) and has worked for the Company for more than 10 years (inclusive) consecutively.
- b. Where the worker attains the age of 55 years old (inclusive) and has worked for the Company for more than 15 years (inclusive) consecutively.
- c. Where the worker has worked for the Company more than 25 years (inclusive) consecutively.

B. Compulsory retirement

- a. Where the worker attains the age of 65 years old (inclusive).
- b. Where the worker is unable to perform his/ her duties due to disability physically and mentally.
- c. The Company may request the central competent authority to adjust the age prescribed in Subparagraph 1 of the preceding paragraph if the specific job entails risk, requires substantial physical strength or otherwise of a special nature; provided, however, that the age shall not be reduced below 55 years old.

(2) Payment of pension, standards and deadline for claim

- A. Two bases are given for each full year of service rendered for the first 15 years, provided that for the rest of the years over 15 years, one base is given for each full year of service rendered. The total number of bases shall be no more than 45. The length of service is calculated as half year when it is less than six months and as one year when it is more than six months. Said base(s) multiplying by the one month’s average wage applicable when the application for retirement is approved is equivalent to the pension claimable by the worker.

- B. The one month's average wage refers to the average wage for 6 months prior to the retirement.
- C. An additional 20% on top of the amount calculated according to the preceding subparagraph shall be given to workers forced to retire due to disability incurred from the execution of their duties.
- D. Claim: The employee who satisfies the qualification for claiming the pension shall file the application with the Company's Human Resources Center pursuant to the Labor Standard Law and related laws. The Company will apply for the benefit of pension with Trust Dept. of Bank of Taiwan on behalf of the employee pursuant to related laws and regulations.
- E. The pension fund contributed by the Company pursuant to laws shall be paid within 30 days as of the worker's retirement. Where it is impossible to allocate the pension in a lump sum, it may be paid in installments upon authorization of the competent authority.
- F. The right to claim will become extinguished if it is not exercised within 5 years as of the month following the retirement.

New system:

(1) Qualifications

- A. Where the worker attains the age of 60 years old (inclusive) and has worked for more than 15 years cumulatively, the worker may claim the pension on a monthly basis, provided that where the worker has worked for less than 15 years cumulatively, the worker may claim the pension in a lump sum.
- B. The seniority referred to in the preceding paragraph shall be calculated based upon the period of which the contributions to the pension have been made. If the seniority is interrupted, the worker's seniority before and after the interruption shall be combined in calculation.
- C. If a worker dies before claiming the pension, his/her survivors or designated person(s) shall claim the pension in a lump sum.

(2) Claim and calculation

The employee who satisfies the qualifications for claiming the pension shall apply with the competent authority for withdrawing the pension from the individual account of labor pension pursuant to the Labor Pension Act and related laws.

(3) Right to claim

The right to claim will be extinguished if it is not exercised within 5 years as of the employee's resignation.

5.5.1.4 Labor-Management Agreements

Harmonious labor relations have always been the major management policy of human resources management. We have established a good communication and consultation channel so that employees can work comfortably and maintain high efficiency. Hence, we have established the Employee Relations Department to provide assistance by integrating professional staff and experts both internally and externally to help solve problems or pressures from work or daily life. We also provide confidential and professional external services and consultations with other professional resources.

Our internal communication channel includes an exclusive suggestion box that enables employees to express their opinions, all of which are kept confidential and listed into

labor relations meeting for discussion and follow-ups. We also set up a being harassed while performing duties hot line and mailbox available to employees, job applicants, and suppliers, which will be responded timely. Further, we communicate and coordinate with employees through formal channels, if there is major business change that may affect the employees' rights & interests. We hope to provide the best working environment for all employees.

5.5.1.5 Working Environment and Employee Safety Protection Measures

To secure a safe working environment for employees, please refer to the safety protection measures below:

- (1) To ensure a safe working environment for employees, the Company has set up a professional environmental and safety team to formulate "Decreasing Occupational Accidents program" and give instructions to relevant departments to practice.
- (2) We conduct safety and health training for new staff members and in-service employees.
- (3) We conduct annual environmental assessment in working area to ensure the quality of working environment.
- (4) We conduct annual physical checkup for those who perform special operation and general physical checkup for all active employees for every two years.
- (5) We have the medical staff and medical room located on each site according to laws for preliminary care and further medical treatment at the time of emergency. We also assign occupational disease specialist/doctor in our factory to supply relevant medical care & consultation services and referral services with other medical organization outside the plant.
- (6) According to the rules & regulations, there should be inspection methods for the access of dangerous machinery and equipment to the factory in place. We also have established a department dedicated to facility and equipment maintenance and inspection.
- (7) Each department is required to conduct environment, health, and hygiene self-management. For environment & safety planning, we have the management level to carry out the routine check and safety observation.
- (8) Each site has planned the emergency response team equipped with emergency facility and equipment, dedicated to carrying out various evacuation drills based on different situations.
- (9) According to the rules and regulations, each site has established the safety monitoring control system. Employees and the Company shall be covered through Property and Casualty Insurance for compensation, if there is any accident occurs.

In addition to above protection measures, we also provide friendly working environment as followings:

- (1) Various recreation facilities (ex: treadmill, gymnastic apparatus, table tennis, billiard, yoga room...)
- (2) Various convenient store, and café
- (3) Complete medical room equipped with breast feed rooms
- (4) Spacious and joyful dining environments, diversified dining choices and meal allowances.

5.5.1.6 Procedures for Preventing Insider Trading

The prevention of insider trading is included into the internal control system; notify employees, managerial officers and board members from time to time to remind them whether there is any important messages to be disclosed pursuant to laws, and advise them of the related requirements. This prevents staff members from breaching laws and engaging in inside trading. Relevant regulations may be accessible from the Company's website or internal policies.

Said personnel may access the internal important information due to their identity, occupation, or relation, who shall perform their duties and fulfill their obligation as a good administrator with due diligence and also exercise their authority in a highly self-disciplined and careful manner to ensure strict compliance with the requirements for processing, disclosure and confidentiality of important information defined by the competent authority, or shall be required to sign the non-disclosure agreement case by case, if necessary.

5.5.2 Labor/employer dispute loss in 2017 and as of the publication date of the annual report: None.

5.6 Material Contract

Subject	Research Unit	Counterparty	Contract term	Main content	Important restrictive clause
Patent licensing	Research Unit		2014.03~ 2020.01	Exclusive license of patent	The Company shall attach patent markings and certification number of patent to products or packages while selling at home and abroad. The Company shall not breach the laws of Republic of China.
Patent licensing	Research Unit		2006.02~ 2023.02	Non-exclusive license of patent	The Company shall attach patent markings and certification number of patent to products or packages while selling at home and abroad. The Company shall not sublicense the patent to any third party. In addition, without prior consent of Ministry of Economic Affairs, the Company will not use the patent to manufacture products in other countries.
Industrial-Academic Collaboration Project and Early-Stage Technology Transfer Agreement with Ministry of Science and Technology, Executive Yuan subsidy	National A University		2014.07.15~ 2021.07.14	Research and manufacture of light-emitting diode array	The technology and related technical information belong to National A University. The University and project investigator may enter into a technology transfer/license agreement with a third party after consent by both parties.
Syndicated Loan Agreement	Jiangsu Canyang Optoelectronics Ltd., Land Bank Of Taiwan Co., Ltd., Taipei FUBON Commercial Bank Co., Ltd., First Commercial Bank Co., Ltd., Mega International Commercial Bank Co., Ltd., CTBC Commercial Bank Co., Ltd., Bank SinoPac Co., Ltd., Bank Of Taiwan Co., Ltd.		2016.05.30~ 2019.05.30	Loan amount: NT\$ 4,000,000,000 and USD\$ 19,000,000	If the Company fails to repay the principal and the interest, or the Bank declares that all liabilities become immediately due and payable upon the event of default, the Company shall pay the default interest and penalty.
Technology transfer	S University of Science and Technology		2017.08.01	Technology transfer for cooperative research and development result	If the Agreement is terminated due to circumstances attributed to the Company, no royalty for the technology transfer will be refunded to the Company.

Subject	Counterparty	Contract term	Main content	Important restrictive clause
Technology transfer	National C University	2018.03.15~ 2038.03.14	Technology transfer for cooperative research and development result	<p>If the Agreement is terminated due to circumstances attributed to the Company, no royalty for the technology transfer will be refunded to the Company.</p> <p>If the Company intends to execute the research and development of the authorized technology by setting a new spin-off company, the Company shall give a 30-day prior written notice to National C University and obtain the consent of National C University for sublicense, or otherwise sign a contract before transferring the authorized technology to the new spin-off company.</p>
Technology licensing	Research Unit	2018.08.20~ 2019.08.19	License of specific technology	<p>The Company shall not sublicense it to any third party.</p> <p>The Company shall work the technology only in the territories of the ROC.</p>

6. Financial Information

6.1 Five-Year Financial Summary

6.1.1 Condensed Balance Sheet

(consolidated entities)

Unit: NT\$ thousand

Item	Year	2014	2015	2016	2017	2018
Current Assets		38,297,332	30,885,730	24,798,264	26,043,651	23,522,686
Property, Plant and Equipment		36,314,695	34,396,105	27,286,631	24,348,881	22,435,949
Intangible Assets		7,529,578	7,994,637	8,007,219	7,846,962	7,683,928
Other Assets		9,817,434	9,855,452	9,005,320	8,746,175	9,096,079
Total Assets		91,959,039	83,131,924	69,097,434	66,985,669	62,738,642
Current Liabilities	Before Distribution	19,653,411	22,001,168	10,214,070	9,668,814	9,113,835
	After Distribution	20,842,626	22,001,168	10,214,070	10,893,976	Note 1
Non-Current Liabilities		11,190,751	5,485,999	7,899,368	4,332,943	2,716,897
Total Liabilities	Before Distribution	30,844,162	27,487,167	18,113,438	14,001,757	11,830,732
	After Distribution	32,033,377	27,487,167	18,113,438	15,226,919	Note 1
Equity Attributable to Owners of the Parent		58,262,391	53,273,900	49,274,144	51,379,181	49,353,583
Share Capital		11,031,787	10,998,443	10,915,492	10,887,014	10,887,014
Capital Surplus		43,342,832	42,810,893	43,016,259	39,970,967	39,515,679
Retained Earnings	Before Distribution	4,205,135	241,512	(3,303,516)	1,614,226	(385,142)
	After Distribution	3,015,920	241,512	(3,303,516)	510,829	Note 1
Other equity Interest		143,837	143,141	(505,370)	(684,243)	(1,317,990)
Treasury Stock		(461,200)	(920,089)	(848,721)	(408,783)	(211,008)
Non-Controlling Interest		2,852,486	2,370,857	1,709,852	1,604,731	1,554,327
Total Equity	Before Distribution	61,114,877	55,644,757	50,983,996	52,983,912	50,907,910
	After Distribution	59,925,662	55,644,757	50,983,996	51,758,750	Note 1

Note1: The distribution of earnings for the year 2018 is still subject to the resolution of the shareholders' meeting.

(individual entity)

Unit: NT\$ thousand

Item	Year	2014	2015	2016	2017	2018
		Current Assets	22,154,385	19,821,426	20,914,997	19,953,571	14,908,320
Property, Plant and Equipment		15,832,635	15,764,303	19,174,184	17,010,006	15,385,565
Intangible Assets		823,884	1,339,452	7,813,856	7,684,157	7,556,713
Other Assets		36,552,166	35,102,565	16,949,893	17,320,940	19,434,311
Total Assets		75,363,070	72,027,746	64,852,930	61,968,674	57,284,909
Current Liabilities	Before Distribution	8,154,176	15,483,790	9,090,726	7,399,939	5,870,345
	After Distribution	9,343,391	15,483,790	9,090,726	8,625,101	Note 1
Non-Current Liabilities		8,946,503	3,270,056	6,488,060	3,189,554	2,060,981
Total Liabilities	Before Distribution	17,100,679	18,753,846	15,578,786	10,589,493	7,931,326
	After Distribution	18,289,894	18,753,846	15,578,786	11,814,655	Note 1
Equity Attributable to Owners of the Parent		58,262,391	53,273,900	49,274,144	51,379,181	49,353,583
Share Capital		11,031,787	10,998,443	10,915,492	10,887,014	10,887,014
Capital Surplus		43,342,832	42,810,893	43,016,259	39,970,967	39,515,679
Retained Earnings	Before Distribution	4,205,135	241,512	(3,303,516)	1,614,226	(385,142)
	After Distribution	3,015,920	241,512	(3,303,516)	510,829	Note 1
Other equity Interest		143,837	143,141	(505,370)	(684,243)	(1,317,990)
Treasury Stock		(461,200)	(920,089)	(848,721)	(408,783)	(211,008)
Total Equity	Before Distribution	58,262,391	53,273,900	49,274,144	51,379,181	49,353,583
	After Distribution	57,073,176	53,273,900	49,274,144	50,154,019	Note 1

Note 1: The surplus distribution of earnings for the year 2018 is still subject to the resolution of the shareholders' meeting.

6.1.2 Condensed Statement of Comprehensive Income/Statement of Income

(Consolidated entities)

Unit: NT\$ thousand (Except EPS: NT\$)

Item \ Year	2014	2015	2016	2017	2018
Operating Revenue	27,713,156	25,509,789	25,539,163	25,270,616	20,306,412
Gross Profit from Operations	5,276,129	123,499	1,916,010	5,460,627	2,678,549
Net operating income(loss)	2,388,586	(3,510,547)	(1,255,776)	2,307,150	(678,843)
Non-Operating Income and Expense	(192,504)	(110,325)	(2,499,138)	(383,760)	(188,298)
Income (Loss) before Tax	2,196,082	(3,620,872)	(3,754,914)	1,923,390	(867,141)
Income (Loss) for Continued Operations	1,802,947	(3,317,582)	(4,012,752)	1,686,213	(505,864)
Net Income (Loss)	1,802,947	(3,317,582)	(4,012,752)	1,686,213	(505,864)
Other Comprehensive Income (Income after Tax)	701,761	(590,541)	(801,435)	(240,158)	(597,231)
Total Comprehensive Income	2,504,708	(3,908,123)	(4,814,187)	1,446,055	(1,103,095)
Net Income Attributable to Owners of the Parent	1,810,334	(3,018,757)	(3,546,045)	1,649,913	(456,146)
Net Income Attributable to Non-Controlling Interest	(7,387)	(298,825)	(466,707)	36,300	(49,718)
Comprehensive Income Attributable to Owners of the Parent	2,412,184	(3,400,444)	(4,193,030)	1,435,353	(1,022,814)
Comprehensive Income Attributable to Non-Controlling Interest	92,524	(507,679)	(621,157)	10,702	(80,281)
Earnings (Loss) Per Share	1.98	(2.81)	(3.33)	1.55	(0.42)

(Individual entity)

Unit: NT\$ thousand (Except EPS: NT\$)

Item \ Year	2014	2015	2016	2017	2018
Operating Revenue	24,634,071	23,376,051	23,442,193	21,954,472	17,189,772
Gross Profit from Operations	3,840,177	83,703	2,211,199	4,364,300	2,531,314
Net operating income(loss)	1,583,129	(2,373,253)	(252,510)	1,607,791	(407,182)
Non-Operating Income and Expense	517,589	(918,309)	(3,908,094)	121,618	(415,721)
Income (Loss) before Tax	2,100,718	(3,291,562)	(4,160,604)	1,729,409	(822,903)
Income (Loss) for Continued Operations	1,810,334	(3,018,757)	(3,546,045)	1,649,913	(456,146)
Net Income (Loss)	1,810,334	(3,018,757)	(3,546,045)	1,649,913	(456,146)
Other Comprehensive Income (Income after Tax)	601,850	(381,687)	(646,985)	(214,560)	(566,668)
Total Comprehensive Income	2,412,184	(3,400,444)	(4,193,030)	1,435,353	(1,022,814)
Earnings (Loss) Per Share	1.98	(2.81)	(3.33)	1.55	(0.42)

6.1.3 Auditors' Opinions from 2014 to 2018

Year	Accounting Firm	CPA	Audit Opinion
2014	PricewaterhouseCoopers	Fang-Yu Wen, Ya-Huei Cheng	Modified Unqualified Opinion
2015	PricewaterhouseCoopers	Fang-Yu Wen, Ya-Huei Cheng	Modified Unqualified Opinion
2016	PricewaterhouseCoopers	Fang-Yu Wen, Ya-Huei Cheng	Unqualified Opinion
2017	PricewaterhouseCoopers	Ya-Huei Cheng, Chin-Cheng Hsieh	Unqualified Opinion
2018	PricewaterhouseCoopers	Ya-Huei Cheng, Chin-Cheng Hsieh	Unqualified Opinion

6.2 Five-Year Financial Analysis

(Consolidated entities)

Item		Year				
		2014	2015	2016	2017	2018
Financial Structure (%)	Debts Ratio (%)	33.54	33.06	26.21	20.90	18.86
	Long-term Fund to Property, Plant and Equipment (%)	199.11	177.73	215.80	235.40	239.01
Solvency (%)	Current Ratio (%)	194.86	140.38	242.79	269.36	258.10
	Quick Ratio (%)	153.34	98.05	181.49	202.35	189.80
	Times Interest Earned (Count)	7.78	(6.55)	(8.48)	9.15	(3.66)
Operating Performance	Average Collection Turnover (Count)	1.98	1.84	2.28	2.27	1.86
	Days Sales Outstanding	183.93	197.97	160.02	160.70	196.49
	Average Inventory Turnover (Count)	3.55	3.29	3.56	3.76	3.17
	Average Payment Turnover (Count)	7.44	7.45	7.15	6.16	5.92
	Average Inventory Turnover Days	102.88	110.93	102.40	101.36	120.83
	Property, Plant and Equipment Turnover (Count)	0.87	0.72	0.83	0.98	0.87
	Total Assets Turnover (Count)	0.33	0.29	0.34	0.37	0.31
Profitability	Return on Total Assets (%)	2.46	(3.25)	(4.79)	2.78	(0.49)
	Return on Equity (%)	3.32	(5.68)	(7.53)	3.24	(0.97)
	Pre-tax Income to Paid-in Capital Ratio (%)	19.91	(32.92)	(34.40)	17.67	(7.96)
	Net Margin (%)	6.51	(13.01)	(15.71)	6.67	(2.49)
	Earnings Per Share (NT\$)	1.98	(2.81)	(3.33)	1.55	(0.42)
Cash flow	Cash Flow Ratio (%)	21.72	30.20	68.01	72.09	49.99
	Cash Flow Adequacy Ratio (%)	52.15	52.72	97.31	125.39	137.56
	Cash Flow Reinvestment Ratio (%)	5.02	7.83	8.99	8.74	4.74
Leverage	Operating Leverage	4.76	(2.10)	(7.06)	5.29	(12.90)
	Financial Leverage	1.15	0.88	0.76	1.11	0.79

Notes to causes of changes in financial ratios in the most recent two years:

1. Times interest earned:
Primarily a result of the intensive market competition in 2018 resulting in the declination of operating revenue and decrease in earnings, and the decrease in times interest earned accordingly.
2. Days Sales Outstanding:
Primarily a result of the intensive market competition in 2018 resulting in the declination of operating revenue and decrease in receivables turnover rate, and the increase in days sales outstanding accordingly.
3. Profitability:
Primarily a result of the intensive market competition in 2018 resulting in the declination of operating revenue and decrease in earnings, and the declination of profitability accordingly.
4. Cash flow ratio:
Primarily a result of the intensive market competition in 2018 resulting in the declination of operating revenue and generation of current net loss, and the declination of cash flow from operating activities accordingly.
5. Cash re-investment ratio:
Primarily a result of the intensive market competition in 2018 resulting in the declination of operating revenue and generation of current net loss, and the declination of cash flow from operating activities causing the cash re-investment ratio to decrease accordingly.
6. Leverage:
Primarily a result of the economic cycle in 2018 resulting in the declination of operating revenue and decrease in earnings, and the declination of financial/operating leverages accordingly.

(Individual entity)

Item		Year				
		2014	2015	2016	2017	2018
Financial Structure (%)	Debts Ratio (%)	22.69	26.04	24.02	17.09	13.85
	Long-term Fund to Property, Plant, and Equipment (%)	424.50	358.68	290.82	320.80	334.17
Solvency (%)	Current Ratio (%)	271.69	128.01	230.07	269.65	253.96
	Quick Ratio (%)	229.13	97.83	187.14	214.86	193.65
	Times Interest Earned (Count)	12.07	(15.31)	(19.55)	18.52	(27.37)
Operating Performance	Average Collection Turnover (Count)	2.12	2.00	2.11	2.19	2.07
	Days Sales Outstanding	172	183	173	167	177
	Average Inventory Turnover (Count)	5.83	6.00	5.58	4.96	4.01
	Average Payment Turnover (Count)	8.16	7.64	6.12	5.96	6.32
	Average Inventory Turnover Days	63	61	65	76	95
	Property, Plant and Equipment Turnover (Count)	1.54	1.48	1.34	1.21	1.06
	Total Assets Turnover (Count)	0.34	0.32	0.34	0.35	0.29
Profitability	Return on Total Assets (%)	2.74	(3.84)	(4.89)	2.75	(0.72)
	Return on Equity (%)	3.47	(5.41)	(6.92)	3.28	(0.91)
	Pre-tax Income to Paid-in Capital Ratio (%)	19.04	(29.93)	(38.12)	15.89	(7.56)
	Net Margin (%)	7.35	(12.91)	(15.13)	7.52	(2.65)
	Earnings Per Share (NT\$)	1.98	(2.81)	(3.33)	1.55	(0.42)
Cash flow	Cash Flow Ratio (%)	53.15	17.90	42.01	101.65	89.82
	Cash Flow Adequacy Ratio (%)	66.83	61.76	89.71	118.13	138.28
	Cash Flow Reinvestment Ratio (%)	5.27	2.74	5.58	10.77	9.67
Leverage	Operating Leverage	4.51	(1.25)	(23.73)	5.76	(16.46)
	Financial Leverage	1.13	0.93	0.56	1.06	0.94

Notes to causes of changes in financial ratios in the most recent two years:

1. Times Interest Earned:
Primarily a result of the intensive market competition in 2018 resulting in the declination of operating revenue and decrease in earnings, and the decrease in times interest earned accordingly.
2. Average Inventory Turnover Days:
Primarily a result of the decrease in cost of goods sold in 2018 from 2017 resulting in the declination of inventory turnover ratio and increase in average inventory turnover days accordingly.
3. Profitability Analysis:
Primarily a result of the intensive market competition in 2018 resulting in the declination of operating revenue and decrease in earnings, and the declination of profitability accordingly.
4. Leverage:
Primarily a result of the economic cycle in 2018 resulting in the declination of operating revenue and decrease in earnings, and the declination of operating leverage accordingly.

Glossary – Taiwan-IFRSs version:

1. Capital Structure Analysis

- (1) Debt Ratio = Total Liabilities / Total Assets
- (2) Long-term Fund to Property, Plant and Equipment Ratio = (Shareholders' Equity + Noncurrent Liabilities) / Net Property, Plant and Equipment

2. Liquidity Analysis

- (1) Current Ratio = Current Assets / Current Liabilities
- (2) Quick Ratio = (Current Assets - Inventories - Prepaid Expenses) / Current Liabilities
- (3) Times Interest Earned = Earnings before Interest and Taxes / Interest Expenses

3. Operating Performance Analysis

- (1) Average Collection Turnover = Net Sales / Average Trade Receivables
- (2) Days Sales Outstanding = 365 / Average Collection Turnover
- (3) Average Inventory Turnover = Cost of Sales / Average Inventory
- (4) Average Payment Turnover = Cost of Sales / Average Trade Payables
- (5) Average Inventory Turnover Days = 365 / Average Inventory Turnover
- (6) Property, Plant and Equipment Turnover = Net Sales / Average Net Property, Plant and Equipment
- (7) Total Assets Turnover = Net Sales / Average Total Assets

4. Profitability Analysis

- (1) Return on Total Assets = (Net Income + Interest Expenses * (1 - Effective Tax Rate)) / Average Total Assets
- (2) Return on Equity = Net Income / Average Equity
- (3) Net Margin = Net Income / Net Sales
- (4) Earnings Per Share = (Net Income - Preferred Stock Dividend) / Weighted Average Number of Shares Outstanding

5. Cash Flow

- (1) Cash Flow Ratio = Net Cash Provided by Operating Activities / Current Liabilities
- (2) Cash Flow Adequacy Ratio = Five-year Sum of Cash from Operations / Five-year Sum of Capital Expenditures, Inventory Additions, and Cash Dividend
- (3) Cash Flow Reinvestment Ratio = (Cash Provided by Operating Activities - Cash Dividends) / (Gross Property, Plant and Equipment + Long-term Investments + Other Noncurrent Assets + Working Capital)

6. Leverage

- (1) Operating Leverage = (Net Sales - Variable Cost) / Income from Operations
- (2) Financial Leverage = Income from Operations / (Income from Operations - Interest Expenses)

- 6.3 Audit Committee's Review Report for the Most Recent Year: See Appendix 1.2 (Page 159)
- 6.4 Financial Statements for the Most Recent Year (including the consolidated financial statements of the parent and subsidiaries): See Appendix 1.4 (Pages 161~252)
- 6.5 The Latest Individual Auditor's Report and Financial Statements Audited and Certified by CPA: See Appendix 1.5 (Pages 253~264)
- 6.6 The Company or its affiliates have experienced financial difficulties in the most recent fiscal year or during the current fiscal year up to the date of printing of the annual report: None.

7. Review of Financial Conditions and Financial Performance, and Risk Management

7.1 Analysis of Financial Status

(Consolidated entities)

Unit: NT\$ thousand

Item	Year		Difference	%
	Dec. 31, 2017	Dec. 31, 2018		
Current Assets	26,043,651	23,522,686	(2,520,965)	9.68
Available-for-sale Financial Assets - Non-Current & Investments Accounted for Under Equity Method	4,776,758	0	0	Titles reclassified due to adoption of IFRS 9 as of 2018.
Financial assets at fair value through other comprehensive income-noncurrent and investment under equity method	0	4,382,833	(393,925)	(8.25)
Property, Plant and Equipment	24,348,881	22,435,949	(1,912,932)	(7.86)
Intangible Assets	7,846,962	7,683,928	(163,034)	(2.08)
Other Assets	3,969,417	4,713,246	743,829	18.74
Total Assets	66,985,669	62,738,642	(4,247,027)	(6.34)
Current Liabilities	9,668,814	9,113,835	(554,979)	(5.74)
Non-Current liabilities	4,332,943	2,716,897	(1,616,046)	(37.30)
Total Liabilities	14,001,757	11,830,732	(2,171,025)	(15.51)
Share Capital	10,887,014	10,887,014	0	0
Capital Surplus	39,970,967	39,515,679	(455,288)	(1.14)
Retained Earnings	1,614,226	479,888	(1,134,338)	(70.27)
Other Equity Interest	(684,243)	(1,317,990)	633,747	92.62
Treasury Stocks	(408,783)	(211,008)	(197,775)	(48.38)
Non-Controlling Interest	1,604,731	1,554,327	(50,404)	(3.14)
Total Equity	52,983,912	50,907,910	(2,076,002)	(3.92)

7.1.1 Analysis on main causes for the change by more than 20% and amounting to NT\$10,000 thousand

1. Decrease in noncurrent liabilities: Primarily a result of the long-term bank loans, earlier repayment of the syndicated loan organized by 7 financial institutions including Bank of Taiwan, and cancellation of the facility in 2018.
2. Decrease in retained earnings: Primarily a result of the intensive market competition in 2018 resulting in the market price decline, decrease in operating revenue, generation of current net loss, and decrease in retained earnings accordingly.
3. Decrease in other equity: Primarily a result of the increase in unrealized valuation loss generated from the variance in fair value of the financial assets at fair value through other comprehensive income in 2018.
4. Decrease in treasury stock: Primarily a result of the transfer of treasury shares to employees in 2018.

7.1.2 Major Impact on Financial Position: Said deviations had no major impact on EPISTAR's financial position.

7.1.3 Future Plan on Financial Position: N/A.

7.2 Analysis of Financial Performance

(Consolidated entities)

Unit: NT\$ thousand

Item	Year	2017	2018	Difference	%
Net Revenue		25,270,616	20,306,412	(4,964,204)	(19.64)
Cost of Revenue		(19,786,497)	(17,651,741)	(2,134,756)	(10.79)
Unrealized (gain) loss		(23,492)	23,878	47,370	201.64
Gross Profit		5,460,627	2,678,549	(2,782,078)	(50.95)
Operating Expenses		(3,367,636)	(3,578,341)	210,705	6.26
Other Operating Income and Expenses		214,159	220,949	6,790	3.17
Operating (loss) Profit		2,307,150	(678,843)	2,985,993	129.42
Non-Operating Income and Expenses		(383,760)	(188,298)	(195,462)	(50.93)
(Loss) Profit before Income Tax		1,923,390	(867,141)	2,790,531	145.08
Income Tax Benefit (Expense)		(237,177)	361,277	598,454	252.32
(Loss) Profit		1,686,213	(505,864)	2,192,077	130.00
Other comprehensive (loss) income		(240,158)	(597,231)	357,073	148.68

7.2.1 Analysis on main causes for the change by more than 20% and amounting to NT\$10,000 thousand

1. Increase in unrealized loss of sales
Primarily because that the inventory has not sold to end customers in the transactions with related parties, thereby generating unrealized loss.
2. Decrease in gross profit, increase in operating loss and increase in current net loss, et al.
Primarily a result of the intensive market competition in 2018 resulting in the market price decline, declination of operating revenue and decrease in gross profit; notwithstanding, considering that the environmental protection and energy-saving issues is concerned by the world increasingly and the Mini LED applications are being developed, the LED market still has the potential to develop. Therefore, the Company continues to invest R&D expenses to upgrade its future competitiveness and result in the increase in operating loss and current net loss.
3. Decrease in non-operating expenses
Primarily a result of the increase in impairment loss of non-financial assets, significant increase in foreign currency exchange gains, and gain from disposition of investment in 2018.
4. Decrease in income tax expense
Primarily a result of the loss generated in 2018 resulting in the decrease in income tax on the income generated in the current period and increase in the gains from effects of the tax rate changes in 2018.
5. Increase in other comprehensive loss
Primarily a result of the increase in unrealized valuation loss on equity invest instrument at fair value through other comprehensive income in 2018.

7.2.2 Forecast of sales volume and the basis thereof, and the effect thereof upon the Company's financial operations as well as measures to be taken in response

Despite the excessive capacity in the LED industry and intensive competition among peer companies, various countries in the world still pay much attention to the energy-saving and environmental protection issues, the luminous efficiency keeps upgrading and LEDs keep minimizing; therefore, new applications are implemented increasingly. Given this, the LED market still has the potential to develop, e.g. the increasing demand for the application of Mini LED to various monitors, the yearly significant growth in the demand for LED high-efficiency tubes and filament-type LED bulbs, the increasing penetration rate of LEDs in lights and automotive applications, the LED plant light applications valued increasingly and infrared (IR) LEDs applied to the sensors of security controls and smart phones. It is expected that the Company's chip shipments will be 626,221 million pieces in 2019. Meanwhile, in response to the promotion of VCSEL's foundry business, the Company founded its subsidiary, Unicorn Semiconductor Corporation, in October 2018; accordingly, the sale volume of VCSELs applied to data

transmission initially is expected to grow significantly, and the VCSEL applied to sensors has the chance to grow significant in 2018. The Company will also promote the related foundry business and R&D of 5G applications in the future. To deal with the trend of smarter and more cost-effective terminal applications, it is still necessary for the Company to keep investing in R&D, improving the technology and cutting costs. The Company will continue to release new products, upgrade the resource utilization efficiency, upgrade the added value of products and optimize product portfolio, and also use its best effort to strive for more excellent purchase orders. The Company is expected to turn loss into profit in 2019.

7.2.3 Analysis on changes of gross profit by 20%

(Consolidated entities)

Unit: NT\$ thousand

Item	Increase/decrease in previous and current periods	Cause - advantageous (disadvantageous)			
		Difference in selling price	Difference in cost price	Difference in product portfolio	Difference in quantity
Gross Profit	(2,782,078)	(2,025,197)	(500,617)	(2,634,249)	2,377,985

Notes to cause of increase/decrease:

Primarily a result of the production capacity expanded by peer companies in the LED market resulting in the imbalanced supply and demand in the market and the declination of utilization rate and changes of product portfolio, and decrease in gross profit accordingly.

7.3 Analysis of Cash Flow

7.3.1 Analysis of cash flow changes

(Consolidated entities)

Unit: NT\$ thousand

Item	Year	2017	2018	Difference	%
	From Operating Activities		6,970,141	4,556,212	(2,413,929)	(34.63)
From Investing Activities		(2,230,160)	(3,789,426)	1,559,266	69.92
From Financing Activities		(4,003,077)	(1,942,297)	(2,060,780)	(51.48)

Analysis of Cash Flow

1. Operating activities

Primarily a result of the loss generated due to decrease in operating revenue in 2018 resulting in the decrease in cash inflow from operating activities, and given the profit gained in 2017, the cash inflow from operating activities decreased in 2018 from 2017 accordingly.

2. Investing activities

Primarily a result of the increase in capital expenditure and reinvestment in financial assets at fair value through other comprehensive income in 2018 from 2017 resulting in the increase in cash outflow from investing activities, and the increase in cash outflow from investing activities in 2018 from 2017.

3. Financing activities

Primarily a result of repayment of long-term loans to cut the interest expenses in 2017 resulting in the decrease in cash outflow from financial activities in 2018 from 2017.

Remedial Actions for Liquidity Shortfall:

As a result of positive operating cash flows and cash on-hand, remedial actions are not required.

7.3.2 Liquidity Analysis for 2019

(Consolidated entities)

Unit: NT\$ thousand

Cash balance - beginning (a)	Anticipated bet cash flow from operating activities in a year (b)	Anticipated bet cash flow from investing and financing activities in a year (c)	Anticipated Cash surplus(deficit) (a)+(b)+(c)	Corrective actions against cash deficit	
				Investing plan	Wealth management plan
5,532,509	3,911,000	(3,222,000)	6,221,509	—	—

Analysis of changes in cash flow for 2018

1. Operating Activities: primarily a result of the profit earned upon deduction of such expenses without cash flow as depreciations and amortizations resulting in the net cash inflow.
2. Investing Activities: Primarily a result of replacement of old machine and new business development, and the capital expenditure spent in the subsidiaries' expansion of factories.
3. Financing activities: Primarily a result of the long-term/short-term loan resulting in the cash inflow.

7.4 Major Capital Expenditure Items and impact to finance and business

7.4.1 Major capital expenditures and capital sources of the Company and its subsidiaries in 2018:

Unit: NT\$ thousand

Project	Capital sources	Total funding
Purchase belong to equipment for business use	Own fund	3,168,197

7.4.2 Impact on financial business

In 2018, in response to the needs for introducing new product, enhancing product specifications, developing III-V semiconductor foundry and improving competitiveness, the Company added new advanced process equipment, clean rooms, R&D equipment and machine upgrades, and also invested in strengthening environmental protection and safety facilities. The Company has also carefully evaluated the funding need for purchase of machine and equipment, and planned the utilization of working capital adequately. The following table shows that various turnover ratios are maintained stably. Meanwhile, the Company's consolidated operating revenue sources are stable and sufficient, and the Company is free from the risk over insufficient fund resulting from purchase of machine and equipment. Therefore, no significant adverse effect is produced to the financial situation of the Company and its subsidiaries.

Item	Year	
	2017	2018
Property, Plant and Equipment Turnover (Times)	0.98	0.87
Current Ratio (%)	269.36	258.10

Note: The financial ratios are calculated based on the consolidated financial statements prepared by IFRSs and audited (reviewed) by the CPA.

7.5 Investment Policy for the most recent year, Main Causes for Profits or Losses, Improvement Plans and the Investment Plans for the Coming Year

7.5.1 Investment policies in the most recent year

The Company and its subsidiary focus their investment policies on the III-V Semiconductors industry and new application products primarily. In order to stabilize the material resource, reduce the production cost and expand applications and sale volume of the Company's products, the Company conducts investment assessment. Through the investment, the Company achieves the upstream and downstream virtual vertical integration, continues to boost strategic cooperation, upgrades effective utilization of resources and increases the penetration rate of LED products in various application markets, and thereby upgrades the Company's entire competitiveness and improves the Company's profitability.

7.5.2 Analysis on investment income

The Company's investees are primarily the LED-related industries under strategic investment. In 2018, the Sino-US Trade War affected the global economy and the LED market tended to act conservatively. The profit and stock price of the investees were less than the expectation. As a result, the Group recognized the investment loss totaling NT\$204,198 thousand (including financial assets at fair value through profit or loss-current, financial assets at fair value through other comprehensive income-noncurrent, and investment under equity method) in 2018.

7.5.3 Corrective actions against investment and investment plan for following year

The Company continually reviews and adjusts investment structure in hopes of exerting the maximum efficiency of investment fund. The Company insists on consistent policy and focuses its investment on the III-V Semiconductors industry and new application products primarily to develop the upstream and downstream virtual vertical integration; meanwhile, energetically seeks the investment niche for new application and increase sale volume of the Company's products to expand business territory, improve penetration of products in various application in hope of exerting the maximum efficiency and promote the competitiveness, growth and profitability of the Company.

7.6 Analysis of Risk Management

7.6.1 Risk Management Policies and Organizational Structure

The Group's capital management policy is established by taking into account the industry characteristics, the Group's future development and changes in external environments. The Group plans the working capital, capital expenditures, investments and dividends required for the future based on the capital management policy, makes financial analysis, and examines its capital structure periodically and makes appropriate adjustments to ensure each of the Group members may grow and operate sustainably.

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial position and financial performance. The risk management operations are executed by the Group's financial and accounting departments per the policy approved by the Board of Directors. The Group's financial and accounting departments work with the various business units within the Group closely to identify, assess and evade financial risk.

1. Market risk

(1) Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currencies, primarily NTD, USD, JPY and RMB. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. The Group has defined the relevant policy requiring that the entities within the Group should manage the foreign exchange rate risk over their respective functional currencies. The various entities should hedge against the overall foreign exchange rate risk via Financial Dept. of the Group.

(2) Interest rate risk

The Group's interest rate risk arises from bank deposits and long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk that 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. The Group's borrowings at variable rate were denominated in the RMB, USD and NTD.

The analysis on sensitivity of interest rate risk refers to stimulation of the maximum effect of changes in interest rate to net profit after tax. The stimulation is carried out per quarter in order to ensure that the maximum loss falls within the limit set by the management.

(3) Price Risk

The Group's investments focus on domestic listed and unlisted equity instruments classified on the consolidated balance sheets as financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, and financial assets available-for-sale. The price of such equity instruments would change due to the uncertainty in the future value of the investment portfolio. Therefore, the Group is exposed to the equity instrument price risk, while the Company is not exposed to the commodity price risk.

2. Credit risk

When the Group sold products, we set up a credit policy, evaluate risk of individual client, and factors that will affect payment, including financial position, credit rating, historical transaction records and other, and monitor credit limits.

Credit risk also arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions. For banks and financial institutions, the Group decides whether to transact with them and the transaction amount based on their credit rating and financial position.

3. Liquidity risk

Cash flow forecasting is performed by the entities within the Group individually and then summarized by the Group's Treasury Dept. The Group's Treasury Dept. monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times, so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant

compliance, compliance with internal balance sheet ratio targets and external regulatory or legal requirements.

Surplus cash is invested in interest bearing current accounts, time deposits, money market deposits, and marketable securities, with appropriate maturities or sufficient liquidity to provide sufficient headroom and meet the above-mentioned forecasts.

7.6.2 Effects of Changes in Interest Rates, Foreign Exchange Rates and Inflation on Corporate Finance, and Future Response Measures

1. Interest rate

- (1) For the Company's and its subsidiaries' net deposit, though the interest rate fluctuates under the government's policy, such fluctuation is still held acceptable. Therefore, the fluctuation in interest rate renders limited effect to the profitability.
- (2) The Company and its subsidiaries will keep watching the trend of interest rate in the financial market, strictly control the deposit and loan subject to floating and fixed interest rates, solicit for high-yield investment portfolio insofar as it is considered safe, seek the market average interest rate when evaluating the interest on bank loans, and keep in touch with banks to strive for the most favorable loan interest rate, in hopes of mitigating the risk potentially resulting from the fluctuation in interest rate.

2. Foreign exchange rates

The Company's and its subsidiaries' consolidated exchange (losses) and profit were (NT\$447,384) thousand and NT\$122,828 thousand in 2017 and 2018. Based on the Company's and its subsidiaries' functional currency and the correspondent foreign currency, the Company judges the trend of foreign exchange rate and adopts adequate hedging strategies, and continues to strengthen the control over foreign currency position and adjust the exchange currency insofar as it is controllable, in order to reduce the Company's and its subsidiaries' foreign currency asset/liability difference and mitigate the effect of fluctuation in foreign exchange rate to the Company's income.

The Group keeps controlling foreign currency assets and liabilities, and hedges against the entire foreign exchange risk. Therefore, no material market risk is expected.

3. Inflation

The Company and its subsidiaries will keep watching the changes in supply & demand and price of raw materials and supplies, and adjust inventory in a timely manner, and seek to reduce the operating cost through research and development of low-cost alternative raw materials and upgrading of the product brightness, in hopes of mitigating the effect of fluctuation in foreign exchange rate to the Company's income.

7.6.3 Policies, Main Causes of Gain or Loss and Future Response Measures with Respect to High-risk, High-leveraged Investments, Lending or Endorsement Guarantees, and Derivatives Transactions

1. Loans to others

The total facility of Epistar to other companies or firms should be limited to 30% of the net worth of Epistar; however, in the case of loans to other companies or firms with the necessity of short-term financing demand, Epistar should only approve loans up to 10% of Epistar's net worth. Epistar may loan to the foreign companies of which

Epistar directly or indirectly holds shares for 100% voting rights, but the amount limits of loans shall not exceed forty percent (40%) of Epistar's net worth, and the duration of loans shall be no longer than three years.

The limit of loan made by the subsidiary indirectly owned by the Company, Episky Corporation (Xiamen) Ltd., shall be no more than 50% of the net worth in the latest financial statements of Episky Corporation (Xiamen) Ltd.,. The limit of loan made by Episky Xiamen to any single counterpart shall be no more than 40% of the net worth in its latest financial statement.

The limit of loan made by the subsidiary indirectly owned by the Company, Epicrystal Corporation (Chang Zhou) Ltd., shall be no more than 30% of the net worth in the latest financial statements of Epicrystal Corporation (Chang Zhou) Ltd.,. The limit of loan made by Epicrystal (Chang Zhou) to any single counterpart shall be no more than 20% of the net worth in its latest financial statement.

The limit of loan made by the subsidiary indirectly owned by the Company, Yen-Rich Opto (Hong Kong) Limited, shall be no more than 30% of the net worth in the latest financial statements of Yen-Rich Opto (Hong Kong) Limited. The limit of loan made by Yen-Rich (Hong Kong) to any single counterpart shall be no more than 20% of the net worth in its latest financial statement.

December 31, 2018 Unit: NT\$ thousand

Lender	Borrower	Balance of loan A	Actual drawdown	A to 2018 Q4 Net value ratio (%)
EPISTAR Corporation	Jiangsu Canyang Optoelectronics Ltd.	447,200	134,160	0.91
EPISTAR Corporation	Episky Corporation (Xiamen) Ltd.	894,400	0	1.81
EPISKY Corporation (Xiamen) Ltd.	Jiangsu Canyang Optoelectronics Ltd.	447,200	0	17.85
Epicrystal Corporation (ChangZhou) Ltd.	Jiangsu Canyang Optoelectronics Ltd.	357,760	357,760	7.65
Yen-Rich Opto (Hong Kong) Limited	Ecoled Venture Co., Limited	15,358	6,143	5.07
Total subsidiaries		2,161,918	498,063	4.38

Note: The net worth in the financial statements of the Company, Episky Xiamen and Epicrystal (ChangZhou) 2018 was NT\$49,353,584 thousand, RMB560,122 thousand and RMB1,045,621 thousand respectively. Yen-Rich (Hong Kong) 2018 was USD9,636 thousand.

2. Provision of endorsements and guarantees to others

In accordance with the Company's procedures for loaning to others: the ceiling on total endorsements/guarantees is 20% of the Company's net assets, and the limit on endorsements/ guarantees to a single party is 10% of its net assets. In addition, the total endorsements/guarantees made by the Company and its subsidiaries for others as a whole shall be no more than 30% of the net worth referred to in its latest financial statement.

December 31, 2018 Unit: NT\$ thousands

Endorser/guarantor	Endorsee/guarantee	Balance of guaranty A	Actual drawdown	A to 2018 Q4 Net value ratio (%)
EPISTAR Corporation	EPISKY Corporation (Xiamen) Ltd.	2,871,329	590,117	5.82

Endorser/guarantor	Endorsee/guarantee	Balance of guaranty A	Actual drawdown	A to 2018 Q4 Net value ratio (%)
EPISTAR Corporation	Jiangsu Canyang Optoelectronics Ltd.	399,295	214,656	0.81
EPISTAR Corporation	Ecoled Venture Co., Limited	0	0	0.00
EPISTAR Corporation	Yen-Rich Opto (Hong Kong) Limited	0	0	0.00
Total consolidated subjects		3,270,624	804,773	6.63

Note: The net worth in the financial statement 2018 was NT\$49,353,584 thousand.

3. Trading of derivatives

The Company and Luxlite (Shenzhen) Corporation Limited are engaged in trading of derivatives primarily in order to hedge against risk, in accordance with the “Acquisition or Disposal Procedures of Assets” and regulations governing trading of financial derivatives. The maximum loss limits on total trading and for individual contracts are both 15% of the contract amount.

From the beginning of 2018 until the date of publication of the annual report, the Company did not engage in trading of derivatives. To meet the need for hedging foreign exchange rate risk, Luxlite (Shenzhen) Corporation Limited was only engaged in forward foreign exchanges, but was not engaged in other high-risk transactions.

7.6.4 Future Research & Development Projects and Corresponding Budget

The Company’s and its subsidiaries’ R&D entities are all based in Taiwan. The main R&D plan is led by the Company. The R&D expenditure scheduled to be invested in 2019 will remain growing stably. For details, please see Pages 97~98 herein.

7.6.5 The impact of material changes of local and foreign government policies and regulations
The outbreak of Sino-US Trade War in 2018 rendered no significant impact to the Company directly. Notwithstanding, the production capacity expanded by the LED factories in China caused the oversupply of LED in the world. Besides, given the overall demand less than expectation in the market, the market price declined significantly. The Company will use its best effort to increase the proportion of products yielding higher profit to mitigate the pressure produced by the market price, so as to optimize the product portfolio. Accordingly, the Company is considered responding to the changes of local and foreign government policies and regulations effectively.

7.6.6 Effects of and Response to Changes in Technology and the Industry Relating to

Since 2018, the excessive capacity caused by the expanded production capacity by peer companies in China affected the balanced supply and demand in the global LED market. As a result, the Company turned profit into loss in 2018. Given this, the Company will balance the impact with the new technology in the market, e.g. Mini LED or laser application. In addition to 5G products which Mini LED is applied to, the Company also focuses on the III-V Semiconductor foundry business to control the business opportunity for 5G.

In response to the changes in the application of technology and end products, the Company transferred the Foundry Business Unit, valuing NT\$1 billion, to the new subsidiary wholly owned by the Company, Unikorn Semiconductor Corporation,

through spin-off in October 2018. The subsidiary engages in the foundry business of such electric and electronic components as VCSEL and GAn on Si, primarily applied to data transmission, consumable electronics 3D sensor and RF, et al.

Meanwhile, in response to the business opportunities driven by the extensive application of 5G and other consumable electronic products, the Company signed the strategic cooperation agreement with GCS Holdings, Inc. at the beginning of 2018. The Company and the subsidiary, Unikorn Semiconductor Corporation, will provide the 6-inch wafer foundry service to GCS Holdings, Inc., while GCS Holdings, Inc. and its subsidiary will provide the technological support for process of III-V Semiconductor. The strategic cooperation is expected to combine both companies' strength in production capacity and technology and thereby help expand the foundry products and customer base to achieve the purpose of expanding business scale and upgrading profit.

7.6.7 The Impact of Changes in Corporate Image on Corporate Risk Management, and the Company's Response Measures

The Company is used to valuing the corporate governance. The meeting of Board of Directors on March 14, 2019 resolved that the Board of Directors of 10th term should nominate 9 directors and the independent directors should be increased from 3 seats to 5 seats; therefore, the independent directors will account for a majority of the whole directors. The name list of candidates for directors of 10th term as nominated by the Board of Directors was approved by the Board of Directors unanimously, in hopes of making the Company more energetic by recruiting the experts with diversified backgrounds, abundant professional knowledge, experience and excellent visions.

Epistar has always valued the relationship with clients because we believe that, in the tightly-interwoven LED industry, working closely with clients is critical to producing the highest quality end-products. That is why Epistar has developed a unique "Co-Activation Service Model," working alongside clients as their partner to co-design chips and production processes, while perfecting quality control. Through such close-knit partnerships, Epistar is able to meet the diverse needs of downstream businesses and consumers, and in essence, satisfy every Epistar partner's client.

7.6.8 Expected Benefits from, Risks Relating to and Response to Merger and Acquisition Plans

The Company conducts organization reform continually to reach internal efficiency and effectiveness through operation management.

ProLight Opto Technology Corporation is an important strategic partner of the Group. In response to the customers' need for application of Mini LED, the Company appoints ProLight Opto Technology Corporation to engage in the new packaging of Mini LED on behalf of the Group. Until the date of publication of the annual report, the Group has acquired 44.4% of the equity in ProLight Opto, while no material impact was rendered against the shareholders' equity of the Company.

7.6.9 Expected Benefits from, Risks Relating to and Response to Factory Expansion Plans

In consideration of the global oversupply of LED, the Company continues to boost the integration of factories premises and concentration of the Group's equipment, so as to upgrade the single factory premises' business scale and management efficiency. Meanwhile, in response to the implementation of new products and business opportunity for applications, the Company also increases the capital expenditure in adding and upgrading the advanced process, researching and developing equipment, and

strengthening environmental protection and labor safety facilities by 43.6% significantly from last year.

7.6.10 Risks Relating to and Response to Excessive Concentration of Purchasing Sources and Excessive Customer Concentration

1. Purchase

There were no material changes in the single supplier of major raw materials for the most recent two years. Notwithstanding, since the suppliers are the Company's important long-term partners, in order to maintain the fair code of business ethics with all suppliers, maintain the Company's corporate identity and honest enterprise culture, all suppliers shall comply with the Company's requirements about integrity. Among the other things, the purchase amount from the top ten suppliers does not exceed 20% of the total purchase amount. Apparently, there is no risk over concentration of purchases.

2. Sales

In terms of the top ten customers in the consolidated statements, the sales to customers have not exceeded 20% of the total operating revenue for the most recent two years. The Company will continue to solidify the cooperative relationship with existing customers and also utilize the core technology to develop existing LEDs and other III-V semiconductor products to help the Company develop in different fields. Meanwhile, the Company will engage in the patent or technology cooperation or strategic cooperation with the customers of the Company's product-related applications to accelerate the virtual vertical integration of industries, expand the product marketing channels and co-develop products and markets. Therefore, there is no risk over sales concentrated on any specific company.

7.6.11 Effects of, Risks Relating to and Response to Large Share Transfers or Changes in Shareholdings by Directors, Supervisors, or Shareholders with Shareholdings over 10%:

In consideration of tax planning, Chairman Biing-Jye Lee bestowed 600,000 common shares of Epistar (2448-TW) to his spouse in September 2018, while no effect would be produced to the Company's right of management.

7.6.12 Effects of, Risks Relating to and Response to the Changes in Management Rights: None.

7.6.13 Litigious or Non-litigious Matters

Case	General issue	Amount of the dispute	Beginning date of the lawsuit	Litigant	Current progress
Patent litigation	On October 12, 2012, Trustees of Boston University filed suit against the Company, alleging patent infringement of US5,686,738, which is related to a blue LED chip containing non-single crystalline GaN buffer.	Subject to the outcome of the proceeding	2012.10.12	Trustees of Boston University	The appeal court revoked the district court's judgment on July 5, 2018 and held that the patent at issue should be invalid. Accordingly, the Company won the appeal.
Civil action arising from accounts receivable & product defect	Disputes of accounts receivable & defective product between Epistar and Customer cannot be settled, and both parties filed the complaint.	Customer filed a complaint accusing the damage caused by the defective product and claimed NT 25,867 thousand dollars to Epistar; Epistar made a counterclaim to demand that customers should pay NT 2,917 thousand dollars for the late payment of products.	2015.01.09	Customer: Alder Optomechanical Corp.	On November 16, 2016, the written judgment of first instance from HsinChu District Court was received. Customer's claim for NT \$ 25,867,489 was dismissed, and Customer shall pay Epistar NT \$ 2,048,884. Both parties appealed against the judgment of first instance. By the end of 2018, the case has been still pending trial by the Taiwan High Court.
Patent litigation	The Company sued Lowe's for patent infringement under five US patents, which are US6,346,771 、 US8,492,780 、 US7,560,738 、 US8,791,467 and US8,587,020. The products at issue are LED filament and light bulb.	subject to the outcome of court judgement	2017.04.28	Lowe's	The case is currently pending trial by the United States District Court of California.
Patent litigation	The Company sued All Star Lighting Supplies for patent infringement under eight US patents, which are US7,355,208 、 US7,489,068 、 US7,560,738 、 US8,791,467 、 US9,065,022 、 US9,257,604 、 US9,488,321 US9,664,340. The products at issue are LED filament and light bulb.	subject to the outcome of court judgement	2017.10.13	All Star Lighting Supplies	Already reached settlement.

7.6.14 Other important risks, and mitigation measures being or to be taken:

Following the global development of Fintech, the information security risk to be dealt with by enterprises is increasing day by day. Meanwhile, in order to protect the staff's painstaking results, the Company established the "Information Security Management Review Committee" and "Trade Secrets Committee" in 2010 and 2018.

Information Security Management Review Committee

The Committee holds the meeting once per six months, which shall be attended by the Committee members. The meeting is held in April and October of each year and responsible for reviewing and resolving the (1) information security policy, (2) validity of the information security policy and control measures, (3) resources required by information security. The structure, information security policy and specific control programs of the Company's information security risk management are stated as following:

1. Policy and principles

- (1) The information risk assessment on information assets shall take into account the related laws and business needs, in order to ensure the needs for information security, establish the standard operating procedures, take appropriate information security control measures and ensure the security of information assets.
- (2) Establish the assessment or appraisal system based on the personnel's functions and competencies, and organize the information security educational training and promotional activities, if necessary.
- (3) The granting of the right to access information assets shall be subject to the business needs and take into account the minimum authority, separation of responsibilities and review of independence.
- (4) Establish the information security incidents management procedure to ensure timely response to and control and processing of any incidents, and prepare the business continuity plan and perform periodic drills to ensure the continuing operation of the information system or information service.
- (5) Process and protect personal information and intellectual property rights in accordance with the Personal Information Protection Act and intellectual property rights.
- (6) Conduct the information security audit periodically to ensure that the information security management system is practiced.
- (7) Any violations of the policy and information security-related requirements shall be subject to the punishment rendered by related laws or the Company's personnel regulations.
- (8) Establish the "Declaration of Information Security" for the Company's staff separately, in order to ensure that the staffs are aware of the Company's information security requirements.

Declaration of Information Security

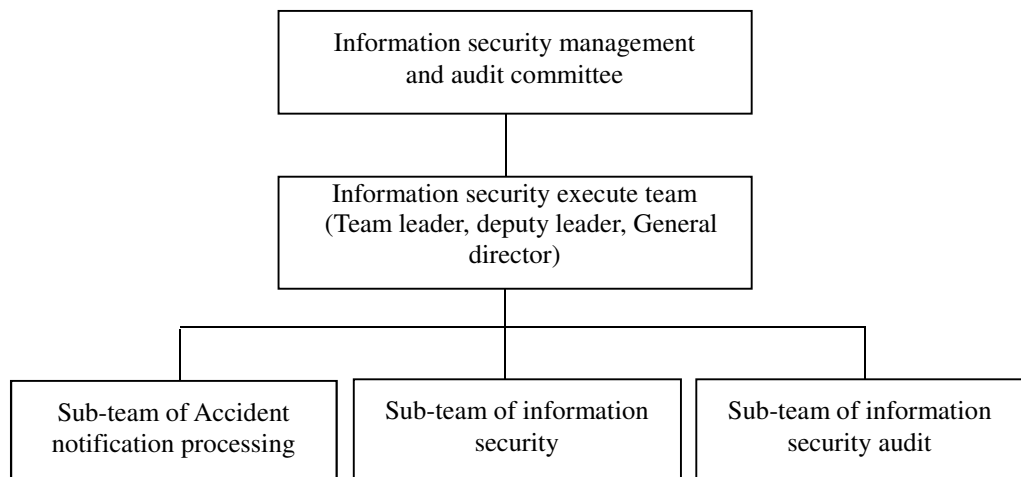
The ultimate goal for the Company's information security operations resides in: ensuring the effective operation of the Company's key business information processing operations through the control over personnel, operations and information technology to prevent any security incidents about confidentiality, completeness and availability affecting the key business operations from arising during the processing of information and support the

Company to achieve the goal for becoming a global photoelectrics manufacturing center.

The Company's information security operations are based on the systematic risk assessment and risk management, and implement the risk control measures by weighing management and technology evenly. The same are practiced by the staff in their daily life, so that they may work with each other to realize the Company's information security goals identified as following:

- The protection of information related to key business completely satisfies the Company's requirement and related laws & regulations.
- The information processing procedure and processing result for key business and support of administrative operations shall be accurate and correct completely.
- The information system and information processing services shall be non-interrupted.

2. Structure



3. Members, operations and functions

(1) Committee members

President, VP of Information Technology Center, internal auditor officer, Director-General of Intellectual Property & Legal Affairs Div., and manager of Legal Affairs Dept. of Intellectual Property & Legal Affairs Div.

(2) Execution team members

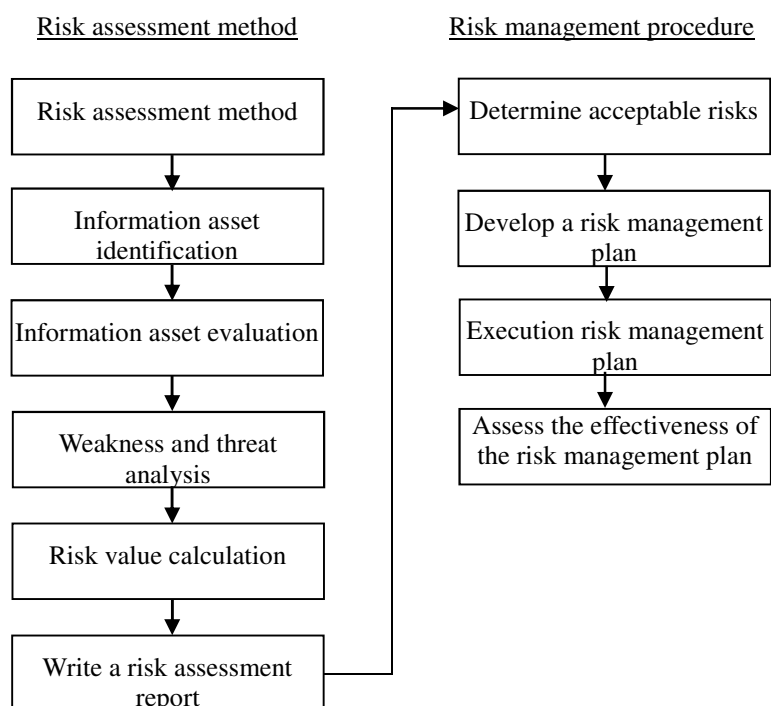
Team leader, deputy leader and secretary

(3) Operations & functions

Position/Role	Operations & Functions
Information Security Management Review Committee Chairperson	<ul style="list-style-type: none"> ● Responsible for reviewing and resolving the motions related to the Company's information security management. ● Review and approve information security policy. ● Review the validity of information security policy-based goals and control measures. ● Review the scope of resources required by information security.
Information Security Management Review Committee Convener	<ul style="list-style-type: none"> ● Responsible for reviewing and resolving the motions related to the Company's information security management. ● Review and approve information security policy.

Position/Role	Operations & Functions
	<ul style="list-style-type: none"> ● Review the validity of information security policy-based goals and control measures. ● Review the scope of resources required by information security. ● Coordinate information security-related operations. ● Continue to improve information security management system.
Information Security Management Review Committee Member	<ul style="list-style-type: none"> ● Responsible for reviewing and resolving the motions related to the Company's information security management. ● Review and approve information security policy. ● Review the validity of information security policy-based goals and control measures. ● Review the scope of resources required by information security.
Information Security Execution Team Leader	<ul style="list-style-type: none"> ● Select competent personnel based on the specific information security role and position. ● Maintain the awareness toward information security. ● Coordinate information security-related operations. ● Confirm information security risk and implement risk management. ● Conduct independent audit on information security management system. ● Continue to improve information security management system.
Information Security Execution Team Deputy Leader	<ul style="list-style-type: none"> ● Help the team leader select competent personnel based on the specific information security role and position. ● Help the team leader maintain the awareness toward information security. ● Help the team leader coordinate information security-related operations. ● Help the team leader confirm information security risk and implement risk management. ● Help the team leader conduct independent audit on information security management system. ● Help the team leader continue to improve information security management system.

4. Risk evaluation procedure and risk management procedure



5. Timing and approach to conduct the risk evaluation

(1) Timing to conduct the risk evaluation

- The risk evaluation shall be conducted once per six months, and the scope of evaluation shall be decided by the Information Security Execution Team Leader.
- In the event of changes in organization, operating procedures or information assets, or outbreak of material information security incidents, it is allowed to conduct the risk evaluation on information assets falling in the specific scope.

(2) Approach to conduct the risk evaluation

- The value of risk (RoA) of information assets consists of such elements as the value of information assets, vulnerability of assets, possibility of threats and effect thereof, and is calculated by multiplying by the value of information assets, vulnerability and possibility of threats and taking into account the effect produced by the threats on the confidentiality, completeness and availability.
- Identification of information assets (identification and inventory taking) refers to the inventory taking of information assets pursuant to the “Operating Procedures for Managing Information Assets” (PIS090003).
- Valuation of information assets (assessment on value) refers to the evaluation conducted by the information assets owner on the confidentiality, completeness and availability, and subject to the characteristics of organization, and requirements by laws and regulations.

6. Management system/internal audit/periodic reporting to Board of Directors / preventive measures

(1) Frequency of audit

Conduct the information security internal audit per six months (may be integrated into the Company’s internal audit operations, if necessary), and conduct the audit on such specific purposes as information security incidents and material changes in the information system from time to time.

(2) Requirements about internal auditors

In order to ensure the objectivity and independence in the process of audit, the self-audit shall be avoided. The internal auditors shall have the experience in audit on information security systems or attending information security audit-related training programs (including the Company’s internal training courses).

(3) Audit plan

- It is necessary to plan and prepare the information security audit plan in advance as the guide for audit. The contents thereof shall include the basis, scope, procedure, personnel, items and schedule of the audit, and executed upon approval of the Convener of Information Security Management Review Committee. The audit plan format may refer to the document numbers and standards under the information security management system.
- If the information security audit is integrated into the Company’s internal audit operations, the information security plan shall be subject to the approval of the Convener of Information Security Management Review Committee and provided to the Audit Office to be included into the Company’s internal audit plan for implementation.

(4) Reporting to Board of Directors

The contents about computerized information system processing and information security inspection have been reported to the Board of Directors on November 12, 2018, and relevant suggestions were posed toward the deficiencies. The deficiencies were followed up and corrected.

(5) Preventive measures

The Company has not yet taken out any information security insurance. Notwithstanding, the Company still spares no efforts to govern the information security and enhance its defensive ability. So far, no infringement upon suppliers' or customers' privacy, disclosure of confidential information or hacking into systems had been found.

The Information Security Execution Team performs the business continuity drill and information security phishing mail drill from time to time, and the restoration procedure in the event of any abnormality in the drilled system, and conducts period audits thereon. The staff accepting the phishing mail shall attend the training and post-test about the information security phishing mails again, in order to reduce the staff's chances to suffer attacks of virus, abducted encryption of data, disclosure of confidential information due to horizontal infection, or system invasion and paralysis.

Trade Secrets Committee

The information security is very important. Notwithstanding, it is also necessary to protect the security of the Company's trade secrets and a third party's confidential information held by the Company to ensure the staff's results, maintain the Company's competitiveness and prevent the Company's important information from being disclosed. On January 26, 2018, the Company formed the "Trade Secrets Committee".

1. Structure

Formed by the President and the senior management of such units as Information Technology Center, Audit Office, Human Resources Center, Intellectual Property & Legal Affairs Div., and holding the meeting once a month.

2. Scope and duty of protection

The confidential information includes any information, document, file, formula, product and sample of the Company and its subsidiaries which has not yet been disclosed to the public, or is identified confidential, sensitive or essential. Any violations of the regulations governing protection of trade secrets shall be punished upon the resolution made by Trade Secrets Committee, subject to the materiality of the case.

3. Implementation of educational training

3.1. Periodic circulation of e-news to perform the educational training and promote laws & regulations to the whole staff.

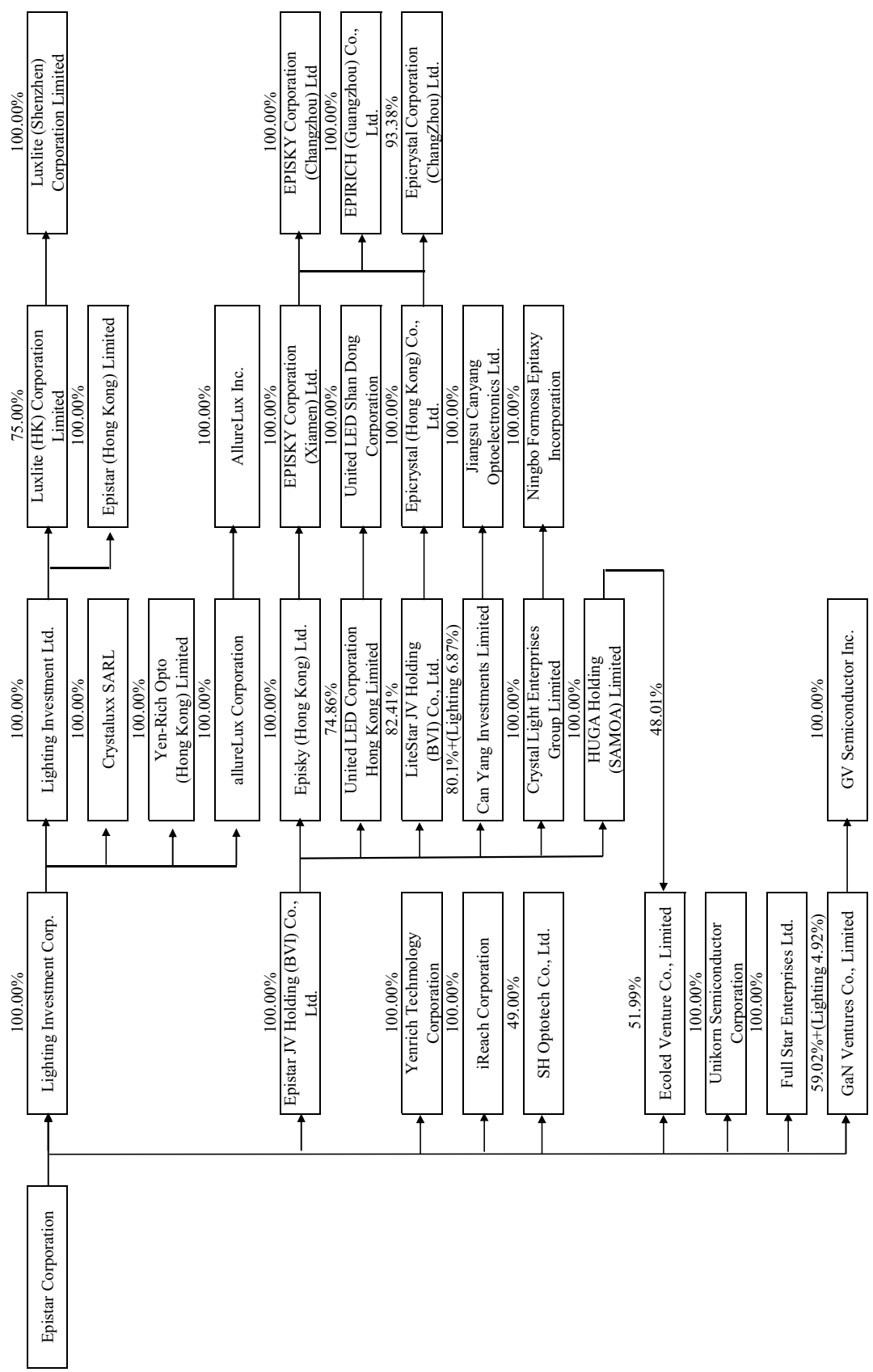
3.2. Irregular arrangement for related experts/trainees to perform educational training on specific employees

7.7 Other important notes: None.

8. Special Disclosure

8.1 Summary of Affiliated Companies

8.1.1 Organization Chart of Epistar Corporation's Affiliated Companies (December 31, 2018)



8.1.2 Basic Information of Affiliates

Unit: \$ thousands USD, RMB and EUR

Company Name	Date of establishment	Address	Capital Stock	Major business
Lighting Investment Corp.	2007.11.08	2F., No.62, Guanghua 2nd St., North Dist., Hsinchu City 300, Taiwan (R.O.C.)	NTD 2,514,785	Professional investment.
Epistar JV Holding (BVI) Co., Ltd.	2010.01.21	Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands	USD 482,780	Professional investment.
Yenrich Technology Corporation	2009.12.11	9F-1, No.67, Ziyou Rd., East Dist., Hsinchu City 300, Taiwan (R.O.C.)	NTD 600,000	Manufacture & sales of Electronic component
iReach Corporation	2018.01.09	3F., No.50, Yuanqu 2nd Rd., Hsinchu Science Park, Hsinchu 300, Taiwan (R.O.C.)	NTD 42,000	Design, manufacture and sales of semiconductor light emitting device, package and module
SH Optotech Co., Ltd.	2009.09.25	IF 22, Keya Rd., Central Taiwan Science Park, Taichung 42881, Taiwan	NTD 64,881	Manufacture & sales of LED products.
Ecoled Venture Co., Limited	2014.11.26	Unit 1405-1406, Dominion Centre 43-59 Queen's Road East Wanchai, Hong Kong	USD 3,313	Sales of Smart Lighting products.
Unikorn Semiconductor Corporation	2018.10.11	IF, 5, Li-hsin 5th Rd., Hsinchu Science Park, Hsinchu 300, Taiwan	NTD 500,000	III-V Semiconductor Foundry business
Full Star Enterprises Limited	2008.10.03	Room 2702-03, CC Wu Building, 302-8 Hennessy Road, Wanchai, Hong Kong	USD 8,660	Professional investment.
GaN Ventures Co., Limited	2016.08.04	Unit 1405-1406, Dominion Centre 43-59 Queen's Road East Wanchai, Hong Kong	USD 14,004	Investment & sales of electronic Components.
Lighting Investment Ltd.	2008.05.16	Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands	USD 4,564	Professional investment.
Crystaluxx SARL	2013.02.28	40, avenue Monterey, L-2163 Luxembourg	EUR 3,320	Professional investment.
Yen-Rich Opto (Hong Kong) Limited	2013.03.22	Room 2702-03, CC Wu Building, 302-8 Hennessy Road, Wanchai, Hong Kong	USD 8,010	Sales of LED products.
allureLux Corporation	2018.03.02	9F-1, No.69, Ziyou Rd., East Dist., Hsinchu City 300, Taiwan (R.O.C.)	NTD 3,000	LED lighting fixture development and design and technical services

Unit: \$ thousands USD, RMB and EUR

Company Name	Date of establishment	Address	Capital Stock	Major business
Episky (Hong Kong) Ltd.	2008.05.06	Room 2702-03, CC Wu Building, 302-8 Hennessy Road, Wanchai, Hong Kong	USD 68,000	Professional investment.
United LED Corporation Hong Kong Limited	2009.10.29	Room 2702-03, C.C.Wu Building, 302-8 Hennessy Road, Wanchai, Hong Kong	USD 89,500	Professional investment.
LiteStar JV Holding (BVI) Co., Ltd.	2010.02.22	Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands	USD 132,050	Professional investment.
Can Yang Investments Limited	2009.11.24	Room 2702-03, CC Wu Building, 302-8 Hennessy Road, Wanchai, Hong Kong	USD 76,000	Professional investment.
Crystal Light Enterprises Group Limited	2001.09.28	TrustNet Chambers, P.O. Box3444 Road Town, Tortola, British Virgin Islands	USD 200	Professional investment.
HUGA Holding (Samoa) Limited	2011.01.13	Vistra Corporate Services Centre, Ground Floor NPF Building, Bach Road, Apia Samoa.	USD 12,451	Professional investment.
GV Semiconductor Inc.	2017.06.28	1245 South Winchester Blvd, Suite 300, San Jose, CA 95128 United States of America	USD 3,010	Manufacturing of Semiconductors and seller of technology components
Luxlite (HK) Corporation Limited	2008.12.18	Room 2702-03, CC Wu Building, 302-8 Hennessy Road, Wanchai, Hong Kong	USD 3,800	Professional investment.
Epistar (Hong Kong) Limited	2013.04.25	Room 2702-03, CC Wu Building, 302-8 Hennessy Road, Wanchai, Hong Kong	USD 83	Professional investment.
AllureLux Inc.	2018.03.28	Langtree Village Dr, Ste 301 Mooresville North Carolina 28117 United States	USD 550	LED lighting fixture design/trading
EPISKY Corporation (Xiamen) Ltd.	2006.12.13	99, Xiang Xing Rd., Xiang'An Branch, Torch Hi-Tech Industrial Development Zone, Xiamen, China	USD 68,000	Manufacture & sales of LED products.
United LED Shan Dong Corporation	2010.02.25	NO.6688 Chongwen Road Jining High & New Technology	USD 84,000	Manufacture & sales of LED products.
Epicrystal (Hong Kong) Co., Ltd.	2010.03.05	Room 2702-03, CC Wu Building, 302-8 Hennessy Road, Wanchai, Hong Kong	USD 146,600	Professional investment.
Jiangsu Canyang Optoelectronics Ltd.	2009.10.12	No.9, Zhouzhuanghe Road, Economic Development Zone, Yangzhou, Jiangsu Province, PRC, 225009	USD 192,000	Manufacture & sales of LED products.
Ningbo Formosa Epitaxy Incorporation	2004.06.23	Room 5088-17, 5F, No.1558, Jiangnan Road Ningbo, China	USD 200	Sales of LED products.

Unit: \$ thousands USD, RMB and EUR

Company Name	Date of establishment	Address	Capital Stock	Major business
Luxlite (Shenzhen) Corporation Limited	2009.02.16	Room 1501,15F, Zhiju Building, No.1 QiTian Road, Linyi Avenue, Taoyuan Street, Nanshan District, Shenzhen	USD 3,000	Sales of LED products.
EPISKY Corporation (Changzhou) Ltd.	2014.02.27	F1, Building 10, No.377 South Wuyi Road, Wujin National Hi-tech Industrial Zone	RMB 20,000	Manufacture & sales of LED products.
EPIRICH (Guangzhou) Co.,Ltd.	2015.05.18	Guangzhou zengcheng district Xiangshan road, 51st	RMB 8,000	Manufacture & sales of LED products.
Epicrystal Corporation (ChangZhou) Ltd.	2010.04.07	No.66-8, Yanghu Rd. Wu Jin Hi-Tech Industrial Development Zone, Changzhou, Jiangsu	USD 157,000	Manufacture & sales of LED products.

8.1.3 Shareholders representing both holding companies and subordinates: None.

8.1.4 Industries Covered by all the Affiliates: Including optoelectronic industry and investment industry.

8.1.5 Name of each affiliated company's Director, Supervisor, and President

As of December 31, 2018

Company Name	Title	Name or Representative		Shareholding	
		Name	Legal representative	Shares	%
Lighting Investment Corp.	Chairman	Epistar Corporation	Chin-Yung Fan	251,478,518	100.00%
	Director	Epistar Corporation	Min-Hsun Hsieh		
	Director	Epistar Corporation	Tzu-Hsiang Tai		
	Supervisor	Epistar Corporation	Tao-jung Lin		
	President	Yung-Sheng Yu			
Epistar JV Holding (BVI) Co., Ltd.	Chairman	Biing-Jye Lee		0	0.00%
Yenrich Technology Corporation	Chairman	Epistar Corporation	Biing-Jye Lee	60,000,000	100.00%
	Director	Epistar Corporation	Min-Hsun Hsieh		
	Director	Epistar Corporation	Shih-Shien Chang		
	Supervisor	Epistar Corporation	Yung-Sheng Yu		
iReach Corporation	Chairman	Epistar Corporation	Tao-jung Lin	7,000,000	100.00%
	Director	Epistar Corporation	Shih-Shieh Chang		
	Director	Epistar Corporation	Chin-Yuan Chen		
	Director	Epistar Corporation	Rong-Yih Hwang		
	Supervisor	Zhi-Jiang Lu Liu Jui Chen				preference share 480,000	5.71%
				0	0.00%

Company Name	Title	Name or Representative		Shareholding	
		Name	Legal representative	Shares	%
SH Optotech Co., Ltd.	Chairman	Seoul Optodevice Co., Ltd.	Hyeon Jong Yu	2,725,007	42.00%
	Director	Seoul Optodevice Co., Ltd.	Woo Chul Kwak		
	Director	Epistar Corporation	Lin-Tien Yang	3,179,176	49.00%
	Director	Epistar Corporation	Wen-Chung Lee		
	Supervisor	Tao-jung Lin	Jong Hyeon Chae	0	0.00%
	Supervisor	Seoul Semiconductor Co., Ltd.		583,928	9.00%
Ecoled Venture Co., Limited	President	Lin-Tien Yang		0	0.00%
	Chairman	Ming-Jiunn Jou		0	0.00%
	Director	Alexander-Chan Wang		0	0.00%
Unikorm Semiconductor Corporation	Director	Yung-Sheng Yu		0	0.00%
	Chairman	Epistar Corporation	Biing-Jye Lee	100,000,000	100.00%
	Director	Epistar Corporation	Ming-Jiunn Jou		
	Director	Epistar Corporation	Ming-Da Jin		
	Director	Epistar Corporation	Wei-Shih		
	Director	Epistar Corporation	Shi-Yi Chen		
	Supervisor	Epistar Corporation	Tao-jung Lin	0	0.00%
	President	Ming-Jiunn Jou			
	Director	Ming-Jiunn Jou		0	0.00%
	Director	Ming-Jiunn Jou		0	0.00%
Full Star Enterprises Limited	Chairman	DHAYAGUDE Tushar Heramb			
	Director	SHAH Ashok Deepak			
	Director	Min-Hsun Hsieh			
	Director	Nan-Yang Wu			
	Director	Chin-Yung Fan			
	Director	EPI Crystal Investment Inc.	Ming-Jiunn Jou	32,500	100.00%
GaN Ventures Co., Limited	Director	EPI Crystal Investment Inc.	Chin-Yung Fan		
	Director	EPI Crystal Investment Inc.	Tzu-Hsiang Tai		
	Director	EPI Crystal Investment Inc.			
Lighting Investment Ltd. Crystaluxx SARL	Chairman	Ming-Jiunn Jou		0	0.00%
	Chairman	Lighting Investment Corp.	Ming-Jiunn Jou		
	Director	Lighting Investment Corp.	Yung-Sheng Yu	3,000,000	100.00%
	Director	Lighting Investment Corp.	Chin-Yung Fan		
	Supervisor	Lighting Investment Corp.	Liu Jui Chen		
Yen-Rich Opto (Hong Kong) Limited allureLux Corporation	Director	Chin-Yung Fan		0	0.00%
	Director	Chin-Yung Fan			
Episky(Hong Kong)Ltd.	Director	Chin-Yung Fan		0	0.00%
	Director	Chin-Yung Fan			

Company Name	Title	Name or Representative		Shareholding	
		Name	Legal representative	Shares	%
United LED Corporation Hong Kong Limited	Chairman	Jen-Chau Wu		0	0.00%
	Director	Lin-Tien Yang		0	0.00%
	Director	Chang Bao		0	0.00%
	Director	Chau-Shen Yu		0	0.00%
	Director	Jin-Hong Lin		0	0.00%
	Supervisor	Yung-Sheng Yu		0	0.00%
	Supervisor	Wei-ping Lien		0	0.00%
LiteStar JV Holding (BVI) Co., Ltd.	Director	Bing-Jye Lee		0	0.00%
	Director	Ming-Jiunn Jou		0	0.00%
	Director	Kuo-Yang Chang		0	0.00%
Can Yang Investments Limited	Chairman	Ming-Jiunn Jou		0	0.00%
	Director	Jen-Chau Wu		0	0.00%
	Director	Cheng-Chi Chiang		0	0.00%
	Director	Lin-Tien Yang		0	0.00%
	Director	Suntrap Corporation Limited	Ching-Huei Wu	2,679,063	3.53%
Crystal Light Enterprises Group Limited	Director	Bee Rich Corporation	Ming-Jiunn Jou	200,000	100.00%
HUGA Holding (Samoa) Limited	Director	HUGA Holding (BVI) Limited	Chin-Yung Fan	12,451,035	100.00%
GV Semiconductor Inc.	Chairman	Ming-Jiunn Jou		0	0.00%
	Director	DHAYAGUDE Tushar Heramb		0	0.00%
	Director	Min-Hsun Hsieh		0	0.00%
	Director	Nan-Yang Wu		0	0.00%
	Director	Ming-Jiunn Jou		0	0.00%
Luxlite (HK) Corporation Limited	Director	Shih-Shien Chang		0	0.00%
	Director	Wei-Kuo Su		0	0.00%
	Director	Rong-Yih Hwang		0	0.00%
	Director	Chin-Yung Fan		0	0.00%
	Director	Chang Bao		475,000	12.50%
	Director	Chen-Chen Liu		475,000	12.50%
	Director	Chin-Yung Fan		0	0.00%
Epistar (Hong Kong) Limited AllureLux Inc.	Chairman	Ming-Jiunn Jou		550,000	100.00%
	Director	Yung-Sheng Yu		0	0.00%
	Director	Chin-Yung Fan		0	0.00%
	Director	Christopher Lee Whitworth		0	0.00%

As of December 31, 2018

Company Name	Title	Name or Representative		Shareholding	
		Name	Legal representative	Shares	%
EPISKY Corporation (Xiamen) Ltd.	Chairman	Episky (Hong Kong) Ltd.	Jen-Chau Wu	NA (Note 1)	100.00%
	Director	Episky (Hong Kong) Ltd.	Chang Bao		
	Director	Episky (Hong Kong) Ltd.	Rong-Yih Hwang		
	Director	Episky (Hong Kong) Ltd.	Wen-Chieh Kuo		
	Supervisor President	Episky (Hong Kong) Ltd. Wen-Chieh Kuo	Shih-Shien Chang	NA (Note 1)	0.00%
United LED Shan Dong Corporation	Executive Director	United LED Corporation Hong Kong Limited	Jen-Chau Wu	NA (Note 1)	100.00%
	Supervisor President	United LED Corporation Hong Kong Limited Hsien-Chun Weng	Rong-Chang Lin	NA (Note 1)	0.00%
Epicystal (Hong Kong) Co., Ltd.	Director	Bing-Jye Lee		0	0.00%
	Director	Ming-Jiunn Jou		0	0.00%
	Director	Lin-Tien Yang		0	0.00%
	Director	Jen-Chau Wu		0	0.00%
	Director	Kuang-Chung Chen		0	0.00%
	Director	Albert Chang		0	0.00%
					0	0.00%
Jiangsu Canyang Optoelectronics Ltd.	Chairman	Can Yang Investments Limited	Jen-Chau Wu	NA (Note 1)	100.00%
	Director	Can Yang Investments Limited	Ming-Jiunn Jou		
	Director	Can Yang Investments Limited	Chin-Yung Fan		
	Director	Can Yang Investments Limited	Lin-Tien Yang		
	Director	Can Yang Investments Limited	Nam Han-Yong		
	Director	Can Yang Investments Limited	Ching-Huei Wu		
	Supervisor	Can Yang Investments Limited	Talung Ho	NA (Note 1)	0.00%
	President	Cheng-Chi Chiang			
Ningbo Formosa Epitaxy Incorporation	Chairman	Crystal Light Enterprises Group Limited	Jen-Chau Wu	NA (Note 1)	100.00%
	Director	Crystal Light Enterprises Group Limited	Jimbo Wang		
	Director	Crystal Light Enterprises Group Limited	Talung Ho		
Luxlite (Shenzhen) Corporation Limited	Chairman	Luxlite (HK) Corporation Limited	Chang Bao	NA (Note 1)	100.00%
	Director	Luxlite (HK) Corporation Limited	Ming-Jiunn Jou		
	Director	Luxlite (HK) Corporation Limited	Shih-Shien Chang		
	Director	Luxlite (HK) Corporation Limited	Tzu-Hsiang Tai		
	Director	Luxlite (HK) Corporation Limited	Rong-Yih Hwang		
	Director	Luxlite (HK) Corporation Limited	Chin-Yung Fan		
	Director	Luxlite (HK) Corporation Limited	Chen-Chen Liu		
	Supervisor	Luxlite (HK) Corporation Limited	Tao-jung Lin	NA (Note 1)	0.00%
	President	Lin-Tien Yang			

As of December 31, 2018

Company Name	Title	Name or Representative		Shareholding	
		Name	Legal representative	Shares	%
EPISKY Corporation (Changzhou) Ltd.	Chairman	EPISKY Corporation (Xiamen) Ltd.	Li-Cheng Hung	NA (Note 1)	100.00%
	Director	EPISKY Corporation (Xiamen) Ltd.	Hsien-Chun Weng		
	Director	EPISKY Corporation (Xiamen) Ltd.	Jen-Chau Wu		
	Director	EPISKY Corporation (Xiamen) Ltd.	Liang-Sheng Chi		
	Supervisor	EPISKY Corporation (Xiamen) Ltd.	Talung Ho		
	President	EPISKY Corporation (Xiamen) Ltd.	Tzu-Hsiang Tai	NA (Note 1)	0.00%
EPIRICH (Guangzhou) Co., Ltd.	Chairman	EPISKY Corporation (Xiamen) Ltd.	Chin-Yung Fan	NA (Note 1)	100.00%
	Director	EPISKY Corporation (Xiamen) Ltd.	Benson Liaw		
	Director	EPISKY Corporation (Xiamen) Ltd.	Yung-Sheng Yu		
	Supervisor	EPISKY Corporation (Xiamen) Ltd.	Talung Ho		
Epicrystal Corporation (Changzhou) Ltd.	Chairman	Epicrystal (Hong Kong) Co., Ltd.	Jen-Chau Wu	NA (Note 1)	93.38%
	Director	Epicrystal (Hong Kong) Co., Ltd.	Biing-Jye Lee		
	Director	Epicrystal (Hong Kong) Co., Ltd.	Chang Bao		
	Director	Epicrystal (Hong Kong) Co., Ltd.	Kuang-Chung Chen		
	Director	Epicrystal (Hong Kong) Co., Ltd.	Kuo-Yang Chang		
	Director	EPISKY Corporation (Xiamen) Ltd.	Lin-Tien Yang	NA (Note 1)	3.31%
	Supervisor	Epicrystal (Hong Kong) Co., Ltd., EPISKY Corporation (Xiamen) Ltd., Lite-On Electronics (Tianjin) Co., Ltd. Cheng-Chi Chiang	Tao-jung Lin	NA (Note 1)	100.00% (Note 2)
	President			NA (Note 1)	0.00%

Note 1: Given the type of limited company, the quantity of shares is not applicable.

Note 2: Appointed by shareholders jointly pursuant to PRC Company Law, and recorded by State Administration for Industry & Commerce for the People's Republic of China.

8.1.6 Affiliates' Operating Results

As of December 31, 2018 Unit: NT in thousands

Company	Capital Stock	Assets	Liabilities	Net Worth	Net Revenues	Income (Loss) from Operation	Net Income (Loss)	Basic Earning (Loss) Per Share
Lighting Investment Corp.	2,514,785	2,043,639	1,224	2,042,415	361,765	(45,814)	(36,697)	(0.15)
Epistar JV Holding (BVI) Co., Ltd.	14,960,129	10,198,545	61	10,198,484	0	(679)	286,599	Note1
Yenrich Technology Corporation	600,000	236,226	3,717	232,509	93,979	(42,372)	(29,680)	(4.95)
iReach Corporation	42,000	82,200	37,695	44,505	23,367	(32,617)	(32,497)	(4.64)
SH Optotech Co., Ltd.	64,881	82,825	77,387	5,438	220,300	2,980	2,780	0.43
Ecoled Venture Co., Limited	101,759	20,393	33,585	(13,192)	19,975	(9,971)	(10,215)	Note1
Unikorn Semiconductor Corporation	500,000	1,018,099	87,991	930,108	18,063	(69,878)	(69,892)	(0.70)
Full Star Enterprises Limited	262,991	250,578	41	250,537	0	(38)	(2,268)	Note1
GaN Ventures Co., Limited	430,118	222,870	12,252	210,618	604	(43,443)	(102,308)	Note1
Lighting Investment Ltd.	152,701	645,462	100,666	544,796	196,152	(5,430)	34,648	Note1
Crystaluxx SARL	116,864	15,090	12	15,078	0	(1,327)	(3,862)	Note1
Yen-Rich Opto (Hong Kong) Limited	246,027	374,129	78,165	295,964	473,335	(13,582)	(4,984)	Note1
allureLux Corporation	3,000	11,942	100	11,842	0	(270)	(17,938)	(5.98)
Episky (Hong Kong) Ltd.	2,124,096	2,393,260	33	2,393,227	0	0	(266,529)	Note1
United LED Corporation Hong Kong Limited	2,689,036	650,520	(102)	650,622	0	(376)	(180,315)	Note1
LiteStar JV Holding (BVI) Co., Ltd.	4,169,444	4,331,107	41	4,331,066	0	(124)	57,623	Note1
Can Yang Investments Limited	2,324,763	2,174,387	61,095	2,113,292	0	(445)	(14,839)	Note1
Crystal Light Enterprises Group Limited	6,754	27,417	0	27,417	0	0	1,631	Note1
HUGA Holding (Samoa) Limited	317,932	89,539	0	89,539	0	(41)	(3,489)	Note1
GV Semiconductor Inc.	92,452	10,539	2,935	7,604	8,159	(63,713)	(63,713)	Note1

As of December 31, 2018 Unit: NT in thousands

Company	Capital Stock	Assets	Liabilities	Net Worth	Net Revenues	Income (Loss) from Operation	Net Income (Loss)	Basic Earning (Loss) Per Share
Luxlite (HK) Corporation Limited	116,717	365,186	7,967	357,219	0	(9,500)	73,893	Note1
Epistar (Hong Kong) Limited	2,556	2,053	135	1,918	0	(33)	(81)	Note1
AllureLux Inc.	16,893	2,338	3,503	(1,165)	269	(17,947)	(17,741)	Note1
EPISKY Corporation (Xiamen) Ltd.	2,124,096	5,974,706	3,581,453	2,393,253	4,982,690	(238,060)	(266,496)	Note1
United LED Shan Dong Corporation	2,519,400	788,772	149,625	639,147	279	(181,487)	(180,446)	Note1
Epicrystal (Hong Kong) Co., Ltd.	4,403,034	4,329,795	0	4,329,795	0	0	57,673	Note1
Jiangsu Canyang Optoelectronics Ltd.	5,612,385	4,253,228	2,086,300	2,166,928	1,718,743	33,015	(14,650)	Note1
Ningbo Formosa Epitaxy Incorporation	6,754	27,442	26	27,417	0	(76)	1,631	Note1
Luxlite (Shenzhen) Corporation Limited	91,172	1,925,280	1,653,873	271,407	3,757,950	170,253	100,827	Note1
EPISKY Corporation (Changzhou) Ltd.	89,440	1,709,083	1,598,895	110,188	3,233,791	(41,128)	(44,897)	Note1
EPIRICH (Guangzhou) Co., Ltd.	35,776	14,095	0	14,095	0	(1,432)	(1,942)	Note1
Epicrystal Corporation (ChangZhou) Ltd.	4,535,493	6,062,430	1,425,711	4,636,719	3,227,611	61,433	61,483	Note1
Interlight Optotech Corporation (Note2)	0	0	0	0	95	(298)	30,391	0.00
EPI Crystal Investment Inc. (Note3)	0	0	0	0	0	527	29,202	(0.25)
UEC Investment Ltd. (Note4)	0	0	0	0	0	(99)	(422,923)	Note1
Bee Rich Corporation (Note4)	0	0	0	0	0	(3)	63,022	Note1
HUGA Holding (BVI) Limited (Note4)	0	0	0	0	0	(67)	(45,085)	Note1

Note 1 : Not applicable, as it is an offshore company.

Note2 : Interlight Optotech Corporation was liquidated on May 31, 2018.

Note3 : EPI Crystal Investment Inc. proceeded a short-form merger with subsidiary Lighting Investment Corp on July 1, 2018.

Note4 : Epistar JV Holding (BVI) Co., Ltd. UEC Investment Ltd. HUGA Holding (BVI) Limited and Bee Rich Corporation were conducted a short form merger at Nov. 11 2018.

8.1.7 Affiliates Consolidated Financial Statements: See Appendix 1.3 (Page 160)

8.1.8 Relationship Report: N.A.

8.1.9 Information about endorsement/guarantee to affiliates, loaning to others and trading of financial derivatives

1. Endorsement/guarantee for others: N/A

2. Loaning to others

The limit of total loan made by the subsidiary wholly owned by the Company directly, Episky Corporation (Xiamen) Ltd., and the limit of loan made by it any single counterpart shall be no more than 50% and 40% of the net worth in the latest financial statements of Episky Corporation (Xiamen) Ltd.,

The limit of total loan made by the subsidiary wholly owned by the Company directly, Epicrystal Corporation (ChangZhou) Ltd., and the limit of loan made by it any single counterpart shall be no more than 30% and 20% of the net worth in the latest financial statements of Epicrystal Corporation (ChangZhou) Ltd.,

The limit of total loan made by the subsidiary wholly owned by the Company directly, Yen-Rich Opto (Hong Kong) Limited, and the limit of loan made by it any single counterpart shall be no more than 30% and 20% of the net worth in the latest financial statements of Yen-Rich Corporation (Hong Kong) Limited.

December 31, 2018 Unit: NT\$ thousand

Lender	Borrower	Balance of loan A	Actual drawdown	A to 2017 Q4 Net value ratio (%)
EPISKY Corporation (Xiamen) Ltd.	United LED Shan Dong Corporation	27,390	0	1.01
EPISKY Corporation (Xiamen) Ltd.	Jiangsu Canyang Optoelectronics Ltd.	273,900	0	10.09
Epicrystal Corporation (ChangZhou) Ltd.	Jiangsu Canyang Optoelectronics Ltd.	365,200	365,200	8.37
Yen-Rich Opto (Hong Kong) Limited	Ecoled Venture Co., Limited	15,358	6,143	5.19
Total		820,318	363,903	1.66

Note: The net worth in the financial statements of the Company, Episky Xiamen and Epicrystal (ChangZhou) 2018 was NT\$49,353,584 thousand, RMB560,122 thousand and RMB1,045,621 thousand respectively. The net worth in the financial statements of Yen-Rich (Hong Kong) 2018 was USD 9,636 thousand.

3. Trading of derivatives: N/A

8.2 Private Placement Securities in the Most Recent Years

Title	Approved the motion for issuance of securities in private placement at the shareholders' meeting on June 21, 2018 (Note).
Type of securities in private placement	Common shares of Epistar Corporation
Date on which the private placement was approved at a shareholders meeting and the amount thus approved	The issuance of new common shares in private placement and new common shares for cash to sponsor issuance of the global depository receipt shall total no more than 160 million shares. The motion was approved upon resolution made at the general shareholders' meeting on June 21, 2018.

Title	Approved the motion for issuance of securities in private placement at the shareholders' meeting on June 21, 2018 (Note).				
Basis for and reasonableness of the pricing	<p>The private placement price of the Company shall be no less than 80% of the higher of the following two calculation bases prior to the price determination date:</p> <ol style="list-style-type: none"> 1. The simple average closing price of the common stock of either the one, three or five consecutive business days immediately before the price determination date, after adjustment for any distribution of stock dividends, cash dividends, or capital reduction. 2. The simple average closing price of the common stock of the thirty consecutive business days immediately before the price determination date, after adjustment for any distribution of stock dividends, cash dividends, or capital reduction. 				
Manner in which the specified persons were selected	The specific investor shall be mainly defined in compliance with Article 43-6 of the Securities and Exchange Act and related letter by the Financial Supervisory Commission, R.O.C., which do not cause significant changes in the future under the premise of the right to operate the Company and shall be a strategic investor who is able to promote the Company's business.				
Reasons why the private placement was necessary	<p>The Company's major product, InGaN LED chip production, contributes to around 75% of the total revenue of the Company for the Fiscal Year of 2016. However, the LED chip market suffered from oversupply and it has affected our sales performance, which leads to negative gross margin ratio of the product category in 2017. It may worsen the Company's financial position and consequently affect our shareholders' value.</p> <p>The Company has noticed the abovementioned situation. It will make internal review and develop strategies to improve the situation, including but not limited to, vertical integration and strategic cooperation with downstream industry players. The Company believes that the strategic plan will support the Company to develop new products and eventually improve the Company's margin and financial position. As such, the Company requests shareholders' approval on the mandate of issuing shares by private placement so as to introduce strategic investors who can bring synergies to our product development and overall corporate growth. We believe that it is in the best interest of the shareholders of the Company.</p> <p>Based on the status of the capital market, timeliness, and feasibility of fundraising, issuance cost, and/or the development of the Company, the Company plans to adopt the strategic investors. Since the transfer limitation of privately placed securities can ensure the long-term cooperation between the Company and the strategic investors, and strengthen the stability of running the corporation, the Company shall process fundraising by private placement.</p>				
Date of completion of payment	NA				
Information about offerees	Targets of the private placement	Qualifications	Subscription amounts	Relationship with the Company	Participation in the operations of the Company
	No offerees have been arranged so far.				
Actual subscription price	NA				
Difference between actual subscription price and reference price	NA				
Effect of the private placement to shareholders' equity	In the case of successful issuance of new common shares in private placement and new common shares for cash to sponsor issuance of the global depository receipt exactly totaling 160 million shares, the quantity of issued shares will account for 12.81% of the current (March 14, 2019) paid-in capital upon the capital increase.				
Status of use of the capital raised through the private placement of common shares and implementation progress of the plan	NA				

Title	Approved the motion for issuance of securities in private placement at the shareholders' meeting on June 21, 2018 (Note).
Realization of the benefits of the plan	NA

Note: As of the date of printed of the annual report, the motion was discontinued upon resolution made by the Board of directors meeting on 14 March 2019, for lack of qualified strategic investor.

8.3 The Shares in the Company Held or Disposed of by Subsidiaries in the Most Recent Years and up to the date of publication of the annual report

Unit: NT\$, Shares; %

Company	Capital Stock (NT\$ K)	Capital sources	The Company's shareholdings	Date of acquisition or disposition	Quantity and amount of shares as acquired	Quantity and amount of shares as disposed of	Investment income	Quantity and amount of shares held until the date of publication of the annual report	Status of pledge	Amount of endorsement/guarantee made by the Company for its subsidiary	Amount of loan made by the Company to its subsidiary
Lighting Investment Corp. (Note 1)	NT\$ 2,514,785 thousand	NA	100.00%	December 28, 2012 (acquired)	2,564,755 shares/ NT\$ 135,163 thousand	0 share/ NT\$0 thousand	—	2,564,755 shares/ NT\$ 122,339 thousand	None	0	0
From 2018 until the date of publication of the annual report											

Note: Subject to the resolution made by the special shareholders' meeting on September 28, 2012, the Company swapped shares with HUGA Optotech Inc. according to Article 29 of the Business Mergers and Acquisitions Act. The record date for the share swap was set as December 28, 2012. Accordingly, HUGA Optotech Inc. held the Company's shares. After that, according to the official letter under Tai-Tsai-Cheng-3-Tze No. 0920124301 dated June 18, 2003, Article 28-2 of the Securities and Exchange Act and Article 13 of the Business Mergers and Acquisitions Act, the Company registered cancellation of shares or transferred the shares. Then, the Company merged HUGA Optotech Inc. on September 29, 2016.

8.4 Other supplementary notes: None.

8.5 Any Events in 2018 the most recent year and up to the Date of publication of this Annual Report that Had Significant Impacts on Shareholders' Right or Security Prices as Stated in Item 3, Paragraph 2 of Article 36 of Securities and Exchange Act of Taiwan: None.

Appendix 1.1

Epistar Corporation Statement of Declaration on Internal Control System

March 14, 2019

Epistar Corporation has conducted a self-check on internal control in 2018. The results are as follows:

1. Epistar acknowledges that the Board of Directors and management personnel are responsible for establishing, performing, and maintaining an Internal Control System. Said system has already been duly established at Epistar. The purposes of the Internal Control System are to provide a reasonable assurance for the Company's efficient and effective operations (including profit, performance, safeguard of assets, etc.), reliability of financial reports, and compliance with applicable laws and regulations.
2. Epistar also acknowledges that the Internal Control System possesses inherent constraints irrespective of the intended impeccability of the system design and therefore could only provide a reasonable assurance of the three goals referred to above. Due to the changes in environment and circumstances, the effectiveness of the internal control system may vary accordingly. Nevertheless, the Internal Control System is equipped with self-monitoring mechanisms. Should any flaws be recognized, the Company would enforce corrective measures immediately.
3. The Company evaluates the effectiveness of the design and implementation of its Internal Control System in accordance with the "Guidelines for the Establishment of Internal Control System by Public Companies" (referred to as the "Guidelines" hereinafter). The evaluation on the internal control system adopted by the said Guidelines has the internal control system divided into the following five factors based on the process of the management control: (1) Environment control, (2) risk assessment, (3) control process, (4) information and communication, and (5) supervision. Each component comprises certain factors. Please refer to the Guidelines for the preceding items.
4. Epistar has assessed and evaluated the effectiveness of the internal control system design and implementation in accordance with the internal control system criteria referred to above.
5. Based on the evaluation of said system, Epistar considered the Internal Control System as of December 31, 2018 (including supervision and management of subsidiaries), which, including the Design and performance of the known operation effectiveness and the degree of reaching the efficiency goals, reliability of financial reporting and compliance with the related internal control system under the relevant laws, are all effective. It can ensure that said goals will be reasonably reached.
6. This Statement of Declaration on Internal Control System is the main content of the annual report and prospectus, and will be publicly disclosed. Upon any unlawful acts like pretense and concealment involved in the above-mentioned statement, Epistar will assume the legal responsibilities according to Articles 20, 32, 171, and 174 of the Securities and Exchange Act.
7. This Statement of Declaration on Internal Control System had been approved by Epistar's Board of Directors at the meeting of March 14, 2019 with nine directors presented at the meeting and none disagreeing with this Statement of Declaration on Internal Control System.

Epistar Corporation

Chairman Biing-Jye Lee

President Chin-Yung Fan

Appendix 1.2

Audit Committee's Review Report

To: Epistar Corporation Annual General Shareholders' Meeting of 2019

The Board of Directors has prepared and submitted the Company's 2018 Business Report, Financial Statements, and Proposal for Allocation of Loss. Ya-Huei Cheng, CPA and Chih-Cheng Hsieh, CPA of PricewaterhouseCoopers have also audited the financial statements and issued the auditors' report. The Business Report, Financial Statements, and Proposal for 2018 Allocation of Loss have been reviewed and determined to be correct and accurate by the Audit Committee members of Epistar Corporation. According to article 14-4 of the Securities and Exchange act and Article 219 of the Company Law, we hereby submit the report.

Epistar Corporation

Chairman of the Audit Committee: Mr. Wei-Min Sheng

Date: March 14, 2019

Appendix 1.3

Epistar Corporation Affiliates Consolidated Financial Statements Statement

The companies required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2018 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Accounting Standard 10 “Consolidated and Separate Financial Statements.” Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we have not prepared a separate set of consolidated financial statements of affiliates.

Epistar Corporation

Chairman Biing-Jye Lee

March 14, 2019

REPORT OF INDEPENDENT ACCOUNTANTS

PWCR18000406

To the Board of Directors and Shareholders of Epistar Corporation

Opinion

We have audited the accompanying consolidated balance sheets of Epistar Corporation and its subsidiaries (the “Epistar Group”) as at December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the reports of other independent accountants, as described in the *Other matters* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Epistar Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

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

Key audit matters

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

The key audit matters in relation to the consolidated financial statements for the year ended December 31, 2018 are outlined as follows:

Evaluation of Impairment Losses of Property, Plant and Equipment, and Goodwill

Description

Please refer to Note 4(18) of the consolidated financial statement for the accounting policy on impairment losses on non-financial assets, Note 5(2) for the accounting estimates and assumptions in relation to impairment losses on non-financial assets, Note 6(10) for the explanations regarding impairment losses on non-financial assets. As of December 31, 2018, the balances of property, plant and equipment, and goodwill were NT\$22,435,949 thousand and NT\$6,324,659 thousand, respectively.

Epistar Group evaluates the recoverable amounts of idle property, plant and equipment through assessing the fair values after deducting the disposal costs, and of property, plant and equipment, and intangible assets through value in use. Epistar Group evaluates whether impairment losses will be provided for property, plant and equipment, and goodwill utilizing the aforementioned recoverable amounts. The evaluation of value in use for operational property, plant and equipment and intangible assets consists of the estimation of future cash flows and the determination of discount rates. Since the assumptions adopted in the estimation of future cash flows and the results of the estimation would have significant impact on value in use of operational property, plant, and equipment, and intangible assets, it was identified as one of the key audit matters.

How our audit addressed the matter

We have obtained the appraisal report of idle property, plant and equipment prepared by independent valuers from Epistar Group and assessed the reasonableness of evaluation methods and fair values utilized. For value in use of operational property, plant and equipment, and goodwill, the following procedures were conducted:

1. Interviewed with management and obtained an understanding of Epistar Group's operational procedures in estimating future cash flows and verified the consistency to operation plans approved by the Board of Directors.
2. Discussed operation plans with management to understand the product strategies and their respective execution status.
3. Assessed the reasonableness for assumptions utilized in estimating future cash flows, including projected sales volumes, unit prices and unit costs. Assessed the parameters adopted in determining discount rates, including calculating and comparing the weighted average cost of capital at risk-free rates, the industrial risk premium and the long-term rates of returns.

Evaluation of Inventories

Description

Please refer to Note 4(12) of the consolidated financial statement for the accounting policy on inventory valuation, Note 5(2) for the accounting estimates and assumptions in relation to inventory valuation, Note 6(5) for the explanations regarding inventory valuation. As of December 31, 2018, the balances of inventories and the allowance for valuation loss were NT\$5,631,815 thousand and NT\$926,624 thousand, respectively.

Epistar Group is primarily engaged in manufacturing and sales of LED wafers and chips. Due to rapid technological developments, short product lifespans and frequent fluctuations of market prices, the risk of decline in market value and obsolescence for inventories is high. Epistar Group evaluates net realized values for inventories which aged over a specific period of time and specific obsolete inventories in order to provide allowance for valuation loss. Since the identification of the above obsolete inventories and their respective net realizable values are subject to management's judgment, it was identified as one of the key audit matters.

How our audit addressed the matter

Our key audit procedures performed in respect of the above included the following:

1. Obtained an understanding of Epistar Group's operations and the nature of its industry and interviewed with management to understand the probability of future sales for those out-of-date inventories and to evaluate the reasonableness of allowance for valuation loss.
2. Obtained and validated the accuracy of the detailed listings of inventories aged over a specific period

of time and specific obsolete inventories. Validated information of historical sales and discounts for those obsolete inventories to assess the reasonableness of policies in providing allowance for inventory valuation loss.

Other matter – Audited by Other Independent Accountants

We did not audit the financial statements of certain consolidated subsidiaries. Those financial statements were audited by other independent accountants, whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included in the financial statements and the information on the consolidated subsidiaries disclosed in Note 13 was based solely on the reports of other independent accountants. Total assets of those consolidated subsidiaries amounted to NT\$812,177 thousand and NT\$1,045,560 thousand, constituting 1.29% and 1.56% of the consolidated total assets as at December 31, 2018 and 2017, respectively, and total operating revenues were both NT\$0 thousand for the years then ended. Furthermore, we did not audit the 2018 and 2017 financial statements of certain equity investments accounted for under the equity method. Those financial statements were audited by other independent accountants whose reports thereon were furnished to us and our opinion expressed herein, insofar as it relates to the amounts included in the consolidated financial statements and certain information disclosed in Note 13 relative to these investments, is based solely on the reports of the other independent accountants. These equity investments amounted to NT\$849,968 thousand and NT\$802,377 thousand, representing 1.35% and 1.19% of the consolidated total assets as of December 31, 2018 and 2017, respectively, and their comprehensive income (loss) (including share of loss of associates and joint ventures accounted for under equity method and share of other comprehensive income/(loss) of associates and joint ventures accounted for under equity method) amounted to NT\$78,078 thousand and (NT\$485,632) thousand, representing (7.08%) and (33.58%) of the consolidated comprehensive income for the years then ended.

Other matter – Parent company only financial reports

We have also and expressed an unmodified opinion on the parent company only financial statements of Epistar Corporation as of and for the years ended December 31, 2018 and 2017.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

Independent accountant’s responsibilities for the audit of the consolidated financial statements

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

As part of an audit in accordance with ROC GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

Cheng, Ya-Huei

Hsieh, Chih-Cheng

For and on behalf of PricewaterhouseCoopers, Taiwan

March 14, 2019

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 audit 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.

EPISTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

Assets	Notes	December 31, 2018		December 31, 2017	
		AMOUNT	%	AMOUNT	%
Current assets					
Cash and cash equivalents	6(1)	\$ 5,532,509	9	\$ 6,836,697	10
Financial assets at fair value through profit or loss - current	6(2)	726,406	1	410,766	1
Notes receivable, net	6(4) and 12(4)	1,495,653	2	1,886,532	3
Accounts receivable, net	6(4) and 12(4)	7,583,934	12	6,623,059	10
Accounts receivable - related parties, net	7	1,281,006	2	2,779,105	4
Other receivables		249,964	-	823,277	1
Other receivables - related parties	7	305	-	24,785	-
Inventories, net	6(5)	4,705,191	7	4,815,378	7
Prepayments		1,126,558	2	1,192,436	2
Non-current assets held for sale - net	6(11)	390,042	1	468,142	1
Other current assets	8	431,118	1	183,474	-
Current Assets		<u>23,522,686</u>	<u>37</u>	<u>26,043,651</u>	<u>39</u>
Non-current assets					
Non-current financial assets at fair value through other comprehensive income	6(3) and 12(4)	3,265,125	5	-	-
Available-for-sale financial assets - non-current	12(4)	-	-	1,957,093	3
Investments accounted for under equity method	6(6)	1,117,708	2	2,819,665	4
Property, plant and equipment, net	6(7)	22,435,949	36	24,348,881	36
Intangible assets	6(8)	7,683,928	12	7,846,962	12
Deferred income tax assets	6(30)	3,911,132	6	3,021,330	5
Other non-current assets	6(9)	802,114	2	948,087	1
Non-current assets		<u>39,215,956</u>	<u>63</u>	<u>40,942,018</u>	<u>61</u>
Total assets		<u>\$ 62,738,642</u>	<u>100</u>	<u>\$ 66,985,669</u>	<u>100</u>

(Continued)

EPISTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity	Notes	December 31, 2018		December 31, 2017	
		AMOUNT	%	AMOUNT	%
Current liabilities					
Short-term borrowings	6(12) and 8	\$ 1,874,876	3	\$ 700,000	1
Short-term notes and bills payable	6(13) and 8	357,717	1	376,791	1
Notes payable		129,942	-	74,172	-
Accounts payable		2,301,209	4	2,413,925	4
Accounts payable - related parties	7	285,825	1	754,847	1
Other payables	6(14) and 7	3,820,103	6	4,037,486	6
Current income tax liabilities		-	-	168,527	-
Long-term liabilities, current portion	6(15) and 8	165,306	-	977,277	1
Other current liabilities - others		178,857	-	165,789	-
Current Liabilities		<u>9,113,835</u>	<u>15</u>	<u>9,668,814</u>	<u>14</u>
Non-current liabilities					
Long-term borrowings	6(15) and 8	409,808	1	2,120,859	3
Deferred income tax liabilities	6(30)	1,402,901	2	1,097,797	2
Other non-current liabilities	6(18)	904,188	1	1,114,287	2
Non-current liabilities		<u>2,716,897</u>	<u>4</u>	<u>4,332,943</u>	<u>7</u>
Total Liabilities		<u>11,830,732</u>	<u>19</u>	<u>14,001,757</u>	<u>21</u>
Equity attributable to owners of parent company					
Share capital	6(19)				
Share capital - common stock		10,887,014	18	10,887,014	16
Capital surplus	6(20)				
Capital surplus		39,515,679	62	39,970,967	59
Retained earnings	6(21)				
Legal reserve		161,423	-	-	-
Special reserve		703,607	1	-	-
Unappropriated retained earnings (accumulated deficit)		(385,142)	-	1,614,226	3
Other equity interest	6(22)				
Other equity interest		(1,317,990)	(2)	(684,243)	(1)
Treasury stocks	6(19)	(211,008)	-	(408,783)	-
Equity attributable to owners of the parent		<u>49,353,583</u>	<u>79</u>	<u>51,379,181</u>	<u>77</u>
Non-controlling interest		<u>1,554,327</u>	<u>2</u>	<u>1,604,731</u>	<u>2</u>
Total equity		<u>50,907,910</u>	<u>81</u>	<u>52,983,912</u>	<u>79</u>
Total liabilities and equity		<u>\$ 62,738,642</u>	<u>100</u>	<u>\$ 66,985,669</u>	<u>100</u>

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

EPISTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2018 AND 2017

(Expressed in thousands of New Taiwan dollars, except earnings (loss) per share amounts)

Items	Notes	Years ended December 31			
		2018		2017	
		AMOUNT	%	AMOUNT	%
Sales revenue	6(23), 7 and 12(5)	\$ 20,306,412	100	\$ 25,270,616	100
Operating costs	6(5) and 7	(17,651,741)	(87)	(19,786,497)	(79)
Operating margin		2,654,671	13	5,484,119	21
Unrealized loss (profit) from sales		2,795	-	(21,083)	-
Realized profit (loss) from sales		21,083	-	(2,409)	-
Net operating margin		2,678,549	13	5,460,627	21
Operating expenses	6(28)				
Selling expenses		(280,781)	(1)	(231,959)	(1)
General and administrative expenses		(1,328,003)	(6)	(1,559,394)	(6)
Research and development expenses		(1,959,743)	(10)	(1,576,283)	(6)
Expected credit losses		(9,814)	-	-	-
Total operating expenses		(3,578,341)	(17)	(3,367,636)	(13)
Other income and expenses - net	6(24)	220,949	1	214,159	1
Operating loss		(678,843)	(3)	2,307,150	9
Non-operating income and expenses					
Other income	6(25)	290,378	2	252,335	1
Insurances income from disaster		206,785	1	400,000	3
Other gains and losses	6(2)(26) and 7	(538,050)	(3)	(729,284)	(3)
Disaster loss		-	-	(57,172)	-
Finance costs	6(27)	(175,678)	(1)	(198,788)	(1)
Reversal of expected credit losses		4,121	-	-	-
Share of loss of associates and joint ventures accounted for under equity method	6(6)	24,146	-	(50,851)	-
Total non-operating income and expenses		(188,298)	(1)	(383,760)	(1)
(Loss) income before income tax		(867,141)	(4)	1,923,390	8
Income tax (expense) benefit	6(30)	361,277	2	(237,177)	(1)
(Loss) profit for the year		(\$ 505,864)	(2)	\$ 1,686,213	7

(Continued)

EPISTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2018 AND 2017

(Expressed in thousands of New Taiwan dollars, except earnings (loss) per share amounts)

Items	Notes	Years ended December 31			
		2018		2017	
		AMOUNT	%	AMOUNT	%
Other comprehensive income					
Gains (losses) on remeasurements of defined benefit plans		\$ 31,823	-	(\$ 42,790)	-
Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income		(674,074)	(3)	-	-
Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss		57,284	-	(171)	-
Income tax related to components of other comprehensive income that will not be reclassified to profit or loss		<u>111,198</u>	<u>1</u>	<u>7,274</u>	<u>-</u>
Components of other comprehensive income that will not be reclassified to profit or loss		<u>(473,769)</u>	<u>(2)</u>	<u>(35,687)</u>	<u>-</u>
Components of other comprehensive income that will be reclassified to profit or loss					
Cumulative translation differences of foreign operations		(238,892)	(1)	(206,586)	(1)
Unrealized loss on valuation of available-for-sale financial assets		-	-	(66,753)	-
Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss		65,149	-	24,125	-
Income tax related to components of other comprehensive income that will be reclassified to profit or loss		<u>50,281</u>	<u>-</u>	<u>44,743</u>	<u>-</u>
Components of other comprehensive income that will be reclassified to profit or loss		<u>(123,462)</u>	<u>(1)</u>	<u>(204,471)</u>	<u>(1)</u>
Other comprehensive (loss) income for the year		<u>(\$ 597,231)</u>	<u>(3)</u>	<u>(\$ 240,158)</u>	<u>(1)</u>
Total comprehensive (loss) income for the year		<u>(\$ 1,103,095)</u>	<u>(5)</u>	<u>\$ 1,446,055</u>	<u>6</u>
Profit (loss), attributable to:					
Equity holders of the parent company		<u>(\$ 456,146)</u>	<u>(2)</u>	<u>\$ 1,649,913</u>	<u>7</u>
Non-controlling interest		<u>(\$ 49,718)</u>	<u>-</u>	<u>\$ 36,300</u>	<u>-</u>
Comprehensive (loss) income attributable to:					
Equity holders of the parent company		<u>(\$ 1,022,814)</u>	<u>(5)</u>	<u>\$ 1,435,353</u>	<u>6</u>
Non-controlling interest		<u>(\$ 80,281)</u>	<u>-</u>	<u>\$ 10,702</u>	<u>-</u>
Basic earnings (loss) per share	6(31)				
Total basic earnings (loss) per share			0.42	\$	1.55
Diluted earnings (loss) per share	6(31)				
Total diluted earnings (loss) per share			0.42	\$	1.53

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

EPISTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

Notes	Equity attributable to owners of the parent											
	Retained earnings			Other equity interest			Total					
	Share capital - common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings (accumulated deficit)	Cumulative translation differences of foreign operations	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Unrealized gain or loss on available-for-sale financial assets	Treasury stocks	Total	Non-controlling interest	Total
2017												
Balance at January 1, 2017	\$ 10,915,492	\$ 43,016,259	\$ 241,512	\$ -	\$ (3,545,028)	\$ (228,527)	\$ -	(\$ 276,843)	(\$ 848,721)	\$ 49,274,144	\$ 1,709,852	\$ 50,983,996
Profit for the year	-	-	-	-	1,649,913	-	-	-	-	1,649,913	36,300	1,686,213
Other comprehensive loss for the year	-	-	-	-	(35,687)	(187,423)	-	8,550	-	(214,560)	(25,598)	(240,158)
Total comprehensive income	-	-	-	-	1,614,226	(187,423)	-	8,550	-	1,435,353	10,702	1,446,055
Appropriations of 2016 earnings	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve used to offset accumulated deficits	-	-	(241,512)	-	241,512	-	-	-	-	-	-	-
Capital surplus used to offset accumulated deficits	-	(3,303,516)	-	-	3,303,516	-	-	-	-	-	-	-
Change in investees interest accounted for under equity method	-	168,908	-	-	-	-	-	-	-	168,908	-	168,908
Difference between consideration and carrying amount of subsidiaries acquired and disposed	-	105,930	-	-	-	-	-	-	-	105,930	(178,366)	(72,436)
Treasury stock transferred to employees and disposed	-	110,919	-	-	-	-	-	-	257,681	368,600	-	368,600
Compensation cost of share-based payments	-	27,906	-	-	-	-	-	-	182,257	27,906	-	27,906
Retirement of treasury share	(28,478)	(153,779)	-	-	-	-	-	-	-	-	-	-
Cash paid for acquisition of non-controlling interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	60,883	60,883
Changes in ownership interests in subsidiaries accounted for using equity method	-	(1,660)	-	-	-	-	-	-	-	(1,660)	1,660	-
Balance at December 31, 2017	\$ 10,887,014	\$ 39,970,967	\$ -	\$ -	\$ (1,614,226)	(\$ 415,950)	\$ -	(\$ 268,293)	(\$ 408,783)	\$ 51,379,181	\$ 1,604,751	\$ 52,983,932

(Continued)

EPISTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

Notes	Equity attributable to owners of the parent										
	Retained earnings				Other equity interest			Total			
	Share capital - common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings (accumulated deficit)	Cumulative transition differences of foreign operations	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Unrealized gain or loss on available-for-sale financial assets	Treasury stocks	Non-controlling interest	Total
2018											
Balance at January 1, 2018	\$ 10,887,014	\$ 39,970,967	\$ -	\$ -	\$ 1,614,226	(\$ 415,950)	\$ -	(\$ 268,293)	(\$ 408,783)	\$ 1,604,731	\$ 52,983,912
Effects of retrospective application and retrospective restatement	-	-	-	-	46,946	3,595	(320,348)	268,293	(1,514)	(1,651)	(3,165)
Balance at January 1 after adjustments	10,887,014	39,970,967	-	-	1,661,172	(412,355)	(320,348)	-	(408,783)	1,603,080	52,980,747
Loss for the year	-	-	-	-	(456,146)	-	-	-	-	(49,718)	(505,864)
Other comprehensive loss for the year	-	-	-	-	25,129	(92,899)	(498,898)	-	-	(30,563)	(597,231)
Total comprehensive income	-	-	-	-	(431,017)	(92,899)	(498,898)	-	-	(80,281)	(1,103,095)
Appropriations of 2017											
Legal reserve used to offset accumulated deficits	-	-	161,423	-	(161,423)	-	-	-	-	-	-
Special reserve appropriated	-	-	-	703,607	(703,607)	-	-	-	-	-	-
Cash dividends	-	-	-	-	(749,196)	-	-	-	-	-	(749,196)
Cash dividends distributed from capital surplus	-	(121,765)	-	-	-	-	-	-	-	-	(121,765)
Adjustments of capital surplus for subsidiary's cash dividends received by subsidiaries	-	2,052	-	-	-	-	-	-	-	-	2,052
Cash paid for acquisition of non-controlling interests in subsidiaries	-	-	-	-	-	-	-	-	-	(29,329)	(29,329)
Change in investees interest accounted for under equity method	-	(458,095)	-	-	-	-	-	-	-	-	(458,095)
Difference between consideration and carrying amount of subsidiaries acquired and disposed	-	(732)	-	-	-	-	-	-	-	-	(732)
Treasury stock transferred to employees	-	117,780	-	-	-	-	-	-	273,620	-	391,400
Purchase of treasury shares	-	-	-	-	-	-	-	-	(75,845)	-	(75,845)
Changes in ownership interests in subsidiaries accounted for using equity method	-	5,472	-	-	-	-	-	-	-	60,857	66,329
Proceeds from disposal of financial assets at fair value through other comprehensive income	-	-	-	(1,071)	-	-	1,071	-	-	-	-
Proceeds from disposal of investments accounted for using equity method	-	-	-	-	5,439	(499,815)	(818,175)	-	-	-	(5,439)
Balance at December 31, 2018	\$ 10,887,014	\$ 39,515,679	\$ 161,423	\$ 703,607	(\$ 385,142)	(\$ 499,815)	(\$ 818,175)	\$ -	(\$ 211,006)	\$ 1,554,327	\$ 50,907,910

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

EPISTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

	Notes	Years ended December 31	
		2018	2017
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
(Loss) profit before tax		(\$ 867,141)	\$ 1,923,390
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(7)(28)	4,758,265	4,839,803
Amortization(long-term prepaid rents)	6(8)(9)	274,152	360,721
Expected credit gain		5,693	-
Provision for doubtful accounts		-	(18,534)
Net loss on financial assets at fair value through profit or loss	6(26)	(12,382)	(99,581)
Net loss on financial liability at fair value through profit or loss		-	6,572
Interest expense	6(27)	185,417	234,607
Interest income	6(25)	(50,650)	(56,221)
Dividend income	6(25)	(13,940)	(1,448)
Compensation cost of share-based payment	6(17)(29)	-	27,906
Effect of exchange rate on bonds payable and long-term loans	6(33)	(471)	(49,210)
Share of loss of associates and joint ventures accounted for under the equity method	6(6)	(24,146)	50,851
Impairment loss on non-financial assets	6(10)(26)	659,774	377,682
Loss (gain) on disposal of property, plant and equipment	6(26)	113,219	(9,766)
Gain on disposal of investments	6(26)	(310,915)	(32,015)
Gain on disposal of intangible assets	6(26)	141	-
Other income from recognition of long-term deferred revenues	6(18)	(161,436)	(166,205)
Impairment loss of financial assets	6(26)	-	16,651
Property, plant and equipment transferred to expenses		5,858	7,017
Prepayment for business facilities transferred to other disbursements		-	8,524
Intangible assets transferred to expenses		-	410
Payable on machinery and equipment transferred to other income		-	(121,680)
Realized (profit) loss from sales		(21,083)	2,409
Unrealized (loss) profit from sales		(2,795)	21,083
Disaster loss		-	57,172
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets held for trading		(209,576)	381,518
Notes receivable		369,378	(992,632)
Accounts receivable		451,896	202,942
Other receivables		633,939	706,642
Inventories		(49,252)	(548,599)
Prepayments		55,776	85,413
Other non-current assets		74,329	(40,577)
Changes in operating liabilities			
Notes payable		58,144	38,732
Accounts payable		(575,610)	58,459
Other payables		(515,383)	171,732
Other current liabilities		42,405	(30,298)
Other non-current liabilities		(24,080)	(36,628)
Cash inflow generated from operations		4,849,526	7,376,842
Income tax paid		(211,363)	(245,836)
Interest received		51,284	54,674
Interest paid		(173,884)	(229,498)
Dividend received		40,649	13,959
Net cash flows from operating activities		<u>4,556,212</u>	<u>6,970,141</u>

(Continued)

EPISTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

	Notes	Years ended December 31	
		2018	2017
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Decrease in other financial assets		(\$ 254,105)	(\$ 18,301)
Acquisition of available-for-sale financial assets		-	(2,045)
Proceeds from disposal of available-for-sale financial assets		-	125,425
Acquisition of non-current financial assets at fair value through other comprehensive income		(396,196)	-
Proceeds from non-current financial assets at fair value through other comprehensive income		3,052	-
Proceeds from liquidation of financial assets		12,923	-
Acquisition of investments accounted for under the equity method		(128,423)	(70,312)
Proceeds from disposal of investments accounted for under the equity method	6(32)	273,064	-
Proceeds from liquidation of investment accounted for using equity method		-	14,631
Acquisition for property, plant and equipment	6(32)	(3,168,197)	(2,206,021)
Proceeds from disposal of property, plant and equipment	6(32)	76,272	153,690
Acquisition of intangible assets	6(32)	(131,521)	(228,929)
(Increase) decrease in refundable deposits		(76,295)	1,702
Net cash flows used in investing activities		(3,789,426)	(2,230,160)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Increase (decrease) in short-term loans	6(33)	1,203,014	(1,456,318)
(Decrease) increase in short-term notes and bill payable		(11,614)	304,287
Repayment of long-term loans	6(33)	(3,693,038)	(8,518,326)
Proceeds from long-term loans	6(33)	1,160,000	5,300,000
Increase in guarantee deposits received		22,251	45,467
Purchase of treasury shares		(75,845)	-
Cash dividends paid to non-controlling interest		(29,329)	-
Proceeds from treasury shares transferred to employees	6(32)	286,897	260,930
Cash paid for acquisition of non-controlling interests		66,328	60,883
Payment of cash dividends (including distribution from capital surplus)	6(21)	(870,961)	-
Net cash flows used in financing activities		(1,942,297)	(4,003,077)
Effects of foreign currency exchange		(128,677)	98,363
Net (decrease) increase in cash and cash equivalents		(1,304,188)	835,267
Cash and cash equivalents at beginning of year		6,836,697	6,001,430
Cash and cash equivalents at end of year		<u>\$ 5,532,509</u>	<u>\$ 6,836,697</u>

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

EPISTAR CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

1. HISTORY AND ORGANIZATION

Epistar Corporation (the “Company”) was incorporated on September 19, 1996 and commenced its operations in August 1997. The Company’s shares have been traded on the Taiwan Stock Exchange in the Republic of China since May 2001.

Effective October 1, 2003, Inforcomm Semiconductor Corporation was merged with the Company. The Company acquired United Epitaxy Company Ltd. on December 30, 2005, Epitech Technology Corporation and Highlink Technology Corporation on March 1, 2007, and CHIP STAR Ltd. on June 29, 2015, and the Group merged with Huga Optotech Inc. and Formosa Epitaxy Incorporation on September 29, 2016.

The Company and its subsidiaries (collectively referred herein as the “Group”) are engaged in the research and development, design, manufacturing and sales of EPI wafers and chips of AlGaInP, AlGaAs and InGaN.

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

These consolidated financial statements were authorized for issuance by the Board of Directors on March 14, 2019.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendments to IFRS 2, ‘Classification and measurement of share-based payment transactions’	January 1, 2018
Amendments to IFRS 4, ‘Applying IFRS 9 Financial instruments with IFRS 4, Insurance contracts’	January 1, 2018
IFRS 9, ‘Financial instruments’	January 1, 2018
IFRS 15, ‘Revenue from contracts with customers’	January 1, 2018
Amendments to IFRS 15, ‘Clarifications to IFRS 15, Revenue from contracts with customers’	January 1, 2018
Amendments to IAS 7, ‘Disclosure initiative’	January 1, 2017
Amendments to IAS 12, ‘Recognition of deferred tax assets for unrealised losses’	January 1, 2017
Amendments to IAS 40, ‘Transfers of investment property’	January 1, 2018
IFRIC 22, ‘Foreign currency transactions and advance consideration’	January 1, 2018

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

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

A. IFRS 9, 'Financial instruments'

- (a) Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset measured 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 Company shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.
- (c) The amended general hedge accounting requirements align hedge accounting more closely with an entity's risk management strategy. Risk components of non-financial items and a company of items can be designated as hedged items. The standard relaxes the requirements for hedge effectiveness, removing the 80-125% bright line, and introduces the concept of 'rebalancing'; while its risk management objective remains unchanged, an entity shall rebalance the hedged item or the hedging instrument for the purpose of maintaining the hedge ratio.
- (d) In adopting the new standards endorsed by the FSC effective from 2018, the Group applied the new rules under IFRS 9 retrospectively from January 1, 2018, with the practical expedients permitted under the statement. The significant effects of applying the standard as of January 1, 2018 are provided in Note 12(4).

B. Amendments to IAS 7, 'Disclosure initiative'

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

The Company expects to provide additional disclosure to explain the changes in liabilities arising from financing activities, please refer to Note 6(33).

(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 International Accounting Standards Board
Amendments to IFRS 9, ‘ Prepayment features with negative compensation’	January 1, 2019
IFRS 16, ‘Leases’	January 1, 2019
Amendments to IFRS 19, ‘Plan amendment, curtailment or settlement’	January 1, 2019
Amendments to IAS 28, ‘ Long-term interests in associates and joint ventures’	January 1, 2019
IFRS 23, ‘Uncertainty over income tax treatments’	January 1, 2019
Annual improvements to IFRSs 2015 - 2017 cycle	January 1, 2019

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

IFRS 16, ‘Leases’

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

The Group expects to recognise the lease contract of lessees in line with IFRS 16. However, the Group does not intend to restate the financial statements of prior period (collectively referred herein as the “modified retrospective approach”). On January 1, 2019, it is expected that ‘right-of-use asset’ and lease liability will be increased by \$1,689,828 and \$1,411,297, respectively, and long-term prepaid rent (shown as ‘other non-current assets’) will be decreased by \$278,531.

(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 endorsed by the FSC are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendment to IAS 1 and IAS 8, ‘ Disclosure Initiative-Definition of Material’	January 1, 2020
Amendments to IFRS 3, ‘Definition of a business’	January 1, 2020
Amendments to IFRS 10 and IAS 28, ‘ Sale of contribution of assets between an investor and its associate or joint venture’	To be determined by International Accounting Standards Board
IFRS 17, ‘Insurance contracts’	January 1, 2021

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

otherwise stated.

(1) Compliance statement

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

(2) Basis of preparation

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

- (a) Financial assets and financial liabilities at fair value through profit or loss.
- (b) Available-for-sale financial assets measured at fair value.
- (c) Defined benefit liabilities recognized based on the net amount of pension fund assets less present value of defined benefit obligation.

B. The preparation of financial statements in compliance with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment 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 recognised as retained earnings or other equity as of January 1, 2018 and the financial statements for the year ended December 31, 2017 were not restated. The financial statements for the year ended December 31, 2017 or were prepared in compliance with International Accounting Standard 39 (‘IAS 39’), International Accounting Standard 11 (‘IAS 11’), 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 controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
- (b) Inter-company transactions, balances and unrealized gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- (c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.
- (d) Changes in a parent’s ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity.
- (e) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial

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

B. Subsidiaries included in the consolidated financial statements:

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership		Description
			December 31, 2018	December 31, 2017	
Epistar Corporation	Lighting Investment Corporation	Professional investment	100%	100%	
Epistar Corporation	UEC Investment Ltd.	Professional investment	-	100%	Note 10
Epistar Corporation	Epistar JV Holding (B.V.I.) Co., Ltd.	Professional investment	100%	100%	
Epistar Corporation	Yen- Rich Technology Corporation	Manufacturing and sales of LED wafers and chips	100%	100%	Note 8
Epistar Corporation	GaN Ventures Co., Limited	Investment holding; sales of electronic components	59.02%	55.96%	Note 2
Epistar Corporation	EPI Cryatal Investment Inc.,	Professional investment	-	100%	Note 6
Epistar Corporation	SH Optotech Co.,Ltd.	Manufacturing and sales of LED wafers and chips	49%	49%	Note 3
Epistar Corporation	HUGA Holding(BVI) Limited	Professional investment	-	100%	Note 10
Epistar Corporation	Ecoled Venture Co., Limited	Sales of LED lighting products	51.99%	51.99%	
Epistar Corporation	Bee Rich Corporation	Professional investment	-	100%	Note 10
Epistar Corporation	Full Star Enterprises Limited	Professional investment	100%	100%	
Epistar Corporation	iReach Corporation	Manufacturing, sales, packaging and module design of semiconductor light emitting devices	100%	100%	Note 4
Epistar Corporation	Unikorn Semiconductor Corporation	OEM manufacturing of iii-v semiconductors	100%	-	Note 9
Epistar JV Holding (BVI) Co., Ltd.	LiteStar JV Holding (BVI) Co., Ltd.	Professional investment	82.41%	80.65%	
Epistar JV Holding (B.V.I) Co., Ltd.	United LED Corporation (Hong Kong) Limited	Professional investment	74.86%	74.86%	

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership		Description
			December 31, 2018	December 31, 2017	
LiteStar JV Holding	Epicrystal (Hong Kong) Co., Limited	Professional investment	100%	100%	
Epicrystal (Hong Kong) Co., Limited	Epicrystal Corporation (Changzhou) Ltd.	Manufacturing and sales of LED wafers and chips	93.38%	92.82%	
United LED Corporation (Hong Kong) Limited	United LED Corporation (Shandong) Limited	Manufacturing and sales of LED wafers and chips	100%	100%	
Epistar JV Holding (BVI) Co., Ltd.	Episky Hong Kong Co., Limited	Professional investment	100%	100%	Note 10 Note 11
Episky (Hong Kong) Limited	Episky Corporation (Xiamen) Ltd.	Manufacturing and sales of LED wafers and chips	100%	100%	
Episky Corporation (Xiamen) Ltd.	Epicrystal Corporation (Changzhou) Ltd.	Manufacturing and sales of LED wafers and chips	3.31%	3.59%	
Episky Corporation (Xiamen) Ltd.	Episky Corporation (Changzhou) Ltd.	Manufacturing and sales of LED wafers and chips	100%	100%	
Episky Coporation (Xiamen)Ltd.	EPIRICH (Guangzhou) Co., Ltd	R&D and sales of LEDs	100%	100%	
Lighting Investment Corporation	Lighting Investment Ltd.	Professional investment	100%	100%	
Lighting Investment Corporation	allureLux Corporation	Manufacturing and sales of LED wafers and chips	100%	-	Note 1
Lighting Investment Ltd.	Luxlite (Hong Kong) Corporation Limited	Professional investment	75%	75%	
Lighting Investment Ltd.	Epistar (Hong Kong) Limited	Professional investment	100%	100%	
Lighting Investment Ltd.	GaN Ventures Co., Limited	Investment holding; sales of electronic components	4.92%	7.77%	Note 2
Luxlite (Hong Kong) Corporation Limited	Luxlite (Shenzhen) Corporation Limited	Sales of LED chips and LED lighting facilities	100%	100%	

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership		Description
			December 31, 2018	December 31, 2017	
Epistar JV Holding (BVI) Co., Ltd.	HUGA Holding (SAMOA) Limited	Professional investment	100%	100%	Note 10 Note 11
HUGA Holding (Samoa) Limited	Ecoled Venture Co., Limited	Sales of LED lighting products	48.01%	48.01%	
EPI Crystal Investment Inc.	Interlight Optotech Corporation	Packaging and sales of LED chips and LED lighting	-	100%	Note 5
Lighting Investment Ltd.	Crystaluxx SARL	Professional investment	100%	100%	Note 7
Lighting Investment Ltd.	Yen-Rich Opto (Hong Kong) Limited	Sales of LED lighting products	100%	100%	Note 7
Lighting Investment Ltd.	Can Yang Investments Limited	Professional investment	6.87%	11.86%	Note 7
Epistar JV Holding(BVI) Co., Ltd	Crystal Light Enterprises Group Limited	Professional investment	100%	100%	Note 10 Note 11
Epistar JV Holding(BVI) Co., Ltd	Can Yang Investments Limited	Professional investment	80.10%	65.64%	Note 10 Note 11
Crystal Light Enterprise Group Limited	Ningbo Formosa Epitaxy Incorporation	Trading of LED epitaxy and chips	100%	100%	
Can Yang Investments Limited	Jiangsu Canyang Optoelectronics Ltd.	Manufacturing and sales of LED wafers and chips	100%	100%	
GaN Ventures Co., Limited	GV Semiconductor Inc.	R&D and sales of electronic components	100%	100%	Note 2
AllureLux Coporation	AllureLux Inc	Manufacturing and sales of LED wafers and chips	100%	-	Note 1

Note 1: Newly invested or established companies for the year ended December 31, 2018.

Note 2: Newly invested or established companies for the year ended December 31, 2017.

Note 3: Due to the control over the entity's financial and operational policies, this company is included in the consolidated financial statements.

Note 4: A preparatory office was set up in December 2017. The registration for the subsidiary's incorporation was completed on January 9, 2018.

Note 5: The liquidation was completed on May 31, 2018, as InterLight Optotech Corporation did not intend to continue its operation.

Note 6: Lighting Investment Ltd. proceeded with a simple merger with EPI Crystal Investment Inc. on July 1, 2018. Lighting Investment Ltd. was the surviving company while EPI Crystal Investment Inc. was the dissolved company.

Note 7: Lighting Investment Ltd. proceeded with a simple merger with EPI Crystal Investment Inc. on July 1, 2018. Lighting Investment Ltd. was the surviving company while EPI Crystal Investment Inc. was the dissolved company. Thus, Lighting Investment Ltd. succeeded the shares initially held by EPI Crystal Investment Inc.

Note 8: On August 13, 2018, Zheng-Yi Technology Corporation has been renamed as Yen-Rich

Technology Corporation.

Note 9: On October 1, 2018, the parent company established the Unikorn Semiconductor Corporation due to the spin-off and transfer of its operation for iii-v semiconductors OEM business.

Note 10: Epistar JV Holding (BVI) Co., Ltd. proceeded with a simple merger with UEC Investment Ltd., Bee Rich Corporation and HUGA Holding (BVI) Limited on November 1, 2018. Epistar JV Holding (BVI) Co., Ltd. was the surviving company while UEC Investment Ltd., Bee Rich Corporation and HUGA Holding (BVI) Limited were the dissolved companies.

Note 11: Epistar JV Holding (BVI) Co., Ltd. proceeded with a simple merger with UEC Investment Ltd., Bee Rich Corporation and HUGA Holding (BVI) Limited on November 1, 2018. Epistar JV Holding (BVI) Co., Ltd. was the surviving company while UEC Investment Ltd., Bee Rich Corporation and HUGA Holding (BVI) Limited were the dissolved companies. Thus, Epistar JV Holding (BVI) Co., Ltd. succeeded the shares initially held by UEC Investment Ltd., Bee Rich Corporation and HUGA Holding (BVI) Limited.

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 interest that are material to the Group: None.

(4) Foreign currency translation

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

A. Foreign currency transactions and balances

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

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

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

(d) Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within "interest income or finance costs". All other foreign exchange gains and losses based on the nature of those transactions are presented in the statement of comprehensive income within "other gains and losses".

B. Translation of foreign operations

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

as follows:

- i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
 - ii. Income and expenses for each statement of comprehensive income are translated at average exchange rate of that period; and
 - iii. All resulting exchange differences are recognized in other comprehensive income.
- (b) When the foreign operation partially disposed of or sold is an associate or jointly controlled entity, exchange differences that were recorded in other comprehensive income are proportionately reclassified to profit or loss as part of the gain or loss on sale. In addition, even when the Group still retains partial interest in the former foreign associate or jointly controlled entity after losing significant influence over the former foreign associate, or losing joint control of the former jointly controlled entity, such transactions should be accounted for as disposal of all interest in these foreign operations.
- (c) When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation. In addition, even when the Group still retains partial interest in the former foreign subsidiary after losing control of the former foreign subsidiary, such transactions should be accounted for as disposal of all interest in the foreign operation.
- (d) Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rates at the balance sheet date.

(5) Classification of current and non-current items

- A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
- (a) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;
 - (b) Assets held mainly for trading purposes;
 - (c) Assets that are expected to be realized within twelve months from the balance sheet date;
 - (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.
- B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:
- (a) Liabilities that are expected to be settled within the normal operating cycle;
 - (b) Liabilities arising mainly from trading activities;
 - (c) Liabilities that are to be settled within twelve months from the balance sheet date;
 - (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash equivalents

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

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

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

- B. On a regular way purchase or sale basis, the derivative financial assets are recognised and derecognised using trade date accounting, the beneficiary certificates are recognised and derecognised using settlement date accounting.
- C. At initial recognition, the Group measures the financial liabilities at fair value. All related transaction costs are recognised in profit or loss. The Group subsequently measures these financial liabilities at fair value with any gain or loss recognised in profit or loss.
- D. The Group recognises the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(8) Financial assets at fair value through other comprehensive income

- A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Company has made an irrevocable election at initial recognition to recognise changes in fair value in other comprehensive income and debt instruments which meet all of the following criteria:
 - (a) The objective of the Company's business model is achieved both by collecting contractual cash flows and selling financial assets; and
 - (b) The assets' contractual cash flows represent solely payments of principal and interest.
- B. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. The Group subsequently measures the financial assets at fair value:
The changes in fair value of equity investments that were recognised in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognised as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably.

(9) Accounts and notes receivable

- A. Accounts and notes receivable entitle the Group a legal right to receive consideration in exchange for transferred goods or rendered services.
- B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(10) Impairment of financial assets

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

(11) Derecognition of financial assets

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

- A. The contractual rights to receive cash flows from the financial asset expire.
- B. The contractual rights to receive cash flows from the financial assets have been transferred and the Group has transferred substantially all risks and rewards of ownership of the financial assets.
- C. The Group neither retains nor transfers substantially all risks and rewards of ownership of the financial asset; however, it has not retained control of the financial asset.

(12) Inventories

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

(13) Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use, and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

(14) Investments accounted for using the equity method - associates

- A. Associates are all entities over which the Group has significant influence but no control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognized at cost.
- B. The Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.
- C. When changes in an associate's equity that are not recognized in profit or loss or other comprehensive income of the associate and such changes does not affect the Group's ownership percentage of the associate, the Group recognizes change in ownership interests in the associate in 'capital surplus' in proportion to its ownership.
- D. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- E. In the case that an associate issues new shares and the Group does not subscribe or acquire new shares proportionately, which results in a change in the Group's ownership percentage of the associate but maintains significant influence on the associate, then 'capital surplus' and 'investments accounted for under the equity method' shall be adjusted for the increase or decrease of its share of equity interest. If the above condition causes a decrease in the Group's ownership percentage of the associate, in addition to the above adjustment, the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately on the same basis as would be required if the relevant assets or liabilities were disposed of.
- F. Upon loss of significant influence over an associate, the Group remeasures any investment retained in the former associate at its fair value. Any difference between fair value and carrying amount is recognized in profit or loss.
- G. When the Group disposes its investment in an associate, if it loses significant influence over this associate, the amounts previously recognized in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it still retains significant influence over this associate, then the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned

approach.

- H. When the Group disposes its investment in an associate, if it loses significant influence over this associate, the amounts previously recognized as capital surplus in relation to the associate are transferred to profit or loss. If it still retains significant influence over this associate, then the amounts previously recognized as capital surplus in relation to the associate are transferred to profit or loss proportionately.

(15) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.
- B. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change.

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

Buildings and structures	20 ~ 50 years
Plant and construction	3 ~ 15 years
Machinery and equipment	2 ~ 20 years
Transportation equipment	3 ~ 5 years
Office equipment	2 ~ 20 years
Leasehold improvements	3 ~ 15 years

(16) Leased assets

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

(17) Intangible assets

- A. Patents
Patents are stated at cost and amortized on a straight-line basis over their legal terms or economic service lives, whichever is shorter.
- B. Technology know-how
Technology know-how is stated at cost and amortized on a straight-line basis over their economic service lives.
- C. Computer software
Computer software is stated at cost and amortized on a straight-line basis over their estimated useful lives of 2 ~ 10 years.
- D. Goodwill
Goodwill arising from a business combination is accounted for by applying the acquisition method.
- E. Other intangible assets

Other intangible assets, mainly electricity facilities, are stated at cost and amortized using the straight-line method over 3 to 5 years.

(18) Impairment of non-financial assets

- A. The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Except for goodwill, when the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortized historical cost would have been if the impairment had not been recognized.
- B. The recoverable amounts of goodwill, intangible assets with an indefinite useful life and intangible assets that have not yet been available for use are evaluated periodically. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment loss of goodwill previously recognized in profit or loss shall not be reversed in the following years.
- C. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units, or groups of cash-generating units, that is/are expected to benefit from the synergies of the business combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

(19) Borrowings

- A. Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.
- B. Free paid on the established of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down, In this case, the fee is deferred until the drawn-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down , the fee is capitalized as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

(20) Notes and accounts payable

Notes and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. However, short-term accounts payable without bearing interest are subsequently measured at initial invoice amount as effect of discounting is immaterial.

(21) Employee benefits

- A. Short-term employee benefits
Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognized as expenses in that period when the employees render service.
- B. Pensions
 - (a) Defined contribution plans
For defined contribution plans, the contributions are recognized as pension expenses when they are due on an accrual basis. Prepaid contributions are recognized as an asset to the extent of a cash refund or a reduction in the future payments.
 - (b) Defined benefit plans

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

C. Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the Group's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Group recognises expense as it can no longer withdraw an offer of termination benefits or it recognises relating restructuring costs, whichever is earlier. Benefits that are expected to be due more than 12 months after balance sheet date shall be discounted to their present value.

D. Employees' compensation and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal obligation or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates.

(22) Employee share-based payment

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

B. Treasury stocks transferred to employees:

- (a) Restricted stocks issued to employees are measured at the fair value of the equity instruments granted at the grant date, and are recognized as compensation cost over the vesting period.
- (b) For treasury stocks where employees have to pay to acquire those stocks, if employees resign during the vesting period, they must compensate the Group for the difference between the fair value of the equity instruments and their payments on the stocks.

(23) Income tax

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

- B. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year when the stockholders resolve to retain the earnings.
- C. Deferred income tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.
- D. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred income tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.
- F. A deferred tax asset shall be recognized for the carryforward of unused tax credits resulting from research and development expenditures and equity investments to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilized.

(24) Share capital

- A. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.
- B. Where the Company repurchases the Company's equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their book value and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(25) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are resolved by the Company's shareholders. Cash dividends are recorded as liabilities.

(26) Revenue recognition

A. Sales of goods:

- (a) The Group is engaged in the research, development and sale of EPI wafers and chips of AlGaInP, AlGaAs and InGaN. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer, the wholesaler has full discretion over the channel and price to sell the products, 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 wholesaler, 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) Sales revenue is recognised on the net amount of contract price after deduction of sales discounts and allowances. The sales discounts and allowances were offered to customers based on aggregate sales over a 12-month period. Accumulated experience is used to estimate and provide for the sales discounts and allowances, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. The estimation is subject to an assessment at each reporting date. A refund liability is recognised for expected sales discounts and allowances payable to customers in relation to sales made until the end of the reporting period. No element of financing is deemed present as the sales are made with a credit term of 90 days to 120 days, which is consistent with market practice.
 - (c) The Group's obligation to provide a refund for faulty products under the standard warranty terms is recognised as a provision.
 - (d) 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.
- B. Revenue from licencing intellectual property
- (a) The Group entered into a contract with a customer to grant a licence of patents and intellectual property to the customer. Given the licence is distinct from other promised goods or services in the contract, the Group recognises the revenue from licencing when the licence transfer to a customer either at a point in time or over time based on the nature of the licence granted. The nature of the Group's promise in granting a licence is a promise to provide a right to access the Group's intellectual property if the Group undertakes activities that significantly affect the patents and intellectual property to which the customer has rights, the customer is affected by the Group's activities and those activities do not result in the transfer of a good or a service to the customer as they occur. The royalties are recognised as revenue on a straight-line basis throughout the licencing period. In case the abovementioned conditions are not met, the nature of the Group's promise in granting a licence is a promise to provide a right to use the Group's intellectual property and therefore the revenue is recognised when transferring the licence to a customer at a point in time.
 - (b) Some contracts require a 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.
- C. Incremental costs of obtaining a contract
- Given that the contractual period lasts less than one year, the Group recognises the incremental costs of obtaining a contract as an expense when incurred although the Group expects to recover those costs.

(27) Government grants

Government grants are recognized at their fair value only when there is reasonable assurance that the Group will comply with any conditions attached to the grants and the grants will be received. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes expenses for the related costs for which the grants are intended to compensate. Government grants related to property, plant and equipment are recognized as non-current liabilities and are amortized to profit or loss over the estimated useful lives of the related assets using the straight-line method.

(28) Business combinations

- A. The Group uses the acquisition method to account for business combinations. The consideration transferred for an acquisition is measured as the fair value of the assets transferred, liabilities incurred or assumed and equity instruments issued at the acquisition date, plus the fair value of any assets and liabilities resulting from a contingent consideration arrangement. All acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. For each business combination, the Group measures at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to the proportionate share of the entity's net assets in the event of liquidation at either fair value or the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other non-controlling interests should be measured at the acquisition-date fair value.
- B. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any previous equity interest in the acquiree over the fair value of the identifiable assets acquired and the liabilities assumed is recorded as goodwill at the acquisition date. If the total of consideration transferred, non-controlling interest in the acquiree recognised and the fair value of previously held equity interest in the acquiree is less than the fair value of the identifiable assets acquired and the liabilities assumed, the difference is recognised directly in profit or loss on the acquisition date.

(29) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker. The Chief Operating Decision-Maker is responsible for allocating resources and assessing performance of the operating segments.

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

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

(1) Critical judgments 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:

A. Impairment valuation of goodwill, property, plant and equipment

In assessing assets impairment valuation, the Group estimates useful lives of assets and possible income and expenses in the future based on the Group's subjective judgement, any changes in economic condition and strategy of the Group will affect the recoverable amount, please refer to Note 6(10).

As of December 31, 2018, the Group recognised impaired property, plant and equipment of \$22,435,949 and goodwill of \$6,324,659.

B. Realizability of deferred income tax assets

Deferred income tax assets are recognized only to the extent that it is probable that future taxable

profit will be available against which the deductible temporary differences can be utilized. Assessment of the realizability of deferred income tax assets involves critical accounting judgments and estimates of the management, including the assumptions of expected future sales revenue growth rate and profit rate, available tax credits, tax planning, and etc. Any variations in global economic environment, industrial environment, and laws and regulations might cause material adjustments to deferred income tax assets.

As of December 31, 2018, the Group recognized deferred income tax assets amounting to \$3,911,132.

C. Evaluation of inventories

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

As of December 31, 2018, the carrying amount of inventories was \$4,705,191.

D. Financial assets—fair value measurement of unlisted stocks without active market

The fair value of unlisted stocks held by the Group that are not traded in an active market is determined by considering those companies' recent funding raising activities and technical development status, fair value assessment of other companies of the same type, market conditions and other economic indicators existing on balance sheet date. Any changes in these judgements and estimates will impact the fair value measurement of these unlisted stocks. Please refer to Note 12(3) for the financial instruments fair value information.

As of December 31, 2018, the carrying amount of unlisted stocks was \$2,919,992.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Cash on hand and petty cash	\$ 559	\$ 627
Checking accounts and demand deposits	1,571,952	2,639,262
Time deposits	2,929,936	3,115,006
Bonds sold under repurchase agreement	1,030,062	1,081,802
	<u>\$ 5,532,509</u>	<u>\$ 6,836,697</u>

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

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

<u>Items</u>	<u>December 31, 2018</u>
Current items:	
Financial assets mandatorily measured at fair value through profit or loss	
Beneficiary certificates	\$ 366,196
Listed stocks	671,789
Emerging stocks	9,248
	<u>1,047,233</u>
Valuation adjustment	(<u>320,827</u>)
	<u>726,406</u>
Non-current items:	
Financial assets mandatorily measured at fair value through profit or loss	
Unlisted stocks	333,727
Valuation adjustments	(<u>333,727</u>)
	<u>-</u>
	<u>\$ 726,406</u>

- A. The net gain recognized by the Company amounted to \$12,382 for the year ended December 31, 2018.
- B. Information on credit risk of financial assets at fair value through profit or loss is provided in Note 12(2).
- C. Information on financial assets at fair value through profit or loss as of December 31, 2017 is provided in Note 12(4).

(3) Financial assets at fair value through other comprehensive income

<u>Items</u>	<u>December 31, 2018</u>
Non-current items:	
Equity instruments	
Listed stocks	\$ 724,909
Emerging stocks	40,872
Unlisted stocks	3,619,815
	<u>4,385,596</u>
Valuation adjustment	(<u>1,035,680</u>)
Accumulated impairment of available-for-sale financial assets	(<u>84,791</u>)
	<u>\$ 3,265,125</u>

- A. Aiming to satisfy the capital expenditure needs, the Group sold \$3,051 of equity securities investments at fair value and resulted in cumulative gains on disposal amounting to \$1,071 during the year ended December 31, 2018.
- B. Amounts recognized in profit or loss and other comprehensive income in relation to the financial assets at fair value through other comprehensive income are listed below:

Equity instruments at fair value through other comprehensive income	Year ended December 31, 2018
Fair value change recognised in other comprehensive income	(\$ 674,074)
Cumulative losses reclassified to retained earnings due to derecognition	(\$ 1,071)
Held at end of year	\$ 26,709

C. As at December 31 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the financial assets at fair value through other comprehensive income held by the Group was \$3,265,125.

D. Information relating to credit risk of financial assets at fair value through other comprehensive income is provided in Note 12(2).

E. Available-for-sale financial assets information as at December 31 2017 is provided in Note 12(4).

(4) Notes and accounts receivable

	December 31, 2018
Notes receivable	\$ 1,495,653
Less: Allowance for uncollectible accounts	-
	<u>\$ 1,495,653</u>
Accounts receivable	\$ 7,626,772
Less: Allowance for uncollectible accounts	(42,838)
	<u>\$ 7,583,934</u>

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

	December 31, 2018	
	<u>Accounts receivable</u>	<u>Notes receivable</u>
Not past due	\$ 6,415,993	\$ 1,432,793
Up to 30 days	407,801	62,860
31 to 90 days	646,500	-
91 to 180 days	136,651	-
Over 180 days	19,827	-
	<u>\$ 7,626,772</u>	<u>\$ 1,495,653</u>

B. As of December 31, 2018, the Group had outstanding discounted notes receivable amounting to \$3,349,498. The Group has no payment obligations when the drawers of the notes refuse to pay for the notes at maturity. Those discounted notes receivable were presented as a deduction item to notes receivable. Those discounted notes receivable were deducted from notes receivable directly.

C. Details of the Group's notes receivable pledged to others as collateral are provided in Note 8.

D. The Group holds collateral including bank deposits, commercial papers, financial assets as well as machinery and equipment as security for accounts receivable. The fair value of the collateral held cannot be reasonably estimated by the Group since it is impracticable.

E. As at December 31 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the notes receivable held by the Company was \$1,495,653; the maximum exposure to credit risk in respect of the amount that best represents the account receivables held by the Company was \$7,583,934.

F. Information on credit risk of accounts receivable and notes receivable is provided in Note 12(2).

G. The information on December 31, 2017 is provided in Note 12(4).

(5) Inventories

	December 31, 2018		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 1,199,529	(\$ 53,495)	\$ 1,146,034
Work in progress	1,640,894	(255,534)	1,385,360
Finished goods	2,791,392	(617,595)	2,173,797
	<u>\$ 5,631,815</u>	<u>(\$ 926,624)</u>	<u>\$ 4,705,191</u>
	December 31, 2017		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 1,467,248	(\$ 62,998)	\$ 1,404,250
Work in progress	1,762,694	(223,499)	1,539,195
Finished goods	2,258,324	(386,391)	1,871,933
	<u>\$ 5,488,266</u>	<u>(\$ 672,888)</u>	<u>\$ 4,815,378</u>

Expense and loss incurred on inventories for the years ended December 31, 2018 and 2017 were as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
Cost of goods sold	\$ 16,506,097	\$ 17,767,673
Effect of recoverable amounts written off	(306,282)	(824,054)
Loss on decline in market value	584,176	344,830
Loss on idle capacity	882,458	510,914
	<u>\$ 17,666,449</u>	<u>\$ 17,799,363</u>

(6) Investments accounted for using the equity method

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Associates:		
Nan Ya Photonics Incorporation	\$ 419,681	\$ 333,422
Tekcore Co., Ltd.	62,978	67,690
TE Opto Corporation	43,556	45,404
KAISTAR Lighting (Xiamen) Co., Ltd.	-	1,531,545
Country Lighting (BVI) Co., Ltd.	93,996	91,096
ProLight Opto Technology Corporation	367,309	243,401
Cosmoled Lighting Ltd.	-	126,285
LEDOULUX Sp.Zo.O	15,070	17,316
Interelight Optotech (Hong Kong) Ltd.	13,411	13,349
Very Optoelectronic (HUI ZHOU)Co., Ltd.	-	106,748
Tops Electrical Technology Co., Ltd.	-	2,650
ES-LEDRU LLC.	2,037	2,432
Play Nitride Inc.	-	157,863
LEDAZ Co., Ltd.	99,670	80,464
	<u>\$ 1,117,708</u>	<u>\$ 2,819,665</u>

A. The basic information of the associates that are material to the Group is as follows:

Company name	Principal place of business	Shareholding ratio		Nature of relationship	Methods of measurement
		December 31, 2018	December 31, 2017		
Nan Ya Photonics Incorporation	Taiwan	43.26%	43.26%	Associates	Equity method
ProLight Opto Technology	Taiwan	42.64%	29.76%	Associates	Equity method
KAISTAR Lighting (Xiamen) Co., Ltd.	Mainland China	18.77%	22.54%	Note	Note

Note: Information is provided in Note (6).

B. The summarized financial information of the associates that are material to the Group is as follows:

(a) Balance sheet

	Nan Ya Photonics Incorporation	
	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Current assets	\$ 929,990	\$ 776,273
Non-current assets	130,111	93,499
Current liabilities	(128,743)	(141,913)
Non-current liabilities	(9,520)	(5,406)
Total net assets	<u>\$ 921,838</u>	<u>\$ 722,453</u>
Share in associate's net assets	\$ 398,797	\$ 312,538
Goodwill	20,884	20,884
Carrying amount of the associate	<u>\$ 419,681</u>	<u>\$ 333,422</u>

Prolight Opto Technology Corporation

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Current assets	\$ 527,783	\$ 504,727
Non-current assets	521,627	519,976
Current liabilities	(185,033)	(234,245)
Non-current liabilities	(105,323)	(112,702)
Total net assets	<u>\$ 759,054</u>	<u>\$ 677,756</u>
Share in associate's net assets	\$ 326,336	\$ 202,428
Goodwill	40,973	40,973
Carrying amount of the associate	<u>\$ 367,309</u>	<u>\$ 243,401</u>

KAISTAR Lighting (Xiamen) Co., Ltd.

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Current assets	\$ -	\$ 7,202,858
Non-current assets	-	8,427,314
Current liabilities	-	(7,729,097)
Non-current liabilities	-	(1,106,287)
Total net assets	<u>\$ -</u>	<u>\$ 6,794,788</u>
Share in associate's net assets	\$ -	\$ 1,531,545
Goodwill	-	-
Carrying amount of the associate	<u>\$ -</u>	<u>\$ 1,531,545</u>

(b) Statement of comprehensive income

Nan Ya Photonics Incorporation

	<u>Year ended December 31, 2018</u>	<u>Year ended December 31, 2017</u>
Revenue	\$ 879,307	\$ 559,789
Income for the period from continuing operations	\$ 90,519	\$ 51,709
Other comprehensive income, net of tax	155,488	163,773
Total comprehensive income	<u>\$ 246,007</u>	<u>\$ 215,482</u>
Dividends received from associates	<u>\$ -</u>	<u>\$ -</u>

<u>Prolight Opto Technology Corporation</u>		
	<u>Year ended</u>	<u>Year ended</u>
	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Revenue	\$ 612,433	\$ 724,111
Loss for the period from continuing operations	(\$ 40,088)	(\$ 49,321)
Other comprehensive (loss) income, net of tax	(170)	90
Total comprehensive loss	(\$ 40,258)	(\$ 49,321)
Dividends received from associates	\$ -	\$ -

<u>KATSTAR Lighting(Xiamen) Co., Ltd.</u>		
	<u>Year ended</u>	<u>Year ended</u>
	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Revenue	\$ 2,938,630	\$ 7,754,940
Loss for the period from continuing operations	(\$ 31,106)	(\$ 113,806)
Other comprehensive income, net of tax	-	-
Total comprehensive loss	(\$ 31,106)	(\$ 113,806)
Dividends received from associates	\$ -	\$ -

C. The carrying amount of the Group's interests in all individually immaterial associates and the Group's share of the operating results are summarized as follows:

As of December 31, 2018 and 2017, the carrying amount of the Group's individually immaterial associates amounted to \$330,718 and \$711,297, respectively.

	<u>Year ended</u>	<u>Year ended</u>
	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Loss for the year from continuing operations	(\$ 31,701)	(\$ 156,707)
Other comprehensive loss	(435)	(11,278)
Total comprehensive loss	(\$ 32,136)	(\$ 167,985)

D. The investment income (loss) from equity method investees for the years ended December 31, 2018 and 2017 amounted to \$24,416 and (\$50,851), respectively.

E. The other comprehensive income (loss) from equity method investees for the years ended December 31, 2018 and 2017 amounted to \$122,433 and \$23,954, respectively.

F. The Group's investment in Tekcore Co., Ltd. has quoted market price. The fair value of Tekcore Co., Ltd. as of December 31, 2018 and 2017 was \$117,437 and \$146,392, respectively.

G. The Group disposed all shares of Very Optoelectronic(HUI ZHOU)Co., Ltd. On March 14, 2018 and recognised loss on disposal of investments amounting to \$ 20,091.

H. The Group disposed all its shares of Tops Electrical Technology Co., Ltd. on March 29, 2018 and recognised loss on disposal of investments amounting to \$898.

I. The Group lost significant influence over PlayNitride Inc. as the shares of PlayNitride Inc. owned by the Group were less than 20% on March 6, 2018, therefore, the Group reclassified it into financial assets at fair value through other comprehensive income and recognised gains on disposal of investments amounting to \$80,988 in accordance with IFRSs.

J. The Group lost significant influence over KAISTAR Lighting (Xiamen) Co., Ltd. as its shares owned by the Group were less than 20% on April 26, 2018. Therefore, the Group reclassified it into financial asset at fair value through other comprehensive income and recognised gain on disposal of investment amounting to \$288,956 in accordance with IFRSs.

K. The Group disposed all its shares of Cosmoled Lighting Limited on June 25, 2018 and recognized loss on disposal of investments amounting to \$36,118.

(7) Property, plant and equipment

	Land	Buildings and structures	Machinery	Office equipment	Leasehold improvements	Others	Construction in progress and equipment to be inspected	Total
At January 1, 2018								
Cost	\$ 124,661	\$ 15,131,618	\$ 40,882,327	\$ 349,727	\$ 178,294	\$ 438,230	\$ 2,526,031	\$ 59,630,888
Accumulated depreciation and impairment	-	(7,174,425)	(27,432,634)	(297,562)	(102,100)	(269,240)	(6,046)	(35,282,007)
	<u>\$ 124,661</u>	<u>\$ 7,957,193</u>	<u>\$ 13,449,693</u>	<u>\$ 52,165</u>	<u>\$ 76,194</u>	<u>\$ 168,990</u>	<u>\$ 2,519,985</u>	<u>\$ 24,348,881</u>
2018								
Opening net book amount	\$ 124,661	\$ 7,957,193	\$ 13,449,693	\$ 52,165	\$ 76,194	\$ 168,990	\$ 2,519,985	\$ 24,348,881
Additions	-	16,067	235,886	3,076	571	408	3,350,860	3,606,868
Disposals	-	828,065	2,607,702	67,978	(10,331)	14,875	(3,508,289)	-
Reclassified to non-current assets held for sale	-	(48,349)	(122,492)	(251)	(177)	2,213	-	(169,056)
Reclassifications	-	-	(99,733)	-	-	-	(1,571)	(101,304)
Depreciation charge	-	(408)	136,066	-	-	(563)	13,460	148,555
Disaster loss	-	(914,874)	(3,743,341)	(22,423)	(18,950)	(58,677)	-	(4,758,265)
Impairment loss	-	(117,327)	(384,148)	-	-	-	-	(501,475)
Net exchange differences	-	(36,836)	(82,518)	(1,080)	(228)	(2,765)	(14,828)	(138,255)
Closing net book amount	<u>\$ 124,661</u>	<u>\$ 7,683,531</u>	<u>\$ 11,997,115</u>	<u>\$ 99,465</u>	<u>\$ 47,079</u>	<u>\$ 124,481</u>	<u>\$ 2,359,617</u>	<u>\$ 22,435,949</u>
At December 31, 2018								
Cost	\$ 124,661	\$ 15,723,057	\$ 42,314,211	\$ 383,665	\$ 140,295	\$ 432,717	\$ 2,359,617	\$ 61,478,223
Accumulated depreciation and impairment	-	(8,039,526)	(30,317,096)	(284,200)	(93,216)	(308,236)	-	(39,042,274)
	<u>\$ 124,661</u>	<u>\$ 7,683,531</u>	<u>\$ 11,997,115</u>	<u>\$ 99,465</u>	<u>\$ 47,079</u>	<u>\$ 124,481</u>	<u>\$ 2,359,617</u>	<u>\$ 22,435,949</u>

	Land	Buildings and structures	Machinery	Office equipment	Leasehold improvements	Others	Construction in progress and equipment to be inspected	Total
At January 1, 2017								
Cost	\$ 124,661	\$ 14,849,715	\$ 40,221,921	\$ 387,169	\$ 184,821	\$ 410,503	\$ 2,367,371	\$ 58,546,161
Accumulated depreciation and impairment	-	(6,277,589)	(24,338,840)	(313,919)	(93,365)	(235,817)	-	(31,259,530)
	<u>\$ 124,661</u>	<u>\$ 8,572,126</u>	<u>\$ 15,883,081</u>	<u>\$ 73,250</u>	<u>\$ 91,456</u>	<u>\$ 174,686</u>	<u>\$ 2,367,371</u>	<u>\$ 27,286,631</u>
<u>2017</u>								
Opening net book amount	\$ 124,661	\$ 8,572,126	\$ 15,883,081	\$ 73,250	\$ 91,456	\$ 174,686	\$ 2,367,371	\$ 27,286,631
Additions	-	5,143	39,356	2,063	7,745	1,544	2,386,467	2,442,318
Disposals	-	(20,837)	(55,550)	(285)	-	(2,065)	-	(78,737)
Reclassified to non-current assets held for sale	-	(8,658)	(86,608)	-	-	-	(8,524)	(103,790)
Reclassifications	-	442,714	1,809,012	13,248	1,414	40,220	(2,223,610)	82,998
Depreciation charge	-	(944,699)	(3,775,555)	(35,365)	(23,852)	(60,332)	-	(4,839,803)
Disaster loss	-	(19,118)	(38,054)	-	-	-	-	(57,172)
Impairment loss	-	(28,704)	(274,940)	(211)	-	-	(5,970)	(309,825)
Net exchange differences	-	(40,774)	(51,049)	(535)	(569)	14,937	4,251	(73,739)
Closing net book amount	<u>\$ 124,661</u>	<u>\$ 7,957,193</u>	<u>\$ 13,449,693</u>	<u>\$ 52,165</u>	<u>\$ 76,194</u>	<u>\$ 168,990</u>	<u>\$ 2,519,985</u>	<u>\$ 24,348,881</u>
At December 31, 2017								
Cost	\$ 124,661	\$ 15,131,618	\$ 40,882,327	\$ 349,727	\$ 178,294	\$ 438,230	\$ 2,526,031	\$ 59,630,888
Accumulated depreciation and impairment	-	(7,174,425)	(27,432,634)	(297,562)	(102,100)	(269,240)	(6,046)	(35,282,007)
	<u>\$ 124,661</u>	<u>\$ 7,957,193</u>	<u>\$ 13,449,693</u>	<u>\$ 52,165</u>	<u>\$ 76,194</u>	<u>\$ 168,990</u>	<u>\$ 2,519,985</u>	<u>\$ 24,348,881</u>

(8) Intangible assets

	Patents	Goodwill	Software	Others	Total
At January 1, 2018					
Cost	\$ 2,351,991	\$ 6,324,659	\$ 297,857	\$ 92,391	\$ 9,066,898
Accumulated amortisation and impairment	(966,045)	-	(168,754)	(85,137)	(1,219,936)
	<u>\$ 1,385,946</u>	<u>\$ 6,324,659</u>	<u>\$ 129,103</u>	<u>\$ 7,254</u>	<u>\$ 7,846,962</u>
<u>2018</u>					
Opening net book amount	\$ 1,385,946	\$ 6,324,659	\$ 129,103	\$ 7,254	\$ 7,846,962
Additions—acquired separately	33,030	-	59,400	2,700	95,130
Transferred to expense	-	-	(141)	-	(141)
Reclassifications	6,487	-	955	-	7,442
Amortisation charge	(207,370)	-	(57,316)	(2,856)	(267,542)
Net exchange differences	2,333	-	(256)	-	2,077
Closing net book amount	<u>\$ 1,220,426</u>	<u>\$ 6,324,659</u>	<u>\$ 131,745</u>	<u>\$ 7,098</u>	<u>\$ 7,683,928</u>
At December 31, 2018					
Cost	\$ 2,396,119	\$ 6,324,659	\$ 356,717	\$ 95,092	\$ 9,172,587
Accumulated amortisation and impairment	(1,175,693)	-	(224,972)	(87,994)	(1,488,659)
	<u>\$ 1,220,426</u>	<u>\$ 6,324,659</u>	<u>\$ 131,745</u>	<u>\$ 7,098</u>	<u>\$ 7,683,928</u>

	<u>Patents</u>	<u>Goodwill</u>	<u>Software</u>	<u>Others</u>	<u>Total</u>
At January 1, 2017					
Cost	\$ 2,218,363	\$ 6,324,659	\$ 240,868	\$ 89,569	\$ 8,873,459
Accumulated amortisation and impairment	(660,347)	-	(123,727)	(82,166)	(866,240)
	<u>\$ 1,558,016</u>	<u>\$ 6,324,659</u>	<u>\$ 117,141</u>	<u>\$ 7,403</u>	<u>\$ 8,007,219</u>
2017					
Opening net book amount	\$ 1,558,016	\$ 6,324,659	\$ 117,141	\$ 7,403	\$ 8,007,219
Additions – acquired separately	108,134	-	56,454	2,822	167,410
Transferred to expense	(410)	-	-	-	(410)
Reclassifications	38,499	-	138	-	38,637
Amortisation charge	(307,257)	-	(44,029)	(2,971)	(354,257)
Net exchange differences	(11,036)	-	(601)	-	(11,637)
Closing net book amount	<u>\$ 1,385,946</u>	<u>\$ 6,324,659</u>	<u>\$ 129,103</u>	<u>\$ 7,254</u>	<u>\$ 7,846,962</u>
At December 31, 2017					
Cost	\$ 2,351,991	\$ 6,324,659	\$ 297,857	\$ 92,391	\$ 9,066,898
Accumulated amortisation and impairment	(966,045)	-	(168,754)	(85,137)	(1,219,936)
	<u>\$ 1,385,946</u>	<u>\$ 6,324,659</u>	<u>\$ 129,103</u>	<u>\$ 7,254</u>	<u>\$ 7,846,962</u>

Details of amortisation on intangible assets are as follows:

	Year ended <u>December 31, 2018</u>	Year ended <u>December 31, 2017</u>
Operating costs	\$ 114,510	\$ 216,192
Selling expenses	7,283	6,758
Administrative expenses	58,310	68,673
Research and development expenses	87,439	62,634
	<u>\$ 267,542</u>	<u>\$ 354,257</u>

(9) Long-term prepaid rents (shown under “Other non-current assets”)

	Year ended <u>December 31, 2018</u>	Year ended <u>December 31, 2017</u>
Land use right	<u>\$ 248,530</u>	<u>\$ 260,014</u>

In December 2006, and May, June and July 2010, the Group signed a land use right contract with Xiamen Municipal Bureau of Land, Resources And Housing Administration, Yangzhou National Territory Resources Bureau, Changzhou Land and Resource Bureau and Jining Municipal Bureau of State Land for use of the land in Xiamen Torch High-tech Industrial Development Zone of the People's Republic of China, Yangzhou Economic & Technological Development Zone, Wujin, Changzhou, Jiangsu, China and Jining National High-tech Industrial Development Zone with term of 50 years. All rentals had been paid on the contract date. The Group recognised rental expenses of \$6,553 and \$6,464 for the years ended December 31, 2018 and 2017, respectively.

(10) Impairment of non-financial assets

A. During the years ended December 31, 2018 and 2017, the reallocation of production lines resulted in impairment of the Group's property, plant and equipment and non-current assets classified as held for sale. The Group wrote down the carrying amount of the asset based on the recoverable amount and recognised accordingly an impairment loss of \$659,774 and \$377,682, respectively. The recoverable amount is the property's fair value less costs of disposal. The fair

value is classified as a level 3 fair value. The impairment loss is detailed below:

	<u>Year ended December 31, 2018</u>		<u>Year ended December 31, 2017</u>	
	<u>Recognised in profit or loss</u>		<u>Recognised in profit or loss</u>	
Impairment loss -				
buildings and structures	\$	117,327	\$	29,244
Impairment loss - machinery		384,148		280,370
Impairment loss - non-				
current assets held for sale		158,299		67,857
Impairment loss -				
office equipment		-		211
	\$	<u>659,774</u>	\$	<u>377,682</u>

- B. Goodwill is allocated to the Group's cash-generating units identified according to operating segment. The recoverable amount of all cash-generating units has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by the management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

The recoverable amount of all cash-generating units calculated using the value-in-use exceeded their carrying amount, therefore goodwill was not impaired. The key assumptions used for value-in-use calculations are as follows:

	<u>Year ended December 31, 2018</u>			<u>Year ended December 31, 2017</u>		
	<u>1st year</u>	<u>2~5 years</u>	<u>After 6th year</u>	<u>1st year</u>	<u>2~5 years</u>	<u>After 6th year</u>
Revenue growth rate	26.63%	9.87%~ 30.11%	0%	10.09%	2.84%~ 51.37%	0%
Gross margin rate	15.56%	23.0%~ 26.8%	26.80%	17.20%	19.1%~ 38%	38%
Discount rate	14.20%	14.20%	14.20%	9.45%	9.45%	9.45%

(a) Revenue growth rate: Estimation refers to relevant market information and relevant operating and sales plan.

(b) Gross margin rate: Estimation refers to historical data and relevant operating and sales plan.

(c) Discount rate: The rate before tax and reflecting specific risk of relevant operating segment.

(11) Non-current assets held for sale

- A. Assets of disposal group classified as held for sale:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Property, plant and equipment	\$ <u>390,042</u>	\$ <u>468,142</u>

- B. The assets and liabilities related to plant and equipment of Taoyuan Pingzhen have been reclassified as held for sale for the year ended December 31, 2016. The transaction of plant and equipment is still under negotiation.

(12) Short-term borrowings

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Bank borrowings		
Unsecured borrowings	\$ <u>1,874,876</u>	\$ <u>700,000</u>
Interest rate range	<u>0.9%~5.22%</u>	<u>0.88%~0.90%</u>

As of December 31, 2018 and 2017, the Group has endorsements to Episky Corporation (Xiamen) Ltd., Jiangsu Canyang Optoelectronics Ltd., Ecoled Venture Co., Limited and Yen-Rich Opto (Hong Kong) Limited of \$3,270,624 and \$2,741,960, respectively.

(13) Short-term notes and bills payable

December 31, 2018				
	Rate (%)	Amount	Name of bank	Collaterals
Payables for bankers' acceptance	-	<u>\$ 357,717</u>	BANK OF COMMUNICATITONS	Note 8

December 31, 2017				
	Rate (%)	Amount	Name of bank	Collaterals
Payables for bankers' acceptance	-	<u>\$ 376,791</u>	BANK OF COMMUNICATITONS INSTURIAL AND COMMERCIAL BANK OF CHINA LIMITED	Note 8

(14) Other payables

Items	December 31, 2018	December 31, 2017
Payables on wages, salaries and bonus	\$ 599,908	\$ 579,987
Compensation due to employees, directors and supervisors	-	354,201
Payables on personnel expense	76,292	139,450
Payable on machinery and equipment	1,153,185	848,963
Payables on consumable goods and equipment repair expense	579,919	573,085
Payables on processing fees	423,397	633,040
Payables on reticle expense	28,043	26,282
Payables on gas expense	76,542	75,402
Payables on insurance expense	7,753	1,961
Others	875,064	805,115
	<u>\$ 3,820,103</u>	<u>\$ 4,037,486</u>

(15) Long-term borrowings

Type of borrowings	Borrowing period and repayment term	December 31, 2018
Bank borrowings		
Secured borrowings	Before October 29, 2022	\$ 137,971
Unsecured borrowings	Before December 30, 2019	127,143
Unsecured borrowings	November 2, 2022 Repay fully at maturity	10,000
Unsecured borrowings	November 27, 2020 Repay fully at maturity	<u>300,000</u>
		575,114
Less: Current portion		(<u>165,306</u>)
		<u>\$ 409,808</u>
Interest rate range		<u>1.00%~1.39%</u>

Type of borrowings	Borrowing period and repayment term	December 31, 2017
Bank borrowings		
Secured borrowings	Before October 29, 2022	\$ 302,080
Secured borrowings	Before May 30, 2019	1,300,000
Unsecured borrowings	Before May 30, 2019	453,395
Unsecured borrowings	Before December 30, 2019	302,857
Unsecured borrowings	Before September 3, 2018	350,000
Unsecured borrowings	November 27, 2020 Repay fully at maturity	400,000
		<u>3,108,332</u>
Less: Current portion		(977,277)
Less: Syndicate bank range		(10,196)
		<u>\$ 2,120,859</u>
Interest rate range		<u>0.85%~2.83%</u>

The Company, Formosa Inc. and Jiangsu Canyang Optoelectronics Ltd have signed a syndicated contract with 7 financial institutions including Land Bank of Taiwan. The lead bank is Land Bank of Taiwan. The credit granting period is 3 years from the first drawing date, May 30, 2016. Before the maturity, the granting period can be extended for 2 years upon application. The loan has been paid off in advance and the credit line has been cancelled on May 30, 2018.

A. Credit lines are as follows:

(a) Tranche (A): Credit line is \$4,000,000. Details of Tranche A are as follows:

i Tranche (A-1): To redeem the 2nd overseas convertible bond and the former facility of Tranche (B) of Formosa Inc., the credit line is \$1,500,000 which can be drawn separately but cannot be redrawn.

ii Tranche (A-2): Funds for fulfilling the Company's mid-term operational needs. Credit line is \$2,500,000 and can be redrawn.

(b) Tranche (B): Credit line is \$1,600,000. Details of Tranche B are as follows:

i Tranche (B-1): To repay former financial debt of Formosa Inc., the credit line is \$600,000 and cannot be redrawn.

ii Tranche (B-2): To fulfil midterm operating capital, the credit line is \$1,000,000 and can be redrawn.

(c) The balance of Tranche (A) and Tranche (B) cannot exceed the total credit line.

(d) Tranche (C): Credit line is US\$19,000 thousand. Details of Tranche C are as follows:

i Tranche (C-1): To repay financial debt of Jiangsu Canyang Optoelectronics Ltd., the credit line is USD 19,000 thousand and can be drawn at lump sum but cannot be redrawn.

B. The Company has promised to maintain the following financial ratios and conditions that are based on the audited consolidated financial statements within the credit granting period (if violating following financial rates, annual rates of 0.125% should be added in accordance with contract):

(a) Current ratio more than or equal to 100%;

(b) Debt ratio less or equal to 100%;

(c) Times interest earned ratio no less than 400%;

(d) Tangible net worth (shareholders' equity - intangible assets) not less than \$45,000,000 (inclusive).

C. Due to the business combination of the Group and Formosa Inc. on September 29, 2016, the aforementioned Tranche (B), Tranche (B-1) and Tranche (B-2) are not applicable to the contract.

(16) Pensions

A. (a) The Company has a defined benefit pension plans in accordance with the Labor Standards Law, covering all regular employees for services provided prior to July 1, 2005, and employees who choose to remain in the defined benefit pension plan subsequent to the enforcement of the Labor Pension Act on July 1, 2005. Under the defined benefit pension plan, employees are entitled to two base points for every year of service for the first 15 years and one base point for each additional year thereafter, up to a maximum of 45 base points. The pension payment to employees is computed based on years of service and average salaries or wages of the last six months prior to approved retirement. The Company contributes an amount equal to 2% of salaries and wages paid each month to a pension fund. The pension fund is administered by a pension fund monitoring committee (the “Committee”) and deposited under the Committee’s name in the Bank of Taiwan.

Also, the Company would assess the balance in the aforementioned labor pension reserve account by the end of December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method, to the employees expected to be qualified for retirement next year, the Company will make contributions to cover the deficit by next March.

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

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Present value of defined benefit obligations	(\$ 357,293)	(\$ 380,000)
Fair value of plan assets	<u>257,354</u>	<u>239,145</u>
Net defined benefit liability	<u>(\$ 99,939)</u>	<u>(\$ 140,855)</u>

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

	<u>Present value of defined benefit obligations</u>	<u>Fair value of plan assets</u>	<u>Net defined benefit liability</u>
<u>2018</u>			
Balance at January 1	(\$ 380,000)	\$ 239,145	(\$ 140,855)
Current service cost	(1,750)	-	(1,750)
Interest (expense) income	(4,738)	3,064	(1,674)
Benefits paid	<u>3,783</u>	<u>(3,783)</u>	<u>-</u>
	<u>(382,705)</u>	<u>238,426</u>	<u>(144,279)</u>
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	6,411	6,411
Change in demographic assumptions	(105)	-	(105)
Change in financial assumptions	(13,014)	-	(13,014)
Experience adjustments	<u>38,531</u>	<u>-</u>	<u>38,531</u>
	<u>25,412</u>	<u>6,411</u>	<u>31,823</u>
Pension fund contribution	-	12,517	12,517
Paid pension	<u>-</u>	<u>-</u>	<u>-</u>
Balance at December 31	<u>(\$ 357,293)</u>	<u>\$ 257,354</u>	<u>(\$ 99,939)</u>
	<u>Present value of defined benefit obligations</u>	<u>Fair value of plan assets</u>	<u>Net defined benefit liability</u>
<u>2017</u>			
Balance at January 1	(\$ 332,180)	\$ 223,785	(\$ 108,395)
Current service cost	(1,703)	-	(1,703)
Interest (expense) income	(5,804)	4,029	(1,775)
Benefits paid	<u>670</u>	<u>-</u>	<u>670</u>
	<u>(339,017)</u>	<u>227,814</u>	<u>(111,203)</u>
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	(1,807)	(1,807)
Change in demographic assumptions	(326)	-	(326)
Change in financial assumptions	(27,733)	-	(27,733)
Experience adjustments	<u>12,924</u>	<u>-</u>	<u>(12,924)</u>
	<u>40,983</u>	<u>(1,807)</u>	<u>(42,790)</u>
Pension fund contribution	-	13,138	13,138
Paid pension	<u>-</u>	<u>-</u>	<u>-</u>
Balance at December 31	<u>(\$ 380,000)</u>	<u>\$ 239,145</u>	<u>(\$ 140,855)</u>

(d) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or

foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2018 and 2017 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

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

	Year ended December 31, 2018	Year ended December 31, 2017
Discount rate	1.00%	1.25%
Future salary increases	2.00%	2.00%

Future mortality rate was estimated separately based on the 5th Taiwan Standard Ordinary Experience Mortality Table.

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

	Discount rate		Future salary increases	
	Increase 25%	Decrease 25%	Increase 25%	Decrease 25%
December 31, 2018				
Effect on present value of defined benefit obligation	(\$ 13,020)	\$ 13,663	\$ 13,492	(\$ 12,926)
December 31, 2017				
Effect on present value of defined benefit obligation	(\$ 14,193)	\$ 14,912	\$ 14,763	(\$ 14,125)

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

The method and assumptions used for the preparation of sensitivity analysis during 2018 and during 2017 are the same.

(f) Expected contributions to the defined benefit pension plans of the Group for the next year amounts to \$12,353.

(g) As of December 31, 2018, the weighted average duration of that retirement plan is 14 years.

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

(b) Episky Corporation (Xiamen) Ltd., EPISKY Corporation (Changzhou) LTD, Luxlite (Shenzhen) Corporation Limited, Epicrystal Corporation (Changzhou) Ltd., United LED Shandong Corporation, EPIRICH (Guangzhou) Co., Ltd, Jiangsu Canyang Optoelectronics

Ltd. and Ningbo Formosa Epitaxy Incorporation have funded defined contribution plans. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People's Republic of China (PRC) are based on a certain percentage stipulated by the government. Other than the monthly contributions, these companies do not have further obligations.

(c) The pension costs under the defined contribution pension plans of the Group for the years ended December 31, 2018 and 2017 were \$185,082 and \$184,294, respectively.

(17) Share-based payment

A. For the years ended December 31, 2018 and 2017, the Group's share-based payment arrangements were as follows:

Type of arrangement	Grant date	Quantity granted (thousand shares)	Contract period	Vesting condition
Treasury stock Transferred to employees	2017.09.26	20,000	2 years	Note

Note: The Board of Directors adopted a resolution to transfer 20,000 thousand treasury stocks to employees with a subscription price of NT\$26.9 and without transfer restriction during the meeting on September 26, 2017. If employees resign during the vesting period, they are obliged to compensate for the difference between closing market price and the subscription price on the date of security delivery which is under the discretion of the Chairperson.

B. For the years ended December 31, 2018 and 2017, the share-based payment arrangements of the Company's subsidiary, United LED Corporation (Hong Kong) Limited, are as follows:

Type of arrangement	Grant date	Quantity granted (thousand shares)	Vesting conditions
Employee stock option	2010.8.1	1,500,000	Note A

Note A: 30% upon completion of 1 year's service; 60% upon completion of 2 years' service; 100% upon completion of 3 years' service.

C. Details of the share-based payment arrangements are as follows:

	Year ended December 31, 2018		Year ended December 31, 2017	
	No. of shares (in thousands)	Weighted-average exercise price (in US dollars)	No. of shares (in thousands)	Weighted-average exercise price (in US dollars)
Options outstanding from beginning to the end of the period	<u>1,048,700</u>	\$ 0.0001	<u>1,048,700</u>	\$ 0.0001
Options exercisable at end of the period	<u>1,048,700</u>		<u>1,048,700</u>	

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

	Year ended December 31, 2018	Year ended December 31, 2017
Equity-settled	<u>\$ -</u>	<u>\$ 27,906</u>

(18) Long-term deferred revenue (shown under “Other non-current liabilities”)

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Government grants revenue	\$ 583,765	\$ 734,607
Deferred technical services revenue	16,266	5,104
	<u>\$ 600,031</u>	<u>\$ 739,711</u>

A. The Company’s subsidiaries obtained government grants for acquisitions of equipment and technology investments and recognized such grants as revenue over the economic lives of those assets. Government grants revenue recognized for the years ended December 31, 2018 and 2017 were \$146,935 and \$163,542 (shown under “Other revenue”), respectively.

B. In 2009 and 2018, the Company signed a technical permission and technical support contract with Litefield Corporation (Dalian) LTD, and recognises technical services revenue over the contract periods. Technical services revenue recognised for the years ended December 31, 2018 and 2017 were \$14,501 and \$2,663, respectively.

(19) Share capital

A. As of December 31, 2018, the Company’s authorized capital was \$13,000,000, consisting of 1,300,000 thousand shares of ordinary stock (including 35,000 thousand shares reserved for employee stock options), and the paid-in capital was \$10,887,014 with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected.

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

	<u>2018</u>	<u>2017</u>
At January 1	1,075,836	1,066,136
Repurchase of treasury stocks	(3,085)	-
Treasury stocks transferred to employees	10,300	9,700
At December 31	<u>1,083,051</u>	<u>1,075,836</u>

B. Pursuant to the issuance of global depositary receipts (GDRs), the Company issued 135 million shares of common stocks for \$1,350,000 thousand dollars. On September 22, 2009, the issuance of GDRs was completed and the GDRs are traded on the Luxembourg Stock Exchange. The total GDRs issued were 27,000,000 units, each represented 5 common shares and U.S. \$13 (in dollars) per unit, amounting to U.S. \$351 million.

C. On October 1, 2018, the total operating assets and liabilities of iii-v semiconductors OEM business for spin-off and assignments to Unikorn Semiconductor Corporation were \$1,000,000 and \$0, respectively. Unikorn Semiconductor Corporation issued 100 million shares, at a price of \$10 per share (par value of \$5), to exchange the abovementioned assets and liabilities. The details are as follows:

<u>Assets</u>	<u>October 1, 2018</u>
Bank deposits	\$ 360,172
Property, plant and equipment	639,828
	<u>\$ 1,000,000</u>

D. Treasury shares

(a) Reason for share reacquisition and movements in the number of the Company's treasury shares are as follows:

Year ended December 31, 2018					
Reason for reacquisition	Beginning balance	Increase	Decrease	Ending balance	Book value
Held by subsidiaries	2,565 thousand shares	-	-	2,565 thousand shares	\$ 135,163
Held by the company	-	3085 thousand shares	-	3,085 thousand shares	75,845
To be reissued to employees	10,300 thousand shares	-	(10,300) thousand shares	-	-
Year ended December 31, 2017					
Reason for reacquisition	Beginning balance	Increase	Decrease	Ending balance	Book value
Held by subsidiaries	2,565 thousand shares	-	-	2,565 thousand shares	\$ 135,163
Purchase of treasury shares	2,848 thousand shares	-	(2,848) thousand shares	-	-
To be reissued to employees	20,000 thousand shares	-	(9,700) thousand shares	10,300 thousand shares	273,620

(b) Pursuant to the R.O.C. Securities and Exchange Act, the number of shares bought back as treasury share 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 shares 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 shares should be reissued to the employees within three years from the reacquisition date and shares not reissued within the three-year period are to be retired. Treasury shares to enhance the Company's credit rating and the stockholders' equity should be retired within six months of acquisition.

E. Information of the Company's shares held by subsidiaries – Lighting Investment Corporation is as follows:

	December 31, 2018	December 31, 2017
	Lighting Investment Corporation	Lighting Investment Corporation
Shares	<u>2,565 thousand shares</u>	<u>2,565 thousand shares</u>
Book value	\$ 135,163	\$ 135,163
Fair value	\$ 65,658	\$ 115,799

(20) Capital surplus

A. Pursuant to the Company Act, capital surplus, including additional paid-in capital in excess of par and donation, shall be exclusively used to cover accumulated deficit or to issue new stock or cash to shareholders in proportion to their ownership when the Company has no accumulated deficit. However, pursuant to the R.O.C. Securities and Exchange Act, capital surplus arising

from paid-in capital in excess of par value on issuance of common stock and donations can be capitalized once a year, provided that the Company has no accumulated deficit and the amount to be capitalized does not exceed 10% of the paid-in capital.

B. The shareholders resolved at their meeting on June 21, 2018 to issue cash to shareholders from capital surplus of \$121,765.

	Share premium	Treasury share transactions	Changes in ownership interests in subsidiaries	Difference between consideration and carrying amount of subsidiaries acquired or disposed	Change in net equity of associates and joint ventures accounted for under equity method	Employee restricted shares
At January 1, 2018	\$ 38,430,512	\$ 47,649	\$ 834,683	\$ 105,930	\$ 524,287	\$ 27,906
Capital surplus used to offset accumulated deficits	(121,765)	-	-	-	-	-
Net change in the equity of associates	-	-	-	-	(458,095)	-
Treasury stocks transferred to employees	-	145,686	-	-	-	-
Compensation cost of share-based payments	-	-	-	-	-	(27,906)
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	-	-	(732)	-	-
Changes in owner ship interestet in subsidiaries accounted for using equity method	-	-	5,472	-	-	-
Capital surplus adjustment due to dividend paid to subsidiaries	-	2,052	-	-	-	-
At December 31, 2018	<u>\$ 38,308,747</u>	<u>\$ 195,387</u>	<u>\$ 840,155</u>	<u>\$ 105,198</u>	<u>\$ 66,192</u>	<u>-</u>

	Share premium	Treasury share transactions	Changes in ownership interests in subsidiaries	Difference between consideration and carrying amount of subsidiaries acquired or disposed	Change in net equity of associates and joint ventures accounted for under equity method	Employee restricted shares
At January 1, 2017	\$ 41,798,312	\$ 1,585	\$ 836,343	\$ 13,674	\$ 355,379	\$ 10,966
Capital surplus used to offset accumulated	(3,277,291)	(1,585)	-	(13,674)	-	(10,966)
Treasury stocks transferred to employees	-	110,919	-	-	-	-
Compensation cost of share-based payments	-	-	-	-	-	27,906
Retirement of treasury shares	(90,509)	(63,270)	-	-	-	-
Net change in the equity of associates	-	-	-	-	168,908	-
Difference between consideration and carrying amount of subsidiaries acquired or	-	-	-	105,930	-	-
Acquisition of subsidiaries' issue of new shares not in proportion to the Group's ownership	-	-	(1,660)	-	-	-
At December 31, 2017	<u>\$ 38,430,512</u>	<u>\$ 47,649</u>	<u>\$ 834,683</u>	<u>\$ 105,930</u>	<u>\$ 524,287</u>	<u>\$ 27,906</u>

(21) Unappropriated retained earnings (Accumulated deficit)

	2018	2017
At January 1	\$ 1,614,226	(\$ 3,303,516)
Effect of restrospective application and retrospective restatement	46,946	-
(Loss) profit for the year	(456,146)	1,649,913
Proceeds from disposal of financial assets at fair value through other comprehensive income	(1,071)	-
Remeasurement of defined benefit obligations	25,129	(35,687)
Capital surplus used to offset accumulated deficits	-	3,303,516
Appropriation of earnings	(749,196)	-
At December 31	<u>\$ 479,888</u>	<u>\$ 1,614,226</u>

- A. In accordance with the Company's Articles of Incorporation, 10% of current year's earnings, after paying all taxes and dues and covering prior years' losses, shall be appropriated as legal reserve until the total equals the issued share capital. Special reserve shall be appropriated or reversed when needed. The remaining earnings along with the prior years' accumulated unappropriated earnings are considered as distributable earnings, and shall be retained and appropriated in proportion to the number of shares held by each shareholder accordingly.
- B. The Company appropriates earnings based on the factors such as current and future investment environment, capital needs, domestic and overseas competition and capital budget, along with

the consideration of shareholders' interest and capital adequacy. The appropriation of cash dividends shall not be lower than 10% of the total dividend appropriated to shareholders.

- C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.
- D. In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the special reserve is reversed accordingly and could be included in the distributable earnings.
- E. On June 21, 2017, the shareholders in their meeting have resolved to offset the deficits amounting to \$3,545,028 with legal reserve of \$241,512 and capital surplus of \$3,303,516.
- F. For the information relating to employees' compensation (bonuses) and directors' and supervisors' remuneration, please refer to Note 6(29).
- G. The earnings appropriation as resolved by the Board of Directors on June 21, 2018 is as follows:

	Year ended December 31, 2017	
	Amount	Dividends per share (in dollars)
Legal reserve	\$ 161,423	\$ -
Reversal of special reserve	703,607	-
Cash dividends	749,196	0.688156
	<u>\$ 1,614,226</u>	

The appropriation of 2017 earnings has not yet been resolved at the shareholders' meeting as of March 15, 2018.

(22) Other equity items

	Unrealized gain or loss on		Total
	Currency translation differences	available-for-sale financial assets	
At January 1, 2018	(\$ 268,293)	(\$ 415,950)	(\$ 684,243)
Effect of retrospective application and retrospective restatement	(52,055)	3,595	(48,460)
Revaluation - gross	(616,461)	-	(616,461)
Revaluation - tax	117,563	-	117,563
Revaluation transferred to retained earnings - gross	1,071	-	1,071
Disposal of investments accounted for using equity method	-	5,439	5,439
Currency translation			
-Group	- (	208,330)	(208,330)
-Tax on Group	-	63,311	63,311
-Associates	-	65,150	65,150
-Tax on associates	- (	13,030)	(13,030)
At December 31, 2018	<u>(\$ 818,175)</u>	<u>(\$ 499,815)</u>	<u>(\$ 1,317,990)</u>

	Currency translation differences	Unrealized gain or loss on available-for-sale financial assets	Total
At January 1, 2017	(\$ 276,843)	(\$ 228,527)	(\$ 505,370)
Revaluation - gross	2,195	-	2,195
Revaluation - tax	6,355	-	6,355
Revaluation transferred to retained earnings - gross	-	-	-
Currency translation			
–Group	-	(179,264)	(179,264)
–Tax on Group	-	30,475	30,475
–Associates	-	(46,547)	(46,547)
–Tax on associates	-	7,913	7,913
At December 31, 2017	(\$ 268,293)	(\$ 415,950)	(\$ 684,243)

(23) Operating revenue

	Year ended December 31, 2018
Revenue from contracts with customers:	
Sales revenue	\$ 19,449,635
Services revenue	831,243
Other operating revenue	25,534
	<u>\$ 20,306,412</u>

A. Disaggregation of revenue from contracts with customer

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:

2018	Epi	Chip	Other	Total
Sales revenue	\$ 18,746,372	\$ 209,844	\$ 493,419	\$ 19,449,635
Services revenue	-	-	831,243	831,243
Other operating revenue	-	-	25,534	25,534

B. Related disclosure for 2017 operating revenue are provided in Note 12(5)A.

(24) Other income and expenses– net

	Year ended December 31, 2018	Year ended December 31, 2017
Other income		
Royalty and technical income	\$ 39,286	\$ 39,643
Government grants revenue	181,663	172,176
Other income-other	-	2,340
Total	<u>\$ 220,949</u>	<u>\$ 214,159</u>

(25) Other income

	Year ended December 31, 2018	Year ended December 31, 2017
Interest income:		
Interest income from bank deposits	\$ 45,350	\$ 49,252
Net currency exchange (loses) gains	71,633	(55,921)
Other interest income	5,300	6,969
Total interest income	<u>122,283</u>	<u>300</u>
Rental revenue	75,795	14,903
Dividend income	13,940	1,448
Miscellaneous income	78,360	235,684
Total	<u>\$ 290,378</u>	<u>\$ 252,335</u>

(26) Other gains and losses

	Year ended December 31, 2018	Year ended December 31, 2017
(Losses) gains on disposal of property, plant and equipment	(\$ 113,219)	\$ 9,766
Gains on disposal of intangible assets	(141)	-
Gains on disposal of investments	310,915	32,015
Net currency exchange gains (losses)	41,456	(427,282)
Net gains on financial assets at fair value through profit or loss	12,382	99,581
Net losses on financial liabilities at fair value through profit or loss	-	(6,572)
Impairment losses on financial assets	-	(16,651)
Impairment loss on non-financial assets	(659,774)	(377,682)
Miscellaneous losses	(129,669)	(42,459)
Total	<u>(\$ 538,050)</u>	<u>(\$ 729,284)</u>

(27) Finance costs

	Year ended December 31, 2018	Year ended December 31, 2017
Interest expense:		
Bank borrowings	\$ 158,171	\$ 216,860
Net currency exchange gains	(9,739)	(35,819)
Other interest expense	28,001	19,028
	<u>176,433</u>	<u>200,069</u>
Less: capitalisation of qualifying assets	(755)	(1,281)
	<u>\$ 175,678</u>	<u>\$ 198,788</u>

(28) Expenses by nature

	Year ended December 31, 2018	Year ended December 31, 2017
Employee benefit expenses	\$ 4,516,886	\$ 4,764,668
Depreciation charges on property, plant and equipment (Note)	\$ 4,723,263	\$ 4,813,315
Amortisation charges on intangible assets	\$ 267,542	\$ 354,257

Note : Depreciation amounting to \$35,002 and \$26,488 were recognized as a deduction of rental revenue for the years ended December 31, 2018 and 2017, respectively.

(29) Employee benefit expenses

	Year ended December 31, 2018	Year ended December 31, 2017
Wages and salaries	\$ 3,812,243	\$ 4,028,994
Share-based payments	-	27,906
Labor and health insurance expenses	288,578	294,041
Pension costs	188,506	187,102
Other personnel expenses	227,559	226,625
	\$ 4,516,886	\$ 4,764,668

A. According to the Articles of Incorporation of the Company, the Company shall distribute employees' compensation and directors' remuneration based on 10%~20% and 2% of the distributable profit of the current year, respectively. If the Company has accumulated deficit, earnings should be reserved to cover losses.

The abovementioned distributable profit of the current year refers to the current year's income before tax (excluding put option, call option, conversion right and reacquisition of corporate bonds on overseas convertible bond that are recorded in other gains and losses) less the profit prior to the appropriation of employees' compensation and directors' remuneration.

B. For the year ended December 31, 2017, the employees' compensation and directors' and supervisors' remuneration was accrued at \$312,528 and \$41,673, respectively. The aforementioned amounts were recognised in salary expenses. For the year ended December 31, 2016 the Company incurred loss and thus did not accrue employees' compensation and directors' and supervisors' remuneration. Information about employees' compensation and directors' and supervisors' remuneration of the Company as resolved by the Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(30) Income tax

A. Income tax expense (benefit)

(a) Components of income tax expense:

	<u>Year ended</u> <u>December 31, 2018</u>	<u>Year ended</u> <u>December 31, 2017</u>
Current tax:		
Current tax on profits for the year	\$ 59,998	\$ 303,983
Prior year income tax underestimation	18,853	39,330
Total current tax	<u>78,851</u>	<u>343,313</u>
Deferred tax:		
Origination and reversal of temporary differences	(165,016)	(21,459)
Effect from changes in tax regulation	(275,112)	-
Effect of income tax from loss carryforward	-	18,358
Origination and reversal of investment tax credits	<u>-</u>	<u>(103,035)</u>
Total deferred tax	<u>(440,128)</u>	<u>(106,136)</u>
Income tax (benefit) expense	<u><u>(\$ 361,277)</u></u>	<u><u>\$ 237,177</u></u>

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

	<u>Year ended</u> <u>December 31, 2018</u>	<u>Year ended</u> <u>December 31, 2017</u>
Fair value unrealized gains/losses on available-for-sale financial assets	(\$ 117,563)	(\$ 6,355)
Currency translation differences	(50,281)	(38,388)
Remeasurement of defined benefit obligations	<u>6,365</u>	<u>(7,274)</u>
Total	<u><u>(\$ 161,479)</u></u>	<u><u>\$ 52,017</u></u>

B. Reconciliation between income tax (benefit) expense and accounting profit:

	Year ended <u>December 31, 2018</u>	Year ended <u>December 31, 2017</u>
Tax calculated based on profit (losses) before tax and statutory tax rate	(\$ 141,122)	\$ 559,222
Effects from expenses disallowed and tax exempted income by tax regulation	18,707	(280,264)
Temporary differences not recognised as deferred tax assets	(165,016)	-
Taxable loss not recognised as deferred tax assets	226,033	-
Effect from investment tax credit	-	(103,035)
Effect of income tax from loss carryforward	(43,620)	18,358
Effect from Alternative Minimum Tax	-	3,566
Prior year income tax underestimation	18,853	39,330
Effect from changes in tax regulation	(275,112)	-
Income tax (benefit) expense	<u>(\$ 361,277)</u>	<u>\$ 237,177</u>

C. Amounts of deferred tax assets or liabilities as a result of temporary differences, tax losses and investment tax credit are as follows:

	2018			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Deferred tax assets:				
— Temporary differences:				
Unrealized inventory loss	\$ 25,156	\$ 4,399	\$ -	\$ 29,555
Unrealized exchange loss	277	(277)	-	-
Unrealized sales returns and discounts	9,794	28,544	-	38,338
Bad debt expense	11,158	(7,122)	-	4,036
Unrealized loss from sales	4,949	(4,949)	-	-
Investment loss under equity method	513,745	48,097	-	561,842
Impairment loss for non-financial assets	103,733	(60,632)	-	43,101
Loss on valuation of financial assets	112,585	-	142,243	254,828
Impairment loss for financial assets	3,484	(3,437)	-	47
Deferred revenue	76,642	(11,077)	-	65,565
Currency translation differences	515,708	-	112,777	628,485
Unrealized pension	20,206	463	6,365	27,034
Others	9,169	174,520	-	183,689
Tax losses	1,494,734	459,888	-	1,954,622
Investment tax credit	119,990	-	-	119,990
Subtotal	<u>\$ 3,021,330</u>	<u>\$ 628,417</u>	<u>\$ 261,385</u>	<u>\$ 3,911,132</u>
— Deferred tax liabilities:				
Unrealized exchange gain	\$ -	(\$ 47)	\$ -	(\$ 47)
Unrealized gross profit	-	(17,157)	-	(17,157)
Bargain purchase gain	(36,272)	13,602	-	(22,670)
Investment gain under equity method	(516,341)	(16,366)	-	(532,707)
Gain on valuation of financial assets	(104,743)	-	(14,554)	(119,297)
Currency translation differences				
Disaster insurance compensation income	(393,055)	-	(84,141)	(477,196)
Others	(47,386)	(186,441)	-	(233,827)
Subtotal	<u>(\$ 1,097,797)</u>	<u>(\$ 206,409)</u>	<u>(\$ 98,695)</u>	<u>(\$ 1,402,901)</u>
Total	<u>\$ 1,923,533</u>	<u>\$ 422,008</u>	<u>\$ 162,690</u>	<u>\$ 2,508,231</u>

2017

	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Deferred tax assets:				
– Temporary differences:				
Unrealized inventory loss	\$ 70,475	(\$ 45,319)	\$ -	\$ 25,156
Unrealized exchange loss	-	277	-	277
Unrealized sales returns and discounts	10,891	(1,097)	-	9,794
Bad debt expense	11,534	(376)	-	11,158
Unrealized loss from sales	4,778	171	-	4,949
Investment loss under equity method	498,112	15,633	-	513,745
Impairment loss for non-financial assets	129,138	(25,405)	-	103,733
Loss on valuation of financial assets	59,617	-	52,968	112,585
Impairment loss for financial assets	298	3,186	-	3,484
Deferred revenue	2,066	74,576	-	76,642
Currency translation differences	382,949	-	132,759	515,708
Unrealized pension	14,688	(1,756)	7,274	20,206
Others	289	8,880	-	9,169
Tax losses	1,513,092	(18,358)	-	1,494,734
Investment tax credit	16,955	103,035	-	119,990
Subtotal	<u>\$ 2,714,882</u>	<u>\$ 113,447</u>	<u>\$ 193,001</u>	<u>\$ 3,021,330</u>
– Deferred tax liabilities:				
Unrealized foreign exchange gain	(\$ 42,473)	\$ 42,473	\$ -	\$ -
Unrealized gross profit	(10,918)	10,918	-	-
Bargain purchase gain	(53,275)	17,003	-	(36,272)
Investment gain under equity method	(373,374)	(142,967)	-	(516,341)
Gain on valuation of financial assets	(58,130)	-	(46,613)	(104,743)
Currency translation differences	(298,684)	-	(94,371)	(393,055)
Disaster insurance compensation income	(74,147)	74,147	-	-
Others	(38,501)	(8,885)	-	(47,386)
Subtotal	<u>(\$ 949,502)</u>	<u>(\$ 7,311)</u>	<u>(\$ 140,984)</u>	<u>(\$ 1,097,797)</u>
Total	<u>\$ 1,765,380</u>	<u>\$ 106,136</u>	<u>\$ 52,017</u>	<u>\$ 1,923,533</u>

D. Details of the amount the Group is entitled as investment tax credit and unrecognized deferred tax assets are as follows:

December 31, 2018			
Qualifying items	Unused tax credits	Unrecognised deferred tax assets	Expiry year
Investment credit for stockholder	\$ 99,990	\$ -	2020
Investment credit for stockholder	20,000	-	2021

December 31, 2017			
Qualifying items	Unused tax credits	Unrecognised deferred tax assets	Expiry year
Investment credit for stockholder	\$ 99,990	\$ -	2020
Investment credit for stockholder	20,000	-	2021

E. Expiration dates of unused tax losses and amounts of unrecognized deferred tax assets are as follows:

December 31, 2018				
Year incurred	Amount filed / assessed	Unused amount	Unrecognised deferred tax assets	Expiry year
2014	Assessed	\$ 3,948,345	\$ -	2024
2015	Assessed	1,048,266	-	2025
2016	Filed	3,408,870	-	2026

December 31, 2017				
Year incurred	Amount filed / assessed	Unused amount	Unrecognised deferred tax assets	Expiry year
2014	Assessed	\$ 3,948,345	\$ -	2024
2015	Assessed	1,048,266	-	2025
2016	Filed	3,408,870	-	2026

Unutilized tax losses from the subsidiary is as follows:

December 31, 2018				
Year incurred	Amount filed / assessed	Unused amount	Unrecognised deferred tax assets	Expiry year
2011	Assessed	\$ 1,166	\$ 1,166	2021
2012	Assessed	46,635	46,635	2022
2013	Assessed	8,487	8,487	2018
2013	Filed	369,062	369,062	2023
2014	Filed	460,286	460,286	2019
2014	Assessed	19,810	19,810	2024
2015	Filed	470,249	465,088	2020
2015	Assessed	9,427	9,427	2025
2016	Filed	613,643	613,643	2021
2016	Assessed	146,835	146,835	2026
2017	Filed	155,454	155,454	2027

December 31, 2017

Year incurred	Amount filed / assessed	Unused amount	Unrecognised deferred tax assets	Expiry year
2011	Assessed	\$ 1,166	\$ 1,166	2021
2012	Assessed	46,635	46,635	2022
2013	Assessed	8,487	8,487	2018
2013	Filed	369,062	369,062	2023
2014	Filed	460,286	460,286	2019
2014	Assessed	19,810	19,810	2024
2015	Filed	470,249	465,088	2020
2015	Assessed	9,427	9,427	2025
2016	Filed	613,643	613,643	2021
2016	Assessed	146,835	146,835	2026
2017	Filed	155,454	155,454	2027

F. The amounts of deductible temporary difference that are not recognized as deferred tax assets are as follows: None.

G. The Company's products qualify for "Regulations for Encouraging Manufacturing Enterprises and Technical Service Enterprises in the Newly Emerging, Important and Strategic Industries" and the Company is entitled to the income tax exemption for five consecutive years. The duration has been set to start from January 1, 2017.

H. The Company's income tax returns through 2016 have been assessed and approved by the Tax Authority.

I. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China on February 7, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Company has assessed the impact of the change in income tax rate.

(31) (Losses) earnings per share

	Year ended December 31, 2018		
	Amount after tax	Weighted average number of outstanding ordinary shares	Losses per share
		(share in thousands)	(in dollars)
<u>Basic losses per share</u>			
Losses attributable to the parent	(\$ 456,146)	1,084,686	(\$ 0.42)

	Year ended December 31, 2017		
	Amount after tax	Weighted average number of outstanding ordinary shares (share in thousands)	Earnings per share (in dollars)
<u>Basic losses per share</u>			
Losses attributable to the parent	\$ 1,649,913	1,067,492	\$ 1.55
<u>Diluted losses per share</u>			
Profit attributable to the parent	\$ 1,649,913	1,067,492	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	6,922	
Treasury stocks transferred to employees	-	3,850	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 1,649,913	1,078,264	\$ 1.53

(32) Supplemental cash flow information

A. Investing activities with partial cash payments

	Year ended December 31, 2018	Year ended December 31, 2017
Purchase of property, plant and equipment	\$ 3,606,868	\$ 2,442,318
Add: Opening balance of payable on equipment	848,963	1,104,032
Add: Ending balance of prepayment for equipment	214,939	349,388
Less: Ending balance of payable on equipment	(1,153,185)	(848,963)
Less: Opening balance of prepayment for equipment	(349,388)	(719,074)
Less: Payable on equipment transferred to other income	-	(121,680)
Cash paid during the year	\$ 3,168,197	\$ 2,206,021

Intangible assets:

	Year ended December 31, 2018	Year ended December 31, 2017
Purchase of intangible assets	\$ 96,142	\$ 167,410
Add: Opening balance of payables	177,597	239,116
Less: Ending balance of payables	(142,218)	(177,597)
Cash paid during the year	\$ 131,521	\$ 228,929

B. Partial cash investing activities

	Year ended December 31, 2018	Year ended December 31, 2017
Sale of property, plant and equipment	\$ 74,395	\$ 113,766
Add: Opening balance of receivables	4,581	44,505
Less: Ending balance of receivables	(2,704)	(4,581)
Cash collected during the period	<u>\$ 76,272</u>	<u>\$ 153,690</u>

C. Cash received from disposal of ownership interests in subsidiaries

	Year ended December 31, 2018	Year ended December 31, 2017
Disposal proceeds	\$ 212,757	\$ -
Add: Opening balance of receivables	77,400	77,400
Less: Ending balance of receivables	(17,093)	(77,400)
Net cash provided by disposal of subsidiaries	<u>\$ 273,064</u>	<u>\$ -</u>

D. Financing activities with partial cash

	Year ended December 31, 2018	Year ended December 31, 2017
Treasury shares reissued to employees	\$ 391,400	\$ -
Less: Shown as 'Other receivables'	(104,503)	-
Cash collected in the year	<u>\$ 286,897</u>	<u>\$ -</u>

(33) Changes in liabilities from financing activities

	Short-term borrowing	Long-term borrowing	Liabilities from financing activities gross
At January 1, 2018	\$ 700,000	\$ 3,098,136	\$ 3,798,136
Changes in cash flow from financing activities	1,203,014	(2,533,038)	(1,330,024)
Effect of exchange rate changes in borrowings	(1,105)	634	(471)
Effect of exchange rate	(27,033)	(812)	(27,845)
Amortisation of borrowings cost	-	10,194	10,194
At December 31, 2018	<u>\$ 1,874,876</u>	<u>\$ 575,114</u>	<u>\$ 2,449,990</u>

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

Names of related parties	Relationship with the Group
Nan Ya Photonics Incorporation	Associates
Tekcore Co., Ltd.	Associates
TE Opto Corporation	Associates
KAISTAR Lighting (Xiamen) Co., Ltd.	Associates (Note 4)
ProLight Opto Technology Corporation	Associates
Very Optoelectronics(HUI ZHOU) Co., Ltd	Associates(Note 1)
PlayNitride Inc.	Associates(Note 2)
Tops Electrical Technology Co., Ltd.	Associates(Note 3)
LEDAZ Co., Ltd.	Associates
Everlight Electronics Co., Ltd. and its subsidiaries	Other related parties
Seoul Viosys Co. ,Ltd.	Other related parties
Seoul Semiconductor Co., Ltd.	Other related parties
Note1: It is no longer the Company's other related party beginning on June 17, 2016.	
Note2: It is no longer the Company's other related party beginning on March 6, 2018.	
Note3: It is no longer the Company's other related party beginning on March 29, 2018.	
Note4: It is no longer the Company's other related party beginning on April 26, 2018.	

(2) Significant related party transactions and balances

A. Operating revenue:

	Year ended December 31, 2018	Year ended December 31, 2017
Other related parties		
Everlight Electronics Co., Ltd and its subsidiaries	\$ 1,716,675	\$ 2,685,924
Others	251,975	1,969
Subtotal	1,968,650	2,687,893
Associates	1,233,180	2,447,487
Total	\$ 3,201,830	\$ 5,135,380

The sales price and collection terms to related parties are generally comparable to those of third parties which is 150 days after month-end closing. Additionally, the sales price offered to certain related parties is not comparable to third parties since there is no such transaction with third parties. All other sales prices to related parties are the same as those to third parties.

B. Purchases:

	Year ended December 31, 2018	Year ended December 31, 2017
Associates		
KAISTAR Lighting (Xiamen) Co.,Ltd	\$ 209,703	\$ 1,090,414
Others	80,353	79,001
	\$ 290,056	\$ 1,169,415

Due to the product variety, the purchase price from the above related parties was not comparable to other suppliers while other products have no difference with market price.

C. Receivables from related parties:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Accounts receivable:		
Other related parties		
Everlight Electronics Co., Ltd. and its subsidiaries	\$ 924,489	\$ 1,572,987
Others	44,515	-
Less: Allowance for sales returns and discounts	<u>-</u>	<u>(14,479)</u>
Subtotal	<u>969,004</u>	<u>1,558,508</u>
Associates		
KAISTAR Lighting (Xiamen) Co., Ltd.	-	638,874
LEDAZ Co., Ltd.	267,531	322,199
Others	44,471	260,176
Less: Allowance for sales returns and discounts	<u>-</u>	<u>(652)</u>
Subtotal	<u>312,002</u>	<u>1,220,597</u>
Total	<u>\$ 1,281,006</u>	<u>\$ 2,779,105</u>

The receivables from related parties arise mainly from sale transactions. The receivables are unsecured in nature and bear no interest.

D. Other receivables from related parties:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Associates	<u>\$ 305</u>	<u>\$ 24,785</u>

The other receivables from related parties arise mainly from sales of machinery and equipment and patent licensing transactions.

E. Payables from related parties:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Accounts payable:		
Associates		
KAISTAR Lighting (Xiamen) Co., Ltd.	\$ -	\$ 395,579
LEDAZ Co., Ltd.	250,167	325,775
Others	<u>35,658</u>	<u>33,493</u>
Subtotal	<u>285,825</u>	<u>754,847</u>
Total	<u>\$ 285,825</u>	<u>\$ 754,847</u>

F. Property transactions:

(a) Purchase of machinery and equipment

	Year ended December 31, 2018		Year ended December 31, 2017	
	<u>Purchase price</u>	<u>Payables</u>	<u>Purchase price</u>	<u>Payables</u>
Other related parties	\$ -	\$ -	\$ 344	\$ 99
Associates	390	-	25,784	-
	<u>\$ 390</u>	<u>\$ -</u>	<u>\$ 26,128</u>	<u>\$ 99</u>

(b) Disposal of property, plant and equipment

	Year ended December 31, 2018		Year ended December 31, 2017	
	<u>Sales price</u>	<u>Gain of disposal</u>	<u>Sales price</u>	<u>Gain of disposal</u>
Associates	<u>\$ 1,836</u>	<u>(\$ 98)</u>	<u>\$ 2,047</u>	<u>\$ 1,694</u>

G. Other

(a) Royalty and technical income

	Year ended December 31, 2018	Year ended December 31, 2017
Associates		
KAISTAR Lighting (Xiamen) Co., Ltd.	\$ 1,184	\$ 27,189
Others	1,517	823
	<u>\$ 2,701</u>	<u>\$ 28,012</u>

(b) Other income

	Year ended December 31, 2018	Year ended December 31, 2017
Associates	<u>\$ 2,646</u>	<u>\$ 17,358</u>

(c) Interest income

	Year ended December 31, 2018	Year ended December 31, 2017
Associates	<u>\$ 172</u>	<u>\$ 276</u>

(d) Rental expense

	Year ended December 31, 2018	Year ended December 31, 2017
Associates	<u>\$ -</u>	<u>\$ 316</u>

(3) Key management compensation

	Year ended December 31, 2018	Year ended December 31, 2017
Salaries and other short-term employee benefits	\$ 127,237	\$ 140,719
Share-based payment	1,991	2,092
Termination benefits	-	7,423
Post-employment benefits	-	8
Total	<u>\$ 129,228</u>	<u>\$ 150,242</u>

8. PLEDGED ASSETS

The Group's assets pledged as collateral are as follows: (The time deposits described below are recognized as other current assets - non-cash equivalents)

Item	Book value		Purpose of pledge
	December 31, 2018	December 31, 2017	
Bank deposits (shown in "Other assets- other")	\$ 280,663	\$ 24,876	Payables for bankers' acceptance
Bank deposits (Shown in "Other assets- other")	145,446	154,223	Lease deposit, customer deposit, Collateral deposits for provisional seizure
Notes receivable	44,720	-	
Buildings and Structures	577,376	1,968,149	Long-term borrowings
	<u>\$ 1,048,205</u>	<u>\$ 2,147,248</u>	

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

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

	December 31, 2018	December 31, 2017
Contracted but not provided		
Property, plant and equipment	<u>\$ 1,501,681</u>	<u>\$ 999,146</u>

B. Operating lease commitments

The Group's operating lease contracts for land, factories, dorms and automobiles are irrevocable and most of them can be renewed at market price at the end of the lease term.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	December 31, 2018	December 31, 2017
Not later than one year	\$ 94,706	\$ 77,958
Later than one year but not later than five years	263,157	192,249
Later than five years	473,164	345,406
Total	<u>\$ 831,027</u>	<u>\$ 615,613</u>

C. On October 12, 2012, the Trustees of Boston University filed a lawsuit against the Company, alleging patent infringement. In November 2015, the verdict of a Massachusetts federal jury for the first instance stated that the Company shall pay compensation of US\$ 9.3 million. However, the Company won the verdict from the United States Court of Appeals for the Federal Circuit that stated in the second instance that the alleging patent infringement is invalid on July 25, 2018.

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

The Company distributed cash dividends in approximately NT\$0.3 in dollars per share from capital surplus to its shareholders, total amounting to \$324,270, as resolved by the Board of Director during its meeting on March 14, 2019.

12. OTHERS

(1) Capital risk management

The Group's capital management policy is established taking into account the industry characteristics, the Group's future development and changes in external environments. The Group plans the working capital, capital expenditures, investments and dividends required for the future based on the capital management policy, makes financial analysis, and examines its capital structure periodically and makes appropriate adjustments to ensure that every company within the Group may grow and operate indefinitely.

(2) Financial instruments

A Financial instruments by category

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Financial assets		
Financial assets at fair value through profit or loss		
Financial assets mandatorily measured at fair value through profit or loss	\$ 726,406	\$ -
Financial assets at fair value through other comprehensive income	-	410,766
Designation for investments of equity instruments	3,265,125	-
Available-for-sale financial assets	-	1,957,093
Financial assets at amortised cost		
Cash and cash equivalents	5,532,509	6,836,697
Notes receivable	1,495,653	1,886,532
Accounts receivable	7,583,934	6,623,059
Accounts receivable due from related parties	1,281,006	2,779,105
Other receivables	249,964	823,277
Other receivables due from related parties	305	24,785
Guarantee deposits paid	98,675	24,113
Other financial assets	428,380	181,409
	<u>\$ 20,661,957</u>	<u>\$ 21,546,836</u>

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Financial liabilities		
Financial liabilities at amortised cost		
Short-term borrowings	\$ 1,874,876	\$ 700,000
Short-term notes payable	357,717	376,791
Notes payable	129,942	74,172
Accounts payable	2,301,209	2,413,925
Accounts payable to related parties	285,825	754,847
Other payables	3,820,103	4,037,486
Long-term borrowings (including current portic	575,114	3,098,136
Long-term accounts payable	95,059	130,438
Guarantee deposits received	70,444	49,501
	<u>\$ 9,510,289</u>	<u>\$ 11,635,296</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, interest rate risk and price risk), credit risk and liquidity risk. The purpose of risk management is to minimise potential adverse effects arising from uncertainty on the Group's financial performance.
- (b) Risk management is carried out by treasury and finance departments of the Company under policies approved by the Board of Directors. Treasury and finance departments of the Company identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- i. The Group operates internationally and is exposed to exchange rate risk arising from the transactions of the Company and its subsidiaries used in various functional currency, primarily with respect to the USD, JPY and RMB. Exchange rate risk arises from future commercial transactions and recognised assets and liabilities.
- ii. Management has set up a policy to require the Group to manage their foreign exchange risk against their functional currency. The companies are required to hedge their entire foreign exchange risk exposure with the Company treasury.
- iii. The Group's businesses involve some non-functional currency operations (the functional currency of the Company and certain subsidiaries is NTD while that of other subsidiaries are USD and RMB). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

December 31, 2018			
(Foreign currency: functional currency)	Foreign currency amount (in Thousands)	Exchange rate	Book value (in Thousands of NTD)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 181,169	30.715	\$ 5,564,607
RMB:NTD	527,598	4.4720	2,359,418
<u>Non-monetary items</u>			
USD:NTD	103,103	30.715	3,166,821
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	82,933	30.715	2,547,277
RMB:NTD	156,520	4.472	699,960
December 31, 2017			
(Foreign currency: functional currency)	Foreign currency amount (in Thousands)	Exchange rate	Book value (in Thousands of NTD)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 330,183	29.760	\$ 9,826,241
RMB:NTD	779,526	4.5650	3,558,536
JPY:NTD	447,164	0.2642	118,141
<u>Non-monetary items</u>			
USD:NTD	49,599	29.760	1,476,069
RMB:NTD	386,545	4.5650	1,764,578
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	81,917	29.760	2,437,841
USD:RMB	45,713	6.5342	1,360,415
RMB:NTD	134,705	4.5650	614,928
JPY:NTD	473,345	0.2642	125,058

iv. Please refer to the following table for the details of unrealized exchange gain (loss) arising from significant foreign exchange variation on the monetary items held by the Group.

		Year ended December 31, 2018		
		Unrealized exchange gain (loss)		
		Foreign currency amount	Exchange rate	Book value
		(in Thousands)		(in Thousands of NTD)
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	\$	-	30.715	\$ 4,294
USD:RMB		979	6.8632	4,376
RMB:NTD		-	4.4720	(12,068)
JPY:NTD			0.2782	1,242
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD		-	30.715	7,718
USD:RMB	(	86)	6.8632	(385)
RMB:NTD		-	4.4720	1,507
JPY:NTD		-	0.2782	(1,446)
		Year ended December 31, 2017		
		Unrealized exchange gain (loss)		
		Foreign currency amount	Exchange rate	Book value
		(in Thousands)		(in Thousands of NTD)
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	\$	-	29.760	(\$ 127,003)
USD:RMB		205	6.5342	936
RMB:NTD		-	4.5650	41,596
JYP:NTD		-	0.2642	(182)
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD		-	29.760	40,954
USD:RMB		3,431	6.5342	15,664
RMB:NTD		-	4.5650	(1,654)
JPY:NTD		-	0.2642	1,225

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

Year ended December 31, 2018				
Sensitivity analysis				
	Extent of variation	Effect on profit or		Effect on equity
		loss		
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	1%	\$	55,646	\$ -
RMB:NTD	1%		23,594	-
<u>Non-monetary items</u>				
USD:NTD	1%		-	31,668
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	1%		25,473	-
RMB:NTD	1%		7,000	-
Year ended December 31, 2017				
Sensitivity analysis				
	Extent of variation	Effect on profit or		Effect on equity
		loss		
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	1%	\$	98,262	\$ -
RMB:NTD	1%		35,585	-
JYP:NTD	1%		1,181	-
<u>Non-monetary items</u>				
RMB:NTD	1%		-	17,646
USD:NTD	1%		-	14,761
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	1%		24,378	-
USD:RMB	1%		13,604	-
RMB:NTD	1%		6,149	-
JPY:NTD	1%		1,251	-

Price risk

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

- ii. The Group's investments in equity securities comprise shares and open-end funds issued by the domestic companies. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 10% with all other variables held constant, post-tax profit for the years ended December 31, 2018 and 2017 would have increased/decreased by \$72,641 and \$41,077, respectively, as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would have increased/decreased by \$326,513 and \$195,709, respectively, as a result of other comprehensive income classified as available-for-sale equity investment and equity investment at fair value through other comprehensive income.

Interest rate risk

- i. The Group's interest rate risk arises from bank deposits and long-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. The Group's borrowings at variable rate were denominated in the USD, RMB and NTD.
- ii. Based on the simulations performed on sensitivity analysis for interest rate risk, the maximum impact on post-tax profit of a 0.1% shift would be increased/decreased of \$111 and \$2,282 for the years ended December 31, 2018 and 2017, respectively. The simulation is done on a quarterly basis to ensure that the potential maximum loss is within the limit set by the management.

(b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the contract cash flows of debt instruments stated at amortised cost, at fair value through profit or loss and at fair value through other comprehensive income.
- ii. The Group adopts the assumptions under IFRS 9, the default occurs when the contract payments are past due over 90 days.
- iii. The Group adopts following assumptions under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition: If the contract payments were past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.
- iv. The Group classifies customers' accounts receivable, contract assets and rents receivable in accordance with credit rating of customer. The Group applies the simplified approach using provision matrix, loss rate methodology to estimate expected credit loss under the provision matrix basis.
- 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. On December 31, 2018 and 2017, the Group's written-off financial assets that are still under recourse procedures amounted to \$16,753 and \$129,959, respectively.
- vi. The Group used the forecastability of Taiwan Institute of Economic Research boom observation report to adjust historical and timely information to assess the default possibility of accounts receivable and other receivables. On December 31, 2018, the provision matrix, loss rate methodology is as follows:

	Up to 30 Not past due	31~90 days days past due	91~180 days past due	Over 180 days past due	Total
<u>December 31, 2018</u>					
Expected loss rate	0%~1%	0%~3%	0%~56%	0%~100%	0%~100%
Total book value	<u>\$ 9,202,152</u>	<u>\$ 557,448</u>	<u>\$ 671,379</u>	<u>\$ 164,827</u>	<u>\$ 10,608,562</u>
Loss allowance	<u>\$ 1,779</u>	<u>\$ 968</u>	<u>\$ 6,637</u>	<u>\$ 13,959</u>	<u>\$ 1,524</u>
		Individual provision	Group provision		Total

	100%	0%~100%	
<u>December 31, 2018</u>			
Expected loss rate	100%	0%~100%	
Total book value	<u>\$ 34,041</u>	<u>\$ 10,608,562</u>	<u>\$ 10,642,603</u>
Loss allowance	<u>\$ 34,041</u>	<u>\$ 24,867</u>	<u>\$ 58,908</u>

- vii. Movements in relation to the Company applying the simplified approach to provide loss allowance for accounts receivable, and other receivables are as follows:

	Year ended December 31, 2018	
	Accounts receivable	Other receivables
At January 1_IAS 39	\$ 113,138	\$ 20,270
Adjustments under new standards	12,993	-
At January 1_IFRS 9	126,131	20,270
Provision for impairment	25,718	79
Reversal of impairment	(15,904)	(4,200)
Write-offs	(92,944)	(79)
Effect of exchange rate changes	(163)	-
At December 31	<u>\$ 42,838</u>	<u>\$ 16,070</u>

- viii. Credit risk information of 2017 is provided in Note 12(4).

(c) Liquidity risk

- i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and external regulatory or legal requirements.
- ii. Surplus cash are invested in interest bearing current accounts, time deposits, money market deposits and marketable securities, with appropriate maturities or sufficient liquidity to provide sufficient headroom and meet the above-mentioned forecasts. As of December 31, 2017 and 2016, the Group held money market position of \$6,258,915 and \$7,247,463, respectively, and those are expected to readily generate cash inflows for managing liquidity risk.
- iii. The table below shows analysis of 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>Non-derivative financial liabilities:</u>				
December 31, 2018	<u>Less than 1 year</u>	<u>Between 1 and 5 years</u>	<u>Between 5 and 7 years</u>	<u>Over 7 years</u>
Short-term borrowings	\$ 1,847,876	\$ -	\$ -	\$ -
Short-term notes and bills payable	357,717	-	-	-
Notes payable	129,942	-	-	-
Accounts payable	2,587,043	-	-	-
Other payables	3,820,103	-	-	-
Long-term borrowings (including current portion)	171,144	414,535	-	-
Long-term accounts payable (including current portion)	-	95,059	-	-
Other financial liabilities	69,149	762	-	533
<u>Non-derivative financial liabilities:</u>				
December 31, 2017	<u>Less than 1 year</u>	<u>Between 1 and 5 years</u>	<u>Between 5 and 7 years</u>	<u>Over 7 years</u>
Short-term borrowings	\$ 700,000	\$ -	\$ -	\$ -
Short-term notes and bills payable	376,791	-	-	-
Notes payable	74,172	-	-	-
Accounts payable	3,168,772	-	-	-
Other payables	4,037,846	-	-	-
Long-term borrowings (including current portion)	1,023,906	2,156,696	-	-
Long-term accounts payable (including current portion)	-	130,438	-	-
Other financial liabilities	46,939	2,030	-	533

iv. The Group does not expect the timing of the estimated cash outflows through the maturity date analysis will be significantly earlier, nor expect the actual cash flow amount will be significantly different.

(3) Fair value information

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Group's investment in listed stocks and beneficiary certificates is included in Level 1.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of the Group's investment in convertible bonds and most derivative instruments is included in Level 2.

Level 3: Unobservable inputs for the asset or liability. The fair value of the Group's investment in equity investment without active market is included in Level 3.

B. Financial instruments not measured at fair value

(a) Except for those listed in the table below, the carrying amounts of cash and cash equivalents, notes receivable, accounts receivable, other receivables, refundable deposits, other financial assets, short-term borrowings, short-term notes and bills payable, notes payable, accounts payable, other payables, long-term accounts payable and guarantee deposits received are approximate to their fair values.

	December 31, 2018			
	Book value	Fair value		
		Level 1	Level 2	Level 3
Financial liabilities:				
Long-term borrowings (including current portion)	\$ 575,114	\$ -	\$ 577,226	\$ -
	December 31, 2017			
	Book value	Fair value		
		Level 1	Level 2	Level 3
Financial liabilities:				
Long-term borrowings (including current portion)	\$ 3,108,332	\$ -	\$ 3,120,530	\$ -

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

Long-term borrowings: They are measured at present value, which is calculated based on the cash flow expected to be paid and discounted using a market rate prevailing at balance sheet date.

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 at December 31, 2018 and 2017 is as follows:

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

December 31, 2018	Level 1	Level 2	Level 3	Total
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Equity securities	\$ 352,103	\$ 7,689	\$ -	\$ 359,792
Beneficiary certificates	366,614	-	-	366,614
Available-for-sale financial assets				
Equity securities	335,631	9,502	2,919,992	3,265,125
Total	\$ 1,054,348	\$ 17,191	\$ 2,919,992	\$ 3,991,531
December 31, 2017	Level 1	Level 2	Level 3	Total
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Equity securities	\$ 160,288	\$ 198	\$ -	\$ 160,486
Beneficiary certificates	250,280	-	-	250,280
Available-for-sale financial assets				
Equity securities	330,403	24,379	1,602,311	1,957,093
Total	\$ 740,971	\$ 24,577	\$ 1,602,311	\$ 2,367,859

(b) The methods and assumptions the Group used to measure fair value are as follows:

i. The instruments the Group used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

	Listed shares	Closed-end fund	Open-end fund
Market quoted	Closing price	Closing price	Net asset value

- ii. Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the consolidated balance sheet date.
 - iii. When assessing non-standard and low-complexity financial instruments, for example, debt instruments without active market and foreign exchange swap contracts, the Group adopts valuation technique that is widely used by market participants. The inputs used in the valuation method to measure these financial instruments are normally observable in the market.
 - iv. For high-complexity financial instruments, the fair value is measured by using self-developed valuation model based on the valuation method and technique widely used within the same industry. The valuation model is normally applied to derivative financial instruments, debt instruments with embedded derivatives or securitised instruments. Certain inputs used in the valuation model are not observable at market, and the Group must make reasonable estimates based on its assumptions. The effect of unobservable inputs to the valuation of financial instruments is provided in Note 12(3)A.
 - v. The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Group's financial and non-financial instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs, for example, model risk or liquidity risk and etc. In accordance with the Group's management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial and non-financial instruments at the consolidated balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.
- (c) The following chart is the movement of Level 3 for the years ended December 31, 2018 and 2017:

	<u>Equity securities</u>
At January 1, 2018	\$ 1,602,311
Gain recognised in profit or loss	(232)
Loss recognised in other comprehensive income	(617,120)
Acquired in the period	(12,923)
Disposals in the year	46,616
Transfers into level 3	1,901,340
At December 31, 2018	<u>\$ 2,919,992</u>
	<u>Equity securities</u>
At January 1, 2017	\$ 1,836,758
Gain recognised in other comprehensive income	13,888
Loss recognised in profit or loss	(137,739)
Disposals in the year	(119,196)
Transfers into level 2	8,600
At December 31, 2017	<u>\$ 1,602,311</u>

D. The Company lost significant influence over PlayNitride Inc. and KAISTAR Lighting

(Xiamen)Co., Ltd. as their shares owned by the Company were less than 20% as at March 6, 2018 and April 26, 2018, respectively. Therefore, the Company reclassified them into financial assets at fair value through other comprehensive income in accordance with IFRSs. Additionally, the Company transferred the fair values into Level 3 as there is insufficient observable market information.

- E. Because the stocks of Lustrous Technology, Ltd. is no longer publicly traded since March 1, 2017, and there is insufficient observable market information, the Company has transferred the fair value from Level 2 into Level 3.
- F. Treasury department is in charge of valuation procedures for fair value measurements being categorised within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently calibrating valuation model, performing back-testing, updating inputs used to the valuation model and making any other necessary adjustments to the fair value.
- G. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

	Fair value at December 31, 2018	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity instrument:					
Unlisted shares	\$ 2,402,469	Market comparable companies	Price to book ratio multiple	0.45~2.71	The higher the multiple, the higher the fair value.
			Discount for lack of marketability	20%~30%	The higher the discount for lack of marketability, the lower the fair value.
Unlisted shares	465,131	Market comparable companies	Price to earnings ratio multiple	19.30~19.39	The higher the multiple, the higher the fair value.
			Discount for lack of marketability	20%	The higher the discount for lack of marketability, the lower the fair value.
Unlisted shares	52,392	Market comparable companies	Enterprise value to operating income ratio multiple	26.11	The higher the multiple value, the higher the fair value.
			Discount for lack of marketability	20%	The higher the discount for lack of marketability, the lower the fair value.

	Fair value at December 31, 2017	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity instrument:					
Unlisted shares	\$ 998,564	Market comparable companies	Price to book ratio multiple	1.05~2.65	The higher the multiple, the higher the fair value.
			Discount for lack of marketability	20%~30%	The higher the discount for lack of marketability, the lower the fair value.
Unlisted shares	554,073	Market comparable companies	Price to earnings ratio multiple	29.42~32.74	The higher the multiple, the higher the fair value.
			Discount for lack of marketability	20%	The higher the discount for lack of marketability, the lower the fair value.
Unlisted shares	49,674	Market comparable companies	Enterprise value to operating income ratio multiple	40.51	The higher the net asset value, the higher the fair value.
			Discount for lack of marketability	20%	The higher the discount for lack of marketability, the lower the fair value.

H. 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:

		December 31, 2018				
		Recognised in profit or loss		Recognised in other comprehensive income		
	Input	Change	Favourable change	Unfavourable change	Favourable change	Unfavourable change
Financial assets						
Equity instrument	Multiple	±1%	\$ -	\$ -	\$ 29,200	(\$ 29,200)
		December 31, 2017				
		Recognised in profit or loss		Recognised in other comprehensive income		
	Input	Change	Favourable change	Unfavourable change	Favourable change	Unfavourable change
Financial assets						
Equity instrument	Multiple	±1%	\$ -	\$ -	\$ 16,023	(\$ 16,023)

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

A. Summary of significant accounting policies adopted in 2017:

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

A. Financial assets at fair value through profit or loss are financial assets held for trading or financial assets designated as at fair value through profit or loss on initial recognition.

Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets held for trading unless they are designated as hedges.

- B. On a regular way purchase or sale basis, financial assets held for trading are recognized and derecognized using trade date accounting if they are derivative instruments and using settlement date accounting if they are beneficiary certificates.
 - C. Financial assets at fair value through profit or loss are initially recognized at fair value. Related transaction costs are expensed in profit or loss. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in profit or loss.
- (2) Available-for-sale financial assets
- A. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other category.
 - B. On a regular way purchase or sale basis, available-for-sale financial assets are recognized and derecognized using trade date accounting.
 - C. Available-for-sale financial assets are initially recognized at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in other comprehensive income.
- (3) Accounts and notes receivable
- Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as effect of discounting is immaterial.
- (4) Impairment of financial assets
- A. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
 - B. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:
 - (a) Significant financial difficulty of the issuer or debtor;
 - (b) A breach of contract, such as a default or delinquency in interest or principal payments;
 - (c) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
 - (d) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
 - (e) The disappearance of an active market for that financial asset because of financial difficulties;
 - (f) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the

group;

- (g) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;
- (h) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost

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

(a) Financial assets measured at amortised cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of established future cash flows discounted at the financial asset's original effective interest rate, and is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decrease and the decrease can be related objectively to an event occurring after the impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost that would have been at the date of reversal had the impairment loss not been recognised previously. Impairment loss is recognised and reversed by adjustment the carrying amount of the asset directly.

(b) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the assets acquisition cost (less any principal repayment and amortisation) and current fair value, less any impairment loss on that financial assets previously recognised in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. If, in a subsequent period, the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognised, then such impairment loss is reversed through profit or loss. Impairment loss of an investment in an equity instrument recognised in profit or loss shall not be reversed through profit or loss. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

B The reconciliations of carrying amount of financial assets transferred from December 31, 2017, IAS 39, to January 1, IFRS 9, were as follows:

			Available-for-sale - equity			Effects	
	Measured at fair value through profit or loss	Measured at fair value through profit or loss	Measured at fair value through other comprehensive income - equity	Deferred income tax assets	Deferred income tax liabilities	Retained earnings	Others equity
IAS 39	\$ 410,766	\$ 1,957,093	\$ 2,819,665	\$3,021,330	\$1,097,797	\$1,614,226	(\$ 684,243)
Transferred into and measured at fair value through profit or loss of the Group	13,156	(13,156)	-	-	-	-	-
Transferred into and measured at fair value through other comprehensive income - equity of and measured at fair value through other comprehensive income - equity of associates	-	-	-	(73,672)	(78,367)	62,805	(58,110)
	-	-	9,650	-	-	-	9,650
IFRS 9	<u>\$ 423,922</u>	<u>\$ 1,943,937</u>	<u>\$ 2,829,315</u>	<u>\$ 2,947,658</u>	<u>\$ 1,019,430</u>	<u>\$ 1,677,031</u>	<u>(\$ 732,703)</u>

- (a) Under IAS 39, the equity instruments, which were classified as available-for-sale financial assets amounting to \$1,957,093, were reclassified as ‘financial assets at fair value through profit or loss (equity instruments)’ and ‘financial assets at fair value through other comprehensive income (equity instruments)’ amounting to \$13,156 and \$1,943,937, respectively; as well as decreased deferred tax assets and liabilities in the amount of \$73,672 and \$78,367, respectively, increased retained earnings and decreased other equity interest in the amounts of \$62,805 and \$58,110, respectively, under IFRS 9.
- (b) Under IAS 39, the invested companies accounted for using equity method, which were classified as financial assets at cost, were reclassified as ‘financial assets at fair value through other comprehensive income (equity instruments)’, increased the investments accounted for using equity method and other equity interest in the amounts of \$9,650 and \$9,650 under IFRS 9.

C. The reconciliation of allowance for impairment and provision from December 31, 2017, as these are impaired under IAS 39, to January 1, 2018, as these are expected to be impaired under IFRS 9, are as follows:

	Accounts receivable	Investments accounted for using equity method	Deferred income tax assets	Deferred income tax liabilities:	Retained earnings	Other equity interest
IAS 39	\$ 6,623,059	\$ 2,819,665	\$ 3,021,330	\$ 1,097,797	\$ 1,614,226	\$ 1,604,731
Impairment loss adjustment of the Group	(12,993)	-	2,913	(842)	(7,587)	(1,651)
Impairment loss adjustment of associates	-	(9,966)	1,449	(245)	(8,272)	-
IFRS 39	<u>\$ 6,610,066</u>	<u>\$ 2,809,699</u>	<u>\$ 3,025,692</u>	<u>\$ 1,096,710</u>	<u>\$ 1,598,367</u>	<u>\$ 1,603,080</u>

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

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

<u>Items</u>	<u>December 31, 2017</u>
Current items:	
Financial assets held for trading	\$ 468,638
Beneficiary certificates	1,775
Adjustments for change in value of financial assets held for trading	<u>249,423</u>
	719,836
Valuation adjustment	<u>(309,070)</u>
	<u>\$ 410,766</u>

Financial assets held for trading and net (loss) gain recognised for the year ended December 31, 2017 amounted to \$99,581

(b) Available-for-sale financial assets

<u>Items</u>	<u>December 31, 2017</u>
Non-current items:	
Listed stocks	\$ 653,430
Emerging stocks	70,224
Unlisted stocks	<u>2,162,279</u>
	2,885,933
Valuation adjustment	<u>(362,677)</u>
Accumulated impairment	<u>(566,163)</u>
	<u>\$ 1,957,093</u>

The Group recognised \$5,115 in other comprehensive income for fair value change and reclassified (\$61,638) from equity to profit or loss for the year ended December 31, 2017.

(c) Notes and accounts receivable

	December 31, 2017
Notes receivable	\$ 1,886,532
Less: Allowance for bad debts	-
	<u>\$ 1,886,532</u>
Accounts receivable	\$ 6,778,677
Less: Allowance for sales returns and discounts	(42,480)
Less: Allowance for bad debts	(113,138)
	<u>\$ 6,623,059</u>

The Group holds collateral including bank deposits, commercial papers, financial assets as well as machinery and equipment as security for accounts receivable. The fair value of the collateral held cannot be reasonably estimated by the Group since it is impracticable.

E. Credit risk information for the year ended December 2017 is 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. Risk assessment of individual customers takes into account factors that may influence customers' ability to pay, including their financial position, credit ratings, historical record and current economic condition. The utilisation of credit limits is regularly monitored in accordance with the Company's credit policy. Except for credit risk exposures to customers, the risk also arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions. The Group evaluates whether to accept the banks and financial institutions and how much amount of transactions based on the credit rating and financial ratios of the banks and financial institutions.
- (b) For the year ended December 31, 2017, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
- (c) The credit quality information of financial assets that are neither past due nor impaired is as follows:

	December 31, 2017			
	Fair value			
	Excellent	Very good	Good	Average
Notes receivable	\$ 1,693,748	\$ 10,321	\$ 165,397	\$ 17,066
Accounts receivable	2,001,062	3,682,716	2,853,670	408,191
Other receivables	208,015	732	14,659	612,379
Long-term accounts receivable	-	-	-	370
	<u>\$ 3,902,825</u>	<u>\$ 3,693,769</u>	<u>\$ 3,033,726</u>	<u>\$ 1,038,006</u>

The Group scores customers by their business management, financial position, and payment record or credit evaluation to classify credit quality in risk levels of excellent, very good, good and average.

- (d) The ageing analysis of financial assets (accounts receivable and other receivables) that were past due but not impaired is as follows:

	December 31, 2017
Up to 30 days	\$ 338,057
31 to 90 days	100,378
91 to 180 days	12,897
Over 180 days	17,470
	<u>\$ 468,802</u>

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

	2017		
Notes receivable	Individual provision	Group provision	Total
At January 1	\$ 119,030	\$ -	\$ 119,030
Reversal of impairment for the year	(6,023)	-	(6,023)
Write-offs during the year	(113,007)	-	(113,007)
At December 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
	2017		
Accounts receivable	Individual provision	Group provision	Total
At January 1	\$ 48,363	\$ 83,930	\$ 132,293
Provision for impairment	-	14,502	14,502
Reversal of impairment for the year	(12,120)	(14,893)	(27,013)
Write-offs during the year	(4,822)	-	(4,822)
Effect of foreign exchange	-	(1,822)	(1,822)
At December 31	<u>\$ 31,421</u>	<u>\$ 81,717</u>	<u>\$ 113,138</u>

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

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

Revenue recognition

The Group manufactures and sells LED wafers and chips. Revenue is measured at the Fair value of the consideration received or receivable taking into account of business tax, returns, rebates and discounts for the sales of goods to external customers in the ordinary course of the Group's activities. Revenue arising from the sales of goods should be recognized when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefit associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provision have been satisfied.

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

	<u>Year ended</u> <u>December 31, 2017</u>	
Sales revenue	\$	24,878,115
Services revenue		21,380
OEM revenue		337,513
Other operating revenue		33,608
	<u>\$</u>	<u>25,270,616</u>

- C. The effects and description of current balance sheet items if the Group continues adopting above accounting policies are as follows:

		<u>December 31, 2018</u>		
<u>Balance sheet items</u>	<u>Description</u>	<u>Balance by</u> <u>using IFRS 15</u>	<u>Balance by using</u> <u>previous accounting</u> <u>policies</u>	<u>Effects from</u> <u>changes in</u> <u>accounting policy</u>
Accounts receivable	Note	\$ 8,864,940	\$ 8,810,703	\$ 54,237
Provisions for liabilities - current				
(shown as other	Note	(54,237)	-	(54,237)

Note: An entity needs to estimate any variable consideration using either ‘the expected value method’ or ‘the most likely amount method’ under IFRS 15. The consideration was shown as provisions for liabilities and presented as deductions on accounts receivable under previous accounting policies.

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): Please refer to table 3.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company’s paid-in capital: Please refer to table 4.
- E. Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.
- F. Disposal of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more: Please refer to table 5.
- H. Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more: Please refer to table 6.
- I. Trading in derivative instruments undertaken during the reporting periods: None.
- J. Significant inter-company transactions during the reporting periods: Please refer to table 7.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China) : Please refer to table 8.

(3) Information on investments in Mainland China

- A. Basic information: Please refer to table 9.
- B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 10.

14. SEGMENT INFORMATION

(1) General information:

The Group operates business only in a single industry, primarily engaged in developing, manufacturing and sale of AlInGaP, aluminum gallium arsenide and indium gallium nitride and other epi-wafer chip and die. 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) Information about segment profit or loss, assets and liabilities:

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

	Year ended December 31, 2018	Year ended December 31, 2017
Revenues from external customers	\$ 20,306,412	\$ 25,270,616
Segment profit (loss)	(505,864)	1,686,213
Segment profit (loss) including :		
Interest income	122,283	300
Interest expense	(175,678)	(198,788)
Depreciation and amortisation	(5,032,417)	(5,200,524)
Investment profit (loss) under equity method	24,146	(50,851)
Income tax benefit (expense)	361,277	(237,177)
Segment assets	62,738,642	66,985,669

(3) Information on products and services

	Year ended December 31, 2018	Year ended December 31, 2017
Sales revenue	\$ 19,449,635	\$ 24,878,115
Service revenue	20,510	21,380
OEM revenue	810,733	337,513
Other operating revenue	25,534	33,608
Total	<u>\$ 20,306,412</u>	<u>\$ 25,270,616</u>

(4) Geographical information

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

	Year ended December 31, 2018		Year ended December 31, 2017	
	Revenue	Non-current assets	Revenue	Non-current assets
Taiwan	\$ 3,643,086	\$ 23,755,024	\$ 5,052,664	\$ 25,368,891
China	10,923,088	6,557,203	14,555,026	6,936,617
HK	958,101	570,364	207,493	796,187
Korea	1,507,791	-	1,548,148	-
Malaysia	1,570,836	-	1,805,485	-
Others	1,703,510	24,217	2,101,800	27,050
Total	<u>\$ 20,306,412</u>	<u>\$ 30,906,808</u>	<u>\$ 25,270,616</u>	<u>\$ 33,128,745</u>

(5) Major customer information

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

	Year ended December 31, 2018	Year ended December 31, 2017
	<u>Revenue</u>	<u>Revenue</u>
Customer A	\$ 1,716,675	\$ 2,685,924
Customer B	\$ 2,063,267	\$ 2,583,691

EPISTAR CORPORATION AND SUBSIDIARIES

Loans to others

Year ended December 31, 2018

Table 1

Expressed in thousands of NTD
(Except as otherwise indicated)

No.	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding balance during the year ended December 31, 2018	Balance at December 31, 2018	Actual amount drawn down	Interest rate	Nature of loan	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Item	Value	Limit on loans granted to a single party	Ceiling on total loans granted	Footnote
0	Epistar Corporation	Jiangsu Canyang Optoelectronics Ltd	Other receivables-related parties	Y	\$ 1,339,235	\$ 447,200	\$ 134,160	4.60%	Short-term financing	\$ -	Working capital	\$ -	None	\$ -	\$ 4,935,358	\$ 14,806,075	Note 1
1	Episky Corporation	Episky Corporation (Xiamen) Ltd.	Other receivables-related parties	Y	897,000	894,400	-	5.53%	Short-term financing	-	Working capital	-	None	-	4,935,358	14,806,075	Note 1
2	Episky Corporation (Xiamen) Ltd.	United LED Shandong Corporation	Other receivables-related parties	Y	27,726	-	-	4.35%	Short-term financing	-	Working capital	-	None	-	1,001,946	1,252,432	Note 2
3	Episky Corporation (Xiamen) Ltd.	Jiangsu Canyang Optoelectronics Ltd	Other receivables-related parties	Y	468,600	447,200	-	5.00%	Short-term financing	-	Working capital	-	None	-	1,001,946	1,252,432	Note 2
4	Epicrystal (Changzhou) Co., Ltd.	Jiangsu Canyang Optoelectronics Ltd	Other receivables-related parties	Y	726,330	357,760	357,760	4.35%	Short-term financing	-	Working capital	-	None	-	935,203	1,402,805	Note 3
5	Yen-Rich Opto (Hong Kong) Limited	Ecoled Venture Co., Limited	Other receivables-related parties	Y	15,478	15,358	6,143	3.02%	Short-term financing	-	Working capital	-	None	-	60,593	90,890	Note 4

Note 1: In accordance with Epistar Corporation's Procedures for Provision of Loans: the limit on loans granted to a single party is 10% of its net equity, and the ceiling on total loans granted is 30% of its net equity.

Note 2: In accordance with Episky Corporation (Xiamen) Ltd.'s Procedures for Provision of Loans: the limit on loans granted to a single party is 40% of its net equity, and the ceiling on total loans granted is 50% of its net equity.

Note 3: In accordance with Epicrystal (Changzhou) Co., Ltd.'s Procedures for Provision of Loans: the limit on loans granted to a single party is 20% of its net equity, and the ceiling on total loans granted is 30% of its net equity.

Note 4: In accordance with Yen-Rich Opto (Hong Kong) Limited's Procedures for Provision of Loans: the limit on loans granted to a single party is 20% of its net equity, and the ceiling on total loans granted is 30% of its net equity.

EPISTAR CORPORATION AND SUBSIDIARIES
Provision of endorsements and guarantees to others
Year ended December 31, 2018

Table 2

Expressed in thousands of NTD
(Except as otherwise indicated)

Number (Note 1)	Endorser/ guarantor	Company name	Relationship with the endorser/ guarantor (Note 2)	Limit on endorsements/ guarantees provided for a single party	Maximum outstanding endorsement/ guarantee amount as of December 31, 2018	Outstanding endorsement/ guarantee amount at December 31, 2018	Actual amount drawn down	Amount of endorsements/ guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company	Ceiling on total amount of endorsements/ guarantees provided (Note 3)	Provision of		Footnote
											endorsements by guarantees to parent company to subsidiary	endorsements/ guarantees by subsidiary to parent company		Provision of endorsements/ guarantees to the party in Mainland China
0	Epistar Corporation	Episky Corp.(Xiamen) Ltd.	3	\$ 4,935,358	\$ 3,168,321	\$ 2,871,329	\$ 590,117	\$ -	5.82	\$ 9,870,717	Y	N	Y
0	Epistar Corporation	Jiangsu Canyang Optoelectronics Ltd	3	4,935,358	1,071,360	399,295	214,656	-	0.81	9,870,717	Y	N	Y
0	Epistar Corporation	Eeolad Venture Co., Limited	3	4,935,358	89,850	-	-	-	-	9,870,717	Y	N	N
0	Epistar Corporation	Yen-Rich Opto (Hong Kong) Limited	3	4,935,358	149,750	-	-	-	-	9,870,717	Y	N	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 six categories; fill in the number of category each case belongs to:

- (1) Having business relationship.
- (2) The endorser/guarantor parent company owns directly more than 50% voting shares of the endorsed/guaranteed subsidiary.
- (3) The endorser/guarantor parent company and its subsidiaries jointly own more than 50% voting shares of the endorsed/guaranteed company.
- (4) The endorsed/guaranteed parent company directly or indirectly owns more than 50% voting shares of the endorser/guarantor subsidiary.
- (5) Mutual guarantee of the trade as required by the construction contract.
- (6) Due to joint venture, each shareholder provides endorsements/guarantees to the endorsed/guaranteed company in proportion to its ownership.

Note 3: In accordance with the Company's Procedures for Provision of Loans: the ceiling on total endorsements/guarantees is 20% of the Company's net assets, and the limit on endorsements/guarantees to a single party is 10% of its net assets.

EPISTAR CORPORATION AND SUBSIDIARIES
Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)

December 31, 2018

Expressed in thousands of NTD
(Except as otherwise indicated)

Table 3

Securities held by	Marketable securities	Relationship with the securities issuer	As of December 31, 2018					Footnote
			General ledger account	Number of shares	Book value	Ownership (%)	Fair value	
Epistar Corporation	E&E Japan Co.Ltd. (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	140	\$ 2,143	17.07	\$ 2,143	
Epistar Corporation	NATEC CORPORATION (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	120,000	1,748	6.00	1,748	
Epistar Corporation	Esleds Co.,Ltd. (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	1,000	148	10.00	148	
Epistar Corporation	Lynk Labs,Inc. (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	92,523	5,348	7.45	5,348	
Epistar Corporation	Advanced Photoelectronic Technology Limited (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	1,339,235	217,144	11.68	217,144	
Epistar Corporation	Chi Lin Optoelectronics Co., Ltd. (Stock)	None	Non-current financial assets at fair value through profit or loss	8,557,675	-	9.00	-	
Epistar Corporation	Dominant Opto Technologies Sdn. Bhd. (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	11,000,000	465,131	10.00	465,131	
Epistar Corporation	POWERLIGHTEC CO., LTD (Stock)	None	Non-current financial assets at fair value through profit or loss	141,730	-	17.53	-	
Epistar Corporation	Crystalwise Technology Inc. (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	6,340,628	60,870	3.00	60,870	

As of December 31, 2018

Securities held by	Marketable securities		Relationship with the securities issuer		General ledger account	Number of shares	Book value	Ownership (%)	Fair value	Footnote
	Securities held by	Marketable securities	Relationship with the securities issuer	Marketable securities						
Epistar Corporation	XENIO CORPORATION (stock)	None	None	None	Non-current investments in equity instruments at fair value through other comprehensive income	7,878	\$ -	0.06	-	
Epistar Corporation	Edison Opto Corp. (Stock)	None	None	None	Non-current investments in equity instruments at fair value through other comprehensive income	9,424,000	128,638	7.54	\$ 128,638	
Epistar Corporation	Phceda Technology Co., Ltd. (Stock)	None	None	None	Non-current investments in equity instruments at fair value through other comprehensive income	600,000	4,543	2.11	4,543	
Epistar Corporation	Elit Fine Ceramics Co., Ltd. (Stock)	None	None	None	Non-current financial assets at fair value through profit or loss	2,200,000	-	4.68	-	
Epistar Corporation	Nanocrystal Technology Inc. (Stock)	None	None	None	Non-current financial assets at fair value through profit or loss	6,000,000	-	11.11	-	
Epistar Corporation	PlayNitride Inc. (Stock)	None	None	None	Non-current investments in equity instruments at fair value through other comprehensive income	4,568,669	212,204	12.46	212,204	
Epistar Corporation	OSTENDO TECHNOLOGIES, INC. (Stock)	None	None	None	Non-current investments in equity instruments at fair value through other comprehensive income	67,500	-	4.50	-	
Epistar Corporation	Global Communication semiconductor LLC (Stock)	None	None	None	Non-current financial assets at fair value through profit or loss	778,000	40,923	0.95	40,923	
Epistar JV Holding (BVI) Co., Ltd.	Everlight electronic(Fujian) Co., Ltd. (Stock)	None	None	None	Non-current investments in equity instruments at fair value through other comprehensive income	Cash USD2,500,000	42,641	10.00	42,641	
Epistar JV Holding (BVI) Co., Ltd.	KAISTAR Lighting (Xiamen) Co., Ltd. (Stock)	None	None	None	Non-current investments in equity instruments at fair value through other comprehensive income	Cash USD48,000,000	1,488,805	17.65	1,488,805	

As of December 31, 2018

Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	Number of shares	Book value	Ownership (%)	Fair value	Footnote
Episky Corp.(Xiamen) Ltd.	China Firstar Optoelectronic Materials Co., Ltd. (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	Cash RMB7,500,000	\$ 29,777	15.00	Unlisted company, no comparable market price available	
Episky Corp.(Xiamen) Ltd.	APT Electronics Co., Ltd.(Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	4,678,240	40,370	1.18	Unlisted company, no comparable market price available	
Episky Corp.(Xiamen) Ltd.	China Crystal Technologies Co.,Ltd.(Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	8,064,516	37,839	4.08	Unlisted company, no comparable market price available	
Lighting Investment Corp.	Advanced Photoelectronic Technology Limited (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	562,018	91,251	4.90	91,251	
Lighting Investment Corp.	Oree Advanced Illumination Solutions, Inc. (Stock)	None	Non-current financial assets at fair value through profit or loss	79,407	-	5.00	-	
Lighting Investment Corp.	Lustrous Technology, Ltd. (Stock)	None	Non-current financial assets at fair value through profit or loss	266,892	-	8.99	-	
Lighting Investment Corp.	TERA XTAL TECHNOLOGY CORPORATION (Stock)	None	Non-current financial assets at fair value through profit or loss	795,000	-	0.42	-	
Lighting Investment Corp.	FormoLight Technologies Inc. (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	2,038,230	10,367	10.00	10,367	
Lighting Investment Corp.	XENIO CORPORATION (Stock)	None	Non-current financial assets at fair value through profit or loss	16,462	-	0.13	-	
Lighting Investment Corp.	Joint Power eXponent, Ltd. (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	1,250,000	8,035	13.89	8,035	

As of December 31, 2018

Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	Number of shares	Book value	Ownership (%)	Fair value	Footnote
Lighting Investment Corp.	Edison Opto Corp. (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	10,705,000	\$ 146,123	8.56	\$ 146,123	
Lighting Investment Corp.	Rigidtech Microelectronics Cops. (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	1,532,500	9,502	2.14	9,502	
Lighting Investment Corp.	Le Diamond Opto Corporation (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	1,100,000	5,228	16.92	5,228	
Lighting Investment Corp.	LEDLITEK Co., Ltd. (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	50,000	49,956	6.20	49,956	
Lighting Investment Corp.	De-an Venture Capitial Co., Ltd. (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	2,000,000	18,577	10.77	18,577	
Lighting Investment Corp.	Tekcore Co., Ltd. (Stock)	Investee company accounted for under the equity method of the Company	Current financial assets at fair value through profit or loss	2,616,932	15,178	2.72	15,178	
Lighting Investment Corp.	Edison Opto Corp. (Stock)	None	Current financial assets at fair value through profit or loss	5,851,182	79,869	4.68	79,869	
Lighting Investment Corp.	Epistar Corporation (Stock)	Parent company	Current financial assets at fair value through profit or loss	2,564,755	65,658	0.24	65,658	Note
Lighting Investment Corp.	Rigidtech Microelectronics Corp. (Stock)	None	Current financial assets at fair value through profit or loss	17,753	110	0.02	110	
Lighting Investment Corp.	Global Communication semiconductor LLC (Stock)	None	Current financial assets at fair value through profit or loss	2,748,000	144,545	3.34	144,545	

As of December 31, 2018

Securities held by	Marketable securities		Relationship with the securities issuer	General ledger account	Number of shares	Book value	Ownership (%)	Fair value	Footnote
	Lighting Investment Corp.	Taishin Ta-Chong Money Market Fund (Beneficiary certificates)								None	Current financial assets at fair value through profit or loss	1,976,675	$ 28,038	N/A	28,038
Lighting Investment Corp.	Taishin 1699 Money Market Fund (Beneficiary certificates)	None	Current financial assets at fair value through profit or loss	962,571	13,002	N/A	13,002		
Lighting Investment Ltd.	LEDLITEK Co.,LTD. (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	41,500	41,463	5.15	41,463		
Lighting Investment Ltd.	Verticle Inc. (Stock)	None	Non-current financial assets at fair value through profit or loss	582,983	-	3.00	-		
Lighting Investment Ltd.	Achrolux Inc. (Stock)	None	Non-current financial assets at fair value through profit or loss	987,500	-	6.91	-		
Lighting Investment Ltd.	PlayNitride Inc. (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	778,541	36,161	2.12	36,161		
Full Star Enterprises Limited	Ufeco Technology Inc. (Stock)	None	Non-current financial assets at fair value through profit or loss	Cash USD250,000	-	10.00	-		
Full Star Enterprises Limited	PlayNitride Inc. (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	600,000	27,869	1.64	27,869		
HUGA Holding (SAMOA) Ltd.	China Crystal Technologies Co.,Ltd.(Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	17,741,935	83,245	8.97	83,245		
Yen-Rich Technology Corporation.	Jih Sun Money Market Fund (Beneficiary certificates)	None	Current financial assets at fair value through profit or loss	2,850,694	42,172	N/A	\$ 42,172		

As of December 31, 2018

Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	Number of shares	Book value	Ownership (%)	Fair value	Footnote
Yen-Rich Technology Corporation.	Franklin Templeton Sinoam Money Market Fund(Beneficiary certificates)	None	Current financial assets at fair value through profit or loss	7,674,986	\$ 79,213	N/A	79,213	
Yen-Rich Technology Corporation.	Global Communication semiconductor LLC(Stock)	None	Current financial assets at fair value through profit or loss	1,361,000	71,589	1.66	71,589	
Yen-Rich Technology Corporation.	ProLight Opto Technology Corporation (Stock)	Investee company accounted for under the equity method of the Company	Current financial assets at fair value through profit or loss	689,000	7,579	1.18	7,579	
iReach Corporation	Franklin Templeton Sinoam Money Market Fund(Beneficiary certificates)	None	Current financial assets at fair value through profit or loss	1,360,214	14,039	N/A	14,039	
allureLux Corporation	Franklin Templeton Sinoam Money Market Fund(Beneficiary certificates)	None	Current financial assets at fair value through profit or loss	1,166,634	12,041	N/A	12,041	
Unikom Semiconductor Corporation	CTBC Hwa win Money Market Fund(Beneficiary certificates)	None	Current financial assets at fair value through profit or loss	8,002,134	88,056	N/A	88,056	
Unikom Semiconductor Corporation	Allianz Global Investors Taiwan Money Market Fund(Beneficiary certificates)	None	Current financial assets at fair value through profit or loss	3,599,079	45,030	N/A	45,030	
Unikom Semiconductor Corporation	Hua Nan Phoenix Money Market Fund(Beneficiary certificates)	None	Current financial assets at fair value through profit or loss	2,773,686	45,024	N/A	45,024	

Note : Shown as treasury stocks of Epistar Corporation.

EPISTAR CORPORATION AND SUBSIDIARIES

Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital
Year ended December 31, 2018

Investor	Marketable securities	General ledger account	Balance as at January 1, 2018 (Note)			Disposal			Balance as at December 31, 2018 (Note)			
			Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount		
Epistar Corporation	Epistar JV Holding (BVI) Co.,Ltd. (Stock)	Investments accounted for using equity method	23,416	\$ 5,753,012	1,200	\$ 362,040	-	\$ -	-	\$ -	48,278	\$ 10,268,739
Epistar JV Holding (BVI) Co.,Ltd.	LiteStar JV Holding (BVI) Co.,Ltd. (Stock)	Investments accounted for using equity method	9,682	3,237,957	1,200	362,040	-	-	-	-	10,882	3,569,232
LiteStar JV Holding (BVI) Co.,Ltd.	Epistar JV Holding (BVI) Co.,Ltd. (Stock)	Investments accounted for using equity method	134,600,000	4,013,504	12,000,000	362,040	-	-	-	-	146,600,000	4,329,795
Epistar (Hong Kong) Co., Ltd.	Epistar (Changzhou) Co., Limited (Stock)	Investments accounted for using equity method	Cash	4,013,504	Cash	362,040	-	-	-	-	Cash	4,329,768
Epistar Corporation	Unikom Semiconductor Corporation (Stock)	Investments accounted for using equity method	-	-	100,000,000	1,000,000	-	-	-	-	100,000,000	1,000,000
Epistar Corporation	Bee Rich Corporation	Investments accounted for using equity method	Cash	849,692	Cash USD32,000,000	967,232	-	Note2	Note2	-	-	-
Bee Rich Corporation	Can Yang Investments Limited	Investments accounted for using equity method	USD109,472,700	823,268	Cash USD32,000,000	967,232	-	Note2	Note2	-	-	-
Can Yang Investments Limited	Jiangsu Canyang Optoelectronics Ltd.	Investments accounted for using equity method	Cash	858,350	Cash USD32,000,000	967,232	-	-	-	-	Cash	1,837,930
Epistar Corporation	Taishin 1699 Money Market Fund	Financial assets at fair value through profit or loss	-	-	69,337,784	934,000	-	934,585	934,000	585	-	-
Epistar Corporation	Eastspring Investments Well Pool Money Market Fund	Financial assets at fair value through profit or loss	-	-	62,510,326	846,500	-	847,016	846,500	516	-	-
Epistar Corporation	Jin Sun Mooney Market Fund	Financial assets at fair value through profit or loss	-	-	43,446,499	641,000	-	641,476	641,000	476	-	-
Epistar Corporation	Capital Money Market Fund	Financial assets at fair value through profit or loss	-	-	23,007,366	369,500	-	369,663	369,500	163	-	-
Epistar Corporation	CTBC Hwa-win Money Market Fund	Financial assets at fair value through profit or loss	-	-	61,419,255	674,000	-	674,348	674,000	348	-	-

Table 4

Expressed in thousands of NTD
(Except as otherwise indicated)

Investor	Marketable securities	General ledger account	Balance as at January 1, 2018 (Note)			Addition			Disposal			Balance as at December 31, 2018 (Note)		
			Number of shares	Amount		Number of shares	Amount		Number of shares	Selling price	Book value	Gain (loss) on disposal	Number of shares	Amount
Epistar Corporation	Allianz Global Investors Taiwan Money Market Fund	Financial assets at fair value through profit or loss	-	\$	-	31,898,161	398,000	-	398,242	398,000	242	-	\$	
Epistar Corporation	Yuanta De-Li Money Market fund	Financial assets at fair value through profit or loss	-	-	-	24,134,811	392,000	-	392,208	392,000	208	-	-	
Epistar Corporation	Prudential Financial Money Market Fund	Financial assets at fair value through profit or loss	-	-	-	22,262,481	351,000	-	351,252	351,000	252	-	-	
Epistar Corporation	Franklin Templeton Sinoam Money Market Fund	Financial assets at fair value through profit or loss	-	-	-	29,615,895	305,000	-	305,212	305,000	212	-	-	
EPISKY Corporation (Changzhou) LTD	CR Yuanta Money Market Fund B Class(Beneficiary certificates)	Financial assets at fair value through profit or loss	-	-	-	117,000,000	523,224	-	524,900	523,224	1,676	-	-	
Epistar Corporation (Changzhou) Ltd.	CR Yuanta Money Market Fund B Class(Beneficiary certificates)	Financial assets at fair value through profit or loss	-	-	-	202,070,000	903,657	-	906,109	903,657	2,452	-	-	

Note 1: The balance consists gain on valuation of financial assets.

Note2: Epistar JV Holding (BVI) Co., Ltd. proceeded a simple merger with UEC Investment Ltd., Bee Rich Corporation and HUGA Holding (BVI) Limited on November 1, 2018. Epistar JV Holding (BVI) Co., Ltd. was the surviving company while Bee Rich Corporation was the dissolved companies.

Thus, Epistar JV Holding (BVI) Co., Ltd. succeeded the shares initially held by UEC Investment Ltd., Bee Rich Corporation and HUGA Holding (BVI) Limited.

EPISTAR CORPORATION AND SUBSIDIARIES

Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more
Year ended December 31, 2018

Table 5

Expressed in thousands of NTD
(Except as otherwise indicated)

Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount	Percentage of total purchases (sales)	Differences in transaction terms				Notes/accounts receivable (payable)	
						Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	Footnote	
Epistar Corporation	Everlight Electronics Co., Ltd. and subsidiaries	Director of the Company	Sales	(\$ 1,713,223)	10	150 days after month-end closing	N/A	\$ 924,489	12	Note 2	
Epistar Corporation	LEDAZ Co., Ltd.	Investee company accounted for using equity method by the Company's subsidiary	Sales	(662,275)	4	120 days after month-end closing	N/A	267,531	3		
Epistar Corporation	Jiangsu Canyang Optoelectronics Ltd	The Company's indirectly owned subsidiary	Sales	(233,033)	1	180 days after month-end closing	N/A	158,196	2		
Epistar Corporation	Luxlite (Shenzhen) Corporation Limited	The Company's indirectly owned subsidiary	Sales	(1,084,713)	6	180 days after month-end closing	N/A	532,415	7		
Epistar Corporation	Episky Corp.(Xiamen) Ltd.	The Company's indirectly 100% owned subsidiary	Sales	(1,951,734)	11	210 days after month-end closing	N/A	951,281	11		
Epistar Corporation	Epicrystal (Changzhou) Co., Limited	The Company's indirectly owned subsidiary	Sales	(845,768)	5	90 days after month-end closing	N/A	95,504	1		
Epistar Corporation	SH Optotech Co., Ltd.	Subsidiary of the Company	Sales	(240,064)	1	75 days after month-end closing	N/A	76,986	1		
Epistar Corporation	TE Opto Corporation	Investee company accounted for using equity method by the Company	Sales	(144,060)	1	105 days after month-end closing	N/A	25,787	0		
Epistar Corporation	Yen-Rich Technology Corporation.	Subsidiary of the Company	Purchases	108,029	1	90 days after month-end closing	N/A	-	0		

Transaction			Differences in transaction terms				Notes/accounts receivable (payable)				
Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	Footnote
Epistar Corporation	Jiangsu Canyang Optoelectronics Ltd	The Company's indirectly owned subsidiary	Purchases	\$ 420,671	4	30 days after month-end closing	N/A	Normal	(\$ 51,974)	2	
Epistar Corporation	Episky Corporation (Changzhou) Ltd.	The Company's indirectly 100% owned subsidiary	Purchases	1,413,330	14	30 days after month-end closing	N/A	Normal	(69,719)	3	
Epistar Corporation	Episky Corp.(Xiamen) Ltd.	The Company's indirectly 100% owned subsidiary	Purchases	204,662	2	90 days after month-end closing	N/A	Normal	(24,384)	1	
Epistar Corporation	Epicrystal (Changzhou) Co., Limited	The Company's indirectly owned subsidiary	Purchases	423,001	4	150 days after month-end closing	N/A	Normal	(141,909)	7	
Jiangsu Canyang Optoelectronics Ltd	Epistar Corporation	The Company's indirectly owned subsidiary	Sales	(420,671)	33	90 days after month-end closing	N/A	Normal	51,974	5	
Jiangsu Canyang Optoelectronics Ltd	Episky Corp.(Xiamen) Ltd.	Note 1	Sales	(572,401)	45	90 days after month-end closing	N/A	Normal	206,451	21	
Jiangsu Canyang Optoelectronics Ltd	Epicrystal (Changzhou) Co., Limited	Note 1	Sales	(236,937)	19	90 days after month-end closing	N/A	Normal	85,189	9	
Jiangsu Canyang Optoelectronics Ltd	Lighting Investment Ltd.	Note 1	Purchases	107,136	8	90 days after month-end closing	N/A	Normal	(51,480)	12	
Jiangsu Canyang Optoelectronics Ltd	Epistar Corporation	The Company's indirectly owned subsidiary	Purchases	233,033	18	90 days after month-end closing	N/A	Normal	(158,196)	36	
Episky Corporation (Changzhou) Ltd.	Jiangsu Canyang Optoelectronics Ltd	Note 1	Sales	(207,974)	7	90 days after month-end closing	N/A	Normal	178,676	13	
Episky Corporation (Changzhou) Ltd.	Epistar Corporation	The Company's indirectly 100% owned subsidiary	Sales	(1,413,330)	47	30 days after month-end closing	N/A	Normal	69,719	5	
Episky Corporation (Changzhou) Ltd.	Episky Corp.(Xiamen) Ltd.	Note 1	Sales	(1,304,446)	44	90 days after month-end closing	N/A	Normal	839,809	59	

Transaction			Differences in transaction terms				Notes/accounts receivable (payable)				
Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	Footnote
Episky Corporation (Changzhou) Ltd.	Epicrystal (Changzhou) Co., Limited	Note 1	Sales	(\$ 161,681)	5	90 days after month-end closing	N/A	Normal	\$ 184,060	13	
Episky Corporation (Changzhou) Ltd.	Epicrystal (Changzhou) Co., Limited	Note 1	Purchases	2,391,546	97	150 days after month-end closing	N/A	Normal	(1,350,542)	101	
Luxlite (Shenzhen) Corporation Limited	Epistar Corporation	The Company's indirectly owned subsidiary	Purchases	1,084,713	32	120 days after month-end closing	N/A	Normal	(532,415)	37	
Luxlite (Shenzhen) Corporation Limited	Episky Corp.(Xiamen) Ltd.	Note 1	Purchases	2,332,881	68	90 days after month-end closing	N/A	Normal	(924,888)	65	
Episky Corp.(Xiamen) Ltd.	Epistar Corporation	The Company's indirectly 100% owned subsidiary	Sales	(204,662)	4	90 days after month-end closing	N/A	Normal	24,384	1	
Episky Corp.(Xiamen) Ltd.	Luxlite (Shenzhen) Corporation Limited	Note 1	Sales	(2,332,881)	51	120 days after month-end closing	N/A	Normal	924,888	35	
Episky Corp.(Xiamen) Ltd.	Jiangsu Canyang Optoelectronics Ltd	Note 1	Purchases	572,401	12	120 days after month-end closing	N/A	Normal	(206,451)	10	
Episky Corp.(Xiamen) Ltd.	Episky Corporation (Changzhou) Ltd.	Note 1	Purchases	1,304,446	27	90 days after month-end closing	N/A	Normal	(839,809)	40	
Episky Corp.(Xiamen) Ltd.	Epistar Corporation	The Company's indirectly 100% owned subsidiary	Purchases	1,951,734	40	210 days after month-end closing	N/A	Normal	(951,281)	38	
Episky Corp.(Xiamen) Ltd.	Epicrystal (Changzhou) Co., Limited	Note 1	Purchases	352,564	7	90 days after month-end closing	N/A	Normal	(219,632)	10	
Epicrystal (Changzhou) Co., Limited	Episky Corporation (Changzhou) Ltd.	Note 1	Sales	(2,391,546)	77	150 days after month-end closing	N/A	Normal	1,350,542	67	
Epicrystal (Changzhou) Co., Limited	Epistar Corporation	The Company's indirectly owned subsidiary	Sales	(423,001)	14	150 days after month-end closing	N/A	Normal	141,909	7	

Transaction		Differences in transaction terms				Notes/accounts receivable (payable)					
Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	Footnote
EpiCrystal (Changzhou) Co., Limited	Episky Corp.(Xiamen) Ltd.	Note 1	Sales	(\$ 352,564)	11	90 days after month-end closing	N/A	Normal	\$ 219,632	11	
EpiCrystal (Changzhou) Co., Limited	Jiangsu Canyang Optoelectronics Ltd	Note 1	Purchases	236,937	9	90 days after month-end closing	N/A	Normal	(85,189)	16	
EpiCrystal (Changzhou) Co., Limited	Epistar Corporation	The Company's indirectly owned subsidiary	Purchases	845,768	32	90 days after month-end closing	N/A	Normal	(95,504)	18	
EpiCrystal (Changzhou) Co., Limited	Episky Corporation (Changzhou) Ltd.	Note 1	Purchases	161,681	6	150 days after month-end closing	N/A	Normal	(184,060)	36	
SH Optotech Co., Ltd.	Seoul Viosys Co., Ltd.	Note 1	Sales	(219,633)	100	30 days after month-end closing	N/A	Normal	33,157	100	
SH Optotech Co., Ltd.	Epistar Corporation	Subsidiary of the Company	Purchases	240,064	100	75 days after month-end closing	N/A	Normal	(76,986)	100	
Yen-Rich Technology Corporation.	Epistar Corporation	Subsidiary of the Company	Sales	(108,029)	100	90 days after month-end closing	N/A	Normal	-	-	
Lighting Investment Ltd.	Jiangsu Canyang Optoelectronics Ltd	Note 1	Sales	(107,136)	55	90 days after month-end closing	N/A	Normal	51,480	102	

Note 1: Investee company accounted for under the equity method directly and indirectly.

Note 2: The collection term for Everlight Electronics Co., Ltd. is 150 days after month-end closing, taking into account that they are major customers of the Company.

EPICSTAR CORPORATION AND SUBSIDIARIES

Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more
December 31, 2018

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2018			Overdue receivables			Amount collected subsequent to the balance sheet date	Allowance for doubtful debts
			Accounts receivable	Other receivable	Total	Turnover rate	Amount	Action taken		
Epistar Corporation	Everlight Electronics Co., Ltd. And Subsidiaries	Director of the Company	\$ 924,489	\$ -	\$ 924,489	1.38	\$ 115,067	Note 1	\$ 349,693	\$ -
Epistar Corporation	Episky Corporation (Xiamen) Ltd.	The Company's indirectly 100% owned subsidiary	951,281	42,428	993,709	2.21	-	-	407,610	-
Epistar Corporation	Luxlite (Shenzhen) Corporation Limited	The Company's indirectly owned subsidiary	532,415	17,127	549,542	1.30	-	-	97,575	-
Epistar Corporation	Jiangsu Canyang Optoelectronics Ltd.	The Company's indirectly owned subsidiary	158,196	180,754	338,950	0.34	31	Note 2	70,546	-
Epistar Corporation	LEDAZ Co., Ltd.	Investee company accounted for using equity method by the Group's subsidiary company	267,531	-	267,531	2.25	-	-	135,800	-
Epistar Corporation	Epierystal (Changzhou) Co., Ltd.	The Company's indirectly owned subsidiary	95,504	17,768	113,272	3.69	-	-	97,575	-
Epierystal(Changzhou)Co., Ltd	Episky Corporation (Changzhou) Ltd.	Note2	1,350,542	-	1,350,542	1.86	395,858	Note 1	112,135	-
Epierystal(Changzhou)Co., Ltd	Jiangsu Canyang Optoelectronics Ltd.	Note2	9,178	359,791	368,969	0.03	32	Note 1	5,353	-
Epierystal(Changzhou)Co., Ltd	Epistar Corporation	The Company's indirectly owned subsidiary	141,909	-	141,909	2.76	-	-	62,022	-
Epierystal(Changzhou)Co., Ltd	Episky Corp (Xiamen) Ltd.	Note2	219,632	-	219,632	2.15	47,761	-	50,919	-
Episky Corporation (Changzhou) Ltd	Episky Corp.(Xiamen)Ltd.	Note3	839,809	-	839,809	1.54	456,289	Note 1	20,955	-
Episky Corporation (Changzhou) Ltd	Epierystal(Changzhou)Co., Ltd.	Note2	184,060	54,445	238,505	1.36	-	-	-	-
Episky Corporation (Changzhou) Ltd	Jiangsu Canyang Optoelectronics Ltd.	Note2	178,676	-	178,676	2.22	-	Note 1	51,910	-
Episky Corp.(Xiamen)Ltd.	Luxlite (Shenzhen) Corporation Limited	Note2	924,888	-	924,888	2.28	-	-	421,119	-
Jiangsu Canyang Optoelectronics Ltd	Episky Corp.(Xiamen)Ltd.	Note2	206,451	-	206,451	5.55	-	-	86,423	-

Note 1: The Company endeavored to pursue the overdue amounts. Epistar has received \$26,516 from Everlight in subsequent collection, respectively; Epierystal (Changzhou) has received \$112,135 from Episky (Changzhou) in subsequent collection, respectively; Epierystal (Changzhou) has received \$46,761 and \$32 from Episky (Xiamen) and Jiangsu Canyang in subsequent collection, respectively; and Episky (Changzhou) has received \$20,955 from Episky (Xiamen) in subsequent collection, respectively.

Note 2: Investee company accounted for under the equity method directly and indirectly.

EPSTAR CORPORATION AND SUBSIDIARIES

Significant inter-company transactions during the reporting periods
Year ended December 31, 2018

Expressed in thousands of NTD
(Except as otherwise indicated)

Table 7

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	General ledger account	Transaction			Percentage of consolidated total operating revenues or total assets (Note 3)
					Amount	Transaction terms		
0	Epistar Corporation	Jiangsu Canyang Optoelectronics Ltd.	1	Sales	\$	233,033	Conducted in the ordinary course of business with terms similar to those with third parties	1.15
0	Epistar Corporation	Luxlite (Shenzhen) Corporation Limited	1	Sales		1,084,713	Conducted in the ordinary course of business with terms similar to those with third parties	5.34
0	Epistar Corporation	Episky Corporation (Xiamen) Ltd.	1	Sales		1,951,734	Conducted in the ordinary course of business with terms similar to those with third parties	9.61
0	Epistar Corporation	Epicrystal Corporation (Changzhou) Ltd.	1	Sales		845,768	Conducted in the ordinary course of business with terms similar to those with third parties	4.17
0	Epistar Corporation	SH Optotech Co., Ltd.	1	Sales		240,064	Conducted in the ordinary course of business with terms similar to those with third parties	1.18
0	Epistar Corporation	Yen-Rich Technology Corporation.	1	Cost of goods sold		108,029	Conducted in the ordinary course of business with terms similar to those with third parties	0.53
0	Epistar Corporation	Jiangsu Canyang Optoelectronics Ltd.	1	Cost of goods sold		420,671	Conducted in the ordinary course of business with terms similar to those with third parties	2.07
0	Epistar Corporation	Episky Corporation (Changzhou) Ltd.	1	Cost of goods sold		1,413,330	Conducted in the ordinary course of business with terms similar to those with third parties	6.96
0	Epistar Corporation	Episky Corporation (Xiamen) Ltd.	1	Cost of goods sold		204,662	Conducted in the ordinary course of business with terms similar to those with third parties	1.01
0	Epistar Corporation	Epicrystal Corporation (Changzhou) Ltd.	1	Cost of goods sold		423,001	Conducted in the ordinary course of business with terms similar to those with third parties	2.08
0	Epistar Corporation	Jiangsu Canyang Optoelectronics Ltd.	1	Accounts receivable		158,196	Conducted in the ordinary course of business with terms similar to those with third parties	0.25

Transaction							
Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	General ledger account	Amount	Transaction terms	Percentage of consolidated total operating revenues or total assets (Note 3)
0	Epistar Corporation	Luxlite (Shenzhen) Corporation Limited	1	Accounts receivable	\$ 532,415	Conducted in the ordinary course of business with terms similar to those with third parties	0.84
0	Episky Corporation	Episky Corporation (Xiamen) Ltd.	1	Accounts receivable	95,281	Conducted in the ordinary course of business with terms similar to those with third parties	1.29
0	Epistar Corporation	Epicrystal Corporation (Changzhou) Ltd.	1	Accounts payable	141,909	Conducted in the ordinary course of business with terms similar to those with third parties	0.22
0	Epistar Corporation	Jiangsu Canyang Optoelectronics Ltd.	1	Other receivable	180,754	Based on contract terms	0.29
1	Episky Corporation (Xiamen) Ltd.	Luxlite (Shenzhen) Corporation Limited	3	Sales	2,332,881	Conducted in the ordinary course of business with terms similar to those with third parties	11.49
1	Episky Corporation (Xiamen) Ltd.	Jiangsu Canyang Optoelectronics Ltd.	3	Cost of goods sold	572,401	Conducted in the ordinary course of business with terms similar to those with third parties	2.82
1	Episky Corporation (Xiamen) Ltd.	Episky Corporation (Changzhou) Ltd.	3	Cost of goods sold	1,304,446	Conducted in the ordinary course of business with terms similar to those with third parties	6.42
1	Episky Corporation (Xiamen) Ltd.	Epicrystal Corporation (Changzhou) Ltd.	3	Cost of goods sold	352,564	Conducted in the ordinary course of business with terms similar to those with third parties	1.74
1	Episky Corporation (Xiamen) Ltd.	Luxlite (Shenzhen) Corporation Limited	3	Accounts receivable	924,888	Conducted in the ordinary course of business with terms similar to those with third parties	1.46
1	Episky Corporation (Xiamen) Ltd.	Jiangsu Canyang Optoelectronics Ltd.	3	Accounts payable	206,451	Conducted in the ordinary course of business with terms similar to those with third parties	0.33
1	Episky Corporation (Xiamen) Ltd.	Episky Corporation (Changzhou) Ltd.	3	Accounts payable	839,809	Conducted in the ordinary course of business with terms similar to those with third parties	1.33
1	Episky Corporation (Xiamen) Ltd.	Epicrystal Corporation (Changzhou) Ltd.	3	Accounts payable	219,632	Conducted in the ordinary course of business with terms similar to those with third parties	0.35
2	Epicrystal Corporation (Changzhou) Ltd.	Episky Corporation (Changzhou) Ltd.	3	Sales	2,391,546	Conducted in the ordinary course of business with terms similar to those with third parties	11.78
2	Epicrystal Corporation (Changzhou) Ltd.	Jiangsu Canyang Optoelectronics Ltd.	3	Cost of goods sold	236,937	Conducted in the ordinary course of business with terms similar to those with third parties	1.17

Transaction							
Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	General ledger account	Amount	Transaction terms	Percentage of consolidated total operating revenues or total assets (Note 3)
2	Epicrystal Corporation (Changzhou) Ltd.	Episky Corporation (Changzhou) Ltd.	3	Cost of goods sold	\$ 161,681	Conducted in the ordinary course of business with terms similar to those with third parties	0.80
2	Epicrystal Corporation (Changzhou) Ltd.	Episky Corporation (Changzhou) Ltd.	3	Accounts receivable	1,350,542	Conducted in the ordinary course of business with terms similar to those with third parties	2.14
2	Epicrystal Corporation (Changzhou) Ltd.	Episky Corporation (Changzhou) Ltd.	3	Accounts payable	184,060	Conducted in the ordinary course of business with terms similar to those with third parties	0.29
2	Epicrystal Corporation (Changzhou) Ltd.	Jiangsu Canyang Optoelectronics Ltd.	3	Other receivable	359,791	Based on contract terms	0.57
3	Episky Corporation (Changzhou) Ltd.	Jiangsu Canyang Optoelectronics Ltd.	3	Sales	207,974	Conducted in the ordinary course of business with terms similar to those with third parties	1.02
3	Episky Corporation (Changzhou) Ltd.	Jiangsu Canyang Optoelectronics Ltd.	3	Accounts receivable	178,676	Conducted in the ordinary course of business with terms similar to those with third parties	0.28
4	Jiangsu Canyang Optoelectronics Ltd.	Lighting Investment Ltd.	3	Cost of goods sold	107,136	Conducted in the ordinary course of business with terms similar to those with third parties	0.53

Note 1: Parent company is '0'. 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: Disclosure of the transactions over 100 million New Taiwan dollars only and the related party transactions for counterparty are not disclosed.

EPISTAR CORPORATION AND SUBSIDIARIES

Information on investees
Year ended December 31, 2018

Expressed in thousands of NTD
(Except as otherwise indicated)

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2018		Book value	Net profit (loss) of the investee for the year ended December 31, 2018	Investment income (loss) recognised by the Company for the year ended December 31, 2018	Footnote
				December 31, 2018	December 31, 2017	Number of shares (Note)	Ownership (%)				
Epistar Corporation	iReach Corporation	Taiwan	Packaging, module design, manufacturing and sales of LED	\$ 70,000	\$ 70,000	7,000,000	100.00	\$ 37,606	\$ 32,497	\$ 32,497	
Epistar Corporation	Bee Rich Corporation	British Virgin Islands	Professional investment	-	1,754,015	-	-	-	63,022	60,967	Note 5
Epistar Corporation	Ecoled Venture Co., Limited	Hong Kong	Sales of LED lighting facilities	82,348	82,348	7,189,668	51.99	(6,858)	(10,215)	(5,311)	
Epistar Corporation	Epistar JV Holding (BVI) Co., Ltd.	British Virgin Islands	Professional investment	14,960,129	7,282,982	48,278	100.00	10,268,739	286,599	288,374	
Epistar Corporation	Full Star Enterprises Limited	Hong Kong	Professional investment	166,785	166,785	8,660,000	100.00	250,537	(2,268)	(18,229)	
Epistar Corporation	GaN Ventures Co., Limited	Hong Kong	Investment holding, sales of electronic components	275,117	166,505	18,000,000	59.02	124,306	(102,308)	(61,128)	
Epistar Corporation	HUGA Holding (BVI) Limited	British Virgin Islands	Professional investment	-	589,959	-	-	-	(45,085)	(45,085)	Note 5
Epistar Corporation	Yen-Rich Technology Corporation (Note 1)	Taiwan	Manufacturing and sales of electronic components	600,000	600,000	60,000,000	100.00	232,509	(29,680)	(29,680)	Note 1
Epistar Corporation	Tops Electrical Technology Co., Ltd.	Taiwan	Design of illumination and packaging of LED ceramic packages	-	7,467	-	-	-	(24)	(11)	Note 2
Epistar Corporation	Lighting Investment Corp.	Taiwan	Professional investment	2,161,814	1,000,000	251,478,518	100.00	1,928,717	(36,697)	49,178	
Epistar Corporation	Nan Ya Photonics Incorporation	Taiwan	LED light application	840,381	840,381	18,239,448	40.80	387,627	90,519	36,932	
Epistar Corporation	PlayNitride Inc.	British Cayman Islands	Innovative technology licensing and sales of LED related products	-	68,909	-	-	-	(33,136)	(4,409)	Note 6
Epistar Corporation	Tekcore Co., Ltd.	Taiwan	Manufacturing and sales of LED chips and LED lighting facilities	1,169,412	1,169,412	20,247,828	21.05	62,978	(21,869)	(4,604)	
Epistar Corporation	Unikom Semiconductor Corporation	Taiwan	Development, manufacturing and sales of LED chips and LED lighting facilities	1,000,000	-	100,000,000	100.00	930,108	(69,892)	(69,892)	

Investor	Investee	Location	Main business activities	Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares (Note)	Ownership (%)	Book value	Net profit (loss) of the investee for the year ended December 31, 2018	Investment income (loss) recognised by the Company for the year ended December 31, 2018	Footnote
Epistar Corporation	EPI Crystal Investment Inc.	Taiwan	Professional investment	\$ -	\$ 1,158,323	-	-	\$ -	\$ 28,131	\$ 28,131	Note 4
Epistar Corporation	ProLight Opto Technology Corporation	Taiwan	Packaging, manufacturing and sales of LED	130,375	140,000	7,450,000	12.83	97,043	(40,088)	(6,290)	
Epistar Corporation	SH Optotech Co., Ltd.	Taiwan	Sales of LED chips and LED lighting facilities	31,792	31,792	3,179,176	49.00	2,665	2,780	1,362	
Epistar Corporation	TE Opto Corporation	Taiwan	Manufacturing and sales of LED chips and LED lighting facilities	9,200	9,200	920,000	40.00	43,557	12,306	4,923	
Epistar Corporation	UEG Investment Ltd.	British Virgin Islands	Professional investment	-	2,162,602	67,300,247	100.00	2,285,044	(396,735)	(385,189)	Note 5
Bee Rich Corporation	Crystal Light Enterprise Group Ltd.	British Virgin Islands	Professional investment	-	17,881	200,000	100.00	27,417	1,631	1,631	Note 5
Bee Rich Corporation	Can Yang Investments Limited	Hong Kong	Professional investment	-	1,733,522	60,879,606	80.10	1,692,747	(14,839)	(15,432)	
Crystaluxx SARL	LEDOLUX Sp. Zo. O.	Poland	Assembling and sales of LED bulbs	133,455	132,456	156,994	60.00	15,070	(4,225)	(2,535)	
Epistar JV Holding (BVI) Co., Ltd.	Country Lighting (BVI) Co., Ltd.	British Virgin Islands	Professional investment	89,843	89,843	3,060,000	36.43	93,996	(63)	(23)	
Epistar JV Holding (BVI) Co., Ltd.	Crystal Light Enterprise Group Ltd.	British Virgin Islands	Professional investment	6,754	-	Cash	100.00	27,417	1,631	1,155	
Epistar JV Holding (BVI) Co., Ltd.	HUGA Holding (SAMOA) Limited	SAMOA	Professional investment	331,951	-	USD200,000 12,451,035	100.00	89,539	(3,489)	122	
Epistar JV Holding (BVI) Co., Ltd.	LiteStar JV Holding (BVI) Co., Ltd.	British Virgin Islands	Professional investment	3,408,835	3,046,795	10,882	82.41	3,569,232	57,623	48,252	
Epistar JV Holding (BVI) Co., Ltd.	United LED Corporation (Hong Kong) Limited	Hong Kong	Professional investment	2,029,760	2,029,760	67,000,165	74.86	479,449	(180,315)	(134,984)	
Epistar JV Holding (BVI) Co., Ltd.	Episky (Hong Kong) Ltd.	Hong Kong	Professional investment	2,124,096	-	Cash USD68,000,000	100.00	2,393,227	(266,529)	(157,969)	

Initial investment amount Shares held as at December 31, 2018 Footnote

Investor	Investee	Location	Main business activities	Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares (Note)	Ownership (%)	Book value	Net profit (loss) of the investee for the year ended December 31, 2018	Investment income (loss) recognised by the Company for the year ended December 31, 2018	Footnote
Epistar JV Holding (BVI) Co., Ltd.	Can Yang Investments Limited	Hong Kong	Professional investment	\$ 4,291,894	\$ -	Cash USD141,272,700	80.10	\$ 1,692,747	\$ 14,839	\$ 77,969	
Full Star Enterprises Limited	PlayNitride Inc.	British Cayman Islands	Innovative technology licensing and sales of LED related products	-	39,054	-	-	-	(33,136)	(1,011)	Note 6
GaN Ventures Co., Limited	GV Semiconductor Inc.	USA	R&D and sales of electronic components	91,225	48,821	3,010,000	100.00	7,604	(63,713)	(63,713)	
HUGA Holding (BVI) Limited	HUGA Holding (SAMOA) Limited	SAMOA	Professional investment	-	331,951	-	-	-	(3,594)	(3,594)	Note 5
HUGA Holding (SAMOA) Limited	Ecoled Venture Co., Limited	Hong Kong	Sales of LED lighting facilities	24,655	24,655	6,638,461	48.01	(6,333)	(10,215)	(4,904)	
Lighting Investment Ltd.	GaN Ventures Co., Limited	Hong Kong	Investment holding; sales of electronic components	64	64	1,500,000	4.92	10,362	(102,308)	(5,353)	
Lighting Investment Ltd.	LEDAZ CO., LTD	Korea	Engineering service of LED	48,166	48,166	88,460	28.13	63,703	47,353	13,320	
Lighting Investment Ltd.	Interlight Optotech (HK) Co., Limited	Hong Kong	Packaging and sales of LED chips and LED lighting facilities	12,806	-	429,000	30.00	13,411	(1,343)	(403)	
Lighting Investment Ltd.	PlayNitride Inc.	British Cayman Islands	Innovative technology licensing and sales of LED related products	-	67,230	-	-	-	(33,136)	(1,315)	Note 6
Lighting Investment Ltd.	Epistar (Hong Kong) Limited	Hong Kong	Professional investment	2,556	2,556	82,850	100.00	1,918	(81)	(81)	
Lighting Investment Ltd.	Luxlite (HK) Corporation Limited	Hong Kong	Professional investment	91,286	91,286	2,850,000	75.00	267,914	73,893	55,420	
LiteStar JV Holding (BVI) Co., Ltd.	Epicrysta (Hong Kong) Co. Ltd.	Hong Kong	Professional investment	4,403,034	4,040,994	146,600,000	100.00	4,329,795	57,673	57,673	
UEC Investment Ltd.	Episky (Hong Kong) Ltd.	Hong Kong	Professional investment	-	2,124,096	68,000,000	100.00	2,267,796	(398,338)	(398,338)	Note 5
Lighting Investment Corp.	Crystaluxx S.A.R.L.	Luxembourg	Professional investment	131,659	-	33,200	100.00	15,078	(3,862)	(1,822)	

Investor	Investee	Location	Main business activities	Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares (Note)	Ownership (%)	Book value	Net profit (loss) of the investee for the year ended December 31, 2018	Investment income (loss) recognised by the Company for the year ended December 31, 2018
Lighting Investment Corp.	LEDAZ Co., Ltd.	Korea	Engineering service of LED	\$ 23,993	\$ -	44,065,000	14.01	\$ 35,967	\$ 47,353	\$ 4,693
Lighting Investment Corp.	Lighting Investment Ltd.	British Virgin Islands	Professional investment	152,701	152,701	45,642	100.00	544,796	34,648	34,648
Lighting Investment Corp.	Yen-Rich Opto (Hong Kong) Limited	Hong Kong	Sales of LED light components	250,731	-	8,010,000	100.00	295,964	(4,984)	1,702
Lighting Investment Corp.	Nan Ya Photonics Incorporation	Taiwan	LED light application	50,561	9,785	1,101,184	2.46	387,627	90,519	1,186
Lighting Investment Corp.	ProLight Opto Technology Corporation	Taiwan	Packaging, manufacturing and sales of LED	214,329	83,856	17,539,234	29.93	270,266	(40,088)	(7,684)
Lighting Investment Corp.	Can Yang Investments Limited	Hong Kong	Professional investment	72,436	-	5,218,605	6.87	145,183	(14,839)	(2,981)
Lighting Investment Corp.	allureLux Corporation	Taiwan	Development and design services of LED lamps	30,000	-	3,000,000	100	11,842	(17,938)	(17,938)
InterLight Optotech Corporation.	Interlight Optotech (HK) Co., Limited	Hong Kong	Packaging, testing and sales of LED	-	13,385	-	-	-	134	40
Epistar (Hong Kong) Limited	ES-LEDRU LLC.	Russia	Sales of LED products	2,474	2,474	4,036,069	49	2,037	(98)	(48)
Episky Corporation (Xiamen) Ltd.	Episky Corporation (Changzhou) Ltd.	China-Changzhou	Manufacturing and sales of LED chips and LED	147,472	147,472	Cash	3.31	153,475	61,843	1,900
Episky Corporation (Xiamen) Ltd.	Episky Corporation (Changzhou) Ltd.	China-Changzhou	Manufacturing and sales of LED lighting facilities	99,056	99,056	USDS,200,000	100	154,908	(44,897)	(44,897)
Episky Corporation (Xiamen) Ltd.	EPIRICH (Guangzhou) Co., Ltd	China-Guangzhou	Development and sales of LED products	40,382	40,382	RMB20,000,000	100	14,095	(1,942)	(1,942)
EPI Crystal Investment Inc.	Crystaluxx SARL	Luxembourg	Professional investment	-	129,114	-	-	-	(2,049)	(2,049)
EPI Crystal Investment Inc.	LEDAZ Co., Ltd.	Korea	ENGINEERING	-	23,993	-	-	-	13,916	1,950
EPI Crystal Investment Inc.	Yen-Rich Opto (Hong Kong) Limited	Hong Kong	Sales of LED lighting facilities	-	250,731	-	-	-	(6,546)	(6,546)
EPI Crystal Investment Inc.	Nan Ya Photonics Incorporation	Taiwan	LED light application	-	40,776	-	-	-	52,871	1,044
EPI Crystal Investment Inc.	InterLight Optotech Corporation.	Taiwan	Packaging and sales of LED chips and LED lighting facilities	-	157,672	-	-	-	30,391	30,391
EPI Crystal Investment Inc.	ProLight Opto Technology Corporation	Taiwan	Packaging, manufacturing and sales of LED	-	3,082	-	-	-	(15,160)	(124)
EPI Crystal Investment Inc.	Can Yang Investments Limited	Hong Kong	Professional investment	-	72,436	-	-	-	28,559	3,186
allureLux Corporation	AllureLux Inc.	USA	Design and sales of LED lighting	16,795	-	550,000	100	(1,165)	(17,741)	(17,741)

Note 1: In September 2018, Zheng-Yi Technology Corporation has been renamed as Yen-Rich Technology Corporation.

Note 2: The shares of Tops Electrical Technology Co., Ltd. were all disposed on March 29, 2018.

Note 3: The liquidation of Interlight Optotech (HK) Co., Limited was completed on May 31, 2018.

Note 4: EPI Crystal Investment Inc. was dissolved and combined into Lighting Investment Corp. on July 1, 2018.

Note 5: Epistar JV Holding (BVI) Co., Ltd. proceeded a simple merger with UEC Investment Ltd., Bee Rich Corporation and HUGA Holding (BVI) Limited on November 1, 2018.

Note 6: The Group lost significant influence over PlayNitride Inc. as the shares of PlayNitride Inc. owned by the Group were less than 20% on March 6, 2018,

therefore, the Group reclassified it into financial assets at fair value through other comprehensive income.

EPISTAR CORPORATION AND SUBSIDIARIES
Information on investments in Mainland China
Year ended December 31, 2018

Table 9

Expressed in thousands of NTD
(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Amount remitted from Taiwan to			Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2018 (Note 2)	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Footnote
				Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Amount remitted back to Taiwan for the year ended December 31, 2018	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018					
Episky Corporation (Xiamen) Ltd.	Manufacturing and sales of LED chips and LED lighting facilities	\$ 2,088,620	2	\$ 2,088,620	\$ -	\$ 2,088,620	100.00	\$ 266,496	\$ 2,393,253	\$ -	2(3)
United LED Shandong Corporation	Manufacturing and sales of LED chips and LED lighting facilities	2,580,060	2	1,958,081	-	1,958,081	74.86	(135,082)	478,465	-	2(3)
Epicrystal Corporation (Changzhou) Ltd.	Manufacturing and sales of LED chips and LED lighting facilities	4,822,255	2	3,304,934	368,580	3,673,514	76.95	47,314	3,568,162	-	2(1)
Luxlite (Shenzhen) Corporation Limited	Sales of LED lighting facilities	92,145	2	23,063	-	23,063	75.00	75,620	203,556	59,280	2(1)
KAISTAR Lighting (Xiamen) Co., Ltd.	Manufacturing and sales of LED chips and LED lighting facilities	8,354,444	2	1,568,308	-	1,568,308	18.77	-	1,488,805	-	2(3) 7
Everlight Electronics (Fujian) Co., Ltd	Manufacturing and sales of LED backlight and related parts	767,875	2	76,788	-	76,788	10.00	-	42,641	-	2(3) 7

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Amount remitted from			Net income of investee as of December 31, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2018 (Note 2)	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income of investment remitted back to Taiwan as of December 31, 2018	Footnote
				Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Amount remitted back to Taiwan for the year ended December 31, 2018	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018						
APT Electronics Co., Ltd.	Main business activities: Developing, manufacture and sale of LED extension and chip, module and light instrument	\$ 1,777,130	3	\$ 184,512	\$ 39,602	\$ -	\$ 224,114	\$ 11.17	\$ -	\$ -	\$ -	2(3)
China Crystal Technologies Co., Ltd.	Developing, manufacture and sale of gallium arsenide unit crystal and chips	884,407	2	103,099	-	-	103,099	8.97	(78,304)	83,245	-	2(3)
Cosmoled Lighting Limited	Developing, manufacture and sale of LED filament, lamp bulb, lighting instrument and applications	597,090	2	180,547	-	-	180,547	(7,706)	(3,082)	-	-	2(3)
Ufeco Technology Inc.	Developing and manufacturing LED application and sales of self-product	76,788	2	8,000	-	-	8,000	10.00	-	-	-	2(3)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Amount remitted from Taiwan to			Ownership held by the Company (direct or indirect)	Book value of investments in Mainland China as of December 31, 2018	Investment income (loss) recognised by the Company for the year ended December 31, 2018 (Note 2)	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Footnote
				Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Amount remitted back to Taiwan for the year ended December 31, 2018	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018					
Very Optoelectronics (HUI ZHOU) Co., Ltd.	Research and development, manufacturing and sale of LED packaging; research and development, manufacturing and sale of backlight module, lighting modules and accessories	447,200	2	\$ 224,838	\$ -	\$ 224,838	\$ 5,894	\$ -	\$ 1,415	\$ -	2(3)
Ningbo Formosa Epitaxy Incorporation	Manufacturing and sales of LED chips and LED lighting facilities	6,143	2	51,700	-	51,700	1,631	100.00	1,631	27,417	2(3)
Jiangsu Canyang Optoelectronics Ltd.	Manufacturing and sales of LED chips and LED lighting facilities	\$ 5,897,280	2	1,440,881	-	2,423,761	(14,650)	86.97	(18,413)	1,837,930	2(3)

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA
Epistar Corporation	\$ 12,541,600	\$ 13,602,718	\$ 30,544,746

Note 1: The investments are classified in three types; they are numbered as follows:

1. Direct investment in Mainland China companies;
2. Through investing in an existing company in the third area, which then invested in the investee in Mainland China.
3. Other ways.

Note 2: Investment income or loss in this period:

The bases for recognition of investment income or loss are classified into four types; they are numbered as follows:

1. The financial statements that are audited by the international accounting firm which has a cooperative relationship with the R.O.C. accounting firm;
2. The financial statements that are audited by the R.O.C. parent company's independent accountants;
3. Others: The financial statements that are not audited by the independent accountants

Note 3: The amount disclosed was based on Investment Commission, MOEA Regulation No. 09704604680 announced on August 29, 2008.

Note 4: The numbers in the table shall be expressed in NTD. Foreign currencies shall be translated into NTD at the exchange rate prevailing on the financial reporting date.

Note 5: The 'amounts' are expressed in thousands of New Taiwan dollars.

Note 6: The shares of Very Optoelectronics (HUI ZHOU) Co., Ltd. and Cosmoled Lighting Limited were all disposed on March 14, 2018 and June 25, 2018.

Note 7: The Group lost significant influence over KAISTAR Lighting (Xiamen) Co., Ltd. as the shares of it owned by the Group were less than 20% on April 26, 2018.

Therefore, the Group reclassified them into financial assets at fair value through other comprehensive income in accordance with IFRSs.

EPISTAR CORPORATION AND SUBSIDIARIES

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

Year ended December 31, 2018

Table 10

Expressed in thousands of NTD
(Except as otherwise indicated)

Investee in Mainland China	Sale (purchase)		Property transaction		Accounts receivable (payable)		Provision of endorsements/guarantees or collaterals		Financing		Interest during the year ended December 31, 2018	
	Amount	%	Amount	%	Balance at December 31, 2018	%	Balance at December 31, 2018	Purpose	Maximum balance during the year ended December 31, 2018	Balance at December 31, 2018		Interest rate
Jiangsu Canyang Optoelectronics Ltd.	\$ 233,033	1	\$ 22,647	10	\$ 158,196	2	\$ 399,295	-	\$ 1,339,235	\$ 447,200	4.60%	\$ 8,855
	(420,671)	(4)	(175)	-	(51,974)	(2)	-	-	-	-	-	-
Episky Corporation (Xiamen) Ltd.	1,951,734	10	14,254	6	951,281	9	2,871,329	-	897,000	894,400	-	-
	(204,662)	(2)	(68,070)	(2)	(24,384)	(1)	-	-	-	-	-	-
Epicrystal Corporation (Changzhou) Ltd.	845,768	4	23,788	11	95,504	1	-	-	-	-	-	-
	(423,001)	(4)	-	-	(141,909)	(5)	-	-	-	-	-	-
Episky Corporation (Changzhou) Ltd.	(1,413,330)	(13)	-	-	(69,719)	(3)	-	-	-	-	-	-
Luxite (Shenzhen) Corporation Limited	1,084,713	5	-	-	532,415	6	-	-	-	-	-	-

REPORT OF INDEPENDENT ACCOUNTANTS

PWCR18000405

To the Board of Directors and Shareholders of EPISTAR CORPORATION

Opinion

We have audited the accompanying parent company only balance sheets of Epistar Corporation (the “Company”) as at December 31, 2018 and 2017, and the related parent company only statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the parent company only financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the reports of other independent accountants, as described in the *Other matters* section of our report, the accompanying parent company only financial statements present fairly, in all material respects, the parent company only financial position of the Company as at December 31, 2018 and 2017, and its parent company only financial performance and its parent company only cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”.

Basis for opinion

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the Independent Accountant’s Responsibilities for the Audit of Parent Company Only Financial Statements section of our report. We are independent of the Company in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. Based on our audits and the reports of other independent accountants, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

The key audit matters in relation to the parent company only financial statements for the year ended December 31, 2018 are outlined as follows:

Evaluation of Impairment Losses of Property, Plant and Equipment, and Goodwill

Description

Please refer to Note 4(17) for accounting policies on impairment losses on non-financial assets, Note 5(2) for the accounting estimates and assumptions in relation to non-financial assets valuation and Note 6(9) for the explanations regarding impairment losses on non-financial assets. As of December 31, 2018, the balances of property, plant and equipment, and goodwill were NT\$15,385,565 thousand and NT\$6,324,659 thousand, respectively.

The Company evaluates the recoverable amounts of idle property, plant and equipment through assessing the fair values after deducting the disposal costs, and of property, plant and equipment, and intangible assets through value in use. The Company evaluates whether impairment losses will be provided for property, plant and equipment, and goodwill utilizing the aforementioned recoverable amounts. The evaluation of value in use for operational property, plant and equipment and intangible assets consists of the estimation of future cash flows and the determination of discount rates. Since the assumptions adopted in the estimation of future cash flows and the results of the estimation would have significant impact on value in use of operational property, plant, and equipment, and intangible assets, it was identified as one of the key audit matters.

How our audit addressed the matter

We have obtained the appraisal report of idle property, plant and equipment prepared by independent valuers from the Company and assessed the reasonableness of evaluation methods and fair values utilized. For value in use of operational property, plant and equipment, and goodwill, the following procedures were conducted:

1. Interviewed with management and obtained an understanding of the Company's operational procedures in estimating future cash flows and verified the consistency to operation plans approved by the Board of Directors.
2. Discussed operation plans with management to understand the product strategies and their respective execution status.
3. Assessed the reasonableness for assumptions utilized in estimating future cash flows, including projected sales volumes, unit prices and unit costs. Assessed the parameters adopted in determining discount rates, including calculating and comparing the weighted average cost of capital at risk-free rates, the industrial risk premium and the long-term rates of returns.

Evaluation of Inventories

Description

Please refer to Note 4(11) for accounting policies on inventory valuation, Note 5(2) for the accounting estimates and assumptions in relation to inventory valuation and Note 6(5) for the explanations regarding inventories. As of December 31, 2018, the balances of inventories and the allowance for valuation loss were NT\$3,627,775 thousand and NT\$743,240 thousand, respectively.

The Company is primarily engaged in manufacturing and sales of LED wafers and chips. Due to rapid technological developments, short product lifespans and frequent fluctuations of market prices, the risk of decline in market value and obsolescence for inventories is high. The Company evaluates net realized values for inventories which aged over a specific period of time and specific obsolete inventories in order to provide allowance for valuation loss. Since the identification of the above obsolete inventories and their respective net realizable values are subject to management's judgment, it was identified as one of the key audit matters.

How our audit addressed the matter

Our key audit procedures performed in respect of the above included the following:

1. Obtained an understanding of the Company's operations and the nature of its industry and interviewed with management to understand the probability of future sales for those out-of-date inventories and to evaluate the reasonableness of allowance for valuation loss.
2. Obtained and validated the accuracy of the detailed listings of inventories aged over a specific period of time and specific obsolete inventories. Validated information of historical sales and discounts for

those obsolete inventories to assess the reasonableness of policies in providing allowance for inventory valuation loss.

Other matter – Audited by Other Independent Accountants

We did not audit the 2018 and 2017 financial statements of certain subsidiaries and equity investments accounted for under the equity method. These equity investments amounted to NT\$1,329,419 thousand and NT\$1,422,275 thousand, representing 2.32% and 2.30% of the total assets as of December 31, 2018 and 2017, respectively, and their comprehensive loss (including share of income (loss) of associates and joint ventures accounted for under equity method and share of other comprehensive income of associates and joint ventures accounted for under equity method) amounted to NT\$67,099 thousand and NT\$92,972 thousand, representing 6.56% and (6.48%) of the comprehensive income (loss) for the years then ended. The financial statements of the aforementioned subsidiaries and investees were audited by other independent accountants whose reports thereon were furnished to us and our opinion expressed herein, insofar as it relates to the amounts included in the financial statements is based solely on the reports of the other independent accountants.

Responsibilities of management and those charged with governance for the parent company only financial statements

Management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”, and for such internal control as management determines is necessary to enable the preparation of parent company only financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Independent accountant's responsibilities for the audit of the parent company only financial statements

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

As part of an audit in accordance with ROC GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

Cheng, Ya-Huei

Hsieh, Chih-Cheng

For and on behalf of PricewaterhouseCoopers, Taiwan

March 14, 2019

The accompanying parent company only 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 audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying parent company only 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.

EPISTAR CORPORATION
PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

Assets	Notes	December 31, 2018		December 31, 2017	
		AMOUNT	%	AMOUNT	%
Current assets					
Cash and cash equivalents	6(1)	\$ 3,012,708	5	\$ 5,310,043	9
Financial assets at fair value through profit or loss - current	6(2)	40,923	-	-	-
Notes receivable, net	6(4)	521,031	1	195,064	-
Accounts receivable, net	6(4)	4,076,544	7	4,136,510	7
Accounts receivable - related parties, net	7	3,100,860	5	4,502,953	7
Other receivables		191,748	-	563,629	1
Other receivables - related parties	7	326,576	1	1,093,895	2
Inventories	6(5)	2,884,535	5	3,245,355	5
Prepayments		267,343	1	340,814	-
Non-current assets held for sale - net	6(10)	388,500	1	468,142	1
Other current assets	8	97,552	-	97,166	-
Current Assets		<u>14,908,320</u>	<u>26</u>	<u>19,953,571</u>	<u>32</u>
Non-current assets					
Non-current financial assets at fair value through other comprehensive income	6(3)	1,097,917	2	-	-
Available-for-sale financial assets - noncurrent	12(4)	-	-	1,183,025	2
Investments accounted for under equity method	6(6)	14,376,759	25	12,878,833	21
Property, plant and equipment	6(7) and 8	15,385,565	27	17,010,006	27
Intangible assets	6(8)	7,556,713	13	7,684,157	12
Deferred income tax assets	6(28)	3,764,894	7	2,873,564	5
Other non-current assets		194,741	-	385,518	1
Non-current assets		<u>42,376,589</u>	<u>74</u>	<u>42,015,103</u>	<u>68</u>
Total assets		<u>\$ 57,284,909</u>	<u>100</u>	<u>\$ 61,968,674</u>	<u>100</u>

(Continued)

EPISTAR CORPORATION
PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity	Notes	December 31, 2018		December 31, 2017	
		AMOUNT	%	AMOUNT	%
Current liabilities					
Short-term borrowings	6(11)	\$ 449,295	1	\$ 700,000	1
Notes payable		9,421	-	24,793	-
Accounts payable		1,565,828	3	1,679,044	3
Accounts payable - related parties	7	538,248	1	858,269	2
Other payables	6(12) and 7	2,852,214	5	3,040,775	5
Current income tax liabilities		-	-	125,287	-
Long-term liabilities, current portion	6(13) and 8	165,306	-	863,928	1
Other current liabilities - others		290,033	-	107,843	-
Current Liabilities		<u>5,870,345</u>	<u>10</u>	<u>7,399,939</u>	<u>12</u>
Non-current liabilities					
Long-term borrowings	6(13) and 8	409,808	1	1,781,905	3
Deferred income tax liabilities	6(28)	1,383,631	2	1,065,314	2
Other non-current liabilities	6(14)(16)	267,542	1	342,335	-
Non-current liabilities		<u>2,060,981</u>	<u>4</u>	<u>3,189,554</u>	<u>5</u>
Total Liabilities		<u>7,931,326</u>	<u>14</u>	<u>10,589,493</u>	<u>17</u>
Equity					
Share capital	6(17)				
Share capital - common stock		10,887,014	19	10,887,014	18
Capital surplus	6(18)				
Capital surplus		39,515,679	69	39,970,967	64
Retained earnings	6(19)				
Legal reserve		161,423	-	-	-
Special reserve		703,607	1	-	-
Unappropriated retained earnings					
(accumulated deficit)		(385,142)	(1)	1,614,226	3
Other equity interest	6(20)				
Other equity interest		(1,317,990)	(2)	(684,243)	(1)
Treasury stocks	6(17)				
		(211,008)	-	(408,783)	(1)
Total equity		<u>49,353,583</u>	<u>86</u>	<u>51,379,181</u>	<u>83</u>
Total liabilities and equity		<u>\$ 57,284,909</u>	<u>100</u>	<u>\$ 61,968,674</u>	<u>100</u>

The accompanying notes are an integral part of these parent company only financial statements.

EPISTAR CORPORATION
PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2018 AND 2017

(Expressed in thousands of New Taiwan dollars, except loss per share amounts)

Items	Notes	Years ended December 31			
		2018		2017	
		AMOUNT	%	AMOUNT	%
Sales revenue	6(21) and 7	\$ 17,189,772	100	\$ 21,954,472	100
Operating costs	6(5) and 7	(14,773,356)	(86)	(17,589,165)	(80)
Net operating margin		2,416,416	14	4,365,307	20
Unrealized loss (profit) from sales		85,787	1	(29,111)	-
Realized (loss) profit from sales		29,111	-	28,104	-
Net operating margin		<u>2,531,314</u>	<u>15</u>	<u>4,364,300</u>	<u>20</u>
Operating expenses	6(26) and 7				
Selling expenses		(234,788)	(1)	(221,065)	(1)
General and administrative expenses		(999,512)	(6)	(1,162,016)	(5)
Research and development expenses		(1,827,561)	(11)	(1,529,115)	(7)
Expected credit losses		(2,758)	-	-	-
Total operating expenses		<u>(3,064,619)</u>	<u>(18)</u>	<u>(2,912,196)</u>	<u>(13)</u>
Other income and expenses - net	6(22) and 7	<u>126,123</u>	<u>1</u>	<u>155,687</u>	<u>-</u>
Operating (loss) income		<u>(407,182)</u>	<u>(2)</u>	<u>1,607,791</u>	<u>7</u>
Non-operating income and expenses					
Other income	6(23) and 7	339,338	2	269,803	1
Insurances income from disaster		206,785	1	400,000	2
Other gains and losses	6(3)(9)(24) and 7	(689,718)	(4)	(598,273)	(3)
Disaster loss		-	-	(57,172)	-
Finance costs	6(25)	(28,022)	-	(97,359)	-
Reversal of expected credit losses		4,121	-	-	-
Share of loss of subsidiaries, associates and joint ventures accounted for using equity method, net	6(6)	(248,225)	(2)	204,619	1
Total non-operating income and expenses		<u>(415,721)</u>	<u>(3)</u>	<u>121,618</u>	<u>1</u>
(Loss) profit before income tax		<u>(822,903)</u>	<u>(5)</u>	<u>1,729,409</u>	<u>8</u>
Income tax benefit (expense)	6(28)	<u>366,757</u>	<u>2</u>	<u>(79,496)</u>	<u>-</u>
(Loss) profit for the year		<u><u>(\$ 456,146)</u></u>	<u><u>(3)</u></u>	<u><u>\$ 1,649,913</u></u>	<u><u>8</u></u>

(Continued)

EPISTAR CORPORATION
PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars, except loss per share amounts)

Items	Notes	Years ended December 31			
		2018		2017	
		AMOUNT	%	AMOUNT	%
Other comprehensive income					
Gain (loss) on remeasurements of defined benefit plans	6(14)	\$ 31,823	-	(\$ 42,790)	-
Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	6(3)	(468,008)	(3)	-	-
Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss		(148,782)	(1)	(171)	-
Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(28)	111,198	1	7,274	-
Components of other comprehensive income that will not be reclassified to profit or loss					
		(473,769)	(3)	(35,687)	-
Unrealized gain (loss) on valuation of available-for-sale financial assets		-	-	(23,168)	-
Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss		(143,180)	(1)	(200,448)	(1)
Income tax related to the components of other comprehensive income that will be reclassified to profit or loss	6(28)	50,281	1	44,743	-
Components of other comprehensive income that will be reclassified to profit or loss					
		(92,899)	-	(178,873)	(1)
Other comprehensive loss for the year		<u>(\$ 566,668)</u>	<u>(3)</u>	<u>(\$ 214,560)</u>	<u>(1)</u>
Total comprehensive (loss) income for the year		<u>(\$ 1,022,814)</u>	<u>(6)</u>	<u>\$ 1,435,353</u>	<u>7</u>
Basic loss per share					
	6(29)				
Total basic loss per share		<u>(\$ 0.42)</u>		<u>\$ 1.55</u>	
Total diluted loss per share		<u>(\$ 0.42)</u>		<u>\$ 1.53</u>	

The accompanying notes are an integral part of these parent company only financial statements.

EPISTAR CORPORATION
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

	Notes	Retained earnings			Other equity interest			Total		
		Share capital - common stock	Capital surplus, additional paid-in capital	Legal reserve	Special reserve	Unappropriated retained earnings (accumulated deficit)	Financial statements translation differences of foreign operations		Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Unrealized gain or loss on available-for-sale financial assets	Treasury stocks
2017		\$ 10,915,402	\$ 43,016,259	\$ 241,512	\$ -	(\$ 3,545,028)	(\$ 228,527)	\$ -	(\$ 848,721)	\$ 49,274,144
	6(19)	-	-	-	-	1,649,913	-	-	-	1,649,913
	6(19)(20)	-	-	-	-	(35,687)	(187,423)	-	-	(214,560)
		-	-	-	-	1,614,226	(187,423)	-	-	1,435,353
	6(19)	-	-	(241,512)	-	241,512	-	-	-	-
	6(18)(19)	-	(3,303,516)	-	-	3,303,516	-	-	-	-
	6(18)	-	168,908	-	-	-	-	-	-	168,908
	6(18)	-	-	-	-	-	-	-	-	-
	6(18)	-	105,930	-	-	-	-	-	-	105,930
	6(15)(18)	-	110,919	-	-	-	-	-	-	368,600
	6(17)(18)	(28,478)	(153,779)	-	-	-	-	-	257,681	27,906
		-	(1,660)	-	-	-	-	-	-	(1,660)
		\$ 10,887,014	\$ 39,970,967	\$ -	\$ -	\$ 1,614,226	(\$ 415,950)	\$ -	(\$ 408,783)	\$ 51,379,181
2018		\$ 10,887,014	\$ 39,970,967	\$ -	\$ -	\$ 1,614,226	(\$ 415,950)	\$ -	(\$ 408,783)	\$ 51,379,181
		-	-	-	-	46,946	(3,595)	(320,348)	-	(1,514)
	6(19)	-	39,970,967	-	-	(1,661,172)	(412,355)	(320,348)	-	(51,377,667)
	6(19)(20)	-	-	-	-	(456,146)	-	-	-	(456,146)
		-	-	-	-	25,129	(92,899)	(498,898)	-	(566,668)
		-	-	-	-	(431,017)	(92,899)	(498,898)	-	(1,022,814)
	6(19)	-	-	161,423	-	(161,423)	-	-	-	-
	6(19)	-	-	-	703,607	(703,607)	-	-	-	-
		-	-	-	-	(749,196)	-	-	-	(749,196)
		-	(121,765)	-	-	-	-	-	-	(121,765)
		-	2,052	-	-	-	-	-	-	2,052
		-	(458,095)	-	-	-	-	-	(75,845)	(75,845)
	6(18)	-	-	-	-	-	-	-	-	(458,095)
	6(18)	-	-	-	-	-	-	-	-	(732)
	6(18)	-	117,780	-	-	-	-	-	273,620	391,400
		-	5,472	-	-	-	-	-	-	5,472
	6(18)	-	-	-	-	(1,071)	-	1,071	-	-
		-	-	-	-	-	5,439	-	-	5,439
	6(18)	\$ 10,887,014	\$ 39,515,679	\$ 161,423	\$ 703,607	(\$ 385,142)	(\$ 499,815)	(\$ 818,175)	(\$ 211,008)	\$ 49,353,583

The accompanying notes are an integral part of these parent company only financial statements.

EPISTAR CORPORATION
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

	Notes	Years ended December 31	
		2018	2017
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
(Loss) profit before tax		(\$ 822,903)	\$ 1,729,409
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(8)(26)	3,499,184	3,488,145
Amortization	6(9)(26)	253,705	334,510
Provision for doubtful accounts		-	(21,198)
Expected credit gain		(1,363)	-
Net gain on financial assets at fair value through profit or loss	6(24)	(4,504)	(1,063)
Interest expense	6(25)	28,278	97,359
Interest income	6(23)	(31,680)	(58,751)
Dividend income	6(23)	(12,910)	(161)
Compensation cost of share-based payment	6(15)	-	27,906
Share of loss (profit) of subsidiaries and associates accounted for using equity method	6(6)	248,225	(204,619)
Impairment loss on non-financial assets	6(24)	615,949	104,963
Loss on disposal of property, plant and equipment	6(24)	126,690	3,658
Gain on disposal of investments	6(24)	(100,804)	(30,442)
Other income from recognition of long-term deferred revenues	6(16)	(23,647)	(24,494)
Impairment loss of financial assets	6(24)	-	8,774
Property, plant and equipment transferred to expenses		5,858	2,584
Intangible assets transferred to expenses		-	410
Prepayment for business facilities transferred to the expenditure		-	8,524
Disaster loss	10	-	57,172
Realized loss (profit) loss from sales		(29,111)	(28,104)
Unrealized loss from sales		(85,787)	29,111
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets held for trading		(301,363)	151,074
Notes receivable		(325,967)	(154,614)
Accounts receivable		1,463,422	2,254,227
Other receivables		1,246,730	721,909
Other current financial assets		(386)	(28,938)
Inventories		213,393	(424,269)
Prepayments		59,421	74,782
Other non-current assets		4,135	(2,923)
Changes in operating liabilities			
Notes payable		(15,372)	1,851
Accounts payable		(433,237)	(777,464)
Other payables		(402,911)	242,296
Other current liabilities		175,704	(59,079)
Other non-current liabilities		22,624	40,514
Cash inflow generated from operations		5,371,373	7,563,059
Income tax paid		(157,529)	(22,711)
Interest received		33,297	59,934
Interest paid		(29,388)	(88,606)
Dividend received		55,084	10,340
Net cash flows from operating activities		<u>5,272,837</u>	<u>7,522,016</u>

(Continued)

EPISTAR CORPORATION
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

	Notes	Years ended December 31	
		2018	2017
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Increase in other receivables from related parties	7	(\$ 1,007,840)	(\$ 873,770)
Decrease in other receivables from related parties	7	1,013,300	873,770
Proceeds from disposal of available-for-sale financial assets		-	70,017
Acquisition for property, plant and equipment	6(30)	(2,745,833)	(1,499,565)
Proceeds from disposal of property, plant and equipment	6(30)	98,355	146,667
Acquisition of intangible assets	6(30)	(155,153)	(228,103)
Decrease in refundable deposits		13,654	1,331
Acquisition of subsidiaries and investment of associates		(1,443,106)	(179,616)
Proceeds from liquidation of investment accounted for using equity method		-	14,631
Proceeds from disposal of intangible assets		7,844	-
Cash flows used in spinoff transition		(360,172)	-
Net cash flows used in investing activities		(4,578,951)	(1,674,638)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Decrease in short-term loans	6(11)	(250,705)	(1,300,000)
Repayment of long-term loans	6(13)	(3,239,824)	(8,433,928)
Proceeds from long-term loans	6(13)	1,160,000	5,300,000
(Decrease) increase in guarantee deposits received		(783)	3,245
Cash dividends distributed from capital surplus	6(18)	(121,765)	-
Cash dividends paid	6(18)	(749,196)	-
Purchase of treasury shares	6(18)	(75,845)	-
Proceed from treasury shares transferred to employees	6(17)	286,897	260,930
Net cash flows used in financing activities		(2,991,221)	(4,169,753)
Net (decrease) increase in cash and cash equivalents		(2,297,335)	1,677,625
Cash and cash equivalents at beginning of year		5,310,043	3,632,418
Cash and cash equivalents at end of year		\$ 3,012,708	\$ 5,310,043

The accompanying notes are an integral part of these parent company only financial statements.

EPISTAR CORPORATION
PARENT COMPANY ONLY STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017

(Expressed in thousands of New Taiwan dollars, except for earning (loss) per share amounts)

Items	Notes	Year ended December 31			
		2018		2017	
		AMOUNT	%	AMOUNT	%
Sales revenue		\$ 17,189,772	100	\$ 21,954,472	100
Operating costs		(14,773,356)	(86)	(17,589,165)	(80)
Net operating margin		2,416,416	14	4,365,307	20
Unrealized loss (profit) from sales		85,787	1	(29,111)	-
Realized profit on from sales		29,111	-	28,104	-
Net operating margin		<u>2,531,314</u>	<u>15</u>	<u>4,364,300</u>	<u>20</u>
Operating expenses					
Selling expenses		(234,788)	(1)	(221,065)	(1)
General & administrative expenses		(999,512)	(6)	(1,162,016)	(5)
Research and development expenses		(1,827,561)	(11)	(1,529,115)	(7)
Expected credit losses		(2,758)	-	-	-
Total operating expenses		<u>(3,064,619)</u>	<u>(18)</u>	<u>(2,912,196)</u>	<u>(13)</u>
Other income and expenses - net		<u>126,123</u>	<u>1</u>	<u>155,687</u>	<u>-</u>
Operating loss		<u>(407,182)</u>	<u>(2)</u>	<u>1,607,791</u>	<u>7</u>
Non-operating income and expenses					
Other income		546,123	3	669,803	3
Other gains and losses		(689,718)	(4)	(655,445)	(3)
Finance costs		(28,022)	-	(97,359)	-
Reveral of expected credit losses		4,121	-	-	-
Share of loss of subsidiaries, associates and joint ventures accounted for using equity method, net		(248,225)	(2)	204,619	1
Total non-operating revenue and expenses		<u>(415,721)</u>	<u>(3)</u>	<u>121,618</u>	<u>1</u>
(Loss) profit before income tax		(822,903)	(5)	1,729,409	8
Income tax benefit (expense)		366,757	2	(79,496)	-
(Loss) profit for the year		<u>(\$ 456,146)</u>	<u>(3)</u>	<u>\$ 1,649,913</u>	<u>8</u>

(Continued)

EPISTAR CORPORATION
PARENT COMPANY ONLY STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017

(Expressed in thousands of New Taiwan dollars, except for earning (loss) per share amounts)

Items	Notes	Year ended December 31			
		2018		2017	
		AMOUNT	%	AMOUNT	%
Other comprehensive income					
Gain (loss) on remeasurements of defined benefit plans		\$ 31,823	-	(\$ 42,790)	-
Unrealised gains (losses) from investments in equity instruments measured at fair value through other comprehensive income		(468,008)	(3)	-	-
Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss		(148,782)	(1)	(171)	-
Income tax related to components of other comprehensive income that will not be reclassified to profit or loss		<u>111,198</u>	<u>1</u>	<u>7,274</u>	<u>-</u>
Components of other comprehensive income that will not be reclassified to profit or loss					
		(<u>473,769</u>)	(<u>3</u>)	(<u>35,687</u>)	<u>-</u>
Unrealized loss on valuation of available-for-sale financial assets		-	-	(23,168)	-
Total Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss		(143,180)	(1)	(200,448)	(1)
Income tax relate to the components of other comprehensive income that will be reclassified to profit or loss		<u>50,281</u>	<u>1</u>	<u>44,743</u>	<u>-</u>
Components of other comprehensive income that will be reclassified to profit or loss					
		(<u>92,899</u>)	<u>-</u>	(<u>178,873</u>)	(<u>1</u>)
Other comprehensive loss for the year		(<u>\$ 566,668</u>)	(<u>3</u>)	(<u>\$ 214,560</u>)	(<u>1</u>)
Total comprehensive (loss) income for the year		(<u>\$ 1,022,814</u>)	(<u>6</u>)	<u>\$ 1,435,353</u>	<u>7</u>
Basic (loss) earnings per share					
Total basic (loss) earning per share		(<u>\$ 0.42</u>)		<u>\$ 1.55</u>	
Total diluted (loss) earning per share		(<u>\$ 0.42</u>)		<u>\$ 1.53</u>	

The accompanying notes are an integral part of these parent company only financial statements.

EPISTAR CORPORATION
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Notes	Retained Earnings				Other equity interest		Amount			
	Share capital - common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings (accumulated deficit)	Financial statements translation differences of foreign operations		Unrealised gains (losses) from financial assets measured at fair value through other comprehensive income	Unrealized gain or loss on available-for-sale financial assets	Treasury stocks
2017										
Balance at January 1, 2017	\$ 10,915,492	\$ 43,016,259	\$ 241,512	\$ -	\$ (3,545,028)	\$ 228,527	\$ -	(\$ 276,843)	(\$ 848,721)	\$ 49,274,144
Profit for the year	-	-	-	-	1,649,913	-	-	-	-	1,649,913
Other comprehensive income (loss) for the year	-	-	-	-	(35,687)	(187,423)	-	8,550	-	(214,560)
Total comprehensive income (loss) for the year	-	-	-	-	1,614,226	(187,423)	-	8,550	-	1,435,353
Appropriations of 2016	-	-	-	-	-	-	-	-	-	-
Legal reserve used to offset accumulated deficits	-	-	(241,512)	-	241,512	-	-	-	-	-
Capital surplus used to offset accumulated deficits	-	(3,303,516)	-	-	3,303,516	-	-	-	-	-
Change in investees interest accounted for under equity method	-	168,908	-	-	-	-	-	-	-	168,908
Difference between consideration and carrying amount of subsidiaries acquired and disposed	-	105,930	-	-	-	-	-	-	-	105,930
Treasury stock transferred to employees	-	110,919	-	-	-	-	-	-	-	368,600
Compensation cost of share-based payments	-	27,906	-	-	-	-	-	-	257,681	368,600
Retirement of treasury share	(28,478)	(153,779)	-	-	-	-	-	-	182,257	27,906
Changes in ownership interests in subsidiaries accounted for using equity method	-	(1,660)	-	-	-	-	-	-	-	(1,660)
Balance at December 31, 2017	\$ 10,887,014	\$ 39,970,967	\$ -	\$ -	\$ 1,614,226	\$ 415,950	\$ -	(\$ 268,293)	(\$ 408,783)	\$ 51,379,181
2018										
Balance at January 1, 2018	\$ 10,887,014	\$ 39,970,967	\$ -	\$ -	\$ 1,614,226	\$ 415,950	\$ -	(\$ 268,293)	(\$ 408,783)	\$ 51,379,181
Effects of retrospective application and retrospective restatement	-	-	-	-	46,946	(3,595)	(320,348)	-	-	(1,514)
Balance at January 1 after adjustments	\$ 10,887,014	\$ 39,970,967	\$ -	\$ -	\$ 1,661,172	\$ 412,355	\$ -	\$ -	\$ -	\$ 51,377,667
Profit for the year	-	-	-	-	456,146	-	-	-	-	456,146
Other comprehensive income (loss) for the year	-	-	-	-	25,129	(92,899)	(498,898)	-	-	(566,668)
Total comprehensive loss for the year	-	-	-	-	(431,017)	(92,899)	(498,898)	-	-	(1,022,814)
Appropriations of 2017	-	-	-	-	-	-	-	-	-	-
Legal reserve appropriated	-	-	161,423	-	(161,423)	-	-	-	-	-
Special reserve appropriated	-	-	-	703,607	(703,607)	-	-	-	-	-
Cash dividends	-	(121,765)	-	(749,196)	(749,196)	-	-	-	-	(749,196)
Cash dividends distributed from capital surplus	-	-	-	-	-	-	-	-	-	(121,765)
Adjustments of capital surplus for company's cash dividends received by subsidiaries	-	2,052	-	-	-	-	-	-	-	2,052
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-
Change in investees interest accounted for under equity method	-	(458,095)	-	-	-	-	-	-	(75,845)	(2,082)
Difference between consideration and carrying amount of subsidiaries acquired and disposed	-	(732)	-	-	-	-	-	-	-	(75,845)
Treasury stock transferred to employees	-	117,780	-	-	-	-	-	-	273,620	(458,095)
Changes in ownership interests in subsidiaries accounted for using equity method	-	5,472	-	-	-	-	-	-	-	732
Proceeds from disposal of financial assets at fair value through other comprehensive income	-	-	-	(1,071)	1,071	-	-	-	-	391,400
Proceeds from disposal of investments accounted for using equity method	-	-	-	-	-	5,439	-	-	-	5,472
Balance at December 31, 2018	\$ 10,887,014	\$ 39,515,679	\$ 161,423	\$ 703,607	(\$ 385,142)	(\$ 499,815)	(\$ 818,175)	\$ -	(\$ 211,008)	\$ 49,353,583

The accompanying notes are an integral part of these parent company only financial statements.

EPISTAR CORPORATION
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

	Years ended December 31		
	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss) profit before tax	(\$	822,903)	\$ 1,729,409
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation		3,499,184	3,488,145
Amortization		253,705	334,510
Provision for doubtful accounts		-	21,198)
Expected credit gain	(	1,363)	-
Net gain on financial assets at fair value through profit or loss	(	4,504)	(1,063)
Interest expense		28,278	97,359
Interest income	(	31,680)	(58,751)
Dividend income	(	12,910)	(161)
Compensation cost of share-based payment		-	27,906
Share of loss (profit) of subsidiaries and associates accounted for using equity method		248,225	(204,619)
Impairment loss on non-financial assets		615,949	104,963
Loss on disposal of property, plant and equipment		126,690	3,658
Gain on disposal of investments	(	100,804)	(30,442)
Other income from recognition of long-term deferred revenues	(	23,647)	(24,494)
Impairment loss of financial assets		-	8,774
Property, plant and equipment transferred to expenses		5,858	2,584
Intangible assets transferred to expenses		-	410
Prepayment for business facilities transferred to the expenditure		-	8,524
Disaster loss		-	57,172
Realized loss (profit) loss from sales	(	29,111)	(28,104)
Unrealised loss from sales	(	85,787)	29,111
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets held for trading	(	301,363)	151,074
Notes receivable	(	325,967)	(154,614)
Accounts receivable		1,463,422	2,254,227
Other receivables		1,246,730	721,909
Other current financial assets	(	386)	(28,938)
Inventories		213,393	(424,269)
Prepayments		59,421	74,782
Other non-current assets		4,135	(2,923)
Changes in operating liabilities			
Notes payable	(	15,372)	1,851
Accounts payable	(	433,237)	(777,464)
Other payables	(	402,911)	242,296
Other current liabilities		175,704	(59,079)
Other non-current liabilities		22,624	40,514
Cash inflow generated from operations		5,371,373	7,563,059
Income tax paid	(	157,529)	(22,711)
Interest received		33,297	59,934
Interest paid	(	29,388)	(88,606)
Dividend received		55,084	10,340
Net cash flows from operating activities		5,272,837	7,522,016

(Continued)

EPISTAR CORPORATION
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

	Years ended December 31		
	Notes	2018	2017
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Increase in other receivables from related parties		(\$ 1,007,840)	(\$ 873,770)
Decrease in other receivables from related parties		1,013,300	873,770
Proceeds from disposal of available-for-sale financial assets		-	70,017
Acquisition for property, plant and equipment		(2,745,833)	(1,499,565)
Proceeds from disposal of property, plant and equipment		98,355	146,667
Acquisition of intangible assets		(155,153)	(228,103)
(Increase) decrease in refundable deposits paid		13,654	1,331
Acquisition of subsidiaries and investment of associates		(1,443,106)	(179,616)
Proceeds from liquidation of investment accounted for using equity method		-	14,631
Proceeds from disposal of intangible assets		7,844	-
Cash flows used in spinoff transition		(360,172)	-
Net cash flows used in investing activities		(4,578,951)	(1,674,638)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Decrease in short-term loans		(250,705)	(1,300,000)
Repayment of long-term loans		(3,239,824)	(8,433,928)
Proceeds from long-term loans		1,160,000	5,300,000
(Decrease) increase in guarantee deposits received		(783)	3,245
Cash dividends distributed from capital surplus		(121,765)	-
Cash dividends paid		(749,196)	-
Purchase of treasury shares		(75,845)	-
Proceed from treasury share transferred to employees		286,897	260,930
Net cash flows used in financing activities		(2,991,221)	(4,169,753)
Net (decrease) increase in cash and cash equivalents		(2,297,335)	1,677,625
Cash and cash equivalents at beginning of year		5,310,043	3,632,418
Cash and cash equivalents at end of year		\$ 3,012,708	\$ 5,310,043

The accompanying notes are an integral part of these parent company only financial statements.

EPISTAR CORPORATION
NOTES TO THE PARENT COMPANY ONLY FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT AS OTHERWISE
INDICATED)

1. HISTORY AND ORGANIZATION

Epistar Corporation (the “Company”) was incorporated on September 19, 1996 and commenced its operations in August 1997. The Company’s shares have been traded on the Taiwan Stock Exchange in the Republic of China since May 2001.

Effective October 1, 2003, Inforcomm Semiconductor Corporation was merged with the Company. The Company acquired United Epitaxy Company Ltd. on December 30, 2005, Epitech Technology Corporation and Highlink Technology Corporation on March 1, 2007, and CHIP STAR Ltd. on June 29, 2015, and the Company merged with Huga Optotech Inc. and Formosa Epitaxy Incorporation on September 29, 2016.

The Company is engaged in the research and development, design, manufacturing and sales of EPI wafers and chips of AlGaInP, AlGaAs and InGaN.

2. THE DATE OF AUTHORIZATION FOR ISSUANCE OF THE PARENT COMPANY ONLY FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION

These parent company only financial statements were authorized for issuance by the Board of Directors on March 14, 2019.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

<u>New Standards, Interpretations and Amendments</u>	<u>International Accounting Standards Board</u>
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

New Standards, Interpretations and Amendments	International Accounting Standards Board
Amendments to IAS 7, 'Disclosure initiative'	January 1, 2017
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
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014 - 2016 cycle - Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014 - 2016 cycle - Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014 - 2016 cycle - Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

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

A. IFRS 9, 'Financial instruments'

- (a) Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset measured 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 Company shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.
- (c) The amended general hedge accounting requirements align hedge accounting more closely with an entity's risk management strategy. Risk components of non-financial items and a company of items can be designated as hedged items. The standard relaxes the requirements for hedge effectiveness, removing the 80-125% bright line, and introduces the concept of 'rebalancing'; while its risk management objective remains unchanged, an entity shall rebalance the hedged

item or the hedging instrument for the purpose of maintaining the hedge ratio.

(d) In adopting the new standards endorsed by the FSC effective from 2018, the Company applied the new rules under IFRS 9 retrospectively from January 1, 2018, with the practical expedients permitted under the statement. The significant effects of applying the standard as of January 1, 2018 are provided in Note 12(4).

B. Amendments to IAS 7, ‘Disclosure initiative’

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

The Company expects to provide additional disclosure to explain the changes in liabilities arising from financing activities, please refer to Note 6(31).

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

New standards, interpretations and amendments endorsed by the FSC effective from 2019 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 9, ‘Prepayment features with negative compensation’	January 1, 2019
IFRS 16, ‘Leases’	January 1, 2019
Amendments to IFRS 19, ‘Plan amendment, curtailment or settlement’	January 1, 2019
Amendments to IAS 28, ‘Long-term interests in associates and joint ventures’	January 1, 2019
IFRS 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 Company’s financial condition and financial performance based on the Company’s assessment.

IFRS 16, ‘Leases’

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

The Company expects to recognize the lease contract of lessees in line with IFRS 16. However, the Company does not intend to restate the financial statements of prior period (collectively referred herein as the “modified retrospective approach”). On January 1, 2019, it is expected that ‘right-of-use asset’ and lease liability will be both increased by \$1,402,458.

(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 endorsed by the FSC are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
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 of contribution of assets between an investor and its associate or joint venture’	To be determined by International Accounting Standards Board
IFRS 17, ‘Insurance contracts’	January 1, 2021

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

The parent company only financial statements of the Company have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”.

(2) Basis of preparation

A. Except for the following items, these parent company only financial statements have been prepared under the historical cost convention:

- (a) Financial assets and financial liabilities at fair value through profit or loss.
- (b) Available-for-sale financial assets measured at fair value.
- (c) Defined benefit liabilities recognized based on the net amount of pension fund assets less present value of defined benefit obligation.

B. The preparation of financial statements in compliance with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”) requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the parent company only financial statements are disclosed in Note 5.

C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Company has elected to apply modified retrospective approach whereby the cumulative impact of the adoption was recognised as retained earnings or other equity as of January 1, 2018 and the financial statements for the year

ended December 31, 2017 were not restated. The financial statements for the year ended December 31, 2017 or were prepared in compliance with International Accounting Standard 39 ('IAS 39'), International Accounting Standard 11 ('IAS 11'), 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) Foreign currency translation

Items included in the financial statements of the Company is measured using the currency of the primary economic environment in which the operates (the "functional currency"). The parent company only financial statements are presented in New Taiwan dollars, which is the Company's functional currency.

Foreign currency transactions and balances

- A. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.
- B. Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss.
- C. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss as part of the fair value gain or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- D. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within "interest income or finance costs". All other foreign exchange gains and losses based on the nature of those transactions are presented in the statement of comprehensive income within "other gains and losses".
- E. Translation of foreign operations
 - (a) The operating results and financial position of all the group entities, associates and joint arrangements that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
 - i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
 - ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and

- iii. All resulting exchange differences are recognised in other comprehensive income.
- (b) When the foreign operation partially disposed of or sold is an associate or joint arrangement, exchange differences that were recorded in other comprehensive income are proportionately reclassified to profit or loss as part of the gain or loss on sale. In addition, even when the Group retains partial interest in the former foreign associate or joint arrangement after losing significant influence over the former foreign associate, or losing joint control of the former joint arrangement, such transactions should be accounted for as disposal of all interest in these foreign operations.
- (c) When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation. In addition, even when the Group retains partial interest in the former foreign subsidiary after losing control of the former foreign subsidiary, such transactions should be accounted for as disposal of all interest in the foreign operation.
- (d) When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation. In addition, even when the Group retains partial interest in the former foreign subsidiary after losing control of the former foreign subsidiary, such transactions should be accounted for as disposal of all interest in the foreign operation.
- (e) Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rates at the balance sheet date.

(4) Classification of current and non-current items

- A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
 - (a) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;
 - (b) Assets held mainly for trading purposes;
 - (c) Assets that are expected to be realized within twelve months from the balance sheet date;
 - (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.
- B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:
 - (a) Liabilities that are expected to be settled within the normal operating cycle;

- (b) Liabilities arising mainly from trading activities;
- (c) Liabilities that are to be settled within twelve months from the balance sheet date;
- (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(5) Cash equivalents

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

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

- A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortised cost or fair value through other comprehensive income.
- B. On a regular way purchase or sale basis, the derivative financial assets are recognised and derecognised using trade date accounting, the beneficiary certificates are recognised and derecognised using settlement date accounting.
- C. At initial recognition, the Company measures the financial liabilities at fair value. All related transaction costs are recognised in profit or loss. The Company subsequently measures these financial liabilities at fair value with any gain or loss recognised in profit or loss.
- D. The Company recognises the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably.

(7) Financial assets at fair value through other comprehensive income

- A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Company has made an irrevocable election at initial recognition to recognise changes in fair value in other comprehensive income and debt instruments which meet all of the following criteria:
 - (a) The objective of the Company's business model is achieved both by collecting contractual cash flows and selling financial assets; and
 - (b) The assets' contractual cash flows represent solely payments of principal and interest.
- B. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Company measures the financial assets at fair value plus transaction costs. The Company subsequently measures the financial assets at fair value:
The changes in fair value of equity investments that were recognised in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the

derecognition of the investment. Dividends are recognised as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably.

(8) Accounts and notes receivable

A. Accounts and notes receivable entitle the Company 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.

(9) Impairment of financial assets

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

(10) Derecognition of financial assets

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

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

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

C. The Company neither retains nor transfers substantially all risks and rewards of ownership of the financial asset; however, it has not retained control of the financial asset.

(11) Inventories

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

(12) Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered

principally through a sale transaction rather than through continuing use, and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

(13) Investments accounted for using the equity method – subsidiaries and associates

- A. Subsidiaries are all entities (including structured entities) controlled by the Company. The Company controls an entity when the Company 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.
- B. Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Company are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Company.
- C. The Company's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Company's share of losses in a subsidiary equals or exceeds its interest in the subsidiary, the Company continues to recognise losses proportionate to its ownership.
- D. Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity.
- E. When the Company loses control of a subsidiary, the Company remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognised in profit or loss. All amounts previously recognised in other comprehensive income in relation to the subsidiary are reclassified to profit or loss on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Company loses control of a subsidiary, all gains or losses previously recognised in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.
- F. Associates are all entities over which the Company has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognised at cost.
- G. The Company's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company

does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

- H. When changes in an associate's equity that are not recognized in profit or loss or other comprehensive income of the associate and such changes does not affect the Company's ownership percentage of the associate, the Company recognizes change in ownership interests in the associate in 'capital surplus' in proportion to its ownership.
- I. Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Company.
- J. In the case that an associate issues new shares and the Company does not subscribe or acquire new shares proportionately, which results in a change in the Company's ownership percentage of the associate but maintains significant influence on the associate, then 'capital surplus' and 'investments accounted for under the equity method' shall be adjusted for the increase or decrease of its share of equity interest. If the above condition causes a decrease in the Company's ownership percentage of the associate, in addition to the above adjustment, the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately on the same basis as would be required if the relevant assets or liabilities were disposed of.
- K. Upon loss of significant influence over an associate, the Company remeasures any investment retained in the former associate at its fair value. Any difference between fair value and carrying amount is recognized in profit or loss.
- L. When the Company disposes its investment in an associate, if it loses significant influence over this associate, the amounts previously recognized in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it still retains significant influence over this associate, then the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.
- M. When the Company disposes its investment in an associate, if it loses significant influence over this associate, the amounts previously recognized as capital surplus in relation to the associate are transferred to profit or loss. If it still retains significant influence over this associate, then the amounts previously recognized as capital surplus in relation to the associate are transferred to profit or loss proportionately.
- N. Pursuant to the "Regulations Governing the Preparation of Financial Reports by Securities Issuers," profit (loss) of the current period and other comprehensive income in the non-consolidated financial statements shall equal to the amount attributable to owners of the parent

in the financial statements prepared with basis for consolidation. Owners' equity in the non-consolidated financial statements shall equal to equity attributable to owners of the parent in the financial statements prepared with basis for consolidation.

(14) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.
- B. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change.

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

Buildings and structures	20 ~ 50 years
Plant and construction	3 ~ 15 years
Machinery and equipment	2 ~ 20 years
Transportation equipment	3 ~ 5 years
Office equipment	2 ~ 20 years
Leasehold improvements	3 ~ 15 years

(15) Leased assets

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

(16) Intangible assets

A. Patents

Patents are stated at cost and amortized on a straight-line basis over their legal terms or economic service lives, whichever is shorter.

B. Technology know-how

Technology know-how is stated at cost and amortized on a straight-line basis over their economic service lives.

C. Computer software

Computer software is stated at cost and amortized on a straight-line basis over their estimated useful lives of 2 ~ 10 years.

D. Goodwill

Goodwill arising from a business combination is accounted for by applying the acquisition method.

E. Other intangible assets

Other intangible assets, mainly electricity facilities, are stated at cost and amortized using the straight-line method over 3 to 5 years.

(17) Impairment of non-financial assets

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

B. The recoverable amounts of goodwill, intangible assets with an indefinite useful life and intangible assets that have not yet been available for use are evaluated periodically. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment loss of goodwill previously recognized in profit or loss shall not be reversed in the following years.

C. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units, or groups of cash-generating units, that is/are expected to benefit from the synergies of the business combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

(18) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

(19) Notes and accounts payable

Notes and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. However, short-term accounts payable without bearing interest are subsequently measured at initial invoice amount as

effect of discounting is immaterial.

(20) Employee benefits

A. Short-term employee benefits

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

B. Pensions

(a) Defined contribution plans

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

(b) Defined benefit plans

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

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

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

C. Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the Company's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Company recognizes expense as it can no longer withdraw an offer of termination benefits or it recognises relating restructuring costs, whichever is earlier. Benefits that are expected to be due more than 12 months after balance sheet date shall be discounted to their present value.

D. Employees' compensation and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal obligation or

constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates.

(21) Employee share-based payment

- A. For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognized as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-market vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. And ultimately, the amount of compensation cost recognized is based on the number of equity instruments that eventually vest.
- B. Restricted stocks issued by the Company to employees:
 - (a) Restricted stocks issued to employees are measured at the fair value of the equity instruments granted at the grant date, and are recognized as compensation cost over the vesting period.
 - (b) For restricted stocks where those stocks do not restrict distribution of dividends to employees but employees must return the dividends received if they resign during the vesting period, when the Company receives dividends from employees resigning during the vesting period, the Company credits related amounts that were previously debited from retained earnings, legal reserve or capital surplus at the date of dividends declared.
 - (c) For restricted stocks where employees do not need to pay to acquire those stocks, if the Company will pay the employees who resign during the vesting period to repurchase the stocks, the Company estimates such payments that will be made and recognizes such amounts as compensation cost and liability at the grant date, in accordance with the terms of restricted stocks.
- C. Treasury stocks transferred to employees:
 - (a) Restricted stocks issued to employees are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period.
 - (b) For treasury stocks where employees have to pay to acquire those stocks, if employees resign during the vesting period, they must compensate the Company for the difference between the fair value of the equity instruments and their payments on the stocks.

(22) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.
- B. The current income tax charge is calculated on the basis of the tax laws enacted or substantively

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

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

(23) Share capital

- A. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.
- B. Where the Company repurchases the Company's equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their book value and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(24) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are resolved by the Company's shareholders. Cash dividends are recorded as liabilities.

(25) Revenue recognition

A. Sales of goods:

- (a) The Company is engaged in the research, development and sales of EPI wafers and chips of AlGaInP, AlGaAs and InGaN. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer, the wholesaler has full

discretion over the channel and price to sell the products, 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 wholesaler, and either the customer has accepted the products in accordance with the sales contract, or the Company has objective evidence that all criteria for acceptance have been satisfied.

- (b) Sales revenue is recognised on the net amount of contract price after deduction of sales discounts and allowances. The sales discounts and allowances were offered to customers based on aggregate sales over a 12-month period. Accumulated experience is used to estimate and provide for the sales discounts and allowances, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. The estimation is subject to an assessment at each reporting date. A refund liability is recognised for expected sales discounts and allowances payable to customers in relation to sales made until the end of the reporting period. No element of financing is deemed present as the sales are made with a credit term of 90 days to 120 days, which is consistent with market practice.
- (c) The Company's obligation to provide a refund for faulty products under the standard warranty terms is recognised as a provision.
- (d) 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.

B. Revenue from licencing intellectual property

- (a) The Company entered into a contract with a customer to grant a licence of patents and intellectual property to the customer. Given the licence is distinct from other promised goods or services in the contract, the Company recognises the revenue from licencing when the licence transfer to a customer either at a point in time or over time based on the nature of the licence granted. The nature of the Company's promise in granting a licence is a promise to provide a right to access the Company's intellectual property if the Company undertakes activities that significantly affect the patents and intellectual property to which the customer has rights, the customer is affected by the Company's activities and those activities do not result in the transfer of a good or a service to the customer as they occur. The royalties are recognised as revenue on a straight-line basis throughout the licencing period. In case the abovementioned conditions are not met, the nature of the Group's promise in granting a licence is a promise to provide a right to use the Group's intellectual property and therefore the revenue is recognised when transferring the licence to a customer at a point in time.
- (b) Some contracts require a sales-based royalty in exchange for a licence of intellectual property. The Company recognises revenue when the performance obligation has been satisfied and the subsequent sale occurs.

C. Incremental costs of obtaining a contract

Given that the contractual period lasts less than one year, the Company recognises the incremental costs of obtaining a contract as an expense when incurred although the Company expects to recover those costs.

(26) Government grants

Government grants are recognized at their fair value only when there is reasonable assurance that the Company will comply with any conditions attached to the grants and the grants will be received. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Company recognizes expenses for the related costs for which the grants are intended to compensate. Government grants related to property, plant and equipment are recognized as non-current liabilities and are amortized to profit or loss over the estimated useful lives of the related assets using the straight-line method.

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

The preparation of these parent company only financial statements requires management to make critical judgements in applying the Company'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 judgments in applying the Company's accounting policies

None.

(2) Critical accounting estimates and assumptions

A. Impairment valuation of goodwill, property, plant and equipment

In assessing assets impairment valuation, the Company estimates useful lives of assets and possible income and expenses in the future based on the Company's subjective judgement, any changes in economic condition and strategy of the Company will affect the recoverable amount, please refer to Note 6(9).

As of December 31, 2018, the Company recognised impaired property, plant and equipment of \$15,385,565 and goodwill of \$6,324,659.

B. Realizability of deferred income tax assets

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. Assessment of the realizability of deferred income tax assets involves critical accounting judgments and estimates of the management, including the assumptions of expected future sales revenue growth rate and profit rate, available tax credits, tax planning, and etc. Any variations in global economic environment, industrial environment, and laws and regulations might cause material adjustments to deferred income tax assets.

As of December 31, 2018, the Company recognized deferred income tax assets amounting to \$3,764,894.

C. Evaluation of inventories

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

As of December 31, 2018, the carrying amount of inventories was \$2,884,535

D. Financial assets—fair value measurement of unlisted stocks without active market

The fair value of unlisted stocks held by the Company that are not traded in an active market is determined by considering those companies' recent funding raising activities and technical development status, fair value assessment of other companies of the same type, market conditions and other economic indicators existing on balance sheet date. Any changes in these judgements and estimates will impact the fair value measurement of these unlisted stocks. Please refer to Note 12(3) for the financial instruments fair value information.

As of December 31, 2018, the carrying amount of unlisted stocks was \$908,409.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Cash on hand and revolving funds	\$ 14	\$ 14
Checking accounts and demand deposits	549,672	2,071,652
Time deposits	1,453,000	2,156,575
Bonds sold under repurchase agreement	1,010,022	1,081,802
	<u>\$ 3,012,708</u>	<u>\$ 5,310,043</u>

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

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

<u>Items</u>	<u>December 31, 2018</u>
Current items	
Financial assets mandatorily measured at fair value through profit or loss	
Listed stocks	\$ 39,715
Valuation adjustment	1,208
	<u>\$ 40,923</u>
Non-current items:	
Financial assets mandatorily measured at fair value through profit or loss	
Unlisted stocks	\$ 121,722
Valuation adjustment	(121,722)
	<u>-</u>
	<u>\$ 40,923</u>

- A. The net gain recognized by the Company amounted to \$4,504 for the year ended December 31, 2018.
- B. Information on credit risk of financial assets at fair value through profit or loss is provided in Note 12(2).
- C. Information on financial assets at fair value through profit or loss as of December 31, 2017 is provided in Note 12(4).

(3) Financial assets at fair value through other comprehensive income

<u>Items</u>	<u>December 31, 2018</u>
Non-current items:	
Equity instruments	
Listed stocks	\$ 429,217
Emerging stocks	25,218
Unlisted stocks	1,298,241
	<u>1,752,676</u>
Valuation adjustment	(654,759)
	<u>\$ 1,097,917</u>

- A. Amounts recognized in profit or loss and other comprehensive income in relation to the financial assets at fair value through other comprehensive income are listed below:

	Year ended December 31, 2018
<u>Equity instruments at fair value through other comprehensive income</u>	
Fair value change recognised in other comprehensive income	(\$ 468,007)
Cumulative losses reclassified to retained earnings due to derecognition	\$ -
Held at end of year	\$ 12,910

B. As at December 31 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the financial assets at fair value through other comprehensive income held by the Company was \$1,097,917.

C. Information relating to credit risk of financial assets at fair value through other comprehensive income is provided in Note 12(2).

D. Available-for-sale financial assets information as at December 31 2017 is provided in Note 12(4).

(4) Notes and accounts receivable

	December 31, 2018
Notes receivable	\$ 521,031
Less: Allowance for uncollectible accounts	-
	<u>\$ 521,031</u>
Accounts receivable	\$ 4,095,798
Less: Allowance for uncollectible accounts	(19,254)
	<u>\$ 4,076,544</u>

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

	December 31, 2018	
	<u>Accounts receivable</u>	<u>Notes receivable</u>
Not past due	\$ 3,859,663	\$ 458,619
Up to 30 days	160,074	62,412
31 to 90 days	33,401	-
91 to 180 days	28,713	-
Over 180 days	13,947	-
	<u>\$ 4,095,798</u>	<u>\$ 521,031</u>

B. The Company holds bank deposits, commercial papers, financial assets as well as machinery and equipment as collateral for accounts receivable. The fair values of the collateral held cannot be reasonably estimated by the Company since it is impracticable to assess the fair values.

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

D. The information as at December 31, 2017 is provided in Note 12(4).

(5) Inventories

	December 31, 2018		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 785,232	(\$ 32,559)	\$ 752,673
Work in progress	1,212,443	(213,584)	998,859
Finished goods	1,630,100	(497,097)	1,133,003
	<u>\$ 3,627,775</u>	<u>(\$ 743,240)</u>	<u>\$ 2,884,535</u>

	December 31, 2017		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 972,640	(\$ 32,330)	\$ 940,310
Work in progress	1,302,755	(179,835)	1,122,920
Finished goods	1,456,635	(274,510)	1,182,125
	<u>\$ 3,732,030</u>	<u>(\$ 486,675)</u>	<u>\$ 3,245,355</u>

Expense and loss incurred on inventories for the years ended December 31, 2018 and 2017 were as follows:

	Years ended December 31	
	2018	2017
Cost of goods sold	\$ 13,985,648	\$ 17,512,892
Effect of recoverable amounts written off	(280,504)	(\$ 499,441)
Loss on decline in market value	524,202	313,757
Loss on idle capacity	558,718	274,823
	<u>\$ 14,788,064</u>	<u>\$ 17,602,031</u>

(6) Investments accounted for using the equity method

	December 31, 2018	December 31, 2017
Subsidiaries:		
UEC Investment Ltd.(Note 2)	\$ -	\$ 2,764,932
Lighting Investment Corp. (Note 1)	1,928,717	838,391
Epistar JV Holding (BVI) Co., Ltd. (Note 2)	10,268,739	5,753,012
Yen-Rich Technology Corporation. (Note 3)	232,509	268,026
Bee Rich Corporation (Note 2)	-	849,692
Full Star Enterprises Limited	250,537	252,082
HUGA Holding (BVI) Limited (Note 2)	-	293,197
Ecoled Venture Co., Limited	(6,858)	(1,408)
EPI Crystal Investment Inc. (Note 1)	-	1,114,608
SH Optotech Co., Ltd.	9,810	1,303
GaN Ventures Co., Limited	124,306	77,400
iReach Corporation	37,606	70,001
Unikorn Semiconductor Corporation (Note 4)	933,330	-
Add: Non-current credit balance reclassified to other liabilities	6,858	1,408
	<u>13,785,554</u>	<u>12,282,644</u>
Associates:		
Nan Ya Photonics Incorporation	387,627	306,279
Tekcore Co., Ltd.	62,978	67,690
TE Opto Corporation	43,557	45,404
ProLight Opto Technology Corporation	97,043	114,023
Tops Electrical Technology Co., Ltd.	-	2,650
Play Nitride Inc.	-	60,143
	<u>591,205</u>	<u>596,189</u>
	<u>\$ 14,376,759</u>	<u>\$ 12,878,833</u>

Note 1: Lighting Investment Corp. proceeded with a simple merger with EPI Crystal Investment Inc. on July 1, 2018. Lighting Investment Corp. was the surviving company while EPI Crystal Investment Inc. was the dissolved company.

Note 2: Epistar JV Holding (BVI) Co., Ltd. proceeded with a simple merger with UEC Investment

Ltd., Bee Rich Corporation and HUGA Holding (BVI) Limited on November 1, 2018. Epistar JV Holding (BVI) Co., Ltd was the surviving company while UEC Investment Ltd., Bee Rich Corporation and HUGA Holding (BVI) Limited were the dissolved companies.

Note 3: In September 2018, Zheng-Yi Technolgy Corporation has been renamed as Yen-Rich Technology Corporation.

Note 4: On October 1 ,2018, the parent company established the Unicorn Semiconductor Corporation due to the spin-off and transfer of its operation for iii – v semiconductors OEM business.

A. Subsidiaries

Information on subsidiaries is provided in Note 4(3) of the 2018 consolidated financial statements.

B. Associates

(a) The basic information of the associates that are material to the Company is as follows:

Company name	Principal place of business	Shareholding ratio		Nature of relationship	Methods of measurement
		December 31, 2018	December 31, 2017		
Nan Ya Photonics Incorporation	Taiwan	40.80%	40.80%	Associates	Equity method
ProLight Opto Technology	Taiwan	12.71%	12.83%	Associates	Equity method

(b) The summarized financial information of the associates that are material to the Company is as follows:

Balance sheet

	Nan Ya Photonics Incorporation	
	December 31, 2018	December 31, 2017
Current assets	\$ 929,990	\$ 776,273
Non-current assets	130,111	93,499
Current liabilities	(128,743)	(141,913)
Non-current liabilities	(9,520)	(5,406)
Total net assets	<u>\$ 921,838</u>	<u>\$ 722,453</u>
Share in associate's net assets	\$ 376,109	\$ 294,761
Goodwill	11,518	11,518
Carrying amount of the associate	<u>\$ 387,627</u>	<u>\$ 306,279</u>

Prolight Opto Technology Corporation		
	December 31, 2018	December 31, 2017
Current assets	\$ 527,783	\$ 504,727
Non-current assets	521,627	519,976
Current liabilities	(185,033)	(234,245)
Non-current liabilities	(105,323)	(112,702)
Total net assets	<u>\$ 759,054</u>	<u>\$ 677,756</u>
Share in associate's net assets	\$ 56,070	\$ 73,050
Goodwill	40,973	40,973
Carrying amount of the associate	<u>\$ 97,043</u>	<u>\$ 114,023</u>

Statement of comprehensive income

Nan Ya Photonics Incorporation		
Years ended December 31		
	2018	2017
Revenue	\$ 879,307	\$ 559,789
Gain for the period from continuing operations	\$ 90,519	\$ 51,709
Other comprehensive income, net of tax	155,488	162,773
Total comprehensive income	<u>\$ 246,007</u>	<u>\$ 214,482</u>
Dividends received from associates	<u>\$ -</u>	<u>\$ -</u>

Prolight Opto Technology Corporation		
Years ended December 31		
	2018	2017
Revenue	\$ 612,433	\$ 724,111
Loss for the period from continuing operations	(40,088)	(49,321)
Other comprehensive (loss) income, net of tax	(170)	90
Total comprehensive loss	<u>(\$ 40,258)</u>	<u>(\$ 49,231)</u>
Dividends received from associates	<u>\$ -</u>	<u>\$ -</u>

- (c) The carrying amount of the Company's interests in all individually immaterial associates and the Company's share of the operating results are summarized as follows:

As of December 31, 2018 and 2017, the carrying amount of the Company's individually immaterial associates amounted to \$106,535 and \$175,887, respectively.

	Year ended December 31, 2018	Year ended December 31, 2017
Loss for the year from continuing operations	(\$ 9,563)	(\$ 208,090)
Other comprehensive loss	(435)	(11,278)
Total comprehensive loss	<u>(\$ 9,998)</u>	<u>(\$ 219,368)</u>

- C. The investment (loss) income from equity method investees for the years ended December 31, 2018 and 2017 amounted to (\$248,225) and \$204,619, respectively.
- D. The other comprehensive loss from equity method investees for the years ended December 31, 2018 and 2017 amounted to \$291,962 and \$200,619, respectively.
- E. The Company's investment in Tekcore Co., Ltd. has a quoted market price. The fair value of Tekcore Co., Ltd. as of December 31, 2018 and 2017 was \$117,437 and \$146,392, respectively.
- F. The Group disposed all its shares of Tops Electrical Technology Co., Led. on March 29, 2018 and recognised loss on disposal of investments amounting to \$898.
- G. The Group lost significant influence over PlayNitride Inc. as the shares of PlayNitride Inc. owned by the Group were less than 20% on March 6, 2018, therefore, the Group reclassified it into financial assets at fair value through other comprehensive income and recognised gains on disposal of investments amounting to \$105,276 in accordance with IFRSs.

(7) Property, plant and equipment

	Land	Buildings and structures	Machinery	Transportation equipment	Office equipment	Leasehold improvements	Construction in progress and equipment to be inspected	Total
At January 1, 2017								
Cost	\$ 124,661	\$ 11,748,150	\$ 30,072,874	\$ 3,287	\$ 140,327	\$ 85,438	\$ 1,835,073	\$44,009,810
Accumulated depreciation and impairment	-	(5,752,302)	(21,101,494)	(2,993)	(102,145)	(40,870)	-	(26,999,804)
	<u>\$ 124,661</u>	<u>\$ 5,995,848</u>	<u>\$ 8,971,380</u>	<u>\$ 294</u>	<u>\$ 38,182</u>	<u>\$ 44,568</u>	<u>\$ 1,835,073</u>	<u>\$17,010,006</u>
2018								
Opening net book amount	\$ 124,661	\$ 5,995,848	\$ 8,971,380	\$ 294	\$ 38,182	\$ 44,568	\$ 1,835,073	\$17,010,006
Spinoff and assignments transition	-	6,094	227,784	-	2,235	-	2,907,939	3,144,052
Additions	-	(48,349)	(180,431)	-	-	-	-	(228,780)
Transfer	-	-	(99,733)	-	-	-	-	(99,733)
Disposals	-	(408)	136,057	-	-	-	21,033	156,682
Reclassified to non- current assets held for sale	-	807,485	2,201,248	-	17,827	1,517	(3,028,077)	-
Reclassifications	-	-	(285,427)	-	-	(763)	(353,638)	(639,828)
Depreciation charge	-	(707,425)	(2,768,336)	(294)	(14,431)	(8,698)	-	(3,499,184)
Impairment loss	-	(117,327)	(340,323)	-	-	-	-	(457,650)
Closing net book amount	<u>\$ 124,661</u>	<u>\$ 5,935,918</u>	<u>\$ 7,862,219</u>	<u>\$ -</u>	<u>\$ 43,813</u>	<u>\$ 36,624</u>	<u>\$ 1,382,330</u>	<u>\$15,385,565</u>
At December 31, 2018								
Cost	\$ 124,661	\$ 12,379,159	\$ 31,080,964	\$ 3,287	\$ 135,846	\$ 84,143	\$ 1,382,330	\$45,190,390
Accumulated depreciation and impairment	-	(6,443,241)	(23,218,745)	(3,287)	(92,033)	(47,519)	-	(29,804,825)
	<u>\$ 124,661</u>	<u>\$ 5,935,918</u>	<u>\$ 7,862,219</u>	<u>\$ -</u>	<u>\$ 43,813</u>	<u>\$ 36,624</u>	<u>\$ 1,382,330</u>	<u>\$15,385,565</u>

	Land	Buildings and structures	Machinery	Transportation equipment	Office equipment	Leasehold improvements	Construction in progress and equipment to be inspected	Total
At January 1, 2017								
Cost	\$ 124,661	\$ 11,423,338	\$ 29,450,656	\$ 3,287	\$ 175,349	\$ 84,691	\$ 2,220,002	\$ 43,481,984
Accumulated depreciation and impairment	-	(5,063,825)	(19,081,786)	(2,110)	(125,420)	(34,659)	-	(24,307,800)
	<u>\$ 124,661</u>	<u>\$ 6,359,513</u>	<u>\$ 10,368,870</u>	<u>\$ 1,177</u>	<u>\$ 49,929</u>	<u>\$ 50,032</u>	<u>\$ 2,220,002</u>	<u>\$ 19,174,184</u>
<u>2017</u>								
Opening net book amount	\$ 124,661	\$ 6,359,513	\$ 10,368,870	\$ 1,177	\$ 49,929	\$ 50,032	\$ 2,220,002	\$ 19,174,184
Additions	-	3,336	28,364	-	745	170	1,479,926	1,512,541
Disposals	-	(835)	(78,911)	-	-	-	-	(79,746)
Reclassified to non-current assets held for sale	-	(8,658)	(86,608)	-	-	-	(8,524)	(103,790)
Reclassifications	-	400,866	1,531,866	-	9,511	3,328	(1,856,331)	89,240
Depreciation charge	-	(710,552)	(2,745,956)	(883)	(21,792)	(8,962)	-	(3,488,145)
Disaster loss	-	(19,118)	(38,054)	-	-	-	-	(57,172)
Impairment loss	-	(28,704)	(8,191)	-	(211)	-	-	(37,106)
Closing net book amount	<u>\$ 124,661</u>	<u>\$ 5,995,848</u>	<u>\$ 8,971,380</u>	<u>\$ 294</u>	<u>\$ 38,182</u>	<u>\$ 44,568</u>	<u>\$ 1,835,073</u>	<u>\$ 17,010,006</u>
At December 31, 2017								
Cost	\$ 124,661	\$ 11,748,150	\$ 30,072,874	\$ 3,287	\$ 140,327	\$ 85,438	\$ 1,835,073	\$ 44,009,810
Accumulated depreciation and impairment	-	(5,752,302)	(21,101,494)	(2,993)	(102,145)	(40,870)	-	(26,999,804)
	<u>\$ 124,661</u>	<u>\$ 5,995,848</u>	<u>\$ 8,971,380</u>	<u>\$ 294</u>	<u>\$ 38,182</u>	<u>\$ 44,568</u>	<u>\$ 1,835,073</u>	<u>\$ 17,010,006</u>

(8) Intangible assets

	<u>Patents</u>	<u>Acquired special technology</u>	<u>Software</u>	<u>Goodwill</u>	<u>Others</u>	<u>Total</u>
At January 1, 2018						
Cost	\$2,148,660	\$ 63,381	\$ 251,363	\$ 6,324,659	\$ 29,010	\$8,817,073
Accumulated amortisation and impairment	(907,224)	(63,381)	(140,555)	-	(21,756)	(1,132,916)
	<u>\$1,241,436</u>	<u>\$ -</u>	<u>\$ 110,808</u>	<u>\$ 6,324,659</u>	<u>\$ 7,254</u>	<u>\$7,684,157</u>
<u>2018</u>						
Opening net book amount	\$1,241,436	\$ -	\$ 110,808	\$ 6,324,659	\$ 7,254	\$7,684,157
Additions — acquired separately	59,133	1,270	57,939	-	1,432	119,774
Reclassifications	6,487	-	-	-	-	6,487
Amortisation charge	(201,746)	(21)	(49,102)	-	(2,836)	(253,705)
Closing net book amount	<u>\$1,105,310</u>	<u>\$ 1,249</u>	<u>\$ 119,645</u>	<u>\$ 6,324,659</u>	<u>\$ 5,850</u>	<u>\$7,556,713</u>
At December 31, 2018						
Cost	\$2,214,280	\$ 64,652	\$ 309,302	\$ 6,324,659	\$ 30,442	\$8,943,335
Accumulated amortisation and impairment	(1,108,970)	(63,403)	(189,657)	-	(24,592)	(1,386,622)
	<u>\$1,105,310</u>	<u>\$ 1,249</u>	<u>\$ 119,645</u>	<u>\$ 6,324,659</u>	<u>\$ 5,850</u>	<u>\$7,556,713</u>

	Acquired special					Total
	Patents	technology	Software	Goodwill	Others	
At January 1, 2017						
Cost	\$2,002,434	\$ 63,381	\$ 195,605	\$ 6,324,659	\$ 26,188	\$8,612,267
Accumulated amortisation and impairment	(610,014)	(63,381)	(106,232)	-	(18,784)	(798,411)
	<u>\$1,392,420</u>	<u>\$ -</u>	<u>\$ 89,373</u>	<u>\$ 6,324,659</u>	<u>\$ 7,404</u>	<u>\$7,813,856</u>
<u>2017</u>						
Opening net book amount	\$1,392,420	\$ -	\$ 89,373	\$ 6,324,659	\$ 7,404	\$7,813,856
Additions – acquired separately	108,137	-	55,627	-	2,820	166,584
Transferred to expense	(410)	-	-	-	-	(410)
Reclassification	38,499	-	138	-	-	38,637
Amortisation charge	(297,210)	-	(34,330)	-	(2,970)	(334,510)
Closing net book amount	<u>\$1,241,436</u>	<u>\$ -</u>	<u>\$ 110,808</u>	<u>\$ 6,324,659</u>	<u>\$ 7,254</u>	<u>\$7,684,157</u>
At December 31, 2017						
Cost	\$2,148,660	\$ 63,381	\$ 251,363	\$ 6,324,659	\$ 29,010	\$8,817,073
Accumulated amortisation and impairment	(907,224)	(63,381)	(140,555)	-	(21,756)	(1,132,916)
	<u>\$1,241,436</u>	<u>\$ -</u>	<u>\$ 110,808</u>	<u>\$ 6,324,659</u>	<u>\$ 7,254</u>	<u>\$7,684,157</u>

Details of amortisation on intangible assets are as follows:

	Years ended December 31	
	2018	2017
Operating costs	\$ 110,588	\$ 212,327
Selling expenses	7,283	-
Administrative expenses	44,789	60,309
Research and development expenses	91,045	61,874
	<u>\$ 253,705</u>	<u>\$ 334,510</u>

(9) Impairment of non-financial assets

A. During the years ended December 31, 2018 and 2017, the reallocation of production lines resulted in the impairment of the Company's property, plant and equipment and non-current assets classified as held for sale. The Company adjusted recoverable amounts of property, plant and equipment as well as non-current assets classified as held for sale and recognised impairment losses amounting to \$615,949 and \$104,963, respectively. The recoverable amounts are the fair values less costs of disposal, the fair values were classified to level 3 and the impairment losses are detailed below:

	<u>Year ended December 31, 2018</u>		<u>Year ended December 31, 2017</u>	
	<u>Recognised in profit or loss</u>		<u>Recognised in profit or loss</u>	
Impairment loss - buildings and structures	\$	117,327	\$	28,704
Impairment loss - machinery		340,323		8,191
Impairment loss - office equipment		-		211
Impairment loss - non-current assets held for sale		158,299		67,857
	\$	<u>615,949</u>	\$	<u>104,963</u>

B. Goodwill is allocated to the Company's cash-generating units identified according to operating segment. The recoverable amount of all cash-generating units has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by the management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

The recoverable amount of all cash-generating units calculated using the value-in-use exceeded their carrying amount, therefore goodwill was not impaired. The key assumptions used for value-in-use calculations are as follows:

	<u>Year ended December 31, 2018</u>			<u>Year ended December 31, 2017</u>		
	<u>1st year</u>	<u>2~5 years</u>	<u>After 6th year</u>	<u>1st year</u>	<u>2~5 years</u>	<u>After 6th year</u>
Revenue growth rate	26.63%	9.87%~ 30.11%	0%	10.09%	2.48%~ 51.37%	0%
Gross margin rate	15.56%	23.0%~ 26.8%	26.80%	17.2%	19.1%~ 38%	38%
Discount rate	14.20%	14.20%	14.20%	9.45%	9.45%	9.45%

(a) Revenue growth rate: Estimation refers to relevant market information and relevant operating and sales plan.

(b) Gross margin rate: Estimation refers to historical data and relevant operating and sales plan.

(c) Discount rate: The rate before tax and reflecting specific risk of relevant operating segment.

(10) Non-current assets held for sale

A. Assets of disposal group classified as held for sale:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Property, plant and equipment	\$ <u>388,500</u>	\$ <u>468,142</u>

B. The assets and liabilities related to plant and equipment of Taoyuan Pingzhen have been reclassified as held for sale for the year ended December 31, 2016. The transaction of plant and equipment is still under negotiation.

(11) Short-term borrowings

<u>Type of borrowings</u>	<u>December 31, 2018</u>	<u>Interest rate range</u>	<u>Collaterals</u>
Unsecured bank borrowings	<u>\$ 449,295</u>	0.90%~3.10%	None

<u>Type of borrowings</u>	<u>December 31, 2017</u>	<u>Interest rate range</u>	<u>Collaterals</u>
Unsecured bank borrowings	<u>\$ 700,000</u>	0.88%~0.90%	None

(12) Other payables

<u>Items</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Payables on wages, salaries and bonus	\$ 475,216	\$ 457,978
Compensation due to employees, directors and supervisors	-	354,201
Payables on personnel expense	57,460	84,697
Payable on machinery and equipment	953,241	767,764
Payables on consumable goods and equipment repair expense	531,381	504,993
Payables on processing fees	97,381	205,765
Payables on reticle expense	26,478	25,435
Payables on gas expense	74,007	71,643
Payables on insurance expense	7,248	4,492
Others	629,802	563,807
	<u>\$ 2,852,214</u>	<u>\$ 3,040,775</u>

(13) Long-term borrowings

<u>Type of borrowings</u>	<u>Borrowing period and repayment term</u>	<u>December 31, 2018</u>
Secured borrowings	Before October 29, 2022	\$ 137,971
Unsecured borrowings	Before December 30, 2019	127,143
Unsecured borrowings	November 2, 2021 Repay fully at maturity	10,000
Unsecured borrowings	January 31, 2020 Repay fully at maturity	300,000
		<u>575,114</u>
Less: Current portion		(<u>165,306</u>)
		<u>\$ 409,808</u>
Interest rate range		<u>1.00%~1.39%</u>

Type of borrowings	Borrowing period and repayment term	December 31, 2017
Secured borrowings	Before October 29, 2022	\$ 302,080
Secured borrowings	Before May 30, 2019	1,300,000
Unsecured borrowings	Before December 30, 2019	302,857
Unsecured borrowings	Before September 3, 2018	350,000
Unsecured borrowings	January 20, 2020 Repay fully at maturity	400,000
		<u>2,654,937</u>
Less: Current portion		(863,928)
Less: Costs related to syndicate bank		(9,104)
		<u>\$ 1,781,905</u>
Interest rate range		<u>0.85%~1.79%</u>

The Company, Formosa Inc. and Jiangsu Canyang Optoelectronics Ltd have signed a syndicated contract with 7 financial institutions including Land Bank of Taiwan. The lead bank is Land Bank of Taiwan. The credit granting period is 3 years from the first drawing date, May 30, 2016. Before the maturity, the granting period can be extended for 2 years upon application. The loan has been paid off in advance and the credit line has been cancelled on May 30, 2018.

A. Credit lines are as follows:

(a) Tranche (A): Credit line is \$4,000,000. Details of Tranche A are as follows:

i Tranche (A-1): To redeem the 2nd overseas convertible bond and the former facility of Tranche (B) of Formosa Inc., the credit line is \$1,500,000 which can be drawn separately but cannot be redrawn.

ii Tranche (A-2): Funds for fulfilling the Company's mid-term operational needs. Credit line is \$2,500,000 and can be redrawn.

(b) Tranche (B): Credit line is \$1,600,000. Details of Tranche B are as follows:

i Tranche (B-1): To repay former financial debt of Formosa Inc., the credit line is \$600,000 and cannot be redrawn.

ii Tranche (B-2): To fulfil midterm operating capital, the credit line is \$1,000,000 and can be redrawn.

(c) The balance of Tranche (A) and Tranche (B) cannot exceed the total credit line.

(d) Tranche (C): Credit line is US\$19,000 thousand. Details of Tranche C are as follows:

Tranche (C-1): To repay financial debt of Jiangsu Canyang Optoelectronics Ltd., the credit line is USD 19,000 thousand and can be drawn at lump sum but cannot be redrawn.

B. The Company has promised to maintain the following financial ratios and conditions that are based on the audited consolidated financial statements within the credit granting period (if violating following financial rates, annual rates of 0.125% should be added in accordance with contract):

(a) Current ratio more than or equal to 100%;

- (b) Debt ratio less or equal to 100%;
- (c) Times interest earned ratio no less than 400%;
- (d) Tangible net worth (shareholders' equity - intangible assets) not less than \$45,000,000 (inclusive).

C. Due to the business combination of the Company and Formosa Inc. on September 29, 2016, the aforementioned Tranche (B), Tranche (B-1) and Tranche (B-2) are not applicable to the contract.

(14) Pensions

A. (a) The Company has a defined benefit pension plans in accordance with the Labor Standards Law, covering all regular employees for services provided prior to July 1, 2005, and employees who choose to remain in the defined benefit pension plan subsequent to the enforcement of the Labor Pension Act on July 1, 2005. Under the defined benefit pension plan, employees are entitled to two base points for every year of service for the first 15 years and one base point for each additional year thereafter, up to a maximum of 45 base points. The pension payment to employees is computed based on years of service and average salaries or wages of the last six months prior to approved retirement. The Company contributes an amount equal to 2% of salaries and wages paid each month to a pension fund. The pension fund is administered by a pension fund monitoring committee (the "Committee") and deposited under the Committee's name in the Bank of Taiwan.

Also, the Company would assess the balance in the aforementioned labor pension reserve account by the end of December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method, to the employees expected to be qualified for retirement next year, the Company will make contributions to cover the deficit by next March.

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

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Present value of defined benefit obligations	(\$ 357,293)	(\$ 380,000)
Fair value of plan assets	<u>257,354</u>	<u>239,145</u>
Net defined benefit liability	<u>(\$ 99,939)</u>	<u>(\$ 140,855)</u>

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

	<u>Present value of defined benefit obligations</u>	<u>Fair value of plan assets</u>	<u>Net defined benefit liability</u>
<u>2018</u>			
Balance at January 1	(\$ 380,000)	\$ 239,145	(\$ 140,855)
Current service cost	(1,750)	-	(1,750)
Interest (expense) income	(4,738)	3,064	(1,674)
Benefits paid	<u>3,783</u>	<u>(3,783)</u>	<u>-</u>
	<u>(382,705)</u>	<u>238,426</u>	<u>(144,279)</u>
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	6,411	6,411
Change in demographic assumptions	(105)	-	(105)
Change in financial assumptions	(13,014)	-	(13,014)
Experience adjustments	<u>38,531</u>	<u>-</u>	<u>38,531</u>
Pension fund contribution	<u>25,412</u>	<u>6,411</u>	<u>31,823</u>
Paid pension	<u>-</u>	<u>12,517</u>	<u>12,517</u>
Balance at December 31	<u>(\$ 357,293)</u>	<u>\$ 257,354</u>	<u>(\$ 99,939)</u>
	<u>Present value of defined benefit obligations</u>	<u>Fair value of plan assets</u>	<u>Net defined benefit liability</u>
<u>2017</u>			
Balance at January 1	(\$ 332,180)	\$ 223,785	(\$ 108,395)
Current service cost	(1,703)	-	(1,703)
Interest (expense) income	(5,804)	4,029	(1,775)
Past service cost	<u>670</u>	<u>-</u>	<u>670</u>
	<u>(339,017)</u>	<u>227,814</u>	<u>(111,203)</u>
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	(1,807)	(1,807)
Change in demographic assumptions	(326)	-	(326)
Change in financial assumptions	(27,733)	-	(27,733)
Experience adjustments	<u>(12,924)</u>	<u>-</u>	<u>(12,924)</u>
	<u>(40,983)</u>	<u>(1,807)</u>	<u>(42,790)</u>
Pension fund contribution	<u>-</u>	<u>13,138</u>	<u>13,138</u>
Balance at December 31	<u>(\$ 380,000)</u>	<u>\$ 239,145</u>	<u>(\$ 140,855)</u>

(d) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund

includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2018 and 2017 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

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

	Year ended December 31, 2018	Year ended December 31, 2017
Discount rate	1.00%	1.25%
Future salary increases	2.00%	2.00%

Future mortality rate was estimated separately based on the 5th Taiwan Standard Ordinary Experience Mortality Table.

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

	Discount rate		Future salary increases	
	Increase 25%	Decrease 25%	Increase 25%	Decrease 25%
December 31, 2018				
Effect on present value of defined benefit obligation	(\$ 13,020)	\$ 13,663	\$ 13,492	(\$ 12,926)
December 31, 2017				
Effect on present value of defined benefit obligation	(\$ 14,193)	\$ 14,912	\$ 14,763	(\$ 14,125)

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

The method and assumptions used for the preparation of sensitivity analysis during 2018 and during 2017 are the same.

(f) Expected contributions to the defined benefit pension plans of the Company for the next year ending December 31, 2019 amounts to \$12,353.

(g) As of December 31, 2018, the weighted average duration of that retirement plan is 14 years.

B. (a) Effective July 1, 2005, the Company has 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 contribute monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.

(b) The pension costs under the defined contribution pension plans of the Company for the years ended December 31, 2018 and 2017 were \$130,589 and \$135,228, respectively.

(15) Share-based payment

A. For the years ended December 31, 2018 and 2017, the Company’s share-based payment arrangements were as follows:

Type of arrangement	Grant date	Quantity granted (thousand shares)	Contract period	Vesting conditions
Treasury stock transferred to employees	2017.09.26	20,000	2 years	(Note 4)

Note : The Board of Directors adopted a resolution to transfer 20,000 thousand treasury stocks to employees with a subscription price of NT\$26.9 and without transfer restriction during the meeting on September 26, 2017. If employees resign during the vesting period, they are obliged to compensate for the difference between closing market price and the subscription price on the date of security delivery which is under the discretion of the Chairperson.

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

	Years ended December 31	
	2018	2017
Equity-settled	\$ -	\$ 27,906

(16) Long-term deferred revenue (shown under “Other non-current liabilities”)

	December 31, 2018	December 31, 2017
Government grants revenue	\$ 5,358	\$ 4,365
Deferred technical services revenue	16,266	5,359
	<u>\$ 21,624</u>	<u>\$ 9,724</u>

A. The Company obtained government grants for acquisitions of equipment and technology investments and recognized such grants as revenue over the economic lives of those assets. Government grants revenue recognized for the years ended December 31, 2018 and 2017 were \$7,381 and \$20,893 (shown under ‘Other revenue’), respectively.

B. In 2009 and 2018, the Company signed a technical and patent permissions contract with Litefield Corporation (Dalian) LTD. and QL Light Source, and recognises technical services and royalty revenue over the contract periods. The service revenue recognised for the years ended December

31, 2018 and 2017 were \$16,266 and \$3,601, respectively.

(17) Share capital

A. As of December 31, 2018, the Company's authorized capital was \$13,000,000, consisting of 1,300,000 thousand shares of ordinary stock (including 35,000 thousand shares reserved for employee stock options), and the paid-in capital was \$10,887,014 with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected.

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

	<u>2018</u>	<u>2017</u>
At January 1	\$ 1,075,836	\$ 1,066,136
Repurchase of treasury stocks	(3,085)	-
Treasury stocks transferred to employees	10,300	9,700
At December 31	<u>\$ 1,083,051</u>	<u>\$ 1,075,836</u>

B. Pursuant to the issuance of global depositary receipts (GDRs), the Company issued 135 million shares of common stocks for \$1,350,000 thousand dollars. On September 22, 2009, the issuance of GDRs was completed and the GDRs are traded on the Luxembourg Stock Exchange. The total GDRs issued were 27,000,000 units, each represented 5 common shares and US \$13 (in dollars) per unit, amounting to US \$351 million.

C. On October 1, 2018, the total operating assets and liabilities of iii-v semiconductors OEM business for Spin-off and assignments to Unikorn Semiconductor Corporation were \$1,000,000 and \$0, respectively. Unikorn Semiconductor Corporation issued 100 million shares, at a price of \$10 per share (par value of \$5), to exchange the abovementioned assets and liabilities. The details are as follows:

<u>Assets</u>	<u>October 1, 2018</u>
Bank deposits	\$ 360,172
Property, plant and equipment	639,828
	<u>\$ 1,000,000</u>

D. Treasury shares

(a) Reason for share reacquisition and movements in the number of the Company's treasury shares are as follows:

Year ended December 31, 2018					
Reason for reacquisition	Beginning balance	Increase	Decrease	Ending balance	Book value
Held by subsidiaries	2,565 thousand shares	-	-	2,565 thousand shares	\$ 135,163
Held by the Company	-	3085 thousand shares	-	3,085 thousand shares	75,845
To be reissued to employees	10,300 thousand shares	-	(10,300) thousand shares	-	-
Year ended December 31, 2017					
Reason for reacquisition	Beginning balance	Increase	Decrease	Ending balance	Book value
Held by subsidiaries	2,565 thousand shares	-	-	2,565 thousand shares	\$ 135,163
Purchase of treasury shares	2,848 thousand shares	-	(2,848) thousand shares	-	-
To be reissued to employees	20,000 thousand shares	-	(9,700) thousand shares	10,300 thousand shares	273,620

(b) Pursuant to the R.O.C. Securities and Exchange Act, the number of shares bought back as treasury share 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 shares 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 shares should be reissued to the employees within three years from the reacquisition date and shares not reissued within the three-year period are to be retired. Treasury shares to enhance the Company's credit rating and the stockholders' equity should be retired within six months of acquisition.

E. Information of the Company's shares held by subsidiaries – Lighting Investment Corporation is as follows:

	December 31, 2018	December 31, 2017
	Lighting Investment Corporation	Lighting Investment Corporation
Shares	<u>2,565 thousand shares</u>	<u>2,565 thousand shares</u>
Book value	\$ 135,163	\$ 135,163
Fair value	\$ 65,658	\$ 115,799

(18) Capital surplus

- A. Pursuant to the Company Act, capital surplus, including additional paid-in capital in excess of par and donation, shall be exclusively used to cover accumulated deficit or to issue new stock or cash to shareholders in proportion to their ownership when the Company has no accumulated deficit. However, pursuant to the R.O.C. Securities and Exchange Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stock and donations can be capitalized once a year, provided that the Company has no accumulated deficit and the amount to be capitalized does not exceed 10% of the paid-in capital.
- B. The shareholders resolved at their meeting on June 21, 2018 to issue cash to shareholders from capital surplus of \$121,765.

	Share premium	Treasury share transactions	Changes in ownership interests in subsidiaries	Difference between consideration and carrying amount of subsidiaries acquired or disposed	Change in net equity of associates and joint ventures accounted for under equity method	Employee restricted shares
At January 1, 2018	\$ 38,430,512	\$ 47,649	\$ 834,683	\$ 105,930	\$ 524,287	\$ 27,906
Cash from capital surplus	(121,765)	-	-	-	-	-
Treasury stocks transferred to employees	-	145,686	-	-	-	(27,906)
Net change in the equity of associates	-	-	-	-	(458,095)	-
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	-	-	(732)	-	-
Changes in ownership interest in subsidiaries accounted for using equity method	-	-	5,472	-	-	-
Capital surplus adjustment due to dividend paid to subsidiaries	-	2,052	-	-	-	-
At December 31, 2018	<u>\$ 38,308,747</u>	<u>\$ 195,387</u>	<u>\$ 840,155</u>	<u>\$ 105,198</u>	<u>\$ 66,192</u>	<u>\$ -</u>

	Share premium	Treasury share transactions	Changes in ownership interests in subsidiaries	Difference between consideration and carrying amount of subsidiaries acquired or disposed	Change in net equity of associates and joint ventures accounted for under equity method	Employee restricted shares
At January 1, 2017	\$ 41,798,312	\$ 1,585	\$ 836,343	\$ 13,674	\$ 355,379	\$ 10,966
Capital surplus used to offset accumulated deficits	(3,277,291)	(1,585)	-	(13,674)	-	(10,966)
Treasury stocks transferred to employees	-	110,919	-	-	-	-
Compensation cost of share-based payments	-	-	-	-	-	27,906
Retirement of treasury shares	(90,509)	(63,270)	-	-	-	-
Net change in the equity of associates	-	-	-	-	168,908	-
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	-	-	105,930	-	-
Acquisition of subsidiaries' issue of new shares not in proportion to the Group's ownership	-	-	(1,660)	-	-	-
At December 31, 2017	<u>\$ 38,430,512</u>	<u>\$ 47,649</u>	<u>\$ 834,683</u>	<u>\$ 105,930</u>	<u>\$ 524,287</u>	<u>\$ 27,906</u>

(19) Unappropriated retained earnings (accumulated deficit)

	2018	2017
At January 1	\$ 1,614,226	(\$ 3,303,516)
Effect of retrospective application and retrospective restatement	46,946	-
(Loss) profit for the year	(456,146)	1,649,913
Proceeds from disposal of financial assets at fair value through other comprehensive income	(1,071)	-
Remeasurement of defined benefit obligations	25,129	(35,687)
Capital surplus used to offset accumulated deficits	-	3,303,516
Appropriation of earnings	(1,614,226)	-
At December 31	<u>(\$ 385,142)</u>	<u>\$ 1,614,226</u>

A. In accordance with the Company's Articles of Incorporation, 10% of current year's earnings, after paying all taxes and dues and covering prior years' losses, shall be appropriated as legal reserve until the total equals the issued share capital. Special reserve shall be appropriated or reversed when needed. The remaining earnings along with the prior years' accumulated unappropriated earnings are considered as distributable earnings, and shall be retained and appropriated in proportion to the number of shares held by each shareholder accordingly.

- B. The Company appropriates earnings based on the factors such as current and future investment environment, capital needs, domestic and overseas competition and capital budget, along with the consideration of shareholders' interest and capital adequacy. The appropriation of cash dividends shall not be lower than 10% of the total dividend appropriated to shareholders.
- C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.
- D. In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the special reserve is reversed accordingly and could be included in the distributable earnings.
- E. On June 21, 2017, the shareholders, in their meeting, have resolved to offset the deficits amounting to \$3,545,028 with legal reserve of \$241,512 and capital surplus of \$3,303,516.
- F. For the information relating to employees' compensation (bonuses) and directors' and supervisors' remuneration, please refer to Note 6(27).
- G. The earnings appropriation as resolved by the Board of Directors on June 21, 2018 is as follows:

	Year ended December 31, 2017	
	Amount	Dividends per share (in dollars)
Legal reserve	\$ 161,423	\$ -
Reversal of special reserve	703,607	-
Cash dividends	749,196	0.688156
	<u>\$ 1,614,226</u>	

(20) Other equity items

	Currency translation differences	Unrealized gain or loss on available-for-sale financial assets	Total
At January 1, 2018	(\$ 268,293)	(\$ 415,950)	(\$ 684,243)
Effect of retrospective application and retrospective restatement	(52,055)	3,595	(48,460)
Revaluation - gross	(616,461)	-	(616,461)
Revaluation - tax	117,563	-	117,563
Revaluation transferred to retained earnings - gross	1,071	-	1,071
Disposal of investments accounted for using equity method	-	5,439	5,439
Currency translation			
–Group	- (	208,330) (	208,330)
–Tax on Group	-	63,311	63,311
–Associates	-	65,150	65,150
–Tax on associates	- (	13,030) (	13,030)
At December 31, 2018	(\$ 818,175)	(\$ 499,815)	(\$ 1,317,990)

	Currency translation differences	Unrealized gain or loss on available-for-sale financial assets	Total
At January 1, 2017	(\$ 276,843)	(\$ 228,527)	(\$ 505,370)
Revaluation - gross	2,195	-	2,195
Revaluation - tax	6,355	-	6,355
Revaluation transferred to retained earnings - gross	-	-	-
Currency translation			
–Group	- (	179,264) (	179,264)
–Tax on Group	-	30,475	30,475
–Associates	- (	46,547) (	46,547)
–Tax on associates	-	7,913	7,913
At December 31, 2017	(\$ 268,293)	(\$ 415,950)	(\$ 684,243)

(21) Operating revenue

	Year ended December 31, 2018
Revenue from contracts with customers:	
Sales revenue	\$ 17,143,453
Services revenue	43,115
Other operating revenue	3,204
	<u>\$ 17,189,772</u>

(22) Other income and expenses— net

	<u>Year ended</u> <u>December 31, 2018</u>	<u>Year ended</u> <u>December 31, 2017</u>
Other income		
Royalty and technical income	\$ 118,742	\$ 134,794
Government grants revenue	7,381	20,893
	<u>\$ 126,123</u>	<u>\$ 155,687</u>

(23) Other income

	<u>Year ended</u> <u>December 31, 2018</u>	<u>Year ended</u> <u>December 31, 2017</u>
Interest income:		
Interest income from bank deposits	\$ 17,467	\$ 32,502
Net currency exchange gains	58,940	(24,576)
Other interest income	14,213	26,249
Total interest income	<u>90,620</u>	<u>34,175</u>
Rental revenue	56,027	16,462
Dividend income	12,910	161
Miscellaneous income	179,781	219,005
Total	<u>\$ 339,338</u>	<u>\$ 269,803</u>

(24) Other gains and losses

	<u>Year ended</u> <u>December 31, 2018</u>	<u>Year ended</u> <u>December 31, 2017</u>
Losses on disposal of property, plant and equipment	(\$ 126,690)	(\$ 3,658)
Gains on disposal of investments	100,804	30,442
Net currency exchange gains (losses)	7,827	(487,547)
Net gains on financial assets at fair value through profit or loss	4,504	1,063
Impairment loss on non-financial assets	(615,949)	(104,963)
Impairment loss on financial assets	-	(8,774)
Miscellaneous losses	(60,214)	(24,836)
	<u>(\$ 689,718)</u>	<u>(\$ 598,273)</u>

(25) Finance costs

	<u>Year ended</u> <u>December 31, 2018</u>	<u>Year ended</u> <u>December 31, 2017</u>
Interest expense:		
Bank borrowings	\$ 16,927	\$ 87,799
Net currency exchange gains	(256)	-
Other interest expense	12,106	10,841
	<u>28,777</u>	<u>98,640</u>
Less: capitalisation of qualifying assets	(755)	(1,281)
	<u>\$ 28,022</u>	<u>\$ 97,359</u>

(26) Expenses by nature

	<u>Year ended</u> <u>December 31, 2018</u>	<u>Year ended</u> <u>December 31, 2017</u>
Employee benefit expenses	\$ 3,495,523	\$ 3,904,066
Depreciation charges on property, plant and equipment (Note)	\$ 3,464,182	\$ 3,484,898
Amortisation charges on intangible assets	\$ 253,705	\$ 334,510

Note : Depreciation amounting to \$35,002 and \$3,247 were recognized as a deduction of rental revenue for the years ended December 31, 2018 and 2017, respectively.

(27) Employee benefit expenses

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Wages and salaries	\$ 2,976,529	\$ 3,334,364
Share-based payments	-	27,906
Labor and health insurance expenses	241,004	253,616
Pension costs	134,013	138,036
Other personnel expenses	143,977	150,144
	<u>\$ 3,495,523</u>	<u>\$ 3,904,066</u>

A. According to the Articles of Incorporation of the Company, the Company shall distribute employees' compensation and directors' remuneration based on 10%~20% and 2% of the distributable profit of the current year, respectively. If the Company has accumulated deficit, earnings should be reserved to cover losses.

The abovementioned distributable profit of the current year refers to the current year's income before tax (excluding put option, call option, conversion right and reacquisition of corporate bonds on overseas convertible bond that are recorded in other gains and losses) less the profit prior to the appropriation of employees' compensation and directors' remuneration.

B. For the year ended December 31, 2017, the employees' compensation and directors' and supervisors' remuneration was accrued at \$312,528 and \$ 41,673, respectively. The aforementioned amounts were recognised in salary expenses. For the year ended December 31,

2016, the Company incurred loss and thus did not accrue employees' compensation and directors' and supervisors' remuneration.

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

(28) Income tax

A. Income tax expense (benefit)

(a) Components of income tax expense (benefit):

	Years ended December 31	
	2018	2017
Current tax:		
Current tax on profits for the year	\$ 9,734	\$ 147,090
Tax of foreign source income withheld at source	27,100	906
Total current tax	<u>36,834</u>	<u>147,996</u>
Deferred tax:		
Origination and reversal of temporary differences	(403,591)	(68,500)
Total deferred tax	<u>(403,591)</u>	<u>(68,500)</u>
Income tax (benefit) expense	<u><u>(\$ 366,757)</u></u>	<u><u>\$ 79,496</u></u>

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

	Years ended December 31	
	2018	2017
Changes in fair value of financial assets at fair value through other comprehensive income	(\$ 117,563)	\$ -
Currency translation differences	(50,281)	(38,388)
Fair value unrealized gains on available-for-sale financial assets	-	(6,355)
Remeasurement of defined benefit obligations	6,365	(7,274)
	<u><u>(\$ 161,479)</u></u>	<u><u>\$ 52,017</u></u>

B. Reconciliation between income tax (benefit) expense and accounting profit:

	Years ended December 31	
	2018	2017
Tax calculated based on profit (losses) before tax and statutory tax rate	(\$ 154,846)	\$ 294,000
Effects from expenses disallowed and tax exempted income by tax regulation	(90)	(112,375)
Temporary differences not recognised as deferred tax assets	(189,842)	-
Taxable loss not recognised as deferred tax assets	226,033	
Prior year income tax underestimation	-	(103,035)
Effect from investment tax credit	27,100	906
Effect from changes in tax regulation	(275,112)	-
Income tax (benefit) expense	<u>(\$ 366,757)</u>	<u>\$ 79,496</u>

C. Amounts of deferred tax assets or liabilities as a result of temporary differences, tax losses and investment tax credit are as follows:

	2018			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Deferred tax assets:				
— Temporary differences:				
Unrealized exchange loss	\$ 277	(\$ 277)	\$ -	\$ -
Unrealized sales returns and discounts	9,794	28,544	-	38,338
Unrealized loss from sales	4,949	(4,949)	-	-
Investment loss under equity method	501,414	60,428	-	561,842
Impairment loss for non-financial assets	102,221	(59,120)	-	43,101
Loss on valuation of financial assets	111,380	-	143,448	254,828
Impairment loss for financial assets	3,484	(3,437)	-	47
Deferred revenue	1,156	(616)	-	540
Currency translation differences	515,708	-	112,777	628,485
Unrealized pension	20,206	463	6,365	27,034
Others	8,884	174,675	-	183,559
Tax losses	1,474,101	433,029	-	1,907,130
Investment tax credit	119,990	-	-	119,990
Subtotal	<u>\$ 2,873,564</u>	<u>\$ 628,740</u>	<u>\$ 262,590</u>	<u>\$ 3,764,894</u>
— Deferred tax liabilities:				
Unrealized exchange gain	\$ -	(\$ 47)	\$ -	(\$ 47)
Unrealized loss from sales	-	(17,157)	-	(17,157)
Bargain purchase gain	(36,272)	13,602	-	(22,670)
Investment gain under equity method	(504,009)	(28,698)	-	(532,707)
Gain on valuation of financial assets	(104,743)	-	(14,554)	(119,297)
Currency translation differences	(393,055)	-	(84,141)	(477,196)
Others	(27,235)	(187,322)	-	(214,557)
Subtotal	<u>(\$ 1,065,314)</u>	<u>(\$ 219,622)</u>	<u>(\$ 98,695)</u>	<u>(\$ 1,383,631)</u>
Total	<u>\$ 1,808,250</u>	<u>\$ 409,118</u>	<u>\$ 163,895</u>	<u>\$ 2,381,263</u>

2017

	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Deferred tax assets:				
– Temporary differences:				
Unrealized inventory loss	\$ 58,635	(\$ 58,635)	\$ -	\$ -
Unrealized exchange loss	-	277	-	277
Unrealized sales returns and discounts	10,891	(1,097)	-	9,794
Unrealized loss from sales	4,778	171	-	4,949
Investment loss under equity method	487,194	14,220	-	501,414
Impairment loss for non-financial assets	129,138	(26,917)	-	102,221
Loss on valuation of financial assets	58,412	-	52,968	111,380
Impairment loss for financial assets	298	3,186	-	3,484
Deferred revenue	2,066	(910)	-	1,156
Currency translation differences	382,949	-	132,759	515,708
Unrealized pension	14,688	(1,756)	7,274	20,206
Others	-	8,884	-	8,884
Tax losses	1,437,997	36,104	-	1,474,101
Investment tax credit	16,955	103,035	-	119,990
Subtotal	<u>\$ 2,604,001</u>	<u>\$ 76,562</u>	<u>\$ 193,001</u>	<u>\$ 2,873,564</u>
– Deferred tax liabilities:				
Unrealized foreign exchange gain	(\$ 21,463)	\$ 21,463	\$ -	\$ -
Bargain purchase gain	(53,275)	17,003	-	(36,272)
Investment gain under equity method	(373,374)	(130,635)	-	(504,009)
Gain on valuation of financial assets	(58,130)	-	(46,613)	(104,743)
Currency translation differences	(298,684)	-	(94,371)	(393,055)
Disaster insurance compensation income	(74,147)	71,147	-	-
Others	(37,195)	9,960	-	(27,235)
Subtotal	<u>(\$ 916,268)</u>	<u>(\$ 8,062)</u>	<u>(\$ 140,984)</u>	<u>(\$ 1,065,314)</u>
Total	<u>\$ 1,687,733</u>	<u>\$ 68,500</u>	<u>\$ 52,017</u>	<u>\$ 1,808,250</u>

D. Details of the amount the Company is entitled as investment tax credit and unrecognized deferred tax assets are as follows:

December 31, 2018			
Qualifying items	Unused tax credits	Unrecognised deferred tax assets	Expiry year
Investment credit for stockholder	\$ 99,990	\$ -	2020
Investment credit for stockholder	20,000	-	2021

December 31, 2017			
Qualifying items	Unused tax credits	Unrecognised deferred tax assets	Expiry year
Investment credit for stockholder	\$ 99,990	\$ -	2020
Investment credit for stockholder	20,000	-	2021

E. Expiration dates of unused tax losses and amounts of unrecognized deferred tax assets are as follows:

December 31, 2018				
Year incurred	Amount filed / assessed	Unused amount	Unrecognised deferred tax assets	Expiry year
2014	Assessed	\$ 3,948,345	\$ -	2024
2015	Assessed	1,048,266	-	2025
2016	Assessed	3,408,870	-	2026

December 31, 2017				
Year incurred	Amount filed / assessed	Unused amount	Unrecognised deferred tax assets	Expiry year
2014	Assessed	\$ 3,948,345	\$ -	2024
2015	Assessed	1,048,266	-	2025
2016	Assessed	3,408,870	-	2026

F. The amounts of deductible temporary difference that are not recognized as deferred tax assets are as follows:None.

G. The Company's products qualify for "Regulations for Encouraging Manufacturing Enterprises and Technical Service Enterprises in the Newly Emerging, Important and Strategic Industries" and the Company is entitled to the income tax exemption for five consecutive years. The duration has been set to start from January 1, 2017.

H. The Company's income tax returns through 2016 have been assessed and approved by the Tax Authority.

I. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China on February 7, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Company has assessed the impact of the change in income tax rate.

(29) (Losses) earnings per share

	<u>Year ended December 31, 2018</u>		
	<u>Amount after tax</u>	<u>Weighted average number of outstanding ordinary shares (share in thousands)</u>	<u>Losses per share (in dollars)</u>
<u>Basic losses per share</u>			
Losses attributable to the parent	<u>(\$ 456,146)</u>	<u>1,084,686</u>	<u>(\$ 0.42)</u>
	<u>Year ended December 31, 2017</u>		
	<u>Amount after tax</u>	<u>Weighted average number of outstanding ordinary shares (share in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Earnings attributable to the parent	<u>\$ 1,649,913</u>	<u>1,067,492</u>	<u>\$ 1.55</u>
<u>Diluted earnings per share</u>			
Profit attributable to the parent	\$ 1,649,913	1,067,492	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	6,922	
Treasury stocks transferred to employees	-	3,850	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 1,649,913</u>	<u>1,078,264</u>	<u>\$ 1.53</u>

(30) Supplemental cash flow information

A. Investing activities with partial cash payments

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Purchase of property, plant and equipment	\$ 3,144,052	\$ 1,512,541
Add: Opening balance of payable on equipment	727,604	975,603
Add: Ending balance of prepayment for equipment	157,663	330,245
Less: Ending balance of payable on equipment	(953,241)	(727,604)
Less: Opening balance of prepayment for equipment	(330,245)	(591,220)
Cash paid during the year	<u>\$ 2,745,833</u>	<u>\$ 1,499,565</u>

Intangible assets:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Purchase of intangible assets	\$ 119,774	\$ 166,584
Add: Opening balance of payables	177,597	239,116
Less: Ending balance of payables	(142,218)	(177,597)
Cash paid during the year	<u>\$ 155,153</u>	<u>\$ 228,103</u>

B. Partial cash investing activities

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Sale of property, plant and equipment	\$ 114,542	\$ 144,958
Add: Opening balance of receivables	30,140	31,849
Less: Ending balance of receivables	(46,327)	(30,140)
Cash collected during the year	<u>\$ 98,355</u>	<u>\$ 146,667</u>

C. Cash received from disposal of ownership interests in subsidiaries

	<u>Year ended December 31, 2018</u>	<u>Year ended December 31, 2017</u>
Disposal proceeds	\$ 391,400	\$ -
Less: Ending balance of receivables	(104,503)	-
Net cash provided by disposal of subsidiaries	<u>\$ 286,897</u>	<u>\$ -</u>

(31) Changes in liabilities from financing activities

	<u>Short-term borrowings</u>	<u>Long-term borrowings</u>	<u>Liabilities from financing activities- gross</u>
At January 1, 2018	\$ 700,000	\$ 2,645,833	\$ 3,345,833
Changes in cash flow from financing	(249,600)	(2,079,823)	(2,329,423)
Effect of exchange rate changes in borrowings	(1,105)	-	(1,105)
Amortisation of borrowings cost	-	9,104	9,104
At December 31, 2018	<u>\$ 449,295</u>	<u>\$ 575,114</u>	<u>\$ 1,024,409</u>

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

Names of related parties	Relationship with the Group
Everlight Electronics Co., Ltd. and its subsidiaries	Other related party
Seoul Semiconductor Co., Ltd.	Other related party
Nan Ya Photonics Incorporation	Associate
TE Opto Corporation	Associate
KAISTAR Lighting (Xiamen) Co., Ltd.	Associate (Note 1)
ProLight Opto Technology Corporation	Associate
Very Optoelectronics(HUI ZHOU) Co., Ltd	Associate (Note 2)
PlayNitride Inc.	Associate (Note 4)
Tops Electrical Technology Co., Ltd.	Associate (Note 5)
LEDAZ Co., Ltd	Associate
Lighting Investment Corp.	Subsidiary of the Company
Lighting Investment Ltd.	The Company's indirectly owned subsidiary
Epistar (Hong Kong) Limited	The Company's indirectly owned subsidiary
Yen-Rich Technology Corporation	Subsidiary of the Company (Note 6)
UEC Investment Ltd.	Subsidiary of the Company (Note 8)
Epistar JV Holding (BVI) Co.,Ltd.	Subsidiary of the Company (Note 8)
LiteStar JV Holding (BVI) Co.,Ltd.	The Company's indirectly owned subsidiary
Episky Corp.(Xiamen) Ltd.	The Company's indirectly owned subsidiary
Episky (Hong Kong) Ltd.	The Company's indirectly owned subsidiary
United LED Corporation (Shandong) Limited	The Company's indirectly owned subsidiary
United LED Corporation (Hong Kong) Limited	The Company's indirectly owned subsidiary
Epicrystal(Changzhou)Co., Ltd.	The Company's indirectly owned subsidiary
Epicrystal (Hong Kong) Co. Ltd.	The Company's indirectly owned subsidiary
Bee Rich Corporation	Subsidiary of the Company (Note 8)
Full Star Enterprises Limited	Subsidiary of the Company
Crystal Light Enterprises Group Limited	The Company's indirectly owned subsidiary
Ningbo Formosa Epitaxy Incorporation	The Company's indirectly owned subsidiary
Jiangsu Canyang Optoelectronics Ltd	The Company's indirectly owned subsidiary
Can Yang Investments Limited	The Company's indirectly owned subsidiary
GaN Ventures Co., Limited	Subsidiary of the Company
GV Semiconductor Inc.	The Company's indirectly owned subsidiary
SH Optotech Co., Ltd.	Subsidiary of the Company
HUGA Holding (BVI) Limited	Subsidiary of the Company (Note 8)
HUGA Holding (SAMOA) Limited	The Company's indirectly owned subsidiary
Interlight Optotech Corporation	The Company's indirectly owned subsidiary (Note 3)
Yen-Rich Opto (Hong Kong) Limited	The Company's indirectly owned subsidiary
Ecoled Venture Co., Limited	Subsidiary of the Company

Names of related parties	Relationship with the Group
EPI Crystal Investment Inc.	Subsidiary of the Company (Note 7)
iReach Corporation	Subsidiary of the Company
Crystaluxx SARL	The Company's indirectly owned subsidiary
EPIRICH (Guangzhou)Co.,Ltd	The Company's indirectly owned subsidiary
EPISKY Corporation (Changzhou) LTD	The Company's indirectly owned subsidiary
Luxlite(Shenzhen) Corporation Limited	The Company's indirectly owned subsidiary
Luxlite(HK) Corporation Limited	The Company's indirectly owned subsidiary
AllureLux Corporation	The Company's indirectly owned subsidiary
AllureLux Inc.	The Company's indirectly owned subsidiary
Unikorn Semiconductor Corporation	Subsidiary of the Company

Note 1: No longer an associate of the Company since April 26, 2018.

Note 2: No longer an associate of the Company since March 14, 2018.

Note 3: The liquidation was completed on May 31, 2018 as the company will not continue its operation.

Note 4: The preparatory office was established in December 2017 and iReach Corporation was incorporated on January 1, 2018.

Note 5: No longer an associate of the Company since March 6, 2018.

Note 6: No longer an associate of the Company since March 29, 2018.

Note 7: In September 2018, Zheng-Yi Technology Corporation has been renamed as Yen-Rich Technology Corporation.

Note 8: Lighting Investment Corp. proceeded with a simple merger with EPI Crystal Investment Inc. on July 1, 2018. Lighting Investment Corp. was the surviving company while EPI Crystal Investment Inc. was the dissolved company.

Note 9: Epistar JV Holding (BVI) Co., Ltd. proceeded with a simple merger with UEC Investment Ltd., Bee Rich Corporation and HUGA Holding (BVI) Limited on November 1, 2018. Epistar JV Holding (BVI) Co., Ltd was the surviving company while UEC Investment Ltd., Bee Rich Corporation and HUGA Holding (BVI) Limited were the dissolved companies.

(2) Significant related party transactions and balances

A. Operating revenue:

	Years ended December 31	
	2018	2017
Other related parties		
Everlight Electronics Co., Ltd and its subsidiaries	\$ 1,713,222	\$ 2,677,441
Others	32,341	1,969
	<u>1,745,563</u>	<u>2,679,410</u>
Associates	<u>921,551</u>	<u>1,794,928</u>
Subsidiaries		
Luxlite (Shenzhen) Corporation Limited	1,084,713	2,764,550
Episky Corp.(Xiamen) Ltd.	1,951,734	1,401,904
Others	1,360,243	1,822,602
	<u>4,396,690</u>	<u>5,989,056</u>
	<u>\$ 7,063,804</u>	<u>\$ 10,463,394</u>

The sales price and collection terms to related parties are generally comparable to those of third parties which is 150 days after month-end closing. Additionally, the sales price offered to certain related parties is not comparable to third parties since there is no such transaction with third parties. All other sales prices to related parties are the same as those to third parties.

B. Purchases:

	Years ended December 31	
	2018	2017
Associates	\$ 47,298	\$ 465,166
Subsidiaries		
EPISKY Corporation (Changzhou) LTD	1,413,330	2,783,670
Episky Corp. (Xiamen) Ltd.	204,662	975,720
Epicrystal (Changzhou) Co., Ltd.	423,001	754,386
Others	529,070	309,722
	<u>2,570,063</u>	<u>4,823,498</u>
	<u>\$ 2,617,361</u>	<u>\$ 5,288,664</u>

Due to the product variety, the purchase price from the above related parties was not comparable to other suppliers while other products have no difference with market price.

C. Receivables from related parties:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Accounts receivable:		
Other related parties		
Everlight Electronics Co., Ltd. and its subsidiaries	\$ 924,489	\$ 1,568,434
Others	11,359	-
Less: Allowance for sales returns and discounts	-	(14,479)
	<u>935,848</u>	<u>1,553,955</u>
Associates	312,002	624,572
Less: Allowance for sales returns and discounts	-	(652)
	<u>312,002</u>	<u>623,920</u>
Subsidiaries		
Luxlite (Shenzhen) Corporation Limited	532,415	1,102,228
Episky Corp.(Xiamen) Ltd.	951,281	762,523
Others	369,314	460,327
	<u>1,853,010</u>	<u>2,325,078</u>
	<u>\$ 3,100,860</u>	<u>\$ 4,502,953</u>

The receivables from related parties arise mainly from sale transactions. The receivables are unsecured in nature and bear no interest.

D. Other receivables from related parties:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Associates	\$ 305	\$ 23,410
Subsidiaries	192,201	\$ 207,445
	<u>\$ 192,506</u>	<u>\$ 230,855</u>

The other receivables from related parties arise mainly from sales of machinery and equipment and patent licensing transactions.

E. Payables from related parties:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Accounts payable:		
Associates		
LEDAZ Co., Ltd.	\$ 250,167	\$ 325,775
Others	<u>95</u>	<u>109,382</u>
	<u>250,262</u>	<u>435,157</u>
Subsidiaries		
EPISKY Corporation (Changzhou) LTD	69,719	168,582
Episky Corp.(Xiamen) Ltd.	24,384	23,579
Epicrystal (Changzhou) Co., Ltd.	141,909	164,930
Others	<u>51,974</u>	<u>66,021</u>
	<u>287,986</u>	<u>423,112</u>
	<u>\$ 538,248</u>	<u>\$ 858,269</u>

The payable to related parties arise mainly purchase transactions. The payable bear no interest.

F. Property transactions:

(a) Purchase of machinery and equipment

	<u>Years ended December 31</u>			
	<u>2018</u>		<u>2017</u>	
	<u>Purchase price</u>	<u>Payables</u>	<u>Purchase price</u>	<u>Payables</u>
Other related parties	\$ -	\$ -	\$ 344	\$ 99
Associates	<u>390</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subsidiaries				
Others	<u>361,876</u>	<u>4,638</u>	<u>31,980</u>	<u>6,900</u>
	<u>\$ 362,266</u>	<u>\$ 4,638</u>	<u>\$ 32,324</u>	<u>\$ 6,999</u>

(b) Disposal of property, plant and equipment

	Years ended December 31			
	2018		2017	
Sales of equipment:				
Associates	\$ 1,803	(\$ 131)	\$ 545	\$ 206
Subsidiaries				
Episky Corp. (Xiamen) Ltd.	14,254	2,945	57,017	5,543
Epicrystal (Changzhou) Co.,Ltd.	23,788	(4,145)	29,056	3,477
Jiangsu Canyon Optoelectronics Ltd	22,647	1,011	17,484	616
Others	650	(50)	-	-
	<u>61,339</u>	<u>(239)</u>	<u>103,557</u>	<u>9,636</u>
	<u>\$ 63,142</u>	<u>(\$ 370)</u>	<u>\$ 104,102</u>	<u>\$ 9,842</u>

G. Processing fees

	Years ended December 31			
	2018		2017	
	Processing fees	Payables	Processing fees	Payables
Subsidiaries	\$ 3,855	\$ 1,675	\$ 7,348	\$ 2,499

The Company directly committed Episky Corp. (Xiamen) Ltd. for processing on order. Sales revenue and cost of sales, arising from the Company selling the semi-finished goods to Episky Corp. (Xiamen) Ltd., are reversed at the end of every month, which will be recognised as processing fees in the financial statements when those semi-finished goods are manufactured and sold back by Episky Corp. (Xiamen) Ltd. In addition, accounts payable and accounts receivable are presented in the financial statements as net amounts.

The sales to Episky Corp. (Xiamen) Ltd. for the years ended December 31, 2018 and 2017 were \$0 and \$100,893, respectively. The sales from Episky Corp. (Xiamen) Ltd. for the years ended 2018 and 2017 were \$0 and \$46,040, respectively.

H. Loans to /from related parties:

(a) Balance at December 31, 2018 (shown as other receivables)		
	December 31, 2018	December 31, 2017
Subsidiaries	\$ 134,070	\$ 863,040
(b) Interest income		
	December 31, 2018	December 31, 2017
Subsidiaries	\$ 8,855	\$ 19,090

The loan interest were 2.57%~5.53% and 2.09%~2.57% per annum for the years ended December 31, 2018 and 2017, respectively.

I. Endorsements and guarantees provided to related parties:

The balances of guarantees provided to related parties for credit line of bank borrowings is as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Subsidiaries		
Episky Corp. (Xiamen) Ltd.	\$ 2,871,329	\$ 1,432,530
Jiangsu Canyang Optoelectronics Ltd	399,295	1,071,360
Others	-	238,080
	<u>\$ 3,270,624</u>	<u>\$ 2,741,970</u>

J. Other

(a) Related party sales through the Company are as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Subsidiaries	\$ -	\$ 96

(b) Royalty and technical income

	<u>Years ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Associates		
KAIAR Lighting(Xiamen)Co.,Ltd	\$ 1,184	\$ 27,189
Others	1,517	823
	<u>2,701</u>	<u>28,012</u>
Subsidiaries		
Epicrystal (Changzhou) Co., Ltd.	61,955	72,147
Others	17,622	23,004
	<u>79,577</u>	<u>95,151</u>
	<u>\$ 82,278</u>	<u>\$ 123,163</u>

(c) Fee income

	<u>Years ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Subsidiaries	\$ 3,667	\$ 3,203

(d) Other income

	<u>Years ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Associates	2,646	16,001
Subsidiaries		
Yen-Rich Technology Corporation.	21,360	82,483
Others	67,991	68,811
	<u>89,351</u>	<u>151,294</u>
	<u>\$ 91,997</u>	<u>\$ 167,295</u>

(e) Rental revenue

	Years ended December 31	
	2018	2017
Subsidiaries		
Yen-Rich Technology Corporation	\$ 1,395	\$ 5,484
Unikorn Semiconductor Corporation	6,986	-
Others	87	130
	<u>\$ 8,468</u>	<u>\$ 5,614</u>

(f) Interest income

	Years ended December 31	
	2018	2017
Associates	\$ 172	\$ 276
Subsidiaries	141	191
	<u>\$ 313</u>	<u>\$ 467</u>

(g) Rental expense

	Years ended December 31	
	2018	2017
Associates	\$ -	\$ 316

(3) Key management compensation

	Years ended December 31	
	2018	2017
Salaries and other short-term employee benefits	\$ 99,114	\$ 117,046
Share-based payment	-	\$ 7,423
Post-employment benefits	1,900	2,011
	<u>\$ 101,014</u>	<u>\$ 126,480</u>

8. PLEDGED ASSETS

The Company's assets pledged as collateral are as follows: (The time deposits described below are recognized as other current assets - non-cash equivalents)

Item	Book value		Purpose of pledge
	December 31, 2018	December 31, 2017	
Bank deposits (Shown in "Other assets- other")	\$ 97,546	\$ 97,160	Lase deposit, Collateral deposits for provisional seizure
Buildings and Structures	577,376	1,968,149	Long-term borrowings
	<u>\$ 674,922</u>	<u>\$ 2,065,309</u>	

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Contracted but not provided		
Property, plant and equipment	\$ 926,215	\$ 928,823

(2) Operating lease commitments

The Company's operating lease contracts for land, factories, dorms and automobiles are irrevocable and most of them can be renewed at market price at the end of the lease term.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Not later than one year	\$ 51,111	\$ 53,638
Later than one year but not later than five years	168,060	141,664
Later than five years	411,126	282,540
Total	\$ 630,297	\$ 477,842

On October 12, 2012, the Trustees of Boston University filed a lawsuit against the Company, alleging patent infringement. In November 2015, the verdict of a Massachusetts federal jury for the first instance stated that the Company shall pay compensation of US\$ 9.3 million. However, the Company won the verdict from the United States Court of Appeals for the Federal Circuit that stated in the second instance that the alleging patent infringement is invalid on July 25, 2018.

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

The Company distributed cash dividends in approximately NT\$0.3 in dollars per share from capital surplus to its shareholders, total amounting to \$324,270, as resolved by the Board of Director during its meeting on March 14, 2019.

12. OTHERS

(1) Capital risk management

The Company's capital management policy is established taking into account the industry characteristics, the Company's future development and changes in external environments. The Company plans the working capital, capital expenditures, investments and dividends required for the future based on the capital management policy, makes financial analysis, and examines its capital structure periodically and makes appropriate adjustments to ensure that every entity within the Company may grow and operate indefinitely.

(2) Financial instruments

A. Financial instruments by category

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Financial assets</u>		
Financial assets at fair value through profit or loss		
Financial assets mandatorily measured at fair value through profit or loss	\$ 40,923	\$ -
Available-for-sale financial assets	1,097,917	-
Financial assets at amortised cost	-	1,183,025
Financial assets at amortised cost/Loans and receivables		
Cash and cash equivalents	3,012,708	5,310,043
Notes receivable	521,031	195,064
Accounts receivable	4,076,544	4,136,510
Accounts receivable due from related parties	3,100,860	4,502,953
Other receivables	191,748	563,629
Other receivables due from related parties	326,576	1,093,895
Guarantee deposits paid	6,545	20,199
Other financial assets	97,552	97,166
	<u>\$ 12,472,404</u>	<u>\$ 17,102,484</u>
<u>Financial liabilities</u>		
Financial liabilities at amortised cost		
Short-term borrowings	\$ 449,295	\$ 700,000
Notes payable	9,421	24,793
Accounts payable	1,565,828	1,679,044
Accounts payable to related parties	538,248	858,269
Other payables	2,852,214	3,040,775
Long-term borrowings (including current portion)	575,114	2,645,833
Long-term accounts payable	95,059	130,438
Guarantee deposits received	5,347	6,129
	<u>\$ 6,090,526</u>	<u>\$ 9,085,281</u>

B. Financial risk management policies

(a) The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The purpose of risk management is to minimise potential adverse effects arising from uncertainty on the Company's financial performance.

(b) Risk management is carried out by treasury and finance departments of the Company under policies approved by the Board of Directors. Treasury and finance departments of the Company identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign

exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- i. The Company operates internationally and is exposed to exchange rate risk arising from the transactions of the Company and its subsidiaries used in various functional currency, primarily with respect to the USD, JPY and RMB. Exchange rate risk arises from future commercial transactions and recognised assets and liabilities.
- ii. Management has set up a policy to require the Company to manage their foreign exchange risk against their functional currency. The companies are required to hedge their entire foreign exchange risk exposure with the Company treasury.
- iii. The Company's businesses involve some non-functional currency operations (the functional currency of the Company and certain subsidiaries is NTD while that of other subsidiaries are USD and RMB). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

	December 31, 2018		
	Foreign currency amount (in Thousands)	Exchange rate	Book value (in Thousands of NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 164,561	30.715	\$ 5,054,485
RMB:NTD	457,620	4.4720	2,046,476
<u>Non-monetary items</u>			
USD:NTD	386,006	30.715	11,856,183
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	80,169	30.715	2,462,384
RMB:NTD	134,010	4.4720	599,294
JPY:NTD	270,761	0.2782	75,326

December 31, 2017				
	Foreign currency amount		Book value	
	(in Thousands)	Exchange rate	(in Thousands of NTD)	
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	\$ 319,484	29.760	\$	9,507,835
JPY:NTD	447,164	0.2642		118,141
RMB:NTD	755,598	4.5650		3,449,305
<u>Non-monetary items</u>				
USD:NTD	367,152	29.760		10,926,436
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	79,383	29.760		2,362,447
JYP:NTD	473,345	0.2642		125,058
RMB:NTD	110,779	4.5650		505,706

- iv. Please refer to the following table for the details of unrealized exchange gain (loss) arising from significant foreign exchange variation on the monetary items held by the Company.

Year ended December 31, 2018				
Unrealized exchange gain (loss)				
	Foreign currency amount		Book value	
	(in Thousands)	Exchange rate	(in Thousands of NTD)	
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	\$ -	30.715	(\$	2,608)
RMB:NTD	-	4.472	(	4,648)
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	-	30.715		7,243
RMB:NTD	-	4.4720		447
JPY:NTD	-	0.2782	(	1,126)

Year ended December 31, 2017			
Unrealized exchange gain (loss)			
(Foreign currency: functional currency)	Foreign currency amount		Book value
	(in Thousands)	Exchange rate	(in Thousands of NTD)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ -	29.7600	(\$ 117,368)
JPY:NTD	-	0.2642	(182)
RMB:NTD	-	4.5650	41,222
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	-	29.7600	39,539
JPY:NTD	-	0.2642	1,225
RMB:NTD	-	4.5650	(904)

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

Year ended December 31, 2018				
Sensitivity analysis				
(Foreign currency: functional currency)	Extent of variation	Effect on profit or		Effect on equity
		loss		
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	1%	\$ 50,545	\$	-
RMB:NTD	1%	20,465		-
<u>Non-monetary item</u>				
USD:NTD	1%	-		118,562
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	1%	24,624		-
RMB:NTD	1%	5,993		-
JPY:NTD	1%	753		-

Year ended December 31, 2017

Sensitivity analysis				
Effect on profit or				
<u>Extent of variation</u>		<u>loss</u>		<u>Effect on equity</u>
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	1%	\$ 95,078	\$	-
JPY:NTD	1%	1,181		-
RMB:NTD	1%	34,493		-
<u>Non-monetary items</u>				
USD:NTD	1%	-		109,264
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	1%	23,624		-
JPY:NTD	1%	1,251		-
RMB:NTD	1%	5,057		-

Price risk

- i. The Company's equity securities, which are exposed to price risk, are the held financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and available-for-sale financial assets. To manage its price risk arising from investments in equity securities, the Company diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Company.
- ii. The Company's investments in equity securities comprise shares and open-end funds issued by the domestic companies. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 10% with all other variables held constant, post-tax profit for the years ended December 31, 2018 and 2017 would have increased/decreased by \$4,092 and \$0, respectively, as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would have increased/decreased by \$109,792 and \$118,303, respectively, as a result of other comprehensive income classified as available-for-sale equity investment and equity investment at fair value through other comprehensive income.

Cash flow and fair value interest rate risk

- i. The Company's interest rate risk arises from bank deposits and long-term borrowings. Borrowings issued at variable rates expose the Company 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 Company to fair value interest rate risk. The Company's borrowings at variable rate were denominated in the USD and NTD.

- ii. Based on the simulations performed on sensitivity analysis for interest rate risk, the maximum impact on post-tax profit of a 0.1% shift would be increased/decreased of (\$301) and \$1,936 for the years ended December 31, 2018 and 2017, respectively. The simulation is done on a quarterly basis to ensure that the potential maximum loss is within the limit set by the management.

(b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the contract cash flows of debt instruments stated at amortised cost, at fair value through profit or loss and at fair value through other comprehensive income.
- ii. The Company adopts the assumptions under IFRS 9, the default occurs when the contract payments are past due over 90 days.
- iii. The Company adopts following assumptions under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition:
If the contract payments were past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.
- iv. The Company classifies customers' accounts receivable, contract assets and rents receivable in accordance with credit rating of customer. The Company applies the simplified approach using provision matrix, loss rate methodology to estimate expected credit loss under the provision matrix basis.
- v. The Company wrote-off the financial assets, which cannot be reasonably expected to be recovered, after initiating recourse procedures. However, the Company will continue executing the recourse procedures to secure their rights. On December 31, 2018 and 2017, the Company's written-off financial assets that are still under recourse procedures amounted to \$16,753 and \$129,959, respectively.
- vi. The Company used the forecastability of Taiwan Institute of Economic Research boom observation report to adjust historical and timely information to assess the default possibility of accounts receivable and other receivables. On December 31, 2018, the provision matrix, loss rate methodology is as follows:

	Not past due	Up to 30 days past due	31~90 days past due	91~180 days past due	Over 180 days past due	Total
<u>December 31,</u> <u>2018</u>						
Expected loss	0%~0.07%	0%~1.08%	0%~18.71%	0%~100%	0%~100%	
Total book value	\$ 7,267,342	\$ 244,466	\$ 58,042	\$ 54,418	\$ 10,899	\$ 7,635,167
Loss allowance	\$ 1,748	\$ 850	\$ 238	\$ 2,471	\$ 13,947	\$ 19,254

	<u>Individual provision</u>	<u>Group provision</u>	<u>Total</u>
<u>December 31, 2018</u>			
Expected loss rate	100%	0%~100%	
Total book value	\$ 14,083	\$ 7,267,342	\$ 7,281,425
Loss allowance	<u>\$ 14,083</u>	<u>\$ 5,171</u>	<u>\$ 19,254</u>

- vii. Movements in relation to the Company applying the simplified approach to provide loss allowance for accounts receivable, and other receivables are as follows:

	<u>Year ended December 31, 2018</u>	
	<u>Accounts receivable</u>	<u>Other receivables</u>
At January 1_IAS 39	\$ 31,421	\$ 4,200
Adjustments under new standards	<u>2,318</u>	<u>-</u>
At January 1_IFRS 9	33,739	4,200
Provision for impairment	3,684	79
Reversal of impairment	(926)	(4,200)
Write-offs	(17,243)	(79)
At December 31	<u>\$ 19,254</u>	<u>\$ -</u>

- viii. Credit risk information of 2017 is provided in Note 12(4).

(c) Liquidity risk

- i. Cash flow forecasting is performed in the operating entities of the Company and aggregated by Company treasury. Company treasury monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Company does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecasting takes into consideration the Company's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and external regulatory or legal requirements.
- ii. Surplus cash are invested in interest bearing current accounts, time deposits, money market deposits and marketable securities, with appropriate maturities or sufficient liquidity to provide sufficient headroom and meet the above-mentioned forecasts. As of December 31, 2018 and 2017, the Company held money market position of \$3,053,631 and \$5,310,043, respectively, and those are expected to readily generate cash inflows for managing liquidity risk.
- iii. The table below shows analysis of the Company'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.

Non-derivative financial liabilities:

December 31, 2018	<u>Less than 1 year</u>	<u>Between 1 and 5 years</u>	<u>Between 5 and 7 years</u>	<u>Over 7 years</u>
Short-term borrowings	\$ 449,295	\$ -	\$ -	\$ -
Notes payable	9,421	-	-	-
Accounts payable	2,104,076	-	-	-
Other payables	2,852,214	-	-	-
Long-term borrowings (including current portion)	171,144	414,535	-	-
Long-term accounts payable (including current portion)	-	95,059	-	-
Other financial liabilities	4,502	762	-	533

Non-derivative financial liabilities:

December 31, 2017	<u>Less than 1 year</u>	<u>Between 1 and 5 years</u>	<u>Between 5 and 7 years</u>	<u>Over 7 years</u>
Short-term borrowings	\$ 700,000	\$ -	\$ -	\$ -
Notes payable	24,793	-	-	-
Accounts payable	2,537,313	-	-	-
Other payables	3,040,775	-	-	-
Long-term borrowings (including current portion)	898,808	1,812,695	-	-
Long-term accounts payable (including current portion)	-	130,438	-	-
Other financial liabilities	3,564	2,030	-	533

- iv. The Company does not expect the timing of the estimated cash outflows through the maturity date analysis will be significantly earlier, nor expect the actual cash flow amount will be significantly different.

(3) Fair value information

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Company's investment in listed stocks and beneficiary certificates is included in Level 1.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of the Company's investment in convertible bonds and most derivative instruments is included in Level 2.

Level 3: Unobservable inputs for the asset or liability. The fair value of the Company's investment in equity investment without active market is included in Level 3.

B. Financial instruments not measured at fair value

(a) Except for those listed in the table below, the carrying amounts of cash and cash equivalents, notes receivable, accounts receivable, other receivables, refundable deposits, other financial assets, short-term borrowings, short-term notes and bills payable, notes payable, accounts payable, other payables, long-term accounts payable and guarantee deposits received are approximate to their fair values.

	December 31, 2018			
	Book value	Level 1	Fair value	
			Level 2	Level 3
Financial liabilities:				
Long-term borrowings				
(including current portion)	\$ 575,114	\$ -	\$ 577,226	\$ -
	December 31, 2017			
	Book value	Level 1	Fair value	
			Level 2	Level 3
Financial liabilities:				
Long-term borrowings				
(including current portion)	\$ 2,645,833	\$ -	\$ 2,671,861	\$ -

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

Long-term borrowings: They are measured at present value, which is calculated based on the cash flow expected to be paid and discounted using a market rate prevailing at balance sheet date.

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 is as follows:

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

December 31, 2018	Level 1	Level 2	Level 3	Total
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Equity securities	\$ 40,923	\$ -	\$ -	\$ 40,923
Beneficiary certificates	-	-	-	-
Financial assets at fair value through other comprehensive income				
Equity securities	189,508	-	908,409	1,097,917
	<u>\$ 230,431</u>	<u>\$ -</u>	<u>\$ 908,409</u>	<u>\$ 1,138,840</u>
December 31, 2017	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets				
Equity securities	\$ 235,878	\$ 5,580	\$ 941,567	\$ 1,183,025

(b) The methods and assumptions the Company used to measure fair value are as follows:

i. The instruments the Company used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

	Listed shares	Closed-end fund	Open-end fund
Market quoted price	Closing price	Closing price	Net asset value

ii. Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques can

be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the consolidated balance sheet date.

- iii. When assessing non-standard and low-complexity financial instruments, for example, debt instruments without active market and foreign exchange swap contracts, the Company adopts valuation technique that is widely used by market participants. The inputs used in the valuation method to measure these financial instruments are normally observable in the market.
- iv. For high-complexity financial instruments, the fair value is measured by using self-developed valuation model based on the valuation method and technique widely used within the same industry. The valuation model is normally applied to derivative financial instruments, debt instruments with embedded derivatives or securitised instruments. Certain inputs used in the valuation model are not observable at market, and the Company must make reasonable estimates based on its assumptions. The effect of unobservable inputs to the valuation of financial instruments is provided in Note 12(3) A.
- v. The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Company's financial and non-financial instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs, for example, model risk or liquidity risk and etc. In accordance with the Company's management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial and non-financial instruments at the consolidated balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.

(c). The following chart is the movement of Level 3 for the years ended December 31, 2018 and 2017:

	<u>Equity securities</u>
At January 1, 2018	\$ 941,567
Gain recognised in profit or loss	(232)
Loss recognised in other comprehensive income	(441,276)
Disposals in the year	(12,923)
Transfers into level 3	<u>421,273</u>
At December 31, 2018	<u>\$ 908,409</u>

	<u>Equity securities</u>
At January 1, 2017	\$ 1,057,010
Gain recognised in profit or loss	21,764
Loss recognised in other comprehensive income	(67,189)
Transfers into level 2	(70,018)
At December 31, 2017	<u>\$ 941,567</u>

- D. The Company lost significant influence over PlayNitride Inc. and KAISTR Lighting (Xiamen) Co., Ltd. as their shares owned by the Company were less than 20% as at March 6, 2018 and April 26, 2018, respectively. Therefore, the Company reclassified them into financial assets at fair value through other comprehensive income in accordance with IFRSs. Additionally, the Company transferred the fair values into Level 3 as there is insufficient observable market information.
- E. Because the stocks of Lustrous Technology, Ltd. is no longer publicly traded since March 1, 2017, and there is insufficient observable market information, the Company has transferred the fair value from Level 2 into Level 3.
- F. Treasury department is in charge of valuation procedures for fair value measurements being categorised within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently calibrating valuation model, performing back-testing, updating inputs used to the valuation model and making any other necessary adjustments to the fair value.
- G. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

	<u>Fair value at December 31, 2018</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average)</u>	<u>Relationship of inputs to fair value</u>
Non-derivative equity instrument:					
Unlisted shares	\$ 439,240	Market comparable companies	Price to book ratio multiple	0.45~1.90	The higher the multiple, the higher the fair value.
			Discount for lack of marketability	20%~30%	The higher the discount for lack of marketability, the lower the fair value.
Unlisted shares	465,131	Market comparable companies	Price to earnings ratio multiple	19.30~19.39	The higher the multiple, the higher the fair value.
			Discount for lack of marketability	20%	The higher the discount for lack of marketability, the lower the fair value.
Unlisted shares	4,038	Market comparable companies	Enterprise value to operating income ratio multiple	26.11	The higher the multiple value, the higher the fair value.
			Discount for lack of marketability	20%	The higher the discount for lack of marketability, the lower the fair value.

	<u>Fair value at December 31, 2017</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average)</u>	<u>Relationship of inputs to fair value</u>
Non-derivative equity instrument:					
Unlisted shares	\$ 358,589	Market comparable companies	Price to book ratio multiple Discount for lack of marketability	2.41~2.65 30%	The higher the multiple, the higher the fair value. The higher the discount for lack of marketability, the lower the fair value.
Unlisted shares	554,073	Market comparable companies	Price to earnings ratio multiple Discount for lack of marketability	29.42~32.74 20%	The higher the multiple, the higher the fair value. The higher the discount for lack of marketability, the lower the fair value.
Unlisted shares	28,905	Market comparable companies	Enterprise value to operating income ratio multiple Discount for lack of marketability	40.51 20%	The higher the multiple, the higher the fair value. The higher the discount for lack of marketability, the lower the fair value.

H. The Company 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:

		<u>December 31, 2018</u>			
		<u>Recognised in profit or loss</u>		<u>Recognised in other comprehensive income</u>	
<u>Input</u>	<u>Change</u>	<u>Favourable change</u>	<u>Unfavourable change</u>	<u>Favourable change</u>	<u>Unfavourable change</u>
Financial assets					
Equity instrument	Multiple	±1%	\$ -	\$ -	\$ 9,084 (\$ 9,084)

		December 31, 2017			
		Recognised in profit or loss		Recognised in other comprehensive income	
		Favourable change	Unfavourable change	Favourable change	Unfavourable change
	<u>Input</u>	<u>Change</u>			
Financial assets					
Equity instrument	Multiple	±1%	\$ <u> -</u>	\$ <u> -</u>	\$ <u> 9,416</u> (\$ <u> 9,416</u>)

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

A. Summary of significant accounting policies adopted in 2017.

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

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

B. On a regular way purchase or sale basis, financial assets held for trading are recognized and derecognized using trade date accounting if they are derivative instruments and using settlement date accounting if they are beneficiary certificates.

C. Financial assets at fair value through profit or loss are initially recognized at fair value. Related transaction costs are expensed in profit or loss. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in profit or loss.

(2) Available-for-sale financial assets

A. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other category.

B. On a regular way purchase or sale basis, available-for-sale financial assets are recognized and derecognized using trade date accounting.

C. Available-for-sale financial assets are initially recognized at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in other comprehensive income.

(3) Accounts and notes receivable

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

invoice amount as effect of discounting is immaterial.

(4) Impairment of financial assets

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

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

- (a) Significant financial difficulty of the issuer or debtor;
- (b) A breach of contract, such as a default or delinquency in interest or principal payments;
- (c) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
- (d) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- (e) The disappearance of an active market for that financial asset because of financial difficulties;
- (f) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;
- (g) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;
- (h) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost

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

(a) Financial assets measured at amortised cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of established future cash flows discounted at the financial asset's original effective interest rate, and is recognised in profit or loss. If, in

a subsequent period, the amount of the impairment loss decrease and the decrease can be related objectively to an event occurring after the impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost that would have been at the date of reversal had the impairment loss not been recognised previously. Impairment loss is recognised and reversed by adjustment the carrying amount of the asset directly.

(b) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the assets acquisition cost (less any principal repayment and amortisation) and current fair value, less any impairment loss on that financial assets previously recognised in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. If, in a subsequent period, the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognised, then such impairment loss is reversed through profit or loss. Impairment loss of an investment in an equity instrument recognised in profit or loss shall not be reversed through profit or loss. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

B. The reconciliations of carrying amount of financial assets transferred from December 31, 2017, IAS 39, to January 1, IFRS 9, were as follows:

	Measured at fair value through profit or loss	Measured at fair value through profit or loss	Available-for-sale - equity fair value through other comprehensive income - equity	Deferred income tax assets	Deferred income tax liabilities	Effects	
						Retained earnings	Others equity
IAS 39	\$ 13,156	\$ 1,183,025	\$ 12,878,833	\$ 2,873,564	\$ 1,065,314	\$ 1,614,226	(\$ 684,243)
Transferred into and measured at fair value through profit or loss of the company		(13,156)	-	-	-	-	-
Transferred into and measured at fair value through other comprehensive income - equity of the company	-	-	-	(73,672)	(78,367)	62,805	(58,110)
measured at fair value through other comprehensive income - equity of associates	-	-	9,650	-	-	-	9,650
IFRS 9	<u>\$ 13,156</u>	<u>\$ 1,169,869</u>	<u>\$ 12,888,483</u>	<u>\$ 2,799,892</u>	<u>\$ 986,947</u>	<u>\$ 1,677,031</u>	<u>(\$ 732,703)</u>

- (a) Under IAS 39, the equity instruments, which were classified as available-for-sale financial assets amounting to \$1,183,025, were reclassified as ‘financial assets at fair value through profit or loss (equity instruments)’ and ‘financial assets at fair value through other comprehensive income (equity instruments)’ amounting to \$13,156 and \$1,169,869, respectively; as well as decreased deferred tax assets and liabilities in the amount of \$73,672 and \$78,367, respectively, increased retained earnings and decreased other equity interest in the amounts of \$62,805 and \$58,110, respectively, under IFRS 9.
- (b) Under IAS 39, the invested companies accounted for using equity method, which were classified as financial assets at cost, were reclassified as ‘financial assets at fair value through other comprehensive income (equity instruments)’, increased the investments accounted for using equity method and other equity interest in the amounts of \$9,650 and \$9,650 under IFRS 9.

B. The reconciliation of allowance for impairment and provision from December 31, 2017, as these are impaired under IAS 39, to January 1, 2018, as these are expected to be impaired under IFRS 9, are as follows:

	Accounts receivable	Investments accounted for using equity method	Deferred income tax assets	Deferred income tax liabilities	Retained earnings
IAS 39	\$ 4,136,510	\$ 12,878,833	\$ 2,873,564	\$ 1,065,314	\$ 1,614,226
Impairment loss adjustment of the company	(2,318)	-	712	(842)	(7,587)
Impairment loss adjustment of associates	-	(\$ 16,789)	\$ 1,449	(\$ 245)	(\$ 8,272)
IFRS 39	<u>\$ 4,134,192</u>	<u>\$ 12,862,044</u>	<u>\$ 2,875,725</u>	<u>\$ 1,064,227</u>	<u>\$ 1,598,367</u>

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

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

<u>Items</u>	<u>December 31, 2017</u>
Current items:	
Financial assets held for trading	
Beneficiary certificates	\$ -
Adjustments for change in value of financial assets held for trading	-
	<u>\$ -</u>

Financial assets held for trading and net (loss) gain recognised for the year ended December 31, 2017 amounted to \$1,063.

(b) Available-for-sale financial assets

<u>Items</u>	<u>December 31, 2017</u>
Non-current items:	
Listed stocks	\$ 429,217
Emerging stocks	25,218
Unlisted stocks	<u>1,184,708</u>
	1,639,143
Valuation adjustment	(101,960)
Accumulated impairment	<u>(354,158)</u>
	<u>\$ 1,183,025</u>

The Company recognised \$45,880 in other comprehensive income for fair value change and reclassified \$69,048 from equity to profit or loss for the year ended December 31, 2017.

(c) Notes and accounts receivable

	December 31, 2017
Notes receivable	\$ 195,064
Less: Allowance for bad debts	-
	<u>\$ 195,064</u>
Accounts receivable	\$ 4,210,411
Less: Allowance for sales returns and discounts	(42,480)
Less: Allowance for bad debts	(31,421)
	<u>\$ 4,136,510</u>

The Group holds collateral including bank deposits, commercial papers, financial assets as well as machinery and equipment as security for accounts receivable. The fair value of the collateral held cannot be reasonably estimated by the Group since it is impracticable.

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

- a. Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. Risk assessment of individual customers takes into account factors that may influence customers' ability to pay, including their financial position, credit ratings, historical record and current economic condition. The utilisation of credit limits is regularly monitored in accordance with the Company's credit policy. Except for credit risk exposures to customers, the risk also arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions. The Company evaluates whether to accept the banks and financial institutions and how much amount of transactions based on the credit rating and financial ratios of the banks and financial institutions.
- b. For the year ended December 31, 2017, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
- c. The credit quality information of financial assets that are neither past due nor impaired is as follows:

	December 31, 2017			
	Fair value			
	Excellent	Very good	Good	Average
Notes receivable	\$ 2,279	\$ 10,321	\$ 165,398	\$ 17,067
Accounts receivable	661,829	4,285,529	3,007,041	194,541
Other receivables	1,080	34,616	927,698	665,817
Long-term accounts receivable	-	-	-	370
	<u>\$ 665,188</u>	<u>\$ 4,330,466</u>	<u>\$ 4,100,137</u>	<u>\$ 877,795</u>

The Company scores customers by their business management, financial position, and payment record or credit evaluation to classify credit quality in risk levels of excellent, very

good, good and average.

- d. The ageing analysis of financial assets (accounts receivable and other receivables) that were past due but not impaired is as follows:

	<u>December 31, 2017</u>
Up to 30 days	\$ 379,260
31 to 90 days	91,984
91 to 180 days	12,447
Over 180 days	35,144
	<u>\$ 518,835</u>

- e. Movement analysis of financial assets that were impaired is as follows:

<u>Notes receivable</u>	<u>2017</u>		
	<u>Individual provision</u>	<u>Group provision</u>	<u>Total</u>
At January 1	\$ 119,030	\$ -	\$ 119,030
Reversal of impairment for the year	(6,023)	-	(6,023)
Write-offs during the year	(113,007)	-	(113,007)
At December 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

<u>Accounts receivable</u>	<u>2017</u>		
	<u>Individual provision</u>	<u>Group provision</u>	<u>Total</u>
At January 1	\$ 47,426	\$ 3,424	\$ 50,850
Reversal of impairment for the year	(11,751)	(3,424)	(15,175)
Write-offs during the year	(4,254)	-	(4,254)
At December 31	<u>\$ 31,421</u>	<u>\$ -</u>	<u>\$ 31,421</u>

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

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

Revenue recognition

The Group manufactures and sells LED wafers and chips. Revenue is measured at the Fair value of the consideration received or receivable taking into account of business tax, returns, rebates and discounts for the sales of goods to external customers in the ordinary course of the Group's activities. Revenue arising from the sales of goods should be recognized when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefit associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Group retains neither continuing managerial involvement to

the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provision have been satisfied.

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

	Year ended December 31, 2017
Sales revenue	\$ 21,915,537
Services revenue	37,262
Other operating revenue	1,673
	<u>\$ 21,954,472</u>

- C. The effects and description of current balance sheet items if the Company continues adopting above accounting policies are as follows:

		December 31, 2018		
Balance sheet items	Description	Balance by using IFRS 15	Balance by using previous accounting policies	Effects from changes in accounting policy
Accounts receivable	Note	\$ 7,177,404	\$ 6,986,368	\$ 191,036
Provisions for liabilities - current (shown as other current liabilities, others)	Note	(191,036)	-	(191,036)

Note: An entity needs to estimate any variable consideration using either ‘the expected value method’ or ‘the most likely amount method’ under IFRS 15. The consideration was shown as provisions for liabilities and presented as deductions on accounts receivable under previous accounting policies.

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): Please refer to table 3.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or

20% of the Company's paid-in capital: Please refer to table 4.

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

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

G. Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more: Please refer to table 5.

H. Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more: Please refer to table 6.

I. Trading in derivative instruments undertaken during the reporting periods: None.

J. Significant inter-company transactions during the reporting periods: Please refer to table 7.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China): Please refer to table 8.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 9.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 10.

14. SEGMENT INFORMATION

General information:

None.

EPISTAR CORPORATION
Loans to others
Year ended December 31, 2018

Expressed in thousands of NTD
(Except as otherwise indicated)

Table 1

No.	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding balance during the year ended December 31, 2018	Balance at December 31, 2018	Actual amount drawn down	Interest rate	Nature of loan	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Item	Value	Limit on loans granted to a single party	Ceiling on total loans granted	Footnote
0	Epistar Corporation	Jiangsu Canyang Optoelectronics Ltd	Other receivables-related parties	Y	\$ 1,339,235	\$ 447,200	\$ 134,160	4.60%	Short-term financing	\$ -	Working capital	\$ -	None	\$ -	\$ 4,935,358	\$ 14,806,075	Note 1
1	Epistar Corporation	Episky Corporation (Xiamen) Ltd.	Other receivables-related parties	Y	897,000	894,400	-	5.53%	Short-term financing	-	Working capital	-	None	-	4,935,358	14,806,075	Note 1
2	Episky Corporation (Xiamen) Ltd.	United LED Shandong Corporation	Other receivables-related parties	Y	27,726	-	-	4.35%	Short-term financing	-	Working capital	-	None	-	1,001,946	1,252,432	Note 2
3	Episky Corporation (Xiamen) Ltd.	Jiangsu Canyang Optoelectronics Ltd	Other receivables-related parties	Y	468,600	447,200	-	5.00%	Short-term financing	-	Working capital	-	None	-	1,001,946	1,252,432	Note 2
4	Epicrystal (Changzhou) Co., Ltd.	Jiangsu Canyang Optoelectronics Ltd	Other receivables-related parties	Y	726,330	357,760	357,760	4.35%	Short-term financing	-	Working capital	-	None	-	935,203	1,402,805	Note 3
5	Yen-Rich Opto (Hong Kong) Limited	Ecoled Venture Co., Limited	Other receivables-related parties	Y	15,478	15,358	6,143	3.02%	Short-term financing	-	Working capital	-	None	-	60,593	90,890	Note 4

Note 1: In accordance with Epistar Corporation's Procedures for Provision of Loans: the limit on loans granted to a single party is 10% of its net equity, and the ceiling on total loans granted is 30% of its net equity.

Note 2: In accordance with Episky Corporation (Xiamen) Ltd.'s Procedures for Provision of Loans: the limit on loans granted to a single party is 40% of its net equity, and the ceiling on total loans granted is 50% of its net equity.

Note 3: In accordance with Epicrystal (Changzhou) Co., Ltd.'s Procedures for Provision of Loans: the limit on loans granted to a single party is 20% of its net equity, and the ceiling on total loans granted is 30% of its net equity.

Note 4: In accordance with Yen-Rich Opto (Hong Kong) Limited's Procedures for Provision of Loans: the limit on loans granted to a single party is 20% of its net equity, and the ceiling on total loans granted is 30% of its net equity.

EPiSTAR CORPORATION
Provision of endorsements and guarantees to others
Year ended December 31, 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	Maximum outstanding endorsement/ guarantee amount as of December 31, 2018	Outstanding endorsement/ guarantee amount at December 31, 2018	Actual amount drawn down	Amount of endorsements/ guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company	Ceiling on total amount of endorsements/ guarantees provided (Note 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	Epistar Corporation	Episky Corp.(Xiamen) Ltd.	3	\$ 4,935,358	\$ 3,168,321	\$ 2,871,329	\$ 590,117	\$ -	5.82	\$ 9,870,717	Y	N	Y	
0	Epistar Corporation	Jiangsu Canyang Optoelectronics Ltd	3	4,935,358	1,071,360	399,295	214,656	-	0.81	9,870,717	Y	N	Y	
0	Epistar Corporation	Eeolad Venture Co., Limited	3	4,935,358	89,850	-	-	-	-	9,870,717	Y	N	N	
0	Epistar Corporation	Yen-Rich Opto (Hong Kong) Limited	3	4,935,358	149,750	-	-	-	-	9,870,717	Y	N	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 six categories; fill in the number of category each case belongs to:

- (1) Having business relationship.
- (2) The endorser/guarantor parent company owns directly more than 50% voting shares of the endorsed/guaranteed subsidiary.
- (3) The endorser/guarantor parent company and its subsidiaries jointly own more than 50% voting shares of the endorsed/guaranteed company.
- (4) The endorsed/guaranteed parent company directly or indirectly owns more than 50% voting shares of the endorser/guarantor subsidiary.
- (5) Mutual guarantee of the trade as required by the construction contract.
- (6) Due to joint venture, each shareholder provides endorsements/guarantees to the endorsed/guaranteed company in proportion to its ownership.

Note 3: In accordance with the Company's Procedures for Provision of Loans: the ceiling on total endorsements/guarantees is 20% of the Company's net assets, and the limit on endorsements/guarantees to a single party is 10% of its net assets.

EPISTAR CORPORATION
Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)
December 31, 2018

Expressed in thousands of NTD
(Except as otherwise indicated)

Securities held by	Marketable securities	Relationship with the securities issuer	As of December 31, 2018					Footnote
			General ledger account	Number of shares	Book value	Ownership (%)	Fair value	
Epistar Corporation	E&E Japan Co.Ltd. (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	140	\$ 2,143	17.07	\$ 2,143	
Epistar Corporation	NATEC CORPORATION (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	120,000	1,748	6.00	1,748	
Epistar Corporation	Eslsds Co.,Ltd. (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	1,000	148	10.00	148	
Epistar Corporation	Lynk Labs,Inc. (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	92,523	5,348	7.45	5,348	
Epistar Corporation	Advanced Photoelectronic Technology Limited (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	1,339,235	217,144	11.68	217,144	
Epistar Corporation	Chi Lin Optoelectronics Co., Ltd. (Stock)	None	Non-current financial assets at fair value through profit or loss	8,557,675	-	9.00	-	
Epistar Corporation	Dominant Opto Technologies Sdn. Bhd. (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	11,000,000	465,131	10.00	465,131	
Epistar Corporation	POWERLIGHTEC CO., LTD (Stock)	None	Non-current financial assets at fair value through profit or loss	141,730	-	17.53	-	
Epistar Corporation	Crystalwise Technology Inc. (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	6,340,628	60,870	3.00	60,870	

As of December 31, 2018

Securities held by	Relationship with the securities issuer		General ledger account	Number of shares	Book value	Ownership (%)	Fair value	Footnote
	Marketable securities	Relationship with the securities issuer						
Epistar Corporation	XENIO CORPORATION (stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	7,878	\$ -	0.06	-	
Epistar Corporation	Edison Opto Corp. (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	9,424,000	128,638	7.54	\$ 128,638	
Epistar Corporation	Phedda Technology Co., Ltd. (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	600,000	4,543	2.11	4,543	
Epistar Corporation	Elit Fine Ceramics Co., Ltd. (Stock)	None	Non-current financial assets at fair value through profit or loss	2,200,000	-	4.68	-	
Epistar Corporation	Nanocrystal Technology Inc. (Stock)	None	Non-current financial assets at fair value through profit or loss	6,000,000	-	11.11	-	
Epistar Corporation	PlayNitride Inc. (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	4,568,669	212,204	12.46	212,204	
Epistar Corporation	OSTENDO TECHNOLOGIES, INC. (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	67,500	-	4.50	-	
Epistar Corporation	Global Communication semiconductor LLC (Stock)	None	Non-current financial assets at fair value through profit or loss	778,000	40,923	0.95	40,923	
Epistar JV Holding (BVI) Co., Ltd.	Everlight electronic(Fujian) Co., Ltd. (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	Cash USD2,500,000	42,641	10.00	42,641	
Epistar JV Holding (BVI) Co., Ltd.	KAISTAR Lighting (Xiamen)Co., Ltd. (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	Cash USD48,000,000	1,488,805	17.65	1,488,805	

As of December 31, 2018

Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	Number of shares	Book value	Ownership (%)	Fair value	Footnote
Episky Corp.(Xiamen) Ltd.	China Firstar Optoelectronic Materials Co., Ltd. (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	Cash RMB7,500,000	\$ 29,777	15.00	Unlisted company, no comparable market price available	
Episky Corp.(Xiamen) Ltd.	APT Electronics Co., Ltd.(Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	4,678,240	40,370	1.18	Unlisted company, no comparable market price available	
Episky Corp.(Xiamen) Ltd.	China Crystal Technologies Co.,Ltd.(Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	8,064,516	37,839	4.08	Unlisted company, no comparable market price available	
Lighting Investment Corp.	Advanced Photoelectronic Technology Limited (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	562,018	91,251	4.90	91,251	
Lighting Investment Corp.	Oree Advanced Illumination Solutions, Inc. (Stock)	None	Non-current financial assets at fair value through profit or loss	79,407	-	5.00	-	
Lighting Investment Corp.	Lustrous Technology, Ltd. (Stock)	None	Non-current financial assets at fair value through profit or loss	266,892	-	8.99	-	
Lighting Investment Corp.	TERAXTAL TECHNOLOGY CORPORATION (Stock)	None	Non-current financial assets at fair value through profit or loss	795,000	-	0.42	-	
Lighting Investment Corp.	FormoLight Technologies Inc. (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	2,038,230	10,367	10.00	10,367	
Lighting Investment Corp.	XENIO CORPORATION (Stock)	None	Non-current financial assets at fair value through profit or loss	16,462	-	0.13	-	
Lighting Investment Corp.	Joint Power eXponent, Ltd. (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	1,250,000	8,035	13.89	8,035	

As of December 31, 2018

Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	Number of shares	Book value	Ownership (%)	Fair value	Footnote
Lighting Investment Corp.	Edison Opto Corp. (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	10,705,000	\$ 146,123	8.56	\$ 146,123	
Lighting Investment Corp.	Rigidtech Microelectronics Cops. (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	1,532,500	9,502	2.14	9,502	
Lighting Investment Corp.	Le Diamond Opto Corporation (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	1,100,000	5,228	16.92	5,228	
Lighting Investment Corp.	LEDLITEK Co., Ltd. (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	50,000	49,956	6.20	49,956	
Lighting Investment Corp.	De-an Venture Capitial Co., Ltd. (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	2,000,000	18,577	10.77	18,577	
Lighting Investment Corp.	Tekcore Co., Ltd. (Stock)	Investee company accounted for under the equity method of the Company	Current financial assets at fair value through profit or loss	2,616,932	15,178	2.72	15,178	
Lighting Investment Corp.	Edison Opto Corp. (Stock)	None	Current financial assets at fair value through profit or loss	5,851,182	79,869	4.68	79,869	
Lighting Investment Corp.	Epistar Corporation (Stock)	Parent company	Current financial assets at fair value through profit or loss	2,564,755	65,658	0.24	65,658	Note
Lighting Investment Corp.	Rigidtech Microelectronics Corp. (Stock)	None	Current financial assets at fair value through profit or loss	17,753	110	0.02	110	
Lighting Investment Corp.	Global Communication semiconductor LLC (Stock)	None	Current financial assets at fair value through profit or loss	2,748,000	144,545	3.34	144,545	

As of December 31, 2018

Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	Number of shares	Book value	Ownership (%)	Fair value	Footnote
Lighting Investment Corp.	Taishin Ta-Chong Money Market Fund(Beneficiary certificates)	None	Current financial assets at fair value through profit or loss	1,976,675	\$ 28,038	N/A	28,038	
Lighting Investment Corp.	Taishin 1699 Money Market Fund (Beneficiary certificates)	None	Current financial assets at fair value through profit or loss	962,571	13,002	N/A	13,002	
Lighting Investment Ltd.	LEDLITEK Co.,LTD. (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	41,500	41,463	5.15	41,463	
Lighting Investment Ltd.	Verticle Inc. (Stock)	None	Non-current financial assets at fair value through profit or loss	582,983	-	3.00	-	
Lighting Investment Ltd.	Achrolux Inc. (Stock)	None	Non-current financial assets at fair value through profit or loss	987,500	-	6.91	-	
Lighting Investment Ltd.	PlayNitride Inc. (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	778,541	36,161	2.12	36,161	
Full Star Enterprises Limited	Ufeco Technology Inc. (Stock)	None	Non-current financial assets at fair value through profit or loss	Cash USD250,000	-	10.00	-	
Full Star Enterprises Limited	PlayNitride Inc. (Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	600,000	27,869	1.64	27,869	
HUGA Holding (SAMOA) Ltd.	China Crystal Technologies Co.,Ltd.(Stock)	None	Non-current investments in equity instruments at fair value through other comprehensive income	17,741,935	83,245	8.97	83,245	
Yen-Rich Technology Corporation.	Jih Sun Money Market Fund (Beneficiary certificates)	None	Current financial assets at fair value through profit or loss	2,850,694	42,172	N/A	\$ 42,172	

As of December 31, 2018

Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	Number of shares	Book value	Ownership (%)	Fair value	Footnote
Yen-Rich Technology Corporation.	Franklin Templeton Sinoam Money Market Fund(Beneficiary certificates)	None	Current financial assets at fair value through profit or loss	7,674,986	\$ 79,213	N/A	79,213	
Yen-Rich Technology Corporation.	Global Communication semiconductor LLC(Stock)	None	Current financial assets at fair value through profit or loss	1,361,000	71,589	1.66	71,589	
Yen-Rich Technology Corporation.	ProLight Opto Technology Corporation (Stock)	Investee company accounted for under the equity method of the Company	Current financial assets at fair value through profit or loss	689,000	7,579	1.18	7,579	
iReach Corporation	Franklin Templeton Sinoam Money Market Fund(Beneficiary certificates)	None	Current financial assets at fair value through profit or loss	1,360,214	14,039	N/A	14,039	
allureLux Corporation	Franklin Templeton Sinoam Money Market Fund(Beneficiary certificates)	None	Current financial assets at fair value through profit or loss	1,166,634	12,041	N/A	12,041	
Unikom Semiconductor Corporation	CTBC Hwa win Money Market Fund(Beneficiary certificates)	None	Current financial assets at fair value through profit or loss	8,002,134	88,056	N/A	88,056	
Unikom Semiconductor Corporation	Allianz Global Investors Taiwan Money Market Fund(Beneficiary certificates)	None	Current financial assets at fair value through profit or loss	3,599,079	45,030	N/A	45,030	
Unikom Semiconductor Corporation	Hua Nan Phoenix Money Market Fund(Beneficiary certificates)	None	Current financial assets at fair value through profit or loss	2,773,686	45,024	N/A	45,024	

Note : Shown as treasury stocks of Epistar Corporation.

EPISTAR CORPORATION

Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital

Year ended December 31, 2018

Investor	Marketable securities	General ledger account	Balance as at January 1, 2018 (Note)			Disposal			Balance as at December 31, 2018 (Note)			
			Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount		
Epistar Corporation	Epistar JV Holding (BVI) Co.,Ltd. (Stock)	Investments accounted for using equity method	23,416	\$ 5,753,012	1,200	\$ 362,040	-	\$ -	-	\$ -	48,278	\$ 10,268,739
Epistar JV Holding (BVI) Co.,Ltd.	LiteStar JV Holding (BVI) Co.,Ltd. (Stock)	Investments accounted for using equity method	9,682	3,237,957	1,200	362,040	-	-	-	-	10,882	3,569,232
LiteStar JV Holding (BVI) Co.,Ltd.	Epistar JV Holding (BVI) Co.,Ltd. (Stock)	Investments accounted for using equity method	134,600,000	4,013,504	12,000,000	362,040	-	-	-	-	146,600,000	4,329,795
Epistar (Hong Kong) Co., Ltd.	Epistar (Changzhou) Co., Limited (Stock)	Investments accounted for using equity method	Cash	4,013,504	Cash	362,040	-	-	-	-	Cash	4,329,768
Epistar Corporation	Unikom Semiconductor Corporation (Stock)	Investments accounted for using equity method	-	-	100,000,000	1,000,000	-	-	-	-	100,000,000	1,000,000
Epistar Corporation	Bee Rich Corporation	Investments accounted for using equity method	Cash	849,692	Cash USD32,000,000	967,232	-	Note2	Note2	-	-	-
Bee Rich Corporation	Can Yang Investments Limited	Investments accounted for using equity method	USD109,472,700	823,268	Cash USD32,000,000	967,232	-	Note2	Note2	-	-	-
Can Yang Investments Limited	Jiangsu Canyang Optoelectronics Ltd.	Investments accounted for using equity method	Cash	858,350	Cash USD32,000,000	967,232	-	-	-	-	Cash	1,837,930
Epistar Corporation	Taishin 1699 Money Market Fund	Financial assets at fair value through profit or loss	-	-	69,337,784	934,000	934,585	934,585	934,000	585	-	-
Epistar Corporation	Eastspring Investments Well Pool Money Market Fund	Financial assets at fair value through profit or loss	-	-	62,510,326	846,500	847,016	847,016	846,500	516	-	-
Epistar Corporation	Jin Sun Mooney Market Fund	Financial assets at fair value through profit or loss	-	-	43,446,499	641,000	641,476	641,476	641,000	476	-	-
Epistar Corporation	Capital Money Market Fund	Financial assets at fair value through profit or loss	-	-	23,007,366	369,500	369,663	369,663	369,500	163	-	-
Epistar Corporation	CTBC Hwa-win Money Market Fund	Financial assets at fair value through profit or loss	-	-	61,419,255	674,000	674,348	674,348	674,000	348	-	-

Table 4

Expressed in thousands of NTD
(Except as otherwise indicated)

Investor	Marketable securities	General ledger account	Balance as at January 1, 2018 (Note)			Addition			Disposal			Balance as at December 31, 2018 (Note)		
			Number of shares	Amount		Number of shares	Amount		Number of shares	Selling price	Book value	Gain (loss) on disposal	Number of shares	Amount
Epistar Corporation	Allianz Global Investors Taiwan Money Market Fund	Financial assets at fair value through profit or loss	-	\$	-	31,898,161	398,000	-	398,242	398,000	242	-	\$	
Epistar Corporation	Yuanta De-Li Money Market fund	Financial assets at fair value through profit or loss	-	-	-	24,134,811	392,000	-	392,208	392,000	208	-	-	
Epistar Corporation	Prudential Financial Money Market Fund	Financial assets at fair value through profit or loss	-	-	-	22,262,481	351,000	-	351,252	351,000	252	-	-	
Epistar Corporation	Franklin Templeton Sinoam Money Market Fund	Financial assets at fair value through profit or loss	-	-	-	29,615,895	305,000	-	305,212	305,000	212	-	-	
EPISKY Corporation (Changzhou) LTD	CR Yuanta Money Market Fund B Class(Beneficiary certificates)	Financial assets at fair value through profit or loss	-	-	-	117,000,000	523,224	-	524,900	523,224	1,676	-	-	
Epistar Corporation (Changzhou) Ltd.	CR Yuanta Money Market Fund B Class(Beneficiary certificates)	Financial assets at fair value through profit or loss	-	-	-	202,070,000	903,657	-	906,109	903,657	2,452	-	-	

Note 1: The balance consists gain on valuation of financial assets.

Note2: Epistar JV Holding (BVI) Co., Ltd. proceeded a simple merger with UEC Investment Ltd., Bee Rich Corporation and HUGA Holding (BVI) Limited on November 1, 2018. Epistar JV Holding (BVI) Co., Ltd. was the surviving company while Bee Rich Corporation was the dissolved companies.

Thus, Epistar JV Holding (BVI) Co., Ltd. succeeded the shares initially held by UEC Investment Ltd., Bee Rich Corporation and HUGA Holding (BVI) Limited.

EPSTAR CORPORATION

Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more
Year ended December 31, 2018

Table 5

Expressed in thousands of NTD
(Except as otherwise indicated)

Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount	Percentage of total purchases (sales)	Differences in transaction terms				Notes/accounts receivable (payable)	
						Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	Footnote	
Epistar Corporation	Everlight Electronics Co., Ltd. and subsidiaries	Director of the Company	Sales	(\$ 1,713,223)	10	150 days after month-end closing	N/A	\$ 924,489	12	Note 2	
Epistar Corporation	LEDAZ Co., Ltd.	Investee company accounted for using equity method by the Company's subsidiary	Sales	(662,275)	4	120 days after month-end closing	N/A	267,531	3		
Epistar Corporation	Jiangsu Canyang Optoelectronics Ltd	The Company's indirectly owned subsidiary	Sales	(233,033)	1	180 days after month-end closing	N/A	158,196	2		
Epistar Corporation	Luxlite (Shenzhen) Corporation Limited	The Company's indirectly owned subsidiary	Sales	(1,084,713)	6	180 days after month-end closing	N/A	532,415	7		
Epistar Corporation	Episky Corp.(Xiamen) Ltd.	The Company's indirectly 100% owned subsidiary	Sales	(1,951,734)	11	210 days after month-end closing	N/A	951,281	11		
Epistar Corporation	Epicrystal (Changzhou) Co., Limited	The Company's indirectly owned subsidiary	Sales	(845,768)	5	90 days after month-end closing	N/A	95,504	1		
Epistar Corporation	SH Optotech Co., Ltd.	Subsidiary of the Company	Sales	(240,064)	1	75 days after month-end closing	N/A	76,986	1		
Epistar Corporation	TE Opto Corporation	Investee company accounted for using equity method by the Company	Sales	(144,060)	1	105 days after month-end closing	N/A	25,787	0		
Epistar Corporation	Yen-Rich Technology Corporation.	Subsidiary of the Company	Purchases	108,029	1	90 days after month-end closing	N/A	-	0		

Transaction			Differences in transaction terms				Notes/accounts receivable (payable)				
Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	Footnote
Epistar Corporation	Jiangsu Canyang Optoelectronics Ltd	The Company's indirectly owned subsidiary	Purchases	\$ 420,671	4	30 days after month-end closing	N/A	Normal	(\$ 51,974)	2	
Epistar Corporation	Episky Corporation (Changzhou) Ltd.	The Company's indirectly 100% owned subsidiary	Purchases	1,413,330	14	30 days after month-end closing	N/A	Normal	(69,719)	3	
Epistar Corporation	Episky Corp.(Xiamen) Ltd.	The Company's indirectly 100% owned subsidiary	Purchases	204,662	2	90 days after month-end closing	N/A	Normal	(24,384)	1	
Epistar Corporation	Epicrystal (Changzhou) Co., Limited	The Company's indirectly owned subsidiary	Purchases	423,001	4	150 days after month-end closing	N/A	Normal	(141,909)	7	
Jiangsu Canyang Optoelectronics Ltd	Epistar Corporation	The Company's indirectly owned subsidiary	Sales	(420,671)	33	90 days after month-end closing	N/A	Normal	51,974	5	
Jiangsu Canyang Optoelectronics Ltd	Episky Corp.(Xiamen) Ltd.	Note 1	Sales	(572,401)	45	90 days after month-end closing	N/A	Normal	206,451	21	
Jiangsu Canyang Optoelectronics Ltd	Epicrystal (Changzhou) Co., Limited	Note 1	Sales	(236,937)	19	90 days after month-end closing	N/A	Normal	85,189	9	
Jiangsu Canyang Optoelectronics Ltd	Lighting Investment Ltd.	Note 1	Purchases	107,136	8	90 days after month-end closing	N/A	Normal	(51,480)	12	
Jiangsu Canyang Optoelectronics Ltd	Epistar Corporation	The Company's indirectly owned subsidiary	Purchases	233,033	18	90 days after month-end closing	N/A	Normal	(158,196)	36	
Episky Corporation (Changzhou) Ltd.	Jiangsu Canyang Optoelectronics Ltd	Note 1	Sales	(207,974)	7	90 days after month-end closing	N/A	Normal	178,676	13	
Episky Corporation (Changzhou) Ltd.	Epistar Corporation	The Company's indirectly 100% owned subsidiary	Sales	(1,413,330)	47	30 days after month-end closing	N/A	Normal	69,719	5	
Episky Corporation (Changzhou) Ltd.	Episky Corp.(Xiamen) Ltd.	Note 1	Sales	(1,304,446)	44	90 days after month-end closing	N/A	Normal	839,809	59	

Transaction			Differences in transaction terms				Notes/accounts receivable (payable)				
Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	Footnote
Episky Corporation (Changzhou) Ltd.	Epicrystal (Changzhou) Co., Limited	Note 1	Sales	(\$ 161,681)	5	90 days after month-end closing	N/A	Normal	\$ 184,060	13	
Episky Corporation (Changzhou) Ltd.	Epicrystal (Changzhou) Co., Limited	Note 1	Purchases	2,391,546	97	150 days after month-end closing	N/A	Normal	(1,350,542)	101	
Luxlite (Shenzhen) Corporation Limited	Epistar Corporation	The Company's indirectly owned subsidiary	Purchases	1,084,713	32	120 days after month-end closing	N/A	Normal	(532,415)	37	
Luxlite (Shenzhen) Corporation Limited	Episky Corp.(Xiamen) Ltd.	Note 1	Purchases	2,332,881	68	90 days after month-end closing	N/A	Normal	(924,888)	65	
Episky Corp.(Xiamen) Ltd.	Epistar Corporation	The Company's indirectly 100% owned subsidiary	Sales	(204,662)	4	90 days after month-end closing	N/A	Normal	24,384	1	
Episky Corp.(Xiamen) Ltd.	Luxlite (Shenzhen) Corporation Limited	Note 1	Sales	(2,332,881)	51	120 days after month-end closing	N/A	Normal	924,888	35	
Episky Corp.(Xiamen) Ltd.	Jiangsu Canyang Optoelectronics Ltd	Note 1	Purchases	572,401	12	120 days after month-end closing	N/A	Normal	(206,451)	10	
Episky Corp.(Xiamen) Ltd.	Episky Corporation (Changzhou) Ltd.	Note 1	Purchases	1,304,446	27	90 days after month-end closing	N/A	Normal	(839,809)	40	
Episky Corp.(Xiamen) Ltd.	Epistar Corporation	The Company's indirectly 100% owned subsidiary	Purchases	1,951,734	40	210 days after month-end closing	N/A	Normal	(951,281)	38	
Episky Corp.(Xiamen) Ltd.	Epicrystal (Changzhou) Co., Limited	Note 1	Purchases	352,564	7	90 days after month-end closing	N/A	Normal	(219,632)	10	
Epicrystal (Changzhou) Co., Limited	Episky Corporation (Changzhou) Ltd.	Note 1	Sales	(2,391,546)	77	150 days after month-end closing	N/A	Normal	1,350,542	67	
Epicrystal (Changzhou) Co., Limited	Epistar Corporation	The Company's indirectly owned subsidiary	Sales	(423,001)	14	150 days after month-end closing	N/A	Normal	141,909	7	

Transaction		Differences in transaction terms				Notes/accounts receivable (payable)					
Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	Footnote
Epi-crystal (Changzhou) Co., Limited	Episky Corp.(Xiamen) Ltd.	Note 1	Sales	(\$ 352,564)	11	90 days after month-end closing	N/A	Normal	\$ 219,632	11	
Epi-crystal (Changzhou) Co., Limited	Jiangsu Canyang Optoelectronics Ltd	Note 1	Purchases	236,937	9	90 days after month-end closing	N/A	Normal	(85,189)	16	
Epi-crystal (Changzhou) Co., Limited	Epistar Corporation	The Company's indirectly owned subsidiary	Purchases	845,768	32	90 days after month-end closing	N/A	Normal	(95,504)	18	
Epi-crystal (Changzhou) Co., Limited	Episky Corporation (Changzhou) Ltd.	Note 1	Purchases	161,681	6	150 days after month-end closing	N/A	Normal	(184,060)	36	
SH Optotech Co., Ltd.	Seoul Viosys Co., Ltd.	Note 1	Sales	(219,633)	100	30 days after month-end closing	N/A	Normal	33,157	100	
SH Optotech Co., Ltd.	Epistar Corporation	Subsidiary of the Company	Purchases	240,064	100	75 days after month-end closing	N/A	Normal	(76,986)	100	
Yen-Rich Technology Corporation.	Epistar Corporation	Subsidiary of the Company	Sales	(108,029)	100	90 days after month-end closing	N/A	Normal	-	-	
Lighting Investment Ltd.	Jiangsu Canyang Optoelectronics Ltd	Note 1	Sales	(107,136)	55	90 days after month-end closing	N/A	Normal	51,480	102	

Note 1: Investee company accounted for under the equity method directly and indirectly.

Note 2: The collection term for Everlight Electronics Co., Ltd. is 150 days after month-end closing, taking into account that they are major customers of the Company.

EPISTAR CORPORATION

Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more
December 31, 2018

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2018			Overdue receivables			Amount collected subsequent to the balance sheet date	Allowance for doubtful debts
			Accounts receivable	Other receivable	Total	Turnover rate	Amount	Action taken		
Epistar Corporation	Everlight Electronics Co., Ltd. And Subsidiaries	Director of the Company	\$ 924,489	\$ -	\$ 924,489	1.38	\$ 115,067	Note 1	\$ 349,693	\$ -
Epistar Corporation	Episky Corporation (Xiamen) Ltd.	The Company's indirectly 100% owned subsidiary	951,281	42,428	993,709	2.21	-	-	407,610	-
Epistar Corporation	Luxlite (Shenzhen) Corporation Limited	The Company's indirectly owned subsidiary	532,415	17,127	549,542	1.30	-	-	97,575	-
Epistar Corporation	Jiangsu Canyang Optoelectronics Ltd.	The Company's indirectly owned subsidiary	158,196	180,754	338,950	0.34	31	Note 2	70,546	-
Epistar Corporation	LEDZAZ Co., Ltd.	Investee company accounted for using equity method by the Group's subsidiary company	267,531	-	267,531	2.25	-	-	135,800	-
Epistar Corporation	Epicrystal (Changzhou) Co., Ltd.	The Company's indirectly owned subsidiary	95,504	17,768	113,272	3.69	-	-	97,575	-
Epicrystal(Changzhou)Co., Ltd	Episky Corporation (Changzhou) Ltd.	Note2	1,350,542	-	1,350,542	1.86	395,858	Note 1	112,135	-
Epicrystal(Changzhou)Co., Ltd	Jiangsu Canyang Optoelectronics Ltd.	Note2	9,178	359,791	368,969	0.03	32	Note 1	5,353	-
Epicrystal(Changzhou)Co., Ltd	Epistar Corporation	The Company's indirectly owned subsidiary	141,909	-	141,909	2.76	-	-	62,022	-
Epicrystal(Changzhou)Co., Ltd	Episky Corp (Xiamen) Ltd.	Note2	219,632	-	219,632	2.15	47,761	-	50,919	-
Episky Corporation (Changzhou) Ltd	Episky Corp.(Xiamen)Ltd.	Note3	839,809	-	839,809	1.54	456,289	Note 1	20,955	-
Episky Corporation (Changzhou) Ltd	Epicrystal(Changzhou)Co., Ltd.	Note2	184,060	54,445	238,505	1.36	-	-	-	-
Episky Corporation (Changzhou) Ltd	Jiangsu Canyang Optoelectronics Ltd.	Note2	178,676	-	178,676	2.22	-	Note 1	51,910	-
Episky Corp.(Xiamen)Ltd.	Luxlite (Shenzhen) Corporation Limited	Note2	924,888	-	924,888	2.28	-	-	421,119	-
Jiangsu Canyang Optoelectronics Ltd	Episky Corp.(Xiamen)Ltd.	Note2	206,451	-	206,451	5.55	-	-	86,423	-

Note 1: The Company endeavored to pursue the overdue amounts. Epistar has received \$26,516 from Everlight in subsequent collection, respectively; Epicrystal (Changzhou) has received \$112,135 from Episky (Changzhou) in subsequent collection, respectively; Epicrystal (Changzhou) has received \$46,761 and \$32 from Episky (Xiamen) and Jiangsu Canyang in subsequent collection, respectively; and Episky (Changzhou) has received \$20,955 from Episky (Xiamen) in subsequent collection, respectively.

Note 2: Investee company accounted for under the equity method directly and indirectly.

EPISTAR CORPORATION

Significant inter-company transactions during the reporting periods
Year ended December 31, 2018

Expressed in thousands of NTD
(Except as otherwise indicated)

Table 7

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	General ledger account	Transaction		Percentage of consolidated total operating revenues or total assets (Note 3)	
					Amount	Transaction terms		
0	Epistar Corporation	Jiangsu Canyang Optoelectronics Ltd.	1	Sales	\$	233,033	Conducted in the ordinary course of business with terms similar to those with third parties	1.15
0	Epistar Corporation	Luxlite (Shenzhen) Corporation Limited	1	Sales		1,084,713	Conducted in the ordinary course of business with terms similar to those with third parties	5.34
0	Epistar Corporation	Episky Corporation (Xiamen) Ltd.	1	Sales		1,951,734	Conducted in the ordinary course of business with terms similar to those with third parties	9.61
0	Epistar Corporation	Epicrystal Corporation (Changzhou) Ltd.	1	Sales		845,768	Conducted in the ordinary course of business with terms similar to those with third parties	4.17
0	Epistar Corporation	SH Optotech Co., Ltd.	1	Sales		240,064	Conducted in the ordinary course of business with terms similar to those with third parties	1.18
0	Epistar Corporation	Yen-Rich Technology Corporation.	1	Cost of goods sold		108,029	Conducted in the ordinary course of business with terms similar to those with third parties	0.53
0	Epistar Corporation	Jiangsu Canyang Optoelectronics Ltd.	1	Cost of goods sold		420,671	Conducted in the ordinary course of business with terms similar to those with third parties	2.07
0	Epistar Corporation	Episky Corporation (Changzhou) Ltd.	1	Cost of goods sold		1,413,330	Conducted in the ordinary course of business with terms similar to those with third parties	6.96
0	Epistar Corporation	Episky Corporation (Xiamen) Ltd.	1	Cost of goods sold		204,662	Conducted in the ordinary course of business with terms similar to those with third parties	1.01
0	Epistar Corporation	Epicrystal Corporation (Changzhou) Ltd.	1	Cost of goods sold		423,001	Conducted in the ordinary course of business with terms similar to those with third parties	2.08
0	Epistar Corporation	Jiangsu Canyang Optoelectronics Ltd.	1	Accounts receivable		158,196	Conducted in the ordinary course of business with terms similar to those with third parties	0.25

Transaction

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	General ledger account	Amount	Transaction terms	Percentage of consolidated total operating revenues or total assets (Note 3)
0	Epistar Corporation	Luxlite (Shenzhen) Corporation Limited	1	Accounts receivable	\$ 532,415	Conducted in the ordinary course of business with terms similar to those with third parties	0.84
0	Episky Corporation	Episky Corporation (Xiamen) Ltd.	1	Accounts receivable	95,281	Conducted in the ordinary course of business with terms similar to those with third parties	1.29
0	Epistar Corporation	Epicrystal Corporation (Changzhou) Ltd.	1	Accounts payable	141,909	Conducted in the ordinary course of business with terms similar to those with third parties	0.22
0	Epistar Corporation	Jiangsu Canyang Optoelectronics Ltd.	1	Other receivable	180,754	Based on contract terms	0.29
1	Episky Corporation (Xiamen) Ltd.	Luxlite (Shenzhen) Corporation Limited	3	Sales	2,332,881	Conducted in the ordinary course of business with terms similar to those with third parties	11.49
1	Episky Corporation (Xiamen) Ltd.	Jiangsu Canyang Optoelectronics Ltd.	3	Cost of goods sold	572,401	Conducted in the ordinary course of business with terms similar to those with third parties	2.82
1	Episky Corporation (Xiamen) Ltd.	Episky Corporation (Changzhou) Ltd.	3	Cost of goods sold	1,304,446	Conducted in the ordinary course of business with terms similar to those with third parties	6.42
1	Episky Corporation (Xiamen) Ltd.	Epicrystal Corporation (Changzhou) Ltd.	3	Cost of goods sold	352,564	Conducted in the ordinary course of business with terms similar to those with third parties	1.74
1	Episky Corporation (Xiamen) Ltd.	Luxlite (Shenzhen) Corporation Limited	3	Accounts receivable	924,888	Conducted in the ordinary course of business with terms similar to those with third parties	1.46
1	Episky Corporation (Xiamen) Ltd.	Jiangsu Canyang Optoelectronics Ltd.	3	Accounts payable	206,451	Conducted in the ordinary course of business with terms similar to those with third parties	0.33
1	Episky Corporation (Xiamen) Ltd.	Episky Corporation (Changzhou) Ltd.	3	Accounts payable	839,809	Conducted in the ordinary course of business with terms similar to those with third parties	1.33
1	Episky Corporation (Xiamen) Ltd.	Epicrystal Corporation (Changzhou) Ltd.	3	Accounts payable	219,632	Conducted in the ordinary course of business with terms similar to those with third parties	0.35
2	Epicrystal Corporation (Changzhou) Ltd.	Episky Corporation (Changzhou) Ltd.	3	Sales	2,391,546	Conducted in the ordinary course of business with terms similar to those with third parties	11.78
2	Epicrystal Corporation (Changzhou) Ltd.	Jiangsu Canyang Optoelectronics Ltd.	3	Cost of goods sold	236,937	Conducted in the ordinary course of business with terms similar to those with third parties	1.17

Transaction							
Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	General ledger account	Amount	Transaction terms	Percentage of consolidated total operating revenues or total assets (Note 3)
2	Epicrystal Corporation (Changzhou) Ltd.	Episky Corporation (Changzhou) Ltd.	3	Cost of goods sold	\$ 161,681	Conducted in the ordinary course of business with terms similar to those with third parties	0.80
2	Epicrystal Corporation (Changzhou) Ltd.	Episky Corporation (Changzhou) Ltd.	3	Accounts receivable	1,350,542	Conducted in the ordinary course of business with terms similar to those with third parties	2.14
2	Epicrystal Corporation (Changzhou) Ltd.	Episky Corporation (Changzhou) Ltd.	3	Accounts payable	184,060	Conducted in the ordinary course of business with terms similar to those with third parties	0.29
2	Epicrystal Corporation (Changzhou) Ltd.	Jiangsu Canyang Optoelectronics Ltd.	3	Other receivable	359,791	Based on contract terms	0.57
3	Episky Corporation (Changzhou) Ltd.	Jiangsu Canyang Optoelectronics Ltd.	3	Sales	207,974	Conducted in the ordinary course of business with terms similar to those with third parties	1.02
3	Episky Corporation (Changzhou) Ltd.	Jiangsu Canyang Optoelectronics Ltd.	3	Accounts receivable	178,676	Conducted in the ordinary course of business with terms similar to those with third parties	0.28
4	Jiangsu Canyang Optoelectronics Ltd.	Lighting Investment Ltd.	3	Cost of goods sold	107,136	Conducted in the ordinary course of business with terms similar to those with third parties	0.53

Note 1: Parent company is '0'. 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: Disclosure of the transactions over 100 million New Taiwan dollars only and the related party transactions for counterparty are not disclosed.

EPISTAR CORPORATION
Information on investees
Year ended December 31, 2018

Expressed in thousands of NTD
(Except as otherwise indicated)

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2018		Book value	Net profit (loss) of the investee for the year ended December 31, 2018	Investment income (loss) recognised by the Company for the year ended December 31, 2018	Footnote
				December 31, 2018	December 31, 2017	Number of shares (Note)	Ownership (%)				
Epistar Corporation	iReach Corporation	Taiwan	Packaging, module design, manufacturing and sales of LED	\$ 70,000	\$ 70,000	7,000,000	100.00	\$ 37,606	\$ 32,497	\$ 32,497	
Epistar Corporation	Bee Rich Corporation	British Virgin Islands	Professional investment	-	1,754,015	-	-	-	63,022	60,967	Note 5
Epistar Corporation	Ecoled Venture Co., Limited	Hong Kong	Sales of LED lighting facilities	82,348	82,348	7,189,668	51.99	(6,858)	(10,215)	(5,311)	
Epistar Corporation	Epistar JV Holding (BVI) Co., Ltd.	British Virgin Islands	Professional investment	14,960,129	7,282,982	48,278	100.00	10,268,739	286,599	288,374	
Epistar Corporation	Full Star Enterprises Limited	Hong Kong	Professional investment	166,785	166,785	8,660,000	100.00	250,537	(2,268)	(18,229)	
Epistar Corporation	GaN Ventures Co., Limited	Hong Kong	Investment holding, sales of electronic components	275,117	166,505	18,000,000	59.02	124,306	(102,308)	(61,128)	
Epistar Corporation	HUGA Holding (BVI) Limited	British Virgin Islands	Professional investment	-	589,959	-	-	-	(45,085)	(45,085)	Note 5
Epistar Corporation	Yen-Rich Technology Corporation.(Note 1)	Taiwan	Manufacturing and sales of electronic components	600,000	600,000	60,000,000	100.00	232,509	(29,680)	(29,680)	Note 1
Epistar Corporation	Tops Electrical Technology Co., Ltd.	Taiwan	Design of illumination and packaging of LED ceramic packages	-	7,467	-	-	-	(24)	(11)	Note 2
Epistar Corporation	Lighting Investment Corp.	Taiwan	Professional investment	2,161,814	1,000,000	251,478,518	100.00	1,928,717	(36,697)	49,178	
Epistar Corporation	Nan Ya Photonics Incorporation	Taiwan	LED light application	840,381	840,381	18,239,448	40.80	387,627	90,519	36,932	
Epistar Corporation	PlayNitride Inc.	British Cayman Islands	Innovative technology licensing and sales of LED related products	-	68,909	-	-	-	(33,136)	(4,409)	Note 6
Epistar Corporation	Tekcore Co., Ltd.	Taiwan	Manufacturing and sales of LED chips and LED lighting facilities	1,169,412	1,169,412	20,247,828	21.05	62,978	(21,869)	(4,604)	
Epistar Corporation	Unikom Semiconductor Corporation	Taiwan	Development, manufacturing and sales of LED chips and LED lighting facilities	1,000,000	-	100,000,000	100.00	930,108	(69,892)	(69,892)	

Investor	Investee	Location	Main business activities	Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares (Note)	Ownership (%)	Book value	Net profit (loss) of the investee for the year ended December 31, 2018	Investment income (loss) recognised by the Company for the year ended December 31, 2018	Footnote
Epistar Corporation	EPI Crystal Investment Inc.	Taiwan	Professional investment	\$ -	\$ 1,158,323	-	-	\$ -	\$ 28,131	\$ 28,131	Note 4
Epistar Corporation	ProLight Opto Technology Corporation	Taiwan	Packaging, manufacturing and sales of LED	130,375	140,000	7,450,000	12.83	97,043	(40,088)	(6,290)	
Epistar Corporation	SH Optotech Co., Ltd.	Taiwan	Sales of LED chips and LED lighting facilities	31,792	31,792	3,179,176	49.00	2,665	2,780	1,362	
Epistar Corporation	TE Opto Corporation	Taiwan	Manufacturing and sales of LED chips and LED lighting facilities	9,200	9,200	920,000	40.00	43,557	12,306	4,923	
Epistar Corporation	UEG Investment Ltd.	British Virgin Islands	Professional investment	-	2,162,602	67,300,247	100.00	2,285,044	(396,735)	(385,189)	Note 5
Bee Rich Corporation	Crystal Light Enterprise Group Ltd.	British Virgin Islands	Professional investment	-	17,881	200,000	100.00	27,417	1,631	1,631	Note 5
Bee Rich Corporation	Can Yang Investments Limited	Hong Kong	Professional investment	-	1,733,522	60,879,606	80.10	1,692,747	(14,839)	(15,432)	
Crystaluxx SARL	LEDOLUX Sp. Zo. O.	Poland	Assembling and sales of LED bulbs	133,455	132,456	156,994	60.00	15,070	(4,225)	(2,535)	
Epistar JV Holding (BVI) Co., Ltd.	Country Lighting (BVI) Co., Ltd.	British Virgin Islands	Professional investment	89,843	89,843	3,060,000	36.43	93,996	(63)	(23)	
Epistar JV Holding (BVI) Co., Ltd.	Crystal Light Enterprise Group Ltd.	British Virgin Islands	Professional investment	6,754	-	Cash	100.00	27,417	1,631	1,155	
Epistar JV Holding (BVI) Co., Ltd.	HUGA Holding (SAMOA) Limited	SAMOA	Professional investment	331,951	-	USD200,000 12,451,035	100.00	89,539	(3,489)	122	
Epistar JV Holding (BVI) Co., Ltd.	LiteStar JV Holding (BVI) Co., Ltd.	British Virgin Islands	Professional investment	3,408,835	3,046,795	10,882	82.41	3,569,232	57,623	48,252	
Epistar JV Holding (BVI) Co., Ltd.	United LED Corporation (Hong Kong) Limited	Hong Kong	Professional investment	2,029,760	2,029,760	67,000,165	74.86	479,449	(180,315)	(134,984)	
Epistar JV Holding (BVI) Co., Ltd.	Episky (Hong Kong) Ltd.	Hong Kong	Professional investment	2,124,096	-	Cash USD68,000,000	100.00	2,393,227	(266,529)	(157,969)	

Initial investment amount Shares held as at December 31, 2018 Footnote

Investor	Investee	Location	Main business activities	Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares (Note)	Ownership (%)	Book value	Net profit (loss) of the investee for the year ended December 31, 2018	Investment income (loss) recognised by the Company for the year ended December 31, 2018	Footnote
Epistar JV Holding (BVI) Co., Ltd.	Can Yang Investments Limited	Hong Kong	Professional investment	\$ 4,291,894	\$ -	Cash USD141,272,700	80.10	\$ 1,692,747	\$ 14,839	\$ 77,969	
Full Star Enterprises Limited	PlayNitride Inc.	British Cayman Islands	Innovative technology licensing and sales of LED related products	-	39,054	-	-	-	(33,136)	(1,011)	Note 6
GaN Ventures Co., Limited	GV Semiconductor Inc.	USA	R&D and sales of electronic components	91,225	48,821	3,010,000	100.00	7,604	(63,713)	(63,713)	
HUGA Holding (BVI) Limited	HUGA Holding (SAMOA) Limited	SAMOA	Professional investment	-	331,951	-	-	-	(3,594)	(3,594)	Note 5
HUGA Holding (SAMOA) Limited	Ecoled Venture Co., Limited	Hong Kong	Sales of LED lighting facilities	24,655	24,655	6,638,461	48.01	(6,333)	(10,215)	(4,904)	
Lighting Investment Ltd.	GaN Ventures Co., Limited	Hong Kong	Investment holding; sales of electronic components	64	64	1,500,000	4.92	10,362	(102,308)	(5,353)	
Lighting Investment Ltd.	LEDAZ CO., LTD	Korea	Engineering service of LED	48,166	48,166	88,460	28.13	63,703	47,353	13,320	
Lighting Investment Ltd.	Interlight Optotech (HK) Co., Limited	Hong Kong	Packaging and sales of LED chips and LED lighting facilities	12,806	-	429,000	30.00	13,411	(1,343)	(403)	
Lighting Investment Ltd.	PlayNitride Inc.	British Cayman Islands	Innovative technology licensing and sales of LED related products	-	67,230	-	-	-	(33,136)	(1,315)	Note 6
Lighting Investment Ltd.	Epistar (Hong Kong) Limited	Hong Kong	Professional investment	2,556	2,556	82,850	100.00	1,918	(81)	(81)	
Lighting Investment Ltd.	Luxlite (HK) Corporation Limited	Hong Kong	Professional investment	91,286	91,286	2,850,000	75.00	267,914	73,893	55,420	
LiteStar JV Holding (BVI) Co., Ltd.	Epicrysta (Hong Kong) Co. Ltd.	Hong Kong	Professional investment	4,403,034	4,040,994	146,600,000	100.00	4,329,795	57,673	57,673	
UEC Investment Ltd.	Episky (Hong Kong) Ltd.	Hong Kong	Professional investment	-	2,124,096	68,000,000	100.00	2,267,796	(398,338)	(398,338)	Note 5
Lighting Investment Corp.	Crystaluxx S.A.R.L.	Luxembourg	Professional investment	131,659	-	33,200	100.00	15,078	(3,862)	(1,822)	

Investor	Investee	Location	Main business activities	Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares (Note)	Ownership (%)	Book value	Net profit (loss) of the investee for the year ended December 31, 2018	Investment income (loss) recognised by the Company for the year ended December 31, 2018
Lighting Investment Corp.	LEDAZ Co., Ltd.	Korea	Engineering service of LED	\$ 23,993	\$ -	44,065,000	14.01	\$ 35,967	\$ 47,353	\$ 4,693
Lighting Investment Corp.	Lighting Investment Ltd.	British Virgin Islands	Professional investment	152,701	152,701	45,642	100.00	544,796	34,648	34,648
Lighting Investment Corp.	Yen-Rich Opto (Hong Kong) Limited	Hong Kong	Sales of LED light components	250,731	-	8,010,000	100.00	295,964	(4,984)	1,702
Lighting Investment Corp.	Nan Ya Photonics Incorporation	Taiwan	LED light application	50,561	9,785	1,101,184	2.46	387,627	90,519	1,186
Lighting Investment Corp.	ProLight Opto Technology Corporation	Taiwan	Packaging, manufacturing and sales of LED	214,329	83,856	17,539,234	29.93	270,266	(40,088)	(7,684)
Lighting Investment Corp.	Can Yang Investments Limited	Hong Kong	Professional investment	72,436	-	5,218,605	6.87	145,183	(14,839)	(2,981)
Lighting Investment Corp.	allureLux Corporation	Taiwan	Development and design services of LED lamps	30,000	-	3,000,000	100	11,842	(17,938)	(17,938)
InterLight Optotech Corporation.	Interlight Optotech (HK) Co., Limited	Hong Kong	Packaging, testing and sales of LED	-	13,385	-	-	-	134	40
Epistar (Hong Kong) Limited	ES-LEDRU LLC.	Russia	Sales of LED products	2,474	2,474	4,036,069	49	2,037	(98)	(48)
Episky Corporation (Xiamen) Ltd.	Episky Corporation (Changzhou) Ltd.	China-Changzhou	Manufacturing and sales of LED chips and LED	147,472	147,472	Cash	3.31	153,475	61,843	1,900
Episky Corporation (Xiamen) Ltd.	Episky Corporation (Changzhou) Ltd.	China-Changzhou	Manufacturing and sales of LED lighting facilities	99,056	99,056	USDS,200,000	100	154,908	(44,897)	(44,897)
Episky Corporation (Xiamen) Ltd.	EPIRICH (Guangzhou) Co., Ltd	China-Guangzhou	Development and sales of LED products	40,382	40,382	RMB20,000,000	100	14,095	(1,942)	(1,942)
EPI Crystal Investment Inc.	Crystaluxx SARL	Luxembourg	Professional investment	-	129,114	-	-	-	(2,049)	(2,049)
EPI Crystal Investment Inc.	LEDAZ Co., Ltd.	Korea	ENGINEERING	-	23,993	-	-	-	13,916	1,950
EPI Crystal Investment Inc.	Yen-Rich Opto (Hong Kong) Limited	Hong Kong	Sales of LED lighting facilities	-	250,731	-	-	-	(6,546)	(6,546)
EPI Crystal Investment Inc.	Nan Ya Photonics Incorporation	Taiwan	LED light application	-	40,776	-	-	-	52,871	1,044
EPI Crystal Investment Inc.	InterLight Optotech Corporation.	Taiwan	Packaging and sales of LED chips and LED lighting facilities	-	157,672	-	-	-	30,391	30,391
EPI Crystal Investment Inc.	ProLight Opto Technology Corporation	Taiwan	Packaging, manufacturing and sales of LED	-	3,082	-	-	-	(15,160)	(124)
EPI Crystal Investment Inc.	Can Yang Investments Limited	Hong Kong	Professional investment	-	72,436	-	-	-	28,559	3,186
allureLux Corporation	AllureLux Inc.	USA	Design and sales of LED lighting	16,795	-	550,000	100	(1,165)	(17,741)	(17,741)

Note 1: In September 2018, Zheng-Yi Technology Corporation has been renamed as Yen-Rich Technology Corporation.

Note 2: The shares of Tops Electrical Technology Co., Ltd. were all disposed on March 29, 2018.

Note 3: The liquidation of Interlight Optotech (HK) Co., Limited was completed on May 31, 2018.

Note 4: EPI Crystal Investment Inc. was dissolved and combined into Lighting Investment Corp. on July 1, 2018.

Note 5: Epistar JV Holding (BVI) Co., Ltd. proceeded a simple merger with UEC Investment Ltd., Bee Rich Corporation and HUGA Holding (BVI) Limited on November 1, 2018.

Note 6: The Group lost significant influence over PlayNitride Inc. as the shares of PlayNitride Inc. owned by the Group were less than 20% on March 6, 2018, therefore, the Group reclassified it into financial assets at fair value through other comprehensive income.

EPISTAR CORPORATION
Information on investments in Mainland China
Year ended December 31, 2018

Table 9

Expressed in thousands of NTD
(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Amount remitted from Taiwan to			Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2018 (Note 2)	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Footnote
				Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Amount remitted back to Taiwan for the year ended December 31, 2018	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018					
Episky Corporation (Xiamen) Ltd.	Manufacturing and sales of LED chips and LED lighting facilities	\$ 2,088,620	2	\$ -	\$ -	\$ 2,088,620	100.00	\$ 266,496	\$ 2,393,253	\$ -	2(3)
United LED Shandong Corporation	Manufacturing and sales of LED chips and LED lighting facilities	2,580,060	2	-	-	1,958,081	74.86	(135,082)	478,465	-	2(3)
Epicrystal Corporation (Changzhou) Ltd.	Manufacturing and sales of LED chips and LED lighting facilities	4,822,255	2	368,580	-	3,673,514	76.95	61,483	3,568,162	-	2(1)
Luxlite (Shenzhen) Corporation Limited	Sales of LED lighting facilities	92,145	2	-	-	23,063	75.00	100,827	203,556	59,280	2(1)
KAISTAR Lighting (Xiamen) Co., Ltd.	Manufacturing and sales of LED chips and LED lighting facilities	8,354,444	2	-	-	1,568,308	18.77	-	1,488,805	-	2(3) 7
Everlight Electronics (Fujian) Co., Ltd	Manufacturing and sales of LED backlight and related parts	767,875	2	-	-	76,788	10.00	-	42,641	-	2(3) 7

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Amount remitted from			Net income of investee as of December 31, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2018 (Note 2)	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Footnote
				Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Amount remitted back to Taiwan for the year ended December 31, 2018	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018						
APT Electronics Co., Ltd.	Developing, manufacture and sale of LED extension and chip, module and light instrument	\$ 1,777,130	3	\$ 184,512	\$ 39,602	\$ -	\$ 224,114	\$ 11.17	\$ -	\$ -	\$ -	2(3)
China Crystal Technologies Co., Ltd.	Developing, manufacture and sale of gallium arsenide unit crystal and chips	884,407	2	103,099	-	-	103,099	8.97	(78,304)	83,245	-	2(3)
Cosmoled Lighting Limited	Developing, manufacture and sale of LED filament, lamp bulb, lighting instrument and applications	597,090	2	180,547	-	-	180,547	(7,706)	(3,082)	-	-	2(3)
Ufeco Technology Inc.	Developing and manufacturing LED application and sales of self-product	76,788	2	8,000	-	-	8,000	10.00	-	-	-	2(3)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Amount remitted from Taiwan to			Ownership held by the Company (direct or indirect)	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income of investment remitted back to Taiwan as of December 31, 2018	Footnote
				Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Amount remitted back to Taiwan for the year ended December 31, 2018	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018				
Very Optoelectronics (HUI ZHOU) Co., Ltd.	Research and development, manufacturing and sale of LED packaging; research and development, manufacturing and sale of backlight module, lighting modules and accessories	447,200	2	\$ 224,838	\$ -	\$ 224,838	\$ 5,894	\$ -	\$ -	2(3)
Ningbo Formosa Epitaxy Incorporation	Manufacturing and sales of LED chips and LED lighting facilities	6,143	2	51,700	-	51,700	1,631	100.00	27,417	2(3)
Jiangsu Canyang Optoelectronics Ltd.	Manufacturing and sales of LED chips and LED lighting facilities	\$ 5,897,280	2	1,440,881	-	2,423,761	(14,650)	86.97	1,837,930	2(3)

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA
Epistar Corporation	\$ 12,541,600	\$ 13,602,718	\$ 30,544,746

Note 1: The investments are classified in three types; they are numbered as follows:

1. Direct investment in Mainland China companies;
2. Through investing in an existing company in the third area, which then invested in the investee in Mainland China.
3. Other ways.

Note 2: Investment income or loss in this period:

The bases for recognition of investment income or loss are classified into four types; they are numbered as follows:

1. The financial statements that are audited by the international accounting firm which has a cooperative relationship with the R.O.C. accounting firm;
2. The financial statements that are audited by the R.O.C. parent company's independent accountants;
3. Others: The financial statements that are not audited by the independent accountants

Note 3: The amount disclosed was based on Investment Commission, MOEA Regulation No. 09704604680 announced on August 29, 2008.

Note 4: The numbers in the table shall be expressed in NTD. Foreign currencies shall be translated into NTD at the exchange rate prevailing on the financial reporting date.

Note 5: The 'amounts' are expressed in thousands of New Taiwan dollars.

Note 6: The shares of Very Optoelectronics (HUI ZHOU) Co., Ltd. and Cosmoled Lighting Limited were all disposed on March 14, 2018 and June 25, 2018.

Note 7: The Group lost significant influence over KAISTAR Lighting (Xiamen) Co., Ltd. as the shares of it owned by the Group were less than 20% on April 26, 2018.

Therefore, the Group reclassified them into financial assets at fair value through other comprehensive income in accordance with IFRSs.

EPiSTAR CORPORATION

Significant transactions conducted with investees in Mainland China directly or indirectly through other companies in the third areas
Year ended December 31, 2018

Expressed in thousands of NTD
(Except as otherwise indicated)

Investee in Mainland China	Sale (purchase)		Property transaction		Accounts receivable (payable)		Provision of endorsements/guarantees or collaterals		Financing		Interest during the year ended December 31, 2018	
	Amount	%	Amount	%	Balance at December 31, 2018	%	Balance at December 31, 2018	Purpose	Maximum balance during the year ended December 31, 2018	Balance at December 31, 2018		Interest rate
Jiangsu Canyang Optoelectronics Ltd.	\$ 233,033	1	\$ 22,647	10	\$ 158,196	2	\$ 399,295	-	\$ 1,339,235	\$ 447,200	4.60%	\$ 8,855
	(420,671)	(4)	(175)	-	(51,974)	(2)	-	-	-	-	-	-
Episky Corporation (Xiamen) Ltd.	1,951,734	10	14,254	6	951,281	9	2,871,329	-	897,000	894,400	-	-
	(204,662)	(2)	(68,070)	(2)	(24,384)	(1)	-	-	-	-	-	-
Epicrystal Corporation (Changzhou) Ltd.	845,768	4	23,788	11	95,504	1	-	-	-	-	-	-
	(423,001)	(4)	-	-	(141,909)	(5)	-	-	-	-	-	-
Episky Corporation (Changzhou) Ltd.	(1,413,330)	(13)	-	-	(69,719)	(3)	-	-	-	-	-	-
Luxite (Shenzhen) Corporation Limited	1,084,713	5	-	-	532,415	6	-	-	-	-	-	-

EPISTAR CORPORATION



Chairman

Biing-Jye Lee

