Stock Code：3152

# ADVANCED CERAMIC X CORPORATION

Financial Statements and
Independent Auditors' Review Report
For the Six Months Ended June 30, 2019 and 2018

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**Notes to Readers**

The independent auditors' review report and the accompanying financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English version and Chinese version, the Chinese-language independent auditors' review report and financial statements shall prevail.

## Independent Accountants' Review Report

To the Board of Directors of Advanced Ceramic X Corporation:

### Introduction

We have reviewed the accompanying balance sheets of the Advanced Ceramic X Corporation of June 30, 2019 and 2018, and the related statements of comprehensive income for the three and six months ended June 30, 2019 and 2018, and the related changes in equity and cash flows for the six months ended June 30, 2019 and 2018, and notes to the financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standards ("IASs") 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the financial statements based on our review.

### Scope of Review

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

### Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying financial statements do not present fairly, in all material respects, the financial position of the Company as of June 30, 2019 and 2018, and of its financial performance for the three and six months ended June 30, 2019 and 2018, and of its cash flows for the six months ended June 30, 2019 and 2018 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Reviewed only, not audited in accordance with generally accepted auditing standards as of June 30, 2019 and 2018

# Advanced Ceramic X Corporation

## Balance Sheets

### June 30, 2019, December 31, 2018 and June 30, 2018

(Expressed in Thousands of New Taiwan Dollars)

| | | June 30, 2019 | | December 31, 2018 | | June 30, 2018 | |
|---|---|---|---|---|---|---|---|
| | | Reviewed | | Audited | | Reviewed | |
| | **Assets** | **Amount** | **%** | **Amount** | **%** | **Amount** | **%** |
| | **Current Assets：** | | | | | | |
| 1100 | Cash and Cash Equivalents (Note 6(1)) | $ 2,282,087 | 55 | 1,709,216 | 45 | 2,686,600 | 65 |
| 1170 | Notes and Accounts Receivable, Net (Note 6(2)) | 189,861 | 5 | 190,477 | 5 | 232,546 | 6 |
| 1180 | Receivables from Related Parties (Note 6(2) and 7) | 95,364 | 2 | 133,791 | 4 | 129,866 | 3 |
| 1310 | Inventories (Note 6(3)) | 121,396 | 3 | 130,408 | 3 | 136,071 | 3 |
| 1476 | Other Financial Assets - Current (Note 6(1) and 8) | 218,109 | 5 | 502,607 | 13 | 2,541 | - |
| 1479 | Other Current Assets | 20,838 | - | 18,888 | 1 | 19,010 | - |
| | | 2,927,655 | 70 | 2,685,387 | 71 | 3,206,634 | 77 |
| | **Noncurrent Assets：** | | | | | | |
| 1600 | Property, Plant and Equipment (Note 6(4), 7 and 8) | 1,224,930 | 29 | 1,100,949 | 29 | 941,224 | 23 |
| 1780 | Intangible Assets (Note 6(5)) | 533 | - | 683 | - | 917 | - |
| 1840 | Deferred Tax Assets | 9,409 | - | 9,409 | - | 9,860 | - |
| 1980 | Other Financial Assets - Noncurrent (Note 8) | 20,787 | 1 | 501 | - | 501 | - |
| 1975 | Net Defined Benefit Asset - Noncurrent (Note6(7)) | 905 | - | 622 | - | 54 | - |
| | | 1,256,564 | 30 | 1,112,164 | 29 | 952,556 | 23 |
| | **Total Assets** | $ 4,184,219 | 100 | 3,797,551 | 100 | 4,159,190 | 100 |

| | | June 30, 2019 | | December 31, 2018 | | June 30, 2018 | |
|---|---|---|---|---|---|---|---|
| | | Reviewed | | Audited | | Reviewed | |
| | **Liabilities and Equity** | **Amount** | **%** | **Amount** | **%** | **Amount** | **%** |
| | **Current Liabilities：** | | | | | | |
| 2170 | Accounts Payable | $ 48,011 | 1 | 45,704 | 1 | 54,866 | 2 |
| 2201 | Salary and Bonus Payable | 153,655 | 4 | 127,347 | 3 | 166,088 | 4 |
| 2213 | Payables to Contractors and Equipment (Note 7) | 64,566 | 2 | 52,527 | 2 | 1,918 | - |
| 2216 | Cash Dividends Payable | 681,880 | 16 | - | - | 752,277 | 18 |
| 2230 | Income Tax Payable | 85,893 | 2 | 101,698 | 3 | 90,189 | 2 |
| 2399 | Other Current Liabilities (Note 6(6) and 7) | 152,333 | 4 | 126,441 | 3 | 155,452 | 4 |
| | | 1,186,338 | 29 | 453,717 | 12 | 1,220,790 | 30 |
| | **Noncurrent Liabilities：** | | | | | | |
| 2600 | Other Liabilities- Noncurrent | 11,800 | - | 10,477 | - | 8,582 | - |
| | | 11,800 | - | 10,477 | - | 8,582 | - |
| | **Total Liabilities** | 1,198,138 | 29 | 464,194 | 12 | 1,229,372 | 30 |
| | **Equity** (Note 6(9))： | | | | | | |
| 3100 | Capital Stock | 690,162 | 16 | 690,162 | 18 | 690,162 | 16 |
| 3200 | Capital Surplus | 573,532 | 14 | 573,532 | 15 | 573,532 | 14 |
| 3300 | Retained Earnings | 1,722,387 | 41 | 2,069,663 | 55 | 1,666,124 | 40 |
| | **Total Equity** | 2,986,081 | 71 | 3,333,357 | 88 | 2,929,818 | 70 |
| | **Total Liabilities and Equity** | $ 4,184,219 | 100 | 3,797,551 | 100 | 4,159,190 | 100 |

**See accompanying notes to the financial statements.**

**Reviewed only, not audited in accordance with generally accepted auditing standards**

## Advanced Ceramic X Corporation

## Statements of Comprehensive Income

## For the Three and Six Months Ended June 30, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

| | | Three Months Ended June 30 | | | | Six Months Ended June 30 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2019 | | 2018 | | 2019 | | 2018 | |
| | | Amount | % | Amount | % | Amount | % | Amount | % |
| 4100 | **Net Revenue** (Note 6(11) and 7) | $ 429,565 | 100 | 457,038 | 100 | 855,417 | 100 | 847,309 | 100 |
| 5000 | **Cost of Revenue** (Note 6(3), (7), (13) and 7) | 173,844 | 40 | 174,348 | 38 | 342,638 | 40 | 326,006 | 38 |
| | **Gross Profit** | 255,721 | 60 | 282,690 | 62 | 512,779 | 60 | 521,303 | 62 |
| | **Operating Expenses** (Note 6(7), (13) and 7)： | | | | | | | | |
| 6100 | Selling and Distribution Expenses | 9,601 | 3 | 8,808 | 2 | 16,968 | 1 | 14,934 | 2 |
| 6200 | General and Administrative Expenses | 18,437 | 4 | 19,268 | 4 | 36,327 | 4 | 36,822 | 4 |
| 6300 | Research and Development Expenses | 29,218 | 7 | 25,985 | 6 | 56,181 | 7 | 48,417 | 6 |
| 6450 | Expected Credit Impairment Loss (Note 6(2)) | 5,181 | 1 | - | - | 4,657 | 1 | - | - |
| | | 62,437 | 15 | 54,061 | 12 | 114,133 | 13 | 100,173 | 12 |
| | **Profit from Operations** | 193,284 | 45 | 228,629 | 50 | 398,646 | 47 | 421,130 | 50 |
| | **Non-Operating Income and Expenses**： | | | | | | | | |
| 7101 | Interest Income | 3,818 | 1 | 4,224 | 1 | 7,572 | 1 | 8,444 | 1 |
| 7190 | Other Income (Note 6(12)) | 1,946 | 1 | - | - | 2,651 | - | 176 | - |
| 7230 | Foreign Exchange Gain, Net | 8,277 | 2 | 24,699 | 5 | 9,386 | 1 | 13,251 | 2 |
| 7610 | Gain on Disposal of Property, Plant and Equipment, Net | - | - | 95 | - | - | - | 95 | - |
| | | 14,041 | 4 | 29,018 | 6 | 19,609 | 2 | 21,966 | 3 |
| 7900 | **Profit Before Income Tax** | 207,325 | 49 | 257,647 | 56 | 418,255 | 49 | 443,096 | 53 |
| 7950 | **Income Tax Expense** (Note 6(8)) | 41,465 | 10 | 51,529 | 11 | 83,651 | 10 | 88,619 | 11 |
| 8200 | **Net Income** | 165,860 | 39 | 206,118 | 45 | 334,604 | 39 | 354,477 | 42 |
| 8300 | **Other Comprehensive Income, net** | - | - | - | - | - | - | - | - |
| 8500 | **Total Comprehensive Income** | **$ 165,860** | **39** | **206,118** | **45** | **334,604** | **39** | **354,477** | **42** |
| | **Earnings Per Share (Expressed in Dollars)** (Note 6(10)) | | | | | | | | |
| 9750 | Basic Earnings Per Share | **$** | **2.41** | | **2.99** | | **4.85** | | **5.14** |
| 9850 | Diluted Earnings Per Share | **$** | **2.40** | | **2.98** | | **4.84** | | **5.13** |

**See accompanying notes to the financial statements.**

**Reviewed only, not audited in accordance with generally accepted auditing standards**

# Advanced Ceramic X Corporation
## Statements of Changes in Equity
## For the Six Months Ended June 30, 2019 and 2018
(Expressed in Thousands of New Taiwan Dollars)

| | Common Stock | Capital Surplus | Retained Earnings: Legal Reserve | Retained Earnings: Undistributed Earnings | Retained Earnings: Subtotal | Total Equity |
|---|---|---|---|---|---|---|
| **Balance at January 1, 2018** | $ 690,162 | 573,532 | 556,555 | 1,507,369 | 2,063,924 | 3,327,618 |
| Profit for the Six Months Ended June 30, 2018 | - | - | - | 354,477 | 354,477 | 354,477 |
| Other Comprehensive Income for the Six Months Ended June 30, 2018 | - | - | - | - | - | - |
| Total Comprehensive Income for the Six Months Ended June 30, 2018 | - | - | - | 354,477 | 354,477 | 354,477 |
| Appropriation and Distribution of 2017 Earnings： | | | | | | |
| Legal Reserve | - | - | 83,859 | (83,859) | - | - |
| Cash Dividends | - | - | - | (752,277) | (752,277) | (752,277) |
| **Balance at of June 30, 2018** | **$ 690,162** | **573,532** | **640,414** | **1,025,710** | **1,666,124** | **2,929,818** |
| **Balance at January 1, 2019** | $ 690,162 | 573,532 | 640,414 | 1,429,249 | 2,069,663 | 3,333,357 |
| Profit for the Six Months Ended June 30, 2019 | - | - | - | 334,604 | 334,604 | 334,604 |
| Other Comprehensive Income for the Six Months Ended June 30, 2019 | - | - | - | - | - | - |
| Total Comprehensive Income for the Six Months Ended June 30, 2019 | - | - | - | 334,604 | 334,604 | 334,604 |
| Appropriation and Distribution of 2018 Earnings： | | | | | | |
| Legal Reserve | - | - | 75,774 | (75,774) | - | - |
| Cash Dividends | - | - | - | (681,880) | (681,880) | (681,880) |
| **Balance at of June 30, 2019** | **$ 690,162** | **573,532** | **716,188** | **1,006,199** | **1,722,387** | **2,986,081** |

**See accompanying notes to the financial statements.**

**Reviewed only, not audited in accordance with generally accepted auditing standards**

# Advanced Ceramic X Corporation
## Statements of Cash Flows
## For the Six Months Ended June 30, 2019 and 2018
(Expressed in Thousands of New Taiwan Dollars)

| | Six Months Ended June 30 | |
|---|---|---|
| | **2019** | **2018** |
| **Cash Flows from Operating Activities：** | | |
| Profit Before Income Tax | $ 418,255 | 443,096 |
| Adjustments for： | | |
| Depreciation | 74,818 | 70,970 |
| Amortization | 150 | 250 |
| Provision of Expected Credit Impairment Loss | 4,657 | 172 |
| Interest Income | (7,572) | (8,444) |
| Gain on Disposal of Property, Plant and Equipment, Net | - | (95) |
| Provision (Reversal) for Inventory Obsolescence and Devaluation Loss | (5,000) | 4,000 |
| Total Adjustments to Reconcile Profit | 67,053 | 66,853 |
| Changes in Operating Assets and Liabilities： | | |
| Notes and Accounts Receivable | (4,429) | (22,079) |
| Receivables from Related Parties | 38,815 | 4,939 |
| Inventories | 14,012 | (30,734) |
| Other Operating Current Assets | (1,950) | (2,823) |
| Accounts Payable | 2,307 | 11,629 |
| Net Defined Benefit Liabilities-Noncurrent | (283) | (305) |
| Other Liabilities-Noncurrent | 1,323 | 1,281 |
| Other Operating Current Liabilities | 52,200 | 44,410 |
| Total Net Changes in Operating Assets and Liabilities | 101,995 | 6,318 |
| Cash Generated from Operations | 587,303 | 516,267 |
| Interest Received | 7,470 | 8,459 |
| Income Taxes Paid | (99,456) | (89,288) |
| **Net Cash Flows from Operating Activities** | 495,317 | 435,438 |
| **Cash Flows from Investing Activities：** | | |
| Acquisition of Property, Plant and Equipment | (186,760) | (33,255) |
| Proceeds from Disposal of Property, Plant and Equipment | - | 95 |
| Decrease in Guarantee Deposits | 54 | - |
| Decrease in Other Financial Assets | 264,260 | - |
| **Net Cash Flows from (Used in) Investing Activities** | 77,554 | (33,160) |
| **Net Increase in Cash and Cash Equivalents** | 572,871 | 402,278 |
| **Cash and Cash Equivalents at the Beginning of Period** | 1,709,216 | 2,284,322 |
| **Cash and Cash Equivalents at the End of Period** | **$ 2,282,087** | **2,686,600** |

**See accompanying notes to the financial statements.**

**Reviewed only, not audited in accordance with generally accepted auditing standards**

# Advanced Ceramic X Corporation
# Notes to Financial Statements
# June 30, 2019 and 2018

(Expressed in thousands of New Taiwan dollars unless otherwise indicated)

## 1. Company history

Advanced Ceramic X Corporation ("the Company") was incorporated in April 15, 1998 as a company limited by shares and registered under the Company Act of the Republic of China (R.O.C.). The address of the Company's registered office is No.16, Tzu Chiang Road, Hsinchu Industrial Park, Hsinchu County, Taiwan. The major business activities of the Company are the design, manufacture and sale of RF Front-End devices and modules for applications in wireless communication.

## 2. The authorization of financial statements

These financial statements were authorized for issuance by the Board of Directors of the Company on August 6, 2019.

## 3. Application of new standards, amendments and interpretations

(1) Impact of adoption of new, revised or amended standards and interpretations endorsed by the Financial Supervisory Commission, ROC ("FSC")

In preparing the accompanying financial statements, the Company has adopted the following International Financial Reporting Standards ("IFRS"), International Accounting Standards ("IAS"), Interpretations developed by the International Financial Reporting Interpretations Committee ("IFRIC") or the former Standing Interpretations Committee ("SIC") issued by the International Accounting Standards Board ("IASB") (collectively, "IFRSs") and endorsed by the FSC with effective date from January 1, 2019.

| New, Revised or Amended Standards and Interpretations | Effective Date Per IASB |
|---|---|
| IFRS 16 "Leases" | January 1, 2019 |
| IFRIC 23 "Uncertainty over Income Tax Treatments" | January 1, 2019 |
| Amendments to IFRS 9 "Prepayment features with negative compensation" | January 1, 2019 |
| Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" | January 1, 2019 |
| Amendments to IAS 28 "Long-term interests in associates and joint ventures" | January 1, 2019 |
| Annual Improvements to IFRSs 2015 – 2017 Cycle | January 1, 2019 |

Except for below items, the Company believes that the adoption of the above IFRSs and IASs would not have any material impact on its financial statements. The extent and impact of signification changes are as follows:

A. IFRS 16 "Leases"

IFRS 16 replaces the existing leases guidance, including IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement Contains a Lease", SIC 15 "Operating Leases - Incentives" and SIC 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease".

The Company applied IFRS 16 using the modified retrospective approach. The details of the changes in accounting policies are disclosed below:

(a) Definition of a lease

Previously, the Company determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Company assesses whether a contract is or contains a lease based on the definition of a lease, as explained in note 4(2).

On transition to IFRS 16, the Company elected to apply the practical expedient to waive the assessment of whether transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

(b) As a lessee

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

The Company decided to apply recognition exemptions to short-term leases of transportation equipment.

- Leases classified as operating leases under IAS 17

  At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at either:

  - Their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application – the Company applied this approach to its largest property leases; or
  - An amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Company applied this approach to all other lease.

In addition, the Company used the following practical expedients when applying IFRS 16 to leases.

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the result of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term at the date of initial application.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

(c) Impacts on financial statements

On transition to IFRS 16, the Company applies the exemptions of short-term leases and does not recognizes right-of-use assets and lease liabilities at the date of initial application.

B. IFRIC 23 Uncertainty over Income Tax Treatments

In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates, an entity shall assume that a taxation authority will examine the amounts it has the right to examine and have a full knowledge on all related information when making those examinations.

If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.

The cumulative effect of adopting IFRIC 23 was recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, and it did not have any a significant impact on its financial statements.

(2) The impact of the IFRS endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2020 in accordance with Ruling No.1080323028 issued by the FSC on July 29, 2019:

| New, Revised or Amended Standards and Interpretations | Effective Date Per IASB |
|---|---|
| Amendments to IFRS 3 “Definition of Business” | January 1, 2020 |
| Amendments to IAS 1 and IAS 8 “Definition of Material” | January 1, 2020 |

The Company believes that the initial adoption of abovementioned standards or interpretations would not have a material impact on its financial statement.

(3) The impact of IFRS issued by IASB but not yet endorsed by the FSC

As of the date, following are the IFRSs that have been issued by the IASB, but not yet endorsed by the FSC:

| New, Revised or Amended Standards and Interpretations | Effective Date Per IASB |
|---|---|
| Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture” | Subject to IASB’s announcement |
| IFRS 17 “Insurance Contracts” | January 1, 2021 |

The Company is evaluating the impact on its financial position and financial performance upon the initial adoption of the above mentioned standards or interpretations. The results thereof will be disclosed when the Company completes its evaluation.

## Advanced Ceramic X Corporation
## Notes to Financial Statements

**4. Summary of significant accounting policies**

(1) Statement of compliance

The financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language financial statements, the Chinese version shall prevail.

The accompanying financial statements have been prepared in accordance with the revised Regulation Governing the Preparation of Financial Reports by Securities Issuers in the Republic of China (hereinafter referred to the Regulations) and the guideline of IAS 34 "Interim Financial Reporting”, as endorsed and issued into effect by the FSC. The financial statements do not present all the disclosures required for a complete set of annual financial statements prepared under the IFRSs endorsed by the FSC with effective dates.

Except for the following accounting policies mentioned below, the significant accounting policies adopted in the interim financial statements is the same as those in the financial statements for the year ended December 31, 2018. For the related information, please refer note 4 of the financial statements for the year ended December 31, 2018.

(2) Leases (applicable from January 1, 2019)

A. Identifying a lease

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

(a) The contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and

(b) The Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

(c) The Company has the right to direct the use of the asset:

- The Company has the right to direct the use of the asset when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.
- In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of an asset if either:
  - The Company has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions; or
  - The Company designed the asset in a way that predetermines how and for what purpose the asset will be used throughout the period of use.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

B. As a lessee

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:
(a) Fixed payments, including substantively fixed payments;
(b) Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date
(c) Amounts expected to be payable under a residual value guarantee; and
(d) Payments for purchase or termination options that is reasonably certain to be exercised.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when:
(a) There is a change in future lease payments arising from the change in an index or rate; or
(b) There is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee; or
(c) There is a change of its assessment on whether it will have the option to exercise a purchase; or
(d) There is a change of its assessment on lease term as to whether it will be extended or terminated; or
(e) There is any lease modifications.

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Company accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

The Company presents right-of-use assets that do not meet the definition of investment and lease liabilities as a separate line item respectively in the statement of financial position.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases of transportation equipment and staff dormitory, those have a lease term of 12 months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(3) Income taxes

Income tax expense in the financial statements is measured and disclosed according to paragraph B12 of IAS 34 "Interim Financial Reporting."

Income tax expense for the period is best estimated by multiplying pretax income for the interim reporting period by the effective annual tax rate as forecasted by management. It is charged to profit or loss an income tax expense.

Temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their respective tax bases are measured based on the tax rates that have been enacted or substantively enacted at the time the asset or liability is recovered or settled, and recognized directly in equity or other comprehensive income as tax expense.

(4) Employee benefits

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events.

(5) Government grants

Government grants are 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.

## 5. Significant accounting assumptions and judgments and major sources of estimation uncertainty

The preparation of the financial statements in conformity with Regulations and IFRSs (in accordance with IAS 34 “Interim Financial Reporting” and approved by FSC) requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The preparation of the financial statements, estimates and underlying assumptions are reviewed on an ongoing basis which are in conformity with the financial statements for the year ended December 31, 2018. For the related information, please refer to note 5 of the financial statements for the year ended December 31, 2018.

## 6. Explanation of significant accounts

Except for the following disclosure, the significant account disclosure in the financial statements for the six months ended June 30, 2019, which compare with the financial statements for the year ended December 31, 2018, was not changed significantly. For the related information, please refer to note 6 of the financial statements for the year ended December 31, 2018.

(1) Cash and cash equivalents

| | June 30, 2019 | December 31, 2018 | June 30, 2018 |
|---|---|---|---|
| Cash | $ 50 | 50 | 50 |
| Cash in bank | 164,224 | 93,048 | 76,616 |
| Time deposits | 2,117,813 | 1,616,118 | 2,609,934 |
| | $ 2,282,087 | 1,709,216 | 2,686,600 |

As of June 30, 2019, December 31, 2018 and June 30, 2018, the classified from cash and cash equivalents to other financial assets-current for time deposits, amounted to $215,350 thousand, $499,950 thousand and $0, respectively.

Please refer to note 6(14) for the fair value sensitivity analysis and interest rate risk of the financial assets and liabilities of the Company.

(2) Notes and accounts receivable, net (including related parties)

| | June 30, 2019 | December 31, 2018 | June 30, 2018 |
|---|---|---|---|
| Notes receivable | $ 664 | 302 | 1,659 |
| Accounts receivable | 196,166 | 192,099 | 233,236 |
| Accounts receivable from related parties | 96,327 | 135,142 | 131,178 |
| Less: Allowance for impairment | (6,969) | (1,924) | (2,349) |
| Allowance for impairment from related parties | (963) | (1,351) | (1,312) |
| | $ 285,225 | 324,268 | 362,412 |
| Notes and accounts receivable, net | $ 189,861 | 190,477 | 232,546 |
| Accounts receivable from related parties, net | $ 95,364 | 133,791 | 129,866 |

The Company applies the simplified approach to provide for its loss allowance used for expected credit losses, which permit the use of lifetime expected loss provision for all receivables. To measure the expected credit losses, notes and accounts receivable have been grouped based on shared credit risk characteristics and days past due, as well as incorporate forward looking information. As of June 30, 2019, the Company recognized a loss allowance amounting to $5,101 thousand for accounts receivable with gross carrying amount of $10,104 thousand, as there was objective evidence indicating that, under reasonable expectation, it would not be recovered. The other loss allowance provision was determined as follows:

| | June 30, 2019 | | |
|---|---|---|---|
| | Gross carrying amount | Weighted-average expected loss rate | Lifetime expected credit loss allowance |
| Not past due | $ 282,750 | 1%~2% | 2,828 |
| Past due less than 30 days | 24 | 1%~2% | - |
| Past due 31~120 days | 279 | 1%~2% | 3 |
| | $ 283,053 | | 2,831 |

| | December 31, 2018 | | |
|---|---|---|---|
| | Gross carrying amount | Weighted-average expected loss rate | Lifetime expected credit loss allowance |
| Not past due | $ 325,107 | 1%~2% | 3,251 |
| Past due less than 30 days | 2,436 | 1%~2% | 24 |
| | $ 327,543 | | 3,275 |

| | June 30, 2018 | | | |
|---|---|---|---|---|
| | | Gross carrying amount | Weighted-average expected loss rate | Lifetime expected credit loss allowance |
| Not past due | $ | 356,161 | 1%~2% | 3,562 |
| Past due less than 30 days | | 3,247 | 1%~2% | 32 |
| Past due 31~120 days | | 6,665 | 1%~2% | 67 |
| | $ | 366,073 | | 3,661 |

The movements of allowance for doubtful accounts were as follows:

| | | Six months ended June 30, 2019 | Six months ended June 30, 2018 |
|---|---|---|---|
| Beginning balance | $ | 3,275 | 3,489 |
| Provision of impairment loss | | 4,657 | 172 |
| Ending balance | $ | 7,932 | 3,661 |

As of June 30, 2019, December 31, 2018 and June 30, 2018, the notes and accounts receivable were not pledged as collateral. The information about the Company's exposure to credit risk is disclosed in note 6(14).

(3) Inventories

| | | June 30, 2019 | December 31, 2018 | June 30, 2018 |
|---|---|---|---|---|
| Raw materials and supplies | $ | 28,386 | 29,087 | 34,604 |
| Work in process | | 55,821 | 53,678 | 71,023 |
| Finished goods | | 37,189 | 47,643 | 30,444 |
| | $ | 121,396 | 130,408 | 136,071 |

For the three months and six months ended June 30, 2019 and 2018, the amounts of inventories that were charged to cost of sales were $172,844 thousand, $171,348 thousand, $347,638 thousand and $322,006 thousand, respectively.

For the three months ended June 30, 2019, the net of provisions that charged to cost of sales for inventories written down to net realizable value amounted to $1,000 thousand and the reversal of inventories written down were$5,000 thousand for the three months ended June 30, 2019.

For the three months and six months ended June 30, 2018.the net of provisions that charged to cost of sales for inventories written down to net realizable value were $3,000 thousand and $4,000 thousand, respectively.

As of June 30, 2019, December 31, 2018 and June 30, 2018, the inventories were not pledged as collateral.

(4) Property, plant and equipment

The cost and accumulated depreciation of the property, plant and equipment of the Company for the six months ended June 30, 2019 and 2018 were as follows:

| | | Land | Building and construction | Machinery and equipment | Office & other equipment | Construction in progress & equipment under installation | Total |
|---|---|---|---|---|---|---|---|
| Cost : | | | | | | | |
| Balance at January 1, 2019 | $ | 248,651 | 359,639 | 1,999,635 | 172,814 | 205,413 | 2,986,152 |
| Additions | | - | - | 10,699 | 5,925 | 182,175 | 198,799 |
| Reclassifications | | - | - | 32,282 | 8,599 | (40,881) | - |
| Disposals | | - | - | (23,565) | (1,729) | - | (25,294) |
| Balance at June 30, 2019 | $ | 248,651 | 359,639 | 2,019,051 | 185,609 | 346,707 | 3,159,657 |
| Balance at January 1, 2018 | $ | 248,651 | 359,639 | 1,914,472 | 153,763 | 68,965 | 2,745,490 |
| Additions | | - | - | 6,082 | 872 | 14,832 | 21,786 |
| Reclassifications | | - | - | 48,964 | 430 | (49,394) | - |
| Disposals | | - | - | - | (1,164) | - | (1,164) |
| Balance at June 30, 2018 | $ | 248,651 | 359,639 | 1,969,518 | 153,901 | 34,403 | 2,766,112 |
| Depreciation： | | | | | | | |
| Balance at January 1, 2019 | $ | - | 238,450 | 1,518,082 | 128,671 | - | 1,885,203 |
| Depreciation | | - | 6,199 | 61,878 | 6,741 | - | 74,818 |
| Disposals | | - | - | (23,565) | (1,729) | - | (25,294) |
| Balance at June 30, 2019 | $ | - | 244,649 | 1,556,395 | 133,683 | - | 1,934,727 |
| Balance at January 1, 2018 | $ | - | 226,053 | 1,408,857 | 120,172 | - | 1,755,082 |
| Depreciation | | - | 6,199 | 59,379 | 5,392 | - | 70,970 |
| Disposals | | - | - | - | (1,164) | - | (1,164) |
| Balance at June 30, 2018 | $ | - | 232,252 | 1,468,236 | 124,400 | - | 1,824,888 |
| Carrying value： | | | | | | | |
| Balance at January 1, 2019 | $ | 248,651 | 121,189 | 481,553 | 44,143 | 205,413 | 1,100,949 |
| Balance at June 30, 2019 | $ | 248,651 | 114,990 | 462,656 | 51,926 | 346,707 | 1,224,930 |
| Balance at January 1, 2018 | $ | 248,651 | 133,586 | 505,615 | 33,591 | 68,965 | 990,408 |
| Balance at June 30, 2018 | $ | 248,651 | 127,387 | 501,282 | 29,501 | 34,403 | 941,224 |

Pledged assets

As of June 30, 2019, December 31, 2018 and June 30, 2018, the property, plant and equipment of the Company had been pledged as collateral for short-term borrowings; please refer to note 8.

(5) Intangible assets

| | | Royalty |
|---|---|---|
| Carrying amount： | | |
| Balance at January 1, 2019 | $ | 683 |
| Balance at June 30, 2019 | $ | 533 |
| Balance at January 1, 2018 | $ | 1,167 |
| Balance at June 30, 2018 | $ | 917 |

For the six months ended June 30, 2019 and 2018, there were no significant additions, disposals, or recognition and reversal of impairment losses of intangible assets. Please refer to note 12(1) for details on impairment and to note 6(5) of the financial statements for the year ended December 31, 2018 for other related information.

As of June 30, 2019, December 31, 2018 and June 30, 2018, the intangible assets were not pledged as collateral.

(6) Other current liabilities

| | | June 30, 2019 | December 31, 2018 | June 30, 2018 |
|---|---|---|---|---|
| Accrued expenses | $ | 110,733 | 98,708 | 114,064 |
| Directors' remuneration payable | | 21,878 | 15,168 | 23,045 |
| Other | | 19,722 | 12,565 | 18,343 |
| | $ | 152,333 | 126,441 | 155,452 |

The above accrued expenses included material consumption, insurance, and water and electricity expense.

(7) Employee benefits

Defined benefit plans

The management believes that there was no material market volatility, material reimbursement and settlement, or other material one-time events. As a result, the pension cost in the accompanying interim financial statements was measured and disclosed according to the actuarial report as of December 31, 2018 and 2017.

Please refer to note 12(1) for employee pension costs or expenses under defined benefit plans and defined contribution plans.

(8) Income tax

A. Income tax expense

| | | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|---|
| | | 2019 | 2018 | 2019 | 2018 |
| Income tax expense | $ | 41,465 | 51,529 | 83,651 | 88,619 |

B. As of June 30, 2019, the tax authorities have completed the examination of income tax returns of the Company through 2017.

(9) Capital and other equity

Except for the following disclosure, there were no significant change for capital and other equity for the six months ended June 30, 2019 and 2018. For the related information, please refer to note 6(9) of the financial statements for the year ended December 31, 2018.

A. Retained earnings

According to the amendment of Articles of Incorporation, current year's earnings, if any, shall be distributed in the following order:

(a) Payment of taxes.
(b) Making up loss for preceding years.
(c) Setting aside 10% for legal reserve, except for when accumulated legal reserve has reached the total paid-up capital.
(d) Appropriating or reversing special reserve by government officials or other regulations.
(e) The remaining, plus the previous year's unappropriated earnings, shall be distributed according to the distribution plan proposed by the Board of Directors according to the dividend policy and submitted to the stockholders' meeting for approval.

The Company conducts business to operate in its growth phase, the dividend policy shall be determined pursuant to factors such as the investment environment, capital requirements, domestic and overseas competitive environment and capital budget, as well as stockholders' interest, dividend balance and long-term financial plan. The Board of Directors shall propose the distribution plan and submit it to the stockholders' meeting every year. The cash portion of the dividend, which may be in the form of cash and stock, shall not be less than 10% of the total dividend distributed during the year.

B. Earnings distribution

On June 18, 2019, the Company's shareholders' meetings resolved to distribute the 2018 earnings. On June 19, 2018, the shareholders' meetings resolved to distribute the 2017 earnings. These earnings were distributed as dividends as follows:

| | 2018 | 2017 |
|---|---|---|
| Dividends distributed to ordinary shareholders | | |
| Amount per share (NTD) | | |
| Cash dividends | $ 9.88 | 10.90 |

The aforementioned appropriations of earnings for 2018 and 2017 were consistent with the resolutions of the meeting of the Board of Directors. The related information mentioned above can be found on websites such as the Market Observation Post System.

(10) Earnings per share (EPS)

For the three months and six months ended June 30, 2019 and 2018, the Company's earnings per share were calculated as follows:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Basic EPS： | | | | |
| Net profit belonging to common shareholders | $ 165,860 | 206,118 | 334,604 | 354,477 |
| Weighted average common stock outstanding (in thousands) | 69,016 | 69,016 | 69,016 | 69,016 |
| Basic EPS (NTD) | $ 2.41 | 2.99 | 4.85 | 5.14 |

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Diluted EPS： | | | | |
| Net profit belonging to common shareholders | $ 165,860 | 206,118 | 334,604 | 354,477 |
| Weighted average common stock outstanding (in thousands) (basic) | 69,016 | 69,016 | 69,016 | 69,016 |
| Employee compensation | 93 | 89 | 152 | 138 |
| Weighted average common stock outstanding plus the effect of potentially dilutive common stock (in thousands) (diluted) | 69,109 | 69,105 | 69,168 | 69,154 |
| Diluted EPS (NTD) | $ 2.40 | 2.98 | 4.84 | 5.13 |

(11) Operating revenue from contracts with customers

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Primary geographic markets | | | | |
| China | $ 149,637 | 189,725 | 287,407 | 362,730 |
| United States | 136,129 | 138,063 | 275,484 | 248,119 |
| Taiwan | 67,696 | 79,683 | 131,196 | 150,461 |
| Hong Kong | 42,936 | 27,250 | 94,595 | 35,658 |
| Other | 33,167 | 22,317 | 66,735 | 50,341 |
| | $ 429,565 | 457,038 | 855,417 | 847,309 |
| Main Product | | | | |
| RF Front-End devices and modules | $ 429,565 | 457,038 | 855,417 | 847,309 |

(12) Non-operating income and expenses

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Government grants income | $ 1,904 | - | 2,439 | - |
| Other income | 42 | - | 212 | 176 |
| | $ 1,946 | - | 2,651 | 176 |

(13) Remuneration of employees and directors

According to the Company Articles of Incorporation, the Company should distribute remuneration to employees and directors not less than 5% and not more than 1.5% of annual profits, respectively, after offsetting accumulated deficits, if any. The aforementioned profit is the net profit before income tax excluding the remuneration to employees and directors for each period. Only employees, including employees of affiliate companies that meet certain conditions are subject to the abovementioned remuneration which to be distributed in stock or cash.

For the three months and six months ended June 30, 2019 and 2018, the Company estimated the remuneration to employees amounting to $11,087 thousand, $13,111 thousand, $22,367 thousand and $22,577 thousand, respectively, and remuneration to directors amounting to $3,326 thousand, $3,939 thousand, $6,710 thousand and $6,782 thousand, respectively. The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the remuneration to employees and directors of each period, multiplied by the percentage of remuneration to employees and directors as specified in the Company's Articles of Incorporation. These remunerations were included in the operating costs or operating expenses of the six months ended June 30, 2019 and 2018. The differences between the actual distributed amounts as determined by the Board of Directors and those recognized in the financial statements, if any, shall be accounted for as changes in accounting estimated and recognized in profit or loss in the following year. If remuneration to employees is resolved to be distributed in stock, the number of shares is determined by dividing the amount of remuneration by the closing price of the shares on the day preceding the Board of Directors.

Remuneration to employees for 2018 and 2017 in the amounts of $50,560 thousand and $54,210 thousand, respectively, and remuneration to director for 2018 and 2017 in the amounts of $15,168 thousand and $16,263 thousand, respectively, in cash for payment has been approved in the meeting of Board of Directors. The aforementioned approved amounts are the same as the amounts charged against earnings of 2018 and 2017. The information about the Company’s remuneration to employees and directors is available at the Market Observation Post System website.

(14) Financial instruments

Except for the following disclosure, there was no significant change in the fair value of the Company’s financial instruments and degree of exposure to credit risk, liquidity risk and market risk arising from financial instruments. For the related information, please refer to note 6(14) of the financial statement for the year ended December 31, 2018.

A. Credit risk

(a) Exposure of credit risk

The carrying amount of financial and contract assets represents the maximum credit exposure.

(b) Concentration of credit risk

The major customers of the Company are centralized in the electronics industry. As of June 30, 2019, December 31, 2018 and June 30, 2018, the Company's notes and account receivable (including related parties) were both concentrated on 5 customers, whose accounts represented 60%, 64% and 63% of the account receivables, respectively. For the information of credit risk exposure of notes and accounts receivable, please refer to note 6(2).

As of June 30, 2019, December 31, 2018 and June 30, 2018, the Company's cash in bank and time deposits were both concentrated on one financial institution, whose accounts represented 70%, 85% and 72% of the cash and cash equivalents and other financial assets, respectively. Thus, credit risk is significantly centralized. To reduce cash risk, the Company evaluates financial institutions' financial positions and credit rating periodically. After the assessment, management does not expect significant losses.

(c) Credit risk of financial assets measured at amortized cost

The Company financial assets at amortized cost include cash and cash equivalents, notes and receivables, and time deposits on other financial assets. About their information of credit risk exposure, please refer note 6(1) and (2).

The above-mentioned of financial assets are considered to be of low risk, and thus, the impairment provision recognized during the period was limited to 12 months expected losses. For the Company's assessment on whether credit risk is to be of low risk, please refer note 4(6) of the financial statements for the year ended December 31, 2018.

B. Liquidity risk

The following table shows the contractual maturities of financial liabilities, including estimated interest payments impact.

| | | Carrying amount (Contractual cash flows) | Within 6 months | 6 to 12 months |
|---|---|---|---|---|
| **June 30, 2019** | | | | |
| Non-derivative financial liabilities | | | | |
| Accounts payable | $ | 48,011 | 48,011 | - |
| Payables to contractors and equipment | | 64,566 | 34,890 | 29,676 |
| Cash Dividends Payable | | 681,880 | 681,880 | - |
| | **$** | **794,457** | **764,781** | **29,676** |
| **December 31, 2018** | | | | |
| Non-derivative financial liabilities | | | | |
| Accounts payable | $ | 45,704 | 45,704 | - |
| Payables to contractors and equipment | | 52,527 | 52,527 | - |
| | **$** | **98,231** | **98,231** | **-** |
| **June 30, 2018** | | | | |
| Non-derivative financial liabilities | | | | |
| Accounts payable | $ | 54,866 | 54,866 | - |
| Payables to contractors and equipment | | 1,918 | 1,918 | - |
| Cash Dividends Payable | | 752,277 | 752,277 | - |
| | **$** | **809,061** | **809,061** | **-** |

The Company did not expect that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

C. Currency risk

(a) The Company's significant exposure to foreign currency risk was as follows:

| | June 30, 2019 | | | December 31, 2018 | | | June 30, 2018 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Foreign Currency | Exchange Rate | NTD | Foreign Currency | Exchange Rate | NTD | Foreign Currency | Exchange Rate | NTD |
| Financial assets | | | | | | | | | |
| Monetary items | | | | | | | | | |
| USD | $ 9,692 | 31.010 | 300,549 | 10,971 | 30.665 | 336,426 | 13,223 | 30.410 | 402,111 |
| JPY | 512,887 | 0.2866 | 146,993 | 258,641 | 0.2762 | 71,437 | 221,149 | 0.2734 | 60,462 |
| Financial liabilities | | | | | | | | | |
| Monetary items | | | | | | | | | |
| USD | 461 | 31.110 | 14,342 | 346 | 30.765 | 10,645 | 460 | 30.510 | 14,035 |
| JPY | 25,776 | 0.2906 | 7,491 | 18,892 | 0.2802 | 5,294 | 37,886 | 0.2774 | 10,510 |

(b) Sensitivity analysis

The Company's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, other receivables, accounts payable, and other payable that are denominated in foreign currency. Depreciation or appreciation of the NTD by 1% against USD and JPY at June 30, 2019 and 2018,while all other variables were remained constant, would have increased (decreased) the net profit after tax by $3,406 thousand and $3,504 thousand, respectively. The analysis is performed on the same basis for both periods.

(c) Gains or losses on monetary item

Since the Company has many kinds of functional currency, the information on foreign exchange loss on monetary items is disclosed by total amount. For the six months ended June 30, 2019 and 2018, foreign exchange gain, including realized and unrealized portions, amounted to $9,386 thousand and $13,251 thousand, respectively.

D. Interest rate risk

Please refer to the attached note for the liquidity risk and the Company's interest rate exposure to its financial liabilities.

The following sensitivity analysis is based on the risk exposure to interest rates on the derivatives and non-derivatives financial instruments on the reporting date. For variable rate instrument, the sensitivity analysis assumes the variable rate liabilities are outstanding for the whole year on the reporting date. The Company's internal management reported the increases (decreases) in the interest rates and the exposure to changes in interest rates of 1% is considered by management to be a reasonable change of interest rate.

The Company's exposure to Interest rate risk arises from the bank deposit interest rates change. If the interest rate had increased (decreased) by 1%, the Company's net profit after tax would have increased (decreased) by $10,079 thousand and $10,754 thousand for the six months ended June 30, 2019 and 2018, all other variable factors that remain constant.

E. Fair value

The carrying amounts of the Company’s non-derivative financial instruments-current, including financial assets at amortized cost , such as cash and cash equivalents, notes and receivables (including related parties), and other financial assets, and financial liabilities at amortized cost, such as accounts payable and payables to contractors and equipment, were considered to approximate their fair value due to their short-term nature.

(15) Financial risk management

There were no significant change in the Company's financial risk management and policies as disclosed in note 6(15) of the financial statements for the year ended December 31, 2018.

(16) Capital management

The objectives and policies of capital management of the Company have been applied consistently with those described in the financial statements for the year ended December 31, 2018. Also, there were no significant changes in the Company's capital management information as disclosed in the financial statements for the year ended December 31, 2018. Refer to note 6(16) of the financial statements for the year ended December 31, 2018 for the relevant information.

**7. Related-party transactions:**

(1) Names and relationship with related parties

The followings are entities that have had transactions with the Company during the periods covered in the financial statements.

| **Names of the related parties** | **Relationships** |
|---|---|
| Johanson Technology Inc. (JOHANSON) | The Company’s director |
| Scientific Components Corporation (doing business as Mini-Circuits(MINI-CKT)) | The Company’s director |
| Hsin Chang Construction Corporation | The Company’s director |

(2) Significant transactions with related parties

A. Operating revenue

The amounts of significant sales transactions between the Company and related parties were as follows:

| | **Three months ended June 30** | | **Six months ended June 30** | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Key management personnel－JOHANSON | $ 94,398 | 104,817 | 194,330 | 186,181 |
| Key management personnel－MINI-CKT | 40,749 | 32,198 | 78,561 | 60,737 |
| | $ 135,147 | 137,015 | 272,891 | 246,918 |

B. Receivables from related parties

| Categories | Account | June 30, 2019 | December 31, 2018 | June 30, 2018 |
|---|---|---|---|---|
| Key management personnel－JOHANSON | Receivables from related parties | $ 74,834 | 112,365 | 110,552 |
| | Bad debt provision | (748) | (1,123) | (1,106) |
| Key management personnel－MINI-CKT | Receivables from related parties | 21,493 | 22,777 | 20,626 |
| | Bad debt provision | (215) | (228) | (206) |
| | | $ 95,364 | 133,791 | 129,866 |

The selling price and collection terms of sales to related parties were determined in the economic environment and market competition, and were not significantly different from those with third-party customers.

C. Consulting Service for Construction Engineering

As of December 31, 2018, Hsin Chang Construction Corporation provided consulting service for construction engineering amounted to $781 thousand.

| | Construction and equipment payable | | |
|---|---|---|---|
| | June 30, 2019 | December 31, 2018 | June 30, 2018 |
| Hsin Chang Construction Corporation | 0 | 781 | 0 |

D. Other

The transaction amount paid by the Company to its related parties for purchase spare parts and design service expenses and the related unpaid balances were as follows:

| | Transaction amount | | | | Other current liabilities | | |
|---|---|---|---|---|---|---|---|
| | Three months ended June 30 | | Six months ended June 30 | | | | |
| | 2019 | 2018 | 2019 | 2018 | June 30, 2019 | December 31, 2018 | June 30, 2018 |
| Key management personnel－JOHANSON | $ 1,406 | 1,195 | 2,478 | 2,250 | 923 | 697 | 341 |

(3) Transactions with key management personnel

The key management personnel compensation was comprised as below:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Short-term employee benefits | $ 21,114 | 26,962 | 42,490 | 47,476 |
| Post-employment benefits | 27 | 64 | 54 | 128 |
| | $ 21,141 | 27,026 | 42,544 | 47,604 |

## Advanced Ceramic X Corporation
## Notes to Financial Statements

**8. Pledged assets:**

The carrying amounts of pledged assets were as follows:

| Pledge assets | Pledged to secure | June 30, 2019 | December 31, 2018 | June 30, 2018 |
|---|---|---|---|---|
| Time deposits (Other financial assets-current) | Customs duty guarantee | $ 2,000 | 2,000 | 2,000 |
| Time deposits (Other financial assets-noncurrent) | Performance bonds for government grants provided to technology projects | 20,340 | - | - |
| Land (Property, plant and equipment) | Short-term borrowings | 168,944 | 168,944 | 168,944 |
| | | **$ 191,284** | **170,944** | **170,944** |

**9. Commitments and contingencies:**

(1) As of June 30, 2019, December 31, 2018 and June 30, 2018, the outstanding letters of credit for the Company’s purchases of machinery and equipment and raw materials amounted to $4,557 thousand, $35,353 thousand and $4,363 thousand, respectively.

(2) As of June 30, 2019, December 31, 2018 and June 30, 2018, the Company purchased machinery and equipment and the unpaid amount was $415,872 thousand, $592,938 thousand and $762,583 thousand, respectively.

(3) Bank guarantees of the Company's purchases of raw materials, machinery and equipment amounted to $2,000 thousand, as of June 30, 2019.

(4) On June 30, 2019, the Company requested the bank to open performance bonds for the technology projects, which amounted to $20,340 thousand.

**10. Losses due to major disasters: None**

**11. Subsequent events: None**

**12. Other:**

(1) The employee benefits, depreciation and amortization expenses, categorized by function, were as follows:

| | Three months ended June 30, 2019 | | | Three months ended June 30, 2018 | | |
|---|---|---|---|---|---|---|
| | Operating costs | Operating expenses | Total | Operating costs | Operating expenses | Total |
| Employee benefits | | | | | | |
| Salaries | 27,175 | 26,618 | 53,793 | 28,707 | 28,251 | 56,958 |
| Labor and health insurance | 2,374 | 1,559 | 3,933 | 2,440 | 1,605 | 4,045 |
| Pension | 905 | 787 | 1,692 | 956 | 792 | 1,748 |
| Directors remuneration | 3,027 | 413 | 3,440 | 3,584 | 432 | 4,016 |
| Others | 1,187 | 617 | 1,804 | 1,184 | 652 | 1,836 |
| Depreciation | 33,160 | 4,179 | 37,339 | 32,686 | 3,407 | 36,093 |
| Amortization | - | 75 | 75 | - | 125 | 125 |

| | Six months ended June 30, 2019 | | | Six months ended June 30, 2019 | | |
|---|---|---|---|---|---|---|
| | Operating costs | Operating expenses | Total | Operating costs | Operating expenses | Total |
| Employee benefits | | | | | | |
| Salaries | 53,311 | 53,743 | 107,054 | 54,873 | 52,280 | 107,153 |
| Labor and health insurance | 4,794 | 3,136 | 7,930 | 4,911 | 3,205 | 8,116 |
| Pension | 1,837 | 1,580 | 3,417 | 1,914 | 1,583 | 3,497 |
| Directors remuneration | 6,106 | 772 | 6,878 | 6,172 | 748 | 6,920 |
| Others | 2,374 | 1,237 | 3,611 | 2,386 | 1,272 | 3,658 |
| Depreciation | 66,625 | 8,193 | 74,818 | 64,167 | 6,803 | 70,970 |
| Amortization | - | 150 | 150 | - | 250 | 250 |

(2) Seasonality of operations:

The operations are not affected by seasonal factors or cyclical factors.

**13. Other disclosures:**

(1) Information on significant transactions:

A. Loans to other parties: None

B. Guarantees and endorsements for other parties: None

C. Securities held as of June 30, 2019 (excluding investment in subsidiaries, associates and joint ventures): None

D. Individual securities acquired or disposed off with accumulated amount exceeding the lower of NTD$300 million or 20% of the capital stock: None

E. Acquisition of individual real estate with amount exceeding the lower of NTD$300 million or 20% of the capital stock:

(In thousands of New Taiwan Dollars)

| Company Name | Types of Property | Transaction Date | Transaction Amount | Payment Term | Counter-party | Nature of Relationships | Prior Transaction of Related Counter-party | | | | Price reference | Purpose of Acquisition | Other Terms |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Owner | Relationships | Transfer Date | Amount | | | |
| The company | New construction plant | 2017.11.7 | 663,695 | 230,155 | Xu Yuan Construction Corp. | - | N/A | N/A | N/A | N/A | Bidding | Manufacturing purpose | None |

F. Disposal of individual real estate with amount exceeding the lower of NTD$300 million or 20% of the capital stock: None

G. Related-party transactions for purchases and sales with amounts exceeding the lower of NTD$100 million or 20% of the capital stock:

(In thousands of New Taiwan Dollars)

| Name of company | Related party | Nature of relationship | Transaction details | | | | Transactions with terms different from others | | Notes/Accounts receivable (payable) | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Purchase/ Sale | Amount | Percentage of total purchases/sales | Payment terms | Unit price | Payment terms | Ending balance | Percentage of total notes/accounts receivable (payable) | |
| The Company | JOHANSON | Corporate director | (Sales) | 194,330 | 23% | 60 days | Note1 | Note1 | 74,834 | 26% | |

Note1: Please refer Note 7(2)

H. Receivables from related parties with amounts exceeding the lower of NT$100 million or 20% of capital stock: None

I. Trading in derivative instruments: None

(2) Information on investments: None

(3) Information on investment in Mainland China: None

**14. Segment information:**

The profit or loss, assets and liabilities of the operation segment were consistent with the related accounts shown in the balance sheet and comprehensive income statement of the Company.