GCS HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND

REVIEW REPORT OF INDEPENDENT

ACCOUNTANTS

SEPTEMBER 30, 2018 AND 2017

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

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REVIEW REPORT OF INDEPENDENT ACCOUNTANTS

PWCR18000109

To GCS Holdings, Inc.

Introduction

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

Scope of our review

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

Conclusion

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

LI, TIEN-YI

Li, Tien-Yi

Chih-Cheng Hsieh

Hsieh, Chih-Cheng

For and on behalf of PricewaterhouseCoopers, Taiwan

November 2, 2018

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

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

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

(Continued)

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

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

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

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

			Three-month periods ended September 30				Nine-month periods ended September 30			
			2018		2017		2018		2017	
	Items	Notes	AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
4000	**Operating revenue**	6(20)	$ 514,359	100	$ 529,100	100	$ 1,516,044	100	$ 1,399,020	100
5000	**Cost of operating revenue**	6(3)(23)	(267,045)	(52)	(305,541)	(58)	(798,209)	(52)	(740,074)	(53)
5900	**Net operating margin**		247,314	48	223,559	42	717,835	48	658,946	47
	Operating expenses	6(23)(24)								
6100	Selling and marketing expenses		(10,742)	(2)	(14,556)	(3)	(37,203)	(3)	(42,046)	(3)
6200	General and administrative expenses		(72,477)	(14)	(67,378)	(12)	(214,171)	(14)	(176,346)	(12)
6300	Research and development expenses		(46,433)	(9)	(40,939)	(8)	(137,349)	(9)	(123,729)	(9)
6450	Net impairment loss on financial assets	12(2)	606	-	-	-	(204)	-	-	-
6000	**Total operating expenses**		(129,046)	(25)	(122,873)	(23)	(388,927)	(26)	(342,121)	(24)
6900	**Operating profit**		118,268	23	100,686	19	328,908	22	316,825	23
	Non-operating income and expenses									
7010	Other income		1,173	-	771	-	4,929	-	2,945	-
7020	Other gains and losses	6(21)	338	-	28,286	5	914	-	13,678	1
7050	Finance costs	6(22)	(1,081)	-	(4,990)	(1)	(4,126)	-	(18,900)	(1)
7060	Share of net loss of associates and joint ventures accounted for using equity method	6(4)	(765)	-	(303)	-	(756)	-	(303)	-
7000	**Total non-operating income and expenses**		(335)	-	23,764	4	961	-	(2,580)	-
7900	**Profit before income tax**		117,933	23	124,450	23	329,869	22	314,245	23
7950	Income tax expense	6(25)	(26,172)	(5)	(11,848)	(2)	(61,971)	(4)	(37,384)	(3)
8200	**Net income for the period**		$ 91,761	18	$ 112,602	21	$ 267,898	18	$ 276,861	20
	Other comprehensive income (loss)									
	Other comprehensive income (loss) components that will not be reclassified to profit or loss									
8361	Financial statements translation differences of foreign operations	6(19)	$ 2,496	-	($ 10,701)	(2)	$ 62,837	4	($ 128,852)	(9)
	Other comprehensive income (loss) components that will be reclassified to profit or loss									
8362	Unrealised gain on valuation of available-for-sale financial assets	6(19)	-	-	(35,381)	(7)	-	-	(23,542)	(2)
8399	Income tax related to other comprehensive income component that will be reclassified to profit or loss	6(19)(25)	-	-	14,092	3	-	-	9,376	1
8300	**Total other comprehensive income (loss), net**		$ 2,496	-	($ 31,990)	(6)	$ 62,837	4	($ 143,018)	(10)
8500	**Total comprehensive income for the period**		$ 94,257	18	$ 80,612	15	$ 330,735	22	$ 133,843	10
	Profit attributable to:									
8610	Owners of the parent		$ 91,761	18	$ 112,602	21	$ 267,898	18	$ 276,861	20
8620	Non-controlling interest		-	-	-	-	-	-	-	-
	Total		$ 91,761	18	$ 112,602	21	$ 267,898	18	$ 276,861	20
	Total comprehensive income attributable to:									
8710	Owners of the parent		$ 94,257	18	$ 80,612	15	$ 330,735	22	$ 133,843	10
8720	Non-controlling interest		-	-	-	-	-	-	-	-
	Total		$ 94,257	18	$ 80,612	15	$ 330,735	22	$ 133,843	10
	Earnings per share	6(26)								
9750	**Basic earnings per share (in dollars)**		$	1.14	$	1.49	$	3.36	$	3.76
9850	**Diluted earnings per share (in dollars)**		$	1.14	$	1.47	$	3.32	$	3.72

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

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

		Equity Attributable To Owners of The Parent										
				Retained Earnings		Other Equity Interest						
	Notes	Common Stock	Capital Surplus	Special Reserve	Unappropriated Retained Earnings	Financial Statements Translation Differences of Foreign Operations	Unrealised Gains (Loss) on Available-for-Sale Financial Assets	Unearned Compensation Costs	Treasury Stocks	Total	Non-Controlling Interest	Total
Nine-month period ended September 30, 2017												
Balance at January 1, 2017		$ 744,023	$ 644,626	$ 6,821	$ 618,930	$ 122,002	$ 14,166	($ 3,548)	($ 77,915)	$ 2,069,105	$ -	$ 2,069,105
Consolidated net income for the period		-	-	-	276,861	-	-	-	-	276,861	-	276,861
Other comprehensive loss for the period	6(19)	-	-	-	-	(128,852)	(14,166)	-	-	(143,018)	-	(143,018)
Total comprehensive income (loss) for the period		-	-	-	276,861	(128,852)	(14,166)	-	-	133,843	-	133,843
Distribution of 2016 earnings:												
Cash dividends	6(18)	-	-	-	(73,275)	-	-	-	-	(73,275)	-	(73,275)
Compensation costs of share-based payment	6(15)(17)(19)	-	15,593	-	-	-	-	3,765	-	19,358	-	19,358
Issuance of restricted stocks to employees	6(15)(16)(17)(19)	1,800	11,604	-	-	-	-	(13,417)	-	(13)	-	(13)
Exercise of employee stock options	6(15)(16)(17)	4,151	13,769	-	-	-	-	-	-	17,920	-	17,920
Conversion of convertible bonds	6(16)(17)	44,630	224,529	-	-	-	-	-	-	269,159	-	269,159
Purchase of treasury stock	6(16)	-	-	-	-	-	-	-	(12,955)	(12,955)	-	(12,955)
Balance at September 30, 2017		$ 794,604	$ 910,121	$ 6,821	$ 822,516	($ 6,850)	$ -	($ 13,200)	($ 90,870)	$ 2,423,142	$ -	$ 2,423,142
Nine-month period ended September 30, 2018												
Balance at January 1, 2018		$ 804,389	$ 958,751	$ 6,821	$ 902,702	($ 35,464)	$ -	($ 8,760)	($ 90,870)	$ 2,537,569	$ -	$ 2,537,569
Consolidated net income for the period		-	-	-	267,898	-	-	-	-	267,898	-	267,898
Other comprehensive income for the period	6(19)	-	-	-	-	62,837	-	-	-	62,837	-	62,837
Total comprehensive income for the period		-	-	-	267,898	62,837	-	-	-	330,735	-	330,735
Distribution of 2017 earnings:												
Cash dividends	6(18)	-	-	-	(79,060)	-	-	-	-	(79,060)	-	(79,060)
Compensation costs of share-based payment	6(15)(17)(19)	-	16,288	-	-	-	-	21,199	-	37,487	-	37,487
Issuance of restricted stocks to employees	6(15)(16)(17)(19)	4,260	31,259	-	-	-	-	(35,519)	-	-	-	-
Retirement of restricted stocks to employees	6(16)(17)(19)	(50)	(342)	-	-	-	-	392	-	-	-	-
Exercise of employee stock options	6(15)(16)(17)	2,231	3,707	-	-	-	-	-	-	5,938	-	5,938
Conversion of convertible bonds	6(16)(17)	10,861	77,703	-	-	-	-	-	-	88,564	-	88,564
Non-controlling interest-acquisition of a subsidiary	6(27)	-	-	-	-	-	-	-	-	-	13,300	13,300
Balance at September 30, 2018		$ 821,691	$ 1,087,366	$ 6,821	$ 1,091,540	$ 27,373	$ -	($ 22,688)	($ 90,870)	$ 2,921,233	$ 13,300	$ 2,934,533

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

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

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

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

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

1. HISTORY AND ORGANISATION

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

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

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

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

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board ("IASB")
Amendments to IFRS 2, 'Classification and measurement of share-based payment transactions'	January 1, 2018
Amendments to IFRS 4, 'Applying IFRS 9, Financial instruments with IFRS 4, Insurance contracts'	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Amendments to IFRS 15, 'Clarifications to IFRS 15, Revenue from contracts with customers'	January 1, 2018
Amendments to International Accounting Standards ("IASs") 7, 'Disclosure initiative'	January 1, 2017

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

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

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

Step 1: Identify contracts with customer.

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

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price.

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

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

(b) The Group has elected not to restate prior period financial statements and recognised the cumulative effect of initial application as retained earnings at January 1, 2018, using the modified retrospective approach under IFRS 15. In line with the regulations of IFRS 15, the Group changed the presentation of certain accounts in the balance sheets as of January 1, 2018 as follows:

i. Under IFRS 15, refund liabilities in relation to expected sales discounts and allowances were previously presented as accounts receivable - allowance for sales discounts in the balance sheet. As of January 1, 2018, the balance amounted to $888.

ii.Under IFRS 15, liabilities in relation to contracts with customers are recognised as contract liabilities, but were previously presented as advance sales receipts in the balance sheet. As of January 1, 2018, the balance amounted to $24,149.

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

C. Amendments to IAS 7, 'Disclosure initiative'

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

A. The consolidated financial statements of the Group have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the International Accounting Standard 34, 'Interim financial reporting' as endorsed by the FSC.

B. These consolidated financial statements are to be read in conjunction with the consolidated financial statements for the year ended December 31, 2017.

(2) Basis of preparation

A. Except for the financial liabilities at fair value through profit or loss and available-for-sale financial assets measured at fair value, the consolidated financial statements have been prepared under the historical cost convention.

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

C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Group has elected to apply modified retrospective approach whereby the cumulative impact of the adoption was recognized as retained earnings or other equity as of January 1, 2018 and the financial statements for the third quarter of 2017 were not restated. The financial statements for the third quarter of 2017 were prepared in compliance with International Accounting Standard 39 ('IAS 39'), International Accounting Standard 18 ('IAS 18') and related financial reporting interpretations. Please refer to Notes 12(4) and (5) for details of significant accounting policies and details of significant accounts.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

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

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

all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable that do not contain a significant financing component, the Group recognises the impairment provision for lifetime ECLs.

(6) Income tax

A. The interim period income tax expense is recognised based on the estimated average annual effective income tax rate expected for the full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.

B. If a change in tax rate is enacted or substantively enacted in an interim period, the Group recognises the effect of the change immediately in the interim period in which the change occurs. The effect of the change on items recognised outside profit or loss is recognised in other comprehensive income or equity while the effect of the change on items recognised in profit or loss is recognised in profit or loss.

(7) Revenue recognition

Sales of goods

(a) The Group engages in the manufacturing and selling of compound semiconductor wafer and advanced optoelectronics technology products. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.

(b) Revenue from these sales is recognised based on the price specified in the contract. A refund liability is recognised for expected sales discounts and allowances payable to customers in relation to sales made through the end of the reporting period.

(c) A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Service revenue

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

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

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

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

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

(2) Accounts receivable

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

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

(3) Inventories

	September 30, 2018		
	Cost	Allowance	Book value
Raw materials	$ 134,388	($ 27,667)	$ 106,721
Work in progress	197,473	(40,509)	156,964
Finished goods	69,803	(5,821)	63,982
	$ 401,664	($ 73,997)	$ 327,667

	December 31, 2017		
	Cost	Allowance	Book value
Raw materials	$ 146,696	($ 33,957)	$ 112,739
Work in progress	197,836	(37,208)	160,628
Finished goods	67,519	(11,052)	56,467
	$ 412,051	($ 82,217)	$ 329,834

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

Company name	Principal place of business	Shareholding ratio (Note) September 30, 2018	December 31, 2017	September 30, 2017	Nature of relationship	Method of measurement
Xiamen Global Advanced Semiconductor Co., Ltd.	Xiamen City, Fujian Province, China	-	49%	49%	Joint venture	Equity method

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

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

Balance sheet

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

(5) Property, plant and equipment

	Land	Buildings	Machinery equipment	Computer and communication equipment	Research equipment	Office equipment	Leased assets	Leasehold improvements	Total
At January 1, 2018									
Cost	$ 137,045	$ 91,363	$ 1,020,035	$ 10,103	$ 116,587	$ 11,545	$ 41,826	$ 292,911	$ 1,721,415
Accumulated depreciation	-	(6,308)	(725,444)	(7,081)	(33,730)	(8,156)	(23,265)	(216,776)	(1,020,760)
	$ 137,045	$ 85,055	$ 294,591	$ 3,022	$ 82,857	$ 3,389	$ 18,561	$ 76,135	$ 700,655
Nine-month period ended September 30, 2018									
Opening net book amount	$ 137,045	$ 85,055	$ 294,591	$ 3,022	$ 82,857	$ 3,389	$ 18,561	$ 76,135	$ 700,655
Acquired through business combination	-	-	-	52	-	-	-	-	52
Additions	-	-	74,700	434	2,164	-	-	424	77,722
Reclassifications	-	-	42,338	-	(42,338)	-	-	-	-
Depreciation charges	-	(1,968)	(58,582)	(961)	(5,782)	(829)	(4,505)	(11,360)	(83,987)
Net exchange differences	3,546	2,160	8,349	59	1,072	24	388	1,737	17,335
Closing net book amount	$ 140,591	$ 85,247	$ 361,396	$ 2,606	$ 37,973	$ 2,584	$ 14,444	$ 66,936	$ 711,777
At September 30, 2018									
Cost	$ 140,591	$ 93,727	$ 1,155,795	$ 10,763	$ 75,564	$ 11,709	$ 42,908	$ 299,066	$ 1,830,123
Accumulated depreciation	-	(8,480)	(794,399)	(8,157)	(37,591)	(9,125)	(28,464)	(232,130)	(1,118,346)
	$ 140,591	$ 85,247	$ 361,396	$ 2,606	$ 37,973	$ 2,584	$ 14,444	$ 66,936	$ 711,777

(6) Intangible assets

	Software		Goodwill		Total
At January 1, 2018					
Cost	$	56,744	$	176,569	$	233,313
Accumulated amortisation and impairment	(	49,659)		-	(	49,659)
	$	7,085	$	176,569	$	183,654
2018						
At January 1	$	7,085	$	176,569	$	183,654
Additions		3,118		-		3,118
Amortisation charges	(	4,092)		-	(	4,092)
Net exchange differences		153		814		967
At September 30	$	6,264	$	177,383	$	183,647
At September 30, 2018						
Cost	$	60,328	$	177,383	$	237,711
Accumulated amortisation and impairment	(	54,064)		-	(	54,064)
	$	6,264	$	177,383	$	183,647

		Software		Goodwill		Total
At January 1, 2017						
Cost	$	58,774	$	-	$	58,774
Accumulated amortisation and impairment	(	44,103)		-	(	44,103)
	$	14,671	$	-	$	14,671
2017						
At January 1	$	14,671	$	-	$	14,671
Acquired through business combination		-		176,569		176,569
Additions		1,455		-		1,455
Amortisation charges	(	5,950)		-	(	5,950)
Net exchange differences	(	819)		-	(	819)
At September 30	$	9,357	$	176,569	$	185,926
At September 30, 2017						
Cost	$	56,650	$	176,569	$	233,219
Accumulated amortisation and impairment	(	47,293)		-	(	47,293)
	$	9,357	$	176,569	$	185,926

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

(10) Bonds payable

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

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

A. On May 13, 2015, the Company issued the first secured domestic convertible bonds. Key terms and conditions of bonds are as follows:

(a) Issue amount: $300,000

(b) Issue price: Issued at 100% of par value; $100

(c) Issue period: Three years; from May 13, 2015 to May 13, 2018

(d) Coupon rate: 0% per annum

(e) Repayment date and method: The bonds will be redeemed at par at maturity if the bonds are not converted into common stocks at maturity, or redeemed early by the Company, or resold early to the Company by the bondholders, or redeemed from the Company's underwriter and cancelled by the Company.

(f) Conversion period: Except that the bonds are in the lock-up period, or redeemed early by the Company, the conversion right can be exercised at any time from June 14, 2015 through May 13, 2018 in accordance with the terms of the bonds and relevant regulations.

(g) Conversion price and price reset: The conversion price was set at NT$79.3 (in dollars) per share on the issue date. The conversion price is subject to adjustments on the ex-right date of new shares issuance based on the formula specified in the terms of the bonds, due to changes in the number of the Company's common shares. The conversion price was subsequently adjusted to NT$53.6 (in dollars) per share due to aforementioned rationale.

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

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

(k) Through September 30, 2018, convertible bonds amounting to $299,600 was converted to 4,948,016 ordinary shares.

(11) Long-term borrowings

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

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

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

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

	December 31, 2017		
	Total finance lease liabilities	Future finance charges	Present value of finance lease liabilities
Current			
No later than one year (shown as "Other current liabilities")	$ 9,684	($ 360)	$ 9,324
Non-current			
Later than one year but not later than five years (shown as "Other non-current liabilities")	4,643	(95)	4,548
	$ 14,327	($ 455)	$ 13,872

	September 30, 2017		
	Total finance lease liabilities	Future finance charges	Present value of finance lease liabilities
Current			
No later than one year (shown as "Other current liabilities")	$ 10,847	($ 469)	$ 10,378
Non-current			
Later than one year but not later than five years (shown as "Other non-current liabilities")	6,642	(152)	6,490
	$ 17,489	($ 621)	$ 16,868

(14) Pension plan

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

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

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

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

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

	Nine-month period ended September 30, 2018		
	No. of options	Currency	Weighted average exercise price
			(in dollars)
Options outstanding at beginning of the period	1,912,541	NTD	$ 50.44
Options granted	395,000	NTD	82.36
Options exercised	(223,084)	NTD	26.49
Options forfeited	(50,000)	NTD	80.03
Options outstanding at end of the period	2,034,457	NTD	58.54
Options exercisable at end of the period	1,039,182	NTD	46.79

	Nine-month period ended September 30, 2017		
	No. of options	Currency	Weighted average exercise price
			(in dollars)
Options outstanding at beginning of the period	2,178,139	NTD	$ 44.84
Options granted	230,000	NTD	65.89
Options exercised	(415,138)	NTD	28.42
Options forfeited	(49,043)	NTD	56.84
Options outstanding at end of the period	1,943,958	NTD	50.30
Options exercisable at end of the period	643,888	NTD	26.54

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

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

(16) Common stock

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

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

Unit: Numbers of shares

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

B. On May 15, 2015, the shareholders adopted a resolution to issue 600,000 employee restricted stocks with par value of $10 (in dollars) per share, with the effective date set on July 13, 2015. The subscription price is $0 (in dollar) per share. The employee restricted stocks issued are subject to certain transfer restrictions before their vesting conditions are met. Other than these restrictions, the rights and obligations of these shares issued are the same as other issued ordinary shares. On July 27, 2015, November 5, 2015, January 14, 2016 and March 2, 2016, the Board of Directors adopted resolutions to grant 297,300, 22,000, 93,700 and 8,000 employee restricted stocks, respectively. For the years ended December 31, 2017 and 2016, the Company had retrieved 13,000 and 16,000 employee restricted stocks, respectively, due to the employees' resignation and the retrieved shares have been retired.

C. On June 1, 2017, the shareholders adopted a resolution to reserve 1,000,000 shares for the purpose of granting employee restricted stocks with par value of $10 (in dollars) per shares, with the effective date filed with the regulator on August 8, 2017. The subscription price is $0 (in dollar) per share. The employee restricted stocks issued are subject to certain transfer restrictions before their vesting conditions are met. Other than these restrictions, the rights and obligations of these shares issued are the same as other issued ordinary shares. On August 21, 2017 and February 27, 2018, the Board of Directors adopted a resolution to grant 180,000 and 398,000 employee restricted stocks, respectively. Further, in April 2018, the Company retrieved an additional 3,000 employee restricted stocks due to the employees' resignation, which have not been retired.

D. On May 15, 2018, the shareholders adopted a resolution to reserve 1,000,000 shares for the purpose of granting employee restricted stocks with par value of $10 (in dollars) per shares, with the effective date filed with the regulator on August 16, 2018. The subscription price is $0 (in dollar) per share. The employee restricted stocks issued are subject to certain transfer restrictions before their vesting conditions are met. Other than these restrictions, the rights and obligations of these shares issued are the same as other issued ordinary shares. On August 2, 2018, the Board of Directors adopted a resolution to grant 28,000 employee restricted stocks.

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

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

(18) Retained earnings

A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset losses incurred in previous years and then a special reserve as required by the applicable securities authority under the applicable public company rules in Taiwan. After combining accumulated undistributed earnings in the previous years and setting

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

(20) Operating revenue

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

A. Disaggregation of revenue from contracts with customers

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

	Three-month period ended September 30, 2018			
	Sales revenue	Service revenue	Royalty revenue	Total
China	$ 242,459	$ 3,835	$ 19	$ 246,313
United States	181,833	-	-	181,833
Taiwan	57,226	-	6,538	63,764
Others	22,449	-	-	22,449
	$ 503,967	$ 3,835	$ 6,557	$ 514,359

	Nine-month period ended September 30, 2018			
	Sales revenue	Service revenue	Royalty revenue	Total
China	$ 746,679	$ 11,220	$ 1,467	$ 759,366
United States	525,132	-	-	525,132
Taiwan	162,213	-	24,056	186,269
Others	45,277	-	-	45,277
	$ 1,479,301	$ 11,220	$ 25,523	$ 1,516,044

(23) Expenses by nature

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

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

(24) Employee benefit expense

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

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

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

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

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

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

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

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

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

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

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

(27) Business combinations

The Acquisition of D-Tech Optoelectronics, Inc.

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

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

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

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

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

(28) Operating lease commitments

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

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

7. RELATED PARTY TRANSACTIONS

Key management compensation

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

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

8. PLEDGED ASSETS

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

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

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

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

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

	September 30, 2018		December 31, 2017		September 30, 2017	
Property, plant and equipment	$	86,966	$	15,590	$	22,569

10. SIGNIFICANT DISASTER LOSS

None.

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

C. Significant financial risks and degrees of financial risks

a) Market risk

Foreign exchange risk

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

Cash flow and fair value interest rate risk

i. The Group's interest rate risk arises from short-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash and cash equivalents held at variable rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During the nine-month periods ended September 30, 2018 and 2017, the Group's borrowings at variable rate were denominated in the NTD.

ii. Based on the simulations performed, the impact on post-tax profit of a 1% shift, with all other variables held constant, would be a maximum increase or decrease of $120 and $125 for the nine-month periods ended September 30, 2018 and 2017, respectively, as a result of the decrease or increase in interest expense which is affected by variable rates.

b) Credit risk

i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the credit risk of financial assets at amortised cost.

ii. The Group manages their credit risk taking into consideration the entire group's concern. For banks and financial institutions, only independently rated parties with a minimum rating of 'BBB+' are accepted. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored.

iii. The Group does not hold any collateral as security for notes receivable and accounts receivable. As of September 30, 2018, with no collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the the Group's notes receivable was $69, and the maximum exposure to credit risk in respect of the Group's accounts receivable was $283,719.

iv. The Group adopts the assumption under IFRS 9, that is, the default occurs when the contract payments are past due over 90 days.

v. The Group wrote off the financial assets, which cannot be reasonably expected to be recovered, after initiating recourse procedures. However, the Group will continue executing the recourse procedures to secure their rights.

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

c) Liquidity risk

i. Cash flow forecasting is performed by the operating entities of the Group and aggregated by the Group's finance team. The Group's finance team monitors rolling forecasts of the Group's liquidity requirements to ensure the Group has sufficient cash to meet operational needs. Such forecasting takes into consideration the Group's debt financing plans, compliance with internal balance sheet ratio targets and, if applicable, external regulatory or legal requirements.

ii. Surplus cash held by the operating entities over and above balance required for working capital management are managed for investment appropriately. The instruments chose would be with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.

iii. The Group has the following undrawn borrowing facilities:

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

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

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

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

B. Financial instruments not measured at fair value

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

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

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

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

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

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

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

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

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

	Level 1	Level 2	Level 3
December 31, 2017			
Liabilities			
Recurring fair value measurements			
Financial liabilities at fair value through profit or loss	$ -	$ -	$ 31,204

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

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

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

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

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

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

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

(a) The Group recognised ($4,278) and $7,561 in other comprehensive (loss) income for fair value change for the three-month and nine-month periods ended September 30, 2017, respectively.

(b) The Group reclassified $18,203 and $18,715 from equity to profit or loss and recognised $28,024 and $29,381 in gain on disposal of available-for-sale financial assets for the three-month and nine-month period ended September 30, 2017, respectively.

C. Credit risk information for the year ended December 31, 2017 and for the nine-month period ended September 30, 2017 are as follows:

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

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

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

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

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

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

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

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

14. SEGMENT INFORMATION

(1) General information

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

(2) Segment information

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

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

Note: Exclusive of income tax.

(3) Reconciliation for segment income (loss)

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

GCS HOLDINGS, INC.

Provision of endorsements and guarantees to others

For the nine-month period ended September 30, 2018

Table 2

Expressed in thousands of NTD

(Except as otherwise indicated)

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

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

(1)The Company is '0'.

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

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

(1)Having with which it does business.

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

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

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

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

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

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

Note 3: According to the Company's "Procedures for Endorsement and Guarantee", the total amount of endorsement/guarantee provided by the Company is limited to forty percent (40%) of the Company's net worth, and the total amount of the guarantee provided by the Company to any individual entity is limited to ten percent of the Company's net worth. The total amount of the guarantee provided by the Company to any subsidiary whose voting shares are 100% owned, directly or indirectly, by the Company shall notexceed forty percent (40%) of the Company's net worth.

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

GCS HOLDINGS, INC.

Information on investees (not including investees in Mainland China)

For the nine-month period ended September 30, 2018

Table 10

Expressed in thousands of NTD

(Except as otherwise indicated)

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

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

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

(1)The columns of 'Investee', 'Location', 'Main business activities', Initial investment amount' and 'Shares held as at September 30, 2018' should fill orderly in the Company's (public company's) information on investees and every directly or indirectly controlled investee's investment information, and note the relationship between the Company (public company) and its investee each (ex. direct subsidiary or indirect subsidiary) in the 'footnote' column..

(2)The 'Net profit (loss) of the investee for the nine-month period ended September 30, 2018' column should fill in amount of net profit (loss) of the investee for this period.

(3)The 'Investment income (loss) recognised by the Company for the nine-month period ended September 30, 2018' column should fill in the Company (public company) recognised investment income (loss) of its direct subsidiary and recognised investment income (loss) of its investee accounted for under the equity method for this period. When filling in recognised investment income (loss) of its direct subsidiary, the Company (public company) should confirm that direct subsidiary's net profit (loss) for this period has included its investment income (loss) which shall be recognised by regulations.