

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

7.1 Financial Status

Analysis of Financial Status

Unit: NT\$ thousands

Item \ Year	2017	2018	Difference	
			Amount	%
Current Assets	2,757,846	2,685,387	(72,459)	(2.63)
Investments	0	0	0	0
Property, plant and equipment	990,408	1,100,949	110,541	11.16
Other Assets	11,528	11,215	(313)	(2.72)
Total Assets	3,759,782	3,797,551	37,769	1.00
Current Liabilities	424,612	453,717	29,105	6.85
Long-term Liabilities	0	0	0	0
Other Liabilities	7,552	10,477	2,925	38.73
Total Liabilities	432,164	464,194	32,030	7.41
Capital stock	690,162	690,162	0	0
Capital surplus	573,532	573,532	0	0
Retained Earnings	2,063,924	2,069,663	5,739	0.28
Other Adjustments	0	0	0	0
Total Stockholders' Equity	3,327,618	3,333,357	5,739	0.17
Analysis of changes in financial ratios: Other Liabilities: The increase was mainly due to other non-current liability increases.				

- **Effect of changes on the company's financial condition:** The Company's business scope has not changed significantly.
- **Future response actions:** N/A.

7.2 Financial Performance

Analysis of Financial Performance

Unit: NT\$ thousands

Item	Year	2017	2018	Difference	
				Amount	%
Net Sales		1,963,490	1,804,308	(159,182)	(8.11)
Cost of Sales		727,389	682,089	(45,300)	(6.23)
Gross Profit		1,236,101	1,122,219	(113,882)	(9.21)
Operating Expenses		206,970	213,016	6,046	2.92
Operating Income		1,029,131	909,203	(119,928)	(11.65)
Non-operating Income and Expenses		(15,410)	36,263	51,673	(335.32)
Net Income Before Income Tax		1,013,721	945,466	(68,255)	(6.73)
Income Tax Expense		175,133	187,727	12,594	7.19
Net Income		838,588	757,739	(80,849)	(9.64)
Analysis of changes in financial ratios:					
Non-operating Income and Expenses: The increase was mainly due to foreign exchange gains.					

- **Effect of change on the Company's financial condition:** The Company's business scope has not changed significantly.
- **Effect of change on the Company's future business and future response plans:** The Company is not required to disclose its financial forecast but has set up its internal target based on industrial environment and market demand. The Company will also keep investing in new technologies and quality improvement and will cost-down to achieve the target of profitability.

7.3 Cash Flow

Cash Balance at the Beginning of Year	Net Cash Flow from Operating Activities	Net Cash Flow from Investment Activities	Net Cash Flow from Financing Activities	Cash Balance at the End of Year	Leverage of Cash Surplus	
					Investment Plans	Financing Plans
2,284,322	893,236	(716,065)	(752,277)	1,709,216	None	None

7.3.1 Cash Flow Analysis for the Current Year

- A. Operating Activities: Mainly from operating profit.
 B. Investment Activities: Primarily for capital expenditures and net purchase of other financial assets.
 C. Financing Activities: Primarily for cash dividends payment.

7.3.2 Remedy for Cash Deficit and Liquidity Analysis: As a result of positive operating cash flows and cash on-hand, remedial actions are not required.

7.3.3 Cash Flow Analysis for the Coming Year: N/A.

7.4 Major Capital Expenditure Items

7.4.1 Major Capital Expenditure Items and Source of Capital

Unit: NT\$ thousands

Project	Actual or Planned Source of Capital	Actual or Planned Date of Completion	Total Capital	Actual or Expected Capital Expenditure			
				2018	2019	2020	2021
New construction plant	Self-capital	March 2020	696,880	162,978	463,365	60,084	10,453

7.4.2. Expected impact of possible benefits on financial operations

In response to the operating demand, investing in building new facilities and purchasing production equipment will help upgrade the operational scale and profits for the Company and bring about positive benefits for financial business.

7.5 Investment Policy in the Last Year, Main Causes for Profits or Losses, Improvement Plans and Investment Plans for the Coming Year: None.

7.6 Risk Analysis and Management

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

A. 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 NT\$17,689 thousand for the year ended December 31, 2018, all other variable factors that remain constant.

B. Foreign exchange rates

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. A strengthening (weakening) 1% of appreciation of NTD against USD and JPY for the years ended December 31, 2018 would have increased the net profit after tax by NT\$3,135 thousand.

Mitigation measures being or to be taken:

- (a) The Company reserves the foreign currency position arising from sales appropriately to remit the foreign currency expenditures to safeguard from foreign exchange risk.
- (b) The Company manages the currency risk and then determines the timing of exchanging the foreign currency through collecting the foreign currency information.
- (c) The company uses foreign currency forward exchange contracts to hedge the remaining nature of currency risk arising from netting.

(3) Inflation

The impact of inflation does not currently have a significant impact on the Company's profits and business operations.

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

The Company did not engage in any high-risk, high-leveraged investments, lending or endorsement guarantees, and derivatives transactions.

7.6.3 Future Research & Development Projects and Corresponding Budget

Please refer to the "5.1.3 Technology and R&D Status" on pages 43-45 of this annual report.

7.6.4 Effects of and Response to Changes in Policies and Regulations Relating to Corporate Finance and Sales

The Company consistently pays close attention to any changes in local and foreign policies and makes appropriate amendments to our systems when necessary. During 2018 and as of the date of publication of this annual report, changes in related laws have not had a significant impact on our operations.

7.6.5 Effects of and Response to Changes in Technology and in Industry Relating to Corporate Finance and Sales

The Company pays attention to the changes in technologies and in industry at all time so as to be fully aware of the market trend and evaluate any potential impact on the operations of the Company. During 2018 and as of the date of publication of this annual report, the material changes of technologies have not had brought any adverse impact to the operations of the Company.

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

Since its inception, the Company has consistently maintained an ethical business philosophy and fulfilled its social responsibilities. During 2018 and as of the date of publication of this Annual Report, there were no such risks for the Company.

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

The Company has no ongoing merger and acquisition activities.

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

Plant expansion increases our production capacity and the room to take on more orders, which benefits our revenue and profitability and strengthens our position in the industry. Moreover, once we reach economies of scale, product costs can be reduced significantly. However, electronic consumables have short lifespans and market demands often change considerably. When market faces a downturn, capacity would turn idle and depreciation expenses of that plant equipment would weigh heavily on the Company's profitability. During 2018 and as of the date of publication of this Annual Report, the benefits of expansion plan meet the Company's expectations.

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

Sales of the Company are not concentrated on certain customers. The Company maintains more than two qualified raw material suppliers to ensure supply flexibility.

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

There was no sale or transfer of significant number of shares by the Directors, Supervisors and shareholders with over 10% of shareholding.

7.6.11 Effects of, Risks Relating to and Response to the Changes in Control over the Company

During 2018 and as of the date of publication of this Annual Report, such risks were not identified by the Company.

7.6.12 Litigation or Non-litigation Matters

- A. Major ongoing lawsuits, non-lawsuits or administrative lawsuit: None.
- B. Major ongoing lawsuits, non-lawsuits or administrative lawsuits caused by directors, supervisors or shareholders with over 10% shareholdings: None.

7.6.13 Other Major Risks:

- A. Effects of, risks relating to and response to information systems security: During 2018 and as of the date of publication of this Annual Report, the Company had not been aware of any information systems security incidents that had or would expected to have a material adverse effect on its business and operations.
- B. Risk management framework
The Company established risk management policies and effectively identify, measure, monitor, and control risk management mechanisms. The Board of Directors has the responsibility for the establishment and oversight of risk management framework. Through routine risk management, regular management meetings, and internal audit control monitor risk management effectiveness.

7.7 Other important matters: None.