

Success Prime Corporation

Parent Company Only Financial Statements
For the Years Ended December 31, 2018 and 2017
with Independent Auditors' Report

Address: 2F No. 11, Kezhong Road, Zhunan Town,
Miaoli County, Science Park, Hsinchu, Taiwan

Phone: (037) 586999

Directory

	Pages
1. Cover	1
2. Directory	2
3. Independent Auditors' Report	3
4. Parent Company Only Balance Sheets	6
5. Parent Company Only Statements of Comprehensive Income	7
6. Parent Company Only Statements of Changes in Equity	9
7. Parent Company Only Statements of Cash Flows	10
8. Notes to the Parent Company Only Financial Statements	
(1) General	12
(2) The Authorization of Financial Statements	12
(3) Application of New and Revised International Financial Reporting Standards	12
(4) Summary of Significant Accounting Policies	16-27
(5) Critical Accounting Judgements and Key Sources of Estimation and Uncertainty	28
(6) Cash	28
(7) Notes and Accounts Receivable Net Amount	28
(8) Inventories	30
(9) Investment using Equity Method	31
(10) Property, Plant, Equipment	32
(11) Investment Property	32
(12) Other Assets	33
(13) Short-Term Borrowing	33
(14) Notes and Accounts Payable	34
(15) Other Liabilities	34
(16) Retirement Benefit Plan	34
(17) Equity	37
(18) Net Profit of the Year	39
(19) Income Tax	42
(20) Earnings Per Share	44
(21) Share Base Payment Agreement	45
(22) Operating Lease Agreement	46
(23) Capital Risk Management	46
(24) Financial Instruments	47
(25) Transaction of Related Parties	50
(26) Quality-Backed Assets	51
(27) Information on Foreign Currency Assets and Liabilities with Significant Impact	52
(28) Notes Disclosure Items	53
(29) Departmental Information	54
(30) Cash Flow Information	54
9. Tables and Detail Lists	55-70

Independent Auditors' Report

The Board of Directors and Shareholders
Success Prime Corporation

Opinion

We have audited the accompanying parent company only financial statements of Success Prime Corporation (the "Company"), which comprise the parent company only balance sheets as of December 31, 2018 and 2017, and the parent company only statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the parent company only financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company only financial statements present fairly, in all material respects, the parent company only financial position of the Company as of December 31, 2018 and 2017, and its parent company only financial performance and its parent company only cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Parent Company Only Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the parent company only financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the parent company only financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Company's parent company only financial statements for the year ended December 31, 2018 are stated as follows:

Evaluation of investment impairment using equity law

The management shall, on each balance sheet date, assess whether there are any signs of derogation from the investment when using the equity law. Since the assessment takes into account SPC Management's subjective estimation the discount rate for its future cash flow forecast, and it has been identified as a key audit matter. For disclosure of relevant accounting policies and information, please refer to Notes 4, 5, 9 of parent company only financial statements.

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

1. Obtain an assessment form of asset impairment by the management;
2. Evaluate the validity of the management identification of the signs of impairment and the assumptions and sensitivities used, including the basis and the appropriateness of the evaluation model, revenue growth rate, profit margin and discount rate.

Responsibilities of Management and Those Charged with Governance for the Parent Company Only Financial Statements

Management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of parent company only financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance (including members of the Audit Committee) are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Parent Company Only Financial Statements

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

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists,

we are required to draw attention in our auditors' report to the related disclosures in the parent company only financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the disclosures, and whether the parent company only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the parent company only financial statements for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Chin-Chuan Shih and Shu-Lin Liu.

Deloitte & Touche
Taipei, Taiwan
Republic of China
March 20, 2019

Notice to Readers

The accompanying financial statements are intended only to present the financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and financial statements shall prevail.

Success Prime Corporation
PARENT COMPANY ONLY BALANCE SHEETS
(In Thousands of New Taiwan Dollars)

	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%
ASSETS				
Current assets				
Cash and cash equivalents (Note 6)	\$60,324	6	\$80,009	9
Notes and accounts receivable, net (Note 7)	61,808	6	29,487	3
Accounts receivables-related parties (Note 25)	61,437	6	-	-
Current income tax assets	12	-	35	-
Inventories (Note 8)	58,039	6	28,606	3
Other current assets (Note 12)	<u>3,853</u>	<u>1</u>	<u>29,108</u>	<u>3</u>
Total current assets	<u>245,473</u>	<u>25</u>	<u>167,245</u>	<u>18</u>
Non-current assets				
Investments accounted for using equity method (Notes 5, 9)	660,420	66	717,634	79
Property, plant and equipment (Note 10)	6,051	-	3,546	-
Net investment property (Note 11)	32,631	3	-	-
Computer software	694	-	30	-
Deferred income tax assets (Note 19)	36,364	4	16,916	2
Net defined benefit assets (Note 16)	7,561	1	7,492	1
Other non-current assets (Note 12)	<u>9,464</u>	<u>1</u>	<u>1,257</u>	<u>-</u>
Total non-current assets	<u>753,185</u>	<u>75</u>	<u>746,875</u>	<u>82</u>
Total assets	<u>\$998,658</u>	<u>100</u>	<u>\$914,120</u>	<u>100</u>
LIABILITIES AND EQUITY				
Current liabilities				
Short-term borrowings (Notes 13, 26)	\$135,000	14	\$65,000	7
Notes and accounts payable (Note 14)	26,563	3	8,106	1
Other payables (Note 15)	37,787	4	34,836	4
Current income tax liabilities	12,277	1	-	-
Other current liabilities (Note 15)	<u>4,695</u>	<u>-</u>	<u>23,144</u>	<u>2</u>
Total current liabilities	<u>216,322</u>	<u>22</u>	<u>131,086</u>	<u>14</u>
Non-current liabilities				
Deferred income tax liabilities (Note 19)	1,812	-	1,274	-
Guarantee deposits received (Note 25)	<u>200</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total non-current liabilities	<u>2,012</u>	<u>-</u>	<u>1,274</u>	<u>-</u>
Total liabilities	<u>218,334</u>	<u>22</u>	<u>132,360</u>	<u>14</u>
Equity (Note 17)				
Ordinary Shares	<u>174,594</u>	<u>17</u>	<u>165,480</u>	<u>18</u>
Capital surplus	<u>367,081</u>	<u>37</u>	<u>479,549</u>	<u>53</u>
Retained earnings				
Legal Reserve	13,868	1	130	-
Special Reserve	772	-	-	-
Unappropriated retained earnings	<u>247,576</u>	<u>25</u>	<u>137,373</u>	<u>15</u>
Total retained earnings	<u>262,216</u>	<u>26</u>	<u>137,503</u>	<u>15</u>
Other equity interest	<u>(1,611)</u>	<u>-</u>	<u>(772)</u>	<u>-</u>
Treasury shares	<u>(21,956)</u>	<u>(2)</u>	<u>-</u>	<u>-</u>
Total equity	<u>780,324</u>	<u>78</u>	<u>781,760</u>	<u>86</u>
Total liabilities and equity	<u>\$998,658</u>	<u>100</u>	<u>\$914,120</u>	<u>100</u>

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

Success Prime Corporation**PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME**

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017	
	Amount	%	Amount	%
Operating revenue				
Sales revenue	\$218,361	47	\$200,253	70
Service revenue (Note 25)	<u>246,079</u>	<u>53</u>	<u>85,448</u>	<u>30</u>
Total operating revenue	<u>464,440</u>	<u>100</u>	<u>285,701</u>	<u>100</u>
Operating costs (Notes 8, 18)				
Cost of sales	142,653	31	129,982	45
Cost of services	<u>139,433</u>	<u>30</u>	<u>13,291</u>	<u>5</u>
Total operating costs	<u>282,086</u>	<u>61</u>	<u>143,273</u>	<u>50</u>
Gross profit	<u>182,354</u>	<u>39</u>	<u>142,428</u>	<u>50</u>
Operating expenses (Notes 16, 18)				
Marketing	17,441	4	20,761	7
General and administrative	35,265	8	42,397	15
Research and development	<u>14,867</u>	<u>3</u>	<u>9,434</u>	<u>3</u>
Total operating expenses	<u>67,573</u>	<u>15</u>	<u>72,592</u>	<u>25</u>
Income from operations	<u>114,781</u>	<u>24</u>	<u>69,836</u>	<u>25</u>
Non-operating income and expenses				
Other income (Note 18)	6,143	1	2,982	1
Other gains and losses (Note 18)	2,167	1	6,726	2
Finance costs (Note 18)	(1,610)	-	(701)	-
Net investment income or loss accounted for using equity method for subsidiaries	<u>(3,357)</u>	<u>(1)</u>	<u>60,592</u>	<u>21st</u>
Total non-operating income and expenses	<u>3,343</u>	<u>1</u>	<u>69,599</u>	<u>24</u>

(Continued)

	2018		2017	
	Amount	%	Amount	%
Income before income tax	\$118,124	25	\$139,435	49
Income tax expense (Note 19)	<u>6,742</u>	<u>2</u>	<u>15,546</u>	<u>5</u>
Net income	<u>124,866</u>	<u>27</u>	<u>154,981</u>	<u>54</u>
Total other comprehensive income (Notes 16, 19)				
Items that will not be reclassified to profit or loss:				
Remeasurements of the defined benefit pension-plans	(25)	-	(564)	-
Income tax relating to items that will not be reclassified to profit or loss	(128)	=	96	=
	(153)	=	(468)	=
Items that may be reclassified subsequently to profit or loss:				
Share of other comprehensive income of subsidiaries, accounted for using equity method	(839)	=	(772)	=
Total other comprehensive income (loss) after tax	(992)	=	(1,240)	=
Total comprehensive income	<u>\$123,874</u>	<u>27</u>	<u>\$153,741</u>	<u>54</u>
Earnings per share (Note 20)				
Basic earnings per share	<u>\$7.18</u>		<u>\$8.92</u>	
Diluted earnings per share	<u>\$7.16</u>		<u>\$8.86</u>	

The accompanying notes are an integral part of the consolidated financial statements. (Concluded)

Success Prime Corporation
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	Capital Stock - Common Equity		Capital Surplus	Retained surplus				Other Foreign Currency	Treasury Shares	Total Equity
	Shares (In Thousands)	Amount		Translation Reserve	Special Reserve	Unappropriated Earnings	Total	The Exchange difference		
Balance, January 1, 2017	15,760	\$157,600	\$525,655	\$-	\$-	\$1,304	\$1,304	\$-	\$-	\$684,559
Appropriation of 2016 earnings										
Legal Reserve	-	-	-	130	-	(130)	-	-	-	-
Cash dividends distributed by the Company- NT\$ 0.07 per share	-	-	-	-	-	(1,174)	(1,174)	-	-	(1,174)
Capital surplus transferred to common stock	788	7,880	(7,880)	-	-	-	-	-	-	-
Capital surplus distributed as cash- NT\$ 2.43 per share	-	-	(38,226)	-	-	-	-	-	-	(38,226)
Changes of ownership interests in subsidiaries	-	-	-	-	-	(17,140)	(17,140)	-	-	(17,140)
Net income (loss) of 2017	-	-	-	-	-	154,981	154,981	-	-	154,981
Other comprehensive income (loss) after tax of 2017	=	=	=	=	=	(468)	(468)	(772)	=	(1,240)
Total comprehensive income (loss) of 2017	=	=	=	=	=	154,513	154,513	(772)	=	153,741
Balance, December 31, 2017	16,548	165,480	479,549	130	-	137,373	137,503	(772)	-	781,760
Appropriation of 2017 earnings										
Legal Reserve	-	-	-	13,738	-	(13,738)	-	-	-	-
Special Reserve	-	-	-	-	772	(772)	-	-	-	-
Capital surplus transferred to common stock	831	8,314	(8,314)	-	-	-	-	-	-	-
Capital surplus distributed as cash- NT\$ 6.50 per share	-	-	(108,082)	-	-	-	-	-	-	(108,082)
Issuance of ordinary shares under employee share options	80	800	3,928	-	-	-	-	-	-	4,728
Net income (loss) of 2018	-	-	-	-	-	124,866	124,866	-	-	124,866
Other comprehensive income (loss) after tax of 2018	=	=	=	=	=	(153)	(153)	(839)	=	(992)
Total comprehensive income (loss) of 2018	=	=	=	=	=	124,713	124,713	(839)	=	123,874
Buy-back of treasury shares	=	=	=	=	=	=	=	=	(21,956)	(21,956)
Balance, December 31, 2018	17,459	\$174,594	\$367,081	\$13,868	\$772	\$247,576	\$262,216	(\$1,611)	(\$21,956)	\$780,324

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

Success Prime Corporation**PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS**

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018	2017
Cash flows from operating activities		
Income before income tax	\$118,124	\$139,435
Depreciation expense:		
Amortization expense	2,122	2,019
Reversal of expected credit losses on investments in debt instruments	336	40
Finance costs	1,610	701
Interest income	(147)	(117)
Share of subsidiaries comprehensive income, accounted for using equity method	3,357	(60,592)
Remeasurements of gain of originally acquired interest	-	(8,994)
Loss (gain) on foreign exchange, net	(723)	2,624
Inventory valuation losses (gains)	2,934	(4,694)
Changes in operating assets and liabilities:		
Notes and accounts receivables	(32,384)	4,143
Accounts receivable-related parties	(61,437)	-
Inventories	(32,367)	2,294
Other current assets	26,296	38,166
Net defined benefit assets	(94)	(109)
Notes and accounts payable	18,464	2,244
Other payables	3,575	12,236
Other payables-related parties	-	(650)
Other current liabilities	(18,465)	(38,160)
Cash generated from operations	31,201	90,586
Interest received	147	117
Interest paid	(1,610)	(701)
Income tax paid	<u>4</u>	<u>1</u>
Net cash generated by operating activities	<u>29,742</u>	<u>90,003</u>
Cash flows from investing activities		
Proceeds from disposal of Investment in debt instruments without active market	-	532,483
Access to investments using the Equity Act	(5,100)	(626,869)
Purchase of property, plant and equipment	(10,690)	(236)
Purchase of intangible assets	(1,000)	-
Net decrease (increase) in refundable deposit	(5,469)	(514)

	2018	2017
Decrease in guarantee deposits paid	\$1,708	\$3,381
Acquisition of investment property	(32,710)	-
Collect dividends from subsidiaries	<u>58,118</u>	<u>55,409</u>
Net cash used in investing activities	<u>4,857</u>	<u>(36,346)</u>
Cash flows from financing activities		
Increase in short-term loans	629,500	155,000
Decrease in short-term loans	(559,500)	(140,600)
Increase in guarantee deposits received	200	-
Issuance of cash dividends	(108,082)	(39,400)
Employee execution on stock options	4,728	-
Payments for buy-back of treasury shares	<u>(21,956)</u>	<u>-</u>
Net cash used in financing activities	<u>(55,110)</u>	<u>(25,000)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>826</u>	<u>(2,399)</u>
NET increase (decrease) in cash and cash equivalents	(19,685)	26,258
Cash and cash equivalents, beginning of year	<u>80,009</u>	<u>53,751</u>
Cash and cash equivalents, end of year	<u>\$60,324</u>	<u>\$80,009</u>

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

Success Prime Corporation

NOTES TO PARENT COMPANY ONLY FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

1. GENERAL

Success Prime Corporation (hereinafter referred to as the Company) was established in June 15, 1991, the main business operations are production of optical fiber cables, communication components, system, sensors, digital informatics consulting services, and the management of tutorial academy teachers and curriculum education services.

On March 2002, the Company's shares were listed on the Taiwan Stock Exchange (TWSE).

The Consolidated Financial Report is expressed in the functional New Taiwan Dollar currency (NT\$).

2. THE AUTHORIZATION OF FINANCIAL STATEMENTS

The accompanying consolidated financial statements were approved and authorized for issue by the Board of Directors on March 20, 2019.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

- I. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) (collectively, "IFRSs") endorsed and issued into effect by the Financial Supervisory Commission (FSC).

Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC did not have a significant effect on the Company and its subsidiaries' accounting policies:

- 1) IFRS 9 "Financial Instruments" and related amendment

IFRS 9 supersedes IAS 39 "Financial Instruments: Recognition and Measurement", with consequential amendments to IFRS 7 "Financial Instruments: Disclosures" and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Please refer to Note 4 for information relating to the relevant accounting policies.

Based on the facts and circumstances on January 1, 2018, the Company has retroactively adjusted the classification of existing financial assets and chosen not to re-edit the comparison period. The impact on measurement categories, carrying amount and related reconciliation for each class of the Company's financial assets when retrospectively applying IAS 39 and IFRS 9 on January 1, 2018 is detailed below:

Financial Assets	Measurement Category		Carrying Amount		N o t e
	IAS 39	IFRS 9	IAS 39	IFRS 9	
Cash and cash equivalents	Loans and receivables	Amortized cost	\$ 80,009	\$ 80,009	
Notes and accounts receivables, other receivables	Loans and receivables	Amortized cost	30,945	30,945	(1)
Refundable deposits	Loans and receivables	Amortized cost	597	597	

(1) Notes and accounts receivable, other receivables and refundable deposits that were classified as loans and receivables under IAS 39 are now classified at amortized cost with assessment of expected credit loss under IFRS 9.

2) IFRS 15 “Revenue from Contracts with Customers” and related amendments

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18, “Revenue,” IAS 11, “Construction Contracts,” and a number of revenue-related interpretations. Please refer to Note 4 for information relating to the relevant accounting policies.

3) IFRIC 22 "Foreign Currency Transactions and Advance Consideration"

IAS 21 stipulates the original recognition of foreign currency transactions and converts the foreign currency amount into a functional currency record based on the spot exchange rate between the functional currency and the foreign currency on the transaction date. IFRIC 22 further states that if a company has prepaid or received a consideration before the original recognition of a non-monetary asset or liability, the date on which the consideration is paid in advance is determined as the trading date. If the enterprise pays the consideration in advance, the transaction date of each advance payment shall be determined separately.

The Company has applied IFRIC 22 since January 1, 2018.

II. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers for application starting from 2019 and the IFRSs issued by IASB and endorsed by FSC with effective date starting 2019

New, Amended or Revised Standards and Interpretations (the “New IFRSs”)	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017	January 1, 2019
Cycle Amendments to IFRS 9 “Prepayment Features with Negative Compensation”	January 1, 2019 (Note 2)
IFRS 16 “Leases”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019 (Note 3)
Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”	January 1, 2019
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The FSC permits the election for early adoption of the amendments starting from 2018.

Note 3: The Company shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

1) IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, and a number of related interpretations.

Definition of a lease

Upon initial application of IFRS 16, the Company will apply the guidance of IFRS 16 in determining whether contracts are, or contain, a lease only to contracts entered into (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 will not be reassessed and will be accounted for in accordance with the transitional provisions under IFRS 16.

The Company as lessee

Upon initial application of IFRS 16, except for payments for low-value asset and short-term leases which will be recognized as expenses on a straight-line basis, the Company will recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets. On the consolidated statements of comprehensive income, the Company will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities and computed using the effective interest method. On the consolidated statements of cash flows, cash payments for both the principal portion and the interest portion of lease liabilities are classified within financing activities, the interest payment portion will be listed as a operating activity.

Upon initial application of IFRS 16, the Company will apply IFRS 16 retrospectively with the cumulative effect of the retaining surplus at the date January 1, 2019 but will not restate comparative information.

Leases agreements classified as operating leases under IAS 17, will be measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate on January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. Right-of-use assets are subject to impairment testing under IAS 36.

For the leases classified as finance leases under IAS 17, the carrying amount of the leased assets and lease liabilities on December 31, 2018 will be used as the carrying amount of the right-of-use assets and lease liabilities on January 1, 2019.

Impact on assets, liabilities and equity on January 1, 2019

	Carrying Amount as of December 31, 2018	Initial Application Reclassification	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Right-of-use assets	\$ -	\$ -	\$ 95,511	\$ 95,511
Total effect on assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 95,511</u>	<u>\$ 95,511</u>
Lease liabilities - current	\$ -	\$ -	\$ 10,193	\$ 10,193
Lease liabilities - non-current	-	-	85,318	85,318
Total effect on liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 95,511</u>	<u>\$ 95,511</u>

The Company as lessor

Except for sublease transactions, the Company will not make any adjustments for leases in which it is a lessor, and will account for those leases under IFRS 16 starting from January 1, 2019. On the basis of the remaining contractual terms and conditions on January 1, 2019, all of the Company's subleases will be classified as operating leases.

Except for the above effects, as of the date of the release of the consolidated financial report, the Company's evaluation of other standards and amendments will not have a significant impact on financial status and financial performance.

III. The IFRSs issued by IASB but not yet endorsed and issued into effect by FSC

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective Date Issued by IASB (Note 1)</u>
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020 (Note 2)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 17 "Insurance Contract"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020 (Note 3)

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The Company shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 3: The Company shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

As of the date the accompanying consolidated financial statements were issued, the Company continues in evaluating the impact on its financial position and financial performance as a result of the initial adoption of the aforementioned standards or interpretations. The related impact will be disclosed when the Company completes the evaluation.

As of the date of issuance of this consolidated financial report, the merger company will continue to assess the impact of other standards, explanations and amendments on the financial position and financial performance, and the related impact will be revealed when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I. Statement of Compliance

The accompanying parent company only financial statements have been prepared in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the FSC with the effective dates (collectively, “Taiwan-IFRSs”).

II. Basis of Preparation

The accompanying consolidated financial statements have been prepared on the historical cost basis except for financial instruments and defined benefit assets that are measured at fair values, as explained in the accounting policies below.

The relevant input value of fair value measurement is divided into level 1 to 3 corresponding to its observable degree and importance:

- 1) Level 1 input value: A quote (unadjusted) in the active market for the same asset or liability available on the measurement date.
- 2) Level 2 input value: Except for the quoted price of Level 1, the observable input value is directly the price of the asset or liability or indirectly derived from price.
- 3) Level 3 input value: An unobservable input value of an asset or liability.

When the Company prepares parent company only financial reports, it adopts the equity method for investment subsidiaries. In order to ensure the Parent Company Only Financial Statements and the Company’s Consolidated Financial Statements’ profit and loss of current year, other comprehensive income, and equity the same, the basis difference between the parent company only and consolidated company is the adjustment in “Investment using the equity method”, “Subsidiaries’ profit and loss share using the equity method”, “Other comprehensive income share of subsidiaries using the equity method” and related equity items.

III. Classification of Current and Noncurrent Assets and Liabilities

Current assets include:

1. Assets held primarily for trading purposes;

2. Assets expected to be realized within 12 months after the reporting date; and
3. Cash (but excluding those who are restricted by the exchange or liquidation of debts for more than 12 months after the balance sheet date).

Current liabilities include:

1. Liabilities held primarily for trading purposes;
2. Liabilities due for settlement within 12 months after the balance sheet date, and
3. The liability settlement period cannot be unconditionally deferred to at least 12 months after the balance sheet date.

Those who does not belong to the above current assets or current liabilities shall be classified as non-current assets or non-current liabilities.

IV. Merger of Enterprises

The merger of enterprises adopts the acquisition law. The acquisition related cost is listed at the current period as an expense occurred and labor acquisition.

Goodwill is measured by the fair value of the transfer price, the amount of the fair value of the acquirer's non-controlling interest and previously held interest is measured by the net value of the identifiable assets and liabilities after the acquisition date.

A merger that is achieved in stages is measured at the fair value of the acquisition date and is re-measured by the merged Company's previously held interest from the acquiree, if any profits or losses are incurred shall be recognized.

V. Foreign currencies

In preparing Company's financial statements, transactions in currencies other than the Company's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

Foreign currency items are converted at the closing exchange rate on each balance sheet date. The exchange difference arising from the delivery of monetary items or the conversion of monetary items is recognized as a profit or loss in the current period of occurrence.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the year except for exchange differences arising on the retranslation of non-monetary items in respect of which profit and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income. Non-monetary items that are measured in terms of historical cost in foreign currencies are not retranslated.

For the purposes of presenting parent company only financial statements, the assets and liabilities of the Company's foreign operations are translated into NT\$ using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity.

VI. Inventories

Inventories includes raw materials, manufactured goods, in-process products and commodities. Inventory is measured by the cost and the value of net realization, comparing costs with net realizable value is based on individual items except for those in same inventory category. Net realizable value means under normal circumstances the balance after the estimated cost required to complete the investment and sale is deducted. The weighted average method is adopted to calculate inventory cost.

VII. Investment Subsidiary

The Company uses the equity method to process investments in subsidiaries.

Subsidiary means an individual entity controlled by the Company.

Under the equity method, the original investment is recognized at cost, and the future book value is increased or decreased depending on the profit and loss of subsidiaries and share of other comprehensive income and profit distribution allocated to the Company. In addition, the changes in the Company's equity rights to the subsidiary are recognized based on the shareholding ratio.

When changes in the Company's ownership interest of the subsidiary does not result in loss of control, it is treated as an equity transaction. The difference between the book value of investment and the fair value of payment paid or received is directly recognized as equity.

When the amount of Company's loss subsidiary shares is equal to or exceeds its equity in the subsidiary (including the subsidiary's book value using the equity method and other long-term equity of the company's net investment component of the subsidiary) continue to recognize the loss according to the shareholding ratio.

At the acquisition date, the value amount of the acquisition is more than the net fair value amount of the identifiable subsidiaries' assets and liabilities, the extra value is recognized as Goodwill. The goodwill is included in the book value of the investment and is not amortized; It is recognized profit when net fair value amount of the identifiable subsidiaries' assets and liabilities is more than the acquisition cost.

When the Company evaluates the impairment, it considers the cash-generating unit as a whole in the financial report and compares its recoverable amount with the book value. If the recoverable amount of the asset increases, the amount of the impairment loss is recognized as profit. However, the book value of the asset after the impairment loss shall not exceed the asset amount with no impairment loss recognized, should deduct the amortized book value. The impairment loss attributable to goodwill shall not be reversed in the subsequent period.

The downstream transactions of the Company to its subsidiaries are not realized in profit or loss and are eliminated from parent company only financial reports. Only under when the Company has no equity-relevant situation with its subsidiaries, the profits and losses arising from the counter and side stream transactions between the Company and its subsidiaries are recognized in parent company only financial reports.

VIII. Property, plant and equipment

Property, plant and equipment are recognized at cost and subsequently valued by costs minus the amount of accumulated depreciation. Property, plant and equipment's amortization is measured based on straight-line basis, and each significant depreciation is separately accounted. At each year end, the Company examines the estimated durability, residual value and depreciation methods, and delays the impact of using altered accounting estimates.

In addition to the listing of property, plant and equipment, the difference between the net disposition price and the carrying amount of the asset is recognized as profit and loss.

IX. Investment Property

Investment Property is properties held for the purpose of earning rent or capital appreciation or both. Investment property also includes land that has not yet been determined for future use. Investment property is initially measured at cost (including transaction costs) and subsequently measured at cost minus accumulated depreciation and accumulated impairment losses. Investment property is depreciated on a straight-line basis.

When derecognition of investment property, the difference between the net disposal price and the book value of the asset is recognized in profit or loss.

X. Intangible assets

1) Acquired separately

Separately acquired intangible assets with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized using the straight-line method over the following estimated useful lives. At each year end, the Company examines the estimated durability, residual value and depreciation methods, and delays the impact of using altered accounting estimates.

2) Derecognition

When derecognizing the intangible assets, the difference between the net disposition price and the asset's carrying amount is recognized as the profit and loss of the current period.

XI. Impairment of tangible and intangible assets

At each balance sheet date, the Company assesses whether there are any indications that tangible and intangible assets may already been impaired. If any indication of impairment exists, the recoverable amount of the asset is estimated. If it is not possible to estimate the

recoverable amount of individual assets, the Company estimates the recoverable amount of the cash generation unit to which the asset belongs to. Shared assets are apportioned to separate cash generation units on a reasonable consistent basis.

The recoverable amount is the selecting the higher value between the fair value minus the sale cost or its use value. If the recoverable amount of an individual assets or cash generation unit is lower than its book value, the carrying amount of the asset or cash generation unit is reduced to its recoverable amount, and the impairment loss is recognized as a profit or loss.

When the impairment loss is in subsequent rotation, the carrying amount of the asset or cash generation unit is increased to the revised recoverable amount, provided that the increase in carrying amount does not exceed the carrying amount (less amortization or depreciation) determined by the asset or cash generation unit when no impairment loss is recognized in the previous year. The rotation of impairment losses is recognized as profit or loss.

XII. Financial instruments

Financial assets and financial liabilities are recognized in the parent company only Balance Sheet when the Company becomes a party to the terms of the instrument contract.

When recognizing financial assets and liabilities, if they are not measured by fair value through profit or loss, it should be the transaction cost of the acquired or distributed financial assets and liabilities based on gross fair value. The transaction cost should immediately be recognized as profit or loss.

1) Financial Assets

The customary transaction of financial assets adopts accounting recognition and derecognition at the trading day.

(1) Measurement Category

2018

The types of financial assets held by the Company are financial assets measured at amortized cost.

Financial assets measured at amortized cost

The financial assets are classified as measured at amortized cost if the Company meet both of the following conditions when investing in financial assets:

- A. Held under some business model, the purpose of which is to hold financial assets to collect contract cash flow; and
- B. The contract terms result in cash flows on a specific date, which entirely pays off the principal amount and its interest that are circulating outside.

Financial assets (including cash and cash equivalents, debt instrument investments, receivables and refundable deposits at amortized cost), are recognized based on amortization cost, any foreign currency exchange gains and losses are recognized in profit or loss as measured by the amortized cost using carrying amount of effective interest law decision less any impairment losses.

Interest income is calculated at the effective interest rate multiplied by the total carrying amount of the financial assets, except in the following two cases:

- A. The credit for purchase or initiation detracts from the financial assets, and the interest income is calculated by multiplying the credit adjusted effective interest rate with the cost of financial asset after amortization.
- B. Financial asset that is not an initial or purchased credit impairment, but subsequently turns into credit impairment, the interest income is calculated by multiplying the effective interest rate by the cost of financial assets after amortization.

Cash equivalents include time deposits that can be self-acquired within 3 months, with high liquidity, and can be easily transfer into fixed cash value with minimal risk and is used to fulfill short-term cash commitments.

2017

The types of financial assets held by the Company are loans and receivables. Loans and receivables (including cash and cash equivalents, non-active market debt instrument investment- current, notes and accounts receivables, other receivables and refundable deposits) are measured by the amortized cost using carrying amount of effective interest law decision less any impairment losses, only recognition of short-term accounts receivables' interest that are insignificant are exempt.

Cash equivalents include time deposits that can be self-acquired within 3 months, with high liquidity, and can be easily transfer into fixed cash value with minimal risk and is used to fulfill short-term cash commitments.

(2) Impairment of financial assets

2018

At the end of each reporting period, a loss allowance for expected credit loss is recognized for financial assets at amortized cost (including accounts receivable).

The loss allowance for accounts receivable is measured at an amount equal to lifetime expected credit losses. For financial assets at amortized cost and investments in debt instruments that are measured at FVTOCI, when the credit risk on the financial instrument has not increased significantly since initial recognition, a loss allowance is recognized at an amount equal to expected credit loss resulting from possible default events of a financial instrument within 12 months after the reporting date. If, on the other hand, there has been a significant increase in credit risk since initial recognition, a loss allowance is recognized at an amount equal to expected credit loss resulting from all possible default events over the expected life of a financial instrument.

The expected credit loss is the weighted average credit loss that takes the risk of default as the weight. The 12-month expected credit loss represents the expected credit loss arising from the possible default of the financial instrument within 12 months from the report date. Expected credit losses during the duration represent the expected credit losses arising from all possible defaults of the financial instrument over its expected lifetime.

The Company recognizes an impairment loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

2017

Other financial assets are assessed by the Company for indicators of impairment at the end of each reporting period. Those financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, their estimated future cash flows have been affected.

For financial assets carried at amortized cost, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective impairment evidence from the receivables collection may include the Company's past collection experience, the increased number of deferred payments over the average credit period, and the circumstances relating to arrears payment of receivables can be observed, these are some observable changes in the national or regional economic situation.

For financial assets carried at amortized cost, the amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial assets at the date the impairment loss is reversed does not exceed what the amortized cost would have been had the impairment loss not been recognized.

Objective impairment evidence of other financial assets may include:

- A. Significant financial difficulties of the issuer or debtor;
- B. Contract breach, such as delay or non-payment of interest or principal payments;
- C. Possibility of the debtor is entering bankruptcy or other financial restructuring increases majorly; or
- D. The active market for financial assets has disappeared due to financial difficulties.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit and loss, except for the write-off of the allowance account due to uncollectible accounts receivable.

(3) Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the financial asset to another entity.

When derecognizing financial assets before 2017 (inclusive), the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss. From 2018 onwards, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

2) Financial liabilities

(1) Follow-up measurement

All financial liabilities are measured at amortized cost using the effective interest method.

(2) Derecognition of financial liabilities

When the Company derecognizes financial liabilities, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable (include any transferred non-cash assets or liabilities) is recognized in profit or loss.

XIII. Revenue recognition

2018

After the Company identifies the performance obligation in the client contract, the transaction price is apportioned to the performance obligations and the revenue is recognized when the performance obligations are met.

1) Revenue of goods sale

Goods sales revenue comes from the sale of various types of fiber optic cables, optical fiber communication components, optical communication systems and optical sensor

component systems. As the above products arrive at the customer's designated location or at the time of departure, the customer has the right to set the price and use of the goods and has the primary responsibility for re-sales, and bear the risk of obsolescence of the goods, the Company should recognize revenue and accounts receivables at the time.

When the material processing is performed, the control of the ownership of the processed product is not transferred, and the income is not recognized when the material is removed.

2) Labor revenue

Labor revenue comes from digital information consulting services and the education tutorial services consisting primary, middle and high school curriculum courses. The revenue related to the digital information consulting services is recognized when the service is provided. The education service revenue is recognized based on the taught proportion of the course (teaching progress).

2017

Revenue is measured at the fair value of the received or receivable price and deducts the estimated customer returns, discounts and other similar discount.

I. Sale of goods

The sale of goods is recognized as revenue when following conditions are fully met:

- (1) The Company has transferred the significant risks and rewards of the ownership of the goods to the buyer;
- (2) The Company does not continuously participate in the management of the goods sold, nor maintain effective control;
- (3) The amount of revenue can be measured reliably;
- (4) The economic benefits associated with the transaction are likely to flow into the Company; and
- (5) The costs associated with the transaction that have occurred or will occur can be measured reliably.

When the material is processed, the significant risks and rewards of ownership of the processed products are not transferred and are not for sale when processing materials.

II. Provision of services

Labor revenue is recognized as the proportion of services performed.

III. Dividend revenue and Interest revenue

Dividend income from investments is recognized when the shareholders' rights to collect payments are established, provided that the economic benefits associated with the transaction are likely to flow into the company and the amount of revenue can be reliably measured.

Interest revenue of the financial assets and economic benefits are likely to flow into the Company, and the revenue can be reliably measured when recognized. Interest revenue is recognized on the basis of time based on the accrual of the principal circulating outside and the applicable effective interest rate.

XIV. Leases

Leases are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

The Company as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

XV. Borrowing Costs

Borrowing costs are recognized when incurred as a profit or loss at the current period.

XVI. Government Grants

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received. Government grants are recognized as profits and losses on a systematic basis during the period in which the costs associated with compensation intentions are recognized as expenses by the Company.

XVII. Employee Benefits

1) Short term Employee Benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for service rendered by employees.

2) Retirement benefits

For defined contribution retirement benefit plans, payments to the benefit plan are recognized as an expense when the employees have rendered service entitling them to the contribution. For defined benefit retirement benefit plans, the cost of providing benefit is recognized based on actuarial calculations.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the Projected Unit Credit

Method. Service cost (including current service cost), and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability (assets) represents the actual deficit (remaining) in the Company's defined benefit plan.

XVIII. Share-based Payment Agreement Employee Stock Option

1) Employee Stock Option

Employee stock options are based on the fair value of the equity instruments granted to the day and the best estimate of the expected value. The expenses are recognized on a straight-line basis over the vested period, and the capital reserve-employee stock options are adjusted at the same time. If it is available immediately on the date of the grant, it will be recognized on the grant date.

The Company corrects the estimated number of expected employee stock options on each balance sheet date. If the original estimated quantity is corrected, the impact quantity is recognized as profit or loss, so that the accumulated expenses reflect the revised estimate, and the capital reserve-employee stock option is relatively adjusted.

2) Employee Rights Restricted Stocks

Employee Rights Restricted Stock is based on the fair value of the equity instruments granted to the date and the best estimate of the expected value. The expenses are recognized on a straight-line basis over the vested period, and other benefits are adjusted at the same time (employees have not earned compensation). If it is available immediately on the date of the grant, it will be recognized on the grant date.

When the company issues stocks that restrict employees' rights, it recognizes other interests (the employee's compensations not earned) on the date of issue, and also adjusts the capital reserve - the stocks that limit employee rights. In the case of a paid issuance, the employee is required to refund the price when leaving the company, the relevant payables shall be recognized. If an employee leaves the company within the vested period without returning the dividends received, the fee is recognized when the dividend is declared, and the retained earnings and capital reserve are also adjusted - the employee rights restricted stocks.

The Company corrects the expected vested limit on the number of employees' rights restricted stocks on each reporting date. If the original estimated quantity is corrected, the impacted number is recognized as profit or loss, so that the accumulated expenses reflect the revised estimate, and the capital reserve is adjusted relatively – employees' stock options.

XIX. Income Tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

Income tax on unappropriated earnings (excluding earnings from foreign consolidated subsidiaries) is expensed in the year the shareholders approved the appropriation of earnings which is the year subsequent to the year the earnings are generated. Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, net operating loss carryforwards and tax credits for research and development expenses to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered. The deferred tax assets which originally not recognized is also reviewed at the end of each reporting period and recognized to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the year in which the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION AND UNCERTAINTY

In the application of the aforementioned Company's accounting policies, the Company is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Impairment of Investment Subsidiary

When there are signs of impairment indicating that the investment in the subsidiary may have been impaired and the book value may not be recovered, the Company immediately evaluated the asset impairment associated with the subsidiary from the perspective of the financial statements as a whole. The Company's management is based on the future cash flow projections of the cash-generating units of the relevant assets, including assumptions such as the estimated sales growth rate and profit margin of the management, and determines the appropriate discount rate used to calculate the present value to assess the impairment.

6. CASH

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Cash reserve and working capital	\$ 197	\$ 119
Bank check and demand deposits	<u>60,127</u>	<u>79,890</u>
	<u>\$ 60,324</u>	<u>\$ 80,009</u>

7. NOTES AND ACCOUNTS RECEIVABLES NET AMOUNT

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Notes receivables</u>		
Measured at amortized costs		
Total book value	<u>\$ -</u>	<u>\$ 434</u>
Result of operations	<u>\$ -</u>	<u>\$ 434</u>
<u>Accounts receivables</u>		
Measured at amortized costs		
Total book value	\$ 61,808	\$ 29,053
Less: Allowance loss	<u>-</u>	<u>-</u>
	<u>\$ 61,808</u>	<u>\$ 29,053</u>

2018

The average credit period for the sale of the Company is 90~120 days. To mitigate credit risk, the Company's management assigns a dedicated team responsible for the decision of the credit line, credit approval and other monitoring procedures to ensure that the recovery of overdue receivables has taken appropriate action. In addition, the Company reviews the recoverable amounts of receivables on the reporting date to ensure that receivables that cannot be recovered include appropriate impairment losses. As result, the Company's management believes that the credit risk has been significantly reduced.

The Company adopts IFRS 9, the simplified practice recognizes the loss of the allowance for accounts receivable on the basis of the expected credit loss during the lifetime (excluding special individual payments that listed are as 100% loss). The expected credit loss during the lifetime is calculated using the preparation matrix, which takes into account the customer's past default record and current financial position, industrial economic situation. Due to the Company's historical record of credit loss, there is no significant difference in the loss pattern of different customer groups, so the preparation matrix does not further distinguish the customer base, only the expected credit loss rate is set based on the number of days when the accounts receivable is overdue.

If there is evidence that the counterparty is facing serious financial difficulties and the Company is unable to reasonably anticipate the recoverable amount, the Company will directly reverse the relevant accounts receivable, and continue the recovery activity, as the amount from the recovery is recognized as the profit or loss.

The Company measures the allowance loss of accounts receivables in accordance with the preparation matrix as follows:

December 31, 2018

	Not Overdue	Overdue 0-30 Days	Overdue 31-90 Days	Total
Total Book Value	\$ 18,766	\$ 41,803	\$ 1,239	\$ 61,808
Allowance Loss (expected credit loss during lifetime period)	=	=	=	=
At amortized costs	<u>\$ 18,766</u>	<u>\$ 41,803</u>	<u>\$ 1,239</u>	<u>\$ 61,808</u>

The accounts receivable allowance for bad debts has not changed in 2018.

2017

The Company's credit policy in 2017 is the same as 2018 credit policy mentioned above. For the assessment of the allowance for bad debts of accounts receivable, due to historical record, the accounts receivable that were overdue for more than 365 days cannot be recovered, the Company recognizes 100% allowance for bad debts for accounts receivable aged over 365 days. For accounts receivable aging between 181 to 365 days, the allowance for bad debts is based on the past default records of the counterparty and its current financial status to estimate the unrecoverable amount.

The accounts receivable that were overdue at the balance sheet date, but the Company had not yet recognized for bad debts, because the quality of its credit had not changed significantly,

the Company's management believed that its amount could still be recovered and did not hold any collateral or other credit enhancement protection against such accounts receivable.

The age analysis of accounts receivable is as follows:

	<u>December 31, 2017</u>
Not Overdue	\$ 25,487
0 ~ 30 days	3,536
31~90 days	<u>30</u>
Total	<u>\$ 29,053</u>

The age analysis is based on the number of overdue days.

The age analysis of accounts receivable that are overdue but not impaired is as follows:

	<u>December 31, 2017</u>
0 ~ 30 days	\$ 3,536
31~90 days	<u>30</u>
Total	<u>\$ 3,566</u>

The age analysis is based on the number of overdue days.

The accounts receivable allowance for bad debts has not changed in 2017.

8. INVENTORIES

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Product	\$ 40,242	\$ 16,667
Raw materials	9,085	8,149
Work in progress	1,998	3,443
Commodity	<u>6,714</u>	<u>347</u>
	<u>\$ 58,039</u>	<u>\$ 28,606</u>

The cost of inventories sold in 2018 and 2017 were NT\$142,653,000 and NT\$129,982,000 respectively. The cost of goods sold in 2018 and 2017 respectively included a net loss of value of inventory of NT\$2,934,000 and a net appreciation of the value of inventories of NT\$4,694,000. The net realizable recovery value of the 2017 inventories was due to the increase in the inventories' sales price in a specific market.

9. INVESTMENT USING EQUITY METHOD

Investment Subsidiaries

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Unlisted (over the counter) companies		
Chen Li Education Group Co., Ltd. (Chen Li Education)	\$ 651,207	\$ 710,816
Prime Optical Fiber Co., Ltd. (Prime Optical Fiber)	2,460	6,818
Prime Education Consulting Co., Ltd. (Prime Education)	<u>6,753</u>	<u>-</u>
	<u>\$ 660,420</u>	<u>\$ 717,634</u>

	<u>Percentage of equity rights and voting rights</u>	
<u>Name of Subsidiary</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Chen Li Education	100%	100%
Prime Optical Fiber	100%	100%
Prime Education	51%	-

The Company obtained the equity of Chen Li Education in March 7, 2017. As of the end of July 2017, Chen Li Education has become a 100% subsidiary of the company.

In order to expand the business of optical fiber wires and cables, the Company's Board of Directors passed the resolution of NT\$10,000,000 investment to Prime Optical Fiber on August 9, 2017.

In order to expand the tutoring business in Kaohsiung city, the Company's Board of Directors' passed the resolution on December 15, 2017, and established Prime Education in January 1, 2018, holding 51% of total equity.

The Company's profit and loss of subsidiaries using the equity method and the share of other comprehensive income in the years 2018 and 2017 are recognized based on subsidiaries' financial reports audited by independent auditors of the same period.

For details of the investment subsidiaries held by the Company, please refer to Table 4.

10. PROPERTY, PLANT, EQUIPMENT

	Leasing of modified items	Machinery equipment	Office equipment	Other Equipment	Total
<u>Cost</u>					
January 1, 2017 Balance	\$ 30,003	\$ 212,414	\$ 6,390	\$ 11,936	\$ 260,743
Addition	143	440	-	-	583
Disposition	(923)	(210,553)	(6,390)	(11,419)	(229,285)
December 31, 2017 Balance	<u>\$ 29,223</u>	<u>\$ 2,301</u>	<u>\$ -</u>	<u>\$ 517</u>	<u>\$ 32,041</u>
<u>Accumulated depreciation</u>					
January 1, 2017 Balance	\$ 26,121	\$ 211,688	\$ 6,390	\$ 11,562	\$ 255,761
Depreciation Fee	1,298	490	-	231	2,019
Disposition	(923)	(210,553)	(6,390)	(11,419)	(229,285)
December 31, 2017 Balance	<u>\$ 26,496</u>	<u>\$ 1,625</u>	<u>\$ -</u>	<u>\$ 374</u>	<u>\$ 28,495</u>
December 31, 2017 Net amount	<u>\$ 2,727</u>	<u>\$ 676</u>	<u>\$ -</u>	<u>\$ 143</u>	<u>\$ 3,546</u>
<u>Cost</u>					
January 1, 2018 Balance	\$ 29,223	\$ 2,301	\$ -	\$ 517	\$ 32,041
Addition	-	4,198	-	350	4,548
Disposition	-	(1,162)	-	-	(1,162)
December 31, 2018 Balance	<u>\$ 29,223</u>	<u>\$ 5,337</u>	<u>\$ -</u>	<u>\$ 867</u>	<u>\$ 35,427</u>
<u>Accumulated depreciation</u>					
January 1, 2018 Balance	\$ 26,496	\$ 1,625	\$ -	\$ 374	\$ 28,495
Depreciation Fee	1,342	624	-	77	2,043
Disposition	-	(1,162)	-	-	(1,162)
December 31, 2018 Balance	<u>\$ 27,838</u>	<u>\$ 1,087</u>	<u>\$ -</u>	<u>\$ 451</u>	<u>\$ 29,376</u>
December 31, 2018 Net amount	<u>\$ 1,385</u>	<u>\$ 4,250</u>	<u>\$ -</u>	<u>\$ 416</u>	<u>\$ 6,051</u>

Depreciation fees are calculated on a straight-line basis according to the following durable years:

Leasing of Modified Items	3~8 years
Machinery Equipment	3~5 years
Office Equipment	2~5 years
Other Equipment	3 years

11. INVESTMENT PROPERTY

	<u>December 31, 2018</u>	<u>December 31, 2017</u>	
Investment Property	<u>\$ 32,631</u>	<u>\$ -</u>	
	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
<u>Cost</u>			
January 1, 2018 Balance	\$ -	\$ -	\$ -
Additions	<u>27,394</u>	<u>5,316</u>	<u>32,710</u>
December 31, 2018 Balance	<u>\$ 27,394</u>	<u>\$ 5,316</u>	<u>\$ 32,710</u>
	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
<u>Accumulated depreciation</u>			
January 1, 2018 Balance	\$ -	\$ -	\$ -
Depreciation Fee	<u>-</u>	<u>79</u>	<u>79</u>
December 31, 2018 Balance	<u>\$ -</u>	<u>\$ 79</u>	<u>\$ 79</u>
December 31, 2018 Net Amount	<u>\$ 27,394</u>	<u>\$ 5,237</u>	<u>\$ 32,631</u>

Investment property is the properties held by the Company to earn rental income. It is leased to the subsidiary Chen Li Education as a tutorial school. Please refer to Note 25.

The depreciation fee is based on the straight-line basis for the following number of years of durability:

Buildings	32 years
-----------	----------

The fair value of investment property has not been evaluated by independent evaluators and is only measured by the Company's management level using the evaluation model commonly used by market participants in the third level input value. The evaluation is based on market evidence similar to the transaction price of the property, and the fair value obtained is evaluated.

Fair value	<u>December 31, 2018</u>
	<u>\$ 34,020</u>

12. OTHER ASSETS

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Current</u>		
Prepaid Fees	\$ 1,728	\$ 1,371
Refundable Deposit	1,401	340
Prepaid Payment	577	25,930
Other	<u>147</u>	<u>1,467</u>
	<u>\$ 3,853</u>	<u>\$ 29,108</u>
<u>Noncurrent</u>		
Prepaid Equipment Payment	\$ 6,507	\$ 1,000
Refundable Deposit	<u>2,957</u>	<u>257</u>
	<u>\$ 9,464</u>	<u>\$ 1,257</u>

13. SHORT-TERM BORROWINGS

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Secured Loan</u> (Note 26)		
Bank loan	\$ 35,000	\$ -
<u>Unsecured Loan</u>		
Bank loan	<u>100,000</u>	<u>65,000</u>
	<u>\$135,000</u>	<u>\$ 65,000</u>

The interest rates of bank revolving loans were 1.72% and 1.89% respectively at December 31, 2018 and 2017.

The above-mentioned borrowings from financial institutions are jointly endorsed by the subsidiary Chen Li Education.

14. NOTES AND ACCOUNTS PAYABLE

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Hourly fee payable to Teachers	\$ 18,588	\$ -
Accounts Payable	7,953	8,047
Notes Payable	<u>22</u>	<u>59</u>
	<u>\$ 26,563</u>	<u>\$ 8,106</u>

15. OTHER LIABILITIES

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Other Payables</u>		
Salary payable	\$ 9,335	\$ 7,529
Compensation payable to Employees	3,750	4,427
Compensation payable to Directors	3,125	3,689
Labor payable	2,477	2,287
Additional processing fee payable	-	5,781
Other	<u>19,100</u>	<u>11,123</u>
	<u>\$ 37,787</u>	<u>\$ 34,836</u>
<u>Other Current Liabilities</u>		
Advance Payment	\$ 679	\$ 22,593
Other	<u>4,016</u>	<u>551</u>
	<u>\$ 4,695</u>	<u>\$ 23,144</u>

16. RETIREMENT BENEFIT PLAN

I. Defined Contribution Plans

The pension system of the "Labor Pensions Ordinance" applicable to the Company is a government-mandated retirement plan, which is based 6% of monthly salary contribution to the personal account of the Labor Insurance Bureau.

II. Defined Benefit Plans

The pension system handled by the Company in accordance with China's Labor Standards Law is a defined welfare retirement plan managed by the government. The payment of employee pension is calculated based on the service years and the average salary for the six months prior to the approved retirement date. The Company originally provided a pension of 2% of the employee's monthly salary, and the labor retirement reserve supervision committee deposited it in the name of the committee into the special account of the Taiwan bank. Before the end of the year, if the estimated balance of the special account is insufficient, the next year amount is paid. Labors estimated to meet the retirement conditions will be assessed once before the end of March of the following year. The special account is entrusted to the Labor Fund Management Bureau of the Ministry of Labor. The Company has no right to influence the investment management strategy. However, the Company agreed to suspend the transfer on December 31, 2018, and 2017 in accordance with the letter of the No.1070010673 and No.1060006213 of the Hsinchu Science and Technology Parks Authority of the Ministry of Science and Technology.

The amount of the defined benefit plan listed in the parent company only balance sheet is shown below:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Present Value of defined benefit obligations	\$ 7,110	\$ 6,609
Fair value of planned assets	(<u>14,671</u>)	(<u>14,101</u>)
Net defined benefit assets	(<u>\$ 7,561</u>)	(<u>\$ 7,492</u>)

The changes in Net Defined Benefit Assets are as follows:

	<u>PV of defined benefit obligations</u>	<u>Fair value of planned assets</u>	<u>Net defined benefit assets</u>
January 1, 2017	\$ 6,017	(\$ 13,964)	(\$ 7,947)
Interest Fees (Revenue)	<u>83</u>	(<u>192</u>)	(<u>109</u>)
Recognized in profit and loss	<u>83</u>	(<u>192</u>)	(<u>109</u>)
Number of further measurements			
Compensation of planned assets (other than amounts included in net interest)	-	55	55
Actuarial loss- changes in demographic assumptions	16	-	16
Actuarial loss- changes in financial assumptions	78	-	78
Actuarial loss- experience adjustment	<u>415</u>	<u>-</u>	<u>415</u>
Recognized in other consolidated profit and loss	<u>509</u>	<u>55</u>	<u>564</u>

(Continue)

	<u>PV of defined benefit obligations</u>	<u>Fair value of planned assets</u>	<u>Net defined benefit assets</u>
December 31, 2017	6,609	(14,101)	(7,492)
Interest Fees (Revenue)	<u>82</u>	(<u>176</u>)	(<u>94</u>)
Recognized in profit and loss	<u>82</u>	(<u>176</u>)	(<u>94</u>)
Number of further measurements			
Compensation of planned assets (other than amounts included in net interest)	\$ -	(\$ 394)	(\$ 394)
Actuarial loss- changes in demographic assumptions	16	-	16
Actuarial loss- changes in financial assumptions	81	-	81
Actuarial loss- experience adjustment	<u>322</u>	<u>-</u>	<u>322</u>
Recognized in other consolidated profit and loss	<u>419</u>	(<u>394</u>)	<u>25</u>
December 31, 2018	<u>\$ 7,110</u>	(<u>\$ 14,671</u>)	(<u>\$ 7,561</u>)

The amount of the benefit plan recognized in the profit and loss is summarized as follows:

	<u>2018</u>	<u>2017</u>
Administrative expenses (Pension benefits)	(<u>\$ 94</u>)	(<u>\$ 109</u>)

The Company's pension system under the “Labor Standards Act” is exposed to the following risks:

- 1) Investment risk: The Labor Fund Application Bureau of the Ministry of Labor invests in domestic and foreign equity securities, debt securities and bank deposits, respectively, through self-employment and entrusted operations. However, the amount of the Company's planned assets is not low. The income from the local bank's 2-year fixed deposit rate.
- 2) Interest rate risk: The decline in the interest rate of government bonds will increase the present value of defined benefit obligations, but the debt investment compensation of the planned assets will also increase, and the effect of the two on the net defined benefit assets will partially offset.
- 3) Payroll Risk: The calculation of the present value of the benefit obligation determines the future salary of the project member. The increase in the salaries of project members would therefore increase the present value of the defined benefit obligations.

The present value of the defined benefit obligation of the Company is actuarial by a qualified actuary. The significant assumptions for the measurement date are as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Discount rate	1.125%	1.25%
Expected rate of increase in Salary	1.125%	1.125%

If there is a reasonable possible change in the significant actuarial assumptions, the amount of increase (decrease) in the present value of the defined benefit obligation will be as follows, with all other assumptions fixed:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Discount rate		
Increase 0.25%	(\$ 166)	(\$ 158)
Reduce 0.25%	<u>\$ 171</u>	<u>\$ 164</u>
Expected rate of increase in Salary		
Increase 0.25%	<u>\$ 166</u>	<u>\$ 159</u>
Reduce 0.25%	(<u>\$ 161</u>)	(<u>\$ 154</u>)

Since actuarial assumptions may be interrelated and only a single hypothetical change is unlikely, the sensitivity analysis described above may not reflect the actual change in the present value of the defined benefit obligation.

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Average maturity period of a defined benefit obligation	12 year	13 year

17. EQUITY

I. Capital Stock

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Authorized shares (in thousands)	<u>200,000</u>	<u>250,000</u>
Authorized capital	<u>\$ 2,000,000</u>	<u>\$ 2,500,000</u>
Issued and paid shares (in thousands)	<u>17,459</u>	<u>16,548</u>
Issued capital	<u>\$ 174,594</u>	<u>\$ 165,480</u>

On June 14, 2018 and June 16, 2017, the Company passed the capital reserve to increase capital of NT\$8,314,000 and NT\$7,880,000 respectively. In addition, in February 2018, the Company issued new shares of NT\$ 800,000 due to employee exercising employee shares.

The Company has increase cash capital through private financing as follows:

	<u>First time</u>	<u>Second time</u>	<u>Third time</u>	<u>Forth time</u>	<u>Fifth time</u>
Shareholders' meeting resolution Date	97.10.31	97.10.31	102.05.03	104.05.12	105.05.09
Private funding Base Date	97.11.21	98.12.31	102.07.25	104.06.23	105.08.31
Number of shares (thousand shares)	14,103	16,575	3,000	7,000	8,200
Denomination (NT\$)	10.00	10.00	10.00	10.00	10.00
Subscription Price (NT\$)	1.17	1.81	10.00	6.30	73.25
Total private financing amount (thousands NT\$)	16,500	30,000	30,000	44,100	600,650

In 2008, 2009, 2013, 2015 and 2016, private financing capital stocks successively processed capital reductions to make losses in 2010 and 2016, and then transferred capital reserves to capital increase in 2017 and 2018, resulting in the increase or decrease of capital of the Company. The number of private financing common shares in each of the years were 381,000 shares, 448,000 shares, 533,000 shares, 1,243,000 shares and 9,040,000 shares respectively.

The above rights and obligations of private financing of new shares are the same as those of ordinary shares issued by the Company. However, according to the Securities Exchange Law, after 3 years of delivery of private financing ordinary shares and reapply public issuance, can apply for listing transaction on the market.

II. Capital surplus

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>To make up for losses, issue cash, or stock dividends (1)</u>		
Stock Issue Premium	\$360,198	\$472,666
<u>Only to make up for losses</u>		
Employees stock options exercised	2,591	2,238
Employees stock options expired	4,292	4,292
<u>Not used for any purpose</u>		
Employees stock options	-	353
	<u>\$367,081</u>	<u>\$479,549</u>

The changes in the balance of various capital reserves of the Company in 2018 and 2017 are as follows:

	Stock Issuance Premium	Employees stock options exercised	Employees stock options expired	Employees stock options	Total
January 1, 2017 Balance	\$ 518,772	\$ 2,238	\$ 4,292	\$ 353	\$ 525,655
Distribution of cash	(38,226)	-	-	-	(38,226)
Transfer of increased capital	(7,880)	-	-	-	(7,880)
December 31, 2017 Balance	<u>\$ 472,666</u>	<u>\$ 2,238</u>	<u>\$ 4,292</u>	<u>\$ 353</u>	<u>\$ 479,549</u>
January 1, 2018 Balance	\$ 472,666	\$ 2,238	\$ 4,292	\$ 353	\$ 479,549
Distribution of cash	(108,082)	-	-	-	(108,082)
Transfer of increased capital	(8,314)	-	-	-	(8,314)
Employees exercise stock options	3,928	353	-	(353)	3,928
December 31, 2018 Balance	<u>\$ 360,198</u>	<u>\$ 2,591</u>	<u>\$ 4,292</u>	<u>\$ -</u>	<u>\$ 367,081</u>

The excess of the capital reserve in excess of the premium amount (including the issuance of common shares with excess in denomination) to cover the losses, when the Company has no loss can be used to issue cash dividends or stock dividends, provided that the amount of share capital is limited to a certain percentage of the collected share capital each year.

III. Retained Earnings and Dividend Policy

The Company's Articles of Incorporation states, when allocating the net profits for each fiscal year, the Company shall first offset its losses in previous years and then set aside the following items accordingly: Legal capital reserve at 10% of the profits left over, until the accumulated legal capital reserve equals Company's paid-in capital; special capital reserve in accordance with relevant laws or regulations or as requested by the authorities in charge; any balance left over shall be allocated according to the resolution of the shareholders' meeting. The Company's Articles of Incorporation provide the policy about the profit-sharing bonus to employees, please refer to Note 18 (6).

The dividend policy of the Company shall take into account the environment and surplus status of the industry, the demand for future capital expenditure and the long-term financial planning, and if there is a surplus to distribute dividends, the proportion of cash dividend payment shall not be lower than 10% of the total dividend allocated in the current year, and the rest is distributed in the form of stock dividends.

The appropriation for legal capital reserve shall be made until the reserve equals the Company's paid-in capital. The reserve may be used to offset a deficit or be distributed as dividends in cash for the portion in excess of 25% of the paid-in capital if the Company incurs no loss.

The Company according to the Financial Commission's issued letter No. 1010012865, No.1010047490, No.1030006415 and "Adoption of international Financial Reporting Standards (IFRSs), a question and answer on the application of the special surplus reserve" and other provisions to mention and rotate the special surplus reserve.

The Company held regular shareholders' meetings on June 14, 2018 and June 16, 2017.

The resolutions passed the 2017 and 2016 annual surplus allocation as follows:

	Surplus Allocation case		Dividend per share (NT\$)	
	2017	2016	2017	2016
Legal Reserve	\$ 13,738	\$ 130		
Special Reserve	772	-		
Cash Dividend	-	1,174	\$ -	\$ 0.07

On June 14, 2018 and June 16, 2017, the Company transferred capital to the capital reserve of NT\$8,314,000 and NT\$7,880,000 according to the resolution of the shareholders' meeting and distributed the capital reserve of NT\$108,082,000 and NT\$38,226,000, cash dividend per share is NT\$6.50 and NT\$2.43 respectively.

The proposed 2018 annual reserve distribution by the Board of Directors on March 20, 2019 is as follows:

	Surplus Allocation case	Dividend per share (NT\$)
Legal Reserve	\$ 12,486	
Special Reserve	839	
Cash Dividend	69,042	\$ 4.00

The surplus distribution for the 2018 is to be discussed at the shareholders' meeting scheduled on May 2, 108.

IV. Treasury Stocks

The company transferred the shares to the employees. On August 16, 2018, the board of directors decided to buy back the treasury shares. As of December 31, 2018, it had bought back 199 shares.

The Treasury shares held by the company shall not be pledged under the Securities Exchange law, nor shall they enjoy the rights of dividend distribution and voting right.

18. NET PROFIT OF THE YEAR

I. Other Revenue

	2018	2017
Acceptance revenue	\$ 3,058	\$ 200
Government grant revenue (Note)	1,899	1,000
Interest revenue on bank deposits	147	117
Other	1,039	1,665
	<u>\$ 6,143</u>	<u>\$ 2,982</u>

Note: The government grant revenue is mainly funded by the Hsinchu Science Park Management Bureau of the Ministry of Science and Technology. The company cooperates with the National Tsinghua University to implement the "High Energy Noise-like Pulsed Fiber Laser for R&D of Materials Processing".

II. Other Profit and Loss

	2018	2017
Re-measure the original profit in the acquired equity (Note 1)	\$ -	\$ 8,994
Net foreign currency exchange benefits (losses) (Note 2)	<u>2,167</u>	<u>(2,268)</u>
	<u>\$ 2,167</u>	<u>\$ 6,726</u>

Note 1: The company obtained a 73% equity interest of Chen Li Education on March 2, 2006. The equity held increased from 15% to 88%, making it a subsidiary of the company. On the acquisition day, the equity of previously acquired party is remeasured at fair value and thus generates benefits of NT\$8,994,000.

Note 2: The 2018 and 2017 foreign exchange profits and losses of the Company are as follows:

	2018	2017
Total foreign currency exchange profits	\$ 4,519	\$ 7,155
Total foreign currency exchange losses	<u>(2,352)</u>	<u>(9,423)</u>
Net profit (loss)	<u>\$ 2,167</u>	<u>(\$ 2,268)</u>

III. Financial Costs

	2018	2017
Interest on bank loans	<u>\$ 1,610</u>	<u>\$ 701</u>

IV. Depreciation and Amortization

	2018	2017
Depreciation- property, plant and equipment	\$ 2,043	\$ 2,019
Depreciation- Investment property	79	-
Amortization- computer software	<u>336</u>	<u>40</u>
Total	<u>\$ 2,458</u>	<u>\$ 2,059</u>
Depreciation Fees Summary by Function		
Operating costs	\$ 1,743	\$ 1,653
Operating expenses	<u>379</u>	<u>366</u>
	<u>\$ 2,122</u>	<u>\$ 2,019</u>
Amortization costs aggregated based on the function		
Operating expenses	<u>\$ 336</u>	<u>\$ 40</u>

V. Employee Benefit Expenses

	<u>2018</u>	<u>2017</u>
Short term Employee Benefits	\$ 62,899	\$ 59,528
Retirement Benefits		
Defined contribution plans	1,623	1,709
Defined benefit plans (Note 16)	(94)	(109)
	<u>\$ 64,428</u>	<u>\$ 61,128</u>
Summary by functions		
Operating costs	\$ 23,842	\$ 20,846
Operating expenses	<u>40,586</u>	<u>40,282</u>
	<u>\$ 64,428</u>	<u>\$ 61,128</u>

VI. Employees' and Directors' Compensations

In accordance with the provisions of the Articles of Incorporation, the employees' and directors' compensations are provided at not less than 3% and not more than 5% respectively before deducting the pre-tax benefits of the employees and directors. The employee compensation and directors' compensation estimated in the years of 2018 and 2017 were decided by the Board meeting on March 20, 2019 and March 23, 2018 respectively as follows:

Estimated Ratio

	<u>2018</u>	<u>2017</u>
Employees' Compensation		
-Estimated ratio	3%	3%
-Amount	<u>\$ 3,750</u>	<u>\$ 4,427</u>
Director's Compensation		
-Estimated ratio	2.5%	2.5%
-Amount	<u>\$ 3,125</u>	<u>\$ 3,689</u>

If the amount of the annual parent company only financial report changes after the release date, it will be treated according to the accounting estimates and adjusted in the next year.

There is no difference between the actual allotment amount of the employee's and director's compensation for 2017 and 2016 and the recognized amount of the parent company only financial report for the 2017 and 2016.

For information on 2019 and 2018 Board Resolutions on employees' and directors' compensation of the Company's, please visit the "Public Information Observatory Website" of the Taiwan Stock Exchange.

19. INCOME TAX

I. Main accounts of Income tax benefits recognized in profit (loss):

	<u>2018</u>	<u>2017</u>
Current income tax		
Unallocated surplus plus levy	\$ 12,286	\$ -
Adjustments from previous years	10	-
Deferred income tax		
This year's generators	(16,150)	(15,546)
Changes in tax rates	(2,888)	-
Income tax benefits recognized in profit and loss	(<u>\$ 6,742</u>)	(<u>\$ 15,546</u>)

The adjustments of income accounting and income tax benefits are as follows:

	<u>2018</u>	<u>2017</u>
Net profit before tax	<u>\$118,124</u>	<u>\$139,435</u>
Income tax at the statutory tax rate for net profit before tax (20% and 17% for the year of 2018 and 2017)	\$ 23,625	\$ 23,704
Tax-free income and non-deductible costs	671	(11,829)
Unallocated retained earning plus levy	12,286	-
Impact number of non-recognitions of deferred income tax assets	(40,446)	(27,421)
Previous years income tax adjustment	10	-
Changes in tax rates	(2,888)	-
Income tax benefits recognized in profit and loss	(<u>\$ 6,742</u>)	(<u>\$ 15,546</u>)

The applicable tax rate in 2017 is 17%. After the amendment in February 2018, the R.O.C Income Tax Law adjusted the income tax rate for profit-making business from 17% to 20%, and it was implemented in 2018. In addition, the tax rate applicable to the undistributed surplus for 2018 will be reduced from 10% to 5%.

Due to the uncertainties in the earnings distribution of 2019 shareholders' meeting, the potential income tax consequences of the undistributed surplus in 2018 plus the 10% income tax cannot be reliably determined.

II. Income tax recognized in other consolidated profits and losses

	<u>2018</u>	<u>2017</u>
<u>Deferred income tax</u>		
This year generator		
-Remeasured number of defined benefit plan	(<u>128</u>)	<u>96</u>
Income tax recognized in other consolidated profits and losses	(<u>\$ 128</u>)	<u>\$ 96</u>

III. Deferred income tax assets and liabilities

The changes in deferred income tax assets and liabilities are as follows:

2018

	Year-start Balance	Recognized in profit and loss	Recognized in other comprehensive income	Year-end Balance
<u>Deferred income tax assets</u>				
Temporary differences				
Allowance for inventory loss	\$ 3,954	\$ 1,285	\$ -	\$ 5,239
Other	460	144	-	604
	<u>4,414</u>	<u>1,429</u>	<u>-</u>	<u>5,843</u>
Loss Deduction	12,502	18,019	-	30,521
	<u>\$ 16,916</u>	<u>\$ 19,448</u>	<u>\$ -</u>	<u>\$ 36,364</u>
<u>Deferred income tax liabilities</u>				
Temporary differences				
Defined benefit plans	1,274	111	128	1,513
Unrealized net profits of exchange	-	299	-	299
	<u>\$ 1,274</u>	<u>\$ 410</u>	<u>\$ 128</u>	<u>\$ 1,812</u>

2017

	Year-start Balance	Recognized in profit and loss	Recognized in other comprehensive income	Year-end Balance
<u>Deferred income tax assets</u>				
Temporary differences				
Allowance for inventory loss	\$ -	\$ 3,954	\$ -	\$ 3,954
Leave payable	-	175	-	175
Unrealized net loss of exchange	-	143	-	143
Unrealized cost of goods sold	-	142	-	142
	<u>-</u>	<u>4,414</u>	<u>-</u>	<u>4,414</u>
Loss Deduction	1,610	10,892	-	12,502
	<u>\$ 1,610</u>	<u>\$ 15,306</u>	<u>\$ -</u>	<u>\$ 16,916</u>
<u>Deferred income tax liabilities</u>				
Temporary differences				
Defined benefit plans	\$ 1,351	\$ 19	(\$ 96)	\$ 1,274
Unrealized net profits of exchange	259	(259)	-	-
	<u>\$ 1,610</u>	<u>(\$ 240)</u>	<u>(\$ 96)</u>	<u>\$ 1,274</u>

IV. Losses deduction of deferred income tax assets not recognized in the balance sheet

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Loss Deduction		
2018 Expiration	\$ -	\$ 34,569
2019 Expiration	-	48,987
2020 Expiration	-	50,925
2021 Expiration	-	62,622
2022 Expiration	8,604	13,679
2023 Expiration	53,678	53,678
2024 Expiration	24,784	24,784
	<u>\$ 87,066</u>	<u>\$289,244</u>

V. Related information of unused loss deduction

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
2018 Expiration	\$ -	\$108,108
2019 Expiration	33,979	48,987
2020 Expiration	50,925	50,925
2021 Expiration	62,622	62,622
2023 Expiration	13,679	13,679
2024 Expiration	53,678	53,678
2025 Expiration	<u>24,784</u>	<u>24,784</u>
	<u>\$239,667</u>	<u>\$362,783</u>

VI. Income Tax Approval Situation

The Company's profit-making business income tax return, the application cases up to the 2016 have been approved by the tax collection authorities.

20. EARNINGS PER SHARE

Unit: NT\$ per share

	<u>2018</u>	<u>2017</u>
Basic earnings per share	<u>\$ 7.18</u>	<u>\$ 8.92</u>
Diluted earnings per share	<u>\$ 7.16</u>	<u>\$ 8.86</u>

When calculating the earnings per share, the impact of the free allocation has been retrospectively adjusted. The benchmark date for the free allocation is scheduled for July 28, 2018. Due to retrospective adjustments, the basic and diluted earnings per share of 2017 are as follows:

Unit: NT\$ per share

	<u>Before Adjustment</u>	<u>After Adjustment</u>
Basic earnings per share	<u>\$ 9.37</u>	<u>\$ 8.92</u>
Diluted earnings per share	<u>\$ 9.31</u>	<u>\$ 8.86</u>

The earnings used to calculate the earnings per share and the weighted average shares of common stock are as follows:

Net profit of the year

	<u>2018</u>	<u>2017</u>
Net profit for calculating basic and diluted earnings per share	<u>\$124,866</u>	<u>\$154,981</u>

Number of shares

Unit: Thousand shares

	2018	2017
Weighted average common shares used to calculate basic earnings per share	17,385	17,379
Impact of potential common shares with dilution effect:		
Employee stock options	-	79
Employee compensation	48	27
Weighted average common shares used to calculate diluted earnings per share	<u>17,433</u>	<u>17,485</u>

If the Company has to choose to pay employees in stock or cash, the diluted earnings per share is calculated. Suppose the employee compensation will be issued in the form of shares, and when the potential common stock has a dilution effect, it takes into account the weighted average external shares in circulation in order to calculate the diluted earnings per share. The dilution effect of these potential ordinary shares will continue to be taken into account when calculating the diluted earnings per share before the deciding employee's compensation for next year.

21. SHARE BASE PAYMENT AGREEMENT

I. Employees Stock Options

In June and July 2012, the Company granted employees stock options with 1,799,000 units and 1,801,000 units, and each unit can subscribe for 1 unit of common stock. The granted subject are employees who meet certain conditions in the Company. The duration of the options is 6 years, and the holders of the certificates can exercise 50%, 30% and 20% of the stock options respectively after 2, 3 and 4 years after the issuance expiration. The exercise price of the stock options is the closing price of the ordinary shares on day of issuance. After the stock options are issued, when the ordinary shares of the Company change, the exercise price of the stock options is adjusted according to the prescribed formula.

Information on the issuance of 2012 employees stock options is as follows:

	2018		2017	
	Unit	Weighted average Execution Price	Unit	Weighted average Execution Price
Employees stock options	(Thousands)	(NT\$)	(Thousands)	(NT\$)
Circulating year-start	80	\$ 59.1	80	\$ 62.1
Abstained- current year	-	-	-	-
Executed- current year	(80)	59.1	-	-
Circulating year-end	-	-	80	59.1
Can be executed by year-end	-	-	80	59.1

At reporting date, the relevant information on external circulation of employees' stock is as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Range of execution price (NT\$)	\$ -	\$59.1
Weighted average remaining contract duration (years)	-	0.5 years

On November 6, 2017, the company also issued 1,600,000 units of employee stock options according to the board of directors' resolution. Each unit can subscribe for 1 share of common stock, and the price of the common stock is the share price of the share option on issuance date, but as of December 31, 2018, the Company has not actually issued.

II. New plan of Employee restricting shares

In order to retain and attract talents, the company issued a limited number of new shares of 400,000 shares based on the resolution of the shareholders' meeting on June 14, 2018, with a total amount of NT\$ 4,000,000 and the issue price is NT\$ 0 per share. It is expected within one year from the shareholders' meeting, the board of directors is authorized to issue once or in part within the quota.

22. OPERATING LEASE AGREEMENT

The operating lease is a leased office and factory building. The lease period is 10 years. In addition, the above lease contract was changed to mutual rent use by the Company and its subsidiary Prime Optical Fiber in August 2018.

The total amount of future minimum lease payments for non-cancellation operating leases is as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
No more than 1 year	\$ 11,760	\$ -
1 ~ 5 years	<u>94,080</u>	<u>-</u>
	<u>\$105,840</u>	<u>\$ -</u>

23. CAPITAL RISK MANAGEMENT

The Company's capital management to ensure that the enterprises within the group can continue to operate suitably under the debt and equity balance, in order to maximize shareholder reward.

The capital structure of the Company consists of net debt of the company (loans minus cash) and equity (capital stock, capital reserve and retained earnings).

The Company is not subject to other external capital requirements.

24. FINANCIAL INSTRUMENTS

I. Fair value Information- financial instruments not measured at fair value.

The carrying amount of financial assets and liabilities that are not measured at fair value is expected to be close to their fair value.

II. Fair value information- financial instruments measured at fair value on a repetitive basis.

There were no financial assets and liabilities measured at fair value by the Company at December 31, 2018 and 2017.

III. Types of financial instruments

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Financial assets</u>		
Loans and Receivables (Note1)	\$ -	\$111,551
Financial assets measured at amortized costs (Note 2)	187,935	-
<u>Financial liabilities</u>		
Financial liabilities measured at amortized costs (Note 3)	199,550	107,942

Note 1: The balance consists of cash, notes and accounts receivables, other receivables and refundable deposits, which are measured at amortized cost.

Note 2: The balance consists of financial assets measured by amortized cost, such as cash, notes and accounts receivables, other receivables and refundable deposits.

Note 3: The balance consists of financial liabilities measured at amortized cost, such as short-term borrowings, notes and accounts payable, other payables and saved deposits.

IV. Purpose and policies of financial risk management

The Company's major financial instruments include cash, notes and accounts receivable, notes and accounts payable and borrowings. The financial management department of the Company provides services for each business unit, coordinates and run the domestic and international financial market operations, monitors and manages the financial risks related to the operations by analyzing the internal risk report that overlooks the degree and extent of risk. These risks include market risk (including exchange rate risk and interest rate risk), credit risk and liquidity risk.

1) Market Risk

The main financial risk is the foreign currency exchange rate risk (see (1) below) and the risk of interest rate changes (see (2) below).

(1) Exchange Rate Risk

For the book value of monetary assets and liabilities denominated in the non-functional currency at the balance sheet date, refer to Note 27.

Sensitivity analysis

The Company is mainly affected by fluctuations in the US dollar exchange rate.

The sensitivity analysis only includes foreign currency monetary items that are in circulation and the conversion at the end of the period is adjusted by 1% of the exchange rate change. When the New Taiwan dollar appreciates by 1% against each relevant currency, it will reduce the net profit before tax of the Company in 2018 and 2017 by NT\$ 118,000 and NT\$ 551,000 respectively. When the New Taiwan dollar depreciates by 1% against each foreign currency, its impact on net profit before tax will be a positive amount of the same amount.

(2) Interest Rate Risk

The interest rate risk mainly comes from the borrowing of fixed interest rate and floating interest rate. Interest rate fluctuations will affect future cash flows but will not affect the fair value.

The book value of financial assets and liabilities for which the Company is subject to interest rate risk on the balance sheet date is as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Cash flow interest rate risk		
-Financial assets	\$ 60,127	\$ 79,890
-Financial liabilities	135,000	65,000

Assume that the floating borrowing rate at the end of the reporting period is held during the entire reporting period. When the interest rate increases/decreases by 0.1%, the net profit before tax for the Company's 2018 and 2017 will decrease/increase by NT\$75,000 and NT\$15,000 respectively, while all other variables remain fixed.

2) Credit Risk

Credit risk refers to the risk that the counterparty defaults on the contractual obligations resulting in financial losses to the Company. As the major trading counterparty are all creditworthy financial institutions and corporate organizations, no significant credit risk is expected.

3) Liquidity Risk

The Company reduces the impact of cash flow fluctuations by managing and maintaining sufficient cash. The Management supervises the available quotas of bank financing and ensures compliance with the terms of the loan contract.

Bank borrowing is an important source of liquidity for the Company. As of December 31, 2018, and 2017, the unused financing capital was NT\$91,000,000 (Note) and NT\$35,000,000 respectively.

Note: This amount is used jointly by the Company and subsidiary Chen Li Education.

Liquidity and interest rate risk statement for non-derivative financial liabilities

The analysis of the remaining contractual maturity of non-derivative financial liabilities is based on the undiscounted cash flows of financial liabilities (including principal and estimated interest) based on the date which the Company is required to repay. Therefore, regardless whether the bank immediately executes its rights, the Company may be required to immediately repay the bank loan by the earliest period in the following table; other non-derivative financial liability maturity analysis is prepared according to the agreed repayment date.

Interest cash flow paid at floating interest rate, its outstanding interest amount is derived from the balance sheet daily interest rate curve.

December 31, 2018

	<u>1~6 Months</u>	<u>6 months ~ 1 year</u>	<u>1 year and more</u>
<u>Non-derivative financial liabilities</u>			
Non-interest-bearing liabilities	\$ 57,514	\$ 6,836	\$ 200
Floating Rate Tool	<u>135,000</u>	<u>-</u>	<u>-</u>
	<u>\$ 192,514</u>	<u>\$ 6,836</u>	<u>\$ 200</u>

December 31, 2017

	<u>1~6 Months</u>	<u>6 months ~ 1 year</u>
<u>Non-derivative financial liabilities</u>		
Non-interest-bearing liabilities	\$ 42,942	\$ -
Floating Rate Tool	<u>65,000</u>	<u>-</u>
	<u>\$ 107,942</u>	<u>\$ -</u>

25. TRANSACTION OF RELATED PARTIES

Other than the disclosure of other notes, the transactions between Company and other related parties are as follows.

I. Name and its relation of the related parties

<u>Name of the related parties</u>	<u>Relationship with merged company</u>
Chen Li Education	Since March 2017, it is a Subsidiary of the Company.
Xiao-Cheng Chu	General Manager of Subsidiary
Prime Optical Fiber	Subsidiary of the Company

II. Operating Revenue

<u>Account Items</u>	<u>Type/Name of the related parties</u>	<u>2018</u>	<u>2017</u>
Labor revenue	Subsidiary Chen Li Education	<u>\$ 224,176</u>	<u>\$ 50,800</u>

III. Accounts Receivable

<u>Type/Name of the related parties</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Subsidiary Chen Li Education	<u>\$ 61,437</u>	<u>\$ -</u>

There is no guarantee for the accounts receivables of the related parties circulating outside. The 2018 accounts receivables of the related parties did not provide allowance for losses.

IV. Acquisition of financial assets

2017

<u>Name of the related parties</u>	<u>Account List</u>	<u>Number of shares transaction</u>	<u>Transaction Subject</u>	<u>Price obtained</u>
Xiao-Cheng Chu	Investment in equity method	1,344,000 shares	Shares of Chen Li Education	<u>\$ 90,719</u>

The Company was approved by the board of directors to purchase the equity of Chen Li Education from the related person Xiao-Cheng Chu in July 2017, and in accordance with the “acquisition or disposal of assets handling procedures”, the other independent auditors provided expert opinions on the reasonableness of the transaction price and the equity valuation, the analysis report is used as the basis for the purchase price.

V. Obtain Endorsement Guarantee

<u>Type/Name of the related parties</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Subsidiary Chen Li Education		
Guaranteed Amount	<u>\$ 226,000</u>	<u>\$ 100,000</u>

VI. Rental Revenue

<u>Type/Name of the related parties</u>	<u>2018</u>	<u>2017</u>
Subsidiary		
Chen Li Education	<u>\$ 572</u>	<u>\$ -</u>

As stated in Note 11, the investment property of the Company is leased to the subsidiary Chen Li Education, whose rent is based on the market rent and receives a deposit of NT\$200,000.

VII. Rental Expense

<u>Type/Name of the related parties</u>	<u>2018</u>	<u>2017</u>
Subsidiary		
Prime Optical Fiber	<u>\$ 3,364</u>	<u>\$ -</u>

It is an office and factory leased by a Prime Optical Fiber to a third party and subletted to some of the company's offices and factories.

VIII. Salaries of Key Management Levels

	<u>2018</u>	<u>2017</u>
Short term Employee Benefits	\$ 8,870	\$ 4,919
Retirement benefits	<u>102</u>	<u>73</u>
	<u>\$ 8,972</u>	<u>\$ 4,992</u>

The salaries of directors and other key management levels are determined by the Compensation Committee based on individual performance and market trends.

26. QUALITY-BACKED ASSETS

The land and buildings held by the subsidiary Chen Li Education are used as collateral for short-term bank loans.

27. INFORMATION ON FOREIGN CURRENCY ASSETS AND LIABILITIES WITH SIGNIFICANT IMPACT

The following information is aggregated in foreign currencies other than the functional currency of the Company. The exchange rate disclosed is the exchange rate of the foreign currency into the functional currency. The foreign currency assets and liabilities that have significant impact are as follows:

December 31, 2018

	<u>Foreign Currency</u>	<u>Exchange rate</u>	<u>Book Value</u>
<u>Foreign currency assets</u>			
<u>Monetary accounts</u>			
US Dollars	\$ 1,172	30.665	\$ 35,939
<u>Foreign currency liabilities</u>			
<u>Monetary accounts</u>			
US Dollars	787	30.665	24,133

December 31, 2017

	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>Book Value</u>
<u>Foreign currency assets</u>			
<u>Monetary accounts</u>			
US Dollars	\$ 2,557	29.71	\$ 75,968
Japanese Yen	12,061	0.2622	3,162
<u>Foreign currency liabilities</u>			
<u>Monetary accounts</u>			
US Dollars	809	29.710	24,035

The Company has realized and unrealized the foreign currency exchange gains and losses in the 2018 and 2017. Please combine the consolidated income statement. Due to the large number of foreign currency transactions, it is impossible to disclose the exchange gains and losses according to each significant foreign currency.

28. NOTES DISCLOSURE ITEMS

I. Main transaction items and II. Information related to the transfer of investment business:

1. Loans to others: Table 1.
2. Endorsement Guarantee for others: Table 2.
3. Holding securities at the end of the period (excluding investment in subsidiaries): none.
4. Accumulatively buy or sell the same marketable securities amounting to NT\$300 million or paid-up capital of more than 20%: None.
5. The amount of property acquired is NT\$300 million or over 20% of paid-up capital: none.
6. The disposition of property amounts to NT\$300 million or over 20% of paid-up capital: none.
7. The amount of import and sales with related parties amounts to NT\$100 million or over 20% of paid-up capital: Table 3.
8. The receivables from the related party amounted to NT\$100 million or more than 20% of the paid-up capital: none.
9. Engage in derivatives transactions: None.
10. Information on the investee company: Table 4.

II. China Investment Information:

- 1) The name of the China's company as investee, the main business operation, the amount of capital received, the mode of investment, the export of funds, the proportion of shareholding, current profit and loss and recognized investment gains and losses, the carrying amount of the final investment, the profit and loss of the remitted investment and the investment limit to the mainland region: Table 5.
- 2) The following major transactions occurred directly or indirectly by the mainland invested company through the third region, and their prices, terms of payment, unrealized gains and losses: none.
 - (1) The amount and percentage of the purchase and the closing balance and percentage of the relevant payables.
 - (2) The amount and percentage of goods sold and the closing balance and percentage of related receivables.

- (3) The amount of the property transaction and the amount of profit and loss it generates.
- (4) The closing balance of the bill endorsement or the provision of the collateral and its purpose.
- (5) The maximum balance, closing balance, interest rate range and total interest in the current period of the facility.
- (6) Other transactions that have a significant impact on the profits and losses or financial position of the current period, such as the provision or receipt of services.

29. DEPARTMENTAL INFORMATION

The Company has disclosed relevant operating department information in the consolidated financial statements as required.

30. CASH FLOW INFORMATION

Simultaneously affect investment and fundraising activities for cash and non-cash items

	<u>2018</u>	<u>2017</u>
Acquisition of property, plant and equipment		
Increase in property, plant and equipment	\$ 4,548	\$ 583
Increase in prepaid equipment	5,507	1,000
Decrease (increase) in the amount of equipment payable	<u>635</u>	(<u>1,347</u>)
Net cash payments	<u>\$ 10,690</u>	<u>\$ 236</u>

Success Prime Corporation

LOANS TO OTHERS

2018

Table 1

Unit: New Taiwan Dollar

Number (Note1)	The company that lends the funds	Receive of loans	Transaction Items	Related Party	Maximum balance for the current period	Closing balance	Actual amount of used	Interest rate range	Loan Properties (Note 2)	Business-related Transaction Amount	Reasons for short-term financing capital	Allowance for bad debt listed	Guarantee Products		Limited loan amount to Individual subject	Total limit amount on loans to others	Note
													Name	Value			
1	Chen Li Education	The Company	Other receivables - related parties	Yes	\$ 27,748	\$ 27,748	\$ -	1.9%	(2)	\$ -	Business Turnover	\$ -	—	\$ -	\$ 27,748 (Note 3)	\$ 27,748 (Note 3)	-

Note 1 : The numbering column is described as follows:

- (1) Issuer fill in 0.
- (2) Companies as investee are numbered sequentially starting from 1.

Note 2 : The subject receiving the loans, shall be limited to the following circumstances:

- (1) Subject companies with business relations with the SPC.
- (2) Necessary party with short-term financing capital.

Note 3 : The maximum amount of business transactions in the most recent year between the two parties and 10% of the net value of the latest financial statements of Chen Li Education is calculated to be NT\$ 27,748,000 (the business volume of the most recent year is NT\$50,800,000 x 10% and the net value of the financial statements on December 31, 2017 is NT\$226,689,000 x 10% of the total).

Success Prime Corporation
ENDORSEMENT GUARANTEE FOR OTHERS
2018

Table 2

Unit: In thousands of New Taiwan Dollars, unless otherwise noted

Number (Note1)	Name of endorsement guarantor Company	The object of endorsement is guaranteed		Limit Endorsement Guarantee for a single enterprise (Note 3)	Highest Endorsement Guaranteed balance of current period	Final Endorsement Guaranteed balance	Actual amount of used	Property Endorsement Guarantee Amount	Cumulative endorsement margin as a percentage of net value from most recent financial statements (%)	Endorsement Guarantee Maximum limit (Note 3)	Parent company endorsement to Subsidiary	Subsidiary endorsement to parent company	Endorsement guarantee for China	Note
		Company Name	Relationship (Note 2)											
1	Chen Li Education	The Company	(4)	\$ 226,690	\$ 226,000	\$ 226,000	\$ 135,000	\$ -	99.7%	\$ 340,034	N	Y	N	—

Note 1 : The numbering column is described as follows:

- (1) Issuer fill in 0.
- (2) Companies as investee are numbered sequentially starting from 1.

Note 2 : There are six kinds of relationship between the endorsement guarantor and the endorsed subject, can be indicated by the following types:

- (1) Companies with business relationship.
- (2) Directly hold more than 50% of the common stock of Subsidiaries.
- (3) The combined calculation of shares held by the parent company and the subsidiary is 50% more than the investee company.
- (4) For parent companies that indirectly hold more than 50% of the common stock directly or through subsidiaries.
- (5) Companies that are mutually protected under contractual requirements based on the needs of the contracted project.
- (6) A company that is endorsed by each of the contributing shareholders in accordance with their shareholding ratio due to the joint investment relationship.

Note 3 : The limit amount of the foreign endorsement guarantee of Chen Li Education Co., Ltd. are as follows:

- (1) The amount of the endorsement or guarantee of Chen Li Education and its subsidiaries as a whole to a single enterprise shall not exceed 100% of the net value of the financial statements audited or reviewed by Chen Li Education recently. Chen Li Education directly and indirectly or directly and indirectly to the company with more than 50% of the shares with voting rights of the company, the maximum amount of endorsement guarantees shall not exceed 1.5 times the net value of the company.
- (2) The net value is based on the financial statements (2017) reviewed by the most recent Chen Li Education Accountant.

Success Prime Corporation

THE AMOUNT OF IMPORT AND SALES WITH RELATED PARTIES AMOUNTS TO NT\$100 MILLION OR OVER 20% OF PAID-UP CAPITAL

2018

Table 3

Unit: New Taiwan Dollar

Import (sale) goods Company	Trading Subject	Relationship	Trading Scenarios				Trading conditions are different from general transaction The situation and reason		Notes and accounts receivables (payable)		Note
			Import (sold) goods	Amount	Ratio of total import (sales) goods	Credit Period	Price	During the letter of credit	Balance	Ratio of total notes and accounts receivables (payable)	
The Company	Chen Li Education	Subsidiary	Labor revenue	(\$ 224,176)	(48%)	30 days	Note	-	\$ 61,437	50%	-
Chen Li Education	The Company	Parent company	Labor costs	224,176	64%	30 days	Note	-	(61,437)	(94%)	-

Note: There are no other transactions of the same type available for comparison, and the terms of collection are agreed by both parties.

Success Prime Corporation

RELATED INFORMATION ON THE INVESTEE COMPANY, OPERATING REGIONS AND MORE
FOR THE YEARS ENDED DECEMBER 31, 2018

Table 4 Unit: In thousands of New Taiwan Dollars, unless otherwise noted

Name of investment Company	Name of the invested company	Region	Main business Operation	Original Invested Amount		Final hold			Invested Companies Profit and loss Current period	Investment recognized as profit and loss current period	Note
				End of period	End of previous year	Number of shares (Thousand shares)	Ratio	Book Value			
The Company	Chen Li Education	Taiwan	Education services	\$ 711,369	\$ 711,369	11,200	100%	\$ 651,207	(\$ 407)	(\$ 652)	Subsidiary
The Company	Prime Optical Fiber	Taiwan	Wire & Cable Manufacturing	10,000	10,000	1,000	100%	2,460	(4,358)	(4,358)	Subsidiary
The Company	Prime Education	Taiwan	Education Consulting Service	5,100	-	510	51%	6,573	3,242	1,653	Subsidiary
Chen Li Education	CHEN LI Education Group Limited	British Virgin Islands	Holding Company	40,543	40,543	-	100%	33,783	3,625	Note	Sun Corp.
CHEN LI Education Group Limited	CHEN LI Education Group (HK) Limited	Hong Kong	Holding Company	(USD 1,292,000)	(USD 1,292,000)	-	100%	32,890	3,655	Note	Sun Corp.
				30,059	30,059						
				(USD 952,000)	(USD 952,000)						

Note: The profit and loss of the invested company is included in its investment company. To avoid confusion, it will not be expressed here.

Success Prime Corporation
CHINA INVESTMENT INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 2018

Table 5

Unit: In thousands of New Taiwan Dollars, unless otherwise noted

Mainland Investee Company Name	Main Business Operations	Actual Amount of capital received	Investment method	Beginning of the current period Remitted from Taiwan investment amount	Remittance or recovery of investment amount in current period		End of current period Remitted from Taiwan investment amount	Invested companies Profit and loss of current period	Merger Company Proportion of shares in direct or indirect investment	Investments Recognition in current period Profit and Loss (Note 1)	End of investment Book Value	For the period ended Repatriated Investment Income	Note
					Remitted	Recovered							
Chen Li (Xiamen) Education Consulting Co., Ltd.	Engaged in educational consulting services and other business	RMB 6,000,000	Through the third regional company CHEN LI Education Group (HK) Limited Investment	\$ 28,516	\$ -	\$ -	\$ 28,516	\$ 3,681	100%	\$ 3,681	\$ 31,452	\$ -	

Remittance Accumulated from Taiwan at the end of this period	Investment amount approved by the Ministry of Economy	According to the regulations of the Ministry of Economic Affairs
Amount invested in mainland China		Investment quota for mainland China
\$ 28,516 (RMB 6,000,000)	\$ 28,516 (RMB 6,000,000)	\$ 100,395 (Note 2)

Note 1: Investment gains and losses are recognized in the financial statements audit checked by the Taiwanese parent company's accountant.

Note 2: Based on 60% of the net value of the latest financial statements of Chen Li Education Co., Ltd.

LIST OF KEY ACCOUNTING ACCOUNT ITEMS

ACCOUNTS	NUMBER/INDEX
List of Assets, Liabilities and Equity Accounts	
Cash	Detail list 1
Notes and Accounts Receivables	Detail list 2
Inventory	Detail list 3
Other Current Assets	Note 12
Statement of Investment Changes Using The Equity Method	Detail list 4
Changes for Property, Plant and Equipment	Note 10
Depreciation Changes for Property, Plant and Equipment	Note 10
Other Non-Current Assets	Note 12
Short-Term Borrowings	Detail list 5
Notes and Accounts Payable	Detail list 6
Other Payables	Note 15
List of Comprehensive Income Accounts	
Operating Revenue	Detail list 7
Operating Costs	Detail list 8
Operating Expenses	Detail list 9
Other Net Profit and Net Loss Amounts	Note 18
Financial Costs	Note 18
Employee Benefits,	Detail list 10
Depreciation and Amortization Costs in Current Period	

Success Prime Corporation

CASH

December 31, 2018

(In Thousands of New Taiwan Dollars, unless otherwise noted)

Detail List 1

<u>Accounts</u>	<u>Summary</u>	<u>Amount</u>
Cash reserve and working capital		\$ 197
Bank Deposit		
Check and Demand Deposit		42,550
Foreign currency demand deposit (Note)		<u>17,577</u>
		<u>\$ 60,324</u>

Note: The main foreign currency demand deposit is US\$572,000, which is converted according to the exchange rate of US\$1=30.665.

Success Prime Corporation
ACCOUNT RECEIVABLES

December 31, 2018

(In Thousands of New Taiwan Dollars, unless otherwise noted)

Detail List 2

Customer Name	Summary	Amount
Non-related parties		
A	Payment	\$ 18,349
B	Payment	17,805
C	Payment	8,425
D	Payment	4,345
E	Payment	4,204
F	Payment	4,168
Other (note)	Payment	<u>4,512</u>
Total		<u>\$ 61,808</u>

Note: Each household balance does not exceed 5% of the balance of this account.

Success Prime Corporation

INVENTORY

December 31, 2018

(In Thousands of New Taiwan Dollars, unless otherwise noted)

Detail List 3

<u>Accounts</u>	<u>Amount</u>	
	<u>Cost</u>	<u>Net realizable value</u>
Products	\$ 61,027	\$ 40,242
Raw Materials	12,008	9,085
Work in Progress Products	4,312	1,998
Commodity	<u>6,886</u>	<u>6,714</u>
	84,233	<u>\$ 58,039</u>
Less: Allowance loss	(<u>26,194</u>)	
	<u>\$ 58,039</u>	

Success Prime Corporation

STATEMENT OF INVESTMENT CHANGES USING THE EQUITY METHOD

FOR THE YEARS ENDED DECEMBER 31, 2018

Detail List 4

Unit: In thousands of New Taiwan Dollars, unless otherwise noted

Name	Year-start Balance		Increase in current year		Decrease in current year		Subsidiaries Profit and Loss of share using equity method	Conversion of financial statements The Exchange difference	Year-end Balance			Market price or net equity(Note3)			
	Number of shares	Amount	Number of shares	Amount (note1)	Number of shares	Amount (note2)			Number of shares	Shareholding ratio	Amount	Unit Price (NT\$)	Price	Endorsement	Note
Chen Li Education	11,200,000	\$ 710,816	-	\$ -	-	(\$ 58,118)	(\$ 652)	(\$ 839)	11,200,000	100%	\$ 651,207	\$14.9	\$ 167,325	N	—
Prime Optical Fiber	1,000,000	6,818	-	-	-	-	(4,358)	-	1,000,000	100%	2,460	2.5	2,460	N	—
Education Consulting Services	-	-	510,000	5,100	-	-	1,653	-	510,000	51%	6,753	2.6	13,241	N	—
		<u>\$ 717,634</u>		<u>\$ 5,100</u>		<u>(\$ 58,118)</u>	<u>(\$ 3,357)</u>	<u>(\$ 839)</u>			<u>\$ 660,420</u>		<u>\$ 183,026</u>		

Note 1: This year's increase was the establishment of excellence education by the company in January 2018 for NT\$5,160,000.

Note 2: The amount of this year's reduction is the cash dividend paid by the subsidiary.

Note 3: All are non-listed cabinet companies with no market price, so they are listed as net equity value and net value per share.

Success Prime Corporation
SHORT-TERM BORROWING
DECEMBER 31, 2018

Detail List 5

Unit: In thousands of New Taiwan Dollars, unless otherwise noted

Borrowing Name	Balance	Contract Period	Interest Rate range (%)	Financing Quota (Note1)	Collateral or Endorsement
Secured Loans					
Taipei Fubon Bank	\$ 20,000	107.10.04~108.04.02	1.63		Note 2
Taipei Fubon Bank	<u>15,000</u>	107.10.17~108.04.15	1.63		Note 2
Subtotal	<u>35,000</u>				
Credit Loans					
Taipei Fubon Bank	14,500	107.10.29~108.04.27	1.78		N
Taipei Fubon Bank	65,500	107.11.09~108.05.08	1.78		N
Taipei Fubon Bank	<u>20,000</u>	107.11.26~108.05.25	1.79		N
Subtotal	<u>100,000</u>				
Total	<u>\$ 135,000</u>			<u>\$ 226,000</u>	

Note 1: The total amount of financing is NT\$226,000,000, which is jointly used by the Company and its subsidiary Chen Li Education.

Note 2: Land and buildings are used as collateral.

Success Prime Corporation

ACCOUNTS PAYABLE

December 31, 2018

(In Thousands of New Taiwan Dollars, unless otherwise noted)

Detail List 6

<u>Manufacturer name</u>	<u>Summary</u>	<u>Amount</u>
Non-related parties		
A	Payment	\$ 3,523
B	Payment	2,707
C	Payment	753
D (Note1)	Teacher Hourly Fee	18,588
Other (note2)		<u>992</u>
Total		<u>\$ 26,563</u>

Note 1: The fees for the non-relevant teachers are listed as a result of the large number of members.

Note 2: The balance of each household does not exceed 5% of the balance of this account.

Success Prime Corporation
OPERATING REVENUE
FOR THE YEARS ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, unless otherwise noted)

Detail List 7

<u>Items</u>	<u>Number</u>	<u>Amount</u>
Optical Fiber	About 224,099 Km	\$ 162,834
Labor Service Revenue		154,678
Cable	About 18,260 Km	50,874
Digital Information Consulting		91,402
Other		<u>5,188</u>
Total operating revenue		464,976
Less: Return and discount of sales		(<u>536</u>)
Net operating income		<u>\$ 464,440</u>

Success Prime Corporation
OPERATING COST
FOR THE YEARS ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, unless otherwise noted)

Detail List 8

Account	Amount
Raw materials at the beginning of	\$ 11,229
Add: Import material of year	68,344
Raw Material profit	23
Less: End of year raw materials	(12,008)
Transfer fee	(1,164)
Raw materials consumed the year	66,424
Direct Manual	11,384
Manufacturing expenses	55,618
Manufacturing costs	133,426
Year-beginning in progress product	3,766
Add: Import material of year	2,753
Less: year-end progress products	(4,312)
Cost of finished goods	135,633
Finished products at year-beginning	36,506
Add: Purchased finished products	30,265
Less: Finished goods year-end	(61,027)
Transfer fee	(393)
Finished goods Losses	146
Other	(28)
Production and marketing costs	141,102
Year-beginning Merchandise	365
Add: This year's purchase	4,723
Departmental use	10
Less: Year-end merchandise	(6,886)
Selling costs	139,314
Revenue from sale of scrap materials	(259)
Loss of falling inventory prices	2,934
NET inventory profit	(169)
Labor costs	128,026
Digital cost	11,408
Other	832
Operating costs	<u>\$ 282,086</u>

Success Prime Corporation
OPERATING EXPENSE
FOR THE YEARS ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, unless otherwise noted)

Detail List 9

Account	Marketing fee	Management fee	R&D Cost	Total
Import and export fee	\$ 3,523	\$ -	\$ -	\$ 3,523
Salary expenses (including retirement benefits)	8,975	21,394	7,426	37,795
Rental expenses	1,240	1,368	413	3,021
Water and electricity gas expenses	840	467	1,320	2,627
Incidental expenses	1,292	1,532	4,788	7,612
Labor expenses	-	5,142	295	5,437
Health insurance Fee	324	1,353	283	1,960
Taxes	-	777	40	817
Other	<u>1,247</u>	<u>3,232</u>	<u>302</u>	<u>4,781</u>
	<u>\$ 17,441</u>	<u>\$ 35,265</u>	<u>\$ 14,867</u>	<u>\$ 67,573</u>

Success Prime Corporation
EMPLOYEE BENEFITS, DEPRECIATION AND AMORTIZATION COSTS
2018 and 2017

(In Thousands of New Taiwan Dollars, unless otherwise noted)

Detail List 10

	2018			2017		
	Belong to Operating cost Holders	Belong to Operating fees holders	Total	Belong to Operating cost Holders	Belong to Operating fees holders	Total
Employee Benefit fees						
Salary fees	\$ 20,458	\$ 32,753	\$ 53,211	\$ 18,095	\$ 31,161	\$ 49,256
Health insurance fees	1,714	1,960	3,674	1,267	1,935	3,202
Pension fees	842	687	1,529	688	912	1,600
Directors' fees	-	4,355	4,355	-	4,973	4,973
Other employee benefit fees	828	831	1,659	796	1,301	2,097
	<u>\$ 23,842</u>	<u>\$ 40,586</u>	<u>\$ 64,428</u>	<u>\$ 20,846</u>	<u>\$ 40,282</u>	<u>\$ 61,128</u>
Depreciation Fee	<u>\$ 1,743</u>	<u>\$ 379</u>	<u>\$ 2,122</u>	<u>\$ 1,653</u>	<u>\$ 366</u>	<u>\$ 2,019</u>
Amortization Fee	<u>\$ -</u>	<u>\$ 336</u>	<u>\$ 336</u>	<u>\$ -</u>	<u>\$ 40</u>	<u>\$ 40</u>

As of December 31, 2018, and 2017, the average number of employees of the Company in 2018 and 2017 was 48 and 51 respectively, of which the average number of directors who did not have concurrent employees was 9.