

**ALTEK CORPORATION AND
SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS
DECEMBER 31, 2018 AND 2017**

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

PWCR 18000250

(In Thousands of New Taiwan Dollars)

To the Board of Directors and Shareholders of Altek Corporation

Opinion

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

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

Basis for opinion

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

Key audit matters

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

Key audit matters for the Group's consolidated financial statements of the current period are stated as follows:

Allowance for inventory valuation losses

Description

Please refer to Note 4(14) for description of accounting policy on inventory valuation. Please refer to Note 5(2) for accounting estimates and assumption uncertainty in relation to inventory valuation. Please refer to Note 6(6) for description of allowance for inventory valuation losses.

The Group is primarily engaged in manufacturing and sales of digital image application products. As the Group is in a rapidly changing industry and the short life cycle of electronic products and the highly competitive nature of the market, there is a higher risk of incurring inventory valuation losses or having obsolete inventory. The Group measures inventories sold at the lower of cost and net realisable value. For inventory that is over a certain age and individually identified obsolete or damaged inventory, the company recognises losses at net realisable value. Aforementioned allowance for inventory valuation losses mainly arises from individually identified obsolete or damaged inventory. Since the value of inventories is significant, involves various types of inventory, and the individual identification of inventory usually involves management judgement which is an area that also needs to be assessed using our judgement during the audit process. Thus, we identified valuation of allowance for inventory losses as one of the key audit matters.

How our audit addressed the matter

We performed the following audit procedures on the above key audit matter:

- A. Obtained an understanding and assessed the provision policy on inventory valuation losses.
- B. Obtained the statement of individually identified obsolete inventory prepared by management and checked the accuracy of stock age analysis report and relevant information.

C. Checked the accuracy of net realisable value of inventory, assessed the consistency between valuation of market value decline and its provision policy, and assessed the reasonableness of allowance for valuation losses determined by the Group.

Timing of sales revenue recognition

Description

Please refer to Note 4(29) for accounting policies of revenue recognition. The Company and its subsidiaries' revenue mainly arises from export sales and the cash amounts are material. As the sales terms vary from customers who are located in Mainland China, Europe and America, the terms in customer orders and contracts needs to be properly assessed. Since this involves judgement in the determination of timing of control transfer, we consider the timing of revenue recognition as a key audit matter.

How our audit addressed the matter

We performed the following audit procedures on the above key audit matter:

- A. Assessed the appropriation of policies on sales revenue recognition.
- B. Assessed and tested the design of internal controls that are relevant to sales revenue recognition and the effectiveness of execution.
- C. Performed cutoff test on sales revenue in specific period around balance sheet date.
- D. Performed confirmation and substantive test on the balance of accounts receivable at the end of period to confirm accounts receivable and that relevant sales revenue have been recorded in the proper period.

Other matter – Parent company only financial reports

We have audited and expressed an unqualified opinion on the parent company only financial statements of Altek Corporation as at and for the years ended December 31, 2018 and 2017.

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

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

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

Those charged with governance are responsible for overseeing the Group’s financial reporting process.

Auditor’s responsibilities for the audit of the consolidated financial statements

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

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

- A. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- B. 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 Group's internal control.
 - C. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
 - D. 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
 - E. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
 - F. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated 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 consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Tsang, Kwok-Wah

Li, Tien-Yi

For and on behalf of PricewaterhouseCoopers, Taiwan

March 15, 2019

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

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

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

Assets		Notes	December 31, 2018		December 31, 2017	
			AMOUNT	%	AMOUNT	%
Current assets						
1100	Cash and cash equivalents	6(1)	\$ 6,495,017	40	\$ 5,874,982	39
1110	Current financial assets at fair value through profit or loss	6(2)	-	-	584,799	4
1136	Current financial assets at amortised cost, net	6(4)	261,228	2	-	-
1150	Notes receivable, net	6(5)	1,387,222	8	30,335	-
1170	Accounts receivable, net	6(5)	2,414,775	15	2,342,369	16
1200	Other receivables		31,712	-	18,976	-
1220	Current income tax assets		683	-	3,339	-
130X	Inventories, net	6(6)	999,212	6	1,165,926	8
1410	Prepayments		89,451	1	176,696	1
1470	Other current assets		6,141	-	16,080	-
11XX	Current Assets		11,685,441	72	10,213,502	68
Non-current assets						
1510	Non-current financial assets at fair value through profit or loss	6(2)	23,683	-	-	-
1517	Non-current financial assets at fair value through other comprehensive income	6(3)	114,508	1	-	-
1543	Non-current financial assets at cost	12(4)	-	-	138,011	1
1550	Investments accounted for using equity method	6(7)	26,768	-	-	-
1600	Property, plant and equipment, net	6(8)	3,376,345	21	3,648,788	24
1760	Investment property, net	6(9)	770,551	4	777,368	5
1780	Intangible assets, net	6(10)	100,142	1	121,538	1
1840	Deferred income tax assets	6(28)	102,696	1	82,415	1
1900	Other non-current assets	6(11)	70,336	-	67,349	-
15XX	Non-current assets		4,585,029	28	4,835,469	32
1XXX	Total assets		\$ 16,270,470	100	\$ 15,048,971	100

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

Liabilities and Equity			Notes	December 31, 2018		December 31, 2017		
				AMOUNT	%	AMOUNT	%	
Current liabilities								
2100	Short-term borrowings	6(12)	\$	1,760,000	11	\$	2,021,000	14
2110	Short-term notes and bills payable	6(13)		-	-		199,797	2
2150	Notes payable			1,049,446	6		30,335	-
2170	Accounts payable			1,878,509	12		2,097,254	14
2200	Other payables			415,658	3		420,452	3
2230	Current income tax liabilities			58,625	-		62,053	-
2250	Provisions for liabilities - current	6(17)		35,378	-		30,177	-
2300	Other current liabilities			223,054	1		181,824	1
21XX	Current Liabilities			5,420,670	33		5,042,892	34
Non-current liabilities								
2540	Long-term borrowings	6(14)		600,000	4		-	-
2550	Provisions for liabilities - noncurrent	6(17)		113,115	1		93,818	-
2570	Deferred income tax liabilities	6(28)		447,061	3		394,939	3
2600	Other non-current liabilities			28,043	-		32,097	-
25XX	Non-current liabilities			1,188,219	8		520,854	3
2XXX	Total Liabilities			6,608,889	41		5,563,746	37
Equity attributable to owners of parent								
Share capital		6(18)						
3110	Common stock			2,740,113	17		2,738,188	18
Capital surplus		6(19)						
3200	Capital surplus			2,262,397	14		2,256,692	15
Retained earnings		6(20)						
3310	Legal reserve			1,381,094	8		1,379,754	9
3320	Special reserve			425,580	3		142,456	1
3350	Unappropriated retained earnings			2,471,973	15		2,737,026	18
Other equity interest		6(21)						
3400	Other equity interest		(	294,938)	(2)	(	302,339)	(2)
3500	Treasury stocks	6(18)		-	-	(	96,138)	-
31XX	Equity attributable to owners of the parent			8,986,219	55		8,855,639	59
36XX	Non-controlling interest			675,362	4		629,586	4
3XXX	Total equity			9,661,581	59		9,485,225	63
Significant contingent liabilities and unrecognised contract commitments								
3X2X	Total liabilities and equity		\$	16,270,470	100	\$	15,048,971	100

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

ALTEK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars, except earnings per share amounts)

Items	Notes	Year ended December 31			
		2018		2017	
		AMOUNT	%	AMOUNT	%
4000 Sales revenue	6(22) and 12(5)	\$ 11,193,569	100	\$ 10,552,773	100
5000 Operating costs	6(6)(26)(27)	(9,875,021)	(88)	(9,117,731)	(86)
5900 Net operating margin		<u>1,318,548</u>	<u>12</u>	<u>1,435,042</u>	<u>14</u>
Operating expenses	6(26)(27)				
6100 Selling expenses		(69,425)	(1)	(69,687)	(1)
6200 General and administrative expenses		(336,529)	(3)	(331,083)	(3)
6300 Research and development expenses		(814,075)	(7)	(874,826)	(9)
6450 Expected credit losses	12(2)	(7,262)	-	-	-
6000 Total operating expenses		(1,227,291)	(11)	(1,275,596)	(13)
6900 Operating profit		<u>91,257</u>	<u>1</u>	<u>159,446</u>	<u>1</u>
Non-operating income and expenses					
7010 Other income	6(23)	184,733	2	110,676	1
7020 Other gains and losses	6(24)	50,527	-	(105,995)	(1)
7050 Finance costs	6(25)	(25,497)	-	(26,565)	-
7000 Total non-operating income and expenses		<u>209,763</u>	<u>2</u>	<u>(21,884)</u>	<u>-</u>
7900 Profit before income tax		301,020	3	137,562	1
7950 Income tax expense	6(28)	(127,870)	(1)	(87,975)	(1)
8200 Profit for the year		<u>\$ 173,150</u>	<u>2</u>	<u>\$ 49,587</u>	<u>-</u>

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ALTEK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars, except earnings per share amounts)

		Year ended December 31			
		2018		2017	
Items	Notes	AMOUNT	%	AMOUNT	%
Other comprehensive income					
Components of other comprehensive income that will not be reclassified to profit or loss					
8311	Other comprehensive income, before tax, actuarial gains (losses) on defined benefit plans	\$ 682	-	(\$ 1,798)	-
8316	Unrealised gains from financial assets measured at fair value through other comprehensive income	(12,016)	-	-	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	(1,029)	-	306	-
8310	Components of other comprehensive income that will not be reclassified to profit or loss	(12,363)	-	(1,492)	-
Components of other comprehensive income that will be reclassified to profit or loss					
8361	Currency translation differences of foreign operations	33,267	-	(392,098)	(4)
8370	Share of other comprehensive income of associates and joint ventures accounted for under equity method	-	-	1,520	-
8399	Income tax relating to the components of other comprehensive income	6,219	-	65,160	1
8360	Components of other comprehensive income (loss) that will be reclassified to profit or loss	39,486	-	(325,418)	(3)
8300	Total other comprehensive income (loss) for the year	<u>\$ 27,123</u>	<u>-</u>	<u>(\$ 326,910)</u>	<u>(3)</u>
8500	Total comprehensive income (loss) for the year	<u>\$ 200,273</u>	<u>2</u>	<u>(\$ 277,323)</u>	<u>(3)</u>
Profit attributable to:					
8610	Owners of the parent	\$ 130,562	2	\$ 13,402	-
8620	Non-controlling interest	42,588	-	36,185	-
	Profit for the year	<u>\$ 173,150</u>	<u>2</u>	<u>\$ 49,587</u>	<u>-</u>
Comprehensive (loss) income attributable to:					
8710	Owners of the parent	\$ 144,490	1	(\$ 306,223)	(3)
8720	Non-controlling interest	55,783	1	28,900	-
	Total comprehensive income (loss) for the year	<u>\$ 200,273</u>	<u>2</u>	<u>(\$ 277,323)</u>	<u>(3)</u>
9750	Basic earnings per share	\$ 0.48		\$ 0.05	
9850	Diluted earnings per share	\$ 0.48		\$ 0.05	

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

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

Equity attributable to owners of the parent											
Notes	Common stock	Capital surplus	Retained Earnings			Other equity interest		Treasury stocks	Total	Non-controlling interest	Total equity
			Legal reserve	Special reserve	Unappropriated retained earnings	Currency translation differences of foreign operations	Other equity-others				
<u>2017</u>											
Balance at January 1, 2017	\$ 2,739,788	\$ 1,862,914	\$ 1,374,374	\$ 142,456	\$ 2,946,092	\$ 35,009	(\$ 60,530)	(\$ 129,393)	\$ 8,910,710	\$ 122,283	\$ 9,032,993
Profit for the year	-	-	-	-	13,402	-	-	-	13,402	36,185	49,587
Other comprehensive loss for the year	-	-	-	-	(1,492)	(318,133)	-	-	(319,625)	(7,285)	(326,910)
Total comprehensive income (loss)	-	-	-	-	11,910	(318,133)	-	-	(306,223)	28,900	(277,323)
Appropriation of 2016 earnings	6(20)										
Legal reserve	-	-	5,380	-	(5,380)	-	-	-	-	-	-
Cash dividends	-	-	-	-	(215,596)	-	-	-	(215,596)	-	(215,596)
Share-based payment transactions	6(16)(18)(19)(21)	1,300	2,404	-	-	-	33,806	-	37,510	-	37,510
Retirement of employee restricted shares	6(16)(18)(19)(21)	(2,900)	(4,609)	-	-	-	7,509	-	-	-	-
Sales of treasury shares	-	-	209	-	-	-	-	33,255	33,464	-	33,464
Changes in ownership interests in subsidiaries	6(19)(30)	-	395,774	-	-	-	-	-	395,774	(395,774)	-
Non-controlling interest	-	-	-	-	-	-	-	-	-	874,177	874,177
Balance at December 31, 2017	\$ 2,738,188	\$ 2,256,692	\$ 1,379,754	\$ 142,456	\$ 2,737,026	(\$ 283,124)	(\$ 19,215)	(\$ 96,138)	\$ 8,855,639	\$ 629,586	\$ 9,485,225
<u>2018</u>											
Balance at January 1, 2018	\$ 2,738,188	\$ 2,256,692	\$ 1,379,754	\$ 142,456	\$ 2,737,026	(\$ 283,124)	(\$ 19,215)	(\$ 96,138)	\$ 8,855,639	\$ 629,586	\$ 9,485,225
Effects of retrospective application	6(21)	-	-	-	23,600	-	(23,600)	-	-	-	-
Equity at beginning of period after adjustments		2,738,188	2,256,692	1,379,754	142,456	2,760,626	(283,124)	(42,815)	8,855,639	629,586	9,485,225
Profit for the year	-	-	-	-	130,562	-	-	-	130,562	42,588	173,150
Other comprehensive income (loss) for the year	6(21)	-	-	-	427	26,291	(12,790)	-	13,928	13,195	27,123
Total comprehensive income (loss)	-	-	-	-	130,989	26,291	(12,790)	-	144,490	55,783	200,273
Appropriation of 2017 earnings	6(20)										
Legal reserve	-	-	1,340	-	(1,340)	-	-	-	-	-	-
Special reserve	-	-	-	283,124	(283,124)	-	-	-	-	-	-
Cash dividends	-	-	-	-	(135,178)	-	-	-	(135,178)	-	(135,178)
Share-based payment transactions	6(16)(18)(19)(21)	3,200	6,624	-	-	-	14,060	-	23,884	-	23,884
Retirement of employee restricted shares	6(16)(18)(19)(21)	(1,275)	(2,165)	-	-	-	3,440	-	-	-	-
Treasury stock sold to employees	6(18)(19)	-	1,246	-	-	-	-	96,138	97,384	-	97,384
Non-controlling interest	-	-	-	-	-	-	-	-	-	(10,007)	(10,007)
Balance at December 31, 2018	\$ 2,740,113	\$ 2,262,397	\$ 1,381,094	\$ 425,580	\$ 2,471,973	(\$ 256,833)	(\$ 38,105)	\$ -	\$ 8,986,219	\$ 675,362	\$ 9,661,581

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

ALTEK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
(Expressed in thousands of New Taiwan dollars)

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		\$ 301,020	\$ 137,562
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation (included depreciation of investment property)	6(8)(9)(26)	218,896	264,329
Amortisation	6(10)(11)(26)	28,802	15,232
Provision for doubtful accounts	12(4)	-	(672)
Expected credit losses	12(2)	7,262	-
Net loss (gain) on financial assets at fair value through profit or loss		(13,944)	206
Interest expense	6(25)	25,497	26,565
Interest income	6(23)	(123,745)	(76,647)
Dividend income	6(23)	(915)	(3,113)
Share-based payment compensation cost	6(16)(27)	16,841	33,806
Loss (gain) on disposal of property, plant and equipment	6(24)	1,358	(470)
Reversal of impairment loss on investments accounted for under the equity method	6(24)	(26,272)	-
Impairment loss on financial assets	6(24) and 12(4)	-	17,050
Loss on disposal of investment	6(24)	-	4,191
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets at fair value through profit or loss - current		581,745	108,704
Notes receivable	(1,383,249)	(29,667)	
Accounts receivable	(101,648)	414,902	
Other receivables	(12,602)	3,252	
Inventories		150,526	272,099
Prepayments		86,624	31,027
Other current assets		9,853	3,414
Changes in operating liabilities			
Notes payable		1,039,044	30,011
Accounts payable	(186,687)	(278,214)	
Other payables		9,556	(30,977)
Provisions for liabilities		24,908	(50,081)
Other current liabilities		41,550	(22,568)
Other non-current liabilities		81	130
Cash inflow generated from operations		694,501	870,071
Interest received		123,176	73,946
Dividends received		915	3,113
Interest paid	(23,434)	(26,802)	
Income tax paid	(91,383)	(99,059)	
Net cash flows from operating activities		<u>703,775</u>	<u>821,269</u>

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ALTEK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
(Expressed in thousands of New Taiwan dollars)

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Acquisition of financial assets at amortised cost		(\$ 257,524)	\$ -
Acquisition of financial assets at cost		-	(13,517)
Loss on disposal of investments accounted for under the equity method		-	123,571
Proceeds from capital reduction of financial assets at cost		-	5,661
Proceeds from capital reduction of financial assets at fair value through other comprehensive income		3,915	-
Acquisition of property, plant and equipment	6(32)	(29,373)	(92,123)
Proceeds from disposal of property, plant and equipment		41,831	21,339
Increase in intangible assets	6(32)	(7,927)	(52,941)
Acquisition of investment property		(8,000)	-
Increase (decrease) guarantee deposits paid		(4,656)	11,352
Net cash flows (used in) from investing activities		(261,734)	3,342
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Decrease in short-term borrowings		(261,000)	(394,000)
Proceeds from issuance of short-term notes and bills payable	6(33)	798,756	199,724
Repayment of short-term notes and bills payable		(1,000,000)	-
Increase in long-term borrowings	6(33)	600,000	-
Increase (decrease) in guarantee deposits received	6(33)	(3,209)	13,954
Cash dividends for capital surplus	6(20)	(135,178)	(215,596)
Employee stock options exercised		9,824	3,704
Proceeds from sales of treasury shares		-	33,464
Treasury shares sold to employees		94,603	-
Changes in non-controlling interest		-	874,177
Net cash flows from financing activities		103,796	515,427
Effect of exchange rate		74,198	(315,045)
Net increase in cash and cash equivalents		620,035	1,024,993
Cash and cash equivalents at beginning of year	6(1)	5,874,982	4,849,989
Cash and cash equivalents at end of year	6(1)	\$ 6,495,017	\$ 5,874,982

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

ALTEK CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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

1. HISTORY AND ORGANIZATION

Altek Corporation (the “Company”) was incorporated as a company limited by shares under the provisions of the Company Law of the Republic of China (R.O.C.). The Company and its subsidiaries (collectively referred herein as the “Group”) are primarily engaged in the development, manufacturing and sale of digital image technology application, and related export and import trade.

The Company was listed in the Taiwan Stock Exchange on December 24, 2002, as approved by the Tai-Tz (91) Letter No. 024976 of the former Securities and Futures Commission, Ministry of Finance, R.O.C., dated September 27, 2002.

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

These consolidated financial statements were authorized for issuance by the Board of Directors on March 15, 2019.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

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

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

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment. The quantitative impact will be disclosed when the assessment is complete.

A. IFRS 9, 'Financial instruments'

- (a) Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset measured at amortised cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.
- (b) The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognize 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Group shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.

B. IFRS 15, 'Revenue from contracts with customers'

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

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

Step 1: Identify contracts with customer.

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

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price.

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

Further, IFRS 15 includes a set of comprehensive disclosure requirements that requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Under IFRS 15, depending on the nature of licences, they are either (1) a promise to provide a right to access to an entity's intellectual property as it exists throughout the licence period, or (2) a promise to provide a right to use an entity's intellectual property as it exists at the point in time when the licence is granted.

Licences that meet all of the following criteria provide access to an entity's intellectual property, and revenue is recognized based on the performance obligation's progress towards completion:

- (a) the contract requires, or the customer reasonably expects, that the entity will undertake activities that significantly affect the intellectual property to which the customer has rights;
- (b) the rights granted by the licence directly expose the customer to any positive or negative effects of the entity's activities identified above; and
- (c) those activities do not result in the transfer of a good or service to the customer as those activities occur.

If licences cannot meet all criteria listed above, the entity provides a right to use the entity's intellectual property. Revenue shall be recognized at the point in time at which the licence is granted to the customer.

When adopting the new standards endorsed by the FSC effective from 2018, the Group will apply the new rules under IFRS 9 retrospectively from January 1, 2018, with the practical expedients permitted under the statement. Further, the Group expects to adopt IFRS 15 using the modified retrospective approach. The significant effects of applying the new standards as of January 1, 2018 are provided in Note 12(4) and (5).

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Group

New standards, interpretations and amendments endorsed by the FSC effective from 2019 are as follows:

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

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

IFRS 16, 'Leases'

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

The Group expects to recognise the lease contract of lessees in line with IFRS 16. However, the Group does not intend to restate the financial statements of prior period (collectively referred herein as the "modified retrospective approach"), on January 1, 2019, it is expected that 'right-of-use asset' and lease liability will be increased by \$107,196.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows:

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

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

(2) Basis of preparation

- A. Except for the following items, the consolidated financial statements have been prepared under the historical cost convention:
 - (a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
 - (b) Financial assets at fair value through other comprehensive income.
 - (c) Defined benefit liabilities recognized based on the net amount of pension fund assets less present value of defined benefit obligation.
- B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.
- C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Group has elected to apply modified retrospective approach whereby the cumulative impact of the adoption was recognized as retained earnings or other equity as of January 1, 2018 and the financial statements for the year ended December 31, 2017 was not restated. The financial statements for the year ended December 31, 2017 were prepared in compliance with International Accounting Standard 39 (‘IAS 39’), International Accounting Standard 11 (‘IAS 11’), International Accounting Standard 18 (‘IAS 18’) and related financial reporting interpretations. The significant accounting policies is the same as that in Note 4 of the financial statements for the year ended December 31, 2017.

(3) Basis of consolidation

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

- (b) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- (c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.
- (d) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity.
- (e) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognised in profit or loss. All amounts previously recognised in other comprehensive income in relation to the subsidiary are reclassified to profit or loss, on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognised in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

(Blank below)

B. Subsidiaries included in the consolidated financial statements:

Name of Investor	Name of Subsidiaries	Main Business Activities	Ownership (%)		Note
			December 31, 2018	December 31, 2017	
Altek Corporation	Altek International Investment Co., Ltd.	Investments and general business operations	100	100	-
"	Altek Japan Corporation	Sales of optical instruments	100	100	-
"	Altek Investment Co., Ltd.	Investments	100	100	Note 5
"	Altek Autotronics Corporation	Research design, manufacture and sales of car electronic components	-	-	Note 4
"	Altek International Holding (BVI) Co., Ltd.	Investments and general business operations	100	100	-
Altek International Investment Co., Ltd.	Altek Lab Inc.	Design service	100	100	-
"	Altek Optical (Cayman) Co., Ltd.	Investments and general business operations	100	100	-
"	Altek Semiconductor (Cayman) Co., Ltd.	Investments and general business operations	50	50	-
Note 1	Altek (Kunshan) Co., Ltd.	Manufacture and sales of digital still camera and its accessories	100	100	-
Note 1	Altek EMS (Kunshan) Co., Ltd.	Manufacture and sales of related engineering services	100	100	-
Note 1	Altek Precision (Kunshan) Co., Ltd.	Manufacture and sales of digital camera parts	100	100	-
Note 1	Altek Trading (Shanghai) Limited	Wholesale, import and export of related electronic and their associated accessories	100	100	-
Note 2	Altek Biotechnology Corporation	Research and development, manufacture and sales of medical electronic equipments	100	100	-
Altek Semiconductor (Cayman) Co., Ltd.	Altek Semiconductor Corporation	Research design and sales of ASIC	100	100	-
"	Altek Semiconductor (Shanghai) Co., Ltd.	Research design and sales of imaging technologies, electronic software and hardware	100	100	Note 3
Note 1	Altek Optical Technology (Kunshan) Co., Ltd.	Manufacture and sales of related electronic services and its accessories and optical components	100	100	-

Note 1: Invested by Leading Tech. Co., Ltd., Toptek Investment Cayman Co., Ltd., Altek Imaging Technology (Cayman) Co., Ltd., Altek Trading (Cayman) Co., Ltd., Altek Optical Technology (Cayman) Co., Ltd., which are wholly owned by Altek International Investment Co., Ltd.

Note 2: Invested by Altek Biotechnology Holding (Cayman) Co., Ltd., which is wholly owned by Altek International Holding (BVI) Co., Ltd.

Note 3: It was invested by Altek Semiconductor (Cayman) Co., Ltd. and was incorporated in January 2017.

Note 4: On June 30, 2017, Altek Corporation consummated a short-form merger with Altek Autotronics Corporation and the former is the surviving company.

Note 5: The dissolution and liquidate of Altek Investment Co., Ltd. Was resolved by the Board of Directors since December 17, 2018. Moreover, the competent authority approved its dissolution on December 24, 2018.

- C. Subsidiaries not included in the consolidated financial statements: None.
- D. Adjustments for subsidiaries with different balance sheet dates: None.
- E. Significant restrictions: None.
- F. Subsidiaries that have non-controlling interests that are material to the Group: None.

(4) Foreign currency translation

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

A. Foreign currency transactions and balances

- (a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.
- (b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.
- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss as part of the fair value gain or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- (d) All other foreign exchange gains and losses based on the nature of those transactions are presented in the statement of comprehensive income within 'other gains and losses'.

B. Translation of foreign operations

- (a) The operating results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
 - i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
 - ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
 - iii. All resulting exchange differences are recognised in other comprehensive income.

- (b) When the foreign operation partially disposed of or sold is an associate or joint arrangements, exchange differences that were recorded in other comprehensive income are proportionately reclassified to profit or loss as part of the gain or loss on sale. In addition, even when the Group still retains partial interest in the former foreign associate or joint arrangements after losing significant influence over the former foreign associate, or losing joint control of the former joint arrangements, such transactions should be accounted for as disposal of all interest in these foreign operations.
- (c) When a foreign operation is partially disposed of or sold, exchange differences that were recorded in other comprehensive income are proportionately reclassified to profit or loss as part of the gain or loss on sale.
- (d) Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rates at the balance sheet date.

(5) Classification of current and non-current items

A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

- (a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;
- (b) Assets held mainly for trading purposes;
- (c) Assets that are expected to be realised within twelve months from the balance sheet date;
- (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

The Group classifies all assets that do not meet the above criteria as non-current assets.

B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

- (a) Liabilities that are expected to be paid off within the normal operating cycle;
- (b) Liabilities arising mainly from trading activities;
- (c) Liabilities that are to be paid off within twelve months from the balance sheet date;
- (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

The Group classifies all liabilities that do not meet the above criteria as non-current liabilities.

(6) Cash equivalents

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

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

- A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortised cost or fair value through other comprehensive income.
- B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using settlement date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value and recognizes the transaction costs in profit or loss. The Group subsequently measures the financial assets at fair value, and recognizes the gain or loss in profit or loss.
- D. The Group recognizes the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

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

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

(9) Financial assets at amortised cost

- A. Financial assets at amortised cost are those that meet all of the following criteria:
 - (a) The objective of the Group's business model is achieved by collecting contractual cash flows.
 - (b) The assets' contractual cash flows represent solely payments of principal and interest.
- B. On a regular way purchase or sale basis, financial assets at amortised cost are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. Interest income from these financial assets is included in finance income using the effective interest method. A gain or loss is recognised in profit or loss when the asset is derecognised or impaired.

D. The Group's time deposits which do not fall under cash equivalents are those with a short maturity period and are measured at initial investment amount as the effect of discounting is immaterial.

(10) Accounts and notes receivable

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

(11) Impairment of financial assets

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

(12) Derecognition of financial assets

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

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

(13) Operating leases (lessor)

Lease income from an operating lease (net of any incentives given to the lessee) is recognised in profit or loss on a straight-line basis over the lease term.

(14) Inventories

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

(15) Investments accounted for under the equity method / associates

- A. Associates are all entities over which the Group has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognised at cost. The Group's investments in associates include goodwill identified on acquisition, net of any accumulated impairment loss arising through subsequent assessments.
- B. The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred statutory/constructive obligations or made payments on behalf of the associate.
- C. When changes in an associate's equity that are not recognised in profit or loss or other comprehensive income of the associate and such changes not affecting the Group's ownership percentage of the associate, the Group recognises the Group's share of change in equity of the associate in 'capital surplus' in proportion to its ownership.
- D. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- E. In the case that an associate issues new shares and the Group does not subscribe or acquire new shares proportionately, which results in a change in the Group's ownership percentage of the associate but maintains significant influence on the associate, then 'capital surplus' and 'investments accounted for under the equity method' shall be adjusted for the increase or decrease of its share of equity interest. If the above condition causes a decrease in the Group's ownership percentage of the associate, in addition to the above adjustment, the amounts previously recognised in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately on the same basis as would be required if the relevant assets or liabilities were disposed of.
- F. Upon loss of significant influence over an associate, the Group remeasures any investment retained in the former associate at its fair value. Any difference between fair value and carrying amount is recognised in profit or loss.
- G. When the Group disposes its investment in an associate, if it loses significant influence over this associate, the amounts previously recognised in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it still retains significant influence over this associate, then the amounts previously recognised in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.

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

(16) Property, plant and equipment

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

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

Buildings and structures	3 years ~ 40 years
Machinery	3 years ~ 10 years
Test equipment	3 years ~ 6 years
Other equipment	2 years ~ 11 years

(17) Operating leases (lessee)

Lease income from an operation lease (net of any incentives given to the lessor) is recognised in profit or loss on straight-line basis over the lease term.

(18) Investment property

An investment property is stated initially at its cost and measured subsequently using the cost model. Except for land, investment property is depreciated on a straight-line basis over its estimated useful life of 10 to 35 years.

(19) Intangible assets

Intangible assets consist of software and mask costs and they are amortized on a straight-line basis over their estimated useful lives of 3 to 5 years.

(20) Impairment of non-financial assets

The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Except for goodwill, when the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.

(21) Borrowings

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

(22) Notes and accounts payable

- A. Accounts payable are liabilities for purchases of raw materials, goods or services and notes payable are those resulting from operating and non-operating activities.
- B. The short-term notes and accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(23) Provisions for other liabilities

Provisions (including warranties) are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date, which is discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. When discounting is used, the increase in the provision due to passage of time is recognised as interest expense. Provisions are not recognised for future operating losses.

(24) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognised as expenses in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expenses when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

(b) Defined benefit plans

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

C. Termination benefits

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

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

Employees' compensation and directors' and supervisors' remuneration are recognised as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is paid by shares, the Group calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(25) Employee share-based payment

- A. For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. And ultimately, the amount of compensation cost recognised is based on the number of equity instruments that eventually vest.
- B. Restricted stocks:
- (a) Restricted stocks issued to employees are measured at the fair value of the equity instruments granted at the grant date, and are recognized as compensation cost over the vesting period.
 - (b) For restricted stocks where those stocks do not restrict distribution of dividends to employees and employees are not required to return the dividends received if they resign during the vesting period, the Group recognized the fair value of the dividends received by the employees who are expected to resign during the vesting period as compensation cost at the date of dividends declared.
 - (c) For restricted stocks where employees do not need to pay to acquire those stocks, if the Group will pay the employees who resign during the vesting period to repurchase the stocks, the Group estimates such payment that will be made and recognizes such amounts as compensation cost and liability at the grant date in accordance with the terms of restricted stocks.

(26) Income tax

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

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

(27) Share capital

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

(28) Dividends

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

(29) Revenue recognition

A. Sales of goods

- (a) The Group manufactures and sells digital image technology application products. Sales are recognized when control of the products has transferred, being when the products are delivered to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customers, and either the customers have accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.
- (b) Revenue from these sales is recognized based on the price specified in the contract, net of the value-added tax, sales returns, discounts and allowances.
- (c) A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. As the time interval between the transfer of committed goods or service and the payment of customer does not exceed one year, the Group does not adjust the transaction price to reflect the time value of money.

B. Technical service revenue

The Group provides technical support service. Revenue from providing services is recognized in the accounting period in which the services are rendered. For fixed price contracts, revenue is recognized based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided. This is determined by the percentage of completion of the service based on actual contractual progress.

C. Royalty income

- (a) The Group entered into a contract with a customer to grant a licence of patented technology to the customer. Given the licence is distinct from other promised goods or services in the contract, the Group recognizes the revenue from licencing when the licence transfers to a customer either at a point in time or over time based on the nature of the licence granted. The nature of the Group's promise in granting a licence is a promise to provide a right to access the Group's intellectual property if the Group undertakes activities that significantly affect the patented technology to which the customer has rights, the customer is affected by the Group's activities and those activities do not result in the transfer of a good or a service to the customer as they occur. The royalties are recognized as revenue on a straight-line basis throughout the licencing period. In case the abovementioned conditions are not met, the nature of the Group's promise in granting a licence is a promise to provide a right to use the Group's intellectual property and therefore the revenue is recognized when transferring the licence to a customer at a point in time.
- (b) Some contracts require a usage-based royalty in exchange for a licence of intellectual property. The Group recognizes revenue when the performance obligation has been satisfied and the subsequent usage occurs. The customers pays the contract price in accordance with the agreed payment schedule. When the service provided by the Group exceeds the customers' payables, it is recognized as a contract asset. If the customer pays more than the services provided by the Group, it is recognized as a contract liability.

(30) Operating segments

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

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

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

- (1) Critical judgements in applying the Group's accounting policies: None.

(2) Critical accounting estimates and assumptions:

Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Group must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Group evaluates the amounts of obsolete inventories on balance sheet date, and writes down the cost of inventories to the net realisable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation.

As of December 31, 2018, the carrying amount of inventories was \$999,212.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2018	December 31, 2017
Cash on hand	\$ 1,070	\$ 840
Checking accounts and demand deposits	933,058	411,191
Time deposits	5,560,889	5,462,951
Total	<u>\$ 6,495,017</u>	<u>\$ 5,874,982</u>

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

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

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

Items	December 31, 2018	December 31, 2017
Current items:		
Beneficiary certificates	\$ -	\$ 581,745
Valuation adjustment	-	3,054
Total	<u>\$ -</u>	<u>\$ 584,799</u>
Non-current items:		
Unlisted stocks	\$ 12,731	\$ -
Valuation adjustment	10,952	-
Total	<u>\$ 23,683</u>	<u>\$ -</u>

A. Amounts recognised in profit or loss in relation to financial assets at fair value through profit or loss are listed below:

	2018	2017
Equity instruments	\$ 16,998	\$ -
Beneficiary certificates	3,020	2,736
Total	<u>\$ 20,018</u>	<u>\$ 2,736</u>

B. As of December 31, 2018 and 2017, no financial assets measured at cost held by the Group were pledge to others.

C. Information relating to credit risk is provided in Note 12(2).

D. Information of financial assets at cost as of December 31, 2017 is provided in Note 12(4).

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

<u>Items</u>	<u>December 31, 2018</u>
Non-current items :	
Equity instruments	
Unlisted stocks	\$ 150,124
Valuation adjustment	(35,616)
	<u>\$ 114,508</u>

A. The Group has elected to classify strategic investments as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to \$114,508 as at December 31, 2018.

B. The Group recognized fair value change in other comprehensive loss of \$12,016 for the year ended December 31, 2018.

C. As at December 31, 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the financial assets at fair value through other comprehensive income held by the Group was 114,508.

D. As at December 31, 2018, no non-current financial assets at fair value through other comprehensive income held by the Group were pledged to others.

E. Information relating to credit risk is provided in Note 12(2).

F. Information of financial assets at cost as of December 31, 2017 is provided in Note 12(4).

(4) Financial assets at amortised cost

<u>Items</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Current items:		
Time deposits with maturity over three months	\$ 261,228	\$ -

A. Amounts recognised in profit or loss in relation to financial assets at amortised cost are listed below:

	<u>2018</u>	<u>2017</u>
Interest income	\$ 1,242	\$ -

B. The Group has no financial assets at amortised cost pledged to others.

(5) Notes and accounts receivable

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Notes receivable	\$ 1,387,222	\$ 30,335
Accounts receivable	\$ 2,430,654	\$ 2,351,116
Less: Allowance for uncollectible accounts	(15,879)	(8,747)
	<u>\$ 2,414,775</u>	<u>\$ 2,342,369</u>

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

	December 31, 2018		December 31, 2017	
	Notes receivable	Accounts receivable	Notes receivable	Accounts receivable
Not overdue	\$ 1,387,222	\$ 2,146,832	\$ 30,335	\$ 2,334,755
Up to 30 days	-	67,351	-	334
31 to 90 days	-	174,273	-	-
91 to 180 days	-	29,761	-	218
Over 181 days	-	12,437	-	15,809
	<u>\$ 1,387,222</u>	<u>\$ 2,430,654</u>	<u>\$ 30,335</u>	<u>\$ 2,351,116</u>

The above ageing analysis was based on past due date.

B. The Group does not hold any collateral as security.

C. As at December 31, 2018 and 2017, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the Group's notes receivable were \$1,387,222 and \$30,335, respectively. The maximum exposure to credit risk in respect of the amount that best represents the Group's accounts receivable were \$2,414,775 and \$2,342,369, respectively.

D. Information relating to credit risk of notes receivables and accounts receivables is provided in Note 12(2).

(6) Inventories

	December 31, 2018		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 688,388	(\$ 34,641)	\$ 653,747
Work-in-process	95,968	(7,558)	88,410
Finished goods	268,788	(11,733)	257,055
Total	<u>\$ 1,053,144</u>	<u>(\$ 53,932)</u>	<u>\$ 999,212</u>
	December 31, 2017		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 737,657	(\$ 48,162)	\$ 689,495
Work-in-process	136,416	(5,601)	130,815
Finished goods	355,434	(9,818)	345,616
Total	<u>\$ 1,229,507</u>	<u>(\$ 63,581)</u>	<u>\$ 1,165,926</u>

The cost of inventories recognized as expense for the periods:

	For the year ended December 31, 2018	For the year ended December 31, 2017
Cost of goods sold	\$ 9,884,670	\$ 9,174,342
Reversal of decline in market value	(9,649)	(56,611)
Total	<u>\$ 9,875,021</u>	<u>\$ 9,117,731</u>

The Group reversed from a previous inventory write-down and accounted for as reduction of operating cost because inventory that has been appropriated as loss on decline in market value was partially sold.

(7) Investments accounted for under the equity method

	December 31, 2018	December 31, 2017
JinJing Optical Technology Co., Ltd.	\$ 44,524	\$ 44,028
Less: Accumulated impairment loss	(17,756)	(44,028)
	<u>\$ 26,768</u>	<u>\$ -</u>

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

As of December 31, 2018 and 2017, the carrying amount of the Group's individually immaterial associates amounted to \$26,768 and \$0, respectively.

	For the year ended December 31, 2018	For the year ended December 31, 2017
Income (loss) for the year from continuing operations	\$ 113,661	(\$ 31,537)
Other comprehensive income - net of tax	<u>-</u>	<u>3,847</u>
Total comprehensive income (loss)	<u>\$ 113,661</u>	<u>(\$ 27,690)</u>

(Blank below)

(8) Property, plant and equipment

	Land	Buildings and structures	Machinery	Test equipment	Construction in progress and prepayment for equipment	Others	Total
At January 1, 2018							
Cost	\$ 468,684	\$ 3,353,156	\$ 1,366,032	\$ 170,311	\$ -	\$ 533,260	\$ 5,891,443
Accumulated depreciation	-	(685,644)	(903,610)	(158,744)	-	(494,657)	(2,242,655)
	<u>\$ 468,684</u>	<u>\$ 2,667,512</u>	<u>\$ 462,422</u>	<u>\$ 11,567</u>	<u>\$ -</u>	<u>\$ 38,603</u>	<u>\$ 3,648,788</u>
<u>2018</u>							
Opening net book amount	\$ 468,684	\$ 2,667,512	\$ 462,422	\$ 11,567	\$ -	\$ 38,603	\$ 3,648,788
Additions	-	1,910	-	1,513	10,466	4,373	18,262
Disposals	-	-	(41,997)	(848)	-	(344)	(43,189)
Reclassifications	-	-	-	-	-	(278)	(278)
Depreciation charge	-	(88,761)	(93,536)	(6,539)	-	(23,243)	(212,079)
Net exchange differences	-	(29,412)	(5,508)	(47)	(7)	(185)	(35,159)
Closing net book amount	<u>\$ 468,684</u>	<u>\$ 2,551,249</u>	<u>\$ 321,381</u>	<u>\$ 5,646</u>	<u>\$ 10,459</u>	<u>\$ 18,926</u>	<u>\$ 3,376,345</u>
At December 31, 2018							
Cost	\$ 468,684	\$ 3,316,999	\$ 1,089,739	\$ 157,605	\$ 10,459	\$ 461,630	\$ 5,505,116
Accumulated depreciation	-	(765,750)	(768,358)	(151,959)	-	(442,704)	(2,128,771)
	<u>\$ 468,684</u>	<u>\$ 2,551,249</u>	<u>\$ 321,381</u>	<u>\$ 5,646</u>	<u>\$ 10,459</u>	<u>\$ 18,926</u>	<u>\$ 3,376,345</u>

	Land	Buildings and structures	Machinery	Test equipment	Construction in progress and prepayment for equipment	Others	Total
At January 1, 2017							
Cost	\$ 1,042,216	\$ 3,522,603	\$ 1,443,305	\$ 199,899	\$ 29,043	\$ 678,217	\$ 6,915,283
Accumulated depreciation	-	(643,506)	(840,003)	(178,950)	-	(594,976)	(2,257,435)
	<u>\$ 1,042,216</u>	<u>\$ 2,879,097</u>	<u>\$ 603,302</u>	<u>\$ 20,949</u>	<u>\$ 29,043</u>	<u>\$ 83,241</u>	<u>\$ 4,657,848</u>
2017							
Opening net book amount	\$ 1,042,216	\$ 2,879,097	\$ 603,302	\$ 20,949	\$ 29,043	\$ 83,241	\$ 4,657,848
Additions	-	83,646	547	819	-	12,603	97,615
Disposals	-	-	(20,048)	(186)	-	(635)	(20,869)
Reclassifications	(573,532)	(170,018)	-	-	(29,043)	-	(772,593)
Depreciation charge	-	(87,469)	(107,743)	(9,760)	-	(55,132)	(260,104)
Net exchange differences	-	(37,744)	(13,636)	(255)	-	(1,474)	(53,109)
Closing net book amount	<u>\$ 468,684</u>	<u>\$ 2,667,512</u>	<u>\$ 462,422</u>	<u>\$ 11,567</u>	<u>\$ -</u>	<u>\$ 38,603</u>	<u>\$ 3,648,788</u>
At December 31, 2017							
Cost	\$ 468,684	\$ 3,353,156	\$ 1,366,032	\$ 170,311	\$ -	\$ 533,260	\$ 5,891,443
Accumulated depreciation	-	(685,644)	(903,610)	(158,744)	-	(494,657)	(2,242,655)
	<u>\$ 468,684</u>	<u>\$ 2,667,512</u>	<u>\$ 462,422</u>	<u>\$ 11,567</u>	<u>\$ -</u>	<u>\$ 38,603</u>	<u>\$ 3,648,788</u>

A. For the years ended December 31, 2018 and 2017, there was no capitalisation of borrowing interests attributable to the property, plant and equipment.

B. Information about the property, plant and equipment that were pledged to others as collaterals is provided in Note 8.

(9) Investment property

	<u>Land</u>	<u>Buildings and structures</u>	<u>Total</u>
At January 1, 2018			
Cost	\$ 573,532	\$ 245,710	\$ 819,242
Accumulated depreciation	-	(41,874)	(41,874)
	<u>\$ 573,532</u>	<u>\$ 203,836</u>	<u>\$ 777,368</u>
<u>2018</u>			
Opening net book amount	\$ 573,532	\$ 203,836	\$ 777,368
Depreciation charge	-	(6,817)	(6,817)
Closing net book amount	<u>\$ 573,532</u>	<u>\$ 197,019</u>	<u>\$ 770,551</u>
At December 31, 2018			
Cost	\$ 573,532	\$ 245,710	\$ 819,242
Accumulated depreciation	-	(48,691)	(48,691)
	<u>\$ 573,532</u>	<u>\$ 197,019</u>	<u>\$ 770,551</u>
	<u>Land</u>	<u>Buildings and structures</u>	<u>Total</u>
At January 1, 2017			
Cost	\$ -	\$ -	\$ -
Accumulated depreciation	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>2017</u>			
Opening net book amount	\$ -	\$ -	\$ -
Additions - from acquisitions	-	9,000	9,000
Reclassifications	573,532	199,061	772,593
Depreciation charge	-	(4,225)	(4,225)
Closing net book amount	<u>\$ 573,532</u>	<u>\$ 203,836</u>	<u>\$ 777,368</u>
At December 31, 2017			
Cost	\$ 573,532	\$ 245,710	\$ 819,242
Accumulated depreciation	-	(41,874)	(41,874)
	<u>\$ 573,532</u>	<u>\$ 203,836</u>	<u>\$ 777,368</u>

- A. Rental income from investment property and direct operating expenses arising from investment property are shown below:

	For the year ended December 31, 2018	For the year ended December 31, 2017
Rental income from investment property	\$ 26,127	\$ 17,298
Direct operating expenses arising from the investment property that generated rental income during the year	\$ 8,220	\$ 4,752
Direct operating expenses arising from the investment property that did not generate rental income during the year	\$ -	\$ -

- B. As at December 31, 2018, the fair value of investment property held by the Group all amounted to \$870,022. The fair value was valued by independent valuers. Valuations were made using the comparative approach and income approach of direct capitalization method.
- C. There was no capitalisation of borrowing interests attributable to investment property.
- D. Information about the investment property that was pledged to others as collaterals is provided in Note 8.

(10) Intangible assets

	2018	2017
At January 1		
Cost	\$ 165,921	\$ 129,020
Accumulated amortisation	(44,383)	(36,103)
	<u>\$ 121,538</u>	<u>\$ 92,917</u>
<u>For the year ended December 31</u>		
Opening net book amount	\$ 121,538	\$ 92,917
Additions	4,398	48,637
Amortisation charge	(27,878)	(14,319)
Net exchange differences	2,084	(5,697)
Closing net book amount	<u>\$ 100,142</u>	<u>\$ 121,538</u>
At December 31		
Cost	\$ 168,707	\$ 165,921
Accumulated amortisation	(68,565)	(44,383)
	<u>\$ 100,142</u>	<u>\$ 121,538</u>

A. Details of amortisation on intangible assets are as follows:

	For the year ended December 31, 2018	For the year ended December 31, 2017
Operating costs	\$ 2,507	\$ 5,296
Operating expense	25,371	9,023
	<u>\$ 27,878</u>	<u>\$ 14,319</u>

B. The Group has no intangible assets pledged to others.

(11) Long-term prepaid rents (shown as ‘Other non-current assets’)

	December 31, 2018	December 31, 2017
Land-use right	<u>\$ 31,811</u>	<u>\$ 33,296</u>

The Group recognized amortisation expenses for the years ended December 31, 2018 and 2017 amounting to \$924 and \$913, respectively.

(12) Short-term borrowings

Type of borrowings	December 31, 2018	Interest rate range	Collateral
Bank borrowings			
Unsecured borrowings	<u>\$ 1,760,000</u>	1% ~1.0758%	None
Type of borrowings	December 31, 2017	Interest rate range	Collateral
Bank borrowings			
Unsecured borrowings	<u>\$ 2,021,000</u>	1% ~1.19%	None

(13) Short-term notes and bills payable

	December 31, 2018	December 31, 2017
Commercial paper payable	\$ -	\$ 200,000
Less: Discount on short-term notes and bills payable	- (	203)
	<u>\$ -</u>	<u>\$ 199,797</u>
Interest rate ranges	-	0.84%

(14) Long-term borrowings

Type of borrowings	Borrowing period and repayment term	Interest rate range	Collateral	December 31, 2018
Secured borrowings	Borrowing period is from August 24, 2018 to May 8, 2021. Revolving credit facility.	1.1%~1.25%	Yes (Note)	\$ 600,000
Less: Current portion				-
				<u>\$ 600,000</u>

During the terms of the unsecured borrowing, in accordance with the unsecured borrowing agreements contracted with bank, the Group is required to maintain the consolidated net value over \$8 billion and the debt ratio under 100% based on the annual consolidated financial statements and the semi-annual consolidated financial statements.

Note: Information about collateral for long-term borrowings is provided in Note 8.

(15) Pensions

A. (a) The Company and its domestic subsidiaries have a defined benefit pension plan in accordance with the Labor Standards Act, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Act. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee.

(b) The amounts recognised in the balance sheet are as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Present value of defined benefit obligations	(\$ 49,943)	(\$ 48,728)
Fair value of plan assets	<u>42,370</u>	<u>40,554</u>
Net defined benefit liability	<u>(\$ 7,573)</u>	<u>(\$ 8,174)</u>

(c) Movements in net defined benefit liabilities are as follows:

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
2018			
Balance at January 1	(\$ 48,728)	\$ 40,554	(\$ 8,174)
Current service cost	-	-	-
Interest (expense) income	(536)	446	(90)
	(49,264)	41,000	(8,264)
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	1,361	1,361
Change in financial assumptions	(500)	-	(500)
Experience adjustments	(179)	-	(179)
	(679)	1,361	682
Pension fund contribution	-	9	9
Pension payments	-	-	-
Balance at December 31	(\$ 49,943)	\$ 42,370	(\$ 7,573)
2017			
Balance at January 1	(\$ 54,809)	\$ 48,564	(\$ 6,245)
Current service cost	(58)	-	(58)
Interest (expense) income	(767)	679	(88)
	(55,634)	49,243	(6,391)
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	(163)	(163)
Change in financial assumptions	(1,605)	-	(1,605)
Experience adjustments	(30)	-	(30)
	(1,635)	(163)	(1,798)
Pension fund contribution	-	15	15
Pension payments	8,541	(8,541)	-
Balance at December 31	(\$ 48,728)	\$ 40,554	(\$ 8,174)

(d) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2018 and 2017 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

(e) The principal actuarial assumptions used were as follows:

	For the year ended December 31, 2018	For the year ended December 31, 2017
Discount rate	1.00%	1.10%
Future salary increases	3.00%	3.00%

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience in each territory.

Note: Using the age range as an assessment of classification.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

	Discount rate		Future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
December 31, 2018				
Effect on present value of defined benefit obligations	(\$ 1,235)	\$ 1,282	\$ 1,130	(\$ 1,096)
	Discount rate		Future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
December 31, 2017				
Effect on present value of defined benefit obligations	(\$ 1,342)	\$ 1,396	\$ 1,245	(\$ 1,206)

The sensitivity analysis above is based on other conditions that are unchanged but only one assumption is changed. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

The method and assumptions of analysing sensitivity are the same with the previous period.

(f) Expected contributions to the defined benefit pension plans of the Group for the year ending December 31, 2019 amounts to \$12.

B. (a) Effective July 1, 2005, the Company and its domestic subsidiaries have established a defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company and its domestic subsidiaries contribute monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment. For the years ended December 31, 2018 and 2017, the Group had recognized pension costs of \$28,919 and \$31,847, respectively, under the above pension scheme.

(b) The subsidiaries provided defined contribution plans for its employees. Pursuant to local regulations, such employees and the subsidiaries each make contributions based on a certain percentage based of the salaries and wages to the pension funds. The subsidiaries had recognized pension costs of \$26,227 and \$26,924 for the years ended December 31, 2018 and 2017, respectively.

(16) Share-based payment

A. As of December 31, 2018 and 2017, the Company’s share-based payment arrangements were as follows:

Type of arrangement	Grant date	Quantity granted	Contract period	Vesting conditions
Employee stock options	June 13, 2008	8,000	9.6 years	Note 1
"	October 31, 2008	1,000	9.2 years	Note 1
"	October 28, 2011	3,000	9.2 years	Note 1
"	March 21, 2012	3,000	8.9 yrsrs	Note 1
First time issuance of restricted shares to employees	November 13, 2015	2,440	3 years	Note 2, Note 3
"	March 18, 2016	1,190	3 years	Note 2, Note 3
"	May 5, 2016	370	3 years	Note 2, Note 3
Treasury stock transferred to employees	March 23, 2018	3,433	-	Vested immediately

Note 1: 2 years' service vest 40%, 3 years' service vest 70%, 4 years' service vest 100%.

Note 2: The restricted shares were issued at no consideration to the Company's existing employees whose service years have reached 2 years and 3 years and who achieved the performance requirement. The vested ratio is 50% and 50%, respectively. If employees who are entitled to receive restricted stocks do not meet the vesting conditions, the Company will redeem at no consideration and retire those shares.

Note 3: The stocks and dividends distributed to employees during the vesting period shall be given by the Company at no consideration. Employees are not required to return the stocks and dividends if they resign during the vesting period.

B. Details of the share-based payment arrangements are as follows:

(a) For the years ended December 31, 2018 and 2017, the information on the share options and the weighted number of average exercise price of compensation plan employee stock options are as follows:

	2018		2017	
	No. of options	Weighted-average exercise price (in dollars)(Note)	No. of options	Weighted-average exercise price (in dollars)(Note)
Options outstanding at beginning of the year	2,453	\$ 30.62	5,155	\$ 31.30
Option expired	(192)	-	(2,572)	-
Options exercised	(320)	30.70	(130)	28.49
Options outstanding at end of the year	<u>1,941</u>	30.61	<u>2,453</u>	30.62
Options exercisable at end of the year	<u>1,941</u>	30.61	<u>2,453</u>	30.62
Approved and not yet issued options at the end of the year	<u>-</u>		<u>-</u>	

Note: The exercise price of stock options was adjusted based on the cash dividends, stock dividends and cash capital reduction per share distributed.

(b) The weighted number of average exercise price was \$27.64 in dollars of treasury stock transferred to employees for the year ended December 31, 2018.

(c) The weighted-average stock price of stock options at exercise dates for the years ended December 31, 2018 and 2017 was \$31.31 in dollars and \$27.74 in dollars, respectively.

(d) The expiry date and exercise price of stock options outstanding at balance sheet date are as follows:

Issue date approved	Expiry date	December 31, 2018		December 31, 2017	
		No. of shares (in thousands)	Exercise price (in dollars) (Note)	No. of shares (in thousands)	Exercise price (in dollars) (Note)
June 13, 2008	December 31, 2017	-	\$ -	-	\$ -
October 31, 2008	December 31, 2017	-	-	-	-
October 28, 2011	December 31, 2020	1,100	30.7	1,420	30.7
March 21, 2012	December 31, 2020	841	30.5	1,033	30.5

Note: The exercise price of stock options was adjusted based on the cash dividends, stock dividends and cash capital reduction per share distributed.

(e) The fair value of stock options granted is measured using the Black-Scholes option-pricing model. Relevant information is as follows:

Type of arrangement	Grant date	Stock price (in dollars)	Exercise price (Note) (in dollars)	Expected price volatility	Expected option life	Expected dividends	Risk- free interest rate	Fair value per unit (in dollars)
Employee stock options	June 13, 2008	\$ 45.50	\$ -	24.45%	6 years	1.5%	2.40%	\$ 10.56
"	October 31, 2008	32.60	-	22.11%	6 years	1.5%	1.88%	6.54
"	October 28, 2011	30.65	30.7	30.27%	5 years	1.4%	1.18%	7.42
"	March 21, 2012	27.85	30.5	33.54%	4.9 years	1.4%	1.08%	7.35

Note: The exercise price of stock options was adjusted based on the cash dividends, stock dividends and cash capital reduction per share distributed.

C. Restricted shares to employees:

(a) The information on restricted shares to employees is as follows:

	2018 (share in thousands)	2017 (share in thousands)
Shares ungranted beginning balance	3,435	3,725
Shares granted	(2,592)	-
Restricted shares forfeited - retired	(128)	(290)
Shares ungranted ending balance	<u>715</u>	<u>3,435</u>

(b) As of December 31, 2018, the Company collected 128 thousand shares of restricted shares because certain employees did not meet the vesting condition, and the change of registration has been completed.

D. Expenses incurred on share-based payment transactions are shown below:

	For the year ended December 31, 2018	For the year ended December 31, 2017
Equity-settled	\$ 16,841	\$ 33,806

(17) Provisions

	Warranty
At January 1, 2018	\$ 123,995
Additional provisions	48,993
Reversed during the year	(24,071)
Exchange differences	(424)
At December 31, 2018	\$ 148,493

	December 31, 2018	December 31, 2017
Current	\$ 35,378	\$ 30,177
Non-current	\$ 113,115	\$ 93,818

The Group gives warranties on digital image technology application products sold. Provision for warranty is estimated based on historical warranty data of digital image technology application products.

(18) Share capital

As of December 31, 2018, the Company's authorized capital was \$5,000,000, consisting of 500,000 thousand shares of ordinary stock, and the paid-in capital was \$2,740,113 with a par value of \$10 (in dollars) per share.

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

(Expressed in thousands of shares)

	2018	2017
At January 1	270,386	269,565
Employee stock options exercised	320	130
Retired restricted shares to employees that did not meet the vesting conditions	(128)	(290)
Treasury stock sold to employees	3,433	-
Sales of treasury shares	-	981
At December 31	274,011	270,386

B. Treasury shares

(a) As of December 31, 2018 and 2017, the reason for share reacquisition and movements in the number of the Company's treasury shares are as follows:

December 31, 2018 : None

December 31, 2017

(Expressed in thousands of shares)

Shares held by	Reason for reacquisition	Number of shares	Book value
Altek Corporation	To be reissued to employees	3,433	\$ 96,138

(b) Pursuant to the R.O.C. Securities and Exchange Act, the number of shares bought back as treasury share should not exceed 10% of the number of the Company's issued and outstanding shares and the amount bought back should not exceed the sum of retained earnings, paid-in capital in excess of par value and realised capital surplus.

(c) Pursuant to the R.O.C. Securities and Exchange Act, treasury shares should not be pledged as collateral and is not entitled to dividends before it is reissued.

(d) Pursuant to the R.O.C. Securities and Exchange Act, treasury shares should be reissued to the employees within three years from the reacquisition date and shares not reissued within the three-year period are to be retired. Treasury shares to enhance the Company's credit rating and the stockholders' equity should be retired within six months of acquisition.

C. For the years ended December 31, 2018 and 2017, the Company issued 320 and 130 thousands shares for employee stock options exercised and the registration for issuance will be completed pursuant to the regulation.

(19) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Act requires that the amount of capital surplus to be capitalised mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

	Share premium	Employee stock options	Difference between consideration and carrying amount of subsidiaries acquired or disposed	Changes in ownership interests in subsidiaries	Proceeds from sales of treasury shares	Restricted shares to employees	Total
At January 1, 2018	\$ 1,750,223	\$ 51,476	\$ 1,534	\$ 395,774	\$ 209	\$ 57,476	\$ 2,256,692
Employee stock options exercised	8,998	(2,374)	-	-	-	-	6,624
Treasury stock sold to employees	-	-	-	-	1,246	-	1,246
Employee restricted share granted	43,438	-	-	-	-	(43,438)	-
Retirement of employee restricted shares	-	-	-	-	-	(2,165)	(2,165)
At December 31, 2018	<u>\$ 1,802,659</u>	<u>\$ 49,102</u>	<u>\$ 1,534</u>	<u>\$ 395,774</u>	<u>\$ 1,455</u>	<u>\$ 11,873</u>	<u>\$ 2,262,397</u>

	Share premium	Employee stock options	Difference between consideration and carrying amount of subsidiaries acquired or disposed	Changes in ownership interests in subsidiaries	Proceeds from sales of treasury shares	Restricted shares to employees	Total
At January 1, 2017	\$ 1,746,566	\$ 52,729	\$ 1,534	\$ -	\$ -	\$ 62,085	\$ 1,862,914
Employee stock options exercised	3,657	(1,253)	-	-	-	-	2,404
Proceeds from sale of treasury shares	-	-	-	-	209	-	209
Retirement of employee restricted shares	-	-	-	-	-	(4,609)	(4,609)
Subsidiaries' capital increase not participated proportionately to the original shareholding ratio	-	-	-	395,774	-	-	395,774
At December 31, 2017	<u>\$ 1,750,223</u>	<u>\$ 51,476</u>	<u>\$ 1,534</u>	<u>\$ 395,774</u>	<u>\$ 209</u>	<u>\$ 57,476</u>	<u>\$ 2,256,692</u>

(20) Retained earnings

- A. According to the Company's Articles of Incorporation, the annual earnings, if any, shall first be used to pay all taxes and offset prior years' operating losses and then 10% of the remaining amount shall be set aside as legal reserve. Special reserve shall be set aside in accordance with the rules set forth in the Securities and Exchange Act, and distributing the remaining amount as common stockholders' dividends in accordance with the resolution adopted by the Board of Directors and approved at the stockholders' meeting.
- B. The amount of dividends appropriated is based on the Company's current year's net income and prior years' retained earnings, taking into account the Company's financial structure and future operating plans. The distribution ratio of cash dividends to stock dividends is based on the Company's funding status, diluted earnings per share and other factors. According to the dividend policy adopted by the Board of Directors, cash dividends shall account for at least 20% of the total dividends distributed. Dividends appropriation shall be resolved by the stockholders at the stockholders' meeting.
- C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the balance of the reserve exceeds 25% of the Company's paid-in capital.
- D. (a) In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

(b) The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently. Such amounts are reversed upon disposal or reclassified if the assets are investment property of land, and reversed over the use period if the assets are investment property other than land.

E. The appropriation of 2017 and 2016 earnings had been resolved at the stockholders' meeting on June 15, 2018, and June 16, 2017, respectively. Details are summarized below:

	2017		2016	
	Amount	Dividends per share (in NT dollars)	Amount	Dividends per share (in NT dollars)
Legal reserve	\$ 1,340		\$ 5,380	
Special reserve	283,124		-	
Cash dividends	135,178	\$ 0.5	215,596	\$ 0.8
	<u>\$ 419,642</u>		<u>\$ 220,976</u>	

The appropriation of 2017 and 2016 earnings were the same as that approved by the Board of Directors on March 23, 2018 and March 27, 2017, respectively.

F. The appropriation of 2018 earnings had been resolved at the Board of Directors meeting on March 15, 2019. Details are summarized below:

	2018	
	Amount	Dividends per share (in NT dollars)
Legal reserve	\$ 13,056	
Special reserve	10,099	
Cash dividends	137,006	\$ 0.5
	<u>\$ 160,161</u>	

Above-mentioned appropriation of 2018 earnings is yet to be resolved by the shareholders.

G. For the information relating to employees' compensation and directors' and supervisors' remuneration, please refer to Note 6(27).

(21) Other equity items

	Foreign currency translation adjustment	Unrealized losses on valuation	Unearned compensation	Total
At January 1, 2018	(\$ 283,124)	\$ -	(\$ 19,215)	(\$ 302,339)
Effects of retrospective application	-	(23,600)	-	(23,600)
After adjustment	(\$ 283,124)	(\$ 23,600)	(\$ 19,215)	(\$ 325,939)
Valuation adjustment	-	(12,790)	-	(12,790)
Currency translation differences:				
-Group	26,291	-	-	26,291
Retirement of restricted shares to employees	-	-	3,440	3,440
Share-based payment transactions	-	-	14,060	14,060
At December 31, 2018	<u>(\$ 256,833)</u>	<u>(\$ 36,390)</u>	<u>(\$ 1,715)</u>	<u>(\$ 294,938)</u>
	Foreign currency translation adjustment	Unrealized losses on valuation	Unearned compensation	Total
At January 1, 2017	\$ 35,009	\$ -	(\$ 60,530)	(\$ 25,521)
Currency translation differences:		-		
-Group	(319,395)	-	-	(319,395)
-Associates	1,262	-	-	1,262
Retirement of restricted shares to employees	-	-	7,509	7,509
Share-based payment transactions	-	-	33,806	33,806
At December 31, 2017	<u>(\$ 283,124)</u>	<u>\$ -</u>	<u>(\$ 19,215)</u>	<u>(\$ 302,339)</u>

(22) Operating revenue

	For the year ended December 31, 2018
Revenue from contracts with customers	<u>\$ 11,193,569</u>

A. Disaggregation of revenue from contracts with customers

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

For the year ended December 31, 2018	Asia	Europe	America	Taiwan	Total
Revenue from external customer contracts	<u>\$ 9,181,159</u>	<u>\$ 1,401,530</u>	<u>\$ 503,893</u>	<u>\$ 106,987</u>	<u>\$ 11,193,569</u>
Timing of revenue recognition					
At a point in time	\$ 9,173,464	\$ 1,401,530	\$ 503,893	\$ 106,987	\$ 11,185,874
Over time	<u>7,695</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,695</u>
Total	<u>\$ 9,181,159</u>	<u>\$ 1,401,530</u>	<u>\$ 503,893</u>	<u>\$ 106,987</u>	<u>\$ 11,193,569</u>

B. Related disclosures for 2017 operating revenue are provided in Note 12(5).

(23) Other income

	For the year ended December 31, 2018	For the year ended December 31, 2017
Interest income:		
Interest income from bank deposits	\$ 122,476	\$ 76,612
Interest income from current financial assets at fair value through profit or loss	1,242	-
Others	27	35
Rental revenue	37,832	12,546
Dividend income	915	3,113
Other income - others	<u>22,241</u>	<u>18,370</u>
Total	<u>\$ 184,733</u>	<u>\$ 110,676</u>

(24) Other gains and losses

	For the year ended December 31, 2018	For the year ended December 31, 2017
(Losses) gains on disposal of property, plant and equipment	(\$ 1,358)	\$ 470
Loss on disposal of investments	- (	4,191)
Net currency exchange gains (losses)	9,606 (	82,483)
Net gains on financial assets at fair value through profit or loss	20,018	2,736
Reversal of impairment loss of investments accounted for under equity method	26,272	-
Impairment loss	- (	17,050)
Other expenses	<u>(4,011)</u>	<u>(5,477)</u>
Total	<u>\$ 50,527</u>	<u>(\$ 105,995)</u>

(25) Finance costs

	For the year ended December 31, 2018	For the year ended December 31, 2017
Interest expense	\$ 25,497	\$ 26,565

(26) Expenses by nature

	For the year ended December 31, 2018	For the year ended December 31, 2017
Employee benefit expenses	\$ 1,290,984	\$ 1,307,891
Depreciation charges on property, plant and equipment	218,896	264,329
Amortisation charges on intangible assets	27,878	14,319
Total	\$ 1,537,758	\$ 1,586,539

(27) Employee benefit expenses

	For the year ended December 31, 2018	For the year ended December 31, 2017
Wages and salaries	\$ 1,122,544	\$ 1,109,349
Employee stock options	16,841	33,806
Labour and health insurance fees	54,960	62,549
Pension costs	55,236	58,917
Other personnel expenses	41,403	43,270
Total	\$ 1,290,984	\$ 1,307,891

A. According to the Articles of Incorporation of the Company, when distributing earnings, the Company shall distribute compensation to the employees and pay remuneration to the directors that account for 10% to 20% and no higher than 2%, respectively, of distributable profit of the current period. If a company has accumulated deficit, earnings should be channeled to cover losses. Employees' compensation can be distributed in the form of shares or in cash. Employees of subsidiaries that the Company holds more than 50% shareholding are entitled to receive aforementioned stock or cash.

Abovementioned distributable profit of the current period refers to the pre-tax profit before deduction of employees' compensation and directors' remuneration. A company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributed as employees' compensation and directors' remuneration; and in addition thereto a report of such distribution shall be submitted to the shareholders' meeting.

Before the establishment of the Audit Committee of the Company, the remuneration of the supervisors and the directors shall be no higher than 2% of distributable profit of the current period.

- B. For the years ended December 31, 2018 and 2017, employees' compensation was accrued at \$29,710 and \$3,159, respectively; directors' and supervisors' remuneration was accrued at \$3,961 and \$421, respectively.

The aforementioned amounts were recognized in salary expenses. Employees' compensation and directors' and supervisors' remuneration for 2017 as resolved by the stockholders were in agreement with those amounts recognized in the 2017 financial statement. Information about employees' compensation and directors' and supervisors' remuneration of the Company as resolved at the meeting of Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(28) Income tax

A. Income tax expense

(a) Components of income tax expense:

	For the year ended December 31, 2018	For the year ended December 31, 2017
Current tax:		
Current tax on profits for the year	\$ 79,467	\$ 85,553
Tax paid outside of the territory of the Republic of China	28,154	-
Adjustments in respect of prior years	(16,782)	(3,238)
Total current tax	<u>90,839</u>	<u>82,315</u>
Deferred tax:		
Origination and reversal of temporary differences	(25,870)	5,660
Impact of change in tax rate	62,901	-
Total deferred tax	<u>37,031</u>	<u>5,660</u>
Income tax expense	<u>\$ 127,870</u>	<u>\$ 87,975</u>

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

	For the year ended December 31, 2018	For the year ended December 31, 2017
Changes in fair value of financial assets at fair value through other comprehensive income	\$ 774	\$ -
Translation differences of foreign operations	(6,219)	(65,160)
Remeasurement of defined benefit obligations	136	(306)
Impact of change in tax rate	119	-
	<u>(\$ 5,190)</u>	<u>(\$ 65,466)</u>

B. Reconciliation between income tax expense and accounting profit:

	For the year ended December 31, 2018	For the year ended December 31, 2017
Tax calculated based on profit before tax and statutory tax rate	\$ 122,645	\$ 84,250
Expense disallowed by tax regulation	(41,454)	(23,228)
Estimated 10% corporate income tax on unappropriated earnings	8,337	2,915
Changes in reassessment of deferred tax assets	(40,981)	(3,743)
Effect from tax credit of investment	(12,403)	425
Adjustment of income tax expense in prior years	(16,782)	(3,238)
Tax paid outside of the territory of the Republic of China	45,607	32,129
Tax exempted income by tax regulation	-	(1,535)
Effect from alternative minimum tax	62,901	-
Income tax expense	<u>\$ 127,870</u>	<u>\$ 87,975</u>

C. Amounts of deferred tax assets or liabilities as a result of temporary difference, tax losses and investment tax credit are as follows:

	2018			
	Recognised in other			
	Recognised in comprehensive			
	January 1	profit or loss	income	December 31
<u>Deferred tax assets:</u>				
Temporary differences				
Cost of after-sales service and other estimated expenses	\$ 39,167	\$ 6,297	\$ -	\$ 45,464
Currency translation differences	28,498	-	6,219	34,717
Others	-	235	-	235
Tax credit of investment	14,750	7,530	-	22,280
Subtotal	<u>\$ 82,415</u>	<u>\$ 14,062</u>	<u>\$ 6,219</u>	<u>\$ 102,696</u>
<u>Deferred tax liabilities:</u>				
Gain on foreign investment under the equity method	(\$ 390,872)	(\$ 53,197)	\$ -	(\$ 444,069)
Pension expense	(1,113)	(61)	(255)	(1,429)
Others	(2,954)	2,165	(774)	(1,563)
Subtotal	<u>(\$ 394,939)</u>	<u>(\$ 51,093)</u>	<u>(\$ 1,029)</u>	<u>(\$ 447,061)</u>
Total	<u>(\$ 312,524)</u>	<u>(\$ 37,031)</u>	<u>\$ 5,190</u>	<u>(\$ 344,365)</u>

2017				
		Recognised in other		
		Recognised in comprehensive		
	January 1	profit or loss	income	December 31
<u>Deferred tax assets:</u>				
Temporary differences:				
Cost of after-sales service and other estimated expenses	\$ 53,317	(\$ 14,150)	\$ -	\$ 39,167
Currency translation differences	-	-	28,498	28,498
Tax losses	280	(280)	-	-
Tax credit of investment	16,185	(1,435)	-	14,750
Subtotal	\$ 69,782	(\$ 15,865)	\$ 28,498	\$ 82,415
<u>Deferred tax liabilities:</u>				
Gain on foreign investment under the equity method				
	(\$ 404,469)	\$ 13,597	\$ -	(\$ 390,872)
Pension expense	(980)	(439)	306	(1,113)
Currency translation differences	(36,662)	-	36,662	-
Others	(1)	(2,953)	-	(2,954)
Subtotal	(\$ 442,112)	\$ 10,205	\$ 36,968	(\$ 394,939)
Total	(\$ 372,330)	(\$ 5,660)	\$ 65,466	(\$ 312,524)

D. According to the Act for Industrial Innovation, details of the amount the Group is entitled as investment tax credit and unrecognised deferred tax assets amount are as follows:

December 31, 2018			
	Unrecognised		
Qualifying items	Unused tax credits	deferred tax assets	Expiry year
Research and development	\$ 7,932	\$ -	2019
Research and development	14,348	-	2020
	<u>\$ 22,280</u>	<u>\$ -</u>	
December 31, 2017			
	Unrecognised		
Qualifying items	Unused tax credits	deferred tax assets	Expiry year
Research and development	\$ 6,944	\$ -	2018
Research and development	7,806	-	2019
	<u>\$ 14,750</u>	<u>\$ -</u>	

E. The Group expiration dates of unused tax losses and amounts of unrecognized deferred tax assets are as follows : None.

F. The Company has not recognized taxable temporary differences associated with investment in subsidiaries as deferred tax liabilities : None.

G. As of December 31, 2018, the Company's income tax returns through 2014 have been assessed and approved by the Tax Authority.

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

(29) Earnings per share

For the year ended December 31, 2018			
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 130,562	270,389	\$ 0.48
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 130,562		
Assumed conversion of all dilutive potential ordinary shares			
Restricted shares to employees		1,660	
Employees' bonus		1,228	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 130,562	273,277	\$ 0.48
For the year ended December 31, 2017			
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 13,402	265,928	\$ 0.05
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 13,402		
Restricted shares to employees		2,712	
Employees' bonus		228	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 13,402	268,868	\$ 0.05

(30) Transactions with non-controlling interest

Grandson Altek Semiconductor (Cayman) Co., Ltd., a second-tier subsidiary of the Group, increased capital by issuing new shares on June 9, 2017 and July 11, 2017. The Group did not acquire shares proportionally to its interest. As a result, the Group decreased its share interest to 21.43%. The transaction increased non-controlling interest by \$513,046 and increased the equity attributable to owners of parent by \$395,774. The effect of changes in interests in Altek Semiconductor (Cayman) Co., Ltd. on the equity attributable to owners of the parent as of 2017 is shown below:

	For the year ended December 31, 2017
Cash	\$ 908,820
Carrying amount of non-controlling interest	(513,046)
Capital surplus-Changes in ownership interests in subsidiaries	<u>\$ 395,774</u>

(31) Operating leases

The Group leased part of the Taipei office building with operating leases. Contingent rents of \$26,127 and \$17,298 were recognized for these leases in profit or loss for the years ended December 31, 2018 and 2017, respectively. The future aggregate minimum lease payments receivable under non-cancellable operating leases are as follows:

	December 31, 2018	December 31, 2017
Not more than 1 year	\$ 28,921	\$ 28,921
More than 1 year but not more than 5 years	9,640	38,561
	<u>\$ 38,561</u>	<u>\$ 67,482</u>

The Group leases land, office buildings and company cars for operational needs under non-cancellable operating lease agreements. These lease terms are between 2018 and 2027. Most of the lease agreements are renewable at the market price at the end of the lease period. The future aggregate minimum lease payments receivable under non-cancellable operating leases are as follows:

	December 31, 2018	December 31, 2017
Not more than 1 year	\$ 8,333	\$ 3,448
More than 1 year but not more than 5 years	20,810	13,794
Over 5 years	15,087	17,243
	<u>\$ 44,230</u>	<u>\$ 34,485</u>

(32) Supplemental cash flow information

Investing activities with partial cash payments

	For the year ended December 31, 2018	For the year ended December 31, 2017
Acquisitions of property, plant, and equipment	\$ 18,262	\$ 97,615
Add: Property and equipment and construction billings payable at beginning of year	12,340	6,848
Less: Property and equipment and construction billings payable at end of year	(1,229)	(12,340)
Cash paid	<u>\$ 29,373</u>	<u>\$ 92,123</u>

	For the year ended December 31, 2018	For the year ended December 31, 2017
Acquisitions of intangible assets	\$ 4,398	\$ 48,637
Add: Payable at beginning of year	4,763	9,067
Less: Payable at end of year	(1,234)	(4,763)
Cash paid	<u>\$ 7,927</u>	<u>\$ 52,941</u>

(33) Changes in liabilities from financing activities

	Short-term borrowings	Short-term notes and bills payable	Long-term borrowings	Guarantee deposits received	Total
At January 1, 2018	\$ 2,021,000	\$ 199,797	\$ -	\$ 23,923	\$ 2,244,720
Changes in cash flow from financing activities	(261,000)	(201,244)	600,000	(3,209)	134,547
Impact of changes in foreign exchange rate	-	-	-	(244)	(244)
Changes in other non-cash items	-	1,447	-	-	1,447
At December 31, 2018	<u>\$ 1,760,000</u>	<u>\$ -</u>	<u>\$ 600,000</u>	<u>\$ 20,470</u>	<u>\$ 2,380,470</u>

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship: None.

(2) Significant transactions and balances with related parties:

No significant related party transactions.

(3) Key management compensation

	For the year ended December 31, 2018	For the year ended December 31, 2017
Salaries and other short-term employee benefits	\$ 32,351	\$ 24,649
Post-employment benefits	616	567
Share-based payments	4,461	9,490
Total	<u>\$ 37,428</u>	<u>\$ 34,706</u>

8. PLEDGED ASSETS

The Group's assets pledged as collateral are as follows:

Pledged asset	Purpose	Book value	
		December 31, 2018	December 31, 2017
Land, buildings and structures	Long-term borrowings	\$ 746,621	\$ -
Investment acquisition	Long-term borrowings	770,551	-
		<u>\$ 1,517,172</u>	<u>\$ -</u>

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

Contingencies

On December 22, 2015, the Company filed a civil complaint against HTC Corporation with the Taiwan Taipei District Court, alleging HTC Corporation's default in relation to the agreed upon Manufacturing and Supply Agreement and claiming damage of USD 11,126 thousand against HTC Corporation. As of March 15, 2019, the case is still under trial.

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENT AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends, return capital or issue new shares to achieve the optimal capital structure.

(2) Financial instruments

A. Financial instruments by category

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Financial assets</u>		
Financial assets measured at fair value through profit or loss	\$ 23,683	\$ 584,799
Financial assets at fair value through other comprehensive income	114,508	-
Financial assets at cost	-	138,011
Financial assets at amortised cost/		
Loans and receivables		
Cash and cash equivalents	6,495,017	5,874,982
Current financial assets at amortised cost	261,288	-
Notes receivable	1,387,222	30,335
Accounts receivable	2,414,775	2,342,369
Other accounts receivable	31,712	18,976
Guarantee deposit paid	38,525	34,053
	<u>\$ 10,766,730</u>	<u>\$ 9,023,525</u>
<u>Financial liabilities</u>		
Financial liabilities at amortised cost		
Short-term borrowings	\$ 1,760,000	\$ 2,021,000
Short-term notes and bills payable	-	199,797
Notes payable	1,049,446	30,335
Accounts payable	1,878,509	2,097,254
Other accounts payable	415,658	420,452
Long-term borrowings (including current portion)	600,000	-
Guarantee deposits received	20,470	23,923
	<u>\$ 5,724,083</u>	<u>\$ 4,792,761</u>

B. Financial risk management policies

- (a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. To minimize any adverse effects on the financial performance of the Group, derivative financial instruments, such as foreign exchange forward contracts and foreign currency option contracts are used to hedge certain exchange rate risk, and interest rate swaps are used to fix variable future cash flows. Derivatives are used exclusively for hedging purposes and not as trading or speculative instruments.

- (b) Risk management is carried out by a central treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- i. The Group operates internationally and is exposed to exchange rate risk arising from the transactions of the Company and its subsidiaries used in various functional currency, primarily with respect to the USD and RMB. Exchange rate risk arises from future commercial transactions and recognized assets and liabilities.
- ii. Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The companies are required to hedge their entire foreign exchange risk exposure with the Group treasury. Exchange rate risk is measured through a forecast of highly probable USD and RMB expenditures. Forward foreign exchange contracts are adopted to minimize the volatility of the exchange rate affecting cost of forecast inventory purchases.
- iii. The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

- iv. The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

		December 31, 2018					
		Sensitivity Analysis					
	Foreign Currency			Book Value	Extent of	Effect on	
		Amount	Exchange			Profit or	Other
		(In thousands)	Rate	(NTD)	Variation	(Loss)	Comprehensive
(Foreign currency: functional currency)							
<u>Financial assets</u>							
<u>Monetary items</u>							
USD:NTD	USD	62,373	30.715	\$ 1,915,787	1%	\$ 19,158	\$ -
USD:RMB	USD	41,445	6.8632	1,272,983	1%	12,730	-
<u>Non-monetary items</u>							
USD:NTD	USD	872	30.715	\$ 26,768	1%	\$ -	\$ 268
<u>Financial liabilities</u>							
<u>Monetary items</u>							
USD:NTD	USD	61,532	30.715	\$ 1,889,955	1%	(\$ 18,900)	\$ -
USD:RMB	USD	32,014	6.8632	983,310	1%	(9,833)	-
		December 31, 2017					
		Sensitivity Analysis					
	Foreign Currency			Book Value	Extent of	Effect on	
		Amount	Exchange			Profit or	Other
		(In thousands)	Rate	(NTD)	Variation	(Loss)	Comprehensive
(Foreign currency: functional currency)							
<u>Financial assets</u>							
<u>Monetary items</u>							
USD:NTD	USD	82,628	29.760	\$2,459,009	1%	\$24,590	\$ -
USD:RMB	USD	58,286	6.5342	1,734,591	1%	17,346	-
<u>Financial liabilities</u>							
<u>Monetary items</u>							
USD:NTD	USD	79,594	29.760	\$2,368,717	1%	(\$23,687)	\$ -
USD:RMB	USD	48,656	6.5342	1,448,003	1%	(14,480)	-

- v. Total exchange gain (loss), including realized and unrealized arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2018 and 2017 amounted to \$9,606 and (\$82,483), respectively.

Price risk

The Group is exposed to price risk because of investments held by the Group. The Group sets limits to control the transaction volume and stop-loss amount to reduce its market risk.

Cash flow and fair value interest rate risk

Interest risk arises from the changes of market interest rate causing fluctuation in financial instruments' fair value or cash received and paid in the future.

The Group raised short-term and long-term borrowings at fixed rates during the years ended December 31, 2018 and 2017, and thus had no significant cash flow interest rate risk.

(b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms.
- ii. The Group manages their credit risk taking into consideration the entire group's concern. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings. The utilisation of credit limits is regularly monitored.
- iii. The Group adopts the assumptions under IFRS 9, the default occurs when the contract payments are past due over 90 days.
- iv. The Group adopts following assumptions under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition:
If the contract payments were past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.
- v. The following indicators are used to determine whether the credit impairment of debt instruments has occurred:
 - (i) It becomes probable that the issuer will enter bankruptcy or other financial reorganization due to their financial difficulties;
 - (ii) The disappearance of an active market for that financial asset because of financial difficulties;
 - (iii) Default or delinquency in interest or principal repayments;
 - (iv) Adverse changes in national or regional economic conditions that are expected to cause a default.
- vi. The Group classifies customers' accounts receivable, contract assets and rents receivable in accordance with customer types. The Group applies the simplified approach using loss rate methodology to estimate expected credit loss under the provision matrix basis.

- vii. The Group used the forecastability to adjust historical and timely information to access the default possibility of accounts receivable, contract assets and lease payments receivable. On December 31, 2018, the loss rate methodology is as follows:

	Up to 90 days past due	91~180 days past due	181 to 360 days past due	Up to 361 days	Total
<u>At December 31, 2018</u>					
Expected loss rate	0%	20%	50%	100%	
Total book value	\$ 3,775,678	\$ 29,761	\$ 6,222	\$ 6,215	\$ 3,817,876
Loss allowance	\$ -	\$ 4,375	\$ 5,289	\$ 6,215	\$ 15,879

- viii. Movements in relation to the group applying the simplified approach to provide loss allowance for accounts receivable, contract assets and notes receivable are as follows:

	2018	
	Accounts receivable	Notes receivable
At January 1_IAS 39	\$ 8,747	\$ -
Adjustments under new standards	-	-
At January 1_IFRS 9	8,747	-
Reversal of impairment loss	7,262	-
Write-offs	(33)	-
Effect of foreign exchange	(97)	-
At December 31	<u>\$ 15,879</u>	<u>\$ -</u>

- ix. Credit risk information of 2017 is provided in Note 12(4).

(c) Liquidity risk

- i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, and compliance with internal balance sheet ratio targets.
- ii. Surplus cash held by the operating entities over and above the balance required for working capital management are transferred to the Group treasury. Group treasury invests surplus cash in interest bearing current accounts, time deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.

iii. The Group has following undrawn borrowing facilities:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Fixed rate:		
Expiring within one year	\$ 3,425,060	\$ 1,114,700
Expiring beyond one year	<u>600,000</u>	<u>-</u>
	<u>\$ 4,025,060</u>	<u>\$ 1,114,700</u>

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

Non-derivative financial liabilities:

December 31, 2018	<u>Less than 1 year</u>	<u>Over 1 year</u>
Short-term borrowings	\$ 1,760,000	\$ -
Notes payable	1,049,446	-
Accounts payable	1,878,509	-
Other payables	415,658	-
Long-term borrowings (including current portion)	-	600,000
Guarantee deposits received	-	20,470

Non-derivative financial liabilities:

December 31, 2017	<u>Less than 1 year</u>	<u>Over 1 year</u>
Short-term borrowings	\$ 2,021,000	\$ -
Short-term notes and bills payable	199,797	-
Notes payable	30,335	-
Accounts payable	2,097,254	-
Other payables	420,452	-
Guarantee deposits received	-	23,923

(3) Fair value estimation

A. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Group's investment in listed beneficiary certificates, on-the-run derivative instruments with quoted market prices is included in Level 1.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability. The fair value of the Group's investment in equity investment without active market is included in Level 3.

B. Fair value information of investment property at cost is provided in Note 6(9).

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

<u>December 31, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value</u>				
<u>measurements</u>				
Financial assets at fair value through profit or loss				
Unlisted stocks	\$ -	\$ -	\$ 23,683	\$ 23,683
Financial assets at fair value through other comprehensive income				
Unlisted stocks	-	60,515	53,993	114,508
	<u>\$ -</u>	<u>\$ 60,515</u>	<u>\$ 77,676</u>	<u>\$ 138,191</u>
<u>December 31, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value</u>				
<u>measurements</u>				
Financial assets at fair value through profit or loss				
Beneficiary certificate	<u>\$ 584,799</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 584,799</u>

D. The methods and assumptions the Group used to measure fair value are as follows:

(a) The instruments the Group used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

	<u>Open-end fund</u>
Market quoted price	Net asset value

(b) The fair value of Level 2 financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the consolidated balance sheet date.

- E. Accounting Department segment is in charge of valuation procedures for fair value measurements being categorised within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently calibrating valuation model, performing back-testing, updating inputs used to the valuation model and making any other necessary adjustments to the fair value. Investment property is valued regularly by the Group's Accounting Department segment based on the valuation methods and assumptions announced by the Financial Supervisory Commission, Securities and Futures Bureau or through outsourced appraisal performed by the external valuer.
- F. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

	Fair value at December 31, 2018	Valuation technique	Significant unobservable input	Relationship of inputs to fair value
Financial assets at fair value through profit or loss				
Unlisted shares	\$ 23,683	Net asset value	Not applicable	Not applicable
Financial assets at fair value through comprehensive income				
Unlisted shares	53,993	Net asset value	Not applicable	Not applicable

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

A. Summary of significant accounting policies adopted in 2017:

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

i. They are financial assets held for trading or financial assets designated as at fair value through profit or loss on initial recognition. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets held for trading unless they are designated as hedges. Financial assets that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:

(i) Hybrid contracts; or

(ii) They eliminate or significantly reduce a measurement or recognition inconsistency;
or

(iii) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

ii. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using settlement date accounting.

iii. Financial liabilities at fair value through profit or loss are initially recognized at fair value. Related transaction costs are expensed in profit or loss. These financial liabilities are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognized in profit or loss. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured or derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are presented in 'financial assets measured at cost'.

(b) Loans and receivables

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. They are initially recognized at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(c) Impairment of financial assets

- i. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
- ii. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:
 - (i) Significant financial difficulty of the issuer or debtor;
 - (ii) A breach of contract, such as a default or delinquency in interest or principal payments;
 - (iii) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
 - (iv) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
 - (v) The disappearance of an active market for that financial asset because of financial difficulties;
 - (vi) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;
 - (vii) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;
 - (viii) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.
- iii. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:

(i) Financial assets at amortised cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost that would have been at the date of reversal had the impairment loss not been recognised previously. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(ii) Financial assets at cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at current market return rate of similar financial asset, and is recognised in profit or loss. Impairment loss recognised for this category shall not be reversed subsequently. Impairment loss is recognised by adjusting the carrying amount of the asset through the use of an impairment allowance account.

B. The reconciliations of carrying amount of financial assets transferred from December 31, 2017, IAS 39, to January 1, 2018, IFRS 9, were as follows:

					Effects	
	Measured at fair value through profit or loss	Measured at fair value through other comprehensive income-equity	Measured at cost	Total	Retained earnings	Other equity
IAS 39	\$ -	\$ -	\$ 138,011	\$ 138,011	\$ -	\$ -
Transferred into and measured at fair value through profit or loss	10,601	-	(10,601)	-	-	-
Transferred into and measured at fair value through other comprehensive income-equity	-	151,010	(151,010)	-	-	-
Impairment loss adjustment	-	(23,600)	23,600	-	23,600	(23,600)
IFRS 9	<u>\$ 10,601</u>	<u>\$ 127,410</u>	<u>\$ -</u>	<u>\$ 138,011</u>	<u>\$ 23,600</u>	<u>(\$ 23,600)</u>

- (a) Under IAS 39, because the equity instruments, which were classified as: financial assets at cost, amounting to \$151,010, were not held for the purpose of trading, they were reclassified as "financial assets at fair value through other comprehensive income (equity instruments)", increased retained earnings and decreased other equity interest in the amount of \$23,600 on initial application of IFRS 9.
- (b) Under IAS 39, the equity instruments, which were classified as: financial assets at cost, amounting to \$10,601, were reclassified as "financial assets at fair value through profit or loss (equity instruments)" under IFRS 9.
- C. The financial assets at cost as of December 31, 2017 are as follows:

Items	December 31, 2017
Non-current items:	
Unlisted stocks	\$ 167,657
Accumulated impairment	(29,646)
	<u>\$ 138,011</u>

- (a) Since to the Group's investment stocks are not traded in active market, and have no sufficient industry information of companies similar to the investment stocks, the fair value of the investment stocks cannot be measured reliably. The Group classified those stocks as 'financial assets measured at cost'.
- (b) Due to the impairment of the financial assets at cost, the Group assessed the recoverable value of the financial assets at cost was lower than its carrying amount, and recognised impairment loss by \$17,050 for the year ended December 31, 2017.
- (c) As of December 31, 2017, no financial assets measured at cost held by the Group were pledged to others.
- D. Credit risk information for 2017 are as follows:
- (a) Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables.

- (b) For the year ended December 31, 2017, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
- (c) The credit quality of accounts receivable that were neither past due nor impaired was in the following categories based on the Group's Credit Quality Control Policy:

	<u>December 31, 2017</u>
Group 1	\$ 2,070,650
Group 2	<u>264,105</u>
	<u>\$ 2,334,755</u>

Note:

Group 1: Including domestic and foreign listed companies and their affiliated companies.

Group 2: Others.

- (d) The ageing analysis of accounts receivable that were past due but not impaired is as follows:

	<u>December 31, 2017</u>
Up to 30 days	\$ 334
31 to 90 days	-
91 to 180 days	218
Over 181 days	<u>7,062</u>
	<u>\$ 7,614</u>

The above ageing analysis was based on past due date.

- (e) Movements in the provision for impairment of accounts receivable are as follows:

	<u>2017</u>		
	<u>Individual provision</u>	<u>Group provision</u>	<u>Total</u>
At January 1	\$ 9,477	\$ -	\$ 9,477
Provision for impairment	(672)	-	(672)
Effects of foreign exchange	(58)	-	(58)
At December 31	<u>\$ 8,747</u>	<u>\$ -</u>	<u>\$ 8,747</u>

(5) Effects of initial application of IFRS 15 and information on application of IAS 11 and IAS 18 in 2017

A. The significant accounting policies applied on revenue recognition for the year ended December 31, 2017 are set out below :

(a) Sales of goods

The Group manufactures and sells digital image technology application products. Revenue is measured at the fair value of the consideration received or receivable taking into account of value-added tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group's activities. Revenue arising from the sales of goods should be recognised when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Group retains either continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

(b) Technical service revenue and royalty income

The Group provides and charges for technical service and royalty income. Revenue is recognised in accordance with the stage of completion of the transaction, and cost is recognised when incurred in the current period. The Group recognised losses immediately if any loss is expected to be incurred in the transaction. Revenue is recognised when the following conditions are met:

- i. The amount of revenue can be measured reliably;
- ii. It is probable that the economic benefits associated with the transaction will flow to the entity;
- iii. The costs incurred or to be incurred in respect of the transaction can be measured reliably; and
- iv. The stage of completion of the transaction at the end of the reporting period can be measured reliably.

B. The revenue recognised by using above accounting policies for the year ended December 31, 2017 are as follows:

	<u>For the year ended December 31, 2017</u>
Sales revenue	\$ 10,167,892
Service revenue	186,854
Other	198,027
	<u>\$ 10,552,773</u>

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

- A. Loans to others: None.
- B. Provision of endorsements and guarantees to others: None.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures) : Please refer to table 1.
- D. Acquisition or sale of the same security with the accumulated cost exceeding NT\$300 million or 20% of the Company's paid-in capital: None.
- E. Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.
- F. Disposal of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more: Please refer to table 2.
- H. Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more: Please refer to table 3.
- I. Trading in derivative financial instruments undertaken during the reporting periods: None.
- J. Significant inter-company transactions during the reporting periods: Please refer to table 4.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China): Please refer to table 5.

(3) Information on investments in Mainland China

- A. The related information of investments in Mainland China: Please refer to table 6.
- B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area:
For the significant purchases, sales, accounts payable and accounts receivable transactions between the Company and the investee companies in Mainland China through its subsidiaries, please refer to tables 2 and 4.

14. SEGMENT INFORMATION

(1) General information

The Group mainly operates in one segment. The Chief Operating Decision-Maker reviews the Group's reporting to assess performance and allocate resources. The Group mainly has a single reportable segment.

(2) Measurement of segment information

The chief operating decision-maker assesses the segment performance through the consolidated financial statements which are prepared in accordance with the "Rules Governing the Preparation of Financial Statements by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC.

(3) Information about segment profit or loss, assets and liabilities

The Group has a single reportable segment. The revenue from external customers, the related gain or loss, and the assets correspond with the consolidated revenue, consolidated operating income, and consolidated assets.

(4) Reconciliation for segment income (loss), assets and liabilities : None.

(5) Information on products and services

Revenues from external customers are derived from the sale of digital image technology application and related export and import trade.

(6) Geographical information

Geographical information for the years ended December 31, 2018 and 2017 is as follows:

	<u>For the year ended December 31, 2018</u>		<u>For the year ended December 31, 2017</u>	
	<u>Revenue</u>	<u>Non-current assets</u>	<u>Revenue</u>	<u>Non-current assets</u>
Asia	\$ 9,181,159	\$ 2,068,891	\$ 9,332,973	\$ 2,307,520
Europe	1,401,530	-	1,047,980	-
America	503,893	-	60,389	-
Taiwan	106,987	2,178,147	111,431	2,240,174
Total	<u>\$ 11,193,569</u>	<u>\$ 4,247,038</u>	<u>\$ 10,552,773</u>	<u>\$ 4,547,694</u>

(7) Major customer information

Major customer information of the Group for the years ended December 31, 2018 and 2017 is as follows:

	<u>Year ended December 31, 2018</u>	<u>Year ended December 31, 2017</u>
	<u>Revenue</u>	<u>Revenue</u>
Client A	\$ 3,037,506	\$ 184,784
Client B	2,298,888	2,064,733
Client C	1,182,959	163
Client D	1,206,049	1,024,349
Client E	939,417	1,877,714
Client F	451,848	1,156,451

Altek Corporation and subsidiaries

Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)

December 31, 2018

Table 1

Expressed in thousands of NTD

(Except as otherwise indicated)

Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	As of December 31, 2018			
				Number of shares	Book value	Ownership (%)	Fair value
Altek Corporation	Gianta Co., Ltd. - Common stock	Director	Financial assets at fair value through profit or loss - non-current	762,876	\$ 23,683	14.55%	\$ 23,683
"	Yung Li Investments Inc. - Common stock	None	"	241,935	-	4.84%	-
"	Hua-chuang Automobile Information Technical Center Co., Ltd. - Common stock	None	Financial assets measured at fair value through other comprehensive income - non-current	5,660,000	60,515	2.00%	60,515
Altek (Kunshan) Co., Ltd.	Guangdong Kingding Optical Technology Co., Ltd.	None	"	1,200,000	6,668	6.45%	6,668
"	CPEC Huachuang Private Equity (Kunshan) Enterprise (Limited Partnership)	None	"	N/A	47,325	(Note)	47,325

Note : 1% of CPEC Huachuang Private Equity (Kunshan) Enterprise (Limited Partnership)'s capital contribution.

Altek Corporation and subsidiaries
Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more
For the year ended December 31, 2018

Table 2

Expressed in thousands of NTD
(Except as otherwise indicated)

Purchaser/seller	Counterparty	Relationship with the counterparty	Transaction				Differences in transaction terms compared to third party transactions		Notes/accounts receivable (payable)		
			Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	
Altek Corporation	Altek International Investment Co., Ltd.	Parent and affiliated company	Purchases	\$ 3,435,208	99%	Net 120 days	Approximately the same price with third parties	Note	(\$ 1,380,217)	98%	
Altek International Investment Co., Ltd.	Altek (Kunshan) Co., Ltd.	"	Purchases	4,956,557	100%	Net 75 days	"	"	(913,212)	98%	
Altek Semiconductor Corporation	Altek International Investment Co., Ltd.	"	Purchases	305,227	83%	"	"	"	(143,962)	85%	
Altek Biotechnology Corporation	"	The same ultimate parent company	Purchases	987,060	100%	"	"	"	(331,436)	99%	
Altek (Kunshan) Co., Ltd	"	Parent and affiliated company	Purchases	104,490	1%	"	"	"	-	0%	
Altek Trading (Shanghai) Limited	Altek (Kunshan) Co., Ltd.	The same ultimate parent company	Purchases	365,239	84%	"	"	"	(39,424)	92%	
Altek Semiconductor (Shanghai) CO., Ltd.	"	"	Purchases	3,762,729	100%	"	"	"	(2,318,888)	100%	

Note: The payment term with third parties was net 60~120 days.

Altek Corporation and subsidiaries
Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more
December 31, 2018

Table 3

Expressed in thousands of NTD
(Except as otherwise indicated)

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2018	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts
					Amount	Action taken		
Altek International Investment Co., Ltd.	Altek Corporation	Parent and affiliated company	\$ 1,380,217	2.65	\$ -	N/A	\$ 31,736	\$ -
"	Altek Semiconductor Corporation	Parent and affiliated company	143,962	1.50	-	N/A	36,037	-
"	Altek Biotechnology Corporation	The same ultimate parent company	331,436	3.04	-	N/A	164,657	-
Altek (Kunshan) Co., Ltd.	Alteck International Investment Co., Ltd.	Parent and affiliated company	913,212	5.05	-	N/A	779,213	-
"	Altek Semiconductor (Shanghai) Co., Ltd.	The same ultimate parent company	2,138,888	1.99	-	N/A	1,252,074	-

Altek Corporation and subsidiaries
Significant inter-company transactions during the reporting periods
For the year ended December 31, 2018

Table 4

Expressed in thousands of NTD
(Except as otherwise indicated)

			Transaction			
		Relationship	Percentage of consolidated total operating			
Company name	Counterparty	(Note 1)	General ledger account	Amount	Transaction terms	revenues or total assets (Note 2)
Altek Corporation	Altek International Investment Co., Ltd.	(1)	Purchases	\$ 3,435,208	Net 120 days	31%
"	"	(1)	Accounts payable	1,380,217	"	8%
Altek International Investment Co., Ltd.	Altek (Kunshan) Co., Ltd.	(3)	Purchases	4,956,557	Net 75 days	44%
"	"	(3)	Accounts payable	913,212	"	6%
Altek Semiconductor Corporation	Altek International Investment Co., Ltd.	(3)	Purchases	305,227	"	3%
"	"	(3)	Accounts payable	143,962	"	1%
"	"	(3)	Sales	65,871	"	1%
"	"	(3)	Accounts receivable	14,882	"	0%
"	Altek Semiconductor (Shanghai) Co., Ltd.	(3)	Royalty income	284,498	"	3%
"	"	(3)	Other receivables	41,745	"	0%
Altek Biotechnology Corporation	Altek International Investment Co., Ltd.	(3)	Purchases	987,060	"	9%
"	"	(3)	Accounts payable	331,436	"	2%
Altek (Kunshan) Co., Ltd.	"	(3)	Purchases	104,490	"	1%
Altek Trading (Shanghai) Limited	"	(3)	Purchases	67,961	"	1%
"	Altek (Kunshan) Co., Ltd.	(3)	Purchases	365,239	"	3%
"	"	(3)	Accounts payable	39,424	"	0%
Altek Semiconductor (Shanghai) Co., Ltd.	"	(3)	Purchases	3,762,729	"	34%
"	"	(3)	Notes/accounts payable	2,138,888	"	13%

Note 1: Relationship between transaction and counterparty is classified into the following categories:

- (1) Parent company to subsidiary.
- (2) Subsidiary to parent company.
- (3) Subsidiary to subsidiary.

Note 2: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.

Note 3: The Company may decide to disclose or not to disclose transaction details in this table based on the Materiality Principle.

Altek Corporation and subsidiaries
Information on investees
For the year ended December 31, 2018

Table 5

Expressed in thousands of NTD
(Except as otherwise indicated)

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2018			Net profit (loss) of the investee for the year ended December 31, 2018	Investment income(loss) recognised by the Company for the year ended December 31, 2018
				Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares	Ownership (%)	Book value		
Altek Corporation	Altek International Investment Co., Ltd.	British Virgin Islands	Investment and general business operations	\$ 2,910,046	\$ 2,910,046	88,662,059	100%	\$ 8,953,335	\$ 124,822	\$ 124,822
"	Altek Japan Corporation	Japan	Sale of optical optical instruments	2,869	2,869	1,000	100%	11,501 (	1) (	1)
"	Altek Investment Co., Ltd.	Republic of China	Investment	50,000	50,000	5,000,000	100%	39,872 (	22) (	22)
"	Altek International Holding (BVI) Co, Ltd.	British Virgin Islands	Investment and general business operations	415,376	415,376	12,865,921	100%	588,544	90,814	90,814
Altek International Investment Co., Ltd.	Altek Lab Inc.	U.S.A.	Design service	113,023	113,023	11,311,875	100%	62,093	1,576	1,545
"	JinJing Optical Technology Co., ltd.	Samoa	Investment and general business operations	107,503	107,503	3,500,000	23.33%	26,768	113,661	-
"	Altek Semiconductor (Cayman) Co., Ltd.	Cayman Islands	Investment and general business operations	188,812	188,812	20,000,000	50%	673,401	85,176	42,588
Altek Semiconductor (Cayman) Co., Ltd.	Altek Semiconductor Corporation	Republic of China	Research design and sales of ASIC	200,000	200,000	20,000,000	100%	296,557 (	21,381) (	10,691)
Altek Biotechnology Holding (Cayman) Co., Ltd.	Altek Biotechnology Corporation	Republic of China	Research and development, manufacture and sales of medical electronic equipments	415,376	415,376	40,100,000	100%	516,324	105,753	105,753

Noted: The dissolution and liquidation of Altek Investment Co., Ltd was resolved by the Board of Directors on December 17, 2018. Moreover, the competent authority approved its dissolution on December 24, 2018.

Altek Corporation and subsidiaries
Information on investments in Mainland China
For the year ended December 31, 2018

Table 6

Expressed in thousands of NTD
(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Amount remitted from Taiwan to Mainland China/Amount remitted back to Taiwan for the year ended December 31, 2018		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Net profit (loss) of investee for the year ended December 31, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company the year ended December 31, 2018	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018
					Remitted to Mainland China	Remitted back to Taiwan						
Altek (Kunshan) Co., Ltd. (Note 2)	Manufacture and sale of digital still cameras and its accessories	\$ 1,523,464	2	\$ 1,382,175	\$ -	\$ -	\$ 1,382,175	\$ 135,319	100%	\$ 135,319	\$ 4,028,009	\$ -
Altek EMS (Kunshan) Co., Ltd. (Note 3)	Manufacture and sale of related engineering services	153,575	2	278,984	-	-	278,984	21,251	100%	21,251	769,376	-
Altek Trading (Shanghai) Limited	Wholesale, import and export of digital cameras, digital video cameras and their associated accessories	261,078	2	261,078	-	-	261,078	2,149	100%	2,149	297,908	-
Kinko Optical (Suzhou) Co., Ltd. (Note 4)	Manufacture and sale of optical components	460,725	2	107,503	-	-	107,503	-	23.33%	-	-	-
Altek Precision (Kunshan) Co., Ltd.	Design, manufacture and sales of digital camera parts	423,867	2	423,867	-	-	423,867	2,748	100%	2,748	150,256	-
Altek Optical Technology (Kunshan) Co., Ltd.	Manufacture and sales of digital camera and its accessories and optical components	344,008	2	344,008	-	-	344,008	(4,493)	100%	(4,493)	7,951	-
Altek Semiconductor (Shanghai) Co., Ltd.	Research design and sales of imaging technologies, electronic software and hardware	46,073	2	-	-	-	-	86,483	50%	43,242	124,152	-

Note 1: Investment methods are classified into the following three categories; fill in the number of category each case belongs to:

(1)Directly invest in a company in Mainland China.

(2)Through investing in an existing company in the third area,which then invested in the investee in Mainland China.

(3)Others.

Note 2: Including retained earnings capitalized of US\$4,600 (In thousand of US dollars).

Note 3: On May 8, 2017, Phoenix Optical (Shanghai) Co., Ltd. has completed liquidation.

Note 4: Jinjing Optical Technology Co., Ltd. has sold its stake in Kinko Optical(Suzhou) Co., Ltd.

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018		Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)		Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA	
	\$		\$		\$	
Altek Corporation	\$	2,797,615	\$	3,008,350	\$	-

Note:According to “REGULATIONS GOVERNING THE APPROVAL OF INVESTMENT OR TECHNICAL IN MAINLAND CHINA”on August 29, 2008, Altek Corporation obtained the approval from the Industrial Development Bureau of Ministry of Economics Affairs issued to Headquarters, so there is no need to compute the ceiling amount of the Company.