# Silicon Optronics, Inc. and Subsidiary

## Consolidated Financial Statements for the Years Ended December 31, 2018 and 2017 and Independent Auditors' Report

Deloitte.

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Silicon Optronics, Inc.

### Opinion

We have audited the accompanying consolidated financial statements of Silicon Optronics, Inc. and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the 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 of 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 International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### Basis for Opinion

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

### Key Audit Matters

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

Key audit matters for the Group's consolidated financial statements for the year ended December 31, 2018 are stated as follows:

Sales Revenue

The Group's sales revenue derived from key customers accounted for a high proportion of the overall sales revenue. The transaction amount with such customers is significant to the overall sales revenue. Thus, we believe that there is a validity risk regarding the transaction of sales revenue of the Group. We deemed the sales

**INDEPENDENT AUDITORS' REPORT**

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Silicon Optronics, Inc.

**Opinion**

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In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 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 International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

**Basis for Opinion**

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

**Key Audit Matters**

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

Key audit matters for the Group's consolidated financial statements for the year ended December 31, 2018 are stated as follows:

<u>Sales Revenue</u>

The Group's sales revenue derived from key customers accounted for a high proportion of the overall sales revenue. The transaction amount with such customers is significant to the overall sales revenue. Thus, we believe that there is a validity risk regarding the transaction of sales revenue of the Group. We deemed the sales validity derived from such customers as a key audit matter. For the description of the revenue recognition policy, please refer to Notes 4(m) to the consolidated financial statements.

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

1. We understood the effectiveness of the Group's internal controls for the order approval and shipment procedures.

2. We understood the background of the key customers and assessed whether the transaction amount and credit line matched the size of such customers and were under appropriate approval.

3. To confirm the sales validity, we sampled sales revenue and checked whether customer orders, shipping trackers, invoices and other documents are consistent with the same customers. And we also checked whether the transaction consideration were paid by the same customers.

<u>Inventory Valuation</u>

As of December 31, 2018, the Group's inventory balance was $694,421, accounting for 28% of the combined total assets. For its accounting policy, please refer to Notes 4(g) to the consolidated financial statements. As the amount of the inventory is significant and the assessment of net realization value involves significant management judgements, in particular with regard to estimates of inventory valuation and obsolescence loss. Therefore, inventory valuation is considered as a key audit matter. We has evaluated the appropriateness of the method used by the Group to calculate the inventory valuation and obsolescence loss at the end of the year and to implement the following procedures:

1. Based on our understanding of the industry and product nature of the Group, we sampled and verified the correctness of the inventory aging, as well as evaluated the appropriateness of the provision policy on the inventory.

2. To make sure the reasonableness of inventory valuation, we verified, on a sample basis, whether it is measured by the lower of cost and net realizable value based on the most recent raw material quotation or sales data, and we assessed the reasonableness of the change in allowance for inventory write-down.

3. We compared and analyzed the provision difference of inventory valuation and obsolescence loss in 2018 and 2017.

**Other Matter**

We have also audited the parent company only financial statements of Silicon Optronics, Inc. as of and for the years ended December 31, 2018 and 2017 on which we have issued an unmodified opinion.

**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 Preparation of Financial Reports by Securities Issuers, and IFRS, IAS, IFRIC and SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, 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, including the audit committee, are responsible for overseeing the Group's financial reporting process.

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

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

1. Identify and assess the risks of material misstatement of the 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.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 auditors' 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

5. 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.

6. Obtain sufficient and appropriate audit evidence regarding the financial information of 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 for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Ming-Yuan Chung and Cheng-Chih Lin.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 8, 2019

*Notice to Readers*

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

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

## SILICON OPTRONICS, INC. AND SUBSIDIARY

**CONSOLIDATED BALANCE SHEETS**
**DECEMBER 31, 2018 AND 2017**
**(In Thousands of New Taiwan Dollars)**

| | 2018 | | 2017 | |
|---|---|---|---|---|
| **ASSETS** | **Amount** | **%** | **Amount** | **%** |
| CURRENT ASSETS | | | | |
| Cash (Notes 4 and 6) | $ 486,893 | 20 | $ 217,164 | 17 |
| Financial assets at amortized cost - current (Notes 4 and 7) | 828,944 | 34 | - | - |
| Investments in debt instrument without active market - current (Notes 4, 8 and 27) | - | - | 99,323 | 8 |
| Accounts receivable - net (Notes 4 and 9) | 59,182 | 2 | 12,425 | 1 |
| Inventories (Notes 4, 5 and 10) | 694,421 | 29 | 566,326 | 44 |
| Prepayments and other current assets (Notes 4, 14 and 26) | 72,963 | 3 | 62,338 | 5 |
| Total current assets | 2,142,403 | 88 | 957,576 | 75 |
| NON-CURRENT ASSETS | | | | |
| Financial assets at amortized cost - noncurrent (Notes 4, 7 and 27) | 2,577 | - | - | - |
| Investments in debt instrument without active market non-current (Notes 4, 8 and 27) | - | - | 2,549 | - |
| Property, plant and equipment (Notes 4 and 12) | 48,811 | 2 | 38,775 | 3 |
| Goodwill (Notes 4 and 5) | 199,228 | 8 | 199,228 | 16 |
| Intangible assets (Notes 4 and 13) | 35,359 | 2 | 63,059 | 5 |
| Deferred tax assets (Notes 4 and 21) | 10,467 | - | 7,079 | 1 |
| Other non-current assets (Notes 4, 14 and 17) | 2,179 | - | 2,114 | - |
| Total non-current assets | 298,621 | 12 | 312,804 | 25 |
| TOTAL | $ 2,441,024 | 100 | $ 1,270,380 | 100 |

| | 2018 | | 2017 | |
|---|---|---|---|---|
| **LIABILITIES AND EQUITY** | **Amount** | **%** | **Amount** | **%** |
| CURRENT LIABILITIES | | | | |
| Short-term bank loans (Notes 4, 15 and 27) | $ - | - | $ 130,000 | 10 |
| Contract liabilities - current (Note 19) | 6,012 | - | - | - |
| Accounts payable (Note 4) | 52,963 | 2 | 44,996 | 4 |
| Accounts payable to related parties (Notes 4 and 26) | 126,379 | 5 | 41,802 | 3 |
| Other payables to related parties (Notes 4 and 26) | - | - | 163 | - |
| Current tax liabilities (Notes 4 and 21) | 31,552 | 2 | 24,029 | 2 |
| Other current liabilities (Notes 4 and 16) | 54,735 | 2 | 53,248 | 4 |
| Total current liabilities | 271,641 | 11 | 294,238 | 23 |
| NON-CURRENT LIABILITIES | | | | |
| Deferred income tax liabilities (Notes 4 and 21) | 41 | - | - | - |
| Total liabilities | 271,682 | 11 | 294,238 | 23 |
| EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY (Notes 4, 18 and 23) | | | | |
| Ordinary shares | 778,279 | 32 | 679,809 | 54 |
| Capital surplus | 1,124,721 | 46 | 52,187 | 4 |
| Retained earnings | | | | |
| Legal reserve | 34,567 | 1 | 14,158 | 1 |
| Special reserve | 526 | - | - | - |
| Unappropriated earnings | 230,859 | 10 | 230,514 | 18 |
| Other equity | | | | |
| Exchange differences on translating the financial statements of foreign operations | 390 | - | (526) | - |
| Total equity | 2,169,342 | 89 | 976,142 | 77 |
| TOTAL | $ 2,441,024 | 100 | $ 1,270,380 | 100 |

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

## SILICON OPTRONICS, INC. AND SUBSIDIARY

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| OPERATING REVENUE (Notes 4, 19, 26 and 30) | $ 2,034,267 | 100 | $ 1,714,565 | 100 |
| OPERATING COSTS (Notes 10, 20 and 26) | 1,564,468 | 77 | 1,214,537 | 71 |
| GROSS PROFIT | 469,799 | 23 | 500,028 | 29 |
| OPERATING EXPENSES (Notes 20 and 26) | | | | |
| Selling and marketing expenses | 22,800 | 1 | 17,348 | 1 |
| General and administrative expenses | 57,820 | 3 | 63,032 | 4 |
| Research and development expenses | 209,125 | 10 | 172,045 | 10 |
| Total operating expenses | 289,745 | 14 | 252,425 | 15 |
| OPERATING INCOME | 180,054 | 9 | 247,603 | 14 |
| NON-OPERATING INCOME AND EXPENSES | | | | |
| Other income (Notes 4 and 20) | 9,751 | - | 4,658 | - |
| Other gains and losses (Notes 4 and 20) | 558 | - | (12,246) | - |
| Financial costs (Note 20) | (390) | - | (508) | - |
| Total non-operating income and expenses | 9,919 | - | (8,096) | - |
| PROFIT BEFORE INCOME TAX | 189,973 | 9 | 239,507 | 14 |
| INCOME TAX EXPENSE (Notes 4 and 21) | (32,541) | (1) | (35,420) | (2) |
| NET INCOME | 157,432 | 8 | 204,087 | 12 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | | |
| Remeasurement of defined benefit plans (Notes 4 and 17) | (56) | - | (55) | - |
| Items that may be reclassified subsequently to profit or loss | | | | |
| Exchange differences on translation of foreign operations (Notes 4 and 18) | 916 | - | (2,499) | - |
| Total other comprehensive income (loss) | 860 | - | (2,554) | - |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | $ 158,292 | 8 | $ 201,533 | 12 |

(Continued)

## SILICON OPTRONICS, INC. AND SUBSIDIARY

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| EARNINGS PER SHARE (Note 22) | | | | |
| Basic | $ 2.17 | | $ 3.02 | |
| Diluted | $ 2.15 | | $ 3.00 | |

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

## SILICON OPTRONICS, INC. AND SUBSIDIARY

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**
**(In Thousands of New Taiwan Dollars)**

| | Ordinary Shares | | | Retained Earnings | | | Other Equity | |
|---|---|---|---|---|---|---|---|---|
| | Shares (In Thousands) | Amount | Capital Surplus | Legal Reserve | Special Reserve | Unappropriated Earnings | Exchange Difference on Translating the Financial Statements of Foreign Operations | Total Equity |
| BALANCE, JANUARY 1, 2017 | 66,936 | $ 669,359 | $ 30,179 | $ 990 | $ - | $ 140,528 | $ 1,973 | $ 843,029 |
| Appropriation of 2016 earnings | | | | | | | | |
| Legal reserve | - | - | - | 13,168 | - | (13,168) | - | - |
| Cash dividends distributed by Silicon Optronics, Inc. | - | - | - | - | - | (100,878) | - | (100,878) |
| Net profit for the year ended December 31, 2017 | - | - | - | - | - | 204,087 | - | 204,087 |
| Other comprehensive income for the year ended December 31, 2017 | - | - | - | - | - | (55) | (2,499) | (2,554) |
| Total comprehensive income for the year ended December 31, 2017 | - | - | - | - | - | 204,032 | (2,499) | 201,533 |
| Issuance of ordinary shares under employee share options | 1,045 | 10,450 | 21,952 | - | - | - | - | 32,402 |
| Share-based payment | - | - | 56 | - | - | - | - | 56 |
| BALANCE, DECEMBER 31, 2017 | 67,981 | 679,809 | 52,187 | 14,158 | - | 230,514 | (526) | 976,142 |
| Appropriation of 2017 earnings | | | | | | | | |
| Legal reserve | - | - | - | 20,409 | - | (20,409) | - | - |
| Special reserve | - | - | - | - | 526 | (526) | - | - |
| Cash dividends distributed by Silicon Optronics, Inc. | - | - | - | - | - | (136,096) | - | (136,096) |
| Net profit for the year ended December 31, 2018 | - | - | - | - | - | 157,432 | - | 157,432 |
| Other comprehensive income (loss) for the year ended December 31, 2018 | - | - | - | - | - | (56) | 916 | 860 |
| Total comprehensive income for the year ended December 31, 2018 | - | - | - | - | - | 157,376 | 916 | 158,292 |
| Issuance of ordinary shares for cash | 9,285 | 92,850 | 1,057,885 | - | - | - | - | 1,150,735 |
| Issuance of ordinary shares under employee share options | 562 | 5,620 | 9,903 | - | - | - | - | 15,523 |
| Share-based payment | - | - | 4,746 | - | - | - | - | 4,746 |
| BALANCE, DECEMBER 31, 2018 | 77,828 | $ 778,279 | $ 1,124,721 | $ 34,567 | $ 526 | $ 230,859 | $ 390 | $ 2,169,342 |

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

# SILICON OPTRONICS, INC. AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF CASH FLOWS
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**
**(In Thousands of New Taiwan Dollars)**

| | 2018 | 2017 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit before income tax | $ 189,973 | $ 239,507 |
| Adjustments for: | | |
| Depreciation expenses | 36,118 | 30,912 |
| Amortization expenses | 30,494 | 27,026 |
| Finance costs | 390 | 508 |
| Interest income | (8,230) | (2,942) |
| Share-based payment | 4,746 | 56 |
| Impairment loss recognized on financial assets | 7 | - |
| Write downs of (reversal of) inventories | 25,042 | (28,797) |
| Net loss on foreign currency exchange | 7,868 | 15,761 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (46,717) | 3,902 |
| Inventories | (153,137) | (293,596) |
| Prepayments and other current assets | (10,625) | (1,592) |
| Contract liabilities | 1,111 | - |
| Accounts payable | 7,779 | (14,178) |
| Accounts payables to related parties | 84,606 | (46,621) |
| Other payables to related parties | (163) | (163) |
| Accrued expenses and other current liabilities | 2,368 | (7,440) |
| Net defined benefit Assets | (73) | (73) |
| Cash generated from (used in) operations | 171,557 | (77,730) |
| Income tax paid | (28,365) | (30,803) |
| Net cash generated from (used in) operating activities | 143,192 | (108,533) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of financial assets at amortized cost | (929,192) | - |
| Proceeds from financial assets at amortized cost | 199,323 | - |
| Acquisition of debt investments without active market | - | (112,321) |
| Proceeds from debt investments without active market | - | 9,173 |
| Acquisition of property, plant and equipment | (42,153) | (37,899) |
| Increase in refundable deposits | (54) | (616) |
| Acquisition of intangible assets | (2,223) | (21,154) |
| Interest received | 8,230 | 2,942 |
| Net cash used in investing activities | (766,069) | (159,875) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| (Decrease) increase in short term bank loans | (130,000) | 130,000 |
| Dividends paid | (136,096) | (100,878) |
| Issuance of ordinary shares for cash | 1,150,735 | - |
| Exercise of employee share options | 15,523 | 32,402 |
| Interest paid | (390) | (508) |
| Net cash generated from financing activities | 899,772 | 61,016 |

(Continued)

# SILICON OPTRONICS, INC. AND SUBSIDIARY

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**
**(In Thousands of New Taiwan Dollars)**

| | 2018 | 2017 |
|---|---|---|
| EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES | $ (7,166) | $ (13,036) |
| NET INCREASE (DECREASE) IN CASH | 269,729 | (220,428) |
| CASH AT THE BEGINNING OF THE YEAR | 217,164 | 437,592 |
| CASH AT THE END OF THE YEAR | $ 486,893 | $ 217,164 |

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

# SILICON OPTRONICS, INC. AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

## 1. GENERAL INFORMATION

Silicon Optronics, Inc. (the “Company”) was incorporated in the Republic of China (“ROC”) on May 24, 2004 and commenced business on May 27, 2004. The Company’s main business activities include Design, development and sales for Complementary Metal-Oxide Semiconductor.

The Company’s shares have been listed on the Taiwan Stock Exchange (TWSE) since July 2018.

The consolidated financial statements are presented in the Company’s functional currency, New Taiwan dollar.

## 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorized for issue on March 8, 2019.

## 3. APPLICATION OF NEW AND REVISED STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

Except for the following, whenever applied, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC would not have any material impact on the accounting policies of the Company and entities controlled by the Company (collectively, the “Group”):

1) IFRS 9 “Financial Instruments” and related amendments

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

Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that existed as of January 1, 2018, the Group has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amount under IAS 39 and the new measurement categories and carrying amount under IFRS 9 for each class of the Group's financial assets and financial liabilities as of January 1, 2018.

| | Measurement Category | | Carrying Amount | | |
|---|---|---|---|---|---|
| **Financial Assets** | **IAS 39** | **IFRS 9** | **IAS 39** | **IFRS 9** | **Remark** |
| Cash and cash equivalents | Loans and receivables | Amortized cost | $ 217,164 | $ 217,164 | (1) |
| Time deposits with original maturities of more than 3 month | Loans and receivables | Amortized cost | 10,043 | 10,043 | (1) |
| Pledged time deposits | Loans and receivables | Amortized cost | 91,829 | 91,829 | (1) |
| Accounts receivable | Loans and receivables | Amortized cost | 12,425 | 12,425 | (1) |
| Refundable deposits | Loans and receivables | Amortized cost | 1,805 | 1,805 | (1) |

| Financial Assets | IAS 39 Carrying Amount as of January 1, 2018 | Reclassifi-cations | Remea-surements | IFRS 9 Carrying Amount as of January 1, 2018 | Retained Earnings Effect on January 1, 2018 | Other Equity Effect on January 1, 2018 | Remark |
|---|---|---|---|---|---|---|---|
| Amortized cost | $ - | $ - | $ - | | | | |
| Add: Reclassification from loans and receivables (IAS 39) | - | 333,266 | - | | | | (1) |
| | $ - | $ 333,266 | $ - | $ 333,266 | $ - | $ - | |

(1) Cash and cash equivalents, time deposits with original maturities of more than 3 month, pledged time deposits, accounts receivable and refundable deposits which were classified as loans and receivables under IAS 39 are now classified at amortized cost per the lifetime expected credit losses under IFRS 9.

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

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers and supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations. Refer to Note 4 for related accounting policies.

In identifying performance obligations, IFRS 15 and the related amendments require that a good or service is distinct if it is capable of being distinct (for example, the Group regularly sells it separately) and the promise to transfer it is distinct within the context of the contract (i.e. the nature of the promise in the contract is to transfer each good or service individually rather than to transfer a combined output).

Under IFRS 15, the net effect of revenue recognized and consideration received and receivable is recognized as a contract asset or a contract liability. Prior to the application of IFRS 15, receivables were recognized or deferred revenue was reduced when revenue was recognized for the relevant contract under IAS 18.

If the contract is non-cancellable, the Group will recognize a receivable and a contract liability when it has an unconditional right to the consideration in accordance with IFRS 15. Prior to the application of IFRS 15, consideration was recognized as deferred revenue when received.

The Group elected only to retrospectively apply IFRS 15 to contracts that were not complete as of January 1, 2018 and recognize the cumulative effect of the change in retained earnings on January 1, 2018.

Besides, no difference in the applicable IAS 18 or IFRS 15 of the Group.

Retrospective application of IFRS 15 has no significant impact on assets, liabilities and equity as at January 1, 2018

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

IAS 21 stipulated that a foreign currency transaction shall be recorded on initial recognition in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. IFRIC 22 further explains that the date of the transaction is the date on which an entity recognizes a non-monetary asset or non-monetary liability from payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine the date of the transaction for each payment or receipt of advance consideration.

The Group applied IFRIC 22 prospectively to all assets, expenses and income recognized on or after January 1, 2018 within the scope of the Interpretation.

b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS endorsed by the FSC for application starting from 2019

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

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

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

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

1) IFRS 16 "Leases"

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17, IFRIC 4 and a number of related interpretations.

Definition of a lease

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

The Group as lessee

Upon initial application of IFRS 16, the Group will recognize right-of-use assets, or investment properties if the right-of-use assets meet the definition of investment properties, and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value asset and short-term leases will be recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities will be classified within financing activities; cash payments for the interest portion will be classified within financing activities. Currently, payments under operating lease contracts, are recognized as expenses on a straight-line basis. Cash flows for operating leases are classified within operating activities on the consolidated statements of cash flows.

The Group anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information will not be restated.

Lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases with the application of IAS 17. Lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets will be measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. Except for the following practical expedients which are to be applied, the Group will apply IAS 36 to all right-of-use assets.

The Group expects to apply the following practical expedients:

a) The Group will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.

b) The Group will account for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.

c) The Group will exclude initial direct costs from the measurement of right-of-use assets on January 1, 2019.

d) The Group will use hindsight, such as in determining lease terms, to measure lease liabilities.

Anticipated impact on assets, liabilities and equity

| | **Carrying Amount as of December 31, 2018** | **Adjustments Arising from Initial Application** | **Adjusted Carrying Amount as of January 1, 2019** |
|---|---|---|---|
| Right-of-use assets | $ - | $ 35,881 | $ 35,881 |
| Total effect on assets | $ - | $ 35,881 | $ 35,881 |
| Lease liabilities - current | $ - | $ 8,468 | $ 8,468 |
| Lease liabilities - non-current | - | 27,413 | 27,413 |
| Total effect on liabilities | $ - | $ 35,881 | $ 35,881 |
| Total effect on equity | $ - | $ - | $ - |

2) IFRIC 23 "Uncertainty over Income Tax Treatments"

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Group should assume that the taxation authority will have full knowledge of all related information when making related examinations. If the Group concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the Group should determine the taxable profit, tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Group should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the Group expects to better predict the resolution of the uncertainty. The Group has to reassess its judgments and estimates if facts and circumstances change.

3) Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"

The amendments stipulate that, if a plan amendment, curtailment or settlement occurs, the current service cost and the net interest for the remainder of the annual reporting period are determined using the actuarial assumptions used for the remeasurement of the net defined benefit liabilities (assets). In addition, the amendments clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The Group will apply the above amendments prospectively.

Except for the above impacts, as of the date the consolidated financial statements were authorized for issue, the Group continues assessing other possible impacts that the application of the aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will have on the Group's financial position and financial performance and will disclose these other impacts when the assessment is completed.

c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

| New IFRSs | Effective Date Announced by IASB (Note 1) |
|---|---|
| Amendments to IFRS 3 "Definition of a Business" | January 1, 2020 (Note 2) |
| Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture" | To be determined by IASB |
| IFRS 17 "Insurance Contracts" | January 1, 2021 |
| Amendments to IAS 1 and IAS 8 "Definition of Material" | January 1, 2020 (Note 3) |

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

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

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

1) Amendments to IFRS 3 “Definition of a Business”

The amendments clarify that, to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process applied to the input that together significantly contribute to the ability to create outputs. The amendments narrow the definitions of outputs by focusing on goods and services provided to customers, and the reference to an ability to reduce costs is removed. Moreover, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group’s financial position and financial performance and will disclose the relevant impact when the assessment is completed.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed and issued into effect by the FSC.

b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, are described as follows:

1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

3) Level 3 inputs are unobservable inputs for an asset or liability.

c. Classification of current and non-current assets and liabilities

Current assets include:

1) Assets held primarily for the purpose of trading;

2) Assets expected to be realized within 12 months after the reporting period; and

3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;

2) Liabilities due to be settled within 12 months after the reporting period; and

3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

Assets and liabilities that are not classified as current are classified as non-current.

d. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (its subsidiaries).

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective dates of acquisitions up to the effective dates of disposals, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation.

See Notes 11 and 29 for detailed information on subsidiaries (including percentages of ownership and main businesses).

e. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as they are incurred.

Goodwill is measured as the excess of the sum of the consideration transferred[, the amount of any non-controlling interests in the acquiree,] and the fair value of the acquirer's previously held equity interests in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

f. Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (i.e. foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purpose of presenting consolidated financial statements, the functional currencies of the Company and the group entities (including subsidiaries, associates, joint ventures and branches in other countries that use currencies which are different from the currency of the Company) are translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income (attributed to the owners of the Company and non-controlling interests as appropriate).

g. Inventories

Inventories consist of raw materials, supplies, finished goods and work in progress and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. The net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at theweighted-average cost on the balance sheet date.

h. Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment loss.

Depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. If a lease term is shorter than the assets' useful lives, such assets are depreciated over the lease term. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in the estimates accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

i. Goodwill

Goodwill arising from the acquisition of a business is measured at cost as established at the date of acquisition of the business less accumulated impairment loss.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units or groups of cash-generating units (referred to as "cash-generating units") that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributed goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then pro rata to the other assets of the unit based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. Any impairment loss recognized for goodwill is not reversed in subsequent periods.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation which is disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal and is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

j. Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful lives, residual values, and amortization methods are reviewed at the end of each reporting period, with the effect of any changes in the estimates accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

2) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

3) Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

k. Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, for any indication of impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of a corporate asset, the asset is tested for impairment in the context of the cash-generating unit (CGU) to which the asset belongs. If a portion of the carrying amount of the asset can be allocated on a reasonable and consistent basis to the CGU, the Group compares the carrying amount of the CGU, including the portion of the asset's carrying amount allocated to the CGU, with the recoverable amount of the CGU to which the asset belongs. If this reasonable and consistent basis of allocation cannot be applied to the CGU to which the asset belongs and can be applied instead to the smallest Group of CGUs to which the CGU belongs, this smallest Group is used for impairment testing.

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the corresponding asset, cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset, cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

l. Financial instruments

Financial assets and financial liabilities are recognized when the Group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

1) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

a) Measurement categories

<u>2018</u>

Financial assets are classified into the following categories: Financial assets at amortized cost.

i. Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

i) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash, trade receivables, other receivables and other current assets are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of such a financial asset, except for:

i) Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such financial assets; and

ii) Financial assets that are not credit-impaired on purchase or origination but have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets in subsequent reporting periods.

Cash include highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash are held for the purpose of meeting short-term cash commitments.

<u>2017</u>

Financial assets are classified as loans and receivables (including cash and cash equivalents, accounts receivable, debt investments with no active market and refundable deposits) are measured using the effective interest method at amortized cost less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

b) Impairment of financial assets

2018

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables).

The Group always recognizes lifetime expected credit losses (i.e. ECLs) for trade receivables and lease receivables. For all other financial instruments, the Group recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

Expected credit losses reflect the weighted average of credit losses with the respective risks of default occurring as the weights. Lifetime ECLs represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECLs represent the portion of lifetime ECLs that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

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

2017

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

Financial assets at amortized cost, such as trade receivables are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group’s past experience with collecting payments, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

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

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

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for those financial assets because of financial difficulties.

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

c) Derecognition of financial assets

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

Before 2018, on derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss which had been recognized in other comprehensive income is recognized in profit or loss. Starting from 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

2) Equity instruments

Equity instruments issued by a group entity are classified as equity in accordance with the substance of the contractual arrangements and the definitions of an equity instrument.

Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

The repurchase of the Group's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of the Group's own equity instruments.

3) Financial liabilities

a) Subsequent measurement

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

b) Derecognition of financial liabilities

The difference between the carrying amount of a financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

m. Revenue recognition

<u>2018</u>

The Group identifies contracts with customers, allocates the transaction price to the performance obligations and recognizes revenue when performance obligations are satisfied.

1) Revenue from the sale of goods

Revenue from the sale of goods comes from sales of image sensors. Goods are recognized as revenue when they are delivered to the customer's specific location because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility for sales to future customers and bears the risks of obsolescence. Trade receivables are recognized concurrently. When the customer initially purchases the goods, the transaction price received is recognized as a contract liability until the goods have been delivered to the customer.

The Group does not recognize revenue on materials delivered to subcontractors because this delivery does not involve a transfer of control.

2) Revenue from the rendering of services

The Group provides original design services based on agreement specification stipulated by customers, revenues are recognized when the Group satisfies its performance obligations.

<u>2017</u>

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

1) Revenue from the sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

a) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

b) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

c) The amount of revenue can be measured reliably;

d) It is probable that the economic benefits associated with the transaction will flow to the Group; and

e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Group does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of the materials’ ownership.

2) Revenue from the rendering of services

Service income is recognized when services are provided.

Revenue from a contract to provide services is recognized with reference to the stage of completion of the contract.

3) Interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis with reference to the principal outstanding and at the applicable effective interest rate.

n. Leasing

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

The Group as lessee operating lease payments are recognized as expenses on a straight-line basis over the lease term.

o. Borrowing costs

Borrowing costs directly attributable to an acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other than that which is stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

p. Employee benefits

Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as expenses when employees have rendered services entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost) and net interest on the net defined benefit liabilities (assets) are recognized as employee benefits expense in the period in which they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liabilities (assets) represent the actual deficit (surplus) in the Group’s defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

q. Share-based payment arrangements

Employee share options granted to employees

The fair value at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Group’s best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. It is recognized as an expense in full at the grant date if vested immediately.

At the end of each reporting period, the Group revises its estimate of the number of employee share options expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expenses reflect the revised estimate, with a corresponding adjustment to capital surplus - employee share options.

r. Taxation

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

1) Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, research and development expenditures to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

3) Current and deferred taxes for the year

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

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

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

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

a. Write-down of inventories

The net realizable value of inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and disposal. The estimation of net realizable value is based on current market conditions and historical experience with product sales of a similar nature. Changes in market conditions may have a material impact on the estimation of the net realizable value.

b. Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The calculation of the value in use requires management to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

## 6. CASH

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Cash on hand | $ 274 | $ 194 |
| Bank deposits | 85,942 | 53,290 |
| Cash equivalents | | |
| Bank time deposits | 400,677 | 163,680 |
| | $ 486,893 | $ 217,164 |

The market rates of cash in bank at the end of the reporting period were as follows:

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Bank time deposits | 0.24%-3.00% | 1.75%-1.80% |

## 7. FINANCIAL ASSETS AT AMORTIZED COST - 2018

| | December 31, 2018 |
|---|---|
| Current | |
| Time deposit with original maturity of more than 3 month (a) | $ 828,944 |
| Non-current | |
| Pledged time deposits (a and c) | $ 2,577 |

a. The interest rates for time deposits with original maturity of more than 3 month were from 0.16% to 3.8% as at the end of the reporting period. The time deposits were classified as debt investments without active market under IAS 39. Refer to Notes 3 and 8 for information relating to their reclassification and comparative information for 2017.

b. Refer to Note 25 for information relating to their credit risk management and impairment of financial assets at amortized cost.

c. Refer to Note 27 for information relating to investments in financial assets at amortized cost pledged as security.

## 8. DEBT INVESTMENTS WITHOUT ACTIVE MARKET - 2017

| | December 31, 2017 |
|---|---|
| Non-current | |
| Pledged time deposits | $ 89,280 |
| Time deposits with original maturity more than 3 month | 10,043 |
| | $ 99,323 |
| Non-current | |
| Pledged time deposits | $ 2,549 |

a. As of December 31, 2017, the market interest rates of the time deposits with original maturities of more than 3 months were 1.07%-2.95%.

b. Refer to Note 27 for information relating to debt investments without active market pledged as security.

## 9. ACCOUNTS RECEIVABLE

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Accounts receivable-unrelated parties | | |
| At amortized cost | | |
| Gross carrying amount | $ 59,182 | $ 12,425 |
| Less: Allowance for impairment loss | - | - |
| | $ 59,182 | $ 12,425 |

For the year ended 2018

The average credit period of sales of goods was 30 days. No interest was charged on trade receivables.

In order to minimize credit risk, the management of the Company has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowance is made for possible irrecoverable amounts. In this regard, the management believes the Group's credit risk was significantly reduced.

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of economic conditions at the reporting date. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished according to the Group's different customer base.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation, whichever occurs earlier. For trade receivables that have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of trade receivables based on the Group's provision matrix.

December 31, 2018

| | Not Past Due | 1 to 30 Days | 31 to 90 Days | 91 to 180 Days | Over 181 Days | Total |
|---|---|---|---|---|---|---|
| Gross carrying amount | $ 58,355 | $ - | $ - | $ - | $ 827 | $ 59,182 |
| Loss allowance (lifetime ECL) | - | - | - | - | - | - |
| Amortized cost | $ 58,355 | $ - | $ - | $ - | $ 827 | $ 59,182 |

For the year ended 2017

The Company applied the same credit policy in 2018 and 2017. In determining the recoverability of an account receivable, the Group considered any change in the credit quality of the account receivable since the date credit was initially granted to the end of the reporting period. Allowance for doubtful accounts were recognized against accounts receivable based on estimated irrecoverable amount which is determined by reference to average default days of the counterparties in the past year.

The aging analysis of receivables was as follows:

| | December 31, 2017 |
|---|---|
| 1-60 days | $ 12,425 |

The above analysis was based on the past due date.

The Group didn't have the aging of receivables that were past due but not impaired.

## 10. Inventories

The movements of allowance for doubtful accounts were as follows:

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Finished goods | $ 344,432 | $ 358,219 |
| Work in process | 349,357 | 207,852 |
| Raw materials | 632 | 255 |
| Balance at December 31, 2017 | $ 694,421 | $ 566,326 |

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2018 and 2017 was $1,564,468 thousand and $1,214,537 thousand, respectively. The cost of goods sold included inventory write-downs of $25,042 thousand and reversals of inventory write-downs of $(28,797) thousand. The reversals of previous write-downs for the year ended December 31, 2018 resulted from obsolescence inventory, which has been sold.

## 11. SUBSIDIARIES

| | | | % of Ownership | | |
|---|---|---|---|---|---|
| | | | December 31 | | |
| Investor | Investee | Main Business | 2018 | 2017 | Remark |
| Silicon Optronics, Inc. | NUEVA IMAGING, INC. ("NUEVA") | Research and development of CMOS Image Sensor high-order desig006E | 100% | 100% | - |
| | Silicon Optronics (Cayman) Co., Ltd. ("Silicon Cayman") | Investment business | 100% | 100% | - |
| Silicon Optronics (Cayman) Co., Ltd. | Silicon Optronics (Shanghai) Co., Ltd. | Research and development of CMOS Image Sensor high-order desig006E | 100% | 100% | - |

Except US NUEVA, the above-mentioned subsidiaries are in line with the definition of an important subsidiary per Article 2 of Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants, and the remaining entities are non-significant subsidiaries. The financial reports of the above subsidiaries were audited by accountants.

## 12. PROPERTY, PLANT AND EQUIPMENT

| | Testing Equipment | Molding Equipment | Computer | Office Equipment | Leasehold improvement | Mask | Total |
|---|---|---|---|---|---|---|---|
| Cost | | | | | | | |
| Balance at January 1, 2017 | $ 4,113 | $ 12,524 | $ 1,823 | $ 2,001 | $ 204 | $ 120,857 | $ 141,522 |
| Additions | 180 | 6,334 | 124 | 27 | - | 31,649 | 38,314 |
| Effect of exchange rate changes | (2) | - | (5) | (131) | - | - | (138) |
| Balance at December 31, 2017 | $ 4,291 | $ 18,858 | $ 1,942 | $ 1,897 | $ 204 | $ 152,506 | $ 179,698 |
| Accumulated depreciation | | | | | | | |
| Balance at January 1, 2017 | $ 2,565 | $ 5,060 | $ 1,399 | $ 1,690 | $ 176 | $ 98,053 | $ 108,943 |
| Depreciation expense | 484 | 3,934 | 153 | 111 | 20 | 26,210 | 30,912 |
| Effect of exchange rate changes | (1) | - | - | (114) | - | - | (115) |
| Balance at December 31, 2017 | $ 3,048 | $ 8,994 | $ 1,552 | $ 1,687 | $ 196 | $ 124,263 | $ 139,740 |
| Accumulated impairment | | | | | | | |
| Balance at January 1, 2017 | $ - | $ 1,183 | $ - | $ - | $ - | $ - | $ 1,183 |
| Impairment loss | - | - | - | - | - | - | - |
| Balance at December 31, 2017 | $ - | $ 1,183 | $ - | $ - | $ - | $ - | $ 1,183 |
| Carrying amounts at December 31, 2017 | $ 1,243 | $ 8,681 | $ 390 | $ 210 | $ 8 | $ 28,243 | $ 38,775 |
| Cost | | | | | | | |
| Balance at January 1, 2018 | $ 4,291 | $ 18,858 | $ 1,942 | $ 1,897 | $ 204 | $ 152,506 | $ 179,698 |
| Additions | 31 | (214) | 313 | - | - | 46,030 | 46,160 |
| Effect of exchange rate changes | (4) | - | (16) | 49 | - | - | 29 |
| Balance at December 31, 2018 | $ 4,318 | $ 18,644 | $ 2,239 | $ 1,946 | $ 204 | $ 198,536 | $ 225,887 |
| Accumulated depreciation | | | | | | | |
| Balance at January 1, 2018 | $ 3,048 | $ 8,994 | $ 1,552 | $ 1,687 | $ 196 | $ 124,263 | $ 139,740 |
| Depreciation expense | 502 | 4,048 | 175 | 77 | 8 | 31,308 | 36,118 |
| Effect of exchange rate changes | - | - | (12) | 47 | - | - | 35 |
| Balance at December 31, 2018 | $ 3,550 | $ 13,042 | $ 1,715 | $ 1,811 | $ 204 | $ 155,571 | $ 175,893 |
| Accumulated impairment | | | | | | | |
| Balance at January 1, 2017 | $ - | $ 1,183 | $ - | $ - | $ - | $ - | $ 1,183 |
| Impairment loss | - | - | - | - | - | - | - |
| Balance at December 31, 2017 | $ - | $ 1,183 | $ - | $ - | $ - | $ - | $ 1,183 |
| Carrying amounts at December 31, 2018 | $ 768 | $ 4,419 | $ 524 | $ 135 | $ - | $ 42,965 | $ 48,811 |

The Group's property, plant and equipment are depreciated on a straight-line basis over the following estimated useful life:

| | |
|---|---|
| Testing equipment | 2-5 years |
| Molding equipment | 3 years |
| Computer | 3 years |
| Office equipment | 5 years |
| Leasehold improvement | 5-8 years |
| Mask | 2 years |

## 13. INTANGIBLE ASSETS

| | Technology License Fees | Patents | Software | Total |
|---|---|---|---|---|
| Cost | | | | |
| Balance at January 1, 2017 | $ 145,889 | $ 45,659 | $ 12,169 | $ 203,717 |
| Additions | - | 15,140 | 6,014 | 21,154 |
| Effect of exchange rate changes | - | (334) | (1,072) | (1,406) |
| Balance at December 31, 2017 | $ 145,889 | $ 60,465 | $ 17,111 | $ 223,465 |
| Accumulated amortization | | | | |
| Balance at January 1, 2017 | $ 88,575 | $ 36,170 | $ 9,422 | $ 134,167 |
| Amortization expense | 20,843 | 3,702 | 2,481 | 27,026 |
| Effect of exchange rate changes | - | (5) | (782) | (787) |
| Balance at December 31, 2017 | $ 109,418 | $ 39,867 | $ 11,121 | $ 160,406 |
| Carrying amounts at December 31, 2017 | $ 36,471 | $ 20,598 | $ 5,990 | $ 63,059 |
| Cost | | | | |
| Balance at January 1, 2018 | $ 145,889 | $ 60,465 | $ 17,111 | $ 223,465 |
| Additions | - | - | 2,223 | 2,223 |
| Effect of exchange rate changes | - | 475 | 574 | 1,049 |
| Balance at December 31, 2018 | $ 145,889 | $ 60,940 | $ 19,908 | $ 226,737 |
| Accumulated amortization | | | | |
| Balance at January 1, 2018 | $ 109,418 | $ 39,867 | $ 11,121 | $ 160,406 |
| Amortization expense | 20,841 | 6,451 | 3,202 | 30,494 |
| Effect of exchange rate changes | - | 64 | 414 | 478 |
| Balance at December 31, 2018 | $ 130,259 | $ 46,382 | $ 14,737 | $ 191,378 |
| Carrying amounts at December 31, 2018 | $ 15,630 | $ 14,558 | $ 5,171 | $ 35,359 |

The above items of intangible assets are amortized on a straight-line basis over their estimated useful lives as follows:

| | |
|---|---|
| Technology license fees | 7 years |
| Patents | 3-7 years |
| Software | 3 years |

## 14. OTHER ASSETS

| | December 31 2018 | December 31 2017 |
|---|---|---|
| Current | | |
| Prepaid income tax | $ 45,673 | $ 23,260 |
| Tax receivable | 14,764 | 31,400 |
| Prepayment for purchases | 1,618 | 3,308 |
| Others | 10,908 | 4,370 |
| | $ 72,963 | $ 62,338 |
| Non-current | | |
| Refundable deposits | $ 1,853 | $ 1,805 |
| Net defined benefit assets | 326 | 309 |
| | $ 2,179 | $ 2,114 |

## 15. BORROWINGS

**Short-term borrowings**

| | December 31 2018 | December 31 2017 |
|---|---|---|
| Secured borrowings | | |
| Bank loans | $ - | $ 50,000 |
| Unsecured borrowings | | |
| Line of credit borrowings | - | 80,000 |
| | $ - | $ 130,000 |

The range of weighted average effective interest rates on bank loans was 1.10%-1.29% per annum as of December 31, 2017. Refer to Note 27 for secured short-term borrowings.

## 16. OTHER LIABILITIES

| | December 31 2018 | December 31 2017 |
|---|---|---|
| Current | | |
| Other payables | | |
| Payables for employees' remuneration | $ 21,206 | $ 20,765 |
| Payables for bonus | 13,219 | 11,427 |
| Payables for purchases of equipment | 7,926 | 3,908 |
| Payables for directors' remuneration | 2,500 | 2,500 |
| Others | 9,767 | 9,511 |
| | 54,618 | 48,111 |

(Continued)

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Other liabilities | | |
| Receipt in advance | $ - | $ 4,901 |
| Receipt under custody | 117 | 236 |
| | 117 | 5,137 |
| | $ 54,735 | $ 53,248 |

(Concluded)

## 17. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company adopted a pension plan under the Labor Pension Act (the “LPA”), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees’ individual pension accounts at 6% of monthly salaries and wages.

Silicon Optronics (Cayman) Co., Ltd. is members of a state-managed retirement benefit plan operated by the government of B Land. The subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

b. Defined benefit plans

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Company contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee’s name. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (the Bureau); the Company has no right to influence the investment policy and strategy.

The amounts based on the actuary report of the Company’s defined benefit plans were as follows:

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Present value of funded defined benefit obligation | $ 1,149 | $ 1,043 |
| Fair value of plan assets | (1,475) | (1,352) |
| Net defined benefit assets | $ (326) | $ (309) |

Movements in net defined benefit assets were as follows:

| | Present Value of the Defined Benefit Obligation | Fair Value of the Plan Assets | Net Defined Benefit Assets |
|---|---|---|---|
| Balance at January | $ 979 | $ (1,270) | $ (291) |
| Net interest expense (income) | 15 | (19) | (4) |
| Recognized in profit or loss | 15 | (19) | (4) |
| Remeasurement | | | |
| Actuarial loss | | | |
| Actuarial loss - changes in financial assumptions | 46 | - | 46 |
| Actuarial loss - experience adjustments | 3 | 6 | 9 |
| Recognized in other comprehensive loss | 49 | 6 | 55 |
| Contributions from the employer | - | (69) | (69) |
| Balance at December 31, 2017 | 1,043 | (1,352) | (309) |
| Net interest expense (income) | 11 | (14) | (3) |
| Recognized in profit or loss | 11 | (14) | (3) |
| Remeasurement | | | |
| Actuarial (gain) loss | | | |
| Actuarial loss - changes in financial assumptions | 12 | - | 12 |
| Actuarial loss - experience adjustments | 83 | (39) | 44 |
| Recognized in other comprehensive loss (income) | 95 | (39) | 56 |
| Contributions from the employer | - | (70) | (70) |
| Balance at December 31, 2018 | $ 1,149 | $ (1,475) | $ (326) |

Through the defined benefit plans under the Labor Standards Law, the Company is exposed to the following risks:

1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plans' debt investments.

3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

| | December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Discount rate | 1.0% | 1.1% |
| Expected rate of salary increase | 3.0% | 3.0% |

If possible reasonable changes in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Discount rate | | |
| 0.25% increase | $ (30) | $ (29) |
| 0.25% decrease | $ 31 | $ 30 |
| Expected rate of salary increase | | |
| 0.25% increase | $ 27 | $ 26 |
| 0.25% decrease | $ (26) | $ (26) |

The sensitivity analysis presented above may not be representative of the actual changes in the present value of the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Expected contributions to the plans for the next year | $ 70 | $ 69 |
| Average duration of the defined benefit obligation | 11 years | 12 years |

## 18. EQUITY

a. Ordinary shares

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Numbers of shares authorized (in thousands) | 100,000 | 100,000 |
| Shares authorized | $ 1,000,000 | $ 1,000,000 |
| Number of shares issued and fully paid (in thousands) | 77,828 | 67,981 |
| Shares issued | $ 778,279 | $ 679,809 |

Regarding authorized share capital, the share capital reserved for issuing employee share options is 6,000 shares. For the year ended December 31, 2018, changes in the Company’s paid-in capital mainly due to the issuance of ordinary shares for cash and employees’ exercise of their employee share options.

On May 25, 2018, the Company’s board of directors resolved to issue 9,285 thousand ordinary shares, with a par value of NT$10, for a consideration of NT$101 per share. On June 8, 2018, the above transaction was approved by the FSC, and the subscription base date was determined as at July 12, 2018 by the board of directors. In particular, the stock issuance cost accounts for capital reserve - stock issuance premium deduction.

b. Capital surplus

| | December 31 2018 | December 31 2017 |
|---|---|---|
| May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1) | | |
| Arising from issuance of ordinary shares | $ 1,107,434 | $ 39,646 |
| May be used to offset a deficit only | | |
| Arising from employee share options exercised price | 11,915 | 6,440 |
| May not be used for any purpose | | |
| Arising from employee share options | 5,372 | 6,101 |
| | $ 1,124,721 | $ 52,187 |

1) Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital.

For each class of capital surplus was as follows:

| | Premium on Issue of Shares | Arising from Employee Share Options | Total |
|---|---|---|---|
| Balance at January 1, 2017 | $ 17,694 | $ 12,485 | $ 30,179 |
| Employee share options exercised | 21,952 | - | 21,952 |
| Arising on share-based payments | - | 56 | 56 |
| Balance at December 31, 2017 | 39,646 | 12,541 | 52,187 |
| Issuance of ordinary shares for cash | 1,057,885 | - | 1,057,885 |
| Employee share option not exercised | 9,903 | - | 9,903 |
| Arising on share-based payments | - | 4,746 | 4,746 |
| Balance at December 31, 2018 | $ 1,107,434 | $ 17,287 | $ 1,124,721 |

c. Retained earnings and dividend policy

The Company's Articles of Incorporation state that, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting accumulated losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors after the amendment, refer to "Employees' compensation and remuneration of directors" in Note 20 (f).

Considering that the company is in a period of operational growth, taking into account the interests of the company's shareholders and long-term capital and business planning, the shareholder dividend is not higher than the accumulated distributable surplus by 90%, in which the cash dividend allocation portion is not less than 10% of the assigned dividend. In the current year, the company has no surplus to allocate, or although there is a surplus but the surplus is much lower than the company's actual allocation in the previous year, or in accordance with the company's financial, business and business aspects and other factors, the public accumulation or a legal order or competent authority to assign.

An appropriation of earnings to a legal reserve shall be made until the legal reserve equals the Company’s paid-in capital. The legal reserve may be used to offset deficits. If the Company has no deficit and the legal reserve has exceeded 25% of the Company’s paid-in capital, the excess may be transferred to capital or distributed in cash.

Items referred to under Rule No. 1010012865, Rule No. 1010047490 and Rule No. 1030006415 issued by the FSC and the directive titled “Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs” should be appropriated to or reversed from a special reserve by the Company.

The appropriations of earnings for 2017 and 2016 which had been approved in the shareholders’ meetings on June 8, 2018 and June 8, 2017, respectively, were as follows:

| | **Appropriation of Earnings** | | **Dividends Per Share (NT$)** | |
|---|---|---|---|---|
| | **Year Ended December 31** | | **Year Ended December 31** | |
| | **2017** | **2016** | **2017** | **2016** |
| Legal reserve | $ 20,409 | $ 13,168 | | |
| Special reserve | 526 | - | | |
| Cash dividends | 136,096 | 100,878 | $ 2.0 | $ 1.5 |
| | $ 157,031 | $ 114,046 | | |

The appropriations of earnings for 2018 had been proposed by the Company’s board of directors on March 8, 2019. The appropriations and dividends per share were as follows:

| | **Appropriation of Earnings** | **Dividends Per Share (NT$)** |
|---|---|---|
| Legal reserve | $ 15,743 | |
| Special reserve | (526) | |
| Cash dividends | 155,955 | $ 2.0 |

The appropriations of earnings for 2018 are subject to the resolution of the shareholders’ meeting to be held on June 18, 2019.

d. Other equity items

| | **For the Year Ended December 31** | |
|---|---|---|
| | **2018** | **2017** |
| Balance, beginning of year | $ (526) | $ 1,973 |
| Exchange differences on translation of foreign operations | 916 | (2,499) |
| Balance, end of year | $ (390) | $ (526) |

## 19. REVENUE

| | Year Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Revenue from contracts with customers | | |
| Revenue from sale of goods | $ 2,026,840 | $ 1,692,611 |
| Other | 7,427 | 21,954 |
| | $ 2,034,267 | $ 1,714,565 |

a. Contact balances

| | December 31, 2018 |
|---|---|
| Accounts receivables (Note 9) | $ 59,182 |
| Contract liabilities-current | |
| Sale of goods | $ 6,012 |

Revenue of the reporting period recognized from the beginning contract liabilities in the previous periods is as follows:

| | Year Ended December 31 2018 |
|---|---|
| From the beginning contract liabilities | |
| Sale of goods | $ 2,345 |

b. Partially completed contracts

| | Year Ended December 31 2018 |
|---|---|
| Primary geographical markets | |
| Hong Kong | $ 1,798,780 |
| United States of America | 136,026 |
| Taiwan (the Company is based in Taiwan) | 46,506 |
| India | 29,738 |
| Korea | 15,744 |
| Philippines | 7,473 |
| | $ 2,034,267 |
| Major goods | |
| CMOS | $ 1,938,304 |
| Other | 95,963 |
| | $ 2,034,267 |

## 20. NET PROFIT FROM CONTINUING OPERATIONS

a. Other income

| | Year Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Interest income | $ 8,230 | $ 2,942 |
| Others | 1,521 | 1,716 |
| | $ 9,751 | $ 4,658 |

b. Other gains and losses

| | Year Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Net foreign exchange gain (loss) | $ 558 | $ (12,170) |
| Other losses | - | (76) |
| | $ 558 | $ (12,246) |

c. Finance costs

| | Year Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Interest on loans | $ 390 | $ 508 |

d. Depreciation and amortization

| | Year Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Property, plant and equipment | $ 36,118 | $ 30,912 |
| Intangible assets | 30,494 | 27,026 |
| Total | $ 66,612 | $ 57,938 |
| An analysis of depreciation by function | | |
| Operating costs | $ 16,105 | $ 12,802 |
| Operating expenses | 20,013 | 18,110 |
| | $ 36,118 | $ 30,912 |
| An analysis of amortization by function | | |
| Research and development expenses | $ 30,494 | $ 27,026 |

e. Employee benefits expense

| | Year Ended December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Post-employment benefits (see Note 17) | | |
| Defined contribution plans | $ 2,948 | $ 2,888 |
| Defined benefit plans | (3) | (4) |
| | 2,945 | 2,884 |
| Share-based payments | | |
| Equity-settled | 4,746 | 56 |
| Other employee benefits | 173,876 | 162,419 |
| Total employee benefits expense | $ 181,567 | $ 165,359 |
| An analysis of employee benefits expense by function | | |
| Operating expenses | $ 181,567 | $ 165,359 |

f. Employees' compensation and remuneration of directors

According to the Articles of Incorporation of the Company, the Company accrued employees' compensation at rate of no less than 0.005% and no higher than 25% and remuneration of directors and supervisors at rate of no higher than 3%.

Accrual rate

| | Year Ended December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Employees' compensation | 10% | 8% |
| Remuneration of directors and supervisors | 1% | 1% |

Amount

| | Year Ended December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Employees' compensation | $ 21,206 | $ 20,765 |
| Remuneration of directors and supervisors | 2,500 | 2,500 |

If there is a change in the amounts after the annual consolidated financial statements are authorized for issue, the differences are recorded as a change in the accounting estimate.

There is no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2017 and 2016.

Information on the employees' compensation and remuneration of directors resolved by the Company's board of directors in 2019 and 2018 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

## 21. INCOME TAXES

a. Income tax recognized in profit or loss

The major components of tax expense (income) were as follows:

| | Year Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Current tax | | |
| In respect of the current year | $ 30,562 | $ 30,713 |
| Additional income tax on unappropriated earnings | 4,700 | 1,758 |
| Adjustments for prior periods | 626 | 2,189 |
| | 35,888 | 34,660 |
| Deferred tax | | |
| Adjustments to deferred tax attributable to changes in tax rates and laws | (1,249) | - |
| In respect of the current year | (2,098) | 760 |
| | (3,347) | 760 |
| Income tax expense recognized in profit or loss | $ 32,541 | $ 35,420 |

A reconciliation of accounting profit and income tax expense is as follows:

| | Year Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Profit before tax from continuing operations | $ 189,973 | $ 239,507 |
| Income tax expense calculated at the statutory rate | $ 39,286 | $ 43,378 |
| Nondeductible expenses in determining taxable income | 2,365 | 1,440 |
| Income tax on unappropriated earnings | 4,700 | 1,758 |
| Unrecognized deductible temporary differences | 3,332 | (2,560) |
| Investment credits of the current year | (14,421) | (11,545) |
| Deferred tax | | |
| Temporary differences | (2,098) | 760 |
| Adjustments to deferred tax attributable to changes in tax rates and laws | (1,249) | - |
| Adjustments for prior years' tax | 626 | 2,189 |
| Income tax expense recognized in profit or loss | $ 32,541 | $ 35,420 |

In 2017, the applicable corporate income tax rate used by the Group entities in the ROC is 17%. However, the Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%.

As the status of 2019 appropriations of earnings is uncertain, the potential income tax consequences of 2018 unappropriated earnings are not reliably determinable.

b. Current tax assets and liabilities

| | December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Current tax liabilities | | |
| Income tax payable | $ 31,552 | $ 24,029 |

c. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

Year ended December 31, 2018

| | **Opening Balance** | **Recognized in Profit or Loss** | **Closing Balance** |
|---|---|---|---|
| Deferred tax assets | | | |
| Allowance for impairment loss | $ 5,689 | $ 4,778 | $ 10,467 |
| Loss on foreign currency exchange | 1,390 | (1,390) | - |
| | $ 7,079 | $ 3,338 | $ 10,467 |
| Deferred tax liabilities | | | |
| Gain on foreign currency exchange | $ - | $ 41 | $ 41 |

Year ended December 31, 2017

| | **Opening Balance** | **Recognized in Profit or Loss** | **Closing Balance** |
|---|---|---|---|
| Deferred tax assets | | | |
| Allowance for impairment loss | $ 8,108 | $ (2,419) | $ 5,689 |
| Loss on foreign currency exchange | 676 | 714 | 1,390 |
| | $ 8,784 | $ (1,705) | $ 7,079 |
| Deferred tax liabilities | | | |
| Gain on foreign currency exchange | $ 945 | $ (945) | $ - |

d. Income tax assessments

The tax returns through 2016 have been assessed by the tax authorities.

## 22. EARNINGS PER SHARE

**Unit: NT$ Per Share**

| | Year Ended December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Basic earnings per share | $ 2.17 | $ 3.02 |
| Diluted earnings per share | $ 2.15 | $ 3.00 |

The earnings and weighted average number of ordinary shares outstanding used in the computation of earnings per share were as follows:

Net Profit for the Year

| | Year Ended December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Earnings used in the computation of basic earnings per share | $ 157,432 | $ 204,087 |
| Effect of potentially dilutive ordinary shares: | | |
| Employee share options | - | - |
| Bonus issue to employees | - | - |
| Earnings used in the computation of diluted earnings per share | $ 157,432 | $ 204,087 |

Number of shares

| | Year Ended December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Weighted average number of ordinary shares used in the computation of basic earnings per share | 72,655 | 67,629 |
| Effect of potentially dilutive ordinary shares: | | |
| Employee share options | 209 | 279 |
| Bonus issue to employees | 299 | 129 |
| Weighted average number of ordinary shares used in the computation of diluted earnings per share | 73,163 | 68,037 |

Since the Company can offer to settle bonus to employees in cash or shares, the Company assumes the entire amount of the bonus would be settled in shares and the resulting potential shares are included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, if the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

If the Group offered to settle the compensation or bonuses paid to employees in cash or shares, the Group assumed that the entire amount of the compensation or bonuses will be settled in shares, and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

## 23. SHARE-BASED PAYMENT ARRANGEMENTS

a. Employee share option plan

Qualified employees of the Company were granted 2,000 options on July 29, 2013 and 3,200 options on May 16, 2012. Each option entitles the holder to subscribe for one thousand ordinary shares of the Company. The total number of shares that can be subscribed to by each unit is 1,000 shares, and the total number of new ordinary shares required for the exercise of the employee share option is 2,000 shares and 3,200 shares, respectively. The options granted are valid for 10 years and exercisable at certain percentages after the second anniversary from the grant date.

Information on employee share options is as follows:

| | 2013 Employee Share Option Plan | | 2012 Employee Share Option Plan | |
|---|---|---|---|---|
| | Number of Options (In Thousands) | Weighted-average Exercise Price (NT$) | Number of Options (In Thousands) | Weighted-average Exercise Price (NT$) |
| For the year ended December 31, 2017 | | | | |
| Balance at January 1 | 1,033 | $ 43.13 | 1,682 | $ 17.22 |
| Options forfeited | (15) | 33.00 | - | - |
| Options exercised | (495) | 45.26 | (550) | 18.17 |
| Balance at December 31 | 523 | 41.17 | 1,132 | 16.76 |
| Options exercisable, end of period | 523 | | 1,132 | |
| For the year ended December 31, 2018 | | | | |
| Balance at January 1 | 523 | $ 41.17 | 1,132 | $ 16.76 |
| Options exercised | (235) | 41.30 | (327) | 17.79 |
| Balance at December 31 | 288 | 41.49 | 805 | 16.34 |
| Options exercisable, end of period | 288 | | 805 | |

Information on outstanding options as follows:

| December 31 2018 | | | December 31 2017 | | |
|---|---|---|---|---|---|
| Share Option Plan | Range of Exercise Price (NT$) | Weighted-average Remaining Contractual Life (In Years) | Share Option Plan | Range of Exercise Price (NT$) | Weighted-average Remaining Contractual Life (In Years) |
| 2013 Employee share option plan | $ 33.0-46.0 | 5.16 | 2013 Employee share option plan | $ 33.0-46.0 | 6.14 |
| 2012 Employee share option plan | 10.5-19.5 | 3.76 | 2012 Employee share option plan | 10.5-19.5 | 4.78 |

The board of directors resolved to grant 2013 employee share options on June 10, 2014, and they were priced using the Black-Scholes pricing model, and the inputs to the model are as follows:

| | |
|---|---|
| Grant-date share price (NT$) | $13.55 |
| Exercise price (NT$) | $46.00 |
| Expected volatility | 33.73%-37.88% |
| Expected life (in years) | 2.5-4.5 years |
| Expected dividend yield | - |
| Risk-free interest rate | 0.68%-1.12% |
| Fair value of stock options | 0.05-0.55 |

The board of directors resolved to grant 2013 employee share options on August 13, 2013, and they were priced using the Black-Scholes pricing model, and the inputs to the model are as follows:

| | |
|---|---|
| Grant-date share price (NT$) | $11.88 |
| Exercise price (NT$) | $33.00 |
| Expected volatility | 37.6%-41.65% |
| Expected life (in years) | 2.5-4.5 years |
| Expected dividend yield | - |
| Risk-free interest rate | 0.82%-1.07% |
| Fair value of stock options | 0.18-0.93 |

The board of directors resolved to grant 2012 employee share options on November 13, 2012, and they were priced using the Black-Scholes pricing model, and the inputs to the model are as follows:

| | |
|---|---|
| Grant-date share price (NT$) | $12.29 |
| Exercise price (NT$) | $19.50 |
| Expected volatility | 44.34%-54.56% |
| Expected life (in years) | 2.5-4.5 years |
| Expected dividend yield | - |
| Risk-free interest rate | 0.75%-0.85% |
| Fair value of stock options | 1.67-3.94 |

The board of directors resolved to grant 2012 employee share options on May 25, 2012, and they were priced using the Black-Scholes pricing model, and the inputs to the model are as follows:

| | |
|---|---|
| Grant-date share price (NT$) | $10.10 |
| Exercise price (NT$) | $10.50 |
| Expected volatility | 46.76%-47.19% |
| Expected life (in years) | 6-7 years |
| Expected dividend yield | - |
| Risk-free interest rate | 1.09%-1.15% |
| Fair value of stock options | 4.45-4.81 |

b. Capital Increased by Cash for retain employee share

On June 8, 2018, the Company’s board of directors resolved to issue 1,392 thousand ordinary shares for employee to subscription. On July 2, 2018, its retained shares were subscribed by all employees.

Options granted in July 2, 2018 were priced using the Black-Scholes pricing model, and the inputs to the model are as follows:

| | |
|---|---|
| Grant-date share price (NT$) | $102.17 |
| Exercise price (NT$) | $101.00 |
| Expected volatility | 35.78% |
| Expected life (in years) | 9 days |
| Expected dividend yield | - |
| Risk-free interest rate | 0.60% |
| Fair value of stock options | 3.40 |

Compensation costs recognized were $4,746 thousand and $56 thousand for the years ended December 31, 2018 and 2017, respectively.

## 24. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance.

Key management personnel of the Group review the capital structure on an annual basis. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Group may adjust the number of new shares issued, and/or the amount of new debt issued or existing debt redeemed.

The Group is not subject to any externally imposed capital requirements.

## 25. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments that are not measured at fair value

The management believes the carrying amounts of financial assets and financial liabilities not carried at fair value approximate their fair values.

b. Categories of financial instruments

| | December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Financial assets | | |
| Financial asset at amortized cost (Note 1) | $ 1,379,449 | $ - |
| Loans and receivables (Note 2) | - | 333,266 |
| Financial liabilities | | |
| Amortized cost (Note 3) | 187,268 | 220,869 |

Note 1: The balances included loans and receivables measured at amortized cost, which comprise cash, accounts receivable, other receivables, refundable deposit and debt investments.

Note 2: The balances include loans and receivables measured at amortized cost, which comprise cash, accounts receivables, other receivables, refundable deposit and debt investments with no active market.

Note 3: The balances included financial liabilities measured at amortized cost, which comprise short-term loans, account payables(included related parties) and other payables (included related parties).

c. Financial risk management objectives and policies

The Group's major financial instruments included accounts receivable and accounts payables. The Group's corporate financial management function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

1) Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see (a) below) and interest rates (see (b) below).

There had been no change in the Group's exposure to market risks or the manner in which these risks were managed and measured.

a) Foreign currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which exposes the Group to foreign currency risk. Approximately 98% of the Group's sales is denominated in currencies other than the functional currency of the Group entity making the sale, whilst almost 97% of costs is denominated in the Group entity's functional currency. Exchange rate exposures are managed within approved policy parameters.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities are set out in Note 28.

Sensitivity analysis

The Group is mainly exposed to the exchange rate fluctuation of USD.

Sensitivity analysis of foreign currency exchange rate risk were calculation of currency items for the US dollar on the balance sheet date.

The Group's sensitivity to a 1% increase and decrease in the New Taiwan dollar (i.e. the functional currency) against the USD dollar, the Group an increase/a decrease in pre-tax profit 1,732 thousand and 2,050 thousand for the years ended December 31, 2018 and 2017.

b) Interest rate risk

The Group is exposed to interest rate risk arising from financial assets and financial liabilities both at fixed and floating interest rates.

The carrying amounts of the Group's financial assets and financial liabilities with exposure to interest rates at the end of the reporting periods were as follows.

| | December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Fair value interest rate risk | | |
| Financial assets | $ 1,232,198 | $ 265,552 |
| Financial liabilities | - | 130,000 |
| Cash flow interest rate risk | | |
| Financial assets | 85,932 | 53,270 |

Sensitivity analysis

Sensitivity analysis of interest rate risk were calculation of the floating interest rates assets for the cash flow changes on the balance sheet date.

If interest had been 0.5% higher/lower, pre-tax profit for the year ended December 31, 2018 and 2017 would have increased/decreased by $430 thousand and $266 thousand.

2) Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations and result in financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure of counterparties to discharge an obligation mainly arise from the carrying amount of the respective recognized financial assets as stated in the consolidated balance sheets.

The Group transacts with a large number of unrelated customers and apply to credit policy, thus, no concentration of credit risk was observed.

3) Liquidity risk

a) Liquidity and interest rate risk tables for non-derivative financial liabilitiess

The objective of the Group in managing liquidity risk is to maintain the cash required for operation and the amount of cash and sufficient bank financing, etc., to ensure that the Group has sufficient financial flexibility.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables had been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay.

December 31, 2018

| | **On Demand or Less than 1 Month** | **1-3 Months** | **3 Months to 1 Year** |
|---|---|---|---|
| Non-derivative financial liabilities | | | |
| Account payable | $ 40,386 | $ 12,577 | $ - |
| Account payable-relate parties | 126,379 | - | - |
| Payable on equipment | 7,926 | - | - |
| | $ 174,691 | $ 12,577 | $ - |

December 31, 2017

| | On Demand or Less than 1 Month | 1-3 Months | 3 Months to 1 Year |
|---|---|---|---|
| Non-derivative financial liabilities | | | |
| Short-term loans | $ - | $ 130,000 | $ - |
| Account payable | 44,027 | 969 | - |
| Account payable-relate parties | 41,802 | - | - |
| Other payable-relate parties | 163 | - | - |
| Payable on equipment | 2,540 | 1,368 | - |
| | $ 88,532 | $ 132,337 | $ - |

b) Financing facilities

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Unsecured bank overdraft facilities, reviewed annually and payable on demand: | | |
| Amount used | $ - | $ 80,000 |
| Amount unused | 80,000 | 130,000 |
| | $ 80,000 | $ 210,000 |
| Secured bank overdraft facilities: | | |
| Amount used | $ - | $ 50,000 |
| Amount unused | 150,000 | 21,424 |
| | $ 150,000 | $ 71,424 |

## 26. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Besides information disclosed elsewhere in the other notes, details of transactions between the Group and other related parties are disclosed below.

a. Related party name and category

| Related Party Name | Related Party Category |
|---|---|
| Deutron Electronics Corp. | Substantive related parties |
| Optigate Inc. | Substantive related parties |
| Aero Vision Avionics, Inc | Substantive related parties |
| Novax Technology, Inc. | Substantive related parties |
| Powerchip Technology Corp. | Substantive related parties |
| Maxchip Electronics Corp. | Substantive related parties |

b. Operating revenue

| Related Party Category | Year Ended December 31 2018 | Year Ended December 31 2017 |
|---|---|---|
| Substantive related parties | $ - | $ 26 |

The collection conditions of the company and the related person's sales are comparable to the general trading conditions.

c. Technical service revenue (Operating revenue)

| Related Party Category | Year Ended December 31 2018 | Year Ended December 31 2017 |
|---|---|---|
| Substantive related parties Powerchip Technology Corp | $ - | $ 4,000 |

d. Purchases

| Related Party Category | Year Ended December 31 2018 | Year Ended December 31 2017 |
|---|---|---|
| Substantive related parties | | |
| Powerchip Technology Corp | $ 1,121,438 | $ 910,055 |
| Others | 1,711 | 5,613 |
| | $ 1,123,149 | $ 915,668 |

The purchase prices and payment terms were based on negotiations and thus not comparable with those in the market.

e. General and administrative expenses

| Related Party Category | December 31 2018 | December 31 2017 |
|---|---|---|
| Substantive related parties | $ 38 | $ 33 |

f. Research and development expenses

| Related Party Category | December 31 2018 | December 31 2017 |
|---|---|---|
| Substantive related parties | | |
| Powerchip Technology Corp | $ 4,576 | $ 2,538 |
| Other | - | 48 |
| | $ 4,576 | $ 2,586 |

g. Manufacture expense

| Related Party Category | December 31 2018 | December 31 2017 |
|---|---|---|
| Substantive related parties | $ 82 | $ - |

h. Technical service expense

| Related Party Category | December 31 2018 | December 31 2017 |
|---|---|---|
| Substantive related parties | | |
| Powerchip Technology Corp | $ - | $ 762 |

The technical service contract between the company and the related person is based on the price and conditions agreed upon by both parties and is not comparable to other appropriate trading objects.

i. Prepayment and other current assets

| Related Party Category | December 31 2018 | December 31 2017 |
|---|---|---|
| Substantive related parties | $ - | $ 38 |

j. Account payable from related parties

| Related Party Category | December 31 2018 | December 31 2017 |
|---|---|---|
| Substantive related parties | | |
| Powerchip Technology Corp | $ 126,379 | $ 41,088 |
| Other | - | 714 |
| | $ 126,379 | $ 41,802 |

k. Other payable from related parties

| Related Party Category | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Substantive related parties | $ - | $ 163 |

l. Compensation of key management personnel

| | For the Year Ended December 31 2018 | For the Year Ended December 31 2017 |
|---|---|---|
| Short-term employee benefits | $ 26,170 | $ 27,079 |
| Share-based payments | 9 | 27 |
| | $ 26,179 | $ 27,106 |

The remuneration of directors and other major management departments is determined by the remuneration Committee in accordance with individual performance and market trends.

## 27. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets of the Company were provided as deposits for the tariff of imported raw materials:

| | December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Pledged time deposits (classified as financial assets a amortized cost-noncurrent) | $ 2,577 | $ - |
| Pledged time deposits (classified as debt investment without active market-current and noncurrent) | - | 91,829 |
| | $ 2,577 | $ 91,829 |

## 28. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Group's significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies and the related exchange rates between foreign currencies and respective functional currencies were as follows:

December 31, 2018

| | Foreign Currencies | Exchange Rate | Carrying Amount |
|---|---|---|---|
| Financial assets | | | |
| Monetary items | | | |
| USD | $ 11,180 | 30.72 | $ 343,393 |
| CNY | 2,243 | 4.472 | 10,030 |
| | | | $ 353,423 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD | 5,539 | 30.72 | $ 170,144 |

December 31, 2017

| | Foreign Currencies | Exchange Rate | Carrying Amount |
|---|---|---|---|
| Financial assets | | | |
| Monetary items | | | |
| USD | $ 9,499 | 29.76 | $ 282,688 |
| CNY | 2,285 | 4.565 | 10,430 |
| | | | $ 293,118 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD | 2,610 | 29.76 | $ 77,680 |

The Group is mainly exposed to USD and currency CNY. The following information was aggregated by the functional currencies of the Group entities, and the exchange rates between respective functional currencies and the presentation currency were disclosed. The significant realized and unrealized foreign exchange gains (losses) were as follows:

| | For the Year Ended December 31 | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| **Foreign Currencies** | **Exchange Rate** | **Net Foreign Exchange Gains (Losses)** | **Exchange Rate** | **Net Foreign Exchange Gains (Losses)** |
| NTD | 1 (NTD:NTD) | $ (194) | 1 (NTD:NTD) | $ (13,532) |
| RMB | 4.472(RMB:NTD) | 752 | 4.565(RMB:NTD) | 438 |
| USD | 30.72 (USD:NTD) | - | 29.76 (USD:NTD) | 924 |
| | | $ 558 | | $ (12,170) |

## 29. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

1) Financings provided: None;

2) Endorsements/guarantees provided: None;

3) Marketable securities held (excluding investments in subsidiaries): None;

4) Marketable securities acquired and disposed of at costs or prices of at least NT$300 million or 20% of the paid-in capital: None;

5) Acquisition of individual real estate at costs of at least NT$300 million or 20% of the paid-in capital: None;

6) Disposal of individual real estate at prices of at least NT$300 million or 20% of the paid-in capital: None;

7) Total purchases from or sales to related parties of at least NT$100 million or 20% of the paid-in capital: See Table 1;

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: None;

9) Information about the derivative instruments transaction: None;

10) Intercompany relationships and significant intercompany transactions: See Table 2;

11) Names, locations, and related information of investees over which the Company exercises significant influence (excluding information on investment in Mainland China): Please see Table 3 attached;

b. Information on investment in Mainland China: See Table 4;

## 30. SEGMENT INFORMATION

a. Operation segment information

The operational decision makers of the merged company use to allocate resources and evaluate the performance of the Department is focused on the financial information of product sales, and each product has similar economic characteristics, each product uses a similar process to produce similar products, and through a unified centralized sales method, so the merger of the company into a single operating department report.

The segment revenues and operating results for the years ended December 31, 2018 and 2017 are shown in the consolidated income statements for the years ended December 31, 2018 and 2017. The segment assets as of December 31, 2018 and 2017 are shown in the consolidated balance sheets as of December 31, 2018 and 2017.

b. Revenue from major products and services

The following is an analysis of the Group's revenue from its major products and services:

| | Year Ended December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Image sensor | $ 1,892,709 | $ 1,627,295 |
| Complementary Metal-Oxide Semiconductor | 45,595 | 65,316 |
| Others | 95,963 | 21,954 |
| | $ 2,034,267 | $ 1,714,565 |

c. Geographical information

The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of assets are detailed below.

| | Revenue from External Customers | | Non-current Assets | |
|---|---|---|---|---|
| | **Year Ended December 31** | | **December 31** | |
| | **2018** | **2017** | **2018** | **2017** |
| Hong Kong | $ 1,798,780 | $ 1,535,864 | $ - | $ - |
| United States of America | 136,026 | 66,029 | 32,392 | 57,406 |
| Taiwan (the Company is based in Taiwan) | 46,506 | 28,205 | 52,493 | 45,077 |
| India | 29,738 | 72,685 | - | - |
| Others | 23,217 | 11,782 | 1,138 | 1,156 |
| | $ 2,034,267 | $ 1,714,565 | $ 86,023 | $ 130,639 |

Non-current assets exclude financial assets at amortized cost-noncurrent, deferred tax assets, post-employment benefit assets and goodwill.

d. Information about major customers

Single customers contributing 10% or more to the Group's revenue were as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Customer A | $ 1,445,118 | $ 1,177,691 |
| Customer B | 240,987 | 319,450 |

**TABLE 1**

## SILICON OPTRONICS, INC. AND SUBSIDIARY

**TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL**
**FOR THE YEAR ENDED DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars)**

| Company Name | Related Party | Nature of Relationship | Transaction Details | | | | Abnormal Transaction | | Notes/Accounts (Payable) Receivable | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Purchase/ Sale | Amount | % to Total | Payment Terms | Unit Price | Payment Terms | Ending Balance | % of Total | |
| Silicon Optronics, Inc. | Powerchip Technology Corp. | Substantive related parties | Purchase | $ 1,121,438 | 67 | Note 1 | - | - | $ (126,379) | 72 | - |

Note 1: Mainly paid on the 30th days after the month of the invoice date.

# SILICON OPTRONICS, INC. AND SUBSIDIARY

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS**
**FOR THE YEARS ENDED DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Company Name | Counterparty | Nature of Relationship (Note 3) | Intercompany Transactions | | | |
|---|---|---|---|---|---|---|
| | | | Financial Statements Items | 2018 | | Terms |
| | | | | Amount | Percentage of Consolidated Total Gross Sales or Total Assets | |
| Silicon Optronics, Inc. | NUEVA IMAGING INC. | 1 | Technical service expense | $ 45,113 | 2% | - |
| | NUEVA IMAGING INC. | 1 | Other payable from related parties | 2,635 | - | - |
| | Silicon Optronics (Shanghai) Co., Ltd. | 1 | Technical service expense | 58,555 | 3% | - |
| | Silicon Optronics (Shanghai) Co., Ltd. | 1 | Other payable from related parties | 3,413 | - | - |
| | Silicon Optronics (Shanghai) Co., Ltd. | 1 | Other prepayments | 21,359 | - | - |

Note 1: Represents the transactions from parent company to subsidiary

Note 2: The intercompany transactions, prices and terms are determined in accordance with mutual agreements

TABLE 3

## SILICON OPTRONICS, INC. AND SUBSIDIARY

**NAMES LOCATIONS AND RELATED INFORMATION OF INVESTEES ON WHICH THE CORPORATION EXERCISES SIGNIFICANT INFLUENCE**
**DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars)**

| Investor Company | Equity-method Investee Company | Location | Main Businesses and Products | Investment Amount | | Balance as of December 31, 2018 | | | Net Income of the Equity-method Investee | Investment Income | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | December 31, 2018 | December 31, 2017 | Shares (Thousands) | % of Ownership | Carrying Value | | | |
| Silicon Optronics, Inc. | NUEVA IMAGING INC. | USA | Product development & design of high-end CMOS Image Sensor | $ 358,500 | $ 358,500 | 6,000 | 100 | $ 254,800 | $ 4,437 | $ (16,404) | Subsidiary |
| | Silicon Optronics (Cayman) Co., Ltd. | Cayman | Investment holding company | 5,237 | 5,237 | 170 | 100 | 14,850 | 4,577 | 4,577 | Subsidiary |

**TABLE 4**

## SILICON OPTRONICS, INC. AND SUBSIDIARY

**INFORMATION ON INVESTMENTS IN MAINLAND CHINA**
**FOR THE YEAR ENDED DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Investee Company | Main Businesses and Products | Paid-in Capital (US$ in Thousands) | Method of Investment | Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2018 (US$ in Thousands) | Remittance of Funds | | Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2018 (US$ in Thousands) | Net Income (Loss) of the Investee | % Ownership of Direct or Indirect Investment | Investment Gain (Loss) | Carrying Amount as of December 31, 2018 | Accumulated Repatriation of Investment Income as of December 31, 2018 | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Outward | Inward | | | | | | | |
| Silicon Optronics (Shanghai) Co., Ltd. | Design, test and research and development of IC and related electronic products with consultation on technology services and technology transfer | US$ 175 | Note 1 | $ 5,375 (US$ 175) | $ - | $ - | $ 5,375 (US$ 175) | $ 4,577 | 100 | $ 4,577 | $ 14,850 | $ - | |

| Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2018 (US$ in Thousands) | Investment Amount Authorized by Investment Commission, MOEA (US$ in Thousands) | Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA (US$ in Thousands) |
|---|---|---|
| $ 5,375 (US$ 175) | Note 1 | $ 1,301,605 |

Note 1: Through Silicon Optronics (Cayman) Co., Ltd.'s investment in Silicon Optronics (Shanghai) Co., Ltd., the investment was approved by the Investment Commission, MOEA with the approved amount of US$ 175 thousand.

Note 2: Amount was recognized on the basis of the audited financial statements.

Note 3: Based on the exchange rate as of December 31, 2018.