

ALL RING TECH CO., LTD
PARENT COMPANY ONLY FINANCIAL
STATEMENTS AND REPORT OF INDEPENDENT
ACCOUNTANTS
DECEMBER 31, 2018 AND 2017

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

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of All Ring Tech Co., Ltd.

Opinion

We have audited the accompanying parent company only balance sheets of All Ring Tech Co., Ltd. (the “Company”) as at December 31, 2018 and 2017, and the related parent company only statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the parent company only financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the parent company only financial statements of the current period. These matters were addressed in the context of our audit of the parent company only financial statements as a whole and,

in forming our opinion thereon, we do not provide a separate opinion on these matters.

Key audit matters for the Company's parent company only financial statements of the current period are stated as follows:

Cutoff of revenue

Description

Refer to Note 4(25) for accounting policies on revenue recognition.

The sales revenue of the Company is primarily from the assembly and sale of equipment. Based on the terms of the sale agreement, sales revenue is recognized when the control of the goods sold are transferred to the customer after the installation of the goods or the acceptance of the goods by the customer, being when the goods are delivered to the client, the client has full discretion over the channel and price to sell the goods, and there is no unfulfilled obligation that could affect the client's acceptance of the goods. As the transfer of control of the goods to the customer in a sale transaction involves manual process and judgement, there exists a risk of material misstatement that may arise from improper revenue recognition for transactions that occur near the balance sheet date and the transaction amounts are usually material. Thus, we consider the cutoff of revenue a key audit matter.

How our audit addressed the matter

We performed the following key audit procedures in respect of the above key audit matter:

1. Obtained an understanding and assessed the accounting policy on revenue recognition.
2. Understood and assessed internal control over revenue recognition, and tested the effectiveness of the internal controls over the shipment of goods and the verification of the timing of revenue recognition.
3. Tested the cutoff of transactions that occurred a certain time before or after the balance sheet date in order to verify whether the control of the goods for which revenue has been recognized was transferred, and whether revenue was recorded in the appropriate period.

Evaluation of inventories

Description

Refer to Note 4(8) to the parent company only financial statements for the accounting policy on inventory valuation, Note 5(2) for information on the uncertainty of accounting estimates and assumptions on inventory valuation, and Note 6(4) for information on allowance for inventory valuation losses. As of December 31, 2018, inventory and allowance for inventory valuation losses were NT\$228,728 thousand and NT\$23,820 thousand, respectively.

The Company develops, manufactures, and assembles production equipment of semiconductors and passive components. Due to rapid changes in technology, the risk of the materials inventory of related equipment incurring valuation losses or becoming obsolete is high. Inventories are stated at the lower of cost and net realizable value. The net realizable value of inventory that is over a certain age or individually identified as obsolete is determined based on the historical information on inventory turnover obtained by management from periodic inspections.

The technology related to the Company's products is rapidly changing, and the determination of the net realizable value of inventory identified as obsolete involves subjective judgement. Thus, we consider the evaluation of inventories a key audit matter.

How our audit addressed the matter

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

1. Assessed the reasonableness of the Company's policies and procedures on setting allowance for inventory valuation losses according to applicable accounting principles and the auditor's understanding of the nature of the Company's industry. This included assessing the reasonableness of the source of the historical information on inventory turnover used in determining net realizable value and assessing the reasonableness of judgments of obsolete inventory items.
2. Obtained an understanding of the Company's warehousing control procedures. Reviewed annual physical inventory count plan and participated in the annual inventory count in order to assess the classification of obsolete inventory and effectiveness of internal control over obsolete inventory.
3. Tested the appropriateness of the logic used in evaluating the net realizable value of inventory and

inventory aging report to verify the reasonableness of the allowance for inventory valuation losses.

Other matter –Reference to the audits of other independent accountant

We did not audit the financial statements of an investee accounted for under the equity method, Uni-Ring Tech Co., Ltd. The investment amounted to NT\$28,561 thousand, constituting 1% of total assets as of December 31, 2017, and the share of loss and other comprehensive income of the subsidiary accounted for under the equity method was (NT\$18,198) thousand, constituting (6%) of total comprehensive income for the year ended December 31, 2017. The financial statements of the investee company were audited by other independent accountants whose report thereon has been furnished to us, and our opinion expressed herein is based solely on the audit report of the other independent accountants.

Responsibilities of management and those charged with governance for the parent company only financial statements

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

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

Those charged with governance, including the board of directors (including independent directors) and the supervisors, are responsible for overseeing the Company’s financial reporting process.

Auditor’s responsibilities for the audit of the parent company only financial statements

Our objectives are to obtain reasonable assurance about whether the parent company only financial

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

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

1. Identify and assess the risks of material misstatement of the parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company only financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the disclosures, and whether the parent company only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or

business activities within the Company to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Liu Tzu-Meng

Independent Accountants

Lin Yung-Chih

PricewaterhouseCoopers, Taiwan

Republic of China

February 26, 2019

The accompanying parent company only financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of

China. Accordingly, the accompanying parent company only financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

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

ALL RING TECH CO., LTD.
PARENT COMPANY ONLY BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

Assets	Notes	December 31, 2018		December 31, 2017		
		AMOUNT	%	AMOUNT	%	
Current assets						
1100	Cash and cash equivalents	6(1)	\$ 800,497	32	\$ 804,404	33
1150	Notes receivable, net	6(3) and 12	67,348	3	35,231	1
1170	Accounts receivable, net	6(3), 7 and 12	539,130	22	488,642	20
1200	Other receivables		347	-	3,363	-
130X	Inventory	5(2) and 6(4)	204,908	8	280,375	11
1410	Prepayments		3,202	-	4,668	-
11XX	Total current assets		<u>1,615,432</u>	<u>65</u>	<u>1,616,683</u>	<u>65</u>
Non-current assets						
1517	Financial assets at fair value through other comprehensive income - non-current	6(5) and 12	78,656	3	-	-
1523	Available-for-sale financial assets - non-current	12	-	-	54,895	2
1550	Investments accounted for under equity method	6(6) and 7	371,020	15	386,648	16
1600	Property, plant and equipment	6(7) and 8	314,244	13	326,784	13
1780	Intangible assets		4,961	1	4,541	-
1840	Deferred income tax assets	6(20)	77,279	3	80,762	4
1920	Guarantee deposits paid		4,734	-	4,535	-
1990	Other non-current assets, others	8	3,637	-	3,797	-
15XX	Total non-current assets		<u>854,531</u>	<u>35</u>	<u>861,962</u>	<u>35</u>
1XXX	Total assets		<u>\$ 2,469,963</u>	<u>100</u>	<u>\$ 2,478,645</u>	<u>100</u>

(Continued)

ALL RING TECH CO., LTD.
PARENT COMPANY ONLY BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity		Notes	December 31, 2018		December 31, 2017	
			AMOUNT	%	AMOUNT	%
Current liabilities						
2130	Current contract liabilities	12	\$ 12,619	-	\$ -	-
2150	Notes payable		1,360	-	869	-
2170	Accounts payable	7	267,956	11	325,634	13
2200	Other payables	6(8) and 7	230,891	9	219,175	9
2230	Current income tax liabilities	6(20)	23,133	1	14,696	1
2250	Provisions for liabilities - current	6(9)	12,793	1	8,873	-
2310	Advance receipts	12	-	-	6,513	-
21XX	Total current liabilities		<u>548,752</u>	<u>22</u>	<u>575,760</u>	<u>23</u>
Non-current liabilities						
2570	Deferred income tax liabilities	6(20)	32,264	1	21,851	1
2640	Net defined benefit liabilities - non-current	6(10)	<u>19,799</u>	<u>1</u>	<u>19,215</u>	<u>1</u>
25XX	Total non-current liabilities		<u>52,063</u>	<u>2</u>	<u>41,066</u>	<u>2</u>
2XXX	Total liabilities		<u>600,815</u>	<u>24</u>	<u>616,826</u>	<u>25</u>
Equity						
Share capital						
3110	Share capital - common stock	6(11)	842,389	34	842,389	34
3200	Capital surplus	6(12)	378,920	16	378,920	15
	Retained earnings	6(13)				
3310	Legal reserve		216,754	9	186,434	8
3320	Special reserve		22,672	1	22,672	1
3350	Unappropriated retained earnings		472,994	19	448,824	18
3400	Other equity interest	6(5)(6)	(18,649)	(1)	(17,420)	(1)
3500	Treasury stocks	6(11)	<u>(45,932)</u>	<u>(2)</u>	<u>-</u>	<u>-</u>
3XXX	Total equity		<u>1,869,148</u>	<u>76</u>	<u>1,861,819</u>	<u>75</u>
Contingent liabilities and commitments		6(22), 7 and 9				
3X2X	Total liabilities and equity		<u>\$ 2,469,963</u>	<u>100</u>	<u>\$ 2,478,645</u>	<u>100</u>

The accompanying notes are an integral part of these parent company only financial statements.

ALL RING TECH CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars, except for earnings per share amounts)

		For the years ended December 31,			
		2018		2017	
Items	Notes	AMOUNT	%	AMOUNT	%
4000	Operating revenue	\$ 1,684,162	100	\$ 1,614,505	100
5000	Operating costs				
		(950,224)	(57)	(821,784)	(51)
5900	Net operating margin	<u>733,938</u>	<u>43</u>	<u>792,721</u>	<u>49</u>
	Operating expenses				
6100	Selling expenses	(60,094)	(4)	(59,554)	(4)
6200	General & administrative expenses	(72,445)	(4)	(68,563)	(4)
6300	Research and development expenses	(259,558)	(15)	(238,611)	(15)
6450	Impairment loss determined in accordance with IFRS 9	(1,970)	-	-	-
6000	Total operating expenses	<u>(394,067)</u>	<u>(23)</u>	<u>(366,728)</u>	<u>(23)</u>
6900	Operating profit	<u>339,871</u>	<u>20</u>	<u>425,993</u>	<u>26</u>
	Non-operating income and expenses				
7010	Other income	17,583	1	34,588	2
7020	Other gains and losses	23,793	2	(69,256)	(4)
7050	Finance costs	(105)	-	(869)	-
7070	Share of loss of subsidiaries, associates and joint ventures accounted for using equity method, net	(12,261)	(1)	(31,538)	(2)
7000	Total non-operating income and expenses	<u>29,010</u>	<u>2</u>	<u>(67,075)</u>	<u>(4)</u>
7900	Profit before income tax	368,881	22	358,918	22
7950	Income tax expense	(54,465)	(3)	(55,722)	(3)
8200	Profit for the year	<u>\$ 314,416</u>	<u>19</u>	<u>\$ 303,196</u>	<u>19</u>
	Other comprehensive income (loss)				
	Components of other comprehensive income (loss) that will not be reclassified to profit or loss				
8311	Remeasurement of defined benefit obligations	(\$ 68)	-	(\$ 4,440)	-
8316	Unrealised gains on valuation of financial assets at fair value through other comprehensive income	3,364	-	-	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	57	-	755	-
	Components of other comprehensive income (loss) that will be reclassified to profit or loss				
8361	Financial statements translation differences of foreign operations	(3,367)	-	(12,768)	(1)
8362	Unrealised gain on valuation of available-for-sale financial assets	-	-	5,710	-
8300	Total other comprehensive loss for the year	<u>(\$ 14)</u>	<u>-</u>	<u>(\$ 10,743)</u>	<u>(1)</u>
8500	Total comprehensive income for the year	<u>\$ 314,402</u>	<u>19</u>	<u>\$ 292,453</u>	<u>18</u>
	Earnings per share (in dollars)				
9750	Basic	\$ 3.74		\$ 3.60	
9850	Diluted	\$ 3.71		\$ 3.58	

The accompanying notes are an integral part of these parent company only financial statements.

ALL RING TECH CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
(Expressed in thousands of New Taiwan dollars)

	Notes	Capital Reserves			Retained Earnings			Other Equity Interest			Treasury stocks	Total
		Share capital - common stock	Additional paid-in capital	Stock options	Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Unrealised gain (loss) on valuation of financial assets at fair value through other comprehensive income	Unrealised gain (loss) on valuation of available-for-sale financial assets		
For the year ended December 31, 2017												
Balance at January 1, 2017		\$ 842,389	\$ 378,812	\$ 108	\$ 150,732	\$ 22,672	\$ 437,732	(\$ 2,739)	\$ -	(\$ 7,623)	\$ -	\$ 1,822,083
Net income for the year ended December 31, 2017		-	-	-	-	-	303,196	-	-	-	-	303,196
Other comprehensive income (loss) for the year ended December 31, 2017	6(6)	-	-	-	-	-	(3,685)	(12,768)	-	5,710	-	(10,743)
Total comprehensive income (loss) for the year ended December 31, 2017		-	-	-	-	-	299,511	(12,768)	-	5,710	-	292,453
Distribution of 2016 net income												
Legal reserve		-	-	-	35,702	-	(35,702)	-	-	-	-	-
Cash dividends	6(13)	-	-	-	-	-	(252,717)	-	-	-	-	(252,717)
Balance at December 31, 2017		\$ 842,389	\$ 378,812	\$ 108	\$ 186,434	\$ 22,672	\$ 448,824	(\$ 15,507)	\$ -	(\$ 1,913)	\$ -	\$ 1,861,819
For the year ended December 31, 2018												
Balance at January 1, 2018		\$ 842,389	\$ 378,812	\$ 108	\$ 186,434	\$ 22,672	\$ 448,824	(\$ 15,507)	\$ -	(\$ 1,913)	\$ -	\$ 1,861,819
Effects of retrospective application	12	-	-	-	-	-	1,318	-	(3,231)	1,913	-	-
Adjusted balance at January 1, 2018		842,389	378,812	108	186,434	22,672	450,142	(15,507)	(3,231)	-	-	1,861,819
Net income for the year ended December 31, 2018		-	-	-	-	-	314,416	-	-	-	-	314,416
Other comprehensive income (loss) for the year ended December 31, 2018	6(5)(6)	-	-	-	-	-	(11)	(3,367)	3,364	-	-	(14)
Total comprehensive income for the year ended December 31, 2018		-	-	-	-	-	314,405	(3,367)	3,364	-	-	314,402
Loss on disposal of financial assets at fair value through other comprehensive income	6(5)	-	-	-	-	-	(92)	-	92	-	-	-
Distribution of 2017 net income												
Legal reserve		-	-	-	30,320	-	(30,320)	-	-	-	-	-
Cash dividends	6(13)	-	-	-	-	-	(261,141)	-	-	-	-	(261,141)
Treasury stocks reacquired	6(11)	-	-	-	-	-	-	-	-	-	(45,932)	(45,932)
Balance at December 31, 2018		\$ 842,389	\$ 378,812	\$ 108	\$ 216,754	\$ 22,672	\$ 472,994	(\$ 18,874)	\$ 225	\$ -	(\$ 45,932)	\$ 1,869,148

The accompanying notes are an integral part of these parent company only financial statements.

ALL RING TECH CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars)

	Notes	For the years ended December 31,	
		2018	2017
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit before tax		\$ 368,881	\$ 358,918
Adjustments			
Adjustments to reconcile profit (loss)			
Expected credit losses	12	1,970	-
Reversal of allowance for doubtful accounts	6(15) and 12	-	(16,668)
Provision for inventory market price decline	6(4)	-	5,441
Reversal of allowance for inventory market price decline	6(4)	(4,854)	-
Share of loss of subsidiaries, associates and joint ventures accounted for under equity method	6(6)	12,261	31,538
Depreciation	6(7)(18)	17,535	17,826
Gain on disposal of property, plant and equipment	6(16)	(4)	(103)
Amortisation	6(18)	3,663	3,580
Dividend income	6(5)(15)	(4,506)	(3,081)
Interest income	6(15)	(8,550)	(4,825)
Interest expense	6(17)	105	869
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		(32,117)	5,815
Accounts receivable		(52,458)	(114,068)
Other receivables		3,016	(749)
Inventories		80,321	(12,441)
Prepayments		1,466	363
Changes in operating liabilities			
Current contract liabilities		6,106	-
Notes payable		491	(39)
Accounts payable		(57,678)	83,897
Other payables		11,608	(8,464)
Provisions for liabilities - current		3,920	1,050
Advance receipts		-	(9,767)
Net defined benefit liabilities - non-current		516	500
Cash inflow generated from operations		351,692	339,592
Cash dividends received		4,506	3,081
Interest received		8,550	4,825
Interest paid		(105)	(869)
Income taxes paid		(32,075)	(100,282)
Net cash flows from operating activities		<u>332,568</u>	<u>246,347</u>

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ALL RING TECH CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars)

	Notes	For the years ended December 31,	
		2018	2017
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Acquisition of financial assets at fair value through other comprehensive income		(\$ 21,028)	\$ -
Proceeds from disposal of financial assets at fair value through other comprehensive income	6(5)	631	-
Acquisition of investments accounted for under equity method - subsidiary	6(6)	-	(20,000)
Cash paid for acquisition of property, plant and equipment	6(23)	(4,920)	(2,587)
Proceeds from disposal of property, plant and equipment		37	1,026
Acquisition of intangible assets		(4,083)	(1,839)
(Increase) decrease in guarantee deposits paid		(199)	33
Decrease in other non-current assets		160	160
Net cash flows used in investing activities		(29,402)	(23,207)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Cash dividends paid	6(13)	(261,141)	(252,717)
Acquisition of treasury shares	6(11)	(45,932)	-
Net cash flows used in financing activities		(307,073)	(252,717)
Net decrease in cash and cash equivalents		(3,907)	(29,577)
Cash and cash equivalents at beginning of year	6(1)	804,404	833,981
Cash and cash equivalents at end of year	6(1)	\$ 800,497	\$ 804,404

The accompanying notes are an integral part of these parent company only financial statements.

ALL RING TECH CO., LTD.

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

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

1. HISTORY AND ORGANISATION

(1) All Ring Tech Co., Ltd. (the “Company”) was incorporated as a company limited by shares under the provisions of the Company Act of the Republic of China (R.O.C.) on May 24, 1996. Its primary business includes the design, manufacturing, and assembly of automation machines, the research, development, and design of computer software, and the manufacturing of optical instruments.

(2) The common shares of the Company have been listed on the Taipei Exchange since September 2002.

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

These parent company only financial statements were authorised for issuance by the Board of Directors on February 26, 2019.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

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

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

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

IFRS 9, 'Financial instruments'

- A. Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset at amortised cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present subsequent changes in the fair value of an investment in an equity instrument that is not held for trading in other comprehensive income.
- B. The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognise 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Company shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.
- C. The Company has elected not to restate prior period financial statements using the modified retrospective approach under IFRS 9. For details of the significant effect as at January 1, 2018, please refer to Note 12(4).

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

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

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

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

B. The Company expects to recognized the lease contract of lessees in line with IFRS 16. However, the Company does not intend to restate the financial statements of prior period (referred herein as the 'modified retrospective approach') On January 1, 2019, it is expected that right-of-use asset and lease liability will both be increased by \$52,493.

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

The parent company only financial statements of the Company have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers".

(2) Basis of preparation

A. Except for the following items, these parent company only financial statements have been prepared under the historical cost convention:

- (a) Financial assets at fair value through profit or loss.
 - (b) Financial assets at fair value through other comprehensive income/ Available-for-sale financial assets measured at fair value.
 - (c) Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.
- B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”) requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.
- C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Company has elected to apply modified retrospective approach whereby the cumulative impact of the adoption was recognised as retained earnings or other equity as of January 1, 2018 and the financial statements for the year ended December 31, 2017 were not restated. The financial statements for the year ended December 31, 2017 were prepared in compliance with International Accounting Standard 39 (‘IAS 39’), International Accounting Standard 11 (‘IAS 11’), International Accounting Standard 18 (‘IAS 18’) and related financial reporting interpretations. Please refer to Notes 12(4) and (5) for details of significant accounting policies and details of significant accounts.

(3) Foreign currency translation

Items included in the parent company only financial statements of each of the Company’s entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The parent company only financial statements are presented in New Taiwan Dollars, which is the Company’s functional and presentation currency.

- A. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.
- B. Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.
- C. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and

liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

D. All foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within 'other gains and losses'.

(4) Classification of current and non-current items

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

(a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;

(b) Assets held mainly for trading purposes;

(c) Assets that are expected to be realised within twelve months from the balance sheet date;

(d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

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

(a) Liabilities that are expected to be paid off within the normal operating cycle;

(b) Liabilities arising mainly from trading activities;

(c) Liabilities that are to be paid off within twelve months from the balance sheet date;

(d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(5) Cash equivalents

A. Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

B. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

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

A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortised cost or fair value through other comprehensive income.

B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.

C. At initial recognition, the Company measures the financial assets at fair value and recognises the transaction costs in profit or loss. The Company subsequently measures the financial assets at fair value, and recognises the gain or loss in profit or loss.

D. The Company recognises the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Company and the amount

of the dividend can be measured reliably.

(7) Accounts and notes receivable

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

(8) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods and work in process comprises raw materials, direct labor, other direct costs and related production overheads (allocated based on normal operating capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses. When the cost of inventories exceeds the net realisable value, the amount of any write-down of inventories recognised as cost of sales during the period; and the amount of any reversal of inventory write-down is recognised as a reduction in cost of sales during the period.

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

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

income is reclassified from equity to profit or loss.

(10) Impairment of financial assets

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

(11) Derecognition of financial assets

The Company derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expire.

(12) Investments accounted for using equity method/ subsidiaries and associates

- A. A subsidiary is an entity where the Company has the right to dominate its finance and operating policies (including special purpose entities), normally the Company owns more than 50% of the voting rights directly or indirectly in that entity. Subsidiaries are accounted for under the equity method in the Company's parent company only financial statements.
- B. Unrealised gains or losses resulting from inter-company transactions with subsidiaries are eliminated. Necessary adjustments are made to the accounting policies of subsidiaries, to be consistent with the accounting policies of the Company.
- C. After acquisition of subsidiaries, the Company recognizes proportionately the share of profit and loss and other comprehensive income in the income statement as part of the Company's profit and loss and other comprehensive income, respectively. When the share of loss from a subsidiary exceeds the carrying amount of Company's interest in that subsidiary, the Company continues to recognize its share in the subsidiary's loss proportionately.
- D. Associates are all entities over which the Company has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognised at cost.
- E. The Company's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.
- F. When changes in an associate's equity do not arise from profit or loss or other comprehensive income of the associate and such changes do not affect the Company's ownership percentage of

the associate, the Company recognizes change in ownership interests in the associate in 'capital surplus' in proportion to its ownership.

- G. Unrealised gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Company.
- H. In the case that an associate issues new shares and the Company does not subscribe or acquire new shares proportionately, which results in a change in the Company's ownership percentage of the associate but maintains significant influence on the associate, then "Capital surplus" and "Investments accounted for under the equity method" shall be adjusted for the increase or decrease of its share of equity interest. If the above condition causes a decrease in the Company's ownership percentage of the associate, in addition to the above adjustment, the amounts previously recognised in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately on the same basis as would be required if the relevant assets or liabilities were disposed of.
- I. Upon loss of significant influence over an associate, the Company remeasures any investment retained in the former associate at its fair value. Any difference between fair value and carrying amount is recognised in profit or loss.
- J. When the Company disposes its investment in an associate and loses significant influence over this associate, the amounts previously recognised in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it retains significant influence over this associate, the amounts previously recognised in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.
- K. According to "Regulations Governing the Preparation of Financial Statements by Securities Issuers", "Profit for the year" and "Other comprehensive income for the year" reported in an entity's parent company only statement of comprehensive income, shall equal to "profit for the year" and "Other comprehensive income" attributable to owners of the parent reported in that entity's consolidated statement of comprehensive income. Total equity reported in an entity's parent company only financial statements, shall equal to equity attributable to owners of parent reported in that entity's consolidated financial statements.

(13) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.
- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item

will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

- C. Property, plant and equipment apply the cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. If each component of property, plant and equipment is significant, it is depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

<u>Asset</u>	<u>Estimated useful lives</u>
Buildings and structures	15~35 years
Machinery and equipment	3~13 years
Transportation equipment	5 years
Office equipment	3~7 years
Other facilities	3~10 years

(14) Intangible assets

Computer software is stated at cost and amortised on a straight-line basis over its estimated useful life of 1 to 5 years.

(15) Operating leases (lessee)

Payments made under an operating lease (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the lease term.

(16) Impairment of non-financial assets

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

(17) Accounts and notes payable

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

the effect of discounting is immaterial.

(18) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability specified in the contract is discharged or cancelled or expires.

(19) Offsetting financial instruments

Financial assets and liabilities are offset and reported in the net amount in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realised the asset and settle the liability simultaneously.

(20) Provisions

Provisions (including warranties) are recognised when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date, which is discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. When discounting is used, the increase in the provision due to passage of time is recognised as interest expense. Provisions are not recognised for future operating losses.

(21) Employee benefits

A. Short-term employee benefits

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

B. Pensions

(a) Defined contribution plan

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

(b) Defined benefit plan

i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Company in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds (at the balance sheet date) of a currency and term consistent with the currency and term of the employment benefit obligations.

ii. Remeasurement arising on defined benefit plan is recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.

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

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

(22) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings of the company and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred income tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the parent company only financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.
- D. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognised and recognised deferred income tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance

sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.

- F. A deferred tax asset shall be recognised for the carryforward of unused tax credits resulting from research and development expenditures to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilised.

(23) Share capital

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

(24) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are resolved by the Company's shareholders. Cash dividends are recorded as liabilities; stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance.

(25) Revenue recognition

Sales of goods

- (a) Sales are recognised when control of the products has transferred, being when the products are delivered to the client, the client has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the client's acceptance of the products.
- (b) Revenue from these sales is recognised based on the price specified in the contract, net of the estimated output tax, sales returns, and sales discounts and allowances. Revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. The estimation is subject to an assessment at each reporting date. Collection terms of sale are as follows: the first payment is collected 30 to 130 days after delivering machineries, and the second payment is collected 30 to 190 days after acceptance of machineries. As the time interval between the transfer of committed goods or service and the payment of customer does not exceed one year, the Company does not adjust the transaction price to reflect the time value of money.

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

(26) Government grants

Government grants are recognised at their fair value only when there is reasonable assurance that the Company will comply with any conditions attached to the grants and the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Company recognises expenses for the related costs for which the grants are intended to compensate.

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

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

(1) Critical judgments in applying the Company's accounting policies

None.

(2) Critical accounting estimates and assumptions

Evaluation of inventories

A. As inventories are stated at the lower of cost and net realisable value, the Company must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Company evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realisable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation.

B. As of December 31, 2018, the carrying amount of inventories was \$204,908.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Cash:		
Cash on hand	\$ 1,203	\$ 1,006
Checking accounts and demand deposits	<u>339,544</u>	<u>209,198</u>
	<u>340,747</u>	<u>210,204</u>
Cash equivalents:		
Time deposits	<u>459,750</u>	<u>594,200</u>
	<u>\$ 800,497</u>	<u>\$ 804,404</u>

- A. The Company associates with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.
- B. Please refer to Note 8 ‘Pledged Assets’ for information on the Company’s cash and cash equivalents that were pledged as collateral (included in ‘Other non-current assets’) as of December 31, 2018 and 2017.

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

	<u>December 31, 2018</u>
Non-current items:	
Financial assets mandatorily measured at fair value through profit or loss	
Unlisted stocks	\$ 21,184
Valuation adjustment	(<u>21,184</u>)
	<u>\$ -</u>

- A. The Company recognised net gain (Shown as “Other gains and losses”) on financial assets at fair value through profit or loss amounting to \$150 for the year ended December 31, 2018.
- B. The Company has no financial assets at fair value through profit or loss pledged to others as collateral as of December 31, 2018.
- C. Information relating to credit risk is provided in Note 12(2).
- D. Information on financial assets at fair value through profit or loss as of December 31, 2017 are provided in Note 12(4).

(3) Notes and accounts receivable

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Notes receivable	<u>\$ 67,348</u>	<u>\$ 35,231</u>
Accounts receivable	\$ 543,911	\$ 491,453
Less: Allowance for uncollectible accounts	(<u>4,781</u>)	(<u>2,811</u>)
	<u>\$ 539,130</u>	<u>\$ 488,642</u>

- A. The ageing analysis of notes receivable and accounts receivable that were past due is as follows:

	December 31, 2018		December 31, 2017	
	Accounts receivable	Notes receivable	Accounts receivable	Notes receivable
Less than 30 days	\$ 73,841	\$ 67,348	\$ 52,653	\$ 35,231
31~90 days	168,804	-	194,704	-
91~180 days	188,046	-	87,769	-
181~360 days	63,325	-	81,097	-
Over 360 days	49,895	-	75,230	-
	<u>\$ 543,911</u>	<u>\$ 67,348</u>	<u>\$ 491,453</u>	<u>\$ 35,231</u>

The above ageing analysis was based on invoice date.

- B. The Company has no notes and accounts receivable pledged to others as collateral as of December 31, 2018 and 2017.
- C. As of December 31, 2018 and 2017, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the Company's notes and accounts receivable were the book value.
- D. Information relating to credit risk is provided in Note 12(2).

(4) Inventories

	December 31, 2018		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 24,246	(\$ 5,991)	\$ 18,255
Work in process	167,256	(9,432)	157,824
Finished goods	37,226	(8,397)	28,829
	<u>\$ 228,728</u>	<u>(\$ 23,820)</u>	<u>\$ 204,908</u>
	December 31, 2017		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 16,585	(\$ 6,702)	\$ 9,883
Work in process	189,291	(15,850)	173,441
Finished goods	103,173	(6,122)	97,051
	<u>\$ 309,049</u>	<u>(\$ 28,674)</u>	<u>\$ 280,375</u>

The cost of inventories recognised as expense for the year:

	For the years ended December 31,	
	2018	2017
Cost of goods sold	\$ 955,078	\$ 816,345
Provision (reversal of allowance) for inventory market price decline (Note)	(4,854)	5,441
Gain on physical inventory	-	(2)
	<u>\$ 950,224</u>	<u>\$ 821,784</u>

(Note) For the year ended December 31, 2018, the Company sold inventories for which a valuation loss was recognised in the prior year, resulting in a gain on the reversal of the loss, which was recorded as a reduction in cost of sales.

(5) Financial assets at fair value through other comprehensive income - non-current

<u>Items</u>	<u>December 31, 2018</u>
Equity instruments	
Unlisted stocks	\$ 78,431
Valuation adjustment	<u>225</u>
	<u>\$ 78,656</u>

- A. The Company has elected to classify equity investments that are considered to be strategic investments as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to \$78,656 at December 31, 2018.
- B. Aiming to satisfy the capital expenditure needs, the Company sold \$631 of equity instruments investments at fair value and resulted in cumulative losses of \$92 on disposal during the year ended December 31, 2018, which was reclassified to retained earnings.
- C. Amounts recognised in profit or loss and other comprehensive in relation to the financial assets at fair value through other comprehensive income are listed below:

	<u>For the year ended December 31, 2018</u>
<u>Equity instruments at fair value through other comprehensive income</u>	
Fair value change recognised in other comprehensive income	<u>\$ 3,364</u>
Cumulative losses reclassified to retained earnings due to derecognition	<u>(\$ 92)</u>
Dividend income recognised in profit or loss	<u>\$ 4,506</u>

- D. As at December 31, 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the financial assets at fair value through other comprehensive income held by the Company was \$78,656.
- E. The Company has no financial assets at fair value through other comprehensive income pledged to others as collateral.
- F. Information relating to credit risk of financial assets at fair value through other comprehensive income is provided in Note 12(2).
- G. Information on available-for-sale financial assets as of December 31, 2017 is provided in Note 12(4).

(6) Investments accounted for under equity method

- A. Movement of investments accounted for under equity method:

	<u>For the years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
At January 1	\$ 386,648	\$ 410,954
Acquisition of investments accounted for under equity method	-	20,000
Share of profit or loss of investments accounted for under equity method	(12,261)	(31,538)
Other equity – financial statements translation differences of foreign operations	(3,367)	(12,768)
At December 31	<u>\$ 371,020</u>	<u>\$ 386,648</u>

B. Details of investments accounted for under equity method are as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
PAI FU INTERNATIONAL LIMITED	\$ 145,211	\$ 151,869
Uni-Ring Tech Co., Ltd.	14,994	28,561
IMAGINE GROUP LIMITED	<u>210,815</u>	<u>206,218</u>
	<u>\$ 371,020</u>	<u>\$ 386,648</u>

C. Information on the Company's subsidiaries is provided in Note 4(3) of the Company's 2018 consolidated financial report.

D. As of December 31, 2018 and 2017, no investment accounted for using equity method was pledged as collateral.

(7) Property, plant and equipment

	<u>Buildings and structures</u>	<u>Machinery and equipment</u>	<u>Transportation equipment</u>	<u>Office equipment</u>	<u>Other facilities</u>	<u>Total</u>
<u>January 1, 2018</u>						
Cost	\$ 353,520	\$ 4,244	\$ 5,891	\$ 10,937	\$ 37,747	\$ 412,339
Accumulated depreciation	(61,145)	(1,009)	(3,015)	(6,873)	(13,513)	(85,555)
	<u>\$ 292,375</u>	<u>\$ 3,235</u>	<u>\$ 2,876</u>	<u>\$ 4,064</u>	<u>\$ 24,234</u>	<u>\$ 326,784</u>
<u>For the year ended December 31, 2018</u>						
At January 1	\$ 292,375	\$ 3,235	\$ 2,876	\$ 4,064	\$ 24,234	\$ 326,784
Additions	-	860	3,050	1,118	-	5,028
Depreciation	(9,909)	(537)	(1,278)	(1,655)	(4,156)	(17,535)
Disposals—Cost	-	-	-	(601)	-	(601)
— Accumulated depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>568</u>	<u>-</u>	<u>568</u>
At December 31	<u>\$ 282,466</u>	<u>\$ 3,558</u>	<u>\$ 4,648</u>	<u>\$ 3,494</u>	<u>\$ 20,078</u>	<u>\$ 314,244</u>
<u>December 31, 2018</u>						
Cost	\$ 353,520	\$ 5,104	\$ 8,941	\$ 11,454	\$ 37,747	\$ 416,766
Accumulated depreciation	(71,054)	(1,546)	(4,293)	(7,960)	(17,669)	(102,522)
	<u>\$ 282,466</u>	<u>\$ 3,558</u>	<u>\$ 4,648</u>	<u>\$ 3,494</u>	<u>\$ 20,078</u>	<u>\$ 314,244</u>

	<u>Buildings and structures</u>	<u>Machinery and equipment</u>	<u>Transportation equipment</u>	<u>Office equipment</u>	<u>Other facilities</u>	<u>Total</u>
<u>January 1, 2017</u>						
Cost	\$ 353,520	\$ 4,244	\$ 9,031	\$ 11,425	\$ 37,574	\$ 415,794
Accumulated depreciation	(51,237)	(527)	(3,885)	(6,428)	(9,699)	(71,776)
	<u>\$ 302,283</u>	<u>\$ 3,717</u>	<u>\$ 5,146</u>	<u>\$ 4,997</u>	<u>\$ 27,875</u>	<u>\$ 344,018</u>
<u>For the year ended December 31, 2017</u>						
At January 1	\$ 302,283	\$ 3,717	\$ 5,146	\$ 4,997	\$ 27,875	\$ 344,018
Additions	-	-	-	1,009	506	1,515
Depreciation	(9,908)	(482)	(1,350)	(1,939)	(4,147)	(17,826)
Disposals—Cost	-	-	(3,140)	(1,497)	(333)	(4,970)
— Accumulated depreciation	-	-	2,220	1,494	333	4,047
At December 31	<u>\$ 292,375</u>	<u>\$ 3,235</u>	<u>\$ 2,876</u>	<u>\$ 4,064</u>	<u>\$ 24,234</u>	<u>\$ 326,784</u>
<u>December 31, 2017</u>						
Cost	\$ 353,520	\$ 4,244	\$ 5,891	\$ 10,937	\$ 37,747	\$ 412,339
Accumulated depreciation	(61,145)	(1,009)	(3,015)	(6,873)	(13,513)	(85,555)
	<u>\$ 292,375</u>	<u>\$ 3,235</u>	<u>\$ 2,876</u>	<u>\$ 4,064</u>	<u>\$ 24,234</u>	<u>\$ 326,784</u>

A. The Company has not capitalised any interest for the years ended December 31, 2018 and 2017.

B. Please refer to Note 8, 'Pledged assets' for information on the Company's property, plant and equipment that were pledged as collateral as of December 31, 2018 and 2017.

(8) Other payables

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Accrued salaries and bonuses	\$ 89,496	\$ 82,604
Compensation payable to employees, directors and supervisors	30,085	28,613
Provision for employee benefits	7,652	7,786
Others	103,658	100,172
	<u>\$ 230,891</u>	<u>\$ 219,175</u>

(9) Provisions for liabilities

	<u>For the years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Balance at beginning of year	\$ 8,873	\$ 7,823
Additional provisions	11,143	10,488
Used during the year	(7,223)	(9,438)
Balance at end of year	<u>\$ 12,793</u>	<u>\$ 8,873</u>

The Company's warranty provision is primarily related to the sale of semiconductor equipment, passive component equipment, and light-emitting diode equipment. The amount of the provision is estimated according to historical warranty data. The Company expects the costs related to the provision to be realised in the next two years.

(10) Pensions

A. The Company has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 4% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company will make contributions for the deficit by next March. Related information on the defined benefit pension plan disclosed above is as follows:

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

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Present value of defined benefit obligations	(\$ 29,497)	(\$ 28,970)
Fair value of plan assets	<u>9,698</u>	<u>9,755</u>
Net defined benefit liability	<u>(\$ 19,799)</u>	<u>(\$ 19,215)</u>

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

	<u>For the year ended December 31, 2018</u>		
	<u>Present value of defined benefit obligations</u>	<u>Fair value of plan assets</u>	<u>Net defined benefit liability</u>
Balance at January 1	(\$ 28,970)	\$ 9,755	(\$ 19,215)
Current service cost	(329)	-	(329)
Interest (expense) income	(318)	107	(211)
	<u>(29,617)</u>	<u>9,862</u>	<u>(19,755)</u>
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	295	295
Change in financial assumptions	(558)	-	(558)
Experience adjustments	<u>195</u>	<u>-</u>	<u>195</u>
	<u>(363)</u>	<u>295</u>	<u>(68)</u>
Pension fund contribution	<u>-</u>	<u>24</u>	<u>24</u>
Paid pension	<u>483</u>	<u>(483)</u>	<u>-</u>
Balance at December 31	<u>(\$ 29,497)</u>	<u>\$ 9,698</u>	<u>(\$ 19,799)</u>

For the year ended December 31, 2017

	Present value		
	of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Balance at January 1	(\$ 25,657)	\$ 11,382	(\$ 14,275)
Current service cost	(324)	-	(324)
Interest (expense) income	(359)	159	(200)
	(26,340)	11,541	(14,799)
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	(40)	(40)
Change in financial assumptions	(851)	-	(851)
Experience adjustments	(3,549)	-	(3,549)
	(4,400)	(40)	(4,440)
Pension fund contribution	-	24	24
Paid pension	1,770	(1,770)	-
Balance at December 31	(\$ 28,970)	\$ 9,755	(\$ 19,215)

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

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

	<u>For the years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Discount rate	<u>0.9%</u>	<u>1.10%</u>
Future salary increases	<u>3.50%</u>	<u>3.50%</u>

For the years ended December 31, 2018 and 2017, assumptions regarding future mortality experience are set based on actuarial advice in accordance with Taiwan Life Insurance Industry 5th Mortality Table.

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

	<u>Discount rate</u>		<u>Future salary increases</u>	
	<u>Increase 0.25%</u>	<u>Decrease 0.25%</u>	<u>Increase 0.25%</u>	<u>Decrease 0.25%</u>
<u>December 31, 2018</u>				
Effect on present value of defined benefit obligation	(\$ <u>694</u>)	<u>\$ 719</u>	<u>\$ 627</u>	(<u>\$ 609</u>)
<u>December 31, 2017</u>				
Effect on present value of defined benefit obligation	(\$ <u>712</u>)	<u>\$ 738</u>	<u>\$ 647</u>	(<u>\$ 629</u>)

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

(e) Expected contributions to the defined benefit pension plan of the Company for the year ending December 31, 2019 amount to \$24.

(f) As of December 31, 2018, the weighted average duration of the retirement plan is 10 years. The analysis of timing of the future pension payment was as follows:

Within 1 year	\$ 1,196
2 ~ 5 years	5,948
6 years and above	<u>12,381</u>
	<u>\$ 19,525</u>

B. Effective July 1, 2005, the Company has established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon

termination of employment. The pension costs under the defined contribution pension plans of the Company for the years ended December 31, 2018 and 2017 were \$9,373 and \$8,561, respectively.

(11) Share capital

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

	<u>For the years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
At January 1	84,239	84,239
Treasury stock reacquired	(915)	-
At December 31	<u>83,324</u>	<u>84,239</u>

B. As of December 31, 2018, the Company's authorised capital was \$1,100,000 (including \$80,000 reserved for employee stock options), and the paid-in capital was \$842,389 with a par value of \$10 per share. The 84,239 thousand shares were issued over several installments. All proceeds from shares issued have been collected.

C. Treasury shares

(a) Reason for share reacquisition and movements in the number of the Company's treasury shares are as follows (in thousands of shares):

<u>Reason for reacquisition</u>	<u>For the year ended December 31, 2018</u>		
	<u>Opening Balance</u>	<u>Additions</u>	<u>Ending Balance</u>
To enhance the Company's credit rating and the stockholders' equity	<u>-</u>	<u>915</u>	<u>915</u>

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

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

(d) Pursuant to the R.O.C. Securities and Exchange Act, treasury shares to enhance the Company's credit rating and the stockholders' equity should be retired within six months of acquisition.

(e) As of December 31, 2018, the balance of the Company's treasury shares was \$45,932.

(12) Capital surplus

Pursuant to the R.O.C Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires

that the amount of capital surplus to be capitalized mentioned above should not exceed 10% of the paid-in capital each year. However, capital reserves should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(13) Retained earnings

- A. Pursuant to the R.O.C. Company Act, the Company shall set aside 10% of its after-tax profits as legal reserve until the balance is equal to the paid-in capital. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.
- B. Under the Company's Articles of Incorporation, considering the Company is operating in a volatile environment and in the stable growth stage of its life cycle, the Board of Directors shall determine earnings appropriation based on the Company's future capital expenditures and demand for capital, as well as the necessity of using retained earnings to meet capital needs, and set the amount of dividends to be distributed to stockholders and the portion of dividends to be paid in cash. The Company's current year earnings shall first be used to pay all taxes and offset prior years' operating losses and then 10% of the remaining amount shall be set aside as legal reserve. Then, either a portion of the remaining amount is set aside as special reserve or an amount is reversed from the special reserve account and added to the remaining amount in accordance with applicable laws and regulations. The final leftover amount of current year earnings is added to the unappropriated earnings from the prior year and the total is the accumulated distributable earnings. At least 30% of the accumulated distributable earnings shall be appropriated as dividends, and cash dividends shall account for at least 10% of total dividends distributed. The Board of Directors drafts a proposal on earnings appropriation according to future operational and investment needs and sends it to the stockholders during their meeting for approval.
- C. Special reserve
 - (a) In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.
 - (b) The amounts previously set aside by the Company as special reserve in the amount of \$22,672 on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently.
- D. The Company recognised dividends distributed to owners amounting to \$261,141 (\$3.1 (in dollars) per share) and \$252,717 (\$3 (in dollars) per share) for the years ended December 31, 2018 and 2017, respectively. On February 26, 2019, the Board of Directors proposed for the

distribution of dividends from 2018 earnings in the amount of \$258,304 at \$3.1 (in dollars) per share.

(14) Operating revenue

	<u>For the year ended December 31, 2018</u>
Revenue from contracts with customers	<u>\$ 1,684,162</u>

A. Disaggregation of revenue from contracts with customers

The Company derives revenue from the transfer of goods at a point in time. Revenue is primarily from sales of automation machinery and equipment.

B. Contract liabilities

Revenue recognised that was included in the contract liabilities balance at the beginning of the period amounted to \$5,102.

(15) Other income

	<u>For the years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Dividend income	\$ 4,506	\$ 3,081
Interest income from bank deposits	8,550	4,825
Rent income	1,011	2,022
Gains on doubtful debt recoveries	-	16,668
Government grants	-	2,561
Other income	<u>3,516</u>	<u>5,431</u>
	<u>\$ 17,583</u>	<u>\$ 34,588</u>

(16) Other gains and losses

	<u>For the years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Net gains on financial assets at fair value through profit or loss	\$ 150	\$ -
Net foreign exchange gains (losses)	23,639	(69,359)
Net gains on disposal of property, plant and equipment	<u>4</u>	<u>103</u>
	<u>\$ 23,793</u>	<u>(\$ 69,256)</u>

(17) Finance costs

	<u>For the years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Interest expense:		
Bank borrowings	\$ 51	\$ 799
Other interest expense	<u>54</u>	<u>70</u>
	<u>\$ 105</u>	<u>\$ 869</u>

(18) Expenses by nature

	For the year ended December 31, 2018		
	<u>Operating cost</u>	<u>Operating expense</u>	<u>Total</u>
Employee benefit expenses	\$ 37,512	\$ 267,649	\$ 305,161
Depreciation	9,740	7,795	17,535
Amortisation	429	3,234	3,663
	<u>\$ 47,681</u>	<u>\$ 278,678</u>	<u>\$ 326,359</u>
	For the year ended December 31, 2017		
	<u>Operating cost</u>	<u>Operating expense</u>	<u>Total</u>
Employee benefit expenses	\$ 37,378	\$ 244,849	\$ 282,227
Depreciation	9,801	8,025	17,826
Amortisation	273	3,307	3,580
	<u>\$ 47,452</u>	<u>\$ 256,181</u>	<u>\$ 303,633</u>

(19) Employee benefit expense

	For the year ended December 31, 2018		
	<u>Operating cost</u>	<u>Operating expense</u>	<u>Total</u>
Wages and salaries	\$ 31,891	\$ 233,848	\$ 265,739
Labour and health insurance fees	2,543	14,187	16,730
Pension costs	1,361	8,552	9,913
Directors' remuneration	-	3,184	3,184
Other personnel expenses	1,717	7,878	9,595
	<u>\$ 37,512</u>	<u>\$ 267,649</u>	<u>\$ 305,161</u>
	For the year ended December 31, 2017		
	<u>Operating cost</u>	<u>Operating expense</u>	<u>Total</u>
Wages and salaries	\$ 32,715	\$ 212,979	\$ 245,694
Labour and health insurance fees	2,560	13,555	16,115
Pension costs	1,318	7,767	9,085
Directors' remuneration	-	2,979	2,979
Other personnel expenses	785	7,569	8,354
	<u>\$ 37,378</u>	<u>\$ 244,849</u>	<u>\$ 282,227</u>

As of December 31, 2018 and 2017, the Company had 213 and 206 employees, respectively. There were 5 non-employee directors for both years.

A. In accordance with the Articles of Incorporation of the Company, a ratio of distributable profit of the current year, after covering accumulated losses, shall be distributed as employees' compensation and directors' and supervisors' remuneration. The ratio shall not be lower than

3% for employees' compensation and shall not be higher than 3% for directors' and supervisors' remuneration.

B. For the years ended December 31, 2018 and 2017, employees' compensation were accrued at \$26,560 and \$25,260, respectively; while directors' and supervisor's remuneration were accrued at \$3,525 and \$3,353, respectively. The aforementioned amounts were recognised in salary expenses and estimated and accrued based on the distributable net profit for 2018 and 2017 calculated by the percentage prescribed under the Company's Articles of Incorporation. Employees' compensation and directors' and supervisors' remuneration for 2017 amounting to \$28,613, as resolved by the Board of Directors were in agreement with those amounts recognised in the 2017 financial statements. The employees' compensation will be distributed in the form of cash. Information about employees' compensation and directors' and supervisors' remuneration of the Company as resolved by the Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(20) Income tax

A. Income tax expense

(a) Components of income tax expense:

	<u>For the years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Current tax:		
Current tax on profits for the period	\$ 50,584	\$ 51,751
Tax on undistributed earnings	805	7,053
Prior year income tax overestimation	(10,877)	(5,056)
Total current tax	<u>40,512</u>	<u>53,748</u>
Deferred tax:		
Origination and reversal of temporary differences	24,303	1,974
Impact of change in tax rate	(10,350)	-
Total deferred tax	<u>13,953</u>	<u>1,974</u>
Income tax expense	<u>\$ 54,465</u>	<u>\$ 55,722</u>

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

	<u>For the years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Remeasurements of defined benefit obligations	(\$ 13)	(\$ 755)
Impact of change in tax rate	(44)	-
	<u>(\$ 57)</u>	<u>(\$ 755)</u>

B. Reconciliation between income tax expense and accounting profit

	<u>For the years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Tax calculated based on profit before tax and statutory tax rate	\$ 73,776	\$ 61,016
Effects from items adjusted in accordance with tax regulation	4,736	3,022
Impact of change in tax rate	(10,350)	-
Effects from loss carryforward	9,839	2,380
Effect from investment tax credits	(13,464)	(12,693)
Tax on undistributed earnings	805	7,053
Prior year income tax overestimation	(10,877)	(5,056)
Income tax expense	<u>\$ 54,465</u>	<u>\$ 55,722</u>

C. Amounts of deferred tax assets or liabilities as a result of temporary differences and loss carryforward are as follows:

For the year ended December 31, 2018

	<u>January 1</u>	<u>Recognised in profit or loss</u>	<u>Recognised in other comprehensive income</u>	<u>December 31</u>
Deferred income tax assets				
Temporary differences:				
Allowance for doubtful accounts	\$ 606	\$ 202	\$ -	\$ 808
Loss on decline in market value of inventories	4,875	(111)	-	4,764
Unrealised cost to provide after-sale service	1,509	1,050	-	2,559
Unused compensated absences	1,323	207	-	1,530
Pension costs	3,267	636	57	3,960
Unrealised sales discounts and allowances	12,876	2,730	-	15,606
Unrealised expenses and losses	1,122	278	-	1,400
Investment losses	1,061	188	-	1,249
Foreign currency exchange difference	7,168	(7,168)	-	-
Loss carryforward	<u>46,955</u>	<u>(1,552)</u>	<u>-</u>	<u>45,403</u>
	<u>\$ 80,762</u>	<u>(\$ 3,540)</u>	<u>\$ 57</u>	<u>\$ 77,279</u>
Deferred income tax liabilities				
Temporary differences:				
Foreign currency exchange difference	\$ -	(\$ 6,557)	\$ -	(\$ 6,557)
Investment income	(21,851)	(3,856)	-	(25,707)
	<u>(\$ 21,851)</u>	<u>(\$ 10,413)</u>	<u>\$ -</u>	<u>(\$ 32,264)</u>
	<u>\$ 58,911</u>	<u>(\$ 13,953)</u>	<u>\$ 57</u>	<u>\$ 45,015</u>

For the year ended December 31, 2017

	<u>January 1</u>	<u>Recognised in profit or loss</u>	<u>Recognised in other comprehensive income</u>	<u>December 31</u>
Deferred income tax assets				
Temporary differences:				
Allowance for doubtful accounts	\$ 3,440	(\$ 2,834)	\$ -	\$ 606
Loss on decline in market value of inventories	3,950	925	-	4,875
Unrealised cost to provide after-sale service	1,330	179	-	1,509
Unused compensated absences	1,285	38	-	1,323
Pension costs	2,934	85	248	3,267
Unrealised sales discounts and allowances	9,534	3,342	-	12,876
Unrealised expenses and losses	1,342	(220)	-	1,122
Investment losses	1,061	-	-	1,061
Foreign currency exchange difference	1,476	5,692	-	7,168
Loss carryforward	<u>56,136</u>	<u>(9,181)</u>	<u>-</u>	<u>46,955</u>
	<u>\$ 82,488</u>	<u>(\$ 1,974)</u>	<u>\$ 248</u>	<u>\$ 80,762</u>
Deferred income tax liabilities				
Temporary differences:				
Pension costs	(\$ 507)	\$ -	\$ 507	\$ -
Investment income	(21,851)	-	-	(21,851)
	<u>(\$ 22,358)</u>	<u>\$ -</u>	<u>\$ 507</u>	<u>(\$ 21,851)</u>
	<u>\$ 60,130</u>	<u>(\$ 1,974)</u>	<u>\$ 755</u>	<u>\$ 58,911</u>

D. Expiration dates of unused loss carryforward and amounts of unrecognised deferred tax assets are as follows:

December 31, 2018				
<u>Year incurred</u>	<u>Amount assessed/ filed</u>	<u>Unused amount</u>	<u>Unrecognised deferred tax assets</u>	<u>Expiry year</u>
2012	\$ 405,210	<u>\$ 227,014</u>	<u>\$ -</u>	2022

December 31, 2017				
<u>Year incurred</u>	<u>Amount assessed/ filed</u>	<u>Unused amount</u>	<u>Unrecognised deferred tax assets</u>	<u>Expiry year</u>
2012	\$ 405,210	<u>\$ 276,208</u>	<u>\$ -</u>	2022

- E. The Company's income tax returns through 2016 have been assessed and approved by the Tax Authority. As of February 26, 2019, no administrative relief has occurred.
- F. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China on February 7, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Company has assessed the impact of the change in income tax rate.

(21) Earnings per share

	<u>For the year ended December 31, 2018</u>		
	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding (shares in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders	<u>\$ 314,416</u>	<u>84,046</u>	<u>\$ 3.74</u>
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 314,416	84,046	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	<u>-</u>	<u>731</u>	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 314,416</u>	<u>84,777</u>	<u>\$ 3.71</u>

For the year ended December 31, 2017

	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding (shares in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 303,196	84,239	\$ 3.60
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 303,196	84,239	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	498	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	\$ 303,196	84,737	\$ 3.58

(22) Operating leases

In January 2009 and November 2014, the Company leased parcels of land located in the Luzhu Science Park from the Southern Taiwan Science Park Bureau. The former lease is from January 1, 2009 to December 31, 2023. The latter lease is from November 1, 2014 to October 31, 2034. The leases are both classified as operating leases and are renewable at the end of the lease period. Monthly rents per square meter will be adjusted in the following month if the government adjusts the announced land value, rental rate of national land approved by Executive Yuan is adjusted and other reasons that the monthly rents must be adjusted. The Company shall recover or refund additional rents during the payment period. For the year ended December 31, 2018 and 2017, rent expenses were \$5,088 (\$3,045 shown as 'operating costs' and \$2,043 shown as 'operating expenses') and \$4,703 (\$2,979 shown as 'operating costs' and \$1,724 shown as 'operating expenses'), respectively. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Not later than one year	\$ 5,088	\$ 4,703
Later than one year but not later than five years	20,352	18,814
Later than five years	23,772	26,678
	<u>\$ 49,212</u>	<u>\$ 50,195</u>

(23) Supplemental cash flow information

Investing activities with partial cash payments

	For the years ended December 31,	
	2018	2017
Purchase of property, plant and equipment	\$ 5,028	\$ 1,515
Add: Opening balance of payable on equipment (shown as 'other payables')	10	1,082
Less: Ending balance of payable on equipment (shown as 'other payables')	(118)	(10)
Cash paid for acquisition of property, plant and equipment	<u>\$ 4,920</u>	<u>\$ 2,587</u>

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

<u>Names of related parties</u>	<u>Relationship with the Company</u>
Uni-Ring Tech Co., Ltd.	Subsidiaries
Kunshan All Ring Tech Co., Ltd.	Subsidiaries
All Ring Tech (Kunshan) Co., Ltd.	Subsidiaries
Jie Kuen Enterprise Inc.	Other related party (Note)
Jie Kuen Precision Technologies Co., Ltd.	Other related party (Note)
Ding Ji Electrical Engineering Co., Ltd.	Other related party (Note)
Nan Feng Mechanical Electrical Co., Ltd.	Other related party (Note)

(Note) This Company's responsible person is the Company's supervisor.

(2) Significant transactions and balances with related parties

A. Sales of goods

	For the years ended December 31,	
	2018	2017
Subsidiaries	<u>\$ 29,267</u>	<u>\$ 28,913</u>

The collection period for subsidiaries was 120 days after sales of goods. The collection period for third parties are as follows: the first payment is collected 30 to 130 days after delivering machineries, and the second payment is collected 30 to 190 days after acceptance of machineries. Except for the collection periods mentioned above, other terms of sales were the same with third parties.

B. Purchases of goods

	<u>For the years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Other related parties	\$ 31,050	\$ 19,808
Subsidiaries	<u>3,807</u>	<u>855</u>
	<u>\$ 34,857</u>	<u>\$ 20,663</u>

The terms of purchases and payments to subsidiaries was 45 days after receipt and 120 days to other related parties. Payment terms of purchases to normal vendors are 60 to 180 days. Except for the payment terms mentioned above, other terms of purchases were the same with third parties.

C. Rental income

	<u>Location of the premises</u>	<u>Determination of Rental</u>	<u>Collectio frequency</u>	<u>For the year ended 2018</u>
Uni-Ring Tech Co.,Ltd.	Office in Luzhu, Kaohsiung	Negotiation	Monthly	\$ <u>1,011</u>
	<u>Location of the premises</u>	<u>Determination of Rental</u>	<u>Collectio frequency</u>	<u>For the year ended 2018</u>
	<u>Object for rent</u>	<u>Determination of Rental</u>	<u>Payment</u>	<u>For the year ended 2018</u>
Uni-Ring Tech Co.,Ltd.	Office in Luzhu, Kaohsiung	Negotiation	Monthly	\$ <u>2,022</u>

D. Equity transations

The Company participated in cash capital increase of the subsidiary, Uni-Ring Tech Co., Ltd., by investing \$20,000 in June 2017. There is no such situation during 2018.

E. Receivables from related parties

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Subsidiaries	\$ <u>35,287</u>	\$ <u>16,345</u>

The receivables from related parties arise mainly from sale transactions. The receivables are unsecured in nature and bear no interest. There are no provisions held against receivables from related parties.

F. Payables to related parties

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Accounts payable		
Other related parties	\$ 8,442	\$ 12,716
Subsidiaries	<u>1,325</u>	<u>45</u>
	<u>9,767</u>	<u>12,761</u>
Other payables		
Other related parties	\$ 44	\$ 106
Subsidiaries	<u>6</u>	<u>22</u>
	<u>50</u>	<u>128</u>
	<u>\$ 9,817</u>	<u>\$ 12,889</u>

The payables to related parties arise mainly from purchase transactions and are due 120 days after the date of purchase. The payables bear no interest.

G. Endorsements and guarantees provided to related parties

<u>Endorser/guarantor</u>	<u>Endorsee/guarantee</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>	<u>Purpose</u>
All Ring Tech Co., Ltd.	Uni-Ring Tech Co., Ltd.	<u>\$ 50,000</u>	<u>\$ 50,000</u>	Loan financing secured

As of December 31, 2018 and 2017, the actual amount of the endorsement/guarantee provided by the Company for its subsidiary, Uni-Ring Tech Co., Ltd., was \$—.

(3) Key management compensation

	<u>For the years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Salaries and other short-term employee benefits	\$ 42,632	\$ 40,480
Post-employment benefits	<u>951</u>	<u>1,052</u>
	<u>\$ 43,583</u>	<u>\$ 41,532</u>

8. PLEDGED ASSETS

The Company's assets pledged as collateral were as follows:

<u>Pledged asset</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>	<u>Purpose</u>
Pledged time deposits (shown as 'other non-current assets')	\$ 1,820	\$ 1,820	Guarantee for land leases
Buildings and structures (shown as 'property, plant and equipment, net')	<u>282,466</u>	<u>292,375</u>	Guarantee for short-term borrowings (Note)
	<u>\$ 284,286</u>	<u>\$ 294,195</u>	

Note: The associated debt has been repaid but the designation of "property, plant, and equipment" as collateral has not yet been removed.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) For the details of significant contingent liabilities and unrecognized contract with related parties, please refer to Note 7 ‘Related party transactions.’

(2) For more information about operating lease, please refer to Note 6 (22) ‘Operating leases’.

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital management

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

(2) Financial instruments

A. Financial instruments by category

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Financial assets</u>		
Financial assets at fair value through other comprehensive income		
Designation of equity instrument	\$ 78,656	\$ –
Available-for-sale financial assets	–	54,895
Financial assets at amortised cost/Loans and receivables		
Cash and cash equivalents	800,497	804,404
Notes receivable	67,348	35,231
Accounts receivable	539,130	488,642
Other receivables	347	3,363
Guarantee deposits paid	4,734	4,535
	<u>\$ 1,490,712</u>	<u>\$ 1,391,070</u>
<u>Financial liabilities</u>		
Financial liabilities at amortised cost		
Notes payable	\$ 1,360	\$ 869
Accounts payable	267,956	325,634
Other accounts payable	230,891	219,175
	<u>\$ 500,207</u>	<u>\$ 545,678</u>

B. Financial risk management policies

- (a) The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial position and financial performance.
- (b) Risk management is carried out by a central treasury department (Company treasury) under policies approved by the Board of Directors. Company treasury identifies, evaluates and hedges financial risks in close cooperation with the Company's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

C. Significant financial risks and degrees of financial risks

(a) Market risk

i. Foreign exchange risk

- (i.) The Company operates internationally and is exposed to foreign exchange rate risk arising from the transactions of the Company in various functional currency, primarily with respect to the USD and RMB. Foreign exchange rate risk arises from future commercial transactions and recognised assets and liabilities and net investments in foreign operations.
- (ii.) Management has set up a policy to require company to manage their foreign exchange risk against their functional currency. The company is required to hedge their entire foreign exchange risk exposure with the Company treasury. To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, entities in the Company use forward foreign exchange contracts, transacted with Company treasury. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.
- (iii.) The Company has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Company's foreign operations is managed primarily through liabilities denominated in the relevant foreign currencies.
- (iv.) The Company's businesses involve some non-functional currency operations (The functional currency of the Company is the NTD). Information on assets and liabilities subject to significant foreign exchange risk is as follows:

December 31, 2018			
	Foreign currency amount <u>(In thousands)</u>	Exchange rate	Book value <u>(NTD)</u>
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 17,658	30.72	\$542,454
<u>Investment accounted for under equity method</u>			
USD:NTD	12,570	30.72	386,150
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	2,924	30.72	89,825

December 31, 2017			
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 29,585	29.76	\$880,450
USD:RMB	483	6.95	15,578
<u>Investment accounted for under equity method</u>			
USD:NTD	12,930	29.76	384,797
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	2,740	29.76	81,542

- (v.) The sensitivity analysis of foreign exchange risk mainly focuses on the foreign currency monetary items at the end of the financial reporting period. If the exchange rate of NTD to all foreign currencies had appreciated/depreciated by 1%, the Company's net income for the years ended December 31, 2018 and 2017 would have increased/decreased by \$6,710 and \$9,825, respectively.
- (vi.) The total exchange gain (loss), including realised and unrealised arising from significant foreign exchange variation on the monetary items held by the Company for the years ended December 31, 2018 and 2017 amounted to \$23,639 and (\$69,359), respectively.

Price risk

- (i.) The Company is exposed to equity securities price risk because of investments held by the Company and classified on the parent company only balance sheet as financial asset at fair value through profit or loss, financial assets at fair value through other comprehensive income and available-for-sale financial assets. The Company is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Company has set various stop loss points to ensure not to be exposed to significant risks. Accordingly, no material market risk was expected.
- (ii.) The Company's investments in equity securities comprise domestic and foreign

unlisted stocks. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 1% with all other variables held constant, other components of equity for the years ended December 31, 2018 and 2017 would have increased/decreased by \$771 and \$552, respectively, as a result of gains/losses on equity securities classified as at fair value through comprehensive income and available-for-sale.

Cash flow and fair value interest rate risk

If the borrowing interest rate had increased/decreased by 1% with all other variables held constant, there is no significant effect on after-tax profit for the years ended December 31, 2018 and 2017.

(b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms.
- ii. The Company manages its credit risk taking into consideration the entire Company's concern. According to the Company's credit policy, each local entity in the Company is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored.
- iii. The Company adopts the following assumption under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition:
If the contract payments were past due over 180 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.
- iv. The Company adopts the assumption under IFRS 9, that is, the default occurs when the contract payments are past due over 720 days.
- v. The Company classifies customer's accounts receivable in accordance with credit risk on trade. The Company applies the simplified approach using provision matrix to estimate expected credit loss under the provision matrix basis. The Company used the forecastability to adjust historical and timely information to assess the default possibility of accounts receivable. Movements in relation to the Company applying the simplified approach to provide loss allowance for accounts receivable are as follows:

	For the year ended December 31, 2018	
	<u>Accounts receivable</u>	
At January 1_IAS 39	\$	2,811
Adjustments under new standards		–
At January 1_IFRS 9		2,811
Provision for impairment		1,970
At December 31	\$	<u>4,781</u>

vi. Credit risk information for the year ended December 31, 2017 is provided in Note 12(4).

(c) Liquidity risk

- i. Company treasury monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times to ensure the sufficient financial flexibility of the Company.
- ii. Company treasury invests surplus cash in interest bearing current accounts, time deposits and beneficiary certificates, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the abovementioned forecasts, and readily generate cash flows to manage liquidity risk.
- iii. The table below analyses the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities. The amounts disclosed in the following table are undiscounted contractual cash flows.

<u>December 31, 2018</u>	<u>Within 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>	<u>Over 5 years</u>
Non-derivative financial liabilities:				
Notes payable	\$ 1,360	\$ –	\$ –	\$ –
Accounts payable	267,956	–	–	–
Other payables	230,891	–	–	–
<u>December 31, 2017</u>	<u>Within 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>	<u>Over 5 years</u>
Non-derivative financial liabilities:				
Notes payable	\$ 869	\$ –	\$ –	\$ –
Accounts payable	325,634	–	–	–
Other payables	219,175	–	–	–

- iv. The Company does not expect the timing of occurrence of the cash flows estimated

through the maturity date analysis will be significantly earlier, nor expect the actual cash flow amount will be significantly different.

(3) Fair value information

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

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

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

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

B. Financial instruments not measured at fair value

The Company's financial instruments not measured at fair value which includes the carrying amounts of cash and cash equivalents, notes receivable, accounts receivable, other receivables, guarantee deposits paid, notes payable, accounts payable and other payables are approximate to their fair values.

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

<u>December 31, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through other comprehensive income				
Equity securities	<u>\$ 78,656</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 78,656</u>
<u>December 31, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Available-for-sale financial assets				
Equity securities	<u>\$ 54,895</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,895</u>

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

(a) The following financial assets use quoted market prices as inputs for fair value measurement (level 1): for emerging stocks, the average trading price at the balance sheet date is used.

(b) Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes.

E. For the years ended December 31, 2018 and 2017, there was no transfer between Level 1 and Level 2.

F. For the years ended December 31, 2018 and 2017, there was no transfer into or out from Level 3.

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

A. Summary of significant accounting policies adopted for the year ended December 31, 2017:

(a) Receivables

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

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

i. Financial assets at fair value through profit or loss are financial assets held for trading.

Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term.

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

iii. Financial liabilities at fair value through profit or loss are initially recognised at fair value. Related transaction costs are expensed in profit or loss. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognised in profit or loss.

(c) Available for sale financial assets

i. Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

ii. On a regular way purchase or sale basis, available-for-sale financial assets are recognised and derecognised using trade date accounting.

iii. Available for sale financial assets are initially recognised at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in other comprehensive income.

(d) Impairment of financial assets

i. The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more

events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

ii. The criteria that the Company uses to determine whether there is objective evidence of an impairment loss is as follows:

- (i.) Significant financial difficulty of the issuer or debtor;
- (ii.) The Company, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
- (iii.) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- (iv.) The disappearance of an active market for that financial asset because of financial difficulties;
- (v.) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;
- (vi.) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;
- (vii.) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

iii. When the Company assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:

(i.) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. If, in a subsequent period, the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognised, then such impairment loss is reversed through profit or loss. Impairment loss of an investment in an equity instrument recognised in profit or loss shall not be reversed through profit or loss. Impairment loss is

recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(ii.) Financial assets at amortized cost

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

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

In accordance with IFRS 9, the Company reclassified available-for-sale financial assets in the amount of \$54,895, by increasing financial assets at fair value through profit or loss and valuation adjustment in the amounts of \$21,184 and (\$21,184), respectively. Additionally, the Company made an irrevocable election at initial recognition on equity instruments not held for dealing or trading purpose, by increasing financial assets at fair value through other comprehensive income and valuation adjustment in the amounts of \$58,126 and (\$3,231), respectively, and increasing retained earnings and decreasing other equity interest in the amounts of \$1,318 and \$1,318, respectively.

C. The allowance for impairment and provision was \$1,318 for the year ended December 31, 2017, which was impaired under IAS 39, transferred to the adjustment for change in value of "financial assets at fair value through other comprehensive income" on January 1, 2018. There was no impairment loss under IFRS 9.

D. The significant accounts for the year ended December 31, 2017 are as follows:

Available-for-sale financial assets – non-current

	<u>December 31, 2017</u>
Unlisted stocks	\$ 79,310
Adjustment for change in value	(1,913)
Accumulated impairment	<u>(22,502)</u>
	<u>\$ 54,895</u>

i. The Company recognised \$5,710 in other comprehensive income for fair value change for the year ended December 31, 2017, respectively.

ii. As of December 31, 2017, the Company did not pledge any of the available-for-sale

financial assets as collateral.

E. Credit risk information for the year ended December 31, 2017 is as follows:

- (a) Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Company's credit policy, the Company is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors and the usage of the line of credit is monitored periodically. Credit risk arises from cash and cash equivalents and credit risk from customers, including outstanding account receivables and promised transactions not yet completed.
- (b) For the year ended December 31, 2017, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
- (c) As of December 31, 2017, there were no past due nor impaired financial assets.
- (d) Movements of the Company's provision for impairment of accounts receivable for the year ended December 31, 2017 were as follows:

	For the year ended December 31, 2018
	<u>Company provision</u>
At January 1	\$ 19,479
Reversal of impairment	(16,668)
At December 31	<u>\$ 2,811</u>

- (e) As of December 31, 2017, the Company's accounts receivable that was neither past due nor impaired are primarily from customers with good payment history.
- (f) As of December 31, 2017, the Company did not hold any collateral as a guarantee for account receivables.

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

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

Revenue is measured at the fair value of the consideration received or receivable taking into account of business tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Company's activities. Revenue arising from the sales of goods is recognised when the Company has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed

when the significant risks and rewards of ownership have been transferred to the customer, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

B. The effects and description of current balance sheet and comprehensive income statement if the Company continues adopting above accounting policies are as follows:

(a) The effects and description of balance sheet:

<u>Balance sheet items</u>	<u>December 31, 2018</u>		
	<u>Balance by using IFRS 15</u>	<u>Balance by using previous accounting policies</u>	<u>Effects from changes in accounting policy</u>
Contract liabilities – current	\$ 12,619	\$ –	\$ 12,619
Advance sales receipts	–	12,619	(12,619)

Advance sales receipts (shown as other current liabilities) in relation to the contract were previously presented in accordance with previous R.O.C. GAAP. Under IFRS 15 ‘Revenue from contracts with customers’, the advance sales receipts are recognised as contract liabilities.

(b) There is no significant effect on current comprehensive income statement if the Company continues adopting above accounting policies.

13. SUPPLEMENTARY DISCLOSURES

According to the current regulatory requirements, the Company is only required to disclose the information for the year ended December 31, 2018.

(1) Significant transactions information

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

J. Significant inter-company transactions during the reporting periods: Please refer to Table 4.

(2) Information on investees

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

(3) Information on investments in Mainland China

A. Basic information: Please refer to Table 6.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to Table 7.

14. SEGMENT INFORMATION

Not applicable.

All Ring Tech Co., Ltd. and subsidiaries
Loans to others
For the year ended December 31, 2018

Table 1

Expressed in thousands of NTD

No.	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding		Actual amount drawn down	Interest rate	Nature of loan	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral		Limit on loans granted to a single party (Note 1)	Ceiling on total loans granted (Note 1)	Note
					balance	Ending balance							Item	Value			
1	PAI FU INTERNATIONAL LIMITED	All Ring Tech (Kunshan) Co., Ltd.	Other receivables	Y	\$ 69,120	\$ 23,040	\$ -	2%	Short-term financing	\$ -	Operating	\$ -	-	\$ -	\$ 290,427	\$ 290,427	-
2	Kunshan All Ring Tech Co., Ltd.	All Ring Tech (Kunshan) Co., Ltd.	Other receivables	Y	89,440	58,136	24,596	2%	Short-term financing	-	Operating	-	-	-	98,804	98,804	-

(Note 1) Calculation of limit on loans granted to a single party and ceiling on total loans granted: The total loan amount cannot exceed 40% of the company's net worth. There are three possible circumstances:

1. Loan is made to company with which the Company has a business relationship. The total loan amount cannot exceed 20% of the company's net worth. The individual loan amount cannot exceed the total amount of business transactions between the two parties in the past year.
2. Loan is made to companies who need short-term financing. The total loan amount cannot exceed 20% of the company's net worth. The individual loan amount cannot exceed 10% of the net worth of the company.
3. The aforementioned limit does not apply if the loan is made to a company of which the parent company owns, directly or indirectly, 100% of the voting equity. Both the total and individual loan amounts do not exceed 200% of the net worth of the creditor based on the most recent financial statements.

(Note 2) Foreign currency amounts in the table are converted into NTD according to the exchange rates on the financial reporting date (USD:NTD = 1:30.72; RMB:NTD = 1:4.472).

All Ring Tech Co., Ltd. and subsidiaries
Provision of endorsements and guarantees to others
For the year ended December 31, 2018

Table 2

Expressed in thousands of NTD

Number	Party being endorsed/guaranteed		Relationship with the endorser/guarantor	Limit on endorsements/guarantees provided for a single party (Note 2)	Maximum outstanding endorsement/guarantee amount	Outstanding endorsement/guarantee amount	Actual amount drawn down	Amount of endorsements / guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company	Ceiling on total amount of endorsements/guarantees provided (Note 2)	Provision of endorsements/guarantees by parent company to subsidiary	Provision of endorsements/guarantees by subsidiary to parent company	Provision of endorsements/guarantees to the party in Mainland China	Note
	Endorser/guarantor	Company name												
0	All Ring Tech Co., Ltd.	Uni-Ring Tech Co., Ltd.	(Note 1)	\$ 373,830	\$ 100,000	\$ 50,000	\$ -	\$ -	2.68%	\$ 747,659	Y	N	N	-

(Note 1) Companies where the Company owns more than 50% of voting shares (direct or indirect).

(Note 2) The total endorsements and guarantees of external parties by the Company cannot exceed 40% of the net worth as measured in the current period. The endorsement and guarantee of an individual business cannot exceed 20% of the net worth as measured in the current period. The total endorsements and guarantees of external parties by the Group cannot exceed 50% of the net worth as measured in the current period. The endorsement and guarantee of an individual business cannot exceed 20% of the net worth as measured in the current period. If the endorsement and guarantee are made for the purpose of conducting business, then the amount of endorsement and guarantee cannot exceed the total amount of business transactions between the guaranteed party and the Company in the next year.

All Ring Tech Co., Ltd. and subsidiaries

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

December 31, 2018

Table 3

Expressed in thousands of NTD

Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	As of December 31, 2018				Note
				Number of shares	Book value	Ownership (%)	Fair value	
All Ring Tech Co., Ltd.	Stocks:							
	Egiga Source Technology Co., Ltd.	-	Financial assets at fair value through profit or loss - non- current	1,298	\$ -	14.86%	\$ -	-
	Tai-Tech Advanced Electronics Co., Ltd.	-	Financial asset measured at fair value through other comprehensive income - non- current	2,552	75,217	2.80%	75,217	-
	Tecstar Technology Co., Ltd.	-	Financial asset measured at fair value through other comprehensive income - non- current	276	3,439	0.79%	3,439	-

All Ring Tech Co., Ltd. and subsidiaries
 Significant inter-company transactions during the reporting period
 For the year ended December 31, 2018

Table 4

Expressed in thousands of NTD

Number	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets (Note 3)
				General ledger account	Amount	Transaction terms	
0	All Ring Tech Co., Ltd.	All Ring Tech (Kunshan) Co., Ltd.	1	Sales	\$ 29,267	(Note 4)	2%
				Purchases	3,807	—	—
				Accounts receivable	35,287	—	1%
				Accounts payable	1,325	—	—
				Rental income	1,011	—	—
1	Kunshan All Ring Tech Co., Ltd.	All Ring Tech (Kunshan) Co., Ltd.	3	Endorsements and guarantees	50,000	—	2%
				Other receivables	24,800	—	1%
				Rental expenses	1,315	—	—
2	PAI FU INTERNATIONAL LIMITED	All Ring Tech (Kunshan) Co., Ltd.	3	Other expenses	3,329	—	—

(Note 1) Business and other transactions between the parent company and its subsidiaries or between subsidiaries are not separately disclosed since the circumstances and amounts of each transaction is the same on each side. In addition, the disclosure threshold for significant transactions is set at 1 million dollars.

(Note 2) Relationship between transaction company and counterparty is classified into the following three categories:

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

(Note 3) The ratio of a transaction amount to total revenue or total assets is calculated as follows: balance sheet items are calculated by dividing the ending balance by total consolidated assets; profit or loss items are calculated by dividing the accumulated ending balance by total consolidated revenue.

(Note 4) Collection terms of sale to All Ring Tech (Kunshan) Co., Ltd. are 120 days T/T; collection terms of sale to general customers are as follows: the first payment is collected 30 to 130 days after delivery of order, and the second payment is collected 30 to 190 days after order is accepted by customer. Other terms of sale are the same as general customers.

(Note 5) Foreign currency amounts in the table are converted into NTD as follows: ending balances and carrying amounts are converted using the exchange rate on the financial reporting date (USD:NTD = 1:30.72; RMB:USD = 1:0.1456); profit or loss items are converted using the average exchange rate for the year ended December 31, 2018 (USD:NTD = 1:30.15; RMB:USD = 1:0.1514).

All Ring Tech Co., Ltd. and subsidiaries

Information on investees

For the year ended December 31, 2018

Table 5

Expressed in thousands of NTD

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2018			Net profit (loss) of the investee for the year ended December 31, 2018	Investment income (loss) recognised by the Company for the year ended December 31, 2018	Note
				Balance as at December 31, 2018	Balance as at December 31, 2017 (Note 1)	Number of shares	Ownership (%)	Book value			
All Ring Tech Co., Ltd.	PAI FU INTERNATIONAL LIMITED	British Virgin Islands	Mechanical engineering automation, and research, development and design of software	\$ 65,263	\$ 65,263	1,930,000	100.00	\$ 145,211	(\$ 8,547)	\$ 8,547	Subsidiary
All Ring Tech Co., Ltd.	Uni-Ring Tech Co., Ltd.	Taiwan	Other machine manufacture industry, electrical appliances, audio visual electronics and international trading industry	170,000	170,000	4,855,947	100.00	14,994	(13,875)	(13,567)	Subsidiary
All Ring Tech Co., Ltd.	IMAGINE GROUP LIMITED	Mauritius	Investment business	136,100	136,100	3,720,000	73.81	210,815	13,289	9,853	Subsidiary
PAI FU INTERNATIONAL LIMITED	IMAGINE GROUP LIMITED	Mauritius	Investment business	40,550	40,550	1,320,000	26.19	68,539	13,289	-	Subsidiary (Note 2)

(Note 1) This was the balance on December 31, 2017.

(Note 2) The investment gains (losses) do not need to be disclosed per the rules.

(Note 3) Foreign currency amounts in the table are converted into NTD as follows: ending balances and carrying amounts are converted using the exchange rate on the financial reporting date (USD:NTD = 1:30.72); profit or loss items are converted using the average exchange rate for the year ended December 31, 2018 (USD:NTD = 1:30.15).

All Ring Tech Co., Ltd. and subsidiaries
Information on investments in Mainland China
For the year ended December 31, 2018

Table 6

Expressed in thousands of NTD

Investee in Mainland China	Main business activities	Paid-in capital	Investment method	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2018			Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Net income of investee for the year ended December 31, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2018 (Note 3)	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Note
				Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Remitted to Mainland China	Remitted back to Taiwan							
Kunshan All Ring Tech Co., Ltd.	Research, development, and manufacture of specialized electronic equipment used for cutting capacitance and inductance; sales of self-manufactured products and provision of corresponding technology testing services	\$ 46,080	(Note 1)	\$ 46,080	\$ -	\$ -	\$ 46,080	(\$ 9,056)	100.00	(\$ 9,056)	\$ 49,412	\$ -	-
All Ring Tech (Kunshan) Co., Ltd.	Research, development, design, and manufacture of specialized electronic equipment, testing instruments and accessories; sales of self-manufactured products and provision of corresponding technology testing services	153,600	(Note 2) (Note 4)	138,788	-	-	138,788	13,354	100.00	13,354	240,570	-	-
			Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)										
			Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA (Note 5)										
Company name		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018											
All Ring Tech Co., Ltd.		\$ 185,878	\$ 451,706	\$ 1,121,489									

(Note 1) Additional investment in Chinese company through a subsidiary in a third region (PAI FU INTERNATIONAL LIMITED).

(Note 2) Additional investment in Chinese company through a subsidiary in a third region (IMAGINE GROUP LIMITED).

(Note 3) Recognized according to the audited financial statements of the investee.

(Note 4) \$39,936 (USD \$1,300 thousand) was invested in the Chinese company through PAI FU INTERNATIONAL LIMITED, located in a third region.

(Note 5) The limit is the net worth or 66% of the consolidated net worth, whichever is greater.

(Note 6) Foreign currency amounts in the table are converted into TWD as follows: ending balances and carrying amounts are converted using the exchange rate on the financial reporting date (USD:TWD = 1:30.72; RMB:USD = 1:0.1456); profit or loss items are converted using the average exchange rate for the year ended December 31, 2018 (USD:TWD = 1:30.15; RMB:USD = 1:0.1514).

All Ring Tech Co., Ltd. and subsidiaries

Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area

For the year ended December 31, 2018

Table 7

Expressed in thousands of NTD

Investee in Mainland China	Sale (purchase)		Property transaction		Accounts receivable (payable)		Provision of endorsements/guarantees or collaterals			Financing			
	Amount	%	Amount	%	Balance at December 31, 2018	%	Balance at December 31, 2018	Purpose	Maximum balance during the year ended December 31, 2018	Balance at December 31, 2018 (Note)	Interest rate	Interest during the year ended December 31, 2018	Others
All Ring Tech (Kunshan) Co., Ltd.	\$ 29,267	2%	\$ -	-	\$ 35,287	1%	\$ -	-	\$ 69,120	\$ 23,040	2%	\$ -	Other expenses \$3,329
	(3,807)	-			(1,325)	-							

Note: Actual drawn amount \$ -.

ALL RING TECH CO., LTD.
STATEMENT OF CASH AND CASH EQUIVALENTS, NET
DECEMBER 31, 2018

Expressed in thousands of NTD

<u>Item</u>	<u>Descriptions</u>	<u>Amount</u>
Cash :		
Cash on hand		\$ 1,203
Checking accounts deposit		214
Demand deposit		
-New Taiwan Dollars		272,873
-Foreign currency	USD 1,772 (in thousands), exchange rate: 30.665	
	SGD 540 (in thousands), exchange rate: 22.39	<u>66,457</u>
Cash equivalents:		<u>340,747</u>
Time deposit-New Taiwan Dollars	Expiration by 2019.1.11~2019.1.29, interest rate at 0.6%	153,100
Time deposit-Foreign currency	USD 10,000 (in thousands), exchange rate: 30.66: Expiration by 2019.1.4, interest rate at 2.32%~2.34%	<u>306,650</u>
		<u>459,750</u>
		<u>\$ 800,497</u>

ALL RING TECH CO., LTD.
STATEMENT OF NOTES RECEIVABLE, NET
DECEMBER 31, 2018

Expressed in thousands of NTD

<u>Client Name</u>	<u>Description</u>	<u>Amount</u>
Tai-Tech Advanced Electronics Co., Ltd.	Notes receivable	\$ 63,069
Others (less than 5 %)	Notes receivable	<u>4,279</u>
		<u>\$ 67,348</u>

ALL RING TECH CO., LTD.
STATEMENT OF ACCOUNTS RECEIVABLE, NET
DECEMBER 31, 2018

Expressed in thousands of NTD

<u>Client Name</u>	<u>Description</u>	<u>Amount</u>	<u>Remark</u>
Non-related parties:			
Tai-Tech Advanced Electronics Co., Ltd.	Accounts receivable	\$ 166,809	—
Taiwan Semiconductor Manufacturing Company Limited	Accounts receivable	52,119	—
Everlight Electronics Co., Ltd.	Accounts receivable	42,714	—
Taipeq Electronic (Si-Hong) Co., Ltd.	Accounts receivable	41,638	—
Company A	Accounts receivable	32,856	—
Others (less than 5 %)	Accounts receivable	<u>172,488</u>	—
		508,624	
Less : Allowance for doubtful accounts		(<u>4,781</u>)	
		<u>503,843</u>	
Related parties:			
All Ring Tech (Kunshan) Co., Ltd.	Accounts receivable	<u>35,287</u>	—
		<u>\$ 539,130</u>	

ALL RING TECH CO., LTD.
STATEMENT OF INVENTORIES
DECEMBER 31, 2018

Expressed in thousands of NTD

Item	Description	Amount		Remark
		Cost	Net Realisable Value	
Raw materials	—	\$ 24,246	\$ 24,282	(Note)
Work in process	—	167,256	239,756	(Note)
Finished goods	—	37,226	49,153	(Note)
		228,728	\$ 313,191	
Less: Allowance for valuation		(23,820)		
		\$ 204,908		

Note : Please refer to Note 4(8) for the way to determine the net realisable value.

ALL RING TECH CO., LTD.

STATEMENT OF CHANGES IN FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS-NON CURRENT
FOR THE YEAR ENDED DECEMBER 31, 2018

Expressed in thousands of NTD

Financial Instrument	Beginning balance (Note)		Addition		Decrease		Ending balance		Collateral or Pledge	Remark
	Shares (in thousands)	Fair value	Shares (in thousands)	Amount	Shares (in thousands)	Amount	Shares (in thousands)	Fair value		
Unlisted stock: Egiga Source Technology Co., Ltd.	1,298	\$ 21,184	-	\$ -	-	\$ -	1,298	\$ 21,184	None	-
Valuation adjustment		(21,184)						(21,184)		
		<u>\$ -</u>						<u>\$ -</u>		

Note : In accordance with IFRS 9, the Company reclassified available-for-sale financial assets under IAS 39 by increasing financial assets at fair value through profit or loss and valuation adjustment on January 1, 2018.

ALL RING TECH CO., LTD.

STATEMENT OF CHANGES IN FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE
INCOME-NON CURRENT
FOR THE YEAR ENDED DECEMBER 31, 2018

Expressed in thousands of NTD

Company	Beginning balance (Note)		Addition		Decrease		Ending balance		Collateral or Pledge	Remark
	Shares (in thousands)	Fair value	Shares (in thousands)	Amount	Shares (in thousands)	Amount	Shares (in thousands)	Fair value		
Unlisted stock:										
Tai-Tech Advanced Electronics	1,925	\$53,963	627	\$21,028	-	\$-	2,552	\$74,991	None	-
Tecstar Technology Co., Ltd.	334	4,163	-	-	(58)	(723)	276	3,440	None	-
	<u>2,259</u>	<u>58,126</u>	<u>627</u>	<u>21,028</u>	<u>(58)</u>	<u>(723)</u>	<u>2,828</u>	<u>78,431</u>		
Valuation adjustment		<u>(3,231)</u>		<u>3,548</u>		<u>(92)</u>		<u>225</u>		
		<u>\$54,895</u>		<u>\$24,576</u>		<u>(\$ 815)</u>		<u>\$78,656</u>		

Note : In accordance with IFRS 9, the Company reclassified available-for-sale financial assets under IAS 39 by increasing financial assets at fair value through other comprehensive income and valuation adjustment on January 1, 2018.

ALL RING TECH CO., LTD.
STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR UNDER EQUITY METHOD
FOR THE YEAR ENDED DECEMBER 31, 2018

Expressed in thousands of NTD

Company	Beginning balance		Addition		Decrease		Ending balance			Market Value or Net Equity Value		Collateral or Pledge	Remark
	Shares (in thousands)	Amount	Shares (in thousands)	Amount	Shares (in thousands)	Amount	Shares (in thousands)	Percentage of ownership	Amount	Unit Price	Total Amount		
PAI FU INTERNATIONAL LIMITED	1,930	\$ 151,869	-	\$ 1,889	-	(\$ 8,547)	1,930	100.00%	145,211	\$ 75.23	\$ 145,211	None	-
Uni-Ring Tech. CO., LTD.	4,856	28,561	-	-	-	(13,567)	4,856	100.00%	14,994	3.33	16,179	None	-
IMAGINE GROUP LIMITED	3,720	206,218	-	9,853	-	(5,256)	3,720	73.81%	210,815	47.81	177,846	None	-
	<u>10,506</u>	<u>\$ 386,648</u>	<u>-</u>	<u>\$ 11,742</u>	<u>-</u>	<u>(\$ 27,370)</u>	<u>10,506</u>		<u>\$ 371,020</u>		<u>\$ 339,236</u>		

ALL RING TECH CO., LTD.
STATEMENT OF CHANGES IN PROPERTY, PLANT AND EQUIPMENT—COST
FOR THE YEAR ENDED DECEMBER 31, 2018

Expressed in thousands of NTD

Please refer to Note 6(7) for the information related to property, plant and equipment.

ALL RING TECH CO., LTD.
STATEMENT OF CHANGES IN PROPERTY, PLANT
AND EQUIPMENT—ACCUMULATED DEPRECIATION
FOR THE YEAR ENDED DECEMBER 31, 2018

Expressed in thousands of NTD

Please refer to Note 6(7) for the information related to property, plant and equipment and Note 4(13) for the method to determine depreciation and useful lives for assets.

ALL RING TECH CO., LTD.
STATEMENT OF CHANGES IN DEFERRED INCOME TAX ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2018

Expressed in thousands of NTD

Please refer to Note 6 (20) for the information related to income taxes.

ALL RING TECH CO., LTD.
STATEMENT OF ACCOUNTS PAYABLE
DECEMBER 31, 2018

		Expressed in thousands of NTD	
<u>Client Name</u>	<u>Description</u>	<u>Amount</u>	<u>Remark</u>
Non-related parties:			
Hua-Yu Seiki Co., Ltd.	Accounts payable	\$ 18,763	—
Jin Jaan Sheet Metal Co., Ltd.	Accounts payable	8,900	—
Others(less than 3%)	Accounts payable	<u>230,526</u>	—
		<u>258,189</u>	
Related parties:			
Ding Ji Electrical Engineeing Co., Ltd.	Accounts payable	7,169	—
All Ring Tech (Kunshan) Co., Ltd.	Accounts payable	1,325	—
Jie Kuen Precision Technologies Co., Ltd.	Accounts payable	1,060	—
Others (less than 3%)	Accounts payable	<u>213</u>	—
		<u>9,767</u>	
		<u>\$ 267,956</u>	

ALL RING TECH CO., LTD.
STATEMENT OF OTHER PAYABLES
DECEMBER 31, 2018

Expressed in thousands of NTD

Please refer to Note 6(8) for the information related to other payables.

ALL RING TECH CO., LTD.
STATEMENT OF OPERATING REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2018

Expressed in thousands of NTD

<u>Item</u>	<u>Quantity</u>	<u>Amount</u>	<u>Remark</u>
Semiconductor equipment	667 set	\$ 825, 551	—
Passive components equipment	624 pc	715, 488	—
Light-emitting diode equipment	138 pc	56, 237	—
Material	—	<u>92, 374</u>	—
Operating revenue		1, 689, 650	
Less: Sales discounts		(<u>5, 488</u>)	—
Operating revenue, net		<u>\$ 1, 684, 162</u>	

ALL RING TECH CO., LTD.
STATEMENT OF OPERATING COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018

Expressed in thousands of NTD

Item	Amount
Raw materials at January 1,2018	\$ 16,585
Add: Raw materials purchased	810,177
Less: Raw materials sold	(51,262)
Transferred to expenses	(31,129)
Raw materials at December 31,2018	(<u>24,246</u>)
Raw materials used	<u>720,125</u>
Direct labor	19,250
Manufacturing expenses	<u>52,255</u>
Manufacturing cost	791,630
Work in progress at January 1, 2018	189,291
Add: Work in progress purchased	24,204
Work in progress at December 31, 2018	(<u>167,256</u>)
Cost of goods manufactured	837,869
Finished goods at January 1, 2018	103,173
Finished goods at December 31, 2018	(<u>37,226</u>)
Cost of products sold	903,816
Add: Cost of raw materials sold	<u>51,262</u>
Cost of good sold	955,078
Add: Provision for inventory market price decline	(<u>4,854</u>)
Operating costs	<u>\$ 950,224</u>

ALL RING TECH CO., LTD.
STATEMENT OF MANUFACTURING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

Expressed in thousands of NTD

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Remark</u>
Wages and Salaries	—	\$ 14,002	—
Depreciation	—	9,740	—
Consumables	—	6,408	—
Traveling Expense	—	5,357	—
Rental expense	—	3,324	—
Insurance	—	2,747	—
Others (less than 5%)	—	<u>10,677</u>	—
		<u>\$ 52,255</u>	

ALL RING TECH CO., LTD.
STATEMENT OF SELLING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

Expressed in thousands of NTD

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Remark</u>
Wages and Salaries	—	\$ 21,677	—
After-sale service costs	—	11,143	—
Freight	—	6,643	—
Traveling Expense	—	3,030	—
Others (less than 5%)	—	<u>17,601</u>	—
		<u>\$ 60,094</u>	

ALL RING TECH CO., LTD.
STATEMENT OF GENERAL AND ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

Expressed in thousands of NTD

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Remark</u>
Wages and Salaries	—	\$ 47,333	—
Donations	—	7,000	—
Service fees	—	3,375	—
Insurance	—	2,968	—
Depreciation	—	2,389	—
Others (less than 3%)	—	<u>9,380</u>	—
		<u>\$ 72,445</u>	

ALL RING TECH CO., LTD.
STATEMENT OF RESEARCH AND DEVELOPMENT EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

Expressed in thousands of NTD

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Remark</u>
Wages and Salaries	—	\$ 176,574	—
Raw material used	—	23,905	—
Traveling Expense	—	14,760	—
Insurance	—	10,959	—
Others (less than 3%)	—	<u>33,360</u>	—
		<u>\$ 259,558</u>	

ALL RING TECH CO., LTD.
STATEMENT OF OTHER INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018

Expressed in thousands of NTD

Please refer to Note 6(15) for the information related to other income.

ALL RING TECH CO., LTD.
STATEMENT OF OTHER GAINS AND LOSSES
FOR THE YEAR ENDED DECEMBER 31, 2018

Expressed in thousands of NTD

Please refer to Note 6(16) for the information related to other gains and losses.

ALL RING TECH CO., LTD.
STATEMENT OF FINANCE COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018

Expressed in thousands of NTD

Please refer to Note 6(17) for the information related to finance cost.

ALL RING TECH CO., LTD.
STATEMENT OF SUMMARY OF EMPLOYEE BENEFIT,
DEPRECIATION, DEPLETION AND AMORTISATION BY NATURE
FOR THE YEAR ENDED DECEMBER 31, 2018

Expressed in thousands of NTD

Please refer to Note 6(18) for the additional information related to expense by nature and Note 6(19) for the information related to employee benefit expense.