

Silicon Optronics, Inc. and Subsidiaries

**Consolidated Financial Statements for the
Years Ended December 31, 2019 and 2018 and
Independent Auditors' Report**

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The companies required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2019 are all the same as the companies required to be included in the consolidated financial statements of a parent and its subsidiaries under International Financial Reporting Standard 10 “Consolidated Financial Statements.” Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of a parent and its subsidiaries. Hence, we have not prepared a separate set of consolidated financial statements of affiliates.

Very truly yours,

Silicon Optronics, Inc.

By:

Xinping He
Chairman

March 17, 2020

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Silicon Optronics, Inc.

Opinion

We have audited the accompanying consolidated financial statements of Silicon Optronics, Inc. and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters of the Group's consolidated financial statements for the year ended December 31, 2019 are stated as follows:

Sales Revenue

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

validity of sales revenue from the key customers as a key audit matter. For the description of the revenue recognition policy, please refer to Note 4(m) to the consolidated financial statements.

Our main audit procedures performed in respect of the above-mentioned key audit matter included the following:

1. We understood the effectiveness of the Group's internal controls for the order approval and shipment procedures.
2. We understood the background of the key customers and assessed whether the transaction amount and credit line were comparable to the scope of such customers and whether they had been appropriately approved.
3. To confirm the validity of sales revenue, we sampled sales revenue and inspected the customer orders, delivery orders confirmed by the counterparties and invoices, and also whether the sales counterparties were the same as the counterparties collecting payment.

Inventory Valuation

As of December 31, 2019, the Group's inventory balance was \$856,520, accounting for 35% of the combined total assets. For its accounting policy, please refer to Note 4(g) to the consolidated financial statements. As the amount of the inventory is significant and the assessment of net realization value involves significant management judgements, particularly with regard to estimates of inventory valuation and obsolescence loss, thus, inventory valuation was considered as a key audit matter. We have evaluated the appropriateness of the method used by the Group to calculate the inventory valuation and obsolescence loss at the end of the year and implemented the following procedures:

1. Based on our understanding of the industry and product nature of the Group, we sampled and verified the correctness of the inventory aging, as well as evaluated the appropriateness of the provision policy on the inventory.
2. To ensure the reasonableness of inventory valuation, we verified, on a sample basis, whether it is measured by the lower of cost and net realizable value based on the most recent raw material quotation or sales data, and we assessed the reasonableness of the change in allowance for inventory write-downs.
3. We obtained and verified information used to evaluate the allowance for inventory valuation obsolescence loss, compared and analyzed the provision difference of inventory valuation and obsolescence loss and its appropriateness of inventory allowance estimation in 2019 and 2018.

Other Matter

We have also audited the parent company only financial statements of Silicon Optronics, Inc. as of and for the years ended December 31, 2019 and 2018 on which we have issued an unmodified opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and IFRS, IAS, IFRIC and SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including the audit committee, are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2019 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 17, 2020

Notice to Readers

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

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

SILICON OPTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

ASSETS	2019		2018	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 541,706	22	\$ 486,893	20
Financial assets at amortized cost - current (Notes 4 and 7)	138,610	6	828,944	34
Accounts receivable - net (Notes 4 and 8)	11,260	1	59,182	2
Inventories (Notes 4, 5 and 9)	856,520	35	694,421	29
Prepayments and other current assets (Notes 4, 14 and 24)	103,757	4	72,963	3
Total current assets	1,651,853	68	2,142,403	88
NON-CURRENT ASSETS				
Financial assets at amortized cost - noncurrent (Notes 4, 7 and 26)	2,532	-	2,577	-
Property, plant and equipment (Notes 4 and 11)	530,417	22	48,811	2
Right-of-use assets (Notes 3, 4 and 12)	24,558	1	-	-
Goodwill (Notes 4 and 5)	199,228	8	199,228	8
Intangible assets (Notes 4 and 13)	12,052	-	35,359	2
Deferred tax assets (Notes 4 and 21)	12,952	1	10,467	-
Other non-current assets (Notes 4, 14 and 16)	2,960	-	2,179	-
Total non-current assets	784,699	32	298,621	12
TOTAL	<u>\$ 2,436,552</u>	<u>100</u>	<u>\$ 2,441,024</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Contract liabilities - current (Note 18)	\$ 10,090	1	\$ 6,012	-
Accounts payable (Note 4)	125,806	5	52,963	2
Accounts payable to related parties (Notes 4 and 25)	134,387	6	126,379	5
Current tax liabilities (Notes 4 and 20)	4,619	-	31,552	2
Lease liabilities - current (Notes 3, 4 and 12)	7,625	-	-	-
Other current liabilities (Notes 4 and 15)	56,527	2	54,735	2
Total current liabilities	339,054	14	271,641	11
NON-CURRENT LIABILITIES				
Deferred income tax liabilities (Notes 4 and 20)	337	-	41	-
Lease liabilities - non-current (Notes 3, 4 and 12)	17,041	1	-	-
Total non-current liabilities	17,378	1	41	-
Total liabilities	356,432	15	271,682	11
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY (Notes 4, 17 and 22)				
Ordinary shares	780,809	32	778,279	32
Capital surplus	1,131,702	46	1,124,721	46
Retained earnings				
Legal reserve	50,310	2	34,567	1
Special reserve	-	-	526	-
Unappropriated earnings	216,659	9	230,859	10
Other equity				
Exchange differences on translating the financial statements of foreign operations	(2,365)	-	390	-
Treasury shares	(96,995)	(4)	-	-
Total equity	2,080,120	85	2,169,342	89
TOTAL	<u>\$ 2,436,552</u>	<u>100</u>	<u>\$ 2,441,024</u>	<u>100</u>

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

SILICON OPTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4, 18 and 29)	\$ 2,294,110	100	\$ 2,034,267	100
OPERATING COSTS (Notes 9, 19 and 25)	<u>1,836,579</u>	<u>80</u>	<u>1,564,468</u>	<u>77</u>
GROSS PROFIT	<u>457,531</u>	<u>20</u>	<u>469,799</u>	<u>23</u>
OPERATING EXPENSES (Notes 19 and 25)				
Selling and marketing expenses	20,692	1	22,800	1
General and administrative expenses	40,693	2	57,820	3
Research and development expenses	<u>240,095</u>	<u>10</u>	<u>209,125</u>	<u>10</u>
Total operating expenses	<u>301,480</u>	<u>13</u>	<u>289,745</u>	<u>14</u>
OPERATING INCOME	<u>156,051</u>	<u>7</u>	<u>180,054</u>	<u>9</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 4 and 19)	17,932	1	9,751	-
Other gains and losses (Notes 4 and 19)	8,429	-	558	-
Financial costs (Note 19)	<u>(302)</u>	<u>-</u>	<u>(390)</u>	<u>-</u>
Total non-operating income and expenses	<u>26,059</u>	<u>1</u>	<u>9,919</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	182,110	8	189,973	9
INCOME TAX EXPENSE (Notes 4 and 20)	<u>(26,100)</u>	<u>(1)</u>	<u>(32,541)</u>	<u>(1)</u>
NET INCOME	<u>156,010</u>	<u>7</u>	<u>157,432</u>	<u>8</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Notes 4 and 16)	962	-	(56)	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations (Notes 4 and 17)	<u>(2,755)</u>	<u>-</u>	<u>916</u>	<u>-</u>
Total other comprehensive income (loss)	<u>(1,793)</u>	<u>-</u>	<u>860</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 154,217</u>	<u>7</u>	<u>\$ 158,292</u>	<u>8</u>

(Continued)

SILICON OPTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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

	2019		2018	
	Amount	%	Amount	%
EARNINGS PER SHARE (Note 21)				
Basic	<u>\$ 2.01</u>		<u>\$ 2.17</u>	
Diluted	<u>\$ 2.00</u>		<u>\$ 2.15</u>	

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

(Concluded)

SILICON OPTRONICS, INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)**

	Ordinary Share Capital		Retained Earnings			Unappropriated Earnings	Other Equity Exchange Difference on Translating the Financial Statements of Foreign Operations	Treasury Shares	Total Equity
	Number of Shares (In Thousands)	Amount	Capital Surplus	Legal Reserve	Special Reserve				
BALANCE, JANUARY 1, 2018	67,981	\$ 679,809	\$ 52,187	\$ 14,158	\$ -	\$ 230,514	\$ (52.6)	\$ 976,142	
Appropriation of 2017 earnings	-	-	-	-	-	(20,409)	-	-	
Legal reserve	-	-	-	20,409	-	(526)	-	-	
Special reserve	-	-	-	-	526	(136,096)	-	(136,096)	
Cash dividends distributed by Silicon Optronics, Inc.	-	-	-	-	-	-	-	-	
Net profit for the year ended December 31, 2018	-	-	-	-	-	157,432	-	157,432	
Other comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	-	(56)	916	860	
Total comprehensive income for the year ended December 31, 2018	-	-	-	-	-	157,376	916	158,292	
Issuance of ordinary shares for cash	9,285	92,850	1,057,885	-	-	-	-	1,150,735	
Issuance of ordinary shares under employee share options	562	5,620	9,903	-	-	-	-	15,523	
Share-based payments	-	-	4,746	-	-	-	-	4,746	
BALANCE, DECEMBER 31, 2018	77,828	778,279	1,124,721	34,567	526	230,859	390	2,169,342	
Appropriation of 2018 earnings	-	-	-	-	-	(15,743)	-	-	
Legal reserve	-	-	-	15,743	-	526	-	-	
Special reserve	-	-	-	-	(526)	(155,955)	-	(155,955)	
Cash dividends distributed by Silicon Optronics, Inc.	-	-	-	-	-	-	-	-	
Net profit for the year ended December 31, 2019	-	-	-	-	-	156,010	-	156,010	
Other comprehensive loss for the year ended December 31, 2019	-	-	-	-	-	962	(2,755)	(1,793)	
Total comprehensive income for the year ended December 31, 2019	-	-	-	-	-	156,972	(2,755)	154,217	
Issuance of ordinary shares under employee share options	253	2,530	6,981	-	-	-	-	9,511	
Buy-back of ordinary shares	-	-	-	-	-	-	(96,995)	(96,995)	
BALANCE, DECEMBER 31, 2019	78,081	\$ 780,809	\$ 1,131,702	\$ 50,310	\$ -	\$ 216,659	\$ (2,365)	\$ 2,080,120	

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

SILICON OPTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 182,110	\$ 189,973
Adjustments for:		
Depreciation expenses	57,451	36,118
Amortization expenses	26,946	30,494
Finance costs	302	390
Interest income	(16,735)	(8,230)
Share-based payments	-	4,746
Impairment loss recognized on financial assets	-	7
Write downs of inventories	12,422	25,042
Net gain on modification of lease contracts	(3)	-
Net (gain) loss on foreign currency exchange	(12,155)	7,868
Changes in operating assets and liabilities		
Accounts receivable	47,790	(46,717)
Inventories	(174,521)	(153,137)
Prepayments and other current assets	(30,794)	(10,625)
Contract liabilities	4,202	1,111
Accounts payable	74,489	7,779
Accounts payables to related parties	10,071	84,606
Other payables to related parties	-	(163)
Accrued expenses and other current liabilities	2,544	2,368
Net defined benefit assets	(32)	(73)
Cash generated from operations	184,087	171,557
Income tax paid	(55,222)	(28,365)
Net cash generated from operating activities	<u>128,865</u>	<u>143,192</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at amortized cost	(140,132)	(929,192)
Proceeds from financial assets at amortized cost	830,225	199,323
Payments of property, plant and equipment	(531,168)	(42,153)
Decrease (increase) in refundable deposits	188	(54)
Payments for intangible assets	(3,893)	(2,223)
Payments for right-of-use assets	(455)	-
Interest received	16,735	8,230
Net cash generated from (used in) investing activities	<u>171,500</u>	<u>(766,069)</u>

(Continued)

SILICON OPTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short term bank loans	\$ -	\$ (130,000)
Dividends paid	(155,955)	(136,096)
Repayment of the principal portion of lease liabilities	(7,954)	-
Issuance of ordinary shares for cash	-	1,150,735
Exercise of employee share options	9,511	15,523
Payments for buy - back of ordinary shares	(96,995)	-
Interest paid	<u>(302)</u>	<u>(390)</u>
Net cash (used in) generated from financing activities	<u>(251,695)</u>	<u>899,772</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>6,143</u>	<u>(7,166)</u>
NET INCREASE IN CASH	54,813	269,729
CASH AT THE BEGINNING OF THE YEAR	<u>486,893</u>	<u>217,164</u>
CASH AT THE END OF THE YEAR	<u>\$ 541,706</u>	<u>\$ 486,893</u>

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

(Concluded)

SILICON OPTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

Silicon Optronics, Inc. (the “Company”) was incorporated in the Republic of China (“ROC”) on May 24, 2004 and commenced business on May 27, 2004. The Company’s main business activities include the design, development and sales of complementary metal-oxide semiconductors.

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

The consolidated financial statements of the Company and its subsidiary (collectively referred to as the “Group”) are presented in the Company’s functional currency, the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorized for issue on March 17, 2020.

3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

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

Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC did not have any material impact on the Group’s accounting policies:

1) IFRS 16 “Leases”

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessee and lessor. It supersedes IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, and a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

Definition of a lease

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

The Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value asset and short-term leases are recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group presents the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within financing activities. Prior to the application of IFRS 16, payments under operating lease contracts were recognized as expenses on a straight-line basis. Cash flows for operating leases were classified within operating activities on the consolidated statements of cash flows.

The Group applies IFRS16 retrospectively, but does not restate comparative information.

Leases previously classified as operating leases under IAS 17 were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. The Group applies IAS 36 to assess impairment of all right-of-use assets.

The Group also applies the following practical expedients:

- a) The Group applies a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- b) The Group accounts for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.
- c) The Group excludes initial direct costs from the measurement of right-of-use assets on January 1, 2019.
- d) The Group uses hindsight, such as in determining lease terms, to measure lease liabilities.

The lessee's weighted average incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 is 1%. The difference between the lease liabilities recognized and the future minimum non-cancellable lease payables on December 31, 2018 is stated as follows:

The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018	\$ 37,619
Less: Recognition exemption for short-term leases	(409)
Less: Recognition exemption for leases of low-value assets	<u>(324)</u>
Undiscounted amounts on January 1, 2019	<u>\$ 36,886</u>
Discounted amounts using the incremental borrowing rate on January 1, 2019	<u>\$ 36,113</u>
Lease liabilities recognized on January 1, 2019	<u>\$ 36,113</u>

The Group as lessor

The Group does not make any adjustments for leases in which it is a lessor, and it accounts for those leases with the application of IFRS 16 starting from January 1, 2019.

The impact on assets and liabilities as of January 1, 2019 from the initial application of IFRS 16 is set out as follows:

	As Originally Stated on January 1, 2019	Adjustments Arising from Initial Application	Restated on January 1, 2019
Right-of-use assets	\$ -	\$ 36,113	\$ 36,113
Total effect on assets	<u>\$ -</u>	<u>\$ 36,113</u>	<u>\$ 36,113</u>
Lease liabilities - current	\$ -	\$ 8,531	\$ 8,531
Lease liabilities - non-current	<u>-</u>	<u>27,582</u>	<u>27,582</u>
Total effect on liabilities	<u>\$ -</u>	<u>\$ 36,113</u>	<u>\$ 36,113</u>

2) IFRIC 23 “Uncertainty over Income Tax Treatments”

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

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

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

b. The IFRSs endorsed by the FSC for application starting from 2020

New IFRSs	Effective Date Announced by The IASB
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 1)
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 2)

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

Note 2: The Group shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

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

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

2) Amendments to IAS 1 and IAS 8 “Definition of material”

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRSs. The concept of “obscuring” material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from “could influence” to “could reasonably be expected to influence”.

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

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2022

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

1) Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”

The amendments clarify that for a liability to be classified as non-current, the Group shall assess whether it has the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. If such rights are in existence at the end of the reporting period, the liability is classified as non-current regardless of whether the Group will exercise that right. The amendments also clarify that, if the right to defer settlement is subject to compliance with specified conditions, the Group must comply with those conditions at the end of the reporting period even if the lender does not test compliance until a later date.

The amendments stipulate that, for the purpose of liability classification, the aforementioned settlement refers to a transfer of cash, other economic resources or the Group’s own equity instruments to the counterparty that results in the extinguishment of the liability. However, if the terms of a liability that could, at the option of the counterparty, result in its settlement by a transfer of the Group’s own equity instruments, and if such option is recognized separately as equity in accordance with IAS 32: Financial Instruments: Presentation, the aforementioned terms would not affect the classification of the liability.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

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

b. Basis of preparation

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

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

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- 3) Level 3 inputs are unobservable inputs for an asset or liability.

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

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within 12 months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within 12 months after the reporting period; and
- 3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

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

d. Basis of consolidation

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

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

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

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

Refer to Notes 10 and 28 for detailed information on subsidiaries (including the percentages of ownership and main businesses).

e. Business combinations

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

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

f. Foreign currencies

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

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

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

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

g. Inventories

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

h. Property, plant and equipment

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

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

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

i. Goodwill

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

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

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

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

j. Intangible assets

1) Intangible assets acquired separately

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

2) Intangible assets acquired in a business combination

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

3) Derecognition of intangible assets

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

k. Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, for any indication of impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of a corporate asset, the asset is tested for impairment in the context of the cash-generating unit to which the asset belongs.

Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation.

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

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

l. Financial instruments

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

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

1) Financial assets

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

a) Measurement category

Financial assets are classified as financial assets at amortized cost.

i. Financial assets at amortized cost

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

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

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

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, trade receivables, other receivables time deposit with original maturity more than 3 months and refundable deposits, are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

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

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

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

b) Impairment of financial assets

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

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

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

The impairment loss for all financial assets is recognized in profit or loss by reduction in their carrying amounts through a loss allowance account.

c) Derecognition of financial assets

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

On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

2) Equity instruments

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

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

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

3) Financial liabilities

a) Subsequent measurement

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

b) Derecognition of financial liabilities

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

m. Revenue recognition

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

1) Revenue from the sale of goods

Revenue from the sale of goods comes from the sale of image sensing products. Revenue and receivables from the sale of goods are recognized when the goods are delivered to the customer's specific location because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility to sales to future customers and bears the risk of obsolescence. The transaction price received in advance is recognized as a contract liability until the goods has been delivered to the customer.

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

2) Revenue from the rendering of services

Revenue from the rendering of services comes from providing entrusted design services in accordance with customer contract specifications and are recognized when performance obligations are fulfilled.

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

n. Leases

2019

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease.

The Group as lessee

Except for short-term leases and low-value asset leases which are recognized as expenses on a straight-line basis over the lease terms, the Group recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Subsequently, the right-of-use assets are measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the consolidated balance sheets.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities are initially measured at the present value of the lease payments, which comprises fixed payments. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term or a change in future lease payments resulting from a change in an index or a rate used to determine those payments, the Group remeasures the lease liabilities with a corresponding adjustment to the right-of-use assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the consolidated balance sheets.

Variable lease payments that do not depend on an index or a rate are recognized as expenses in the periods in which they are incurred.

2018

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

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

o. Employee benefits

Retirement benefits

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

Defined benefit costs (including service cost, net interest and remeasurement) under defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost) and net interest on the net defined benefit liabilities (assets) are recognized as employee benefits expense in the period in which they occur. Remeasurement, comprising actuarial

gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

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

p. Share-based payment arrangements

Employee share options granted to employees

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

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

q. Taxation

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

1) Current tax

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

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

2) Deferred tax

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

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

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

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

reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

3) Current and deferred taxes

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

a. Write-down of inventories

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

b. Impairment of goodwill

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

6. CASH AND CASH EQUIVALENTS

	December 31	
	2019	2018
Cash on hand	\$ 272	\$ 274
Bank deposits	96,544	85,942
Cash equivalents		
Time deposits in banks	<u>444,890</u>	<u>400,677</u>
	<u>\$ 541,706</u>	<u>\$ 486,893</u>

The market interest rate intervals of the time deposits held in banks at the end of the reporting period were as follows:

	<u>December 31</u>	
	2019	2018
Time deposits	0.65%-2.32%	0.24%-3.00%

7. FINANCIAL ASSETS AT AMORTIZED COST

	<u>December 31</u>	
	2019	2018
<u>Current</u>		
Time deposit with original maturities of more than 3 months (a)	<u>\$ 138,610</u>	<u>\$ 828,944</u>
<u>Non-current</u>		
Pledged time deposits (a and c)	<u>\$ 2,532</u>	<u>\$ 2,577</u>

- a. The interest rates for time deposits with original maturities of more than 3 months ranged from 0.16%-2.8% and 0.16%-3.80% per annum as of December 31, 2019 and 2018, respectively.
- b. Refer to Note 24 for information relating to their credit risk management and impairment of financial assets at amortized cost.
- c. Refer to Note 26 for information relating to investments in financial assets at amortized cost pledged as security.

8. ACCOUNTS RECEIVABLE

	<u>December 31</u>	
	2019	2018
<u>Accounts receivable - unrelated parties</u>		
At amortized cost		
Gross carrying amount	\$ 11,260	\$ 59,182
Less: Allowance for impairment loss	<u> -</u>	<u> -</u>
	<u>\$ 11,260</u>	<u>\$ 59,182</u>

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

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

The Group measures the loss allowance for trade receivables at an amount equal to lifetime ECLs. The expected credit losses on trade receivables are estimated using a provision matrix by reference to the past

default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of economic conditions at the reporting date. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished according to the Group's different customer base.

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

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

December 31, 2019

Item	Not Past Due	Past Due Up to 60 Days	Past Due 61 to 90 Days	Past Due Over 90 Days	Total
Gross carrying amount	\$ 10,648	\$ 612	\$ -	\$ -	\$ 11,260
Loss allowance (Lifetime ECL)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Amortized cost	<u>\$ 10,648</u>	<u>\$ 612</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,260</u>

December 31, 2018

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

The movements in the loss allowance of trade receivables were as follows:

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Balance at January 1	\$ -	\$ -
Add: Net remeasurement of loss allowance	1	530
Add: Amounts written off	<u>(1)</u>	<u>(530)</u>
Balance at December 31	<u>\$ -</u>	<u>\$ -</u>

9. INVENTORIES

The movements in the allowance for doubtful accounts were as follows:

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Finished goods	\$ 222,479	\$ 344,432
Work in process	633,513	349,357
Raw materials	<u>528</u>	<u>632</u>
Balance at December 31	<u>\$ 856,520</u>	<u>\$ 694,421</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2019 and 2018 was \$1,836,579 thousand and \$1,564,468 thousand, respectively. The cost of goods sold included inventory write-downs of \$12,422 thousand and \$25,042 thousand, respectively.

10. SUBSIDIARIES

Investor	Investee	Main Business	% of Ownership		Remark
			2019	2018	
Silicon Optronics, Inc.	NUEVA IMAGING, INC. ("NUEVA")	Research and development of CMOS Image Sensor high-order desig006E	100%	100%	-
	Silicon Optronics (Cayman) Co., Ltd. ("Silicon Cayman")	Investment business	100%	100%	-
Silicon Optronics (Cayman) Co., Ltd.	Silicon Optronics (Shanghai) Co., Ltd.	Research and development of CMOS Image Sensor high-order desig006E	100%	100%	-

Except for US NUEVA which fulfills the definition of a significant subsidiary per Article 2 of the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants, the remaining entities are non-significant subsidiaries. The financial reports of the above subsidiaries had been audited by accountants.

11. PROPERTY, PLANT AND EQUIPMENT

	Testing Equipment	Molding Equipment	Computer	Office Equipment	Leasehold Improvement	Mask	Prepayment for Business Facilities	Total
Cost								
Balance at January 1, 2018	\$ 4,291	\$ 18,858	\$ 1,942	\$ 1,897	\$ 204	\$ 152,506	\$ -	\$ 179,698
Additions	31	(214)	313	-	-	46,030	-	46,160
Effect of exchange rate changes	(4)	-	(16)	49	-	-	-	29
Balance at December 31, 2018	<u>\$ 4,318</u>	<u>\$ 18,644</u>	<u>\$ 2,239</u>	<u>\$ 1,946</u>	<u>\$ 204</u>	<u>\$ 198,536</u>	<u>\$ -</u>	<u>\$ 225,887</u>
Accumulated depreciation								
Balance at January 1, 2018	\$ 3,048	\$ 8,994	\$ 1,552	\$ 1,687	\$ 196	\$ 124,263	\$ -	\$ 139,740
Depreciation expense	502	4,048	175	77	8	31,308	-	36,118
Effect of exchange rate changes	-	-	(12)	47	-	-	-	35
Balance at December 31, 2018	<u>\$ 3,550</u>	<u>\$ 13,042</u>	<u>\$ 1,715</u>	<u>\$ 1,811</u>	<u>\$ 204</u>	<u>\$ 155,571</u>	<u>\$ -</u>	<u>\$ 175,893</u>
Accumulated impairment								
Balance at January 1, 2018 and December 31, 2018	<u>\$ -</u>	<u>\$ 1,183</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,183</u>
Carrying amounts at December 31, 2018	<u>\$ 768</u>	<u>\$ 4,419</u>	<u>\$ 524</u>	<u>\$ 135</u>	<u>\$ -</u>	<u>\$ 42,965</u>	<u>\$ -</u>	<u>\$ 48,811</u>
Cost								
Balance at January 1, 2019	\$ 4,318	\$ 18,644	\$ 2,239	\$ 1,946	\$ 204	\$ 198,536	\$ -	\$ 225,887
Additions	119	5,508	212	-	-	51,744	472,972	530,555
Disposal	(2,962)	(10,566)	(1,276)	(232)	(204)	(153,470)	-	(168,710)
Effect of exchange rate changes	(11)	-	(38)	(42)	-	-	-	(91)
Balance at December 31, 2019	<u>\$ 1,464</u>	<u>\$ 13,586</u>	<u>\$ 1,137</u>	<u>\$ 1,672</u>	<u>\$ -</u>	<u>\$ 96,810</u>	<u>\$ 472,972</u>	<u>\$ 587,641</u>
Accumulated depreciation								
Balance at January 1, 2019	\$ 3,550	\$ 13,042	\$ 1,715	\$ 1,811	\$ 204	\$ 155,571	\$ -	\$ 175,893
Depreciation expense	399	3,697	222	68	-	44,541	-	48,927
Disposal	(2,962)	(10,566)	(1,276)	(232)	(204)	(153,470)	-	(168,710)
Effect of exchange rate changes	(7)	-	(22)	(40)	-	-	-	(69)
Balance at December 31, 2019	<u>\$ 980</u>	<u>\$ 6,173</u>	<u>\$ 639</u>	<u>\$ 1,607</u>	<u>\$ -</u>	<u>\$ 46,642</u>	<u>\$ -</u>	<u>\$ 56,041</u>
Accumulated impairment								
Balance at January 1, 2019 and December 31, 2019	<u>\$ -</u>	<u>\$ 1,183</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,183</u>
Carrying amounts at December 31, 2019	<u>\$ 484</u>	<u>\$ 6,230</u>	<u>\$ 498</u>	<u>\$ 65</u>	<u>\$ -</u>	<u>\$ 50,168</u>	<u>\$ 472,972</u>	<u>\$ 530,417</u>

The Group’s property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Testing equipment	2-5 years
Molding equipment	3 years
Computer	3 years
Office equipment	5 years
Leasehold improvements	5-8 years
Masks	2 years

12. LEASE ARRANGEMENTS

a. Right-of-use assets - 2019

	December 31, 2019
<u>Carrying amounts</u>	
Buildings	<u>\$ 24,558</u>
	For the Year Ended December 31, 2019
Additions to right-of-use assets	<u>\$ 516</u>
Depreciation charge for right-of-use assets	
Buildings	<u>\$ 8,524</u>

b. Lease liabilities - 2019

	December 31, 2019
<u>Carrying amounts</u>	
Current	<u>\$ 7,625</u>
Non-current	<u>\$ 17,041</u>

The discount rate for lease liabilities was as follows:

	December 31, 2019
Buildings	1%

c. Material lease activities and terms (the Group is lessee)

The Group leases buildings for the use of offices with lease terms of 3-4 years. The Group does not have bargain purchase options to acquire the buildings at the expiry of the lease periods. In addition, the Group is prohibited from subleasing or transferring all or any portion of the underlying assets without the lessor's consent.

d. Other lease information

2019

**December 31,
2019**

Expenses relating to short-term leases	\$ <u>515</u>
Expenses relating to low-value asset leases	\$ <u>55</u>
Total cash outflow for leases	\$ <u>(4,810)</u>

The Group leases certain buildings, machinery and equipment which qualify as short-term leases, and certain other equipment which qualify as low-value asset leases. The Group has elected to apply the recognition exemption and thus, did not recognize right-of-use assets and lease liabilities for these leases.

13. INTANGIBLE ASSETS

	Technology License Fees	Patents	Software	Total
<u>Cost</u>				
Balance at January 1, 2018	\$ 145,889	\$ 60,465	\$ 17,111	\$ 223,465
Additions	-	-	2,223	2,223
Effect of exchange rate changes	<u>-</u>	<u>475</u>	<u>574</u>	<u>1,049</u>
Balance at December 31, 2018	<u>\$ 145,889</u>	<u>\$ 60,940</u>	<u>\$ 19,908</u>	<u>\$ 226,737</u>
<u>Accumulated amortization</u>				
Balance at January 1, 2018	\$ 109,418	\$ 39,867	\$ 11,121	\$ 160,406
Amortization expense	20,841	6,451	3,202	30,494
Effect of exchange rate changes	<u>-</u>	<u>64</u>	<u>414</u>	<u>478</u>
Balance at December 31, 2018	<u>\$ 130,259</u>	<u>\$ 46,382</u>	<u>\$ 14,737</u>	<u>\$ 191,378</u>
Carrying amounts at December 31, 2018	<u>\$ 15,630</u>	<u>\$ 14,558</u>	<u>\$ 5,171</u>	<u>\$ 35,359</u>

(Continued)

	Technology License Fees	Patents	Software	Total
<u>Cost</u>				
Balance at January 1, 2019	\$ 145,889	\$ 60,940	\$ 19,908	\$ 226,737
Additions	-	-	3,893	3,893
Disposal	(145,889)	(45,659)	-	(191,548)
Effect of exchange rate changes	<u>-</u>	<u>(366)</u>	<u>(495)</u>	<u>(861)</u>
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ 14,915</u>	<u>\$ 23,306</u>	<u>\$ 38,221</u>
<u>Accumulated amortization</u>				
Balance at January 1, 2019	\$ 130,259	\$ 46,382	\$ 14,737	\$ 191,378
Amortization expense	15,630	5,664	5,652	26,946
Disposal	(145,889)	(45,659)	-	(191,548)
Effect of exchange rate changes	<u>-</u>	<u>(172)</u>	<u>(435)</u>	<u>(607)</u>
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ 6,215</u>	<u>\$ 19,954</u>	<u>\$ 26,169</u>
Carrying amounts at December 31, 2019	<u>\$ -</u>	<u>\$ 8,700</u>	<u>\$ 3,352</u>	<u>\$ 12,052</u> (Concluded)

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

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

14. OTHER ASSETS

	December 31	
	2019	2018
<u>Current</u>		
Prepaid income tax	\$ 63,867	\$ 45,673
Tax receivables	22,586	14,764
Prepayments for purchases	6,076	1,618
Others	<u>11,228</u>	<u>10,908</u>
	<u>\$ 103,757</u>	<u>\$ 72,963</u>
<u>Non-current</u>		
Refundable deposits	\$ 1,640	\$ 1,853
Net defined benefit assets	<u>1,320</u>	<u>326</u>
	<u>\$ 2,960</u>	<u>\$ 2,179</u>

15. OTHER LIABILITIES

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>Current</u>		
Other payables		
Payables for employees' remuneration	\$ 16,030	\$ 21,206
Payables for bonuses	18,651	13,219
Payables for purchases of equipment	7,313	7,926
Payables for directors' remuneration	2,500	2,500
Others	<u>11,909</u>	<u>9,767</u>
	56,403	54,618
Other liabilities		
Receipts under custody	<u>124</u>	<u>117</u>
	<u>\$ 56,527</u>	<u>\$ 54,735</u>

16. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

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

Silicon Optronics (Shanghai) Co., Ltd. is a member of a state-managed retirement benefit plan operated by the government of the People's Republic of China. The subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

b. Defined benefit plans

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

The amounts included in the consolidated balance sheets in respect of the Company's benefit plans are as follows:

	December 31	
	2019	2018
Present value of funded defined benefit obligation	\$ 249	\$ 1,149
Fair value of plan assets	<u>(1,569)</u>	<u>(1,475)</u>
Net defined benefit assets	<u>\$ (1,320)</u>	<u>\$ (326)</u>

Movements in net defined benefit assets were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Assets
Balance at January 1, 2018	\$ 1,043	\$ (1,352)	\$ (309)
Net interest expense (income)	<u>11</u>	<u>(14)</u>	<u>(3)</u>
Recognized in profit or loss	<u>11</u>	<u>(14)</u>	<u>(3)</u>
Remeasurement			
Actuarial (gain) loss			
Actuarial loss - changes in financial assumptions	12	-	12
Actuarial loss - experience adjustments	<u>83</u>	<u>(39)</u>	<u>44</u>
Recognized in other comprehensive loss (income)	<u>95</u>	<u>(39)</u>	<u>56</u>
Contributions from the employer	<u>-</u>	<u>(70)</u>	<u>(70)</u>
Balance at December 31, 2018	<u>1,149</u>	<u>(1,475)</u>	<u>(326)</u>
Net interest expense (income)	<u>11</u>	<u>(14)</u>	<u>(3)</u>
Recognized in profit or loss	<u>11</u>	<u>(14)</u>	<u>(3)</u>
Remeasurement			
Actuarial (gain) loss			
Actuarial loss - changes in financial assumptions	8	-	8
Actuarial loss - experience adjustments	<u>(919)</u>	<u>(51)</u>	<u>(970)</u>
Recognized in other comprehensive loss (income)	<u>(911)</u>	<u>(51)</u>	<u>(962)</u>
Contributions from the employer	<u>-</u>	<u>(29)</u>	<u>(29)</u>
Balance at December 31, 2019	<u>\$ 249</u>	<u>\$ (1,569)</u>	<u>\$ (1,320)</u>

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

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plans' debt investments.

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

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

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Discount rate	0.8%	1.0%
Expected rate of salary increase	3.0%	3.0%

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

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Discount rate		
0.25% increase	<u>\$ (10)</u>	<u>\$ (30)</u>
0.25% decrease	<u>\$ 11</u>	<u>\$ 31</u>
Expected rate of salary increase		
0.25% increase	<u>\$ 10</u>	<u>\$ 27</u>
0.25% decrease	<u>\$ (9)</u>	<u>\$ (26)</u>

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

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Expected contributions to the plans for the next year	<u>\$ 21</u>	<u>\$ 70</u>
Average duration of the defined benefit obligation	17 years	11 years

17. EQUITY

a. Ordinary shares

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Numbers of shares authorized (in thousands)	<u>100,000</u>	<u>100,000</u>
Shares authorized	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>78,081</u>	<u>77,828</u>
Shares issued	<u>\$ 780,809</u>	<u>\$ 778,279</u>

The share capital reserved for issue employee warrants in the nominal share capital is 6,000 thousand shares. For the year ended December 31, 2018, the shares increased due to the issuance of ordinary shares for cash and employees' exercise of their employee share options.

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

b. Capital surplus

	<u>December 31</u>	
	2019	2018
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)</u>		
Arising from issuance of ordinary shares	\$ 1,114,415	\$ 1,107,434
<u>May be used to offset a deficit only</u>		
Arising from employee share options exercised price	12,158	11,915
<u>May not be used for any purpose</u>		
Arising from employee share options	<u>5,129</u>	<u>5,372</u>
	<u>\$ 1,131,702</u>	<u>\$ 1,124,721</u>

- 1) Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and to once a year).

Reconciliations of the balance for each class of capital surplus were as follows:

	Premium on Issue of Shares	Arising from Employee Share Options	Total
Balance at January 1, 2018	\$ 39,646	\$ 12,541	\$ 52,187
Issuance of ordinary shares for cash	1,057,885	-	1,057,885
Issuance of ordinary shares under employee share options	9,903	-	9,903
Arising on share-based payments	<u>-</u>	<u>4,746</u>	<u>4,746</u>
Balance at December 31, 2018	1,107,434	17,287	1,124,721
Employee share options not exercised	<u>6,981</u>	<u>-</u>	<u>6,981</u>
Balance at December 31, 2019	<u>\$ 1,114,415</u>	<u>\$ 17,287</u>	<u>\$ 1,131,702</u>

c. Retained earnings and dividend policy

The Company's Articles of Incorporation state that, where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting accumulated losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors after the amendment, refer to "Employees' compensation and remuneration of directors" in Note 19 (f).

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

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

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

The appropriations of earnings for 2018 and 2017 which had been approved in the shareholders' meetings on June 18, 2019 and June 8, 2018, respectively, were as follows:

	Appropriation of Earnings	
	For the Year Ended December 31	
	2018	2017
Legal reserve	\$ 15,743	\$ 20,409
Special reserve	(526)	526
Cash dividends	155,955	136,096
Dividends per share (NT\$)	2.0	2.0

The appropriations of earnings for 2018 had been proposed by the Company's board of directors on March 17, 2020. The appropriations and dividends per share were as follows:

	Appropriation of Earnings
Legal reserve	\$ 15,601
Special reserve	2,365
Cash dividends	154,212
Dividends per share (NT\$)	\$ 2.0

The appropriations of earnings for 2019 are subject to the resolution of the shareholders' meeting to be held on June 16, 2020.

d. Other equity items

	<u>For the Year Ended December 31</u>	
	2019	2018
Balance, beginning of year	\$ 390	\$ (526)
Exchange differences on translation of the financial statements of foreign operations	<u>(2,755)</u>	<u>916</u>
Balance, end of year	<u>\$ (2,365)</u>	<u>\$ 390</u>

e. Treasury shares

Purpose of Buy-back	Shares Transferred to Employees (In Thousands of Shares)
Number of shares at January 1, 2019	-
Increase during the year	<u>1,000</u>
Number of shares at December 31, 2019	<u>1,000</u>

The Company resolved in its board of directors' meeting held on August 12, 2019 to buy back 1,000 thousand of its ordinary shares listed on the Taiwan Stock Exchange within the period starting August 13, 2019 to October 12, 2019 for transfer to its employees, at a purchase price ranging from NT\$53 to NT\$115 per share.

Under the Securities and Exchange Act, the Company shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as the rights to dividends and to vote.

As of December 31, 2019, the Company has bought back 1,000 thousand shares for \$96,955 thousand, and completed the buy-back plan in October 2019.

18. REVENUE

	<u>For the Year Ended December 31</u>	
	2019	2018
Revenue from contracts with customers		
Revenue from the sale of goods	\$ 2,245,120	\$ 2,026,840
Others	<u>48,990</u>	<u>7,427</u>
	<u>\$ 2,294,110</u>	<u>\$ 2,034,267</u>

a. Contract balances

	<u>December 31</u>		
	2019	2018	2017
Accounts receivable (Note 8)	<u>\$ 11,260</u>	<u>\$ 59,182</u>	<u>\$ 12,425</u>
Contract liabilities - current			
Sale of goods	<u>\$ 10,090</u>	<u>\$ 6,012</u>	<u>\$ 4,901</u>

Revenue recognized in the current reporting period from the contract liabilities at the beginning of the year is as follows:

	For the Year Ended December 31	
	2019	2018
From the contract liabilities at the beginning of the year		
Sale of goods	<u>\$ 3,508</u>	<u>\$ 2,345</u>
b. Disaggregation of revenue		
	For the Year Ended December 31	
	2019	2018
<u>Primary geographical markets</u>		
Hong Kong	\$ 2,072,482	\$ 1,798,780
Taiwan (the Group's operating location)	85,466	46,506
United States of America	78,194	136,026
Korea	31,765	15,744
India	22,188	29,738
Philippines	<u>4,015</u>	<u>7,473</u>
	<u>\$ 2,294,110</u>	<u>\$ 2,034,267</u>
<u>Major goods</u>		
CMOS	\$ 2,226,729	\$ 1,938,304
Others	<u>67,381</u>	<u>95,963</u>
	<u>\$ 2,294,110</u>	<u>\$ 2,034,267</u>

19. NET PROFIT FROM CONTINUING OPERATIONS

a. Other income

	For the Year Ended December 31	
	2019	2018
Interest income	\$ 16,735	\$ 8,230
Others	<u>1,197</u>	<u>1,521</u>
	<u>\$ 17,932</u>	<u>\$ 9,751</u>

b. Other gains and losses

	For the Year Ended December 31	
	2019	2018
Net foreign exchange gain (loss)	\$ 8,440	\$ 558
Other losses	<u>(11)</u>	<u>-</u>
	<u>\$ 8,429</u>	<u>\$ 558</u>

c. Finance costs

	For the Year Ended December 31	
	2019	2018
Lease liabilities	\$ 302	\$ -
Interest on loans	<u>-</u>	<u>390</u>
	<u>\$ 302</u>	<u>\$ 390</u>

d. Depreciation and amortization

	For the Year Ended December 31	
	2019	2018
Property, plant and equipment	\$ 48,927	\$ 36,118
Right-of-use assets	8,524	-
Intangible assets	<u>26,946</u>	<u>30,494</u>
Total	<u>\$ 84,397</u>	<u>\$ 66,612</u>
An analysis of depreciation by function		
Operating costs	\$ 13,699	\$ 16,105
Operating expenses	<u>43,752</u>	<u>20,013</u>
	<u>\$ 57,451</u>	<u>\$ 36,118</u>
An analysis of amortization by function		
Research and development expenses	<u>\$ 26,946</u>	<u>\$ 30,494</u>

e. Employee benefits expense

	For the Year Ended December 31	
	2019	2018
Post-employment benefits (see Note 16)		
Defined contribution plans	\$ 3,107	\$ 2,948
Defined benefit plans	<u>(7)</u>	<u>(3)</u>
	3,100	2,945
Share-based payments		
Equity-settled	-	4,746
Other employee benefits	<u>169,302</u>	<u>173,876</u>
Total employee benefits expense	<u>\$ 172,042</u>	<u>\$ 181,567</u>
An analysis of employee benefits expense by function		
Operating expenses	<u>\$ 172,042</u>	<u>\$ 181,567</u>

f. Employees' compensation and remuneration of directors

According to the Articles of Incorporation of the Company, the Company accrued employees' compensation at a rate of no less than 0.005% and no higher than 25%, and remuneration of directors and supervisors at rate of no higher than 3%. The employees' compensation and remuneration of directors for the years ended December 31, 2019 and 2018, which were resolved in the board of directors' meetings on March 17, 2020 and March 8, 2019, respectively, were as follows:

Accrual rate

	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Employees' compensation	8%	10%
Remuneration of directors and supervisors	2%	1%

Amount

	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Employees' compensation	\$ 16,030	\$ 21,206
Remuneration of directors and supervisors	2,500	2,500

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

There is no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2018 and 2017.

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

20. INCOME TAXES

a. Income tax recognized in profit or loss

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

	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Current tax		
In respect of the current year	\$ 28,186	\$ 30,562
Income tax on unappropriated earnings	-	4,700
Adjustments for prior periods	<u>103</u>	<u>626</u>
	<u>28,289</u>	<u>35,888</u>
Deferred tax		
In respect of the current year	(2,189)	(2,098)
Adjustments for changes in tax rates and laws	<u>-</u>	<u>(1,249)</u>
	<u>(2,189)</u>	<u>(3,347)</u>
Income tax expense recognized in profit or loss	<u>\$ 26,100</u>	<u>\$ 32,541</u>

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

	For the Year Ended December 31	
	2019	2018
Profit before tax from continuing operations	<u>\$ 182,110</u>	<u>\$ 189,973</u>
Income tax expense calculated at the statutory rate	\$ 36,629	\$ 39,286
Nondeductible expenses in determining taxable income	1,336	2,365
Income tax on unappropriated earnings	-	4,700
Unrecognized deductible temporary differences	2,189	3,332
Investment credits of the current year	(11,968)	(14,421)
Deferred tax		
Temporary differences	(2,189)	(2,098)
Adjustments for changes in tax rates and laws	-	(1,249)
Adjustments for prior years' tax	<u>103</u>	<u>626</u>
Income tax expense recognized in profit or loss	<u>\$ 26,100</u>	<u>\$ 32,541</u>

The Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings has been reduced from 10% to 5%.

b. Current tax assets and liabilities

	December 31	
	2019	2018
Current tax liabilities		
Income tax payable	<u>\$ 4,619</u>	<u>\$ 31,552</u>

c. Deferred tax assets and liabilities

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

For the Year Ended December 31, 2019

	Opening Balance	Recognized in Profit or Loss	Closing Balance
<u>Deferred tax assets</u>			
Allowance for impairment loss	<u>\$ 10,467</u>	<u>\$ 2,485</u>	<u>\$ 12,952</u>
<u>Deferred tax liabilities</u>			
Gain on foreign currency exchange	<u>\$ 41</u>	<u>\$ 296</u>	<u>\$ 337</u>

For the Year Ended December 31, 2018

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

d. Income tax assessments

The tax returns through 2017 have been assessed by the tax authorities.

21. EARNINGS PER SHARE

Unit: NT\$ Per Share

	<u>For the Year Ended December 31</u>	
	2019	2018
Basic earnings per share	<u>\$ 2.01</u>	<u>\$ 2.17</u>
Diluted earnings per share	<u>\$ 2.00</u>	<u>\$ 2.15</u>

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

Net Profit for the Year

	<u>For the Year Ended December 31</u>	
	2019	2018
Earnings used in the computation of basic earnings per share	\$ 156,010	\$ 157,432
Effect of potentially dilutive ordinary shares:		
Employee share options	-	-
Bonuses issued to employees	<u>-</u>	<u>-</u>
Earnings used in the computation of diluted earnings per share	<u>\$ 156,010</u>	<u>\$ 157,432</u>

Number of shares

	<u>For the Year Ended December 31</u>	
	2019	2018
Weighted average number of ordinary shares used in the computation of basic earnings per share	77,718	72,655
Effect of potentially dilutive ordinary shares:		
Employee share options	54	209
Bonuses issued to employees	<u>204</u>	<u>299</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>77,976</u>	<u>73,163</u>

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

22. SHARE-BASED PAYMENT ARRANGEMENTS

a. Employee share option plan

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

Information on employee share options is as follows:

	2013 Employee Share Option Plan		2012 Employee Share Option Plan	
	Number of Options (In Thousands)	Weighted- average Exercise Price (NT\$)	Number of Options (In Thousands)	Weighted- average Exercise Price (NT\$)
<u>For the year ended December 31, 2018</u>				
Balance at January 1	523	\$ 41.17	1,132	\$ 16.76
Options exercised	<u>(235)</u>	41.30	<u>(327)</u>	17.79
Balance at December 31	<u>288</u>	41.49	<u>805</u>	16.34
Options exercisable, end of period	<u>288</u>		<u>805</u>	
<u>For the year ended December 31, 2019</u>				
Balance at January 1	288	\$ 41.49	805	\$ 16.34
Options exercised	(188)	46.00	(65)	13.27
Option expired	<u>-</u>	-	<u>(110)</u>	12.55
Balance at December 31	<u>100</u>	33.00	<u>630</u>	17.31
Options exercisable, end of period	<u>100</u>		<u>630</u>	

Information on outstanding options as follows:

December 31 2019			December 31 2018		
Share Option Plan	Range of Exercise Price (NT\$)	Weighted-average Remaining Contractual Life (In Years)	Share Option Plan	Range of Exercise Price (NT\$)	Weighted-average Remaining Contractual Life (In Years)
2013 Employee share option plan	\$ 33.0-46.0	3.62	2013 Employee share option plan	\$ 33.0-46.0	5.16
2012 Employee share option plan	10.5-19.5	2.81	2012 Employee share option plan	10.5-19.5	3.76

The resolution for the granting of the 2013 employee share options was passed in the board of directors' meeting on June 10, 2014, and their fair values were assessed using the Black-Scholes pricing model; the inputs to the model are as follows:

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

The resolution for the granting of the 2013 employee share options was passed in the board of directors' meeting on August 13, 2013, and their fair values were assessed using the Black-Scholes pricing model; the inputs to the model are as follows:

Grant-date share price (NT\$)	\$11.18
Exercise price (NT\$)	\$33.0
Expected volatility	37.6%-41.65%
Expected life (in years)	2.5-4.5 years
Expected dividend yield	-
Risk-free interest rate	0.82%-1.07%
Fair value of stock options	0.18-0.93

The resolution for the granting of the 2012 employee share options was passed in the board of directors' meeting on November 13, 2012, and their fair values were assessed using the Black-Scholes pricing model; the inputs to the model are as follows:

Grant-date share price (NT\$)	\$12.29
Exercise price (NT\$)	\$19.5
Expected volatility	44.34%-54.56%
Expected life (in years)	2.5-4.5 years
Expected dividend yield	-
Risk-free interest rate	0.75%-0.85%
Fair value of stock options	1.67-3.94

The resolution for the granting of the 2012 employee share options was passed in the board of directors' meeting on May 25, 2012, and their fair values were assessed using the Black-Scholes pricing model; the inputs to the model are as follows

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

b. Shares from capital increase in cash retained for employees' subscription

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

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

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

Compensation costs recognized amounted to \$4,746 thousand for the year ended December 31, 2018.

23. CAPITAL MANAGEMENT

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

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

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

24. FINANCIAL INSTRUMENTS

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

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

b. Categories of financial instruments

	<u>December 31</u>	
	2019	2018
<u>Financial assets</u>		
Financial assets at amortized cost (Note 1)	\$ 695,748	\$ 1,379,449
<u>Financial liabilities</u>		
Amortized cost (Note 2)	267,506	187,268

Note 1: The balances included financial assets measured at amortized cost, which comprise cash and cash equivalents, accounts receivable, refundable deposits and pledged time deposits.

Note 2: The balances include financial liabilities measured at amortized cost, which comprise trade and other payables.

c. Financial risk management objectives and policies

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

1) Market risk

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

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

a) Foreign currency risk

The Group has foreign currency sales and purchases, which exposes the Group to foreign currency risk. Approximately 96% of the Group's sales is denominated in currencies other than the functional currency of the Group entity making the sale, whilst almost 97% of costs is denominated in the Group entity's functional currency. Exchange rate exposures are managed within approved policy parameters.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities are set out in Note 27.

Sensitivity analysis

The Group is mainly exposed to the exchange rate fluctuations in the USD.

The sensitivity analysis regarding foreign currency risk is mainly calculated for USD denominated monetary items on the balance sheet date.

When the NTD appreciates/depreciates by 1% against the USD, the Group's net profit before tax for the years ended December 31, 2019 and 2018 would decrease/increase by \$(488) thousand and \$1,732 thousand, respectively.

b) Interest rate risk

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

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

	December 31	
	2019	2018
Fair value interest rate risk		
Financial assets	\$ 586,032	\$ 1,232,198
Cash flow interest rate risk		
Financial assets	96,534	85,932

Sensitivity analysis

The sensitivity analysis regarding interest rate risk is calculated based on the changes in the cash flow of floating-rate liabilities on the balance sheet date. If interest rates had been 0.5% higher/lower, pre-tax profit for the years ended December 31, 2019 and 2018 would have increased/decreased by \$483 thousand and \$430 thousand, respectively.

2) Credit risk management

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

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

3) Liquidity risk

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

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

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

December 31, 2019

	On Demand or Less than 1 Month	1-3 Months	3 Months to 1 Year
<u>Non-derivative financial liabilities</u>			
Accounts payable	\$ 98,814	\$ 26,992	\$ -
Accounts payable - related parties	132,521	1,866	-
Payable on equipment	<u>2,494</u>	<u>4,819</u>	<u>-</u>
	<u>\$ 233,829</u>	<u>\$ 33,677</u>	<u>\$ -</u>

December 31, 2018

	On Demand or Less than 1 Month	1-3 Months	3 Months to 1 Year
<u>Non-derivative financial liabilities</u>			
Accounts payable	\$ 40,386	\$ 12,577	\$ -
Accounts payable - related parties	126,379	-	-
Payable on equipment	<u>7,926</u>	<u>-</u>	<u>-</u>
	<u>\$ 174,691</u>	<u>\$ 12,577</u>	<u>\$ -</u>

b) Financing facilities

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Unsecured bank overdraft facilities, reviewed annually and payable on demand:		
Amount used	\$ -	\$ -
Amount unused	<u>200,000</u>	<u>80,000</u>
	<u>\$ 200,000</u>	<u>\$ 80,000</u>
Secured bank overdraft facilities:		
Amount used	\$ -	\$ -
Amount unused	<u>500,000</u>	<u>150,000</u>
	<u>\$ 500,000</u>	<u>\$ 150,000</u>

25. TRANSACTIONS WITH RELATED PARTIES

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

a. Related party name and category

<u>Related Party Name</u>	<u>Related Party Category</u>
Novax Technology, Inc.	Substantive related parties
Powerchip Technology Corp.	Substantive related parties
Powerchip Semiconductor Manufacturing Corp.	Substantive related parties

b. Purchases

<u>Related Party Category</u>	<u>Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Substantive related parties		
Powerchip Semiconductor Manufacturing Corp.	\$ 1,032,202	\$ 1,711
Powerchip Technology Corp.	<u>239,460</u>	<u>1,121,438</u>
	<u>\$ 1,271,662</u>	<u>\$ 1,123,149</u>

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

b. General and administrative expenses

<u>Related Party Category</u>	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Substantive related parties	<u>\$ -</u>	<u>\$ 38</u>

c. Research and development expenses

<u>Related Party Category</u>	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Substantive related parties		
Powerchip Technology Corp.	\$ 379	\$ 4,576
Powerchip Semiconductor Manufacturing Corp.	<u>47</u>	<u>-</u>
	<u>\$ 426</u>	<u>\$ 4,576</u>

d. Manufacturing expenses

<u>Related Party Category</u>	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Substantive related parties	<u>\$ -</u>	<u>\$ 82</u>

e. Accounts payable from related parties

<u>Related Party Category</u>	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Substantive related parties		
Powerchip Semiconductor Manufacturing Corp.	\$ 134,387	\$ -
Powerchip Technology Corp.	<u>-</u>	<u>126,379</u>
	<u>\$ 134,387</u>	<u>\$ 126,379</u>

f. Other transactions with related parties

The Group signed a joint development contract with Powerchip Semiconductor Manufacturing Co., Ltd. According to the contract, the Group will provide some machinery and equipment for the purpose of research and development.

g. Compensation of key management personnel

	For the Year Ended December 31	
	2019	2018
Short-term employee benefits	\$ 24,277	\$ 26,170
Share-based payments	<u>-</u>	<u>9</u>
	<u>\$ 24,277</u>	<u>\$ 26,179</u>

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

26. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

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

	December 31	
	2019	2018
Pledged time deposits (classified as financial assets a amortized cost-noncurrent)	<u>\$ 2,532</u>	<u>\$ 2,577</u>

27. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

December 31, 2019

	Foreign Currency	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 7,074	29.98(USD:NTD)	\$ 212,080
CNY	2,179	4.305(RMB:NTD)	<u>9,382</u>
			<u>\$ 221,462</u>
<u>Financial liabilities</u>			
Monetary items			
USD	8,702	29.98(USD:NTD)	<u>\$ 260,886</u>

December 31, 2018

	Foreign Currency	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 11,180	30.72(USD:NTD)	\$ 343,393
CNY	2,243	4.472(CNY:NTD)	<u>10,030</u>
			<u>\$ 353,423</u>

Financial liabilities

Monetary items			
USD	5,539	30.72(USD:NTD)	<u>\$ 170,144</u>

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

For the Year Ended December 31				
2019			2018	
Foreign Currency	Exchange Rate	Net Foreign Exchange Gains (Losses)	Exchange Rate	Net Foreign Exchange Gains (Losses)
NTD	1 (NTD:NTD)	\$ 9,708	1 (NTD:NTD)	\$ (194)
CNY	4.305 (CNY:NTD)	<u>(1,268)</u>	4.472 (CNY:NTD)	<u>752</u>
		<u>\$ 8,440</u>		<u>\$ 558</u>

28. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

- 1) Financing provided to others: None;
- 2) Endorsements/guarantees provided: None;
- 3) Marketable securities held (excluding investments in subsidiaries): None;
- 4) Marketable securities acquired or disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital: None;
- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital: None;
- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital: None;
- 7) Total purchases from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital: See Table 1;

- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None;
 - 9) Information about the derivative instruments transaction: None;
 - 10) Intercompany relationships and significant intercompany transactions: See Table 2;
 - 11) Names, locations, and related information of investees over which the Company exercises significant influence (excluding information on investment in Mainland China): Please see Table 3;
- b. Information on investments in mainland China: See Table 4.

29. SEGMENT INFORMATION

a. Operation segment information

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided.

The segment revenues and operating results for the years ended December 31, 2019 and 2018 are shown in the consolidated income statements for the years ended December 31, 2019 and 2018. The segment assets as of December 31, 2019 and 2018 are shown in the consolidated balance sheets as of December 31, 2019 and 2018.

b. Revenue from major products and services

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

	<u>For the Year Ended December 31</u>	
	2019	2018
Complementary metal-oxide semiconductors	\$ 2,226,729	\$ 1,938,304
Others	<u>67,381</u>	<u>95,963</u>
	<u>\$ 2,294,110</u>	<u>\$ 2,034,267</u>

c. Geographical information

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

	<u>Revenue from External Customers</u>		<u>Non-current Assets</u>	
	<u>For the Year Ended December 31</u>		<u>December 31</u>	
	2019	2018	2019	2018
Hong Kong	\$ 2,072,482	\$ 1,798,780	\$ -	\$ -
Taiwan (the Group's operating location)	85,466	46,506	544,410	52,493
United States of America	78,194	136,026	16,371	32,392
Korea	31,765	15,744	-	-
India	22,188	29,738	-	-
Others	<u>4,015</u>	<u>7,473</u>	<u>7,886</u>	<u>1,138</u>
	<u>\$ 2,294,110</u>	<u>\$ 2,034,267</u>	<u>\$ 568,667</u>	<u>\$ 86,023</u>

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

d. Information about major customers

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

	For the Year Ended December 31	
	2019	2018
Customer A	\$ 1,670,421	\$ 1,445,118
Customer B	202,974	240,987

SILICON OPTRONICS, INC. AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Transaction Details			Abnormal Transaction		Notes/Accounts (Payable) Receivable		Note
			Purchase/ Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	
Silicon Optronics, Inc.	Powerchip Semiconductor Manufacturing Corp.	Substantive related parties	Purchase	\$ 1,032,202	53	Note 1	-	-	\$ (134,387)	52
	Powerchip Technology Corp.	Substantive related parties	Purchase	239,460	12	Note 1	-	-	-	-

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

SILICON OPTRONICS, INC. AND SUBSIDIARIES

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE YEARS ENDED DECEMBER 31, 2019**

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Counterparty	Nature of Relationship (Note 3)	Intercompany Transactions		Terms
			2019 Amount	Percentage of Consolidated Total Gross Sales or Total Assets	
Silicon Optronics, Inc.	NUEVA IMAGING INC.	1	\$ 43,281	2%	-
	NUEVA IMAGING INC.	1	2,513	-	-
	Silicon Optronics (Shanghai) Co., Ltd.	1	59,908	3%	-
	Silicon Optronics (Shanghai) Co., Ltd.	1	3,797	-	-
	Silicon Optronics (Shanghai) Co., Ltd.	1	21,363	1%	-
				Technical service expense	
				Other payable from related parties	
				Technical service expense	
				Other payable from related parties	
				Other prepayments	

Note 1: Represents the transactions from parent company to subsidiary.

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

SILICON OPTRONICS, INC. AND SUBSIDIARIES

INFORMATION ON INVESTEES

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars)

Investor Company	Investee Accounted for using the Equity Method	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2019			Net Income of Investee Accounted for using the Equity Method	Investment Income	Note
				December 31, 2019	December 31, 2018	Number of Shares (In Thousands)	% of Ownership	Carrying Value			
Silicon Optronics, Inc.	NUEVA IMAGING INC.	USA	Product development & design of high-end CMOS Image Sensor Investment holding company	\$ 358,500	\$ 358,500	6,000	100	\$ 242,747	\$ 4,678	\$ (10,953)	Subsidiary
	Silicon Optronics (Cayman) Co., Ltd.	Cayman		5,237	5,237	170	100	17,479	4,284	4,284	Subsidiary

SILICON OPTRONICS, INC. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company	Main Businesses and Products	Paid-in Capital (US\$ in Thousands)	Method of Investment	Accumulated Outward Remittance from Taiwan as of January 1, 2019 (US\$ in Thousands)	Remittance of Funds		Accumulated Outward Investment from Taiwan as of December 31, 2019 (US\$ in Thousands)	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of December 31, 2019	Accumulated Repatriation of Investment Income as of December 31, 2019	Note
					Outward	Inward							
Silicon Optronics (Shanghai) Co., Ltd.	Design, test and research and development of IC and related electronic products with consultation on technology services and technology transfer	US\$ 175	Note 1	\$ 5,247 (US\$ 175)	\$ -	\$ -	\$ 5,247 (US\$ 175)	\$ 4,284	100	\$ 4,284	\$ 17,479	\$ -	

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2019 (US\$ in Thousands)	Investment Amount Authorized by Investment Commission, MOEA (US\$ in Thousands)	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA (US\$ in Thousands)
\$ 5,247 (US\$ 175)	Note 1	\$ 1,248,072

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

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

Note 3: Based on the exchange rate as of December 31, 2019.