OPTO TECH CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND

REPORT OF INDEPENDENT ACCOUNTANTS

DECEMBER 31, 2018 AND 2017

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

OPTO TECH CORPORATION AND SUBSIDIARIES

Declaration of Consolidated Financial Statements of Affiliated Enterprises

For the year ended December 31, 2018, pursuant to the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises," the company that is required to be included in the consolidated financial statements of affiliates, is the same as the company that is required to be included in the consolidated financial statements of parent and subsidiary companies under International Financial Reporting Standard 10. And if relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies, it shall not be required to prepare separate consolidated financial statements of affiliates.

Hereby declare,

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of OPTO TECH CORPORATION

Opinion

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

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

Basis for opinion

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

Key audit matters

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

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

Key audit matter- Allowance for inventory valuation losses

Description

Please refer to Note 4(12) for accounting policies on inventory valuation, Note 5(2) for accounting estimates and assumption uncertainty on inventory valuation, and Note 6(5) for details of allowance for inventory valuation losses. As of December 31, 2018, the balances of inventories and allowance for inventory valuation losses were NT$ 1,696,952 thousand and NT$ 365,551 thousand, respectively.

As the value of the Group's inventories are effected by market prices and product life cycles, there is a higher risk of obsolescence. For inventories aged over a certain period of time and individually identified as obsolete, the net realisable value is estimated based on historical data of inventory closeout. The net realisable value utilised in evaluating obsolete inventories involves uncertainty of estimation as it is subject to management's judgement. Since inventories and allowance for inventory valuation losses were material to the consolidated financial statements, it was identified as a key audit matter.

How our audit addressed the matter

We performed the following audit procedures in respect of the above key audit matter: assessed the reasonableness of policies and procedures in the provision of allowance for inventory valuation losses based on our understanding of the Group's operations and its industry, such as assessing the data source of historical inventory closeout and the reasonableness in the identification of obsolete inventories; validated the appropriateness of system logic of inventory aging report in order to confirm the compliance with respective policies; and assessed the reasonableness of the Group's determination of the provision of allowance for inventory valuation losses through obtaining assessment documents and supporting evidences in relation to individually identified obsolete or damaged inventories from management.

Key audit matter- Estimation of fair values of unlisted securities without active market

Description

Please refer to Note 4(7)(8) for accounting policies on financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income or loss, Note 5(2) for accounting estimates and assumption uncertainty on estimation of financial assets-fair value measurement of unlisted stocks without active market, and Note 6(2)(3) for details of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income or loss. As of December 31, 2018, the carrying amount of unlisted securities without active market was NT$ 889,926 thousand.

For unlisted securities without active market held by the Group, management assesses their fair values through market approach and takes into account the discount for liquidity. Since the valuation method is subject to management's judgement and involves uncertainty, which would affect fair value, it was identified as a key audit matter.

How our audit addressed the matter

We performed the following audit procedures in respect of the above key audit matter: assessed the comparability and market liquidity of comparable companies referred to by the external appraiser engaged by the Group; and assessed the reasonableness of price multipliers and discounts for liquidity in the market.

Other matter–Parent company only financial statements

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, 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 audit committee, are responsible for overseeing the Group's financial reporting process.

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

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

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

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 auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
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 appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Lin, Yu-Kuan

Lai, Chung-Hsi

For and on behalf of PricewaterhouseCoopers, Taiwan

March 13, 2019

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

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

OPTO TECH CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

Assets	Notes	December 31, 2018 AMOUNT	%	December 31, 2017 AMOUNT	%
Current assets					
Cash and cash equivalents	6(1)	$ 2,690,226	27	$ 2,544,575	26
Financial assets at fair value through profit or loss - current	6(2)	220,381	2	300,265	3
Notes receivable, net	6(4)	13,119	-	24,988	-
Accounts receivable - net	6(4)	1,575,749	16	1,446,882	15
Accounts receivable - related parties - net	7	78,517	1	94,934	1
Other receivables		12,793	-	11,133	-
Inventories - net	6(5)	1,331,401	13	1,097,951	11
Prepayments		26,410	-	55,327	1
Other current assets	8	24,488	-	25,320	-
Current Assets		5,973,084	59	5,601,375	57
Non-current assets					
Financial assets at fair value through profit or loss - non-current	6(2)	106,899	1	-	-
Financial assets at fair value through other comprehensive income or loss - non-current	6(3)	871,546	9	-	-
Available-for-sale financial assets - non-current	12(4)	-	-	1,222,491	12
Investments accounted for using equity method	6(6)	641	-	5,235	-
Property, plant and equipment - net	6(7) and 8	3,071,603	30	2,877,768	29
Intangible assets	6(8)	8,840	-	9,051	-
Deferred tax assets	6(26)	107,588	1	103,868	1
Other non-current assets	6(9)	54,131	-	71,245	1
Non-current assets		4,221,248	41	4,289,658	43
Total assets		$ 10,194,332	100	$ 9,891,033	100

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OPTO TECH CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity	Notes	December 31, 2018 AMOUNT	%	December 31, 2017 AMOUNT	%
Current liabilities					
Short-term loans	6(10)	$ 737,660	7	$ 899,677	9
Notes payable		33	-	2,158	-
Accounts payable		574,007	6	631,573	6
Accounts payable - related parties	7	87,963	1	160,535	2
Other payables	6(11)(29)	599,528	6	536,586	5
Current income tax liabilities		69,490	1	86,294	1
Provisions for liabilities - current	6(15)	11,970	-	13,105	-
Other current liabilities	6(29)	45,855	-	60,194	1
Current Liabilities		2,126,506	21	2,390,122	24
Non-current liabilities					
Long-term loans	6(12), 8 and 9	250,000	2	-	-
Provisions for liabilities - non-current	6(15)	22,259	-	35,120	-
Deferred tax liabilities	6(26)	68,942	1	42,550	1
Other non-current liabilities	6(13)	195,777	2	199,368	2
Non-current liabilities		536,978	5	277,038	3
Total Liabilities		2,663,484	26	2,667,160	27
Equity attributable to owners of parent					
Capital	6(16)				
Common stock		4,454,386	44	4,454,386	45
Capital Reserve	6(17)				
Capital surplus		702,521	7	701,323	7
Retained Earnings	6(18)				
Legal reserve		604,001	6	536,773	5
Special reserve		-	-	59,227	1
Unappropriated earnings		1,537,426	15	1,269,714	13
Other Equity Adjustments					
Other equity interest	6(19)	253,376	2	223,345	2
Treasury stocks					
Treasury stocks	6(16)	(24,503)	-	(24,503)	-
Equity attributable to owners of parent		7,527,207	74	7,220,265	73
Non-controlling interest		3,641	-	3,608	-
Total equity		7,530,848	74	7,223,873	73
Total liabilities and equity		$ 10,194,332	100	$ 9,891,033	100

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

OPTO TECH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollar, except earnings per share)

		Year ended December 31			
		2018		2017	
Items	Notes	AMOUNT	%	AMOUNT	%
Operating revenue	6(20) and 7	$ 5,364,610	100	$ 5,589,853	100
Operating costs	6(5)(24)(25) and 7	(3,742,738)	(70)	(3,935,755)	(70)
Gross profit, net		1,621,872	30	1,654,098	30
Operating expenses	6(24)(25)				
Selling expenses		(117,761)	(2)	(115,252)	(2)
General and administrative expenses		(451,353)	(9)	(455,160)	(8)
Research and development expenses		(318,329)	(6)	(300,111)	(6)
Reversal of expected credit gain on financial assets	12(2)	3,578	-	-	-
Total operating expenses		(883,865)	(17)	(870,523)	(16)
Operating income		738,007	13	783,575	14
Non-operating income and expenses					
Other income	6(21)	45,974	1	92,676	2
Other gains and losses	6(22)	27,611	1	(40,966)	(1)
Finance costs	6(23)	(27,071)	(1)	(26,176)	-
Share of (loss) profit of associates and joint ventures accounted for using equity method	6(6)	(4,526)	-	3,722	-
Total non-operating income and expenses		41,988	1	29,256	1
Profit before income tax		779,995	14	812,831	15
Income tax expense	6(26)	(126,854)	(2)	(140,518)	(3)
Net income		$ 653,141	12	$ 672,313	12

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OPTO TECH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollar, except earnings per share)

		Year ended December 31			
		2018		2017	
Items	Notes	AMOUNT	%	AMOUNT	%
Other comprehensive income (loss)					
Items that will not be reclassified to profit or loss					
Gains (losses) on remeasurements of defined benefit plans	6(13)	($ 5,599)	-	($ 48,999)	(1)
Unrealised gains on valuation of financial assets at fair value through other comprehensive income	6(3)(19)	291,055	5	-	-
Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(26)	(21,001)	-	8,329	-
Total other comprehensive income that will not be reclassified to profit or loss, net of tax		264,455	5	(40,670)	(1)
Items that will be reclassified subsequently to profit or loss					
Currency translation differences of foreign operations	6(19)	127	-	(1,449)	-
Unrealized loss on valuation of available-for-sale financial assets	6(19) and 12(4)	-	-	309,140	6
Share of other comprehensive loss of associates and joint ventures accounted for using equity method - items that may be reclassified to profit or loss	6(6)(19)	(68)	-	311	-
Income tax related to components of other comprehensive income that will be reclassified to profit or loss	6(26)	-	-	(36,683)	(1)
Total other comprehensive income that will be reclassified to profit or loss, net of tax		59	-	271,319	5
Other comprehensive income for the year, net of income tax		$ 264,514	5	$ 230,649	4
Total comprehensive income for the year		$ 917,655	17	$ 902,962	16
Profit attributable to:					
Owners of the parent		$ 653,107	12	$ 672,283	12
Non-controlling interest		34	-	30	-
		$ 653,141	12	$ 672,313	12
Total comprehensive income attributable to:					
Owners of the parent		$ 917,622	17	$ 902,932	16
Non-controlling interest		33	-	30	-
		$ 917,655	17	$ 902,962	16
Earnings per share					
Profit for the year	6(27)	$ 1.47		$ 1.33	
Diluted earnings per share					
Profit for the year	6(27)	$ 1.45		$ 1.29	

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

OPTO TECH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in thousands of New Taiwan dollars)

		Equity attributable to owners of the parent											
				Retained earnings			Other equity interest						
	Note	Common stock	Capital reserve	Legal reserve	Special reserve	Unappropriated earnings	Financial statements translation differences of foreign operations	Unrealised gain or loss on financial assets at fair value through other comprehensive income	Unrealized gain or loss on available-for-sale financial assets	Treasury stocks	Total	Non-controlling interest	Total equity
2017													
Balance at January 1, 2017		$ 5,456,621	$ 639,351	$ 451,300	$ -	$ 1,437,596	$ 3,099	$ -	($ 51,073)	($ 26,699)	$ 7,910,195	$ 3,578	$ 7,913,773
Net income for the year		-	-	-	-	672,283	-	-	-	-	672,283	30	672,313
Other comprehensive income (loss) for the year	6(19)	-	-	-	-	(40,670)	(1,138)	-	272,457	-	230,649	-	230,649
Total comprehensive income		-	-	-	-	631,613	(1,138)	-	272,457	-	902,932	30	902,962
Capital reduction by cash	6(16)	(1,091,563)	-	-	-	-	-	-	-	2,196	(1,089,367)	-	(1,089,367)
Distribution of 2016 earnings:	6(18)												
Legal reserve		-	-	85,473	-	(85,473)	-	-	-	-	-	-	-
Special reserve		-	-	-	59,227	(59,227)	-	-	-	-	-	-	-
Cash dividends		-	-	-	-	(654,795)	-	-	-	-	(654,795)	-	(654,795)
Changes in other capital reserve:													
Adjustments to net difference of subsidiary book value	6(6)	-	1,319	-	-	-	-	-	-	-	1,319	-	1,319
Employee options exercised	6(16)	89,328	60,653	-	-	-	-	-	-	-	149,981	-	149,981
Balance at December 31, 2017		$ 4,454,386	$ 701,323	$ 536,773	$ 59,227	$ 1,269,714	$ 1,961	$ -	$ 221,384	($ 24,503)	$ 7,220,265	$ 3,608	$ 7,223,873
2018													
Balance at January 1, 2018		$ 4,454,386	$ 701,323	$ 536,773	$ 59,227	$ 1,269,714	$ 1,961	$ -	$ 221,384	($ 24,503)	$ 7,220,265	$ 3,608	$ 7,223,873
Effects of applying new standards	12(4)	-	-	-	-	(3,210)	-	224,594	(221,384)	-	-	-	-
Balance at January 1, 2018 after adjustments		4,454,386	701,323	536,773	59,227	1,266,504	1,961	224,594	-	(24,503)	7,220,265	3,608	7,223,873
Net income for the year		-	-	-	-	653,107	-	-	-	-	653,107	34	653,141
Other comprehensive (loss) income for the year	6(19)	-	-	-	-	(784)	60	265,239	-	-	264,515	(1)	264,514
Total comprehensive income		-	-	-	-	652,323	60	265,239	-	-	917,622	33	917,655
Distribution of 2017 earnings :	6(18)												
Legal reserve		-	-	67,228	-	(67,228)	-	-	-	-	-	-	-
Special reserve		-	-	-	(59,227)	59,227	-	-	-	-	-	-	-
Cash dividends		-	-	-	-	(601,342)	-	-	-	-	(601,342)	-	(601,342)
Changes in other capital reserve:													
Adjustments to net difference of subsidiary book value	6(6)	-	1,198	-	-	-	-	-	-	-	1,198	-	1,198
Disposal of financial assets at fair value through other comprehensive income	6(3)	-	-	-	-	227,942	-	(238,478)	-	-	(10,536)	-	(10,536)
Balance at December 31, 2018		$ 4,454,386	$ 702,521	$ 604,001	$ -	$ 1,537,426	$ 2,021	$ 251,355	$ -	($ 24,503)	$ 7,527,207	$ 3,641	$ 7,530,848

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

OPTO TECH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars)

	Notes	Years ended December 31, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		$ 779,995	$ 812,831
Adjustments			
Income and expenses having no effect on cash flows			
Reversal of expected credit loss on financial assets	12(2)	(3,578)	-
Recovery of bad debts expense	7 and 12(4)	-	(14,911)
Depreciation	6(7)(24)	432,773	404,688
Amortization	6(8)(24)	12,136	12,899
Amortization of land use right	6(9)	122	105
Net profit on financial assets and liabilities at fair value through profit or loss	6(2)(22)	(16,176)	(1,088)
Interest income	6(21)	(13,788)	(13,487)
Dividend income	6(21)	(15,027)	(21,024)
Gain on disposal of investments	6(22)	(1,188)	(2,518)
Loss on disposal of property, plant and equipment	6(7)(22)	617	400
(Reversal of) impairment loss on non-financial assets	6(7)(22)	-	(28)
Interest expense	6(23)	26,956	25,231
Share of profit (loss) of associates accounted for using equity method	6(6)	4,526	(3,722)
Changes in assets/liabilities relating to operating activities			
Changes in operating assets			
Acquisition of financial assets at fair value through profit or loss		81,188	192,518
Notes receivable - net		11,869	724
Accounts receivable - net		(127,683)	66,192
Accounts receivable - related parties - net		19,249	30,444
Other receivables		(1,245)	279
Inventories - net		(233,450)	263,563
Prepayments		28,917	(21,278)
Other current assets		832	803
Other non-current assets		9,499	(3,949)
Net changes in liabilities relating to operating activities			
Notes payable		(2,125)	617
Accounts payable		(57,566)	(38,639)
Accounts payable - related parties		(72,572)	(35,948)
Other payables		62,946	(5,759)
Other current liabilities		(14,339)	(78,486)
Provisions for liabilities		(13,782)	(5,499)
Net defined benefit liability		(8,194)	(88,548)
Cash inflow generated from operations		890,912	1,476,410
Interest received		13,373	13,465
Dividend received		15,027	21,024
Interest paid		(26,960)	(24,045)
Income tax paid		(152,524)	(103,621)
Net cash flows from operating activities		739,828	1,383,233

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OPTO TECH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars)

	Notes	Years ended December 31, 2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of financial assets at fair value through other comprehensive income	6(3)	$ 551,163	$ -
Acquisition of property, plant and equipment	6(7)	(630,679)	(300,581)
Proceeds from disposal of property, plant and equipment	6(7)	47	347
Acquisition of intangible assets	6(8)	(11,925)	(12,637)
Decrease in deposits-out		7,433	5,267
Net cash flows used in investing activities		(83,961)	(307,604)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in short-term loans	6(29)	2,407,765	2,488,236
Decrease in short-term loans	6(29)	(2,574,914)	(2,150,542)
Increase in long-term loans	6(29)	404,045	-
Decrease in long-term loans	6(29)	(154,045)	(419,900)
(Decrease) increase in guarantee deposits	6(29)	(996)	1,530
Employee options exercise	6(14)	-	149,981
Payment of cash dividends	6(18)	(600,144)	(653,476)
Payment of capital reduction	6(17)	-	(1,089,367)
Net cash flows used in financing activities		(518,289)	(1,673,538)
Effect of change in exchange rate		8,073	(1,133)
Net increase (decrease) in cash and cash equivalents		145,651	(599,042)
Cash and cash equivalents at beginning of year		2,544,575	3,143,617
Cash and cash equivalents at end of year		$ 2,690,226	$ 2,544,575

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

OPTO TECH CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANIZATION

Opto Tech Corporation (the "Company") was incorporated as a company limited by shares under the provisions of the Company Law of the Republic of China (R.O.C.). The shares of the Company have been traded on the Taiwan Stock Exchange since May 2, 1995. The Company and its subsidiaries (collectively referred herein as the "Group") are primarily engaged in the manufacture and sales of semiconductor components as well as research and development, design, manufacture and sales of systems products.

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

These consolidated financial statements were reported to the Board of Directors on March 13, 2019.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 2, 'Classification and measurement of share-based payment transactions'	January 1, 2018
Amendments to IFRS 4, 'Applying IFRS 9, Financial instruments with IFRS 4, Insurance contracts'	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Amendments to IFRS 15, 'Clarifications to IFRS 15, Revenue from contracts with customers'	January 1, 2018
Amendments to IAS 7, 'Disclosure initiative'	January 1, 2017
Amendments to IAS 12, 'Recognition of deferred tax assets for unrealised losses'	January 1, 2017
Amendments to IAS 40, 'Transfers of investment property'	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018

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

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

When adopting the new standards endorsed by FSC effective from 2018, the Group applied the new rules under IFRS 9 retrospectively from January 1, 2018, with the practical expedients permitted under the statement. For the significant effects of applying the new standards as of January 1, 2018, please refer to Note 12(4).

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

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

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

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

IFRS 16, 'Leases'

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

The Group expects to recognise the lease contract of lessees using the modified retrospective approach under IFRS 16. On January 1, 2019, the Group will have to increase 'right-of-use asset' by $269,990, increase lease liability by $265,950, and decrease long-term prepaid rents and prepaid rents by $3,584 and $456, respectively.

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

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

(2) Basis of preparation

A. Except for the following items, the consolidated financial statements have been prepared under the historical cost convention:

(a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

(b) Financial assets at fair value through other comprehensive income and available-for-sale financial assets measured at fair value.

(c) Defined benefit liabilities recognised based on present value of defined benefit obligation less the net amount of pension fund assets.

B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs") requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Group has elected to apply modified retrospective approach whereby the cumulative impact of the adoption was recognised as retained earnings or other equity as of January 1, 2018 and the financial statements for the year ended December 31, 2017 and the 3rd quarter of 2017 were not restated. The financial statements for the year ended December 31, 2017 and the 3rd quarter of 2017 were prepared in compliance with International Accounting Standard 39 ('IAS 39'), International Accounting Standard 18 ('IAS 18') and related financial reporting interpretations. Please refer to Note 12(4).

(3) <u>Basis of consolidation</u>

A. Basis for preparation of consolidated financial statements:

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

(b) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

(c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the noncontrolling interests having a deficit balance.

(d) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity.

(e) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognised in profit or loss. All amounts previously recognised in other comprehensive income in relation to the subsidiary are reclassified to profit or loss on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognised in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

B. Subsidiaries included in the consolidated financial statements:

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership (%) December 31, 2018	Ownership (%) December 31, 2017	Description
Opto Tech Corp.	Ho Chung Investment Co., Ltd. (Ho Chung Investment)	Investment business	100.00	100.00	Notes 1
Opto Tech Corp.	Opto Technology International Group Co., Ltd. (Opto)	Investment business	100.00	100.00	Notes 3
Opto Tech Corp.	Jyu Shin Investment Co., Ltd. (Jyu Shin Investment)	Investment business	-	100.00	Note 5
Opto Tech Corp.	Source Ever Limited (Source)	International trading	-	100.00	Notes 4
Opto Tech Corp.	Opto Tech (Macao) Co., Ltd. (Opto Macao)	International trading	100.00	100.00	
Opto Tech Corp.	CS Bright Corporation (CSB)	Manufacture and sales of LED and electronic products	99.87	-	Note 5
Opto	Opto Tech (Cayman) Co., Ltd. (Cayman)	Investment business	100.00	100.00	Notes 3
Opto	Everyung Investment Ltd. (Everyung)	Investment business	50.00	50.00	
Jyu Shin Investment Co., Ltd.	CS Bright Corporation (CSB)	Manufacture and sales of LED and electronic products	-	99.87	Note 5
Cayman	Opto Tech (Suzhou) Co., Ltd. (Opto Tech Suzhou)	Research, design and manufacture of LED display, wireless communication equipment and related parts with related techniques and after-sale service	100.00	100.00	Notes 2
CSB	Bright Investment International Ltd. (Bright)	Investment business	100.00	100.00	
Bright	Everyung Investment Ltd. (Everyung)	Investment business	50.00	50.00	
Everyung	Opto Plus Technology Co., Ltd. (Opto Plus)	Manufacture and sales of LED and electronic products	100.00	100.00	

Note 1: Ho Chung Investment has been continuously acquiring the Company's common stock amounting to 888 thousand shares and disposed 219 thousand shares since 1998 to 2000. It holds about 0.2% of the Company's outstanding common stock.

Note 2: On August 11, 2016, the Board of Directors has resolved to liquidate the Company's Mainland China subsidiary, Opto Tech (Suzhou) Co., Ltd. (Opto Tech Suzhou). As of December 31, 2018, the liquidation is still under process.

Note 3: On August 14, 2017, the Board of Directors has resolved to liquidate the Company's offshore company, Opto Technology International Group Co.,Ltd. (Opto) and Opto Tech (Cayman) Co., Ltd.

Note 4: On August 14, 2017, the Board of Directors has resolved to liquidate Source Ever Limited, which was dissolved on March, 2018, and the remaining funds were repatriated to Opto Tech Corp.

Note 5: On November 8, 2018, the Board of Directors at their meeting resolved to enter into a short-form merger with its subsidiary, Jyu Shin Investment. Under the merger, the Company will be the surviving company while the Jyu Shin Investment will be the dissolved company. The effective date is December 10, 2018.

C. Subsidiaries not included in the consolidated financial statements：None.

D. Adjustments for subsidiaries with different balance sheet dates：None.

E. Nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities of the Group：None.

F. Subsidiaries that have non-controlling interests that are material to the Group：None.

(4) Foreign currency translation

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

A. Foreign currency transactions and balances

(a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.

(b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.

(c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

B. Translation of foreign operations

(a) The operating results and financial position of all the group entities, associates and joint arrangements that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;

ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and

iii. All resulting exchange differences are recognised in other comprehensive income.

(b) When the foreign operation partially disposed of or sold is an associate, exchange differences that were recorded in other comprehensive income are proportionately reclassified to profit or loss as part of the gain or loss on sale. In addition, even when the Group retains partial interest in the former foreign associate or joint arrangement after losing significant influence over the former foreign associate, or losing joint control of the former joint arrangement, such transactions should be accounted for as disposal of all interest in these foreign operations.

(c) When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation. In addition, even when the Group retains partial interest in the former foreign subsidiary after losing control of the former foreign subsidiary, such transactions should be accounted for as disposal of all interest in the foreign operation.

(5) Classification of current and non-current items

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

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

(b) Assets held mainly for trading purposes;

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

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

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

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

(b) Liabilities arising mainly from trading activities;

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

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

(6) Cash equivalents

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

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

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

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

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

D. The Group recognises the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

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

A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Group has made an irrevocable election at initial recognition to recognise changes in fair value in other comprehensive income and debt instruments which meet all of the following criteria:

(a) The objective of the Group's business model is achieved both by collecting contractual cash flows and selling financial assets; and

(b) The assets' contractual cash flows represent solely payments of principal and interest.

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

C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. The Group subsequently measures the financial assets at fair value:

The changes in fair value of equity investments that were recognised in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognised as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(9) Accounts and notes receivable

A. Accounts and notes receivable entitle the Group a legal right to receive consideration in exchange for transferred goods or rendered services.

B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(10) Impairment of financial assets

For accounts receivable or contract assets that do not contain a significant financing component, at each reporting date, the Group recognises the impairment provision for lifetime expected credit losses (ECLs).

(11) Derecognition of financial assets

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

A. The contractual rights to receive the cash flows from the financial asset expire.

B. The contractual rights to receive cash flows of the financial asset have been transferred and the Group has transferred substantially all risks and rewards of ownership of the financial asset.

C. The contractual rights to receive cash flows of the financial asset have been transferred; however, the Group has not retained control of the financial asset.

(12) Inventories

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

(13) Investments accounted for using equity method / associates

A. Associates are all entities over which the Group has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognised at cost.

B. The Group’s share of its associates’ post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Group’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

C. When changes in an associate’s equity do not arise from profit or loss or other comprehensive income of the associate and such changes do not affect the Group’s ownership percentage of the associate, the Group recognises change in ownership interests in the associate in ‘capital surplus’ in proportion to its ownership.

D. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group’s interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

E. In the case that an associate issues new shares and the Group does not subscribe or acquire new shares proportionately, which results in a change in the Group's ownership percentage of the associate but maintains significant influence on the associate, then 'capital surplus' and 'investments accounted for under the equity method' shall be adjusted for the increase or decrease of its share of equity interest. If the above condition causes a decrease in the Group's ownership percentage of the associate, in addition to the above adjustment, the amounts previously recognised in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately on the same basis as would be required if the relevant assets or liabilities were disposed of.

F. Upon loss of significant influence over an associate, the Group remeasures any investment retained in the former associate at its fair value. Any difference between fair value and carrying amount is recognised in profit or loss.

G. When the Group disposes its investment in an associate and loses significant influence over this associate, the amounts previously recognised in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it retains significant influence over this associate, the amounts previously recognised in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.

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

(14) <u>Property, plant and equipment</u>

A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.

B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.

D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Buildings and structures	10 ~ 50 years
Machinery and equipment	8 ~ 10 years
Utility equipment	6 ~ 25 years
Pollution prevention facilities	8 ~ 20 years
Transportation equipment	3 ~ 5 years
Office equipment	3 ~ 7 years
Other equipment	3 ~ 25 years

(15) Leased assets/ operating leases (lessee)

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

(16) Intangible assets

Intangible assets, mainly computer software, is stated at cost and amortised on a straight-line basis over its estimated useful life of 2 to 10 years.

(17) Impairment of non-financial assets

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

(18) Borrowings

A. Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

B. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

(19) Notes and accounts payable

Notes and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. However, short-term accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(20) Financial liabilities at fair value through profit or loss

A. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorised as financial liabilities held for trading unless they are designated as hedges, or financial liabilities at fair value through profit or loss. Financial liabilities that meet one of the following criteria are designated as at fair value through profit or loss at initial recognition:

(a) Hybrid (combined) contracts; or

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

(c) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management policy.

B. At initial recognition, the Group measures the financial liabilities at fair value. All related transaction costs are recognised in profit or loss. The Group subsequently measures these financial liabilities at fair value with any gain or loss recognised in profit or loss.

C. If the credit risk results in fair value changes in financial liabilities designated as at fair value through profit or loss, they are recognised in other comprehensive income in the circumstances other than avoiding accounting mismatch or recognising in profit or loss for loan commitments or financial guarantee contracts.

(21) Derecognition of financial liabilities

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

(22) Offsetting financial instruments

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

(23) Non-hedging derivatives

Non-hedging derivatives are initially recognised at fair value on the date a derivative contract is entered into and recorded as financial assets or financial liabilities at fair value through profit or loss. They are subsequently remeasured at fair value and the gains or losses are recognised in profit or loss.

(24) Provisions

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

(25) Employee benefits

A. Short-term employee benefits

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

B. Pensions

(a) Defined contribution plans

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

(b) Defined benefit plans

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

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

C. Termination benefits

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

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

Employees' compensation and directors' and supervisors' remuneration are recognised as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates.

(26) Employee share-based payment

For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and nonmarket vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date.

Ultimately, the amount of compensation cost recognised is based on the number of equity instruments that eventually vest.

(27) Income tax

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

B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

C. Deferred tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

D. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.

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

(28) Share capital

A. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.

B. Where the Company repurchases the Company's equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their book value and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(29) Dividends

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

(30) Revenue recognition

A. Sales of goods

(a) The Group is primarily engaged in the manufacture and sales of semiconductor components. Sales are recognised when control of the products has transferred, being when the products are delivered to the client, the client has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the client, and either the client has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied. As the time interval between the transfer of committed goods and the payment of customer does not exceed one year, the Group does not adjust the transaction price to reflect the time value of money.

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

B. Sales and installation of systems products

(a) Contracts include sales and installation services of systems products. The system products and the installation services provided by the Group are mostly not distinct and are identified to be one performance obligation since the installation services involve significant customisation and modification. Some contracts are accounted for as a separate performance obligation, and the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. The Group recognises revenue when the performance obligation is satisfied.

(b) The Group provides standard warranties on system products sold. Warranties are estimated based on historical warranty data of system products, and recognised when the amount can be reliably estimated.

(31) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker. The Group's Chief Operating Decision-Maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

(32) Reorganisation

Reorganisation under common control is recognised using book value approach.

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

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

(1) Critical judgements in applying the Group's accounting policies

None.

(2) Critical accounting estimates and assumptions

A. Allowance for inventory valuation losses

As the value of the Group's inventories are effected by market prices and product life cycles, there is a higher risk of obsolescence. For inventories aged over a certain period of time and individually identified as obsolete, the net realisable value is estimated based on historical data of inventory closeout. The net realisable value utilised in evaluating obsolete inventories involves uncertainty of estimation as it is subject to management's judgement. Inventories and allowance for inventory voluation losses were material to the consolidated financial statements.

As of December 31, 2018, the carrying amount of inventories was $1,331,401.

B. Financial assets - fair value measurement of unlisted stocks without active market

For unlisted securities without active market held by the Group, management assesses their fair values through market approach and takes into account the discount for liquidity. The valuation method is subject to management's judgement and involves uncertainty, which would effect fair value. Please refer to Note 12(c).

As of December 31, 2018, the carrying amount of unlisted stocks without active market was $889,926.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2018	December 31, 2017
Cash on hand	$ 608	$ 510
Checking demand deposits	502,047	567,641
Time deposits	1,727,571	1,556,424
Cash equivalents - Resale bonds	460,000	420,000
Total	$ 2,690,226	$ 2,544,575

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

B. Cash and cash equivalents amounting to $20,860 were pledged to others as collateral, and were classified as other financial assets. Please refer to Note 8.

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

Items	December 31, 2018
Current items:	
Financial assets mandatorily measured at fair value through profit or loss	
Funds	$ 215,000
Valuation adjustment	
Funds	5,140
Forward exchange contracts	241
Total	$ 220,381
Non-current items:	
Financial assets mandatorily measured at fair value through profit and loss	
Unlisted stocks	$ 127,048
Valuation adjustment	(20,149)
Total	$ 106,899

A. The Group recognised net gain of $16,176 on financial assets measured at fair value through profit or loss for the year ended December 31, 2018.

B. The non-hedging derivative instrument transactions and contract information are as follows:

	December 31, 2018	
Derivative Instruments	Contract Amount (Nominal Principal)	Contract period
Assets - Current items:		
Forward exchange contracts	USD $ 3,000 (thousands)	December 6, 2018~ January 17, 2019

The Group entered into forward exchange contracts to sell USD and buy TWD to hedge exchange rate risk of export proceeds. However, these forward exchange contracts are not accounted for under hedge accounting.

C. The Group has no financial assets at fair value through profit or loss pledged to others.

D. Information on financial assets at fair value through profit or loss as of December 31, 2017 is provided in Note 12(4).

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

Items	December 31, 2018
Non-current items:	
Equity instruments	
Listed stocks	$ 73,574
Unlisted stocks	477,809
Subtotal	551,383
Valuation adjustment	320,163
Total	$ 871,546

A. The Group has elected to classify equity instrument that are considered to be strategic investments as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to $871,546 as at December 31, 2018.

B. The Group sold $551,163 of stocks of Viking Tech Corporation at fair value and resulted in cumulative gains of $227,942 on disposal during the year ended December 31, 2018.

C. Amounts recognised in profit or loss and other comprehensive income in relation to the financial assets at fair value through other comprehensive income are listed below:

	December 31, 2018
Equity instruments at fair value through other comprehensive income	
Fair value change recognised in other comprehensive income	$ 265,239
Cumulative gains reclassified to retained earnings due to recognition	($ 238,478)
Dividend income recognised in profit or loss	
Held at end of period	$ 15,027

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

(4) Notes and accounts receivable

	December 31, 2018	December 31, 2017
Notes receivable	$ 13,119	$ 24,988
Accounts receivable	1,625,237	1,497,554
Accounts receivable - related parties	79,472	98,722
Less: Allowance for doubtful accounts	(49,488)	(50,672)
Allowance for doubtful accounts - related parties	(955)	(3,788)
	$ 1,667,385	$ 1,566,804

A. The ageing analysis of accounts receivable is as follows:

	December 31, 2018	December 31, 2017
Without past due	$ 1,595,445	$ 1,476,805
Up to 180 days	68,875	78,696
181 to 360 days	7,098	2,265
Over 361 days	33,291	38,510
	$ 1,704,709	$ 1,596,276

The ageing analysis was based on the past due collection date.

B. The ageing analysis of notes receivable is as follows:

	December 31, 2018	December 31, 2017
Without past due	$ 13,119	$ 24,988

The ageing analysis was based on the maturity date of the promissory note.

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

(5) Inventories

	December 31, 2018	December 31, 2017
Raw materials	$ 364,099	$ 215,355
Supplies	210,858	222,323
Work in process	286,521	317,501
Semi-finished goods	152,427	60,317
Finished goods	317,496	282,455
Total	$ 1,331,401	$ 1,097,951

The cost of inventories recognised as expense for the period:

	For the years ended December 31,	
	2018	2017
Cost of goods sold	$ 3,855,780	$ 3,858,091
(Loss on) gain from reversal of decline in market value	(113,042)	77,664
	$ 3,742,738	$ 3,935,755

During the year ended December 31, 2018, the Group reversed a previous inventory write-down and accounted for as reduction of cost of goods sold because prices of products increased and inventory of low-priced stocks declined.

During the year ended December 31, 2017, the Group wrote down inventory from cost to net realisable value accounted for as 'cost of goods sold'.

(6) Investments accounted for using equity method

	2018	2017
At January 1	$ 5,235	$ 1,202
Share of (loss) profit of investments accounted for using equity method	(4,526)	3,722
Change in other equity items (Note 6(19))	(68)	311
At December 31	$ 641	$ 5,235

Associated enterprises	December 31, 2018	December 31, 2017
VML TECHNOLOGIES B.V.	$ 641	$ 5,235

(7) Property, plant and equipment

At January 1, 2018	Buildings and structures	Machinery	Utility facilities	Pollution prevention facilities	Transportation equipment	Office equipment	Other equipment	Construction in progress and prepayment for equipment	Total
Cost	$ 2,023,361	$ 5,123,400	$ 1,064,064	$ 677,355	$ 9,151	$ 65,902	$ 1,846,504	$ 137,628	$ 10,947,365
Accumulated depreciation	(1,023,900)	(4,027,610)	(920,795)	(562,632)	(6,559)	(60,142)	(1,459,826)	-	(8,061,464)
Accumulated impairment	(59)	(7,809)	-	-	-	(143)	(122)	-	(8,133)
	$ 999,402	$ 1,087,981	$ 143,269	$ 114,723	$ 2,592	$ 5,617	$ 386,556	$ 137,628	$ 2,877,768
2018									
Opening net book amount	$ 999,402	$ 1,087,981	$ 143,269	$ 114,723	$ 2,592	$ 5,617	$ 386,556	$ 137,628	$ 2,877,768
Additions	2,579	62,925	14,588	3,195	619	2,760	20,501	523,512	630,679
Disposals	-	(51)	-	-	(179)	-	(434)	-	(664)
Reclassifications	6,675	382,291	17,551	25,964	-	9,333	44,478	(486,292)	-
Depreciation expense	(60,514)	(271,009)	(25,098)	(14,436)	(918)	(5,281)	(55,517)	-	(432,773)
Net exchange differences	(2,583)	(812)	-	-	(8)	(4)	-	-	(3,407)
Closing net book amount	$ 945,559	$ 1,261,325	$ 150,310	$ 129,446	$ 2,106	$ 12,425	$ 395,584	$ 174,848	$ 3,071,603
At December 31, 2018									
Cost	$ 2,027,334	$ 5,520,427	$ 1,097,977	$ 706,514	$ 8,969	$ 76,724	$ 1,899,447	$ 174,848	$ 11,512,240
Accumulated depreciation	(1,081,716)	(4,251,295)	(947,667)	(577,068)	(6,863)	(64,280)	(1,503,780)	-	(8,432,669)
Accumulated impairment	(59)	(7,807)	-	-	-	(19)	(83)	-	(7,968)
	$ 945,559	$ 1,261,325	$ 150,310	$ 129,446	$ 2,106	$ 12,425	$ 395,584	$ 174,848	$ 3,071,603

At January 1, 2017	Buildings and structures	Machinery	Utility facilities	Pollution prevention facilities	Transportation equipment	Office equipment	Other equipment	Construction in progress and prepayment for equipment	Total
Cost	$ 2,019,203	$ 5,008,102	$ 1,044,489	$ 655,617	$ 10,227	$ 67,582	$ 1,786,569	$ 128,924	$ 10,720,713
Accumulated depreciation	(964,073)	(3,818,898)	(901,013)	(567,712)	(7,389)	(58,322)	(1,409,791)	-	(7,727,198)
Accumulated impairment	(59)	(7,866)	-	-	(63)	(205)	(144)	-	(8,337)
	$ 1,055,071	$ 1,181,338	$ 143,476	$ 87,905	$ 2,775	$ 9,055	$ 376,634	$ 128,924	$ 2,985,178
2017									
Opening net book amount	$ 1,055,071	$ 1,181,338	$ 143,476	$ 87,905	$ 2,775	$ 9,055	$ 376,634	$ 128,924	$ 2,985,178
Additions	6,198	63,125	14,950	2,219	396	644	10,790	202,259	300,581
Disposals	-	(206)	-	(308)	(208)	(17)	(8)	-	(747)
Reclassifications	1,420	100,484	4,625	35,867	585	-	50,574	(193,555)	-
Depreciation expense	(61,419)	(256,087)	(19,782)	(10,960)	(943)	(4,056)	(51,441)	-	(404,688)
Reversal of impairment loss	-	3	-	-	-	18	7	-	28
Net exchange differences	(1,868)	(676)	-	-	(13)	(27)	-	-	(2,584)
Closing net book amount	$ 999,402	$ 1,087,981	$ 143,269	$ 114,723	$ 2,592	$ 5,617	$ 386,556	$ 137,628	$ 2,877,768
At December 31, 2017									
Cost	$ 2,023,361	$ 5,123,400	$ 1,064,064	$ 677,355	$ 9,151	$ 65,902	$ 1,846,504	$ 137,628	$ 10,947,365
Accumulated depreciation	(1,023,900)	(4,027,610)	(920,795)	(562,632)	(6,559)	(60,142)	(1,459,826)	-	(8,061,464)
Accumulated impairment	(59)	(7,809)	-	-	-	(143)	(122)	-	(8,133)
	$ 999,402	$ 1,087,981	$ 143,269	$ 114,723	$ 2,592	$ 5,617	$ 386,556	$ 137,628	$ 2,877,768

A. Amount of borrowing costs capitalised as part of property, plant and equipment and the range of the interest rates for such capitalization are as follows:

	For the years ended December 31,	
	2018	2017
Amount capitalised	$ 2,064	$ 405
Interest rate	0.58%~1.40%	0.17%~0.92%

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

(8) Intangible assets

	Software
At January 1, 2018	
Cost	$ 32,231
Accumulated amortisation	(23,180)
	$ 9,051
For the year ended December 31, 2018	
Opening net book amount	$ 9,051
Additions	11,925
Amortisation expense	(12,136)
Closing net book amount	$ 8,840
At December 31, 2018	
Cost	$ 31,627
Accumulated amortisation	(22,787)
	$ 8,840

	Software
At January 1, 2017	
Cost	$ 33,543
Accumulated amortisation	(24,230)
	$ 9,313
For the year ended December 31, 2017	
Opening net book amount	$ 9,313
Additions	12,637
Amortisation expense	(12,899)
Closing net book amount	$ 9,051
At December 31, 2017	
Cost	$ 32,231
Accumulated amortisation	(23,180)
	$ 9,051

Details of amortisation on intangible assets are as follows:

	For the years ended December 31, 2018	2017
Operating costs	$ 4,156	$ 4,687
Selling expenses	687	749
General and administration expenses	4,606	4,813
Research and development expenses	2,687	2,650
Total	$ 12,136	$ 12,899

(9) Long-term prepaid rents (shown as "Other non-current assets")

	December 31, 2018	December 31, 2017
Land-use rights	$ 3,584	$ 3,764

The Group signed the land-use rights contract in the People's Republic of China. The expiration date of the contract is in year 2053. The entire lease payment had been prepaid when the contract was signed. The amortised expense recognised was $122 and $105 for the years ended December 31, 2018 and 2017, respectively.

(10) Short-term borrowings

Type of borrowings	December 31, 2018	December 31, 2017
Unsecured bank borrowings	$ 737,660	$ 899,677
Interest rate range	0.53%~5.25%	0.53%~6.50%

(11) Other payables

	December 31, 2018	December 31, 2017
Salaries and bonus payable	$ 177,565	$ 155,464
Compensation payable to employee	112,897	117,173
Remuneration payable to directors and supervisors	37,632	35,078
Others	271,434	228,871
Total	$ 599,528	$ 536,586

(12) Long-term borrowings

Type of borrowings	Credit line	Period	Interest rate range	December 31, 2018
Unsecured Bank borrowings from Land Bank of Taiwan	$ 200,000	2018.09.20~2021.08.28	1.30%	$ 200,000
Unsecured Bank borrowings from Mega Bank	50,000	2018.12.06~2021.06.07	1.83%	50,000
Less: Current portion (shown as "Other non-current liabilities")				-
				$ 250,000

December 31, 2017: None.

(13) Pensions

A. (a) The Company and CS Bright Corporation have a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company and CS Bright Corporation contribute monthly an amount equal to 3.51% and 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by the end of December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method, to the employees expected to be qualified for retirement next year, the Company will make contributions to cover the deficit.

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

	December 31, 2018	December 31, 2017
Present value of defined benefit obligations	$ 627,716	$ 614,842
Fair value of plan assets	(434,334)	(418,865)
Net defined benefit liability	$ 193,382	$ 195,977

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

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
2018			
Balance at January 1	$ 614,842	($ 418,865)	$ 195,977
Current service cost	8,360	-	8,360
Interest (expense) income	9,832	(6,698)	3,134
	633,034	(425,563)	207,471
Remeasurements:	-	-	-
Return on plan asset (excluding amounts included in interest income or expense)	-	(8,363)	(8,363)
Change in demographic assumptions	12,345	-	12,345
Change in financial assumptions	38,733	-	38,733
Experience adjustments	(37,116)	-	(37,116)
	13,962	(8,363)	5,599
Pension fund contribution	-	(19,688)	(19,688)
Paid pension	(19,280)	19,280	-
Balance at December 31	$ 627,716	($ 434,334)	$ 193,382

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
2017			
Balance at January 1	$ 611,227	($ 375,701)	$ 235,526
Current service cost	8,689	-	8,689
Interest (expense) income	9,166	(5,635)	3,531
	629,082	(381,336)	247,746
Remeasurements:			
Return on plan asset (excluding amounts included in interest income or expense)	-	2,240	2,240
Change in demographic assumptions	22,348	-	22,348
Change in financial assumptions	(10,416)	-	(10,416)
Experience adjustments	34,827	-	34,827
	46,759	2,240	48,999
Pension fund contribution	-	(100,768)	(100,768)
Paid pension	(60,999)	60,999	-
Balance at December 31	$ 614,842	($ 418,865)	$ 195,977

(d) The Bank of Taiwan was commissioned to manage the Fund of the Company’s and CS Bright

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

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

	For the years ended December 31,	
	2018	2017
Discount rate	1.125%~1.2%	1.25%~1.60%
Future salary increases	1.75%~3%	1.75%~3%

Future mortality rate was estimated based on the 5th Taiwan Standard Ordinary Experience Mortality Table.

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

	Discount rate		Future salary increases	
	Increase 0.25%~0.5%	Decrease 0.25%~0.5%	Increase 0.25%~0.5%	Decrease 0.25%~0.5%
December 31, 2018				
Effect on present value of defined benefit obligation	($ 48,840)	$ 53,873	$ 52,616	($ 48,249)
December 31, 2017				
Effect on present value of defined benefit obligation	($ 49,667)	$ 54,975	$ 53,913	($ 49,252)

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

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

(f) Expected contributions to the defined benefit pension plans of the Group for the year ending December 31, 2019 amount to $9,682.

(g) As of December 31, 2018, the Company's and CS Bright Corporation's weighted average duration of the retirement plan is 16 and 12 years, respectively. The analysis of timing of the future pension payment was as follows:

Within 1 year	$	478,064
1-2 year(s)		14,698
2-5 years		14,445
Over 5 years		1,462
	$	508,669

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

(b) The Company's Mainland China subsidiaries, Opto Tech (Suzhou) Co., Ltd. and Opto Plus Technology Co., Ltd., have defined contribution plans. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People's Republic of China (P.R.C.) are based on certain percentage of employees' monthly salaries and wages. The above Mainland China subsidiaries' contribution percentage for both the years ended December 31, 2018 and 2017 was 20% and 14%, respectively. Other than the monthly contributions, the Group has no further obligations.

(c) The pension costs under defined contribution pension plans of the Group for the years ended December 31, 2018 and 2017 were $40,256 and $38,700, respectively.

(14) Share-based payment

A. Details of the employee stock options are set forth below:

Stock options	For the year ended December 31, 2017 No. of shares (in thousands)	Weighted-average exercise price (in dollars)
Options outstanding at beginning of period	10,755	$ 15.70
Options exercised	(8,933)	16.79
Options revoked	(1,822)	-
Options outstanding at end of period	-	-
Options exercisable at end of period	-	-

B. The weighted-average stock price of stock options at exercise dates for the year ended December 31, 2017 was $18.03.

C. On August 14, 2017, the Board of Directors of the Company approved the issuance of employee stock options authorized in 2010. The exercise price were adjusted from $14.6 (in dollars) to $18.2 (in dollars).

D. On July 7, 2017, the Board of Directors of the Company approved the issuance of employee stock options authorized in 2010. The exercise price were adjusted from $15.7 (in dollars) to $14.6 (in dollars).

(15) Provisions

Warranty	2018	2017
At January 1	$ 48,225	$ 53,868
Accrued during the year	(1,745)	8,526
Used during the period	(12,037)	(14,025)
Exchange differences	(214)	(144)
At December 31	$ 34,229	$ 48,225

Analysis of total provisions:

	December 31, 2018	December 31, 2017
Current	$ 11,970	$ 13,105
Non-current	$ 22,259	$ 35,120

The Group provides warranties on LED products sold. Provision for warranties is estimated based on historical warranty data of LED products.

(16) Share capital

A. As of December 31, 2018, the Company’s authorized capital was $10,000,000, consisting of 1,000,000 thousand shares of common stock, and the paid-in capital was $4,454,386, consisting of 445,439 thousand shares of common stock with a par value of $10 (in dollars) per share. All proceeds from shares issued have been collected. Movements in the number of the Company’s ordinary shares outstanding for years ended December 31, 2018 and 2017, are as follows (Treasury stock was deducted):

(In thousands of shares)

	2018	2017
At January 1	444,551	544,555
Employee stock options exercised	-	8,933
Cash capital reduction	-	(108,937)
At December 31	444,551	444,551

B. On March 24, 2017, the Company resolved a capital reduction of $1,091,563, representing 109,156 thousand shares of outstanding shares whose ratio is around 20%. This reduction proposal was approved at the stockholders' meeting held on June 21, 2017. This proposal was effective after being submitted to the FSC. The record date for reverse split is August 14, 2017, and shares return was completed on October 6, 2017.

C. Treasury stock

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

		December 31, 2018	
Name of company holding the shares	Reason for reacquisition	Number of Shares (thousand)	Carrying amount
The Company Subsidiary-Ho Chung Investment Co., Ltd.	The Company's shares held by its subsidiary	888	$ 24,503

		December 31, 2017	
Name of company holding the shares	Reason for reacquisition	Number of Shares (thousand)	Carrying amount
The Company Subsidiary-Ho Chung Investment Co., Ltd.	The Company's shares held by its subsidiary	888	$ 24,503

(b) The Company's shares held by its subsidiary had no voting rights before being transferred to the third party.

(17) Capital reserve

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

(18) Retained earnings

A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be distributed as follows:

(a) Offset prior years' operating losses.

(b) 10% of the remaining amount shall be set aside as legal reserve, unless the accumulated legal reserve equals the total capital of the Company.

(c) Special reserve set aside in accordance with relevant laws or regulations or as required for operations.

(d) After allocation of the above, the Board of Directors proposes a dividend distribution plan for approval by resolution at the shareholders' meeting.

B. The Company operates in the high-tech industry and its business life cycle is in the growth stage. In view of its capital expenditure demand and comprehensive financial plan for continuous development, the Company issues both stock and cash dividends. The proportion of dividends to be distributed in stocks and cash is determined based on the Company's rate of growth and capital expenditures. However, the amount of cash dividends shall not be lower than 50% of the dividends distributed.

C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the balance of the reserve excess 25% of the Company's paid-in capital.

D. In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

E. The appropriation of 2017 and 2016 earnings had been resolved at the stockholders' meeting on June 20, 2018 and June 21, 2017, respectively. Details are summarized below:

	2017		2016	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	$ 67,228		$ 85,473	
Special reserve	(59,227)		59,227	
Cash dividends	601,342	$ 1.35	654,795	$ 1.20
Total	$ 609,343		$ 799,495	

The above-mentioned 2017 earnings appropriation as approved by the stockholders were in agreement with those amount approved by the Board of Directors on March 28, 2018.

Information on the appropriation of the Company's earnings as resolved by the Board of Directors and approved by the stockholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(19) Other equity items

	Currency translation differences of foreign operations	Unrealized gain (loss) on valuation	Total
At January 1, 2018	$ 1,961	$ 221,384	$ 223,345
Effects of applying new standards	-	3,210	3,210
Balance at January 1 after adjustments	1,961	224,594	226,555
Financial assets at fair value through other comprehensive income			
Revaluation - Group	-	291,055	291,055
Tax on revaluation		(25,816)	(25,816)
Revaluation transferred to retained earnings	-	(238,478)	(238,478)
Currency translation differences:			
-Group	128	-	128
-Associates	(68)	-	(68)
At December 31, 2018	$ 2,021	$ 251,355	$ 253,376

	Currency translation differences of foreign operations	Unrealized gain (loss) on valuation	Total
At January 1, 2017	$ 3,099	($ 51,073)	($ 47,974)
Available-for-sale financial assets			
Revaluation - Group	-	309,140	309,140
Tax on revaluation - Group	-	(36,683)	(36,683)
Currency translation differences:			
-Group	(1,449)	-	(1,449)
-Associates	311	-	311
At December 31, 2017	$ 1,961	$ 221,384	$ 223,345

(20) Operating revenue

	For the year ended December 31, 2018
Revenue from contracts with customers	$ 5,364,610

The Group derives revenue in the following major product lines:

For the year ended December 31, 2018	LED and Silicon Sensor Chips Group	Displays and Lighting Group	Packaging Business Group	Other segments	Total
Revenue from external customer contracts	$ 4,142,551	$ 920,588	$ 296,631	$ 4,840	$ 5,364,610

(21) Other income

	For the years ended December 31,	
	2018	2017
Interest income:		
Interest income from bank deposits	$ 11,072	$ 10,072
Interest income from repurchase bonds	1,457	1,915
Other interest income	1,259	1,500
Rental revenue	468	1,347
Dividend income	15,027	21,024
Others	16,691	56,818
Total	$ 45,974	$ 92,676

(22) Other gains and losses

	For the years ended December 31,	
	2018	2017
Loss on disposal of property, plant and equipment	($ 617)	($ 400)
Gain on disposal of investments	1,188	2,518
Net currency exchange gain (loss)	11,991	(41,068)
Net gain on financial assets and liabilities at fair value through profit or loss	16,176	1,088
Reversal of impairment loss on non-financial assets	-	28
Others	(1,127)	(3,132)
Total	$ 27,611	($ 40,966)

(23) Finance costs

	For the years ended December 31,	
	2018	2017
Interest expense:		
Bank borrowings	$ 29,020	$ 25,636
Less: Capitalisation of qualifying assets	(2,064)	(405)
	26,956	25,231
Other financial costs	115	945
Total	$ 27,071	$ 26,176

(24) Expenses by nature

	For the years ended December 31,	
	2018	2017
Employee benefit expense	$ 1,266,529	$ 1,212,688
Depreciation on property, plant and equipment	432,773	404,688
Amortisation on intangible assets	12,136	12,899
Total	$ 1,711,438	$ 1,630,275

(25) Employee benefit expense

	For the years ended December 31,	
	2018	2017
Wages and salaries	$ 1,058,778	$ 1,014,363
Labor and health insurance fees	90,190	84,968
Pension costs	51,750	50,920
Directors' and supervisors' remuneration	38,892	38,038
Other personnel expenses	26,919	24,399
	$ 1,266,529	$ 1,212,688

A. According to the Articles of Incorporation of the Company, if the Company has profit during the year, the Company shall distribute bonus to the employees that account for 10%~15% and pay remuneration to the directors and supervisors that shall not be higher than 5%, of the total distributed amount. If the Company has an accumulated deficit, earnings should be used to cover losses. Employees' compensation can be distributed in the form of shares or in cash. Qualification requirements of employees, including the employees of subsidiaries of the Company meeting certain specific requirements, entitled to receive aforementioned stock or cash may be specified in the Articles of Incorporation.

B. For the years ended December 31, 2018 and 2017, the employees' compensation was accrued at $108,576 and $105,235, respectively; directors' and supervisors' remuneration was accrued at $36,192 and $35,078, respectively. The aforementioned amounts were recognised in salary expense. The employees' compensation and directors' and supervisors' remuneration were estimated and accrued based on 11.7% and 3.90%, respectively, of distributable profit of current period distributable as of the end of reporting period.

C. For the years ended December 31, 2018 and 2017, CS Bright Corporation's, the indirect subsidiary of the Company, employees' compensation was accrued at $4,321 and $776, respectively; directors' and supervisors' remuneration was accrued at $1,440 and $0, respectively. The aforementioned amounts were recognised in salary expense. The employees' compensation and directors' and supervisors' remuneration were estimated and accrued based on 15% and 5% of distributable profit of current period as of the end of reporting period.

D. Employees' compensation and directors' and supervisors' remuneration of 2017 as resolved by the Board of Directors are the same as the amount recognised in the consolidated financial statements.

E. Information about employees' compensation and directors' and supervisors' remuneration of the Company as resolved at the Board of Directors' meeting will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(26) Income tax

A. Income tax expense

(a) Components of income tax expense:

	For the years ended December 31, 2018	2017
Current tax:		
Current tax on profits for the period	$ 118,940	$ 128,559
Tax on undistributed surplus earnings	6,243	2,230
Prior year income tax underestimation	-	699
Total current tax	125,183	131,488
Deferred tax:		
Origination and reversal of temporary differences	19,031	5,241
Impact of tax losses	(2,599)	3,789
Impact of change in tax rate	(14,761)	-
Total deferred tax	1,671	9,030
Income tax expense	$ 126,854	$ 140,518

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

	For the years ended December 31, 2018	2017
Remeasurement of defined benefit obligations	($ 1,163)	($ 8,329)
Changes in fair value of financial assets at fair value through other comprehensive income	18,229	36,683
Impact of change in tax rate	3,935	-
Total	$ 21,001	$ 28,354

(c) The income tax charged to equity during the period is as follows:

	For the years ended December 31,	
	2018	2017
Disposal of financial assets at fair value through other comprehensive income	$ 10,536	$ -

B. Reconciliation between income tax expense and accounting profit

	For the years ended December 31,	
	2018	2017
Tax calculated based on profit before tax and statutory tax rate	$ 165,390	$ 148,927
Expenses disallowed by tax regulation	4,120	1,988
Tax exempt income by tax regulation	(21,272)	(1,887)
Change in assessment of realisation of deferred tax assets	(12,866)	(11,422)
Prior year income tax underestimation	-	699
Tax on undistributed earnings	6,243	2,230
Effect from earnings below tax threshold	-	(17)
Impact of change in tax rate	(14,761)	-
Income tax expense	$ 126,854	$ 140,518

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

	For the year ended December 31, 2018			
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Temporary differences:				
- Deferred tax assets (liabilities):				
Loss on inventory value decline	$35,013	($ 8,578)	$ -	$ 26,435
Expected credit loss	7,446	1,739	-	9,185
Service warranty expense	6,415	(1,503)	-	4,912
Impairment loss	6,261	(118)	-	6,143
Net pension costs	11,539	2,090	-	13,629
Remeasurement of defined benefit obligations	20,692	-	4,815	25,507
Unrealized gain on valuation of financial assets	(42,992)	-	(25,816)	(68,808)
Others	8,548	594	-	9,142
Tax losses	8,396	4,105	-	12,501
Total	$ 61,318	($ 1,671)	($ 21,001)	$ 38,646

	For the year ended December 31, 2017			
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Temporary differences:				
- Deferred tax assets (liabilities):				
Loss on inventory value decline	$26,151	$ 8,862	$ -	$ 35,013
Over provision of allowance for bad debts	7,441	5	-	7,446
Service warranty expense	7,064	(649)	-	6,415
Impairment loss	7,300	(1,039)	-	6,261
Net pension costs	26,483	(14,944)	-	11,539
Remeasurement of defined benefit obligations	12,363	-	8,329	20,692
Unrealized gain on valuation of available-for-sale financial assets	(6,309)	-	(36,683)	(42,992)
Others	6,003	2,545	-	8,548
Tax losses	12,206	(3,810)	-	8,396
Total	$98,702	($ 9,030)	($ 28,354)	$ 61,318

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

December 31, 2018			
Year incurred	Amount filed/ assessed	Unused amount	Amount of unrecognised deferred tax assets
2009	$ 38,634	$ 19,727	$ -
2010	123,142	123,142	97,964
2011	7,266	7,266	-
2012	10,332	10,332	-
	$ 179,374	$ 160,467	$ 97,964

December 31, 2017			
Year incurred	Amount filed/ assessed	Unused amount	Amount of unrecognised deferred tax assets
2008	$ 12,202	$ 3,862	$ -
2009	38,634	38,634	23,401
2010	123,142	123,142	107,790
2011	7,266	7,266	-
2012	10,332	10,332	2,656
	$ 191,576	$ 183,236	$ 133,847

E. The amounts of deductible temporary difference that are not recognised as deferred tax assets are as follows:

	December 31, 2018	December 31, 2017
Deductible temporary differences	$ 327,112	$ 361,268

F. As of December 31, 2018, the Company's income tax returns through 2016 have been assessed and approved by the Tax Authority.

G. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China on February 7, 2018, the Company's applicable income tax rate will be raised from 17% to 20% effective from January 1, 2018. The Group has assessed the impact of the change in income tax rate.

(27) Earnings per share

	For the year ended December 31, 2018		
	Profit after tax	Weighted-average outstanding common shares (in thousands)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to owners of the parent	$ 653,107	444,551	$ 1.47
Dilutive effect of common stock equivalents:			
Employees' compensation	-	7,127	
Diluted earnings per share			
Profit attributable to owners of the parent plus dilutive effect of common stock equivalents	$ 653,107	451,678	$ 1.45

	For the year ended December 31, 2017		
	Profit after tax	Weighted-average outstanding common shares (in thousands)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to owners of the parent	$ 672,283	507,345	$ 1.33
Dilutive effect of common stock equivalents:			
Employees' stock option	-	5,291	
Employees' compensation	-	6,570	
Diluted earnings per share			
Profit attributable to owners of the parent plus dilutive effect of common stock equivalents	$ 672,283	519,206	$ 1.29

(28) Operating leases

The Company had entered into agreements to lease land and plant from Hsinchu Science Park and other related parties for the period from 1997 to 2037 and the period from 2018 to 2022, respectively. CS Bright Corporation and Opto Macao had entered into an agreement to lease office from a non-related party. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	December 31, 2018	December 31, 2017
Not later than 1 year	$ 33,477	$ 20,347
Later than 1 year but not later than 5 years	79,929	79,486
Later than 5 years	203,239	161,957
	$ 316,645	$ 261,790

(29) Changes in liabilities from financing activities

	Short-term borrowings	Long-term borrowings	Guarantee deposits	Liabilities from financing activities-gross
At January 1, 2018	$ 899,677	$ -	$ 3,390	$ 903,067
Increase in short-term borrowings	2,407,765	-	-	2,407,765
Decrease in short-term borrowings	(2,574,914)	-	-	(2,574,914)
Increase in long-term borrowings	-	404,045	-	404,045
Decrease in long-term borrowings	-	(154,045)	-	(154,045)
Decrease in guarantee deposits	-	-	(996)	(996)
Impact of changes in foreign exchange rate	5,132	-	-	5,132
At December 31, 2018	$ 737,660	$ 250,000	$ 2,394	$ 990,054

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

Names of related parties	Relationship with the Company
Shin-Etsu Opto Electronic Co., Ltd.	The Company is the director of this company; this company is the director of the Company.
Giga Epitaxy Technology Corp.	The Company is the director of this company.
Nichia Taiwan Corp.	This company is the director of the Company.
Nichia Corp.	This company's subsidiary is the director of the Company.
VML Technologies B.V.	This company is an investment of Ho Chung Investment Co., Ltd. accounted for using equity method.

(2) Significant transactions and balances with related parties

A. Operating revenue:

	For the years ended December 31,			
	2018		2017	
Sales of goods:				
Associates	$	878	$	36,415
Other related parties		316,610		401,487
Total	$	317,488	$	437,902

The selling prices charged to the above related parties are not materially different from those charged to non-related parties. For the years ended December 31, 2018 and 2017, the credit term was 45 ~ 136 days for the related parties, and 90 ~ 150 days for the non-related parties for both periods.

B. Purchases:

	For the years ended December 31,			
	2018		2017	
Purchases of goods:				
Other related parties	$	378,958	$	488,819

The purchase prices charged by the above related parties were not materially different from those charged by non-related parties. For the years ended December 31, 2018 and 2017, the credit term was 60 ~ 120 days for the related parties, and 90 ~ 120 days for the non-related parties for both periods.

C. Accounts receivable:

	December 31, 2018		December 31, 2017	
Receivables from related parties:				
Associates	$	340	$	-
Other related parties		79,132		98,722
Less:Allowance for doubtful accounts	(	955)	(	3,788)
Total	$	78,517	$	94,934

D. Accounts payable:

	December 31, 2018		December 31, 2017	
Payables to related parties:				
Other related parties				
Nichia Taiwan Corp.	$	46,225	$	85,367
Others		41,738		75,168
Total	$	87,963	$	160,535

E. Rent expense

	For the years ended December 31,	
	2018	2017
Other related parties	$ 2,400	$ -

The Company leases plant and machinery from related parties. The monthly rental payments are mutually agreed upon. The payment terms are not materially different from those charged by non-related parties.

(3) Key management compensation

	For the years ended December 31,	
	2018	2017
Salaries and other short-term employee benefits	$ 75,884	$ 73,445
Post-employment benefits	490	481
Total	$ 76,374	$ 73,926

8. PLEDGED ASSETS

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

	Book value		Purpose of pledge	
Pledged assets	December 31, 2018	December 31, 2017	Creditor Bank	Type
Restricted assets-Time deposits, (shown as "other current assets")	$ 20,860	$ 20,860	Chang Hwa Commercial Bank	Land lease and dormitory lease deposits

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) As of December 31, 2018, the guarantees provided by the Group through banks were as follows:

Guarantor	Nature of Guarantee	Amount
Chang Hwa Commercial Bank	Customs duty	$ 14,000
Chang Hwa Commercial Bank	Warranty	20,860
Mega International Commercial Bank	〃	8,080
Taipei Fubon Commercial Bank	〃	1,478
Taishin International Bank	Borrowing	185,010
		$ 229,428

(2) As of December 31, 2018, the outstanding letters of credit issued for the importation of raw materials and machinery were as follows:

	Amount (thousands)
TWD	17,224
JPY	15,680
USD	604

(3) Operating lease commitments:
Please refer to Note 6(28).

(4) As of December 31, 2018, the promissory notes issued by the Company and CS Bright Corporation for loans, performance guarantee for purchases and loans granted for subsidiaries amounted to $4,644,810.

(5) As of December 31, 2018, the capital expenditure contracted but not yet incurred is $40,788.

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

(1) On January 15, 2019, the Company signed a joint credit grant of $1.2 billion with four financial institutions including China Trust Commercial Bank. The Company promised that the current ratio should be no less than 100% and the debt ratio should not be higher than 100% per half year. The interest coverage ratio shall not be less than 300% and the tangible net value shall be maintained at more than 5 billion yuan (inclusive). If the financial ratio of the previous opening is not met or the default of the majority of the credit bank group is found, the banking group will stop the allocation. The item also requires the payment of the full unliquidated balance of the claim in advance.

(2) The Company passed a resolution of the Board of Directors on March 13, 2019. As a result of the liquidation and dissolution of Opto Tech (Suzhou) Co., Ltd. (Opto Tech Suzhou), a 100%-transferred investment company, it agreed to exempt the company from the payment of 1.25 million US dollar claims.

12. OTHERS

(1) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders or issue new shares to reduce debt. The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

As of December 31, 2018 and 2017, the gearing ratios were (29.21%) and (29.48%), respectively.

(2) Financial instruments

A. Financial instruments by category

	December 31, 2018	December 31, 2017
Financial assets		
Financial assets measured at fair value through profit or loss		
Financial assets mandatorily measured at fair value through profit or loss	$ 327,280	$ -
Financial assets held for trading	-	300,265
Financial assets at fair value through other comprehensive income	871,546	-
Available-for-sale financial assets	-	1,222,491
Financial assets at amortised cost/Loans and receivables		
Cash and cash equivalents	2,690,226	2,544,575
Notes receivable	13,119	24,988
Accounts receivable (including related parties)-net	1,654,266	1,541,816
Other accounts receivable	12,793	11,133
Guarantee deposits paid	26,446	33,879
Other financial assets	20,860	20,860
	$ 5,616,536	$ 5,700,007

	December 31, 2018	December 31, 2017
Financial liabilities		
Financial liabilities at amortised cost		
Short-term borrowings	$ 737,660	$ 899,677
Notes payable	33	2,158
Accounts payable (including related parties)	661,970	792,108
Other accounts payable	599,528	536,586
Long-term borrowings (including current portion)	250,000	-
Guarantee deposits received	2,394	3,390
	$ 2,251,585	$ 2,233,919

B. Financial risk management policies

(a) The Group’s activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group’s financial position and financial performance.

(b) The plans for material treasury activities are reviewed by Board of Directors in accordance with procedures required by relevant regulations or internal controls. During the implementation of such plans, Corporate Treasury function must comply with certain treasury procedures that provide guiding principles for overall financial risk management and segregation of duties.

C. Significant financial risks and degrees of financial risks

(a) Market risk

<u>Foreign exchange risk</u>

i. The Group operates internationally and is exposed to foreign exchange risk arising from the transactions of the Company and its subsidiaries used in various functional currency, primarily with respect to the USD and JPY. Exchange rate risk arises from future commercial transactions and recognised assets and liabilities.

ii. To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, entities in the Group use forward foreign exchange contracts, transacted with Group treasury. The expired dates of these forward foreign exchange contracts are shorter than 6 months and are not accounted for under hedge accounting. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity’s functional currency.

iii. As the foreign operations are strategic investments, the Company does not hedge for them.

iv. The Group’s businesses involve some non-functional currency operations (the Company’s and certain subsidiaries’ functional currency: TWD; other subsidiaries’ functional currency: CNY). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

	December 31, 2018			For the year ended December 31, 2018 Sensitivity Analysis			
	Foreign currency amount (in thousands)	Exchange rate	Book value (TWD)	Extent of variation	Effect on profit or loss	Effect on other compre-hensive income	Unrealized exchange gain or (loss)
(Foreign currency: functional currency)							
Financial assets							
Monetary items							
USD : TWD	$ 49,332	30.665	$ 1,512,766	1%	$ 15,128	$ -	($ 4,423)
JPY : TWD	183,614	0.2762	50,714	1%	507	-	551
CNY : TWD	20,384	4.447	90,648	1%	906	-	(279)
USD : CNY (Note)	993	6.8683	30,500	1%	305	-	55
Financial liabilities							
Monetary items							
USD : TWD	$ 24,616	30.765	$ 757,311	1%	($ 7,573)	$ -	$ 4,325
JPY : TWD	442,719	0.2802	124,050	1%	(1,241)	-	(2,519)
USD : CNY (Note)	21	6.8683	645	1%	(6)	-	6

	December 31, 2017			For the year ended December 31, 2017 Sensitivity Analysis			
	Foreign currency amount (in thousands)	Exchange rate	Book value (TWD)	Extent of variation	Effect on profit or loss	Effect on other compre-hensive income	Unrealized exchange gain or (loss)
(Foreign currency: functional currency)							
Financial assets							
Monetary items							
USD : TWD	$ 49,197	29.710	$ 1,461,643	1%	$ 14,616	$ -	($ 16,908)
JPY : TWD	411,206	0.2622	107,818	1%	1,078	-	(1,803)
CNY : TWD	22,160	4.5400	100,606	1%	1,006	-	165
USD : CNY (Note)	712	6.5192	21,189	1%	212	-	209
Financial liabilities							
Monetary items							
USD : TWD	$ 29,024	29.810	$ 865,205	1%	($ 8,652)	$ -	$ 13,763
JPY : TWD	675,234	0.2662	179,747	1%	(1,797)	-	1,226
USD : CNY (Note)	28	6.5192	833	1%	(8)	-	12

Note：If the consolidated entities’ functional currency is not TWD, the foreign currency denominated assets and liabilities of the consolidated entities should be disclosed. For example, when the functional currency of a subsidiary is CNY, its USD foreign currency positions should also be disclosed.

Price risk

i. The Group's equity securities, which are exposed to price risk, are the held financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and available-for- sale financial assets. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio.

ii. The Group's investments in equity securities comprise domestic listed and unlisted stocks. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these domestic funds, equity securities of listed company or unlisted company had increased/decreased by 5%, 20% or 10%, respectively, with all other variables held constant, post-tax profit the year ended December 31, 2018 and 2017 would have increased/decreased by $21,697 and $15,007, respectively, as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would have increased/decreased by $96,007 and $118,355 as a result of gains/losses on equity securities classified as financial assets at fair value through other comprehensive income or loss and available-for-sale.

Interest rate risk

i. The Group's interest rate risk arises from long-term borrowings. Borrowings issued at floating rates expose the Group to cash flow interest rate risk which is partially offset by cash and cash equivalents held at floating rates. During the years ended December 31, 2018 and 2017, the Group's borrowings at floating rate were denominated in TWD, USD and JPY.

ii. At December 31, 2018 and 2017, if interest rates on borrowings had been 100 basis point higher/lower with all other variables held constant, post-tax profit for the years ended December 31, 2018 and 2017 would have been $8,206 and $6,628 lower/higher, respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors, the utilisation of credit limits is regularly monitored. Credit risk arises from cash and equivalents, derivative financial instruments and deposits with bank and financial institutions, as well as operating activities, including outstanding receivables.

ii. The default occurs when the contract payments are past due over 181 days for distributors and 361 days for other customers, respectively.

iii. The Group classifies customers' accounts receivable, in accordance with credit risk on trade and customer types. The Group applies the simplified approach using loss rate methodology to estimate expected credit loss under the provision matrix basis.

iv. The following indicators are used to determine whether the credit impairment of debt instruments has occurred:

(i) It becomes probable that the issuer will enter bankruptcy or other financial reorganization due to their financial difficulties;

(ii) The disappearance of an active market for that financial asset because of financial difficulties;

(iii) Default or delinquency in interest or principal repayments;

(iv) Adverse changes in national or regional economic conditions that are expected to cause a default.

v. The Group used historical and timely information to assess the default possibility of accounts receivable (including related parties). On December 31, 2018, the loss rate methodology is as follows:

	Individual	Group	Total
At December 31, 2018			
Expected loss rate	100%	0.01%~100%	
Total book value	$ 8,846	$ 1,708,982	$ 1,717,828
Loss allowance	$ 8,846	$ 41,597	$ 50,443

vi. As at December 31, 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the Group's accounts receivable was $1,667,385.

vii. Movements in relation to the group applying the simplified approach to provide loss allowance for accounts receivable are as follows:

	2018
	Accounts receivable
At January 1_IAS 39	$ 54,460
Adjustments under new standards	-
At January 1_IFRS 9	54,460
Reversal of impairment loss	(3,578)
Effect of foreign exchange	(439)
At December 31	$ 50,443

viii. The Group conducts business with banks and financial institutions with sound reputation, and therefore do not expect the financial assets at amortized cost to have credit risk.

ix. Credit risk information as of December 31, 2017 is provided in Note 12(4).

(c) Liquidity risk

i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times.

ii. The table below analyses the Group's non-derivative financial liabilities and derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities.

Non-derivative financial liabilities：

December 31, 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 5 years	Over 5 years
Short-term borrowings	$ 737,660	$ -	$ -	$ -	$ -
Notes payable	33	-	-	-	-
Accounts payable (including related parties)	661,970	-	-	-	-
Other payables	599,528	-	-	-	-
Long-term borrowings (including current portion)	3,515	3,515	252,106	-	-

Non-derivative financial liabilities：

December 31, 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 5 years	Over 5 years
Short-term borrowings	$ 899,677	$ -	$ -	$ -	$ -
Notes payable	2,158	-	-	-	-
Accounts payable (including related parties)	792,108	-	-	-	-
Other payables	536,586	-	-	-	-

(3) Fair value information

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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

Level 3: Unobservable inputs for the asset or liability.

B. The carrying amounts of cash and cash equivalents, notes receivable, accounts receivable, other receivables, short-term borrowings, notes payable, accounts payable, other payables and long-term borrowings are approximate to their fair value.

C. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities at December 31, 2018 and 2017 is as follows:

December 31, 2018	Level 1	Level 2	Level 3	Total
Assets:				
Recurring fair value measurements				
Financial assets at fair value through profit or loss				
Equity securities	$ -	$ -	$ 106,899	$ 106,899
Domestic funds	220,140	-	-	220,140
Forward exchange contract	-	241	-	241
Financial assets at fair value through other comprehensive income	88,519	-	783,027	871,546
Total	$ 308,659	$ 241	$ 889,926	$ 1,198,826

December 31, 2017	Level 1	Level 2	Level 3	Total
Assets:				
Recurring fair value measurements				
Financial assets at fair value through profit or loss				
Domestic funds	$ 300,138	$ -	$ -	$ 300,138
Forward exchange contract	-	127	-	127
Available-for-sale financial assets				
Equity securities	409,644	-	812,847	1,222,491
Total	$ 709,782	$ 127	$ 812,847	$ 1,522,756

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

(a) The instruments the Group used market quoted prices as their fair values (that is, Level 1) are composed of listed shares using closing price and open-end fund using net asset value at balance sheet date.

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

(c) When assessing non-standard and low-complexity financial instruments, the Group adopts valuation technique that is widely used by market participants. The inputs used in the valuation method to measure these financial instruments are normally observable in the market. Forward exchange contracts are usually valued based on the current forward exchange rate.

(d) The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Group's financial and non-financial instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs. In accordance with the Group's management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial and non-financial instruments at the consolidated balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.

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

F. The following chart is the movement of Level 3 financial instruments of equity securities for the years ended December 31, 2018 and 2017.

	2018	2017
At January 1	$ 812,847	$ 602,534
Losses recognised in income (Note)	16,060	-
Losses recognised in other comprehensive income (Note)	61,019	210,313
At December 31	$ 889,926	$ 812,847

Note: Recorded as unrealized valuation gain or loss of financial assets at fair value through other comprehensive income and available-for-sale financial assets.

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

H. Financial segment is in charge of valuation procedures for fair value measurements being categorized within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions and reviewing periodically.

I. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

	Fair value at December 31, 2018	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity:					
Unlisted shares	$ 889,926	Market comparable companies	Price to earnings ratio multiple	0.82~1.20	The higher the multiple, the higher the fair value.
			Discount for lack of volatility	17.72%~27.90%	The higher the discount for lack of marketability, the lower the fair value.

	Fair value at December 31, 2017	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity:					
Unlisted shares	$ 812,847	Market comparable companies	Price to earnings ratio multiple	0.84~1.24	The higher the multiple, the higher the fair value.
			Discount for lack of volatility	15.6%~29.3%	The higher the discount for lack of marketability, the lower the fair value.

J. The Group has carefully assessed the valuation models and assumptions used to measure fair value. However, use of different valuation models or assumptions may result in different measurements. The following is the effect of profit or loss or of other comprehensive income from financial assets and liabilities categorised within Level 3 if the inputs used to valuation models have changed:

			December 31, 2018			
			Recognised in profit or loss		Recognised in other comprehensive income	
	Input	Change	Favourable change	Unfavourable change	Favourable change	Unfavourable change
Financial assets						
Equity instrument	Discount of lack of volatility	±5%	$ 1,151	$ (1,151)	$ 15,106	($ 15,106)

			December 31, 2017			
			Recognised in profit or loss		Recognised in other comprehensive income	
	Input	Change	Favourable change	Unfavourable change	Favourable change	Unfavourable change
Financial assets						
Equity instrument	Discount of lack of volatility	±5%	$ -	$ -	$ 14,855	($ 14,855)

(4) Effects on initial application of IFRS 9 and IFRS 15, and information of adopting IAS 39 and IAS 18 for the year ended December 31, 2017

A. Please refer to Note 4 in the consolidated financial statements for the year ended December 31, 2017 for the significant accounting policies in compliance with International Accounting Standard 39 ('IAS 39') and International Accounting Standard 18 ('IAS 18') for the year ended December 31, 2017.

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

		Available-for-sale-equity		Effects	
	Measured at fair value through profit or loss	Measured at fair value through other comprehensive income-equity	Total	Retained earnings	Others equity
IAS 39	$ 300,265	$ 1,222,491	$ 1,522,756	$ -	$ -
Transferred into and measured at fair value through profit or loss	90,839	(90,839)	-	(36,210)	36,210
Transferred into and measured at fair value through other comprehensive income-equity	-	-	-	33,000	(33,000)
IFRS 9	$ 391,104	$ 1,131,652	$ 1,522,756	($ 3,210)	$ 3,210

(a) Under IAS 39, the equity instruments, which were classified as available-for-sale financial assets, amounting to $1,131,652, were not held for the purpose of trading, they were reclassified as "financial assets at fair value through other comprehensive income" amounting to $1,131,652, and resulted in increased retained earnings and decreased other equity interest both in the amount of $33,000 on initial application of IFRS 9.

(b) Under IAS 39, the equity instruments, which were classified as available-for-sale financial assets, amounting to $90,839, were reclassified as "financial assets at fair value through profit or loss" amounting to $90,839, and resulted in decreased retained earnings and increased other equity interest both in the amount of $36,210 under IFRS 9.

C. The significant accounts as of December 31, 2017 are as follows:

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

Items	December 31, 2017
Current items:	
Financial assets held for trading	
Domestic funds	$ 295,000
Valuation adjustment of financial assets held for trading	
Domestic funds	5,138
Forword exchange contract	127
	$ 300,265

i The Group recognised net gain of $1,088 for the year ended December 31, 2017.

ii. The non-hedging derivative instrument transactions and contract information are as follows:

	December 31, 2017	
Derivative Instruments	Contract Amount (Nominal Principal)	Contract period
Current Items:		December 13, 2017 ~
Forward exchange contracts	USD$ 1,000 (thousands)	January 16, 2018

(b)Available-for-sale financial assets

Items	December 31, 2017
Non-current items:	
Listed stocks	$ 386,258
Unlisted shares	571,857
	958,115
Valuation adjustment	264,376
	$ 1,222,491

The Group recognised $309,140 in other comprehensive income for fair value change for the year ended December 31, 2017.

D. Credit risk information for the year ended December 31, 2017 are as follows :

(a) Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors, the utilisation of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as operating activities, including outstanding receivables.

(b) As of December 31, 2017, the Group's 10 largest customers accounted for 74% of the balance of the Group's account receivable. The centralized credit risk of other accounts receivable is not relatively significant.

(c) Movement analysis of financial assets that were impaired is as follows:

i. As of December 31, 2017, the Group's accounts receivable that were impaired amounted to $8,572.

ii. Movements in the provision for impairment are as follows:

	2017		
	Individual provision	Group provision	Total
At January 1	$ 1,065	$ 67,998	$ 69,063
Provision for impairment	7,507	-	7,507
Reversal of impairment	-	(25,388)	(25,388)
Write-offs during the period	-	(40)	(40)
Effects of foreign exchange	-	(470)	(470)
At December 31	$ 8,572	$ 42,100	$ 50,672

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

A. Loans to others: Please refer to table 1.

B. Provision of endorsements and guarantees to others: Please refer to table 2.

C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 3.

D. Acquisition or sale of the same security with the accumulated cost exceeding $300 million or 20% of the Company's paid-in capital: None.

E. Acquisition of real estate reaching $300 million or 20% of paid-in capital or more: None.

F. Disposal of real estate reaching $300 million or 20% of paid-in capital or more: None.

G. Purchases or sales of goods from or to related parties reaching $100 million or 20% of paid-in capital or more: Please refer to table 4.

H. Receivables from related parties reaching $100 million or 20% of paid-in capital or more: None.

I. Trading in derivative instruments undertaken during the reporting periods: Please refer to Notes 6(2) and 12(4).

J. Significant inter-company transactions during the reporting periods: Please refer to table 5.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China)：Please refer to table 6.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 7.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 8.

14. SEGMENT INFORMATION

(1) General information

The Group identifies the entity's operating segments based on the decision of the Chief Operating Decision-Maker and in accordance with IFRS 8 "Operating Segments".

For the years ended December 31, 2018 and 2017, operating segments required to be disclosed are categorized as LED and Silicon Sensor Chips Group, Displays and Lightening Group, Packaging Business Group, and Other Segments.

(2) Measurement of segment information

The Group's segment is measured by Board of Directors with operating profit (loss) before tax, which is used as a basis for the Group in assessing the performance of the operating segments.

The accounting policies of the operating segments are in agreement with the significant accounting policies summarized in Note 4.

(3) Segment information

The segment information provided to the Chief Operation Decision-Maker for the reportable segments is as follow:

	For the year ended December 31, 2018				
	LED and Silicon Sensor Chips Group	Displays and Lighting Group	Packaging Business Group	Other segments	Total
Revenue from external customers	$ 4,142,551	$ 920,588	$ 296,631	$ 4,840	$ 5,364,610
Segment income (loss)	$ 731,717	$ 27,283	$ 22,934	($ 1,939)	$ 779,995

	For the year ended December 31, 2017				
	LED and Silicon Sensor Chips Group	Displays and Lighting Group	Packaging Business Group	Other segments	Total
Revenue from external customers	$ 4,204,220	$ 1,050,643	$ 315,246	$ 19,744	$ 5,589,853
Segment income (loss)	$ 778,850	$ 40,312	$ 31,531	($ 37,862)	$ 812,831

(4) Reconciliation for segment income (loss)

A. The revenue from external customers reported to the Chief Operating Decision-Maker is measured in a manner consistent with that in the statement of comprehensive income.

B. A reconciliation of reportable segment income or loss to the income (loss) before tax from continuing operations is measured in a manner consistent with that in the statement of comprehensive income.

(5) Information on products and services

External revenue mainly comes from sales of semiconductor, system and packaging products. Summary of balance of revenue is as follows:

	For the years ended December 31	
	2018	2017
LED	$ 1,555,212	$ 1,847,408
Silicon sensor	2,588,059	2,369,900
System product revenues	903,146	1,036,269
Packaging product revenues	296,631	315,246
Others	21,562	21,030
	$ 5,364,610	$ 5,589,853

(6) Geographical information

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

	For the years ended December 31			
	2018		2017	
	Revenue	Non-current assets	Revenue	Non-current assets
Taiwan	$ 1,660,587	$ 2,958,272	$ 1,916,511	$ 2,764,726
Mainland China	1,805,232	176,379	1,775,342	193,338
Other countries	1,898,791	-	1,898,000	-
	$ 5,364,610	$ 3,134,651	$ 5,589,853	$ 2,958,064

(7) Major customer information

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

	For the years ended December 31	
	2018	2017
Customer A	$ 926,536	$ 872,399
Customer B	554,068	377,245
	$ 1,480,604	$ 1,249,644

Opto Tech Corporation and subsidiaries

Loans to others

For the year ended December 31, 2018

Table 1 Expressed in thousands of TWD

No. (Note 1)	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding balance during the year ended December 31, 2018	Balance at December 31, 2018	Actual amount drawn down	Interest rate	Nature of loan (Note 2)	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral		Limit on loans granted to a single party (Note 3)	Ceiling on total loans granted (Note 4)	Remark
													Item	Value			
0	Opto Tech Corp.	Opto Tech (Suzhou) Co., Ltd.	Other receivables-Related Parties	Yes	$ 125,113	$ 55,197	$ 38,331	3.23050%	2	$ -	Pay debt	$ -	None	$ -	$ 752,721	$ 3,010,883	
1	CS Bright Corp.	Opto Plus Technology Co., Ltd.	Other receivables-Related Parties	Yes	29,436	22,857	22,857	-	1	189,893	None	-	None	-	189,893	31,758	

Note 1: The numbers filled in for the loans provided by the Company or subsidiaries are as follows:

(1)The Company is “0”.

(2)The subsidiaries are numbered in order starting from “1”.

Note 2: Relationship with the borrower is classified into the following categories:

(1)The borrower having business relationship is numbered as “1”.

(2) The borrower having the needs of short-term financing is numbered as “2”.

Note 3: Limit on loans granted to a single party, which has the needs of short-term financing with the Company should not exceed 10% of the Company’s latest net asset value. Besides, limit on loans granted to a single party, which has business relationship with the subsidiaries should not exceed total amount that the two sides trade in the recent year.

Note 4: Total amount of loans of the Company should not exceed 40% of the net value of the Company’s latest net asset value, and total amount of loans of the subsidiaries should not exceed 20% of the net values of the subsidiaries’ latest net asset values.

Opto Tech Corporation and subsidiaries

Provision of endorsements and guarantees to others

For the year ended December 31, 2018

Table 2 | Expressed in thousands of TWD

Number (Note 1)	Endorser/ guarantor	Party being endorsed/guaranteed: Company name	Party being endorsed/guaranteed: Relationship with the endorser/ guarantor (Note 2)	Limit on endorsements/ guarantees provided for a single party (Note 3)	Maximum outstanding endorsement/ guarantee amount as of December 31, 2018	Outstanding endorsement/ guarantee amount at December 31, 2018	Actual amount drawn down	Amount of endorsements/ guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company	Ceiling on total amount of endorsements/ guarantees provided (Note 3)	Provision of endorsements/ guarantees by parent company to subsidiary	Provision of endorsements/ guarantees by subsidiary to parent company	Provision of endorsements/ guarantees to the party in Mainland China	Remark
0	Opto Tech Corp.	CS Bright Corp.	2	$ 1,505,441	$ 58,943	$ 30,000	$ 10,000	$ -	0.40%	$ 3,763,604	Y	N	N	-
0	Opto Tech Corp.	Opto Plus Technology Co., Ltd.	2	1,505,441	186,060	184,590	143,407	-	2.45%	3,763,604	Y	N	Y	-

Note 1: The numbers filled in for the endorsements/guarantees provided by the Company or subsidiaries are as follows:

(1)The Company is "0".

(2)The subsidiaries are numbered in order starting from "1".

Note 2: Relationship between the endorser/guarantor and the party being endorsed/guaranteed is classified into the following seven categories; fill in the number of category each case belongs to:

(1) Having business relationship.

(2)The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/guaranteed subsidiary.

(3) The endorsed/guaranteed company owns directly and indirectly more than 50% voting shares of the endorser/guarantor parent company.

(4) The endorser/guarantor parent company owns directly and indirectly more than 90% voting shares of the endorsed/guaranteed company.

(5) Mutual guarantee of the trade made by the endorsed/guaranteed company or joint contractor as required under the construction contract.

(6) Due to joint venture, all shareholders provide endorsements/guarantees to the endorsed/guaranteed company in proportion to its ownership.

(7) Joint guarantee of the performance guarantee for pre-sold home sales contract as required under the Consumer Protection Act.

Note 3: Under the Company's "Procedures for Provision of Endorsements and Guarantees", the Company's total guarantees and endorsements to others should not exceed 50% of the Company's net asset value, and total guarantees and endorsements provided for a single party should not exceed 20% of the Company's net asset value. The calculation is shown below:

(1) $7,527,207 thousand dollars × 20% ＝ $1,505,441 thousand dollars

(2) $7,527,207 thousand dollars × 50% ＝ $3,763,604 thousand dollars

Opto Tech Corporation and subsidiaries

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

December 31, 2018

Table 3

Expressed in thousands of TWD

Securities held by	Type of marketable securities	Name of marketable securities	Relationship with the securities issuer	General ledger account	As of December 31, 2018 Number of shares	Book value	Ownership (%)	Fair value	Remark
Opto Tech Corp.	Stock	AXT, Inc.	None.	Financial assets at fair value through profit or loss	124,100	$ -	-	$ -	Note
〃	〃	Nichia Corp.	This company is the parent company of Nichia Taiwan Corp.	Financial assets at fair value through other comprehensive income	10,000	723,290	0.45	723,290	None
〃	〃	Viking Tech Corporation.	None.	〃	2,873,994	88,519	2.45	88,519	None
〃	〃	Lu Zhu Development Co., Ltd.	None.	Financial assets at fair value through profit or loss	12,551,625	106,899	6.38	106,899	None
〃	〃	Giga Epitaxy Technology Corp.	The Company is the director of this company.	Financial assets at fair value through other comprehensive income	4,950,491	26,515	19.00	26,515	None
〃	〃	Shin-Etsu Opto Electronic Co., Ltd.	The Company is the director of this company.	〃	2,000,000	33,222	10.00	33,222	None
〃	〃	Top Increasing Technology Co., Ltd.	None.	Financial assets at fair value through profit or loss	10,000,000	-	16.67	-	None
Ho Chung Investment Co., Ltd.	〃	Opto Tech Corp.	Parent company	〃	887,698	16,112	0.20	16,112	None
Opto Tech (Suzhou) Co., Ltd.	Others	Jin Misa Technology Co., Ltd.	None.	Financial assets at fair value through other comprehensive income	-	-	15.00	-	None
Opto Tech Corp.	Fund	Yuanta Wan Tai Money Market fund	None.	Financial assets at fair value through profit or loss	2,714,629	41,060	None	41,060	None
〃	〃	Franklin Templeton Sinoam Money Market fund	None.	〃	4,448,043	45,908	None	45,908	None
〃	〃	Capital Money Market fund	None.	〃	635,397	10,237	None	10,237	None
〃	〃	UPAMC James Bond Money Market fund	None.	〃	1,224,826	20,437	None	20,437	None
〃	〃	Taishin 1699 Money Market fund	None.	〃	2,280,623	30,805	None	30,805	None
〃	〃	FSITC Taiwan Money Market fund	None.	〃	4,022,602	61,451	None	61,451	None
〃	〃	Jih Sun Money Market fund	None.	〃	692,329	10,242	None	10,242	None

Note : The 124,000 shares of AXT, Inc. which are owned by the Company, are preferred stocks.

Opto Tech Corporation and subsidiaries

Purchases or sales of goods from or to related parties reaching NT$100 million or 20% of paid-in capital or more

For the year ended December 31, 2018

Table 4

Expressed in thousands of NTD

			Transaction				Differences in transaction terms compared to third party transactions		Notes/accounts receivable (payable)		
Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	Remark
Opto Tech Corp.	Nichia Taiwan Corp.	The company is the director of this company	Purchases	$ 145,848	6.17%	120 days	The unit prices are equivalent to third parties.	-	($ 46,255)	(7.36%)	-
Opto Tech Corp.	Shin-Etsu Opto Electronic Co., Ltd.	The company is the director of this company	Purchases	147,895	6.25%	60 days	〃	-	(26,558)	(4.23%)	-
Opto Tech Corp.	Shin-Etsu Opto Electronic Co., Ltd.	The company is the director of this company	Sales	(311,877)	(6.16%)	90 days	〃	-	72,801	4.43%	-
Opto Plus Technology Co., Ltd.	CS Bright Corp.	The company is the indirect subsidiary of this company.	Sales	(189,893)	(78.15%)	90 days	〃	-	45,305	85.82%	-

Opto Tech Corporation and subsidiaries
Significant inter-company transactions during the reporting periods

For the year ended December 31, 2018

Table 5

Expressed in thousands of TWD

				Transaction			
Number	Company name	Counterparty	Relationship	General ledger account	Amount	Transaction terms	Percentage of consolidated total operating revenues or total assets
1	Opto Tech Corporation	Opto Tech (Suzhou) Co. Ltd.	1	Other receivable-related party	$ 38,331	-	0.38%
2	CS Bright Corp.	Opto Plus Technology Co., Ltd.	3	Sales	10,378	Note 4	0.19%
2	CS Bright Corp.	Opto Plus Technology Co., Ltd.	3	Accounts receivable	59,098	Note 4	0.58%
2	CS Bright Corp.	Opto Plus Technology Co., Ltd.	3	Other receivable-related party	22,857	-	0.22%
3	Opto Plus Technology Co., Ltd.	CS Bright Corp.	3	Sales	189,893	Note 4	3.54%
3	Opto Plus Technology Co., Ltd.	CS Bright Corp.	3	Accounts receivable	45,305	Note 4	0.44%

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:
(1)Parent company is “0”.
(2)The subsidiaries are numbered in order starting from “1”.

Note 2: Relationship between transaction company and counterparty is classified into the following three categories:
(1)Parent company to subsidiary.
(2)Subsidiary to parent company.
(3)Subsidiary to subsidiary.

Note 3: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.

Note 4: The unit sales prices are equivalent to third parties. The credit term was 30~85 days for the related parties.

Note 5: The disclosure standard requires above $10,000 thousand for the transaction amount. Only assets and revenue are disclosed, related transactions are not disclosed.

Opto Tech Corporation and subsidiaries

Information on investees

For the year ended December 31, 2018

Table 6

Expressed in thousands of TWD

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2018			Net income (loss) of the investee	Investment income (loss) recognized by investor	Remark
				Balance as of December 31, 2018	Balance as of December 31, 2017	Number of shares	Ownership (%)	Book value			
Opto Tech Corp.	Opto Technology International Group Co., Ltd.	Cayman Islands	Holding Company	$ 443,110	$ 443,110	14,000,000	100.00	$ 6,774	$ 2,846	$ 2,846	Subsidiary of the Company
Opto Tech Corp.	Ho Chung Investment Co., Ltd.	Taiwan	Investment business	258,348	310,300	1,298,800	100.00	74,466	(5,906)	(4,219)	Subsidiary of the Company (Note 3)
Opto Tech Corp.	Jyu Shin Investment Co., Ltd.	Taiwan	Investment business	-	125,687	-	-	-	26,131	26,131	Subsidiary of the Company (Note 1)
Opto Tech Corp.	Source Ever Limited	B.V. I.	International trading	-	5,725	-	-	-	(68)	(68)	Subsidiary of the Company (Note 2)
Opto Tech Corp.	Opto Tech (Macao) Co., Ltd.	Macao	International trading	4,096	4,096	-	100.00	18,012	3,247	3,247	Subsidiary of the Company
Opto Tech Corp.	CS Bright Corporation	Taiwan	Manufacture and Sales of Displays, SMD Lamps and other LED related products	50,170	-	4,993,562	99.87	154,853	26,758	1,057	Subsidiary of the Company (Note 1)
Ho Chung Investment Co., Ltd.	VML TECHNOLOGIES B.V.	Netherlands	Manufacture and Design of system products	37,436	37,436	6,000	25.00	641	(18,106)	(4,526)	Investment accounted for using equity method
Jyu Shin Investment Co., Ltd.	CS Bright Corporation	Taiwan	Manufacture and Sales of Displays, SMD Lamps and other LED related products	-	50,170	-	-	-	26,758	25,667	Note 1
CS Bright Corporation	Bright Investment International Ltd.	B.V. I.	Investment business	171,332	171,332	5,100,000	100.00	12,696	(93)	6,487	Indirect subsidairy
Bright Investment International Ltd.	Everyung Investment Ltd.	Samoa	Investment business	168,421	168,421	5,000,000	50.00	35,074	(218)	(109)	Indirect subsidairy
Opto Technology International Group Co., Ltd.	Opto Tech (Cayman) Co., Ltd.	Cayman Islands	Holding Company	294,360	294,360	9,000,000	100.00	(33,349)	2,836	2,836	Indirect subsidairy
Opto Technology International Group Co., Ltd.	Everyung Investment Ltd.	Samoa	Investment business	148,910	148,910	5,000,000	50.00	35,074	(218)	(109)	Indirect subsidairy

Note 1: After merging with Jyu Shin Investment Co., Ltd. in December 2018, the Company became the surviving entity and generally assumed the dissolving entity's net assets. In response, CS Bright Corporation became a subsidiary directly held by the Company thereafter.

Note 2: Source Ever Limited was dissolved on March, 2018.

Note 3: The investee reduced its capital in the fourth quarter of 2018.

Opto Tech Corporation and subsidiaries

Information on investments in Mainland China

For the year ended December 31, 2018

Table 7

Expressed in thousands of TWD

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance to Mainland China as of January 1, 2018	Amount remitted to Mainland China during the period	Amount remitted back to Taiwan during the period	Accumulated amount of remittance to Mainland China as of December 31, 2018	Net income of investee as of December 31, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2018 (Note 2)	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Remark
Opto Tech (Suzhou) Co., Ltd.	Research, Design and Manufacture of LED Display, Wireless Communication Equipment and related parts	$ 294,708	(2)	$ 294,708	$ -	$ -	$ 294,708	$ 2,535	100.00%	$ 2,535	($ 42,007)	$ -	-
Opto Plus Technology Co., Ltd.	Manufacture and Sales of LED and Electronic products	317,341	(2)	317,341	-	-	317,341	(217)	99.94%	(217)	70,148	-	-

Note 1: The investment methods are classified into three categories as follows:

(1) Directly investing in the investee company in Mainland China.

(2) Through investing in an existing company in the third area, which then invested in the investee company in Mainland China. (Opto Tech (Cayman) Co., Ltd. invests Opto Tech (Suzhou) Co., Ltd. and Everyung Investment Ltd. invests Opto plus Technology Co., Ltd.)

(3) Others.

Note 2: The investment income or loss was recognised by indirect weighted ownership based on the financial statements of these investees which were audited by the independent accountants of the parent company for the corresponding periods.

Investments in Mainland China for the year ended December 31, 2018:

Name of company	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA
Opto Tech Corp.	$ 612,049	$ 612,557	$ 4,516,324

Opto Tech Corporation and its subsidiaries

Significant transactions conducted with investees in Mainland China directly or indirectly through other companies in the third areas

For the year ended December 31, 2018

Table 8

Expressed in thousands of TWD

Investee in Mainland China	Sale (purchase)		Property transaction		Accounts receivable (payable)		Provision of endorsements/guarantees or collaterals		Financing				Others
	Amount	%	Amount	%	Balance at December 31, 2018	%	Balance at December 31, 2018	Purpose	Maximum balance during the year ended December 31, 2018	Balance at December 31, 2018	Interest rate	Interest during the year ended December 31, 2018	
Opto Tech (Suzhou) Co., Ltd.	$ -	-	$ -	-	$ -	-	$ -	-	$ 125,113	$ 55,197	3.23050%	$ 1,226	None
Opto Plus Technology Co., Ltd.	10,378	0.19	-	-	59,098	3.57	184,590	Guarantee of bank line of credit	-	-	-	-	None
Opto Plus Technology Co., Ltd.	(189,893)	(8.03)	-	-	(45,305)	(6.84)	-	-	29,436	22,857	-	-	None