

**OPTO TECH CORPORATION AND  
SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS AND  
REVIEW REPORT OF INDEPENDENT  
ACCOUNTANTS  
MARCH 31, 2019 AND 2018**

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

## REPORT ON REVIEW OF FINANCIAL STATEMENTS TRANSLATED FROM CHINESE

(19)PWCR 18000526

To the Board of Directors and Shareholders of Opto Tech Corporation

### ***Introduction***

We have reviewed the accompanying consolidated balance sheets of Opto Tech Corporation and subsidiaries (the “Group”) as at March 31, 2019 and 2018, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the three-month periods then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and presentation of these consolidated financial statements in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

### ***Scope of review***

Except as explained in the following paragraph, we conducted our reviews in accordance with the Statement of Auditing Standards No. 65, “Review of Financial Information Performed by the Independent Auditor of the Entity” in the Republic of China. A review of consolidated financial statement consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### ***Basis for Qualified Conclusion***

As explained in Notes 4(3)B and 6(6), the amounts and information of the financial statements of insignificant consolidated subsidiaries and investments accounted for using the equity method were not reviewed by independent accountants. Those statement reflect total assets of NT\$491,811 and NT\$810,492, constituting 4.66% and 7.75% of the consolidated total assets, and total liabilities of NT\$186,765 and NT\$259,858, constituting 6.44% and 8.82% of the consolidated total liabilities as of March 31, 2019 and 2018, and total comprehensive income (including income and loss of the associates

accounted for using the equity method) of NT\$8,551 and (NT\$3,666), constituting 7.37% and (1.27%) of the consolidated total comprehensive income for the three-month periods then ended.

### ***Qualified Conclusion***

Except for the adjustments to the consolidated financial statements, if any, as might have been determined to be necessary had the financial statements of the insignificant subsidiaries and equity-method investees been reviewed by independent accountants, that we might have become aware of had it not been for the situation described above, based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2019 and 2018, and of its consolidated financial performance and its consolidated cash flows for the three-month periods then ended in accordance with “Regulations Governing the Preparations of Financial Reports by Securities Issuers” and International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission.

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Lin, Yu-Kuan

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Lai, Chung-Hsi

For and on behalf of PricewaterhouseCoopers, Taiwan

April 25, 2019

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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 review 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 reviewing 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)  
(The balance sheets as of March 31, 2019 and 2018 are reviewed, not audited)

Assets	Notes	March 31, 2019		December 31, 2018		March 31, 2018	
		AMOUNT	%	AMOUNT	%	AMOUNT	%
<b>Current assets</b>							
Cash and cash equivalents	6(1)	\$ 2,969,551	28	\$ 2,690,226	27	\$ 2,906,457	28
Financial assets at fair value through profit or loss - current	6(2)	220,497	2	220,381	2	300,761	3
Notes receivable, net	6(4)	11,338	-	13,119	-	30,326	-
Accounts receivable - net	6(4)	1,429,756	14	1,575,749	16	1,430,876	14
Accounts receivable - related parties - net	6(4) and 7	36,428	1	78,517	1	90,419	1
Other receivables		16,952	-	12,793	-	49,322	-
Inventories - net	6(5)	1,358,526	13	1,331,401	13	1,193,676	11
Prepayments		25,219	-	26,410	-	58,447	1
Other current assets	8	23,933	-	24,488	-	24,927	-
<b>Current Assets</b>		<u>6,092,200</u>	<u>58</u>	<u>5,973,084</u>	<u>59</u>	<u>6,085,211</u>	<u>58</u>
<b>Non-current assets</b>							
Financial assets at fair value through profit or loss - non-current	6(2)	106,899	1	106,899	1	90,839	1
Financial assets at fair value through other comprehensive income or loss - non-current	6(3)	872,121	8	871,546	9	1,108,761	11
Investments accounted for using equity method	6(6)	850	-	641	-	2,736	-
Property, plant and equipment - net	6(7) and 8	3,032,411	29	3,071,603	30	2,959,554	28
Right-of-use assets	6(8)	267,172	2	-	-	-	-
Intangible assets	6(9)	10,418	-	8,840	-	8,605	-
Deferred tax assets		108,124	1	107,588	1	117,920	1
Other non-current assets		57,726	1	54,131	-	84,896	1
<b>Non-current assets</b>		<u>4,455,721</u>	<u>42</u>	<u>4,221,248</u>	<u>41</u>	<u>4,373,311</u>	<u>42</u>
<b>Total assets</b>		<u>\$ 10,547,921</u>	<u>100</u>	<u>\$ 10,194,332</u>	<u>100</u>	<u>\$ 10,458,522</u>	<u>100</u>

(Continued)

**OPTO TECH CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

(Expressed in thousands of New Taiwan dollars)

(The balance sheets as of March 31, 2019 and 2018 are reviewed, not audited)

Liabilities and Equity	Notes	March 31, 2019		December 31, 2018		March 31, 2018	
		AMOUNT	%	AMOUNT	%	AMOUNT	%
<b>Current liabilities</b>							
Short-term loans	6(10)	\$ 563,898	5	\$ 737,660	7	\$ 982,407	9
Financial liabilities at fair value through profit or loss - current	6(2)	24	-	-	-	-	-
Notes payable		1,203	-	33	-	1,249	-
Accounts payable		547,133	5	574,007	6	695,349	7
Accounts payable - related parties	7	83,412	1	87,963	1	158,949	2
Other payables	6(11)	604,421	6	599,528	6	641,075	6
Current income tax liabilities		88,595	1	69,490	1	120,513	1
Provisions for liabilities - current	6(14)	8,442	-	11,970	-	14,762	-
Current lease liabilities		20,197	-	-	-	-	-
Other current liabilities		57,018	-	45,855	-	51,416	-
<b>Current Liabilities</b>		<u>1,974,343</u>	<u>18</u>	<u>2,126,506</u>	<u>21</u>	<u>2,665,720</u>	<u>25</u>
<b>Non-current liabilities</b>							
Long-term loans	6(12)	404,350	4	250,000	2	-	-
Provisions for liabilities - non-current	6(14)	14,113	-	22,259	-	33,029	-
Deferred tax liabilities		69,043	1	68,942	1	50,639	1
Non-current lease liabilities		243,134	2	-	-	-	-
Other non-current liabilities		196,052	2	195,777	2	197,612	2
<b>Non-current liabilities</b>		<u>926,692</u>	<u>9</u>	<u>536,978</u>	<u>5</u>	<u>281,280</u>	<u>3</u>
<b>Total Liabilities</b>		<u>2,901,035</u>	<u>27</u>	<u>2,663,484</u>	<u>26</u>	<u>2,947,000</u>	<u>28</u>
<b>Equity attributable to owners of parent</b>							
<b>Capital</b>	6(15)						
Common stock		4,454,386	42	4,454,386	44	4,454,386	43
<b>Capital Reserve</b>	6(16)						
Capital surplus		702,521	7	702,521	7	701,323	7
<b>Retained Earnings</b>	6(17)						
Legal reserve		604,001	6	604,001	6	536,773	5
Special reserve		-	-	-	-	59,227	-
Unappropriated earnings		1,652,332	16	1,537,426	15	1,472,952	14
<b>Other Equity Adjustments</b>	6(18)						
Other equity interest		254,507	2	253,376	2	307,753	3
<b>Treasury stocks</b>	6(15)						
Treasury stocks		( 24,503)	-	( 24,503)	-	( 24,503)	-
<b>Equity attributable to owners of parent</b>		<u>7,643,244</u>	<u>73</u>	<u>7,527,207</u>	<u>74</u>	<u>7,507,911</u>	<u>72</u>
<b>Non-controlling interest</b>		<u>3,642</u>	<u>-</u>	<u>3,641</u>	<u>-</u>	<u>3,611</u>	<u>-</u>
<b>Total equity</b>		<u>7,646,886</u>	<u>73</u>	<u>7,530,848</u>	<u>74</u>	<u>7,511,522</u>	<u>72</u>
<b>Total liabilities and equity</b>		<u>\$ 10,547,921</u>	<u>100</u>	<u>\$ 10,194,332</u>	<u>100</u>	<u>\$ 10,458,522</u>	<u>100</u>

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 dollars, except earnings per share amounts)  
(UNAUDITED)

Items	Notes	Three-month periods ended March 31			
		2019		2018	
		AMOUNT	%	AMOUNT	%
<b>Operating revenue</b>	6(19) and 7	\$ 1,150,041	100	\$ 1,311,329	100
<b>Operating costs</b>	6(5)(23)(24) and 7	( 838,079)	( 73)	( 909,661)	( 69)
<b>Gross profit, net</b>		<u>311,962</u>	<u>27</u>	<u>401,668</u>	<u>31</u>
<b>Operating expenses</b>	6(23)(24)				
Selling expenses		( 24,130)	( 2)	( 32,097)	( 2)
General and administrative expenses		( 103,042)	( 9)	( 118,934)	( 9)
Research and development expenses		( 76,718)	( 7)	( 81,161)	( 6)
Reversal of expected credit gain on financial assets	12(2)	<u>81</u>	<u>-</u>	<u>5,050</u>	<u>-</u>
<b>Total operating expenses</b>		<u>( 203,809)</u>	<u>( 18)</u>	<u>( 227,142)</u>	<u>( 17)</u>
<b>Operating income</b>		<u>108,153</u>	<u>9</u>	<u>174,526</u>	<u>14</u>
<b>Non-operating income and expenses</b>					
Other income	6(20)	35,019	3	23,995	1
Other gains and losses	6(21)	8,148	1	( 8,696)	( 1)
Finance costs	6(22)	( 8,106)	( 1)	( 6,341)	-
Share of (loss) profit of associates and joint ventures accounted for using equity method	6(6)	<u>231</u>	<u>-</u>	<u>( 2,477)</u>	<u>-</u>
<b>Total non-operating income and expenses</b>		<u>35,292</u>	<u>3</u>	<u>6,481</u>	<u>-</u>
<b>Profit before income tax</b>		<u>143,445</u>	<u>12</u>	<u>181,007</u>	<u>14</u>
Income tax expense	6(25)	( 28,539)	( 2)	( 22,349)	( 2)
<b>Net income</b>		<u>\$ 114,906</u>	<u>10</u>	<u>\$ 158,658</u>	<u>12</u>

(Continued)

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

Items	Notes	Three-month periods ended March 31			
		2019		2018	
		AMOUNT	%	AMOUNT	%
<b>Other comprehensive income (loss)</b>					
<b>Items that will not be reclassified to profit or loss</b>					
Unrealised gains on valuation of financial assets at fair value through other comprehensive income	6(3)(18)	\$ 575	-	\$ 128,929	10
<b>Items that will be reclassified subsequently to profit or loss</b>					
Currency translation differences of foreign operations	6(18)	579	-	84	-
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)(18)	(22)	-	(22)	-
<b>Total other comprehensive income that will be reclassified to profit or loss, net of tax</b>		<u>557</u>	<u>-</u>	<u>62</u>	<u>-</u>
<b>Other comprehensive income for the period, net of income tax</b>		<u>\$ 1,132</u>	<u>-</u>	<u>\$ 128,991</u>	<u>10</u>
<b>Total comprehensive income for the period</b>		<u>\$ 116,038</u>	<u>10</u>	<u>\$ 287,649</u>	<u>22</u>
<b>Profit attributable to:</b>					
Owners of the parent		\$ 114,906	10	\$ 158,656	12
Non-controlling interest		<u>-</u>	<u>-</u>	<u>2</u>	<u>-</u>
		<u>\$ 114,906</u>	<u>10</u>	<u>\$ 158,658</u>	<u>12</u>
<b>Total comprehensive income attributable to:</b>					
Owners of the parent		\$ 116,037	10	\$ 287,646	22
Non-controlling interest		<u>1</u>	<u>-</u>	<u>3</u>	<u>-</u>
		<u>\$ 116,038</u>	<u>10</u>	<u>\$ 287,649</u>	<u>22</u>
<b>Earnings per share</b>					
<b>Profit for the period</b>	6(26)	<u>\$</u>	<u>0.26</u>	<u>\$</u>	<u>0.36</u>
<b>Diluted earnings per share</b>					
<b>Profit for the period</b>	6(26)	<u>\$</u>	<u>0.26</u>	<u>\$</u>	<u>0.35</u>

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)  
(UNAUDITED)

Note	Equity attributable to owners of the parent											Non-controlling interest	Total equity
	Common stock	Capital reserve	Retained earnings			Other equity interest				Treasury stocks	Total		
			Legal reserve	Special reserve	Unappropriated earnings	Financial statements translation differences of foreign operations	Unrealized gain or loss on financial assets at fair value through other comprehensive income	Unrealized gain or loss on available-for-sale financial assets					
<b>For the three-month period ended March 31, 2018</b>													
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	-	-	-	-	( 3,210 )	-	224,594	( 221,384 )	-	-	-	-	
Balance at January 1, 2018 after adjustments	<u>4,454,386</u>	<u>701,323</u>	<u>536,773</u>	<u>59,227</u>	<u>1,266,504</u>	<u>1,961</u>	<u>224,594</u>	<u>-</u>	<u>( 24,503 )</u>	<u>7,220,265</u>	<u>3,608</u>	<u>7,223,873</u>	
Net income for the period	-	-	-	-	158,656	-	-	-	-	158,656	2	158,658	
Other comprehensive income for 6(18) the period	-	-	-	-	-	61	128,929	-	-	128,990	1	128,991	
Total comprehensive income	-	-	-	-	158,656	61	128,929	-	-	287,646	3	287,649	
Disposal of financial assets at fair value through other comprehensive income 6(3)(18)	-	-	-	-	47,792	-	( 47,792 )	-	-	-	-	-	
Balance at March 31, 2018	<u>\$ 4,454,386</u>	<u>\$ 701,323</u>	<u>\$ 536,773</u>	<u>\$ 59,227</u>	<u>\$ 1,472,952</u>	<u>\$ 2,022</u>	<u>\$ 305,731</u>	<u>\$ -</u>	<u>(\$ 24,503)</u>	<u>\$ 7,507,911</u>	<u>\$ 3,611</u>	<u>\$ 7,511,522</u>	
<b>For the three-month period ended March 31, 2019</b>													
Balance at January 1, 2019	\$ 4,454,386	\$ 702,521	\$ 604,001	\$ -	\$ 1,537,426	\$ 2,021	\$ 251,355	\$ -	(\$ 24,503)	\$ 7,527,207	\$ 3,641	\$ 7,530,848	
Net income for the period	-	-	-	-	114,906	-	-	-	-	114,906	-	114,906	
Other comprehensive income for 6(3)(18) the period	-	-	-	-	-	556	575	-	-	1,131	1	1,132	
Total comprehensive income	-	-	-	-	114,906	556	575	-	-	116,037	1	116,038	
Balance at March 31, 2019	<u>\$ 4,454,386</u>	<u>\$ 702,521</u>	<u>\$ 604,001</u>	<u>\$ -</u>	<u>\$ 1,652,332</u>	<u>\$ 2,577</u>	<u>\$ 251,930</u>	<u>\$ -</u>	<u>(\$ 24,503)</u>	<u>\$ 7,643,244</u>	<u>\$ 3,642</u>	<u>\$ 7,646,886</u>	

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)  
(UNAUDITED)

	Notes	For three-month periods ended March 31,	
		2019	2018
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>			
Profit before tax		\$ 143,445	\$ 181,007
Adjustments			
Income and expenses having no effect on cash flows			
Reversal of expected credit gain on financial assets	12(2)	( 81 )	( 5,050 )
Depreciation	6(7)(8)(23)	119,282	102,370
Amortization	6(9)(23)	3,062	3,092
Amortization of land use right		-	27
Net profit on financial assets and liabilities at fair value through profit or loss	6(2)(21)	( 92 )	( 495 )
Interest income	6(20)	( 4,015 )	( 2,964 )
Dividend income	6(20)	( 16,602 )	( 13,590 )
Loss on disposal of property, plant and equipment	6(7)(21)	-	570
Interest expense	6(22)	7,631	6,309
Share of (profit) loss of associates accounted for using equity method	6(6)	( 231 )	2,477
Changes in assets/liabilities relating to operating activities			
Changes in operating assets			
Notes receivable - net		1,781	( 5,338 )
Accounts receivable - net		144,764	16,778
Accounts receivable - related parties - net		43,044	8,295
Other receivables		( 4,169 )	( 38,037 )
Inventories - net		( 27,125 )	( 95,725 )
Prepayments		1,191	( 3,120 )
Other current assets		555	393
Other non-current assets		( 4,447 )	( 18,129 )
Net changes in liabilities relating to operating activities			
Notes payable		1,170	( 909 )
Accounts payable		( 26,874 )	63,776
Accounts payable - related parties		( 4,551 )	( 1,586 )
Other payables		5,159	103,318
Other current liabilities		11,163	( 8,778 )
Provisions for liabilities		( 11,865 )	( 619 )
Net defined benefit liability		269	400
Cash inflow generated from operations		382,464	294,472
Interest received		4,025	2,811
Dividend received		16,602	13,590
Interest paid		( 7,090 )	( 5,138 )
Income tax paid		( 9,868 )	( 1,680 )
Net cash flows from operating activities		<u>386,133</u>	<u>304,055</u>

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

	Notes	For three-month periods ended March 31,	
		2019	2018
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>			
Proceeds from disposal of financial assets at fair value through other comprehensive income	6(3)	\$ -	\$ 159,407
Acquisition of property, plant and equipment	6(7)	( 70,269 )	( 181,425 )
Proceeds from disposal of property, plant and equipment	6(7)	-	50
Acquisition of intangible assets	6(9)	( 4,640 )	( 2,646 )
Decrease in deposits-out		852	4,517
Net cash flows used in investing activities		( 74,057 )	( 20,097 )
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>			
Increase in short-term loans	6(28)	560,545	1,180,415
Decrease in short-term loans	6(28)	( 739,271 )	( 1,096,199 )
Increase in long-term loans	6(28)	404,305	-
Decrease in long-term loans	6(28)	( 250,000 )	-
Decrease in lease principal	6(28)	( 6,192 )	-
Increase (decrease) in guarantee deposits	6(28)	5	( 2,156 )
Net cash flows (used in) from financing activities		( 30,608 )	82,060
Effect of change in exchange rate		( 2,143 )	( 4,136 )
Net increase in cash and cash equivalents		279,325	361,882
Cash and cash equivalents at beginning of period		2,690,226	2,544,575
Cash and cash equivalents at end of period		\$ 2,969,551	\$ 2,906,457

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

OPTO TECH CORPORATION AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)  
(Unaudited)

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 April 25, 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 2019 are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
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’

A. 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).

B. The Group has elected to apply IFRS 16 by not restating the comparative information (referred herein as the ‘modified retrospective approach’) when applying “IFRSs” effective in 2019 as endorsed by the FSC. Accordingly, the Group increased ‘right-of-use asset’ by \$269,990, increased ‘lease liability’ by \$265,950, decreased ‘long-term prepaid rents’ by \$3,584 and

decreased prepaid rents by \$456 with respect to the lease contracts of lessees on January 1, 2019.

C. The Group has used the following practical expedients permitted by the standard at the date of initial application of IFRS 16:

(a) Reassessment as to whether a contract is, or contains, a lease is not required, instead, the application of IFRS 16 depends on whether or not the contracts were previously identified as leases applying IAS 17 and IFRIC 4.

(b) The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.

(c) The accounting for operating leases whose period will end before December 31, 2019 as short-term leases and accordingly, rent expense of \$2,413 was recognised in the 1st quarter of 2019.

D. The Group calculated the present value of lease liabilities by using the weighted average incremental borrowing interest rate of 1.797%.

E. The Group recognised lease liabilities which had previously been classified as ‘operating leases’ under the principles of IAS 17, ‘Leases’. The reconciliation between operating lease commitments under IAS 17 measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate and lease liabilities recognised as of January 1, 2019 is as follows:

Operating lease commitments disclosed by applying IAS 17 as at December 31, 2018	\$ 316,645
Less: Short-term leases	( 9,865)
Total lease contracts amount recognised as lease liabilities by applying IFRS 16 on January 1, 2019	<u>\$ 306,780</u>
Incremental borrowing interest rate at the date of initial application	<u>1.797%</u>
Lease liabilities recognised as at January 1, 2019 by applying IFRS 16	<u>\$ 265,950</u>

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

None.

(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:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendments to IAS 1 and IAS 8, ‘Disclosure Initiative-Definition of Material’	January 1, 2020
Amendments to IFRS 3, ‘Definition of a business’	January 1, 2020

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
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 adopted are consistent with Note 4 in the consolidated financial statements for the year ended December 31, 2018, except for the compliance statement, basis of preparations, basis of consolidation and additional policies as set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

##### (1) Compliance statement

- A. The consolidated financial statements of the Group have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the FSC.
- B. These consolidated financial statements are to be read in conjunction with the consolidated financial statements for the year ended December 31, 2018.

##### (2) Basis of preparation

- A. Except for the following items, the consolidated financial statements have been prepared under the historical cost convention:
  - (a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
  - (b) Financial assets at fair value through other comprehensive income.
  - (c) Defined benefit liabilities 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.

##### (3) Basis of consolidation

- A. The basis for preparation of consolidated financial statements are consistent with those of the year ended December 31, 2018.

B. Subsidiaries included in the consolidated financial statements:

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership (%)			Description
			March 31, 2019	December 31, 2018	March 31, 2018	
Opto Tech Corp.	Ho Chung Investment Co., Ltd. (Ho Chung Investment)	Investment business	100.00	100.00	100.00	Notes 1 and 5
Opto Tech Corp.	Opto Technology International Group Co., Ltd. (Opto)	Investment business	100.00	100.00	100.00	Notes 3 and 5
Opto Tech Corp.	Jyu Shin Investment Co., Ltd. (Jyu Shin Investment)	Investment business	-	-	100.00	Note 4 and 5
Opto Tech Corp.	Opto Tech (Macao) Co., Ltd. (Opto Macao)	International trading	100.00	100.00	100.00	Note 5
Opto Tech Corp.	CS Bright Corporation (CSB)	Manufacture and sales of LED and electronic products	99.87	99.87	-	Note 4 and 5
Opto	Opto Tech (Cayman) Co., Ltd. (Cayman)	Investment business	100.00	100.00	100.00	Notes 3 and 5
Opto	Everyung Investment Ltd. (Everyung)	Investment business	50.00	50.00	50.00	Note 5
Jyu Shin Investment Co., Ltd.	CS Bright Corporation (CSB)	Manufacture and sales of LED and electronic products	-	-	99.87	Note 4 and 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	100.00	Notes 2 and 5
CSB	Bright Investment International Ltd. (Bright)	Investment business	100.00	100.00	100.00	Note 5
Bright	Everyung Investment Ltd. (Everyung)	Investment business	50.00	50.00	50.00	Note 5
Everyung	Opto Plus Technology Co., Ltd. (Opto Plus)	Manufacture and sales of LED and electronic products	100.00	100.00	100.00	Note 5

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

March 31, 2019, 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 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.

Note 5: The financial statements of the insignificant subsidiaries as of and for the three-month periods ended March 31, 2019 and 2018 were unreviewed.

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) Leasing arrangements (lessee) — right-of-use assets/ lease liabilities

Effective 2019

A. Leases are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group. For short-term leases or leases of low-value assets, lease payments are recognised as an expense on a straight-line basis over the lease term.

B. Lease liabilities include the net present value of the remaining lease payments at the commencement date, discounted using the incremental borrowing interest rate. Lease payments are fixed payments, less any lease incentives receivable. The Group subsequently measures the lease liability at amortised cost using the interest method and recognises interest expense over the lease term. The lease liability is remeasured and the amount of remeasurement is recognised as an adjustment to the right-of-use asset when there are changes in the lease term or lease payments and such changes do not arise from contract modifications.

C. At the commencement date, the right-of-use asset is stated at cost comprising the following:

(a) The amount of the initial measurement of lease liability;

(b) Any lease payments made at or before the commencement date;

(c) Any initial direct costs incurred by the lessee; and

(d) An estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

The right-of-use asset is measured subsequently using the cost model and is depreciated from the commencement date to the earlier of the end of the asset's useful life or the end of the lease term.

When the lease liability is remeasured, the amount of remeasurement is recognised as an

adjustment to the right-of-use asset.

(5) Employee benefits

Pension cost for the interim period is calculated on a year-to-date basis by using the pension cost rate derived from the actuarial valuation at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events. And, the related information is disclosed accordingly.

(6) Income tax

A. The interim period income tax expense is recognised based on the estimated average annual effective income tax rate expected for the full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.

B. If a change in tax rate is enacted or substantively enacted in an interim period, the Group recognises the effect of the change immediately in the interim period in which the change occurs. The effect of the change on items recognised outside profit or loss is recognised in other comprehensive income or equity while the effect of the change on items recognised in profit or loss is recognised in profit or loss.

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

There have been no significant change as of March 31, 2019. Please refer to Note 5 in the consolidated financial statements for the year ended December 31, 2018.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Cash on hand	\$ 605	\$ 608	\$ 584
Checking demand deposits	542,375	502,047	602,130
Time deposits	1,791,571	1,727,571	1,783,743
Cash equivalents - Resale bonds	<u>635,000</u>	<u>460,000</u>	<u>520,000</u>
Total	<u>\$ 2,969,551</u>	<u>\$ 2,690,226</u>	<u>\$ 2,906,457</u>

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

B. 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	March 31, 2019	December 31, 2018	March 31, 2018
Current items:			
Financial assets mandatorily measured at fair value through profit or loss			
Funds	\$ 215,000	\$ 215,000	\$ 295,000
Valuation adjustment			
Funds	5,438	5,140	5,460
Forward exchange contracts	<u>59</u>	<u>241</u>	<u>301</u>
Total	<u>\$ 220,497</u>	<u>\$ 220,381</u>	<u>\$ 300,761</u>
Financial liabilities mandatorily measured at fair value through profit and loss			
Forward exchange contracts	<u>\$ 24</u>	<u>\$ -</u>	<u>\$ -</u>
Non-current items:			
Financial assets mandatorily measured at fair value through profit and loss			
Unlisted stocks	\$ 127,048	\$ 127,048	\$ 127,049
Valuation adjustment	<u>( 20,149)</u>	<u>( 20,149)</u>	<u>( 36,210)</u>
Total	<u>\$ 106,899</u>	<u>\$ 106,899</u>	<u>\$ 90,839</u>

A. The Group recognised net gain of \$92 and \$495 on financial assets measured at fair value through profit or loss for the three-month periods ended March 31, 2019 and 2018, respectively.

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

Derivative Instruments	March 31, 2019		Contract period
	Contract Amount (Nominal Principal)		
Assets - Current items:			
Forward exchange contracts	USD	\$ <u>2,000</u> (thousands)	March 11, 2019~ April 16, 2019
Liabilities - Current items:			
Forward exchange contracts	USD	\$ <u>1,000</u> (thousands)	March 7, 2019~ April 2, 2019

			December 31, 2018	
Derivative Instruments	Contract Amount (Nominal Principal)		Contract period	
Assets - Current items:				
Forward exchange contracts	USD	\$ <u>3,000</u> (thousands)	December 6, 2018~ January 17, 2019	
March 31, 2018				
Derivative Instruments	Contract Amount (Nominal Principal)		Contract period	
Assets - Current items:				
Forward exchange contracts	USD	\$ <u>6,000</u> (thousands)	March 7, 2018~ May 3, 2018	

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.

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

Items	March 31, 2019	December 31, 2018	March 31, 2018
Non-current items:			
Equity instruments			
Listed stocks	\$ 73,574	\$ 73,574	\$ 274,643
Unlisted stocks	477,809	477,809	477,809
Subtotal	551,383	551,383	752,452
Valuation adjustment	320,738	320,163	356,309
Total	<u>\$ 872,121</u>	<u>\$ 871,546</u>	<u>\$ 1,108,761</u>

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 \$872,121, \$871,546 and \$1,108,761 as at March 31, 2019, December 31, 2018 and March 31, 2018, respectively.

B. The Group sold \$159,407 of stocks of Viking Tech Corporation at fair value and resulted in cumulative gains of \$47,792 on disposal during the three-month period ended March 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:

	<u>Fot the three-month periods ended March 31,</u>	
	<u>2019</u>	<u>2018</u>
<u>Equity instruments at fair value through other comprehensive income</u>		
Fair value change recognised in other comprehensive income	\$ <u>575</u>	\$ <u>128,929</u>
Cumulative gains reclassified to retained earnings due to recognition	\$ <u>-</u>	(\$ <u>47,792</u> )
Dividend income recognised in profit or loss		
Held at end of period	\$ <u>16,602</u>	\$ <u>13,590</u>

(4) Notes and accounts receivable

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Notes receivable	\$ 11,338	\$ 13,119	\$ 30,326
Accounts receivable	1,461,754	1,625,237	1,480,776
Accounts receivable - related parties	36,428	79,472	90,427
Less: Allowance for doubtful accounts	( 31,998)	( 49,488)	( 49,900)
Allowance for doubtful accounts - related parties	-	( 955)	( 8)
	<u>\$ 1,477,522</u>	<u>\$ 1,667,385</u>	<u>\$ 1,551,621</u>

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

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Without past due	\$ 1,417,649	\$ 1,595,445	\$ 1,480,917
Up to 180 days	50,137	68,875	47,934
181 to 360 days	15,593	7,098	8,504
Over 361 days	14,803	33,291	33,848
	<u>\$ 1,498,182</u>	<u>\$ 1,704,709</u>	<u>\$ 1,571,203</u>

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

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

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Without past due	\$ 11,338	\$ 13,119	\$ 30,326

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

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Raw materials	\$ 378,705	\$ 364,099	\$ 294,922
Supplies	240,382	210,858	203,599
Work in process	266,074	286,521	311,517
Semi-finished goods	143,128	152,427	54,737
Finished goods	330,237	317,496	328,901
Total	<u>\$ 1,358,526</u>	<u>\$ 1,331,401</u>	<u>\$ 1,193,676</u>

The cost of inventories recognised as expense for the period:

	<u>For the three-month periods ended March 31,</u>	
	<u>2019</u>	<u>2018</u>
Cost of goods sold	\$ 827,871	\$ 915,971
Loss on (gain from reversal of) decline in market value	10,208	( 6,310)
	<u>\$ 838,079</u>	<u>\$ 909,661</u>

During the three-month period ended March 31, 2019, the Group wrote down inventory from cost to net realisable value accounted for as 'cost of goods sold'.

During the three-month period ended March 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.

(6) Investments accounted for using equity method

	<u>2019</u>	<u>2018</u>
At January 1	\$ 641	\$ 5,235
Share of profit (loss) of investments accounted for using equity method	231	( 2,477)
Cumulative translation differences	( 22)	( 22)
At March 31	<u>\$ 850</u>	<u>\$ 2,736</u>

<u>Associated enterprises</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
VML TECHNOLOGIES B.V.	<u>\$ 850</u>	<u>\$ 641</u>	<u>\$ 2,736</u>

(7) Property, plant and equipment

	Buildings and structures	Machinery	Utility facilities	Pollution prevention facilities	Transportation equipment	Office equipment	Other equipment	Construction in progress and prepayment for equipment	Total
At January 1, 2019									
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)
	<u>\$ 945,559</u>	<u>\$ 1,261,325</u>	<u>\$ 150,310</u>	<u>\$ 129,446</u>	<u>\$ 2,106</u>	<u>\$ 12,425</u>	<u>\$ 395,584</u>	<u>\$ 174,848</u>	<u>\$ 3,071,603</u>
For the three-month period ended									
March 31, 2019									
Opening net book amount	\$ 945,559	\$ 1,261,325	\$ 150,310	\$ 129,446	\$ 2,106	\$ 12,425	\$ 395,584	\$ 174,848	\$ 3,071,603
Additions	1,900	10,507	9,328	2,902	-	280	13,140	32,212	70,269
Reclassifications	-	96,093	4,130	-	-	-	-	( 100,223)	-
Depreciation expense	( 14,946)	( 70,426)	( 7,806)	( 4,061)	( 184)	( 1,199)	( 14,986)	-	( 113,608)
Net exchange differences	3,053	1,068	-	-	20	6	-	-	4,147
Closing net book amount	<u>\$ 935,566</u>	<u>\$ 1,298,567</u>	<u>\$ 155,962</u>	<u>\$ 128,287</u>	<u>\$ 1,942</u>	<u>\$ 11,512</u>	<u>\$ 393,738</u>	<u>\$ 106,837</u>	<u>\$ 3,032,411</u>
At March 31, 2019									
Cost	\$ 2,035,410	\$ 5,611,871	\$ 1,111,435	\$ 709,416	\$ 8,792	\$ 77,028	\$ 1,912,587	\$ 106,837	\$ 11,573,376
Accumulated depreciation	( 1,099,785)	( 4,306,175)	( 955,473)	( 581,129)	( 6,850)	( 65,497)	( 1,518,766)	-	( 8,533,675)
Accumulated impairment	( 59)	( 7,129)	-	-	-	( 19)	( 83)	-	( 7,290)
	<u>\$ 935,566</u>	<u>\$ 1,298,567</u>	<u>\$ 155,962</u>	<u>\$ 128,287</u>	<u>\$ 1,942</u>	<u>\$ 11,512</u>	<u>\$ 393,738</u>	<u>\$ 106,837</u>	<u>\$ 3,032,411</u>

	Buildings and structures	Machinery	Utility facilities	Pollution prevention facilities	Transportation equipment	Office equipment	Other equipment	Construction in progress and prepayment for equipment	Total
At January 1, 2018									
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)
	<u>\$ 999,402</u>	<u>\$ 1,087,981</u>	<u>\$ 143,269</u>	<u>\$ 114,723</u>	<u>\$ 2,592</u>	<u>\$ 5,617</u>	<u>\$ 386,556</u>	<u>\$ 137,628</u>	<u>\$ 2,877,768</u>
For the three-month period ended March 31, 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	250	20,515	7,853	1,445	-	404	8,721	142,237	181,425
Disposals	-	-	-	-	( 186)	-	( 434)	-	( 620)
Reclassifications	260	36,314	-	4,353	-	9,332	-	( 50,259)	-
Depreciation expense	( 15,482)	( 64,355)	( 5,055)	( 3,205)	( 247)	( 952)	( 13,074)	-	( 102,370)
Net exchange differences	2,457	883	-	-	11	-	-	-	3,351
Closing net book amount	<u>\$ 986,887</u>	<u>\$ 1,081,338</u>	<u>\$ 146,067</u>	<u>\$ 117,316</u>	<u>\$ 2,170</u>	<u>\$ 14,401</u>	<u>\$ 381,769</u>	<u>\$ 229,606</u>	<u>\$ 2,959,554</u>
At March 31, 2018									
Cost	\$ 2,028,528	\$ 5,181,781	\$ 1,071,917	\$ 683,153	\$ 8,948	\$ 74,964	\$ 1,848,003	\$ 229,606	\$ 11,126,900
Accumulated depreciation	( 1,041,582)	( 4,092,636)	( 925,850)	( 565,837)	( 6,778)	( 60,479)	( 1,466,126)	-	( 8,159,288)
Accumulated impairment	( 59)	( 7,807)	-	-	-	( 84)	( 108)	-	( 8,058)
	<u>\$ 986,887</u>	<u>\$ 1,081,338</u>	<u>\$ 146,067</u>	<u>\$ 117,316</u>	<u>\$ 2,170</u>	<u>\$ 14,401</u>	<u>\$ 381,769</u>	<u>\$ 229,606</u>	<u>\$ 2,959,554</u>

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:

	<u>For the three-month periods ended March 31,</u>	
	<u>2019</u>	<u>2018</u>
Amount capitalised	\$ 326	\$ 374
Interest rate	0.89%~1.10%	0.58%~0.98%

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

(8) Leasing arrangements – lessee

Effective 2019

A. The Group leases various assets including land, buildings and business vehicles. Rental contracts are typically made for periods of 3 to 20 years.

B. The carrying amount of right-of-use assets and the depreciation charge are as follows:

	<u>March 31, 2019</u>	<u>For the three-month period ended March 31, 2019</u>
	<u>Carrying amount</u>	<u>Depreciation charge</u>
Land	\$ 250,509	\$ 3,830
Buildings	8,691	774
Transportation equipment (Business vehicles)	5,280	993
Office equipment (Internet equipment)	2,692	77
	<u>\$ 267,172</u>	<u>\$ 5,674</u>

C. For the three-month period ended March 31, 2019, the additions to right-of-use assets amounted \$2,769.

D. The information on income and expense accounts relating to lease contracts is as follows:

	<u>For the three-month period ended March 31, 2019</u>
<u>Items affecting profit or loss</u>	
Interest expense on lease liabilities	\$ 807
Expense on short-term lease contracts	\$ 2,413

E. For the three-month period ended March 31, 2019, the Group's total cash outflow for leases amounted \$8,605.

(9) Intangible assets

	<u>Software</u>
At January 1, 2019	
Cost	\$ 31,627
Accumulated amortisation	( 22,787)
	<u>\$ 8,840</u>
For the three-month period ended March 31, 2019	
Opening net book amount	\$ 8,840
Additions	4,640
Amortisation expense	( 3,062)
Closing net book amount	<u>\$ 10,418</u>
At March 31, 2019	
Cost	\$ 25,788
Accumulated amortisation	( 15,370)
	<u>\$ 10,418</u>
At January 1, 2018	
	<u>Software</u>
Cost	\$ 32,231
Accumulated amortisation	( 23,180)
	<u>\$ 9,051</u>
For the three-month period ended March 31, 2018	
Opening net book amount	\$ 9,051
Additions	2,646
Amortisation expense	( 3,092)
Closing net book amount	<u>\$ 8,605</u>
At March 31, 2018	
Cost	\$ 22,900
Accumulated amortisation	( 14,295)
	<u>\$ 8,605</u>

Details of amortisation on intangible assets are as follows:

	<u>For the three-month periods ended March 31,</u>	
	<u>2019</u>	<u>2018</u>
Operating costs	\$ 987	\$ 1,094
Selling expenses	161	182
General and administration expenses	1,230	1,181
Research and development expenses	684	635
Total	<u>\$ 3,062</u>	<u>\$ 3,092</u>



(10) Short-term borrowings

<u>Type of borrowings</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Unsecured bank borrowings	<u>\$ 563,898</u>	<u>\$ 737,660</u>	<u>\$ 982,407</u>
Interest rate range	<u>0.53%~5.25%</u>	<u>0.53%~5.25%</u>	<u>0.53%~5.25%</u>

(11) Other payables

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Salaries and bonus payable	\$ 154,770	\$ 177,565	\$ 140,388
Compensation payable to employee	133,228	112,897	151,411
Remuneration payable to directors and supervisors	42,731	37,632	46,491
Others	<u>273,692</u>	<u>271,434</u>	<u>302,785</u>
Total	<u>\$ 604,421</u>	<u>\$ 599,528</u>	<u>\$ 641,075</u>

(12) Long-term borrowings

<u>Type of borrowings</u>	<u>Credit line</u>	<u>Period</u>	<u>Interest rate range</u>	<u>March 31, 2019</u>
Syndicated borrowings with four financial institutions including China Trust Commercial Bank (Unsecured)	\$ 1,200,000	2019.02.20~ 2022.02.20	1.797%~ 3.754%	\$ 404,350
Less: Current portion (shown as “Other non-current liabilities”)				-
				<u>\$ 404,350</u>

<u>Type of borrowings</u>	<u>Credit line</u>	<u>Period</u>	<u>Interest rate range</u>	<u>December 31, 2018</u>
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	300,000	2018.12.06~ 2021.06.07	1.83%	50,000
Less: Current portion (shown as “Other non-current liabilities”)				-
				<u>\$ 250,000</u>

March 31, 2018: None.

On January 15, 2019, the Company signed a joint credit facility of \$1.2 billion with four financial institutions including China Trust Commercial Bank. The loan agreement includes the following covenants:

- A. The current ratio should be no less than 100% per half year.
- B. The debt ratio should not be higher than 100%.
- C. The interest coverage ratio shall not be less than 300%.
- D. 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. A default also requires the payment of the full unpaid balance of the loan in advance.

(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 3.35% 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) For the aforementioned pension plan, the Group recognised pension costs of \$2,605 and \$2,873 for the three-month periods ended March 31, 2019 and 2018, respectively.
- (c) Expected contributions to the defined benefit pension plans of the Group for the year ending December 31, 2019 amount to \$9,682.
- 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 the three-month periods ended March 31, 2019 and 2018 were both 14%. 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 three-month

periods ended March 31, 2019 and 2018 were \$9,981 and \$10,156, respectively.

(14) Provisions

<u>Warranty</u>	<u>2019</u>	<u>2018</u>
At January 1	\$ 34,229	\$ 48,225
Accrued during the period	( 9,918)	1,875
Used during the period	( 1,947)	( 2,494)
Exchange differences	191	185
At March 31	<u>\$ 22,555</u>	<u>\$ 47,791</u>

Analysis of total provisions:

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Current	\$ 8,442	\$ 11,970	\$ 14,762
Non-current	\$ 14,113	\$ 22,259	\$ 33,029

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

(15) Share capital

A. As of March 31, 2019, 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 three-month periods ended March 31, 2019 and 2018, are as follows (Treasury stock was deducted):

	(In thousands of shares)	
	<u>2019</u>	<u>2018</u>
At January 1 (At March 31)	\$ 444,551	\$ 444,551

B. Treasury stock

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

		<u>March 31, 2019</u>	
<u>Name of company holding the shares</u>	<u>Reason for reacquisition</u>	<u>Number of Shares (thousand)</u>	<u>Carrying amount</u>
The Company Subsidiary-Ho Chung Investment Co., Ltd.	The Company's shares held by its subsidiary	888	<u>\$ 24,503</u>

		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	\$ <u>24,503</u>

		March 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	\$ <u>24,503</u>

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

(16) 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.

(17) 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 2018 and 2017 earnings had been resolved at the Board of Directors' meeting on April 25, 2019 and the stockholders' meeting on June 20, 2018, respectively. Details are summarized below:

	2018		2017	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	\$ 65,311		\$ 67,228	
Special reserve	8,392		( 59,227)	
Cash dividends	222,719	\$ 0.50	601,342	\$ 1.35
Total	\$ 296,422		\$ 609,343	

The above-mentioned 2018 earnings appropriation will be resolved in the shareholders' meeting in 2019.

(18) Other equity items

	Currency translation differences of foreign operations	Unrealized gain (loss) on valuation	Total
At January 1, 2019	\$ 2,021	\$ 251,355	\$ 253,376
Financial assets at fair value through other comprehensive income			
Revaluation - Group	-	575	575
Currency translation differences:			
-Group	578	-	578
-Associates	( 22)	-	( 22)
At March 31, 2019	\$ 2,577	\$ 251,930	\$ 254,507

	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	-	128,929	128,929
Revaluation transferred to retained earnings	- (	47,792) (	47,792)
Currency translation differences:			
-Group	83	-	83
-Associates	( 22)	- (	22)
At March 31, 2018	\$ 2,022	\$ 305,731	\$ 307,753

(19) Operating revenue

	For the three-month periods ended March 31,	
	2019	2018
Revenue from contracts with customers	\$ 1,150,041	\$ 1,311,329

The Group derives revenue in the following major product lines:

	LED and Silicon Sensor Chips Group	Displays and Lighting Group	Packaging Business Group	Other segments	Total
For the three-month period ended March 31, 2019					
Revenue from external customer contracts	\$ 830,872	\$ 254,689	\$ 60,412	\$ 4,068	\$ 1,150,041
For the three-month period ended March 31, 2018					
Revenue from external customer contracts	\$ 1,015,317	\$ 228,455	\$ 66,863	\$ 694	\$ 1,311,329

(20) Other income

	For the three-month periods ended March 31,	
	2019	2018
Interest income:		
Interest income from bank deposits	\$ 3,352	\$ 2,333
Interest income from repurchase bonds	386	330
Other interest income	277	301
Rental revenue	20	311
Dividend income	16,602	13,590
Others	14,382	7,130
Total	<u>\$ 35,019</u>	<u>\$ 23,995</u>

(21) Other gains and losses

	For the three-month periods ended March 31,	
	2019	2018
Loss on disposal of property, plant and equipment	\$ -	(\$ 570)
Net currency exchange gain (loss)	8,564	( 8,127)
Net gain on financial assets and liabilities at fair value through profit or loss	92	495
Others	( 508)	( 494)
Total	<u>\$ 8,148</u>	<u>(\$ 8,696)</u>

(22) Finance costs

	For the three-month periods ended March 31,	
	2019	2018
Interest expense:		
Bank borrowings	\$ 7,150	\$ 6,683
Lease liabilities	807	\$ -
Less: Capitalisation of qualifying assets	( 326)	( 374)
	7,631	6,309
Other financial costs	475	32
Total	<u>\$ 8,106</u>	<u>\$ 6,341</u>

(23) Expenses by nature

	For the three-month periods ended March 31,	
	2019	2018
Employee benefit expense	\$ 292,843	\$ 330,593
Depreciation on property, plant and equipment	119,282	102,370
Amortisation on intangible assets	3,062	3,092
Total	<u>\$ 415,187</u>	<u>\$ 436,055</u>

(24) Employee benefit expense

	<u>For the three-month periods ended March 31,</u>	
	<u>2019</u>	<u>2018</u>
Wages and salaries	\$ 251,139	\$ 286,902
Labor and health insurance fees	22,640	22,988
Pension costs	12,586	13,029
Other personnel expenses	6,478	7,674
	<u>\$ 292,843</u>	<u>\$ 330,593</u>

- 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 three-month periods ended March 31, 2019 and 2018, the employees' compensation was accrued at \$20,138 and \$33,876, respectively; directors' and supervisors' remuneration was accrued at \$5,034 and \$11,292, respectively. The aforementioned amounts were recognised in salary expense. The employees' compensation and directors' and supervisors' remuneration were estimated and accrued based on 12%, 3%, 15% and 5%, respectively, of distributable profit of current period distributable as of the end of reporting period.
- C. For the three-month periods ended March 31, 2019 and 2018, CS Bright Corporation's, the indirect subsidiary of the Company, employees' compensation was accrued at \$194 and \$363, respectively; directors' and supervisors' remuneration was accrued at \$64 and \$121, 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 2018 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.



(25) Income tax

A. Income tax expense

(a) Components of income tax expense:

	<u>For the three-month periods ended March 31,</u>	
	<u>2019</u>	<u>2018</u>
Current tax:		
Current tax on profits for the period	<u>\$ 28,974</u>	<u>\$ 35,899</u>
Deferred tax:		
Origination and reversal of temporary differences	( 435)	( 2,729)
Impact of change in tax rate	<u>-</u>	<u>( 10,821)</u>
Total deferred tax	<u>( 435)</u>	<u>( 13,550)</u>
Income tax expense	<u>\$ 28,539</u>	<u>\$ 22,349</u>

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

	<u>For the three-month periods ended March 31,</u>	
	<u>2019</u>	<u>2018</u>
Impact of change in tax rate	<u>\$ -</u>	<u>\$ 7,587</u>

B. As of March 31, 2019, the Company's income tax returns through 2017 have been assessed and approved by the Tax Authority.

C. 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.

(26) Earnings per share

	<u>For the three-month period ended March 31, 2019</u>		
		<u>Weighted-average outstanding common shares (in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Profit after tax</u>			
<u>Basic earnings per share</u>			
Profit attributable to owners of the parent	\$ 114,906	444,551	<u>\$ 0.26</u>
Dilutive effect of common stock equivalents:			
Employees' compensation	<u>-</u>	<u>4,927</u>	
<u>Diluted earnings per share</u>			
Profit attributable to owners of the parent plus dilutive effect of common stock equivalents	<u>\$ 114,906</u>	<u>449,478</u>	<u>\$ 0.26</u>

For the three-month period ended March 31, 2018

	<u>Profit after tax</u>	<u>Weighted-average outstanding common shares (in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to owners of the parent	\$ 158,656	444,551	<u>\$ 0.36</u>
Dilutive effect of common stock equivalents:			
Employees' compensation	-	6,124	
<u>Diluted earnings per share</u>			
Profit attributable to owners of the parent plus dilutive effect of common stock equivalents	<u>\$ 158,656</u>	<u>450,675</u>	<u>\$ 0.35</u>

(27) Operating leases

Effective 2018

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:

	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Not later than 1 year	\$ 33,477	\$ 19,764
Later than 1 year but not later than 5 years	79,929	79,486
Later than 5 years	<u>203,239</u>	<u>170,152</u>
	<u>\$ 316,645</u>	<u>\$ 269,402</u>

(28) Changes in liabilities from financing activities

	<u>Short-term borrowings</u>	<u>Long-term borrowings</u>	<u>Lease liabilities</u>	<u>Guarantee deposits</u>	<u>Liabilities from financing activities-gross</u>
At January 1, 2019	\$ 737,660	\$ 250,000	\$ 265,950	\$ 2,394	\$ 1,256,004
Increase in short-term borrowings	560,545	-	-	-	560,545
Decrease in short-term borrowings	( 739,271)	-	-	-	( 739,271)
Increase in long-term borrowings	-	404,305	-	-	404,305
Decrease in long-term borrowings	-	( 250,000)	-	-	( 250,000)
Increase in lease principal	-	-	2,769	-	2,769
Decrease in lease principal	-	-	( 6,192)	-	( 6,192)
Interest expense	-	-	807	-	807
Decrease in guarantee deposits	-	-	-	5	5
Impact of changes in foreign exchange rate	4,964	45	( 3)	-	5,006
At March 31, 2019	<u>\$ 563,898</u>	<u>\$ 404,350</u>	<u>\$ 263,331</u>	<u>\$ 2,399</u>	<u>\$ 1,233,978</u>

	<u>Short-term borrowings</u>	<u>Guarantee deposits</u>	<u>Liabilities from financing activities-gross</u>
At January 1, 2018	\$ 899,677	\$ 3,390	\$ 903,067
Increase in short-term borrowings	1,180,415	-	1,180,415
Decrease in short-term borrowings	( 1,096,199)	-	( 1,096,199)
Decrease in guarantee deposits	-	( 2,156)	( 2,156)
Impact of changes in foreign exchange rate	( 1,486)	-	( 1,486)
At March 31, 2018	<u>\$ 982,407</u>	<u>\$ 1,234</u>	<u>\$ 983,641</u>

## 7. RELATED PARTY TRANSACTIONS

### (1) Names of related parties and relationship

<u>Names of related parties</u>	<u>Relationship with the Company</u>
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:

	<u>For the three-month periods ended March 31,</u>	
	<u>2019</u>	<u>2018</u>
Sales of goods:		
Associates	\$ 36,751	\$ 199
Other related parties	75,414	87,867
Total	<u>\$ 112,165</u>	<u>\$ 88,066</u>

The selling prices charged to the above related parties are not materially different from those charged to non-related parties. For the three-month periods ended March 31, 2019 and 2018, the credit term for the related parties was 45 ~ 136 days and 66~136, respectively. The credit term was 90 ~ 150 days for the non-related parties for both periods.

#### B. Purchases:

	<u>For the three-month periods ended March 31,</u>	
	<u>2019</u>	<u>2018</u>
Purchases of goods:		
Other related parties	<u>\$ 61,580</u>	<u>\$ 115,741</u>

The purchase prices charged by the above related parties were not materially different from those charged by non-related parties. For the three-month periods ended March 31, 2019 and 2018, 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:

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Receivables from related parties:			
Associates	\$ -	\$ 340	\$ 199
Other related parties	36,428	79,132	90,228
Less: Allowance for doubtful accounts	-	( 955)	( 8)
Total	<u>\$ 36,428</u>	<u>\$ 78,517</u>	<u>\$ 90,419</u>

D. Accounts payable:

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Payables to related parties:			
Other related parties			
Nichia Taiwan Corp.	\$ 56,124	\$ 46,225	\$ 85,655
Others	27,288	41,738	73,294
Total	<u>\$ 83,412</u>	<u>\$ 87,963</u>	<u>\$ 158,949</u>

E. Rent expense

	<u>For the three-month periods ended March 31,</u>	
	<u>2019</u>	<u>2018</u>
Other related parties	<u>\$ 600</u>	<u>\$ 600</u>

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

	<u>For the three-month periods ended March 31,</u>	
	<u>2019</u>	<u>2018</u>
Salaries and other short-term employee benefits	\$ 14,139	\$ 23,375
Post-employment benefits	113	122
Total	<u>\$ 14,252</u>	<u>\$ 23,497</u>

8. PLEDGED ASSETS

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

Pledged assets	<u>Book value</u>			<u>Purpose of pledge</u>	
	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>	<u>Creditor Bank</u>	<u>Type</u>
Restricted assets-Time deposits, (shown as "other current assets")	<u>\$ 20,860</u>	<u>\$ 20,860</u>	<u>\$ 20,860</u>	Chang Hwa Commercial Bank	Land lease and dormitory lease deposits

## 9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) As of March 31, 2019, the guarantees provided by the Group through banks were as follows:

<u>Guarantor</u>	<u>Nature of Guarantee</u>	<u>Amount</u>
Chang Hwa Commercial Bank	Customs duty	\$ 14,000
Chang Hwa Commercial Bank	Warranty	20,860
Mega International Commercial Bank	"	7,790
Taipei Fubon Commercial Bank	"	1,478
Taishin International Bank	Borrowing	185,340
		<u>\$ 229,468</u>

(2) As of March 31, 2019, the outstanding letters of credit issued for the importation of raw materials and machinery were as follows:

	<u>Amount (thousands)</u>
TWD	11,779
JPY	17,321
USD	407

(3) Operating lease commitments:

Please refer to Notes 6(8) and 6(27).

(4) As of March 31, 2019, the promissory notes issued by the Company and CS Bright Corporation for loans, performance guarantee for purchases and loans granted for subsidiaries amounted to \$5,146,195.

(5) As of March 31, 2019, the capital expenditure contracted but not yet incurred is \$33,194.

## 10. SIGNIFICANT DISASTER LOSS

None.

## 11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

(1) Please refer to Note 6(17).

(2) On April 25, 2019, the Board of Directors proposed a capital reduction of 668,158 thousand, representing 66,816 thousand shares of outstanding shares whose ratio is around 15%. The capital reduction will be resolved in the shareholders' meeting in 2019.

## 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 March 31, 2019, December 31, 2018 and March 31, 2018, the gearing ratios were (35.45%), (29.21%) and (34.44%), respectively.

(2) Financial instruments

A. Financial instruments by category

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
<u>Financial assets</u>			
Financial assets measured at fair value through profit or loss			
Financial assets mandatorily measured at fair value through profit or loss	\$ 327,396	\$ 327,280	\$ 391,600
Financial assets at fair value through other comprehensive income	872,121	871,546	1,108,761
Financial assets at amortised cost/Loans and receivables			
Cash and cash equivalents	2,969,551	2,690,226	2,906,457
Notes receivable	11,338	13,119	30,326
Accounts receivable-net (including related parties)	1,466,184	1,654,266	1,521,295
Other accounts receivable	16,952	12,793	49,322
Guarantee deposits paid	25,594	26,446	29,362
Other financial assets	20,860	20,860	20,860
	<u>\$ 5,709,996</u>	<u>\$ 5,616,536</u>	<u>\$ 6,057,983</u>
<u>Financial liabilities</u>			
Financial liabilities measured at fair value through profit or loss			
Financial liabilities held for trading	\$ 24	\$ -	\$ -
Financial liabilities at amortised cost			
Short-term borrowings	563,898	737,660	982,407
Notes payable	1,203	33	1,249
Accounts payable (including related parties)	630,545	661,970	854,298
Lease liabilities	263,331	-	-
Other accounts payable	604,421	599,528	641,075
Long-term borrowings (including current portion)	404,350	250,000	-
Guarantee deposits received	2,399	2,394	1,234
	<u>\$ 2,470,171</u>	<u>\$ 2,251,585</u>	<u>\$ 2,480,263</u>

B. Financial risk management policies

There was no significant change in the reporting period. Please refer to Note 12 in the consolidated financial statements for the year ended December 31, 2018.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- 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:



	March 31, 2019			For the three-month period ended March 31, 2019			
				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)							
<u>Financial assets</u>							
<u>Monetary items</u>							
USD : TWD	\$ 46,170	30.770	\$ 1,420,651	1%	\$ 14,207	\$ -	(\$ 531)
JPY : TWD	371,835	0.2763	102,738	1%	1,027	-	( 80)
CNY : TWD	19,338	4.555	88,085	1%	881	-	625
USD : CNY (Note)	364	6.7293	11,218	1%	112	-	26
<u>Financial liabilities</u>							
<u>Monetary items</u>							
USD : TWD	\$ 26,102	30.870	\$ 805,769	1%	(\$ 8,058)	\$ -	\$ 1,183
JPY : TWD	394,767	0.2803	110,653	1%	( 1,107)	-	90
USD : CNY (Note)	25	6.7293	709	1%	( 8)	-	( 2)

	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)							
<u>Financial assets</u>							
<u>Monetary items</u>							
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
<u>Financial liabilities</u>							
<u>Monetary items</u>							
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

	March 31, 2018			For the three-month period ended March 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)							
<u>Financial assets</u>							
<u>Monetary items</u>							
USD : TWD	\$ 49,834	29.055	\$ 1,447,927	1%	\$ 14,479	\$ -	(\$ 20,143)
JPY : TWD	331,681	0.2719	90,184	1%	902	-	( 346)
CNY : TWD	23,236	4.6220	107,397	1%	1,074	-	1,104
USD : CNY (Note)	815	6.2632	23,721	1%	237	-	( 173)
<u>Non-monetary items:</u> None							
<u>Financial liabilities</u>							
<u>Monetary items</u>							
USD : TWD	\$ 34,270	29.155	\$ 999,142	1%	(\$ 9,991)	\$ -	\$ 19,060
JPY : TWD	515,178	0.2759	142,138	1%	( 1,421)	-	( 1,635)
USD : CNY (Note)	20	6.2632	582	1%	( 6)	-	10
<u>Non-monetary items:</u> None							

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 and financial assets at fair value through other comprehensive income. 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 three-month periods ended March 31, 2019 and 2018 would have increased/decreased by \$21,712 and \$24,107, 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 \$96,122 and \$149,551 as a result of gains/losses on equity securities classified as at fair value through other comprehensive income.

### 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 three-month periods ended March 31, 2019 and 2018, the Group's borrowings at floating rate were denominated in TWD, USD and JPY.
  - ii. At March 31, 2019 and 2018, if interest rates on borrowings had been 100 basis point higher/lower with all other variables held constant, post-tax profit for the three-month periods ended March 31, 2019 and 2018 would have been \$1,936 and \$1,962 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 notes receivable and accounts receivable (including related parties). On March 31, 2019, December 31, 2018 and March 31, 2018, the loss rate methodology is as follows:

	<u>Individual</u>	<u>Group</u>	<u>Total</u>
<u>At March 31, 2019</u>			
Expected loss rate	100%	0.015%~100%	
Total book value	\$ 24,613	\$ 1,484,907	\$ 1,509,520
Loss allowance	<u>\$ 24,613</u>	<u>\$ 7,385</u>	<u>\$ 31,998</u>
	<u>Individual</u>	<u>Group</u>	<u>Total</u>
<u>At December 31, 2018</u>			
Expected loss rate	100%	0.01%~100%	
Total book value	\$ 8,846	\$ 1,708,982	\$ 1,717,828
Loss allowance	<u>\$ 8,846</u>	<u>\$ 41,597</u>	<u>\$ 50,443</u>
	<u>Individual</u>	<u>Group</u>	<u>Total</u>
<u>At March 31, 2018</u>			
Expected loss rate	100%	0.002%~100%	
Total book value	\$ 8,380	\$ 1,593,149	\$ 1,601,529
Loss allowance	<u>\$ 8,380</u>	<u>\$ 41,528</u>	<u>\$ 49,908</u>

- vi. As at March 31, 2019, December 31, 2018 and March 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 \$1,477,522, \$1,667,385 and \$1,551,621, respectively.
- vii. Movements in relation to the group applying the simplified approach to provide loss allowance for accounts receivable are as follows:

	<u>2019</u>
	<u>Accounts receivable</u>
At January 1	\$ 50,443
Reversal of impairment loss	( 81)
Write-offs	( 18,719)
Effect of foreign exchange	355
At March 31	<u>\$ 31,998</u>

	<u>2018</u>
	<u>Accounts receivable</u>
At January 1_IAS 39	\$ 54,460
Adjustments under new standards	-
At January 1_IFRS 9	54,460
Reversal of impairment loss	( 5,050)
Effect of foreign exchange	498
At March 31	<u>\$ 49,908</u>

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.

(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 :

	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 5 years	Over 5 years
March 31, 2019					
Short-term borrowings	\$ 563,898	\$ -	\$ -	\$ -	\$ -
Notes payable	1,203	-	-	-	-
Accounts payable (including related parties)	630,545	-	-	-	-
Lease liabilities	24,762	22,078	21,004	36,735	198,847
Other payables	604,421	-	-	-	-
Long-term borrowings (including current portion)	11,537	41,828	369,665	-	-
<u>Derivative financial liabilities :</u>					
Forward exchange contracts	24	-	-	-	-

Non-derivative financial liabilities :

	Less than	Between	Between	Between	Over 5
December 31, 2018	1 year	1 and 2	2 and 3	3 and 5	years
		years	years	years	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 :

	Less than	Between	Between	Between	Over 5
March 31, 2018	1 year	1 and 2	2 and 3	3 and 5	years
		years	years	years	years
Short-term borrowings	\$ 982,407	\$ -	\$ -	\$ -	\$ -
Notes payable	1,249	-	-	-	-
Accounts payable (including related parties)	854,298	-	-	-	-
Other payables	641,075	-	-	-	-

(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 payables, accounts payables, 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 March 31, 2019, December 31, 2018 and March 31, 2018 is as follows:

March 31, 2019	Level 1	Level 2	Level 3	Total
Assets:				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Equity securities	\$ -	\$ -	\$ 106,899	\$ 106,899
Domestic funds	220,438	-	-	220,438
Forward exchange contract	-	59	-	59
Financial assets at fair value through other comprehensive income	89,094	-	783,027	872,121
Total	<u>\$ 309,532</u>	<u>\$ 59</u>	<u>\$ 889,926</u>	<u>\$ 1,199,517</u>
Liabilities:				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
Forward exchange contract	\$ -	\$ 24	\$ -	\$ 24
December 31, 2018	Level 1	Level 2	Level 3	Total
Assets:				
<u>Recurring fair value measurements</u>				
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	<u>\$ 308,659</u>	<u>\$ 241</u>	<u>\$ 889,926</u>	<u>\$ 1,198,826</u>
March 31, 2018	Level 1	Level 2	Level 3	Total
Assets:				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Equity securities	\$ -	\$ -	\$ 90,839	\$ 90,839
Domestic funds	300,460	-	-	300,460
Forward exchange contract	-	301	-	301
Financial assets at fair value through other comprehensive income	386,753	-	722,008	1,108,761
Total	<u>\$ 687,213</u>	<u>\$ 301</u>	<u>\$ 812,847</u>	<u>\$ 1,500,361</u>

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

- 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.
- 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.
- 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 three-month periods ended March 31, 2019 and 2018, 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 three-month periods ended March 31, 2019 and 2018.

	2019	2018
At January 1 (At March 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 three-month periods ended March 31, 2019 and 2018, 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 March 31, 2019	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, 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 March 31, 2018	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:

		March 31, 2019			
		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, 2018				
		Recognised in profit or loss		Recognised in other comprehensive income		
		Favourable	Unfavourable	Favourable	Unfavourable	
		change	change	change	change	
	Input	Change				
Financial assets						
Equity instrument	Discount of lack of volatility	±5%	\$ 1,151	(\$ 1,151)	\$ 15,106	(\$ 15,106)
			March 31, 2018			
			Recognised in profit or loss		Recognised in other comprehensive income	
			Favourable	Unfavourable	Favourable	Unfavourable
			change	change	change	change
	Input	Change				
Financial assets						
Equity instrument	Discount of lack of volatility	±5%	\$ -	\$ -	\$ 14,855	(\$ 14,855)

### 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: None.
- H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: None.
- I. Trading in derivative instruments undertaken during the reporting periods: Please refer to Notes 6(2).
- J. Significant inter-company transactions during the reporting periods: Please refer to table 4.

#### (2) Information on investees

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

#### (3) Information on investments in Mainland China

- A. Basic information: Please refer to table 6.
- B. Significant transactions, either directly or indirectly through a third area, with investee companies

in the Mainland Area: Please refer to table 7.

#### 14. SEGMENT INFORMATION

##### (1) General information

There was no significant change in the reporting period. Please refer to Note 14 in the consolidated financial statements for the year ended December 31, 2018.

##### (2) Segment information

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

	<u>For the three-month period ended March 31, 2019</u>				
	<u>LED and Silicon Sensor Chips Group</u>	<u>Displays and Lighting Group</u>	<u>Packaging Business Group</u>	<u>Other segments</u>	<u>Total</u>
Revenue from external customers	<u>\$ 830,872</u>	<u>\$ 254,689</u>	<u>\$ 60,412</u>	<u>\$ 4,068</u>	<u>\$ 1,150,041</u>
Segment income (loss)	<u>\$ 85,997</u>	<u>\$ 43,326</u>	<u>(\$ 574)</u>	<u>\$ 14,696</u>	<u>\$ 143,445</u>

	<u>For the three-month period ended March 31, 2018</u>				
	<u>LED and Silicon Sensor Chips Group</u>	<u>Displays and Lighting Group</u>	<u>Packaging Business Group</u>	<u>Other segments</u>	<u>Total</u>
Revenue from external customers	<u>\$ 1,015,317</u>	<u>\$ 228,455</u>	<u>\$ 66,863</u>	<u>\$ 694</u>	<u>\$ 1,311,329</u>
Segment income (loss)	<u>\$ 198,682</u>	<u>(\$ 7,455)</u>	<u>(\$ 221)</u>	<u>(\$ 9,999)</u>	<u>\$ 181,007</u>

##### (3) 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.

Opto Tech Corporation and subsidiaries

Loans to others

For the three-month period ended March 31, 2019

Table 1

Expressed in thousands of TWD

No. (Note 1)	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding balance during the three-month	Balance at March 31, 2019	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
					period ended March 31, 2019								Item	Value			
0	Opto Tech Corp.	Opto Tech (Suzhou) Co., Ltd.	Other receivables-Related Parties	Yes	\$ 93,727	\$ -	\$ -	3.55010%	2	\$ -	Pay debt	\$ -	None	\$ -	\$ 764,324	\$ 3,057,298	
1	CS Bright Corp.	Opto Plus Technology Co., Ltd.	Other receivables-Related Parties	Yes	22,857	20,418	20,418	-	1	183,531	None	-	None	-	183,531	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 three-month period.

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.

Note 5: 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.

Opto Tech Corporation and subsidiaries  
Provision of endorsements and guarantees to others  
For the three-month period ended March 31, 2019

Table 2

Expressed in thousands of TWD

Number (Note 1)	Endorser/ guarantor	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 March 31, 2019	Outstanding endorsement/ guarantee amount at March 31, 2019	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	\$ 1,528,649	\$ 30,000	\$ 30,000	\$ 5,000	\$ -	0.39%	\$ 3,821,622	Y	N	N	-
0	Opto Tech Corp.	Opto Plus Technology Co., Ltd.	2	1,528,649	185,220	185,220	117,781	-	2.42%	3,821,622	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) \$7,643,244 thousand dollars × 20% = \$1,528,649 thousand dollars

(2) \$7,643,244 thousand dollars × 50% = \$3,821,622 thousand dollars

Opto Tech Corporation and subsidiaries

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

March 31, 2019

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 March 31, 2019				
					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	89,094	2.45	89,094	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	16.85	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	21,083	0.20	21,083	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	41,112	None	41,112	None
"	"	Franklin Templeton Sinoam Money Market fund	None.	"	4,448,043	45,970	None	45,970	None
"	"	Capital Money Market fund	None.	"	635,397	10,250	None	10,250	None
"	"	UPAMC James Bond Money Market fund	None.	"	1,224,826	20,463	None	20,463	None
"	"	Taishin 1699 Money Market fund	None.	"	2,280,623	30,849	None	30,849	None
"	"	FSITC Taiwan Money Market fund	None.	"	4,022,602	61,538	None	61,538	None
"	"	Jih Sun Money Market fund	None.	"	692,329	10,256	None	10,256	None

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

Opto Tech Corporation and subsidiaries  
 Significant inter-company transactions during the reporting periods  
 For the three-month period ended March 31, 2019

Table 4

Expressed in thousands of TWD

Number	Company name	Counterparty	Relationship	Transaction			Percentage of consolidated total operating revenues or total assets
				General ledger account	Amount	Transaction terms	
2	CS Bright Corp.	Opto Plus Technology Co., Ltd.	3	Accounts receivable	\$ 60,607	Note 4	0.57%
3	CS Bright Corp.	Opto Plus Technology Co., Ltd.	3	Other receivable-related party	20,418	-	0.19%
3	Opto Plus Technology Co., Ltd.	CS Bright Corp.	3	Sales	40,193	Note 4	3.49%
3	Opto Plus Technology Co., Ltd.	CS Bright Corp.	3	Accounts receivable	24,698	Note 4	0.23%

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 three-month period ended March 31, 2019

Table 5

Expressed in thousands of TWD

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at March 31, 2019			Net income (loss) of the investee	Investment income (loss) recognized by investor	Remark
				Balance as of March 31, 2019	Balance as of December 31, 2018	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	\$ 51,806	\$ 45,272	\$ 45,272	Subsidiary of the Company
Opto Tech Corp.	Ho Chung Investment Co., Ltd.	Taiwan	Investment business	258,348	258,348	1,298,800	100.00	74,760	5,288	317	Subsidiary of the Company
Opto Tech Corp.	Opto Tech (Macao) Co., Ltd.	Macao	International trading	4,096	4,096	-	100.00	17,084	( 860)	( 860)	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	50,170	4,993,562	99.87	155,927	230	230	Subsidiary of the Company
Ho Chung Investment Co., Ltd.	VML TECHNOLOGIES B.V.	Netherlands	Manufacture and Design of system products	37,436	37,436	6,000	25.00	850	926	231	Investment accounted for using equity method
CS Bright Corporation	Bright Investment International Ltd.	B.V. I.	Investment business	171,332	171,332	5,100,000	100.00	14,376	( 1,604)	835	Indirect subsidiary
Bright Investment International Ltd.	Everyung Investment Ltd.	Samoa	Investment business	168,421	168,421	5,000,000	50.00	34,313	( 3,211)	( 1,606)	Indirect subsidiary
Opto Technology International Group Co., Ltd.	Opto Tech (Cayman) Co., Ltd.	Cayman Islands	Holding Company	294,360	294,360	9,000,000	100.00	12,353	46,832	46,832	Indirect subsidiary
Opto Technology International Group Co., Ltd.	Everyung Investment Ltd.	Samoa	Investment business	148,910	148,910	5,000,000	50.00	34,313	( 3,211)	( 1,605)	Indirect subsidiary



Opto Tech Corporation and subsidiaries  
Information on investments in Mainland China  
For the three-month period ended March 31, 2019

Table 6

Expressed in thousands of TWD

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated	Amount	Amount	Accumulated	Net income of investee as of March 31, 2019	Ownership held by the Company (direct or indirect)	Investment income	Book value of investments in Mainland China as of March 31, 2019	Accumulated	Remark
				amount of remittance to Mainland China as of January 1, 2019	remitted to Mainland China during the period	remitted back to Taiwan during the period	amount of remittance to Mainland China as of March 31, 2019			(loss) recognised by the Company for the three- month period ended March 31, 2019 (Note 2)		amount of investment income remitted back to Taiwan as of March 31, 2019	
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	\$ 46,752	100.00%	\$ 46,752	\$ 3,615	\$ -	-
Opto Plus Technology Co., Ltd.	Manufacture and Sales of LED and Electronic products	317,341	(2)	317,341	-	-	317,341	( 3,211)	99.94%	( 3,209)	68,627	-	-

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 not reviewed by the independent accountants of the parent company for the corresponding periods.

Investments in Mainland China for the three-month period ended March 31, 2019:

Name of company	Accumulated amount of remittance from Taiwan to Mainland China as of March 31, 2019	Investment	Ceiling on
		amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	investments in Mainland China imposed by the Investment Commission of MOEA
Opto Tech Corp.	\$ 612,049	\$ 612,557	\$ 4,585,946

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 three-month period ended March 31, 2019

Table 7

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 March 31, 2019	%	Balance at March 31, 2019	Purpose	Maximum balance during the three-month period ended March 31, 2019	Balance at March 31, 2019	Interest rate	Interest during the three-month period ended March 31, 2019	
Opto Tech (Suzhou) Co., Ltd.	\$ -	-	\$ -	-	\$ -	-	\$ -	-	\$ 93,727	\$ -	3.55010%	\$ 275	None
Opto Plus Technology Co., Ltd.	5,858	0.51	-	-	63,321	4.32	185,220	Guarantee of bank line of credit	-	-	-	-	None
Opto Plus Technology Co., Ltd.	(40,193)	(8.06)	-	-	(24,698)	(3.92)	-	-	22,857	20,418	-	-	None