

ZERO ONE TECHNOLOGY CO., LTD.
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS FOR THE
THE YEARS ENDED DECEMBER 31, 2018 AND 2017 AND
INDEPENDENT AUDITORS' REPORT

Address: 10F., No.8, Ln. 360, Sec. 1, Neihu Rd.,
Taipei City.
Dial: +886 2 2656 5656

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DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF
AFFILIATES

The companies required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2018 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard NO. 10 “Consolidated Financial Statements”. Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we do not prepare a separate set of consolidated financial statements of affiliates.

Very truly yours,

ZERONE TECHNOLOGY COMPANY LIMITED

By

Chia Hsin Lin
Chairman

February 27, 2019

INDEPENDENT AUDITORS' REPORT

The board of directors and Shareholders
Zero One Technology Company Limited

Opinion

We have audited the accompanying consolidated financial statements of Zero One Technology Company Limited and subsidiaries (the "Group"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended December 31, 2018 and 2017, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

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

Valuation of allowance for uncollectible accounts

Key Audit Matters

As indicated in Note 5 and Note 13 for judgements, the management of the Group assesses the collectability of accounts receivable and valuation of allowance for uncollectible accounts, based on the regulations of IFRS 9, and recognizes allowance for uncollectible accounts by lifetime expected credit losses. As the estimation of allowance for uncollectible accounts is subject to judgement of the management, we consider the valuation of allowance for uncollectible accounts a key audit matter.

We assess the policy of valuation of allowance for uncollectible accounts, assure reasonability of the rate of expected credit losses, and require reasons for insuring that credit losses of individuals with delinquent accounts are expected.

The following audit procedures

Our procedure includes understanding and testing controls of allowance for uncollectible accounts by the management in line with periodic review, predicting and managing differences as tracked for losses, design and execution of relevant controls. We also obtain an Aging report of trade receivable for calculation the allowance for uncollectible accounts on the balance sheet date, and perform the procedure of sampling and auditing for testing the correctness of the aging report, and calculate for evaluating the amount is recognized by allowance for uncollectible accounts in line with the Group's accounting policy for recording.

Allowance for inventory valuation loss

Key Audit Matters

The valuation of the inventory of the Group includes the estimate of net realizable value and the allowance for inventory valuation loss regarding with the outdated and obsolete inventory. Net realizable valuation, based on the historical data of market situation and similar products, of the inventory is the carrying amounts calculated by the estimate sales price deducts the estimate of input costs, and cost of goods sold, during the ordinary course of business. The material influence of market condition will affect the amount of net realizable valuation. Besides, the ratio of the allowance for inventory valuation loss is valued by inventory aging and the allowance for the actual loss. We consider the estimate of net realizable valuation, and the ratio of the allowance for inventory impairment loss of the outdated and obsolete inventories a key audit matter, based on management's professional estimation.

The following audit procedures

Our procedure includes understanding the accounting policies, valuation methods, and citation information originality for the inventory of the Group, obtaining information of the year-end allowance for inventory valuation loss and inventory aging reports, drawing samples to ensure the reasonableness of the inventory as valued by net realizable value method and the inventory aging, and the carrying amount of the year-end allowance for inventory valuation loss fitting the Group's accounting policy for allowance.

Other Matter

We have also audited the parent company only financial statements of Zero One Technology Company Limited as of and for the years ended December 31, 2018 and 2017 on which we have issued an unmodified opinion.

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

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

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

Those charged with governance (including members of the supervisors) are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Wen Chin Lin and Hsin Wei Tai.

Deloitte & Touche

Taipei, Taiwan
Republic of China

February 27, 2019

Notice to Readers

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

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

ZERO ONE TECHNOLOGY CO., LTD. AND SUBSIDIARIES

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

ASSETS	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents(Note 4&6)	\$ 238,626	5	\$ 741,119	20
Financial assets at fair value through profit or loss - current(Note 4&7)	84,618	2	51,338	1
Financial assets at fair value through other comprehensive income - current(Note 4&8)	11,505	-	-	-
Available-for-sale financial assets - current(Note 4&10)	-	-	21,724	1
Financial assets at amortized cost - current(Note 4&9)	588,197	13	-	-
Debt investments with no active market - current(Note 4&12)	-	-	212,366	6
Notes receivable(Note 4&13)	161,130	4	185,925	5
Trade receivables(Note 4, 5&13)	1,728,421	39	1,466,240	41
Inventories(Note 4, 5&14)	941,851	22	490,564	14
Current tax assets(Note 4&24)	1,314	-	804	-
Other current assets	23,578	1	10,151	-
Total current assets	<u>3,779,240</u>	<u>86</u>	<u>3,180,231</u>	<u>88</u>
NON-CURRENT ASSETS				
Financial assets at fair value through profit or loss - non-current(Note 4&7)	42,347	1	-	-
Financial assets at fair value through other comprehensive income - non-current(Note 4&8)	137,138	3	-	-
Available-for-sale financial assets - non-current(Note 4&10)	-	-	68,565	2
Financial assets at amortized cost - non-current(Note 4,9&30)	79,362	2	-	-
Financial assets measured at cost - non-current(Note 4&11)	-	-	21,654	1
Debt investments with no active market - non-current(Note 4,12&30)	-	-	11,539	-
Investments accounted FOR USING the EQUITY METHOD(Note 4&16)	-	-	4,446	-
Property, plant and equipment(Note 17&30)	313,715	7	310,083	9
Other intangible assets	950	-	970	-
Deferred tax assets(Note 4,5&24)	37,938	1	19,436	-
Refundable deposits	3,157	-	1,786	-
Total non-current assets	<u>614,607</u>	<u>14</u>	<u>438,479</u>	<u>12</u>
TOTAL	<u>\$ 4,393,847</u>	<u>100</u>	<u>\$ 3,618,710</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings(Note 18)	\$ 100,000	2	\$ -	-
Trade payables	1,651,812	38	1,252,876	34
Other payables(Note 19)	245,008	6	134,882	4
Current tax liabilities(Note 4&24)	57,166	1	32,423	1
Current portion of bonds payable(Note 4&20)	5,085	-	9,733	-
Other current liabilities	107,071	2	74,226	2
Total current liabilities	<u>2,166,142</u>	<u>49</u>	<u>1,504,140</u>	<u>41</u>
NON-CURRENT LIABILITIES				
Deferred tax liabilities(Note 4&24)	736	-	481	-
Net defined benefits liabilities - non-current(Note 4&21)	21,579	1	20,922	1
Other noncurrent liabilities	800	-	-	-
Total non-current liabilities	<u>23,115</u>	<u>1</u>	<u>21,403</u>	<u>1</u>
Total liabilities	<u>2,189,257</u>	<u>50</u>	<u>1,525,543</u>	<u>42</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY(Note 22)				
Share capital				
Ordinary shares	1,228,965	28	1,224,804	34
Capital surplus	446,515	10	434,135	12
Retained earnings				
Legal reserve	159,438	4	139,840	4
Special reserve	15,501	-	16,723	-
Unappropriated earnings	362,722	8	283,971	8
Total retained earnings	537,661	12	440,534	12
Other equity	(16,844)	-	(15,501)	-
Total equity attributable to owners of the Company	2,196,297	50	2,083,972	58
NON-CONTROLLING INTERESTS	8,293	-	9,195	-
Total equity	<u>2,204,590</u>	<u>50</u>	<u>2,093,167</u>	<u>58</u>
TOTAL	<u>\$ 4,393,847</u>	<u>100</u>	<u>\$ 3,618,710</u>	<u>100</u>

ZERO ONE TECHNOLOGY CO., LTD. AND SUBSIDIARIES

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

	2018		2017	
	Amount	%	Amount	%
OPERATING REVENUE(Note 4)				
Net sales	\$ 6,647,352	100	\$ 5,967,589	100
OPERATING COSTS(Note 14&23)				
Cost of goods sold	<u>5,965,608</u>	<u>90</u>	<u>5,379,298</u>	<u>90</u>
GROSS PROFIT	<u>681,744</u>	<u>10</u>	<u>588,291</u>	<u>10</u>
OPERATING EXPENSES(Note 23)				
Selling and marketing expenses	298,154	4	224,640	4
General and administrative expenses	111,245	2	118,464	2
Research and development expenses	8,288	-	10,493	-
Expected credit loss reversed on trade receivables	<u>(16,525)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>401,162</u>	<u>6</u>	<u>353,597</u>	<u>6</u>
PROFIT FROM OPERATIONS	<u>280,582</u>	<u>4</u>	<u>234,694</u>	<u>4</u>
NON-OPERATING INCOME AND EXPENSES(Note 23)				
Other income	31,433	1	16,810	-
Other gains and losses	7,355	-	882	-
Finance costs	(358)	-	(374)	-
Share of profit or loss of associates(Note 16)	<u>(4,057)</u>	<u>-</u>	<u>(7,506)</u>	<u>-</u>
Total non-operating income and expenses	<u>34,373</u>	<u>1</u>	<u>9,812</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	314,955	5	244,506	4
INCOME TAX EXPENSE(Note 24)	<u>62,918</u>	<u>1</u>	<u>49,600</u>	<u>1</u>
NET PROFIT	<u>\$ 252,037</u>	<u>4</u>	<u>\$ 194,906</u>	<u>3</u>

(Continued)

ZERO ONE TECHNOLOGY CO., LTD. AND SUBSIDIARIES

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

	2018		2017	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS) (Note 23&24)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	(\$ 1,183)	-	(\$ 737)	-
Unrealized gain (loss) on investments in equity instruments designated as at fair value through other comprehensive income	(6,664)	-	-	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	674	-	125	-
	<u>(7,173)</u>	<u>-</u>	<u>(612)</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss:				
Unrealized gain/(loss) on available-for-sale financial assets	-	-	1,222	-
	<u>-</u>	<u>-</u>	<u>1,222</u>	<u>-</u>
Other comprehensive income (loss) for the year, net of income tax	<u>(7,173)</u>	<u>-</u>	<u>610</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 244,864</u>	<u>4</u>	<u>\$ 195,516</u>	<u>3</u>
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Company	\$ 252,939	4	\$ 195,983	3
Non-controlling interests	<u>(902)</u>	<u>-</u>	<u>(1,077)</u>	<u>-</u>
	<u>\$ 252,037</u>	<u>4</u>	<u>\$ 194,906</u>	<u>3</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Company	\$ 245,766	4	\$ 196,593	3
Non-controlling interests	<u>(902)</u>	<u>-</u>	<u>(1,077)</u>	<u>-</u>
	<u>\$ 244,864</u>	<u>4</u>	<u>\$ 195,516</u>	<u>3</u>
EARNINGS PER SHARE(Note 25)				
From continuing operations				
Basic	<u>\$2.06</u>		<u>\$1.61</u>	
Diluted	<u>\$2.03</u>		<u>\$1.58</u>	

(Concluded)

ZERO ONE TECHNOLOGY CO., LTD. AND SUBSIDIARIES
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

	Equity Attributable to Owners of the Company											Non-controlling Interests	Total Equity
	Share Capital		Capital Surplus	Retained Earnings				Available-for-sale Financial Assets	Other Equity		Total		
	Shares (In Thousand)	Issued Capital		Legal Reserve	Special Reserve	Unappropriated Earnings	Total		Unrealized Gain (Loss) on Financial Assets at Fair Value	Through Other Comprehensive Income			
BALANCE, JANUARY 1, 2017	121,265	\$ 1,212,655	\$ 421,421	\$ 117,432	\$ 22,876	\$ 251,545	\$ 391,853	\$ (16,723)	\$ -	\$ (16,723)	\$ 2,009,206	\$ 7,872	\$ 2,017,078
Appropriation of 2016 earnings													
Legal reserve	-	-	-	22,408	-	(22,408)	-	-	-	-	-	-	-
Reversal of special Reserve	-	-	-	-	(6,153)	6,153	-	-	-	-	-	-	-
Cash dividends - NT\$1.2 per share	-	-	-	-	-	(146,690)	(146,690)	-	-	-	(146,690)	-	(146,690)
Net profit for the year ended December 31, 2017	-	-	-	-	-	195,983	195,983	-	-	-	195,983	(1,077)	194,906
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	-	-	(612)	(612)	1,222	-	1,222	610	-	610
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	-	195,371	195,371	1,222	-	1,222	196,593	(1,077)	195,516
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(600)	(600)
Convertible bonds converted to capital stock	1,188	11,879	7,267	-	-	-	-	-	-	-	19,146	-	19,146
Share based payment transaction - employee stock option	-	-	5,342	-	-	-	-	-	-	-	5,342	-	5,342
Issuance of ordinary shares under employee share options	27	270	105	-	-	-	-	-	-	-	375	-	375
Non-controlling interests increase	-	-	-	-	-	-	-	-	-	-	-	3,000	3,000
BALANCE, DECEMBER 31, 2017	122,480	1,224,804	434,135	139,840	16,723	283,971	440,534	(15,501)	-	(15,501)	2,083,972	9,195	2,093,167
Effect of retrospective application and retrospective restatement	-	-	-	-	-	4,955	4,955	15,501	(10,954)	4,547	9,502	-	9,502
BALANCE, JANUARY 1, 2018 AS RESTATED	122,480	1,224,804	434,135	139,840	16,723	288,926	445,489	-	(10,954)	(10,954)	2,093,474	9,195	2,102,669
Appropriation of the 2017 earnings													
Legal reserve	-	-	-	19,598	-	(19,598)	-	-	-	-	-	-	-
Special Reserve	-	-	-	-	(1,222)	1,222	-	-	-	-	-	-	-
Cash dividends - NT\$1.3 per share	-	-	-	-	-	(159,484)	(159,484)	-	-	-	(159,484)	-	(159,484)
Net profit for the year ended December 31, 2018	-	-	-	-	-	252,939	252,939	-	-	-	252,939	(902)	252,037
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	-	-	(509)	(509)	-	(6,664)	(6,664)	(7,173)	-	(7,173)
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	-	252,430	252,430	-	(6,664)	(6,664)	245,766	(902)	244,864
Convertible bonds converted to capital stock	311	3,111	1,681	-	-	-	-	-	-	-	4,792	-	4,792
Share based payment transaction - employee stock option	-	-	10,252	-	-	-	-	-	-	-	10,252	-	10,252
Issuance of ordinary shares under employee share options	105	1,050	447	-	-	-	-	-	-	-	1,497	-	1,497
Disposals of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	(774)	(774)	-	774	774	-	-	-
BALANCE AT DECEMBER 31, 2018	122,896	\$ 1,228,965	\$ 446,515	\$ 159,438	\$ 15,501	\$ 362,722	\$ 537,661	\$ -	\$ (16,844)	\$ (16,844)	\$ 2,196,297	\$ 8,293	\$ 2,204,590

ZERO ONE TECHNOLOGY CO., LTD. AND SUBSIDIARIES

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

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 314,955	\$ 244,506
Adjustments for:		
Write-down (reversal of write-down) of inventories	71,560	(2,839)
Interest income	(17,007)	(9,872)
Expected credit loss recognized (reversed) on trade receivable	(16,525)	-
Depreciation expenses	11,765	7,720
Compensation costs of employee share options	10,252	5,342
Dividend income	(5,162)	(710)
Share of loss of associates accounted for using the equity method	4,057	7,506
Net (gain) loss on foreign currency exchange	(3,641)	25,928
Net gain on fair value change of financial assets at fair value through profit or loss	(2,987)	(5,498)
Amortization expenses	655	1,219
Finance costs	358	374
Disposal of associates	49	-
Loss (gain) on disposal of property, plant and equipment	2	(2)
Impairment loss recognized on trade receivables	-	26,727
Net loss on disposal of available-for-sale financial assets	-	434
Changes in operating assets and liabilities		
Financial assets held for trading	-	38,012
Financial assets mandatorily classified as at fair value through profit or loss	(33,817)	-
Notes receivable	24,795	(76,992)
Trade receivables	(245,322)	55,230
Inventories	(529,506)	(44,740)
Other current assets	(10,611)	68,347
Trade payables	395,273	104,803
Other payables	109,864	(18,417)
Other current liabilities	32,845	4,159
Net defined benefit liabilities	(526)	(650)
Cash generated from operations	111,326	430,587
Income tax paid	(56,258)	(42,219)
Net cash generated from operating activities	<u>55,068</u>	<u>388,368</u>

(Continued)

ZERO ONE TECHNOLOGY CO., LTD. AND SUBSIDIARIES

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

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at amortized cost	(\$443,654)	\$-
Purchase of financial assets at fair value through other comprehensive income	(73,883)	-
Interest received	14,305	9,587
Payments for property, plant and equipment	(8,819)	(12,337)
Purchase of available-for-sale financial assets	-	(27,798)
Increase in refundable deposits	(1,371)	(335)
Proceeds from sale of financial assets at fair value through other comprehensive income	1,195	-
Payment for intangible assets	(700)	(633)
Net cash inflow on disposal of associates	340	-
Proceeds from disposal of property, plant and equipment	79	50
Proceeds from disposal of intangible assets	65	-
Dividend received	5,162	710
Proceeds from sale of debt investments with no active market	-	70,135
Purchase of financial assets measured at cost	-	(21,144)
Acquisition of associates	-	(9,450)
Proceeds from sale of available-for-sale financial assets	-	598
Net cash (used in) generated from investing activities	<u>(507,281)</u>	<u>9,383</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(159,484)	(146,690)
Increase in short-term borrowings	100,000	-
Exercise of employee share options	1,497	375
Increase in guarantee deposits	800	-
Interest paid	(196)	(54)
Payments of financial lease liabilities	-	4,000
Repayment of long-term borrowings	-	(4,000)
Changes in non-controlling interest	-	3,000
Cash dividends paid to non-controlling interests	-	(600)
Net cash used in financing activities	<u>(57,383)</u>	<u>(143,969)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES		
	<u>7,103</u>	<u>(23,186)</u>
NET (DECREASE)INCREASE IN CASH AND CASH EQUIVALENTS	(502,493)	230,596
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>741,119</u>	<u>510,523</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 238,626</u>	<u>\$ 741,119</u>

(Concluded)

ZERO ONE TECHNOLOGY CO., LTD.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

1. GENERAL

ZERO ONE TECHNOLOGY CO., LTD. (ZOTC) was incorporated as a company limited by shares under the provisions of the Group Law of the Republic of China in June 27, 1980. On January 21, 2000, ZOTC's Shares were listed on Taipei Exchange(TPEX). On August 26, 2002, ZOTC's shares were listed on the Taiwan Stock Exchange(TWSE). ZOTC is a dedicated foundry in the technology industry which engages mainly in the design, manufacturing, packaging, selling, consulting and services of electronic information, computer software, hardware, accessories, components and Chinese data processing, etc.

The consolidated financial statements are expressed by the functional currency (New Taiwan Dollars) of the Group.

2. THE DATE AND PROCEDURES OF AUTHORIZATION OF FINANCIAL STATEMENTS

The accompanying consolidated financial statements were approved by the Board of Directors and issued on February 27, 2019.

3. APPLICATION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

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

The initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC for application would not have a significant effect on the Group's accounting policies:

IFRS 9 "Financial Instruments" and related amendments

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

Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that existed as at January 1, 2018, the Group has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods. The impact on measurement categories, carrying amounts and any changes when retrospectively applying IAS 39 and IFRS 9 on January 1, 2018 is detailed below:

The types of financial assets	Measurement Category		Carrying Amount		Re-mark
	IAS 39	IFRS 9	IAS 39	IFRS 9	
Cash and cash equivalents	Loans and receivables	Amortized cost	\$741,119	\$741,119	
Stock investments	Available-for-sale financial assets	Mandatorily at FVTPL	14,416	14,416	A
	Available-for-sale financial assets	Investments in equity instruments measured at FVTOCI	76,383	82,619	A
Fund beneficiary certificates	Financial assets measured at cost	Mandatorily at FVTPL	21,144	24,410	B
Time deposits with original maturity of more than 3 months	Debt investments with no active market	Amortized cost	223,905	223,905	C
Note, trade and other receivable	Loans and receivables	Amortized cost	1,652,837	1,652,837	D
Refundable deposits	Loans and receivables	Amortized cost	1,786	1,786	

	Carrying Amount as of January 1, 2018 (IAS 39)	Reclassifi- cations	Remea- surements	Carrying Amounts as of January 1, 2018 (IFRS 9)	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Re- mark
Financial Assets measured at FVTPL							
Add: Reclassification from available-for-sale financial assets (IAS 39)							
– mandatorily reclassification	\$ -	\$ 35,560	\$ 3,266	\$ 38,826	\$ 3,715	(\$ 449)	A、B
Financial Assets measured at FVTOCI							
– Equity instruments							
Add: Reclassification from available-for sale financial assets (IAS 39)	-	76,383	6,236	82,619	1,240	4,996	A
Total	\$ -	\$ 111,943	\$ 9,502	\$ 121,445	\$ 4,955	\$ 4,547	

A. As stock investments that were previously classified as available-for-sale financial assets under IAS 39, the Group elected to designate all of these investments as at and FVTPL and FVTOCI under IFRS 9. As a result, the related other equity-unrealized gain/loss on available-for-sale financial assets of 449 and (15,950) thousand is reclassified to retained earnings and other equity - unrealized gain/loss on financial assets at FVTOCI.

As stock investments of private company stock previously measured at cost under IAS 39 are remeasured at fair value, being classified as measured at FVTOCI, based on IFRS 9, an increase in other equity-unrealized gain/loss on financial assets measured at FVTOCI of 6,236 thousand on January 1, 2018.

For those equity investments previously classified as measured at cost financial assets under IAS 39, the impairment losses that the Group had recognized have been accumulated in retained earnings. Since these investments were designated as at FVTOCI under IFRS 9 and no impairment assessment is required, the adjustments would result in a decrease in other equity - unrealized gain/loss on financial assets at FVTOCI of NT\$1,240 thousand and an increase in retained earnings of NT\$1,240 thousand on January 1, 2018.

B. Fund beneficiary certificates investments previously measured at cost in accordance with IAS 39 are not classified as equity instruments, since their interests are not completely calculated by interests paid calculated by principal and principal outstanding, but are classified as mandatorily measured at FVTPL based on IFRS 9. Owing to retrospective application of IFRS 9, retain earnings will be increased 3,266 thousand on January 1, 2018.

C. Debt investments with no active market and bond investments measured at amortized cost previously recognized under IAS 39 by contractual cash flows from interests paid calculated by principal and principal outstanding, and the Group assesses operating models for receiving contractual cash flows, and then classifies the above investments as measured at amortized cost under IFRS 9 with an assessment of expected credit losses, classifying on the basis of the facts and circumstances of investments on January 1, 2018.

D. Notes receivable, trade receivable, and other receivable previously classifying as loans and receivables under IAS 39, were classified as measured at amortized cost with an assessment of expected credit losses under IFRS 9.

- (2) the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the FSC for application starting from 2019

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

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

Note 2: The FSC permits the election for early adoption of the amendments starting from January 1, 2018.

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

IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 “LEASE”, IFRIC 4 “Determining whether an Arrangement contains a Lease” and a number of related interpretations.

Definition of a lease

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

The Group as lessee

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

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

Leases agreements classified as operating leases under IAS 17, except for leases of low-value asset and short-term leases, will be measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate on January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. Right-of-use assets are subject to impairment testing under IAS 36.

The Company expects to apply the following practical expedients:

- a) The Company will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- b) The Company will account for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.
- c) The Company will use hindsight, such as in determining lease terms, to measure lease liabilities.

The Group as lessor

Except for sublease transactions, the Group will not make any adjustments for leases in which it is a lessor and will account for those leases with the application of IFRS 16 starting from January 1, 2019.

Anticipated impact on assets, liabilities and equity as of January 1, 2019.

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Right-of-use assets	\$ -	\$ 3,536	\$ 3,536
Total effect on assets		<u>\$ 3,536</u>	
Lease liabilities - current	-	\$ 3,536	3,536
Total effect on liabilities		<u>\$ 3,536</u>	
Retained earnings	537,661	\$ -	537,661
Total effect on equity		<u>\$ -</u>	

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

(3) New IFRSs in issue by the IASB but not yet endorsed and issued into effect by the FSC

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance

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

(2) Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value, and present value of defined benefits plans deducts net defined benefit liabilities measured at fair value.

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

- A. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities, which can be acquired during measurement date;
- B. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- C. Level 3 inputs are unobservable inputs for the asset or liability.

(3) Classification of current and non-current assets and liabilities

Current assets include:

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

Current liabilities include:

- A. Liabilities held primarily for the purpose of trading;
- B. Liabilities due to be settled within twelve months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; and
- C. Liabilities for which the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting period, unless issuing equities to defer settlement wouldn't affect classification, depending on liabilities conditions.

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

(4) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company. Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Subsidiaries' total other comprehensive income is recognized owner's equity and non-controlling interests, even though non-controlling interests have changed into deficits balance.

When the Group hasn't lost control of a subsidiary, it's considered as transactions for equity method. The adjustment of accounted amounts of consolidated companies and non-controlling equities of subsidiaries. The difference, between adjustment of non-controlling equities, and paid or received prices at fair value is directly recognized owner's equities of the company.

See Note 15 & Tables 2 for the detailed information of subsidiaries (including the percentage of ownership and main business).

(5) Foreign currencies

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

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

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

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

(6) Inventories

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

(7) Investment in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture.

the Group uses the equity method to account for its investments in associates and joint ventures.

Under the equity method, investments in an associate and a joint venture are initially recognized in the consolidated balance sheet at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate and joint venture. The Group also recognizes the changes in the equity of associates and joint venture attributable to the Group.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate and a joint venture recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Group subscribes for additional new shares of the associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus. If the Group's ownership interest is reduced due to the additional subscription of the new shares of associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for by the equity method is insufficient, the shortage is debited to retained earnings

When the Group's share of losses of an associate and a joint venture equals or exceeds its interest in that associate and joint venture (which includes any carrying amount of the investment accounted for by the equity method and long-term interests that, in substance, form part of the Group's net investment in the associate and joint venture), the Group discontinues recognizing its share of further losses.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is deducted from the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. If the investment of associates becomes the investment of joint ventures, or visa versa, the Group will continue to evaluate investment accounted for by the equity method, other than remeasure retained equities.

Profits and losses, resulting from upstream, downstream, reciprocal transactions should be between the Group and associates, are recognized on consolidated financial statements in the scope of the Group's equities is not relevant to associates.

(8) Property, plant and equipment

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

Depreciation is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

(9) Intangible assets

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

On de-recognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset are recognized in profit or loss.

(10) Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are also allocated to individual cash-generating units; otherwise they are allocated to the smallest group of cash-generating units on a reasonable and consistent basis of allocation.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

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

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss, without amortization or depreciation, been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

(11) Financial instruments

Financial assets and financial liabilities are recognized on consolidated balance sheets when a group entity becomes a party to the contractual provisions of the instruments.

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

A. Financial assets

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

a. Measurement category

2018

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost, and investments in equity instruments at FVTOCI.

(a) Financial assets at FVTPL

Financial asset is classified as at FVTPL when the financial asset is mandatorily classified as or designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss excludes any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 28.

(b) Financial assets at amortized cost

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

- a). The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- b). The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Interest income is calculated by applying the effective interest rate to multiple the gross carrying amount of a financial asset.

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

(c) Investments in equity instruments at FVTOCI

On initial recognition, the Group may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments at FVTOCI are recognized in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

2017

Financial assets are classified into the following categories: Financial assets at fair value through profit or loss, available-for-sale financial assets, and loans and receivables.

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

Financial asset is classified in this category if it is classified as held for trading or is designated as FVTPL.

Financial assets are classified as being designated on initial recognition at fair value through profit or loss as follows:

- a). possible for elimination or a significant decrease of inconsistency by measurement or recognition; or
- b). Performance of a set of or both of financial assets and losses are valued by based management of fair values, based on the written strategy of risk management and investment. And, the Group shall provide information regarding the investment portfolio, at fair value, to internal management; or
- c). A single or a component of an embedded derivative for a hybrid contract is designated as such.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss without incorporating any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 28.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amount of available-for-sale monetary financial assets relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of or is determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and are presented in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between the carrying amount and fair value is recognized in other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

(c) Loans and receivables

Loans and receivables (including notes receivable, trade receivable, cash and cash equivalent, debt instrument investments with no active market, and refundable deposits) are measured at amortized cost using the effective interest method, less any impairment, except for interests of short-term receivables recognized is immaterial.

Cash equivalent includes 3 months' portion of time deposits with highly liquid, readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value of deposits in the bank and repurchase bonds. These cash equivalents are held for meeting short-term cash commitments.

b. Impairment of financial assets

2018

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

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

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

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

2017

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

For financial assets carried at amortized cost, such as trade receivable, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

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

For any available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

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

When an available-for-sale financial asset is considered to be impaired, cumulative losses previously recognized in other comprehensive income is reclassified to profit or loss in the year.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss is not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of available-for-sale debt securities, impairment loss is subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For financial assets that are measured at cost, the amount of the impairment loss is measured as the difference between such an asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

c. De-recognition of financial assets

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

Before 2017, on derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss. From 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in a debt instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss that had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

B. Financial liabilities

(a) Subsequent measurement

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

(b) De-recognition of financial liabilities

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

C. Convertible bonds

The component parts of compound instruments (convertible bonds) issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

On initial recognition, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or the instrument's maturity date. Any non-equity embedded derivative liability is measured at fair value.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in the liability and equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to capital surplus - share premium. When the conversion option remains unexercised at maturity, the balance recognized in equity will be transferred to capital surplus - share premium.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds.

(12) Revenue recognition

2018

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

Revenue from sale of goods

Revenue from sale of goods comes from sales of computer software, hardware, accessories, equipment, and components, etc. Customers have the right of quotation and user, and the responsibility of resale as goods after shipment and taking risks of losses of obsolete goods. The company recognizes revenues and trade receivable as goods after shipment.

2017

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Allowances for sales returns are recognized at the time of sale to access the seller's reliable estimate of future returns, based on past experience and other relevant factors.

A. Sale of goods

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

- a. The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b. The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- c. The amount of revenues can be measured reliably;
- d. It is probable that the economic benefits associated with the transaction will flow to the Group; and
- e. The costs incurred or to be incurred in respect of the transaction can be measured reliably.

B. Revenues from dividends & Interest income

Revenues from dividends from investments in shares that are accounted for at equity are recognized when revenues can be stated, under the premise that the Group acquires economic benefits regarding with transactions.

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

(13) Leases

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

The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

The Group as lessee

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

(14) Costs of loans

All Costs of loans as incurred shall be recognized profits and losses at the current period.

(15)Employee benefit

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

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

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Group's defined benefit plan. Net defined benefit asset shall not exceed the return contribution or the present value possibly calculated after reducing future contribution.

(16)Share-based payment arrangements

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value and expected estimate amounts of the stock options determined at the grant date of the stock options is expensed on a straight-line basis over the vesting period, based on the Group's estimate of stock options that will eventually vest, with a corresponding increase in capital surplus - stock options. The fair value determined at the grant date of the stock options is recognized as an expense in full at the grant date when the stock options granted vest immediately.

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

(17)Taxation

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

A. Current tax

An additional profit-seeking income tax shall be levied at the rate of ten percent on such undistributed surplus earnings for income tax expenses by a shareholder resolution, according to Income Tax Act.

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

B. Deferred tax

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

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered. The deferred tax assets which originally not recognized is also reviewed at the end of each reporting period and recognized to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered.

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

C. Current and deferred tax for the year

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

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

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

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

(1) Estimated impairment of financial assets – 2018

The provision for impairment of trade receivables and investments in debt instruments is based on the Group's assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see Notes 13. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

(2) Evaluation of impairment losses of trade receivable – 2017

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding possible future credit losses) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

(3) Write-down of inventory

Net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value was based on current market conditions and the historical experience of selling products of a similar nature. Changes in market conditions may have a material impact on the estimation of net realizable value.

(4) Income tax

The realizable deferred tax assets depend on future earnings and temporarily differences of tax payable. If actual profits are less than the expected, a reversal of material deferred tax assets could be incurred, and then recognized in profits or losses.

6. CASH AND CASH EQUIVALENTS

	December 31, 2018	December 31, 2017
Cash on hand and revolving funds	\$ 142	\$ 157
Checking accounts and demand deposits	49,312	522,509
Cash equivalents		
Time deposits in banks	189,171	173,773
Repurchase Bond	-	44,678
Others	<u>1</u>	<u>2</u>
	<u>\$ 238,626</u>	<u>\$ 741,119</u>

As the end of reporting period, the interest rate at market of deposits and repurchase bonds is as follows :

	December 31, 2018	December 31, 2017
Bank deposits	0.01%~0.46%	0.01%~0.46%
Time deposits	0.60%~3.30%	0.60%~2.13%
Repurchase Bond	-	1.90%

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31, 2018	December 31, 2017
<u>Financial assets – current</u>		
Held-to-maturity		
– Domestic convertible bonds	\$ -	\$ 51,009
– Redemption & sell right for convertible bonds	-	4
– Domestic public offering securities	<u>-</u>	<u>325</u>
	<u>-</u>	<u>51,338</u>
<u>Mandatorily measured at FVTPL</u>		
– Domestic convertible bonds	46,556	-
– Redemption & sell right for convertible bonds	1	-
– Foreign Exchange Forward Contract (1)	916	-
– Fund beneficiary certification	<u>37,145</u>	<u>-</u>
	<u>84,618</u>	<u>-</u>
	<u>\$ 84,618</u>	<u>\$ 51,338</u>
<u>Financial assets – non-current</u>		
Mandatorily measured at FVTPL		
– Domestic public offering securities	\$ 14,846	\$ -
– Fund beneficiary certification	<u>27,501</u>	<u>-</u>
	<u>\$ 42,347</u>	<u>\$ -</u>

(1) At the end of the reporting period, outstanding forward exchange contracts not under hedge accounting are as follows:

December 31, 2018

	Currency	Maturity Date	Notional Amount (In Thousands)
Buy Foreign exchange contracts	USD/NTD	2019.02.25	USD 2,000/NTD 61,660
		2019.02.25	USD 1,000/NTD 30,640
		2019.04.03	USD 830/NTD 25,366
		2019.03.25	USD 3,100/NTD 94,931
		2019.04.25	USD 1,490/NTD 45,445
		2019.04.25	USD 1,390/NTD 42,356

The Group entered into forward exchange contracts to manage risk exposures due to exchange rate fluctuations of foreign currency denominated assets and liabilities.

8. Financial assets measured at FVTOCI-2018

	<u>December 31, 2018</u>
<u>Current</u>	
Investments in equity instruments at FVTOCI	<u>\$ 11,505</u>
<u>Non-current</u>	
Investments in equity instruments at FVTOCI	<u>\$ 137,138</u>
 <u>Investments in equity instruments at FVTOCI</u>	
	<u>December 31, 2018</u>
<u>Current</u>	
Domestic	
Publicly traded ordinary shares	\$ 3,640
Publicly traded preference shares	<u>7,865</u>
	<u>\$ 11,505</u>
<u>Non-current</u>	
Domestic	
Publicly traded and emerging ordinary shares	\$ 60,544
Publicly traded preference shares	72,329
Non-publicly traded stock	<u>4,265</u>
	<u>\$ 137,138</u>

These long-term investments in equity instruments are held for receiving profits, under medium to long-term business development strategic purposes. Accordingly, the Group's management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes. These investments in equity instruments were classified as available-for-sale under IAS 39. Refer to Note 3, Note 10 and Note 11 for information relating to their reclassification and comparative information for 2017.

The Group acquired ordinary and preferred shares, respectively, and recognized these investment as financial assets measured at FVTOCI, held for medium to long-term business development strategic purposes.

As of January and March, 2018, the Group sold shares of common stocks for NT\$339 and NT\$856 thousand of ASLAN PHARMACEUTICALS LIMITED(ASLAN-KY), and Chunghwa Precision Test Tech. Co., Ltd. (CHPT) for decreasing investment risks. The related other equity-unrealized gain or loss on financial assets at FVTOCI of NT\$(774) thousand were transferred to retained earnings.

The group has recognized the above NT 5,162 thousand of impairment losses of financial assets in 2018.

9. FINANCIAL ASSETS AT AMORTIZED COST-2018

	<u>December 31, 2018</u>
<u>Current</u>	
Domestic investment	
Time deposits with original maturities more than three months(1)	<u>\$ 588,197</u>
<u>Non-current</u>	
Domestic investment	
Pledged Time Deposit (2)	17,932
Yuanta Securities Asia Financial Services Limited 2018 Non-secured USD-denominated Private Fixed Rate Notes (3)	<u>61,430</u>
	<u>79,362</u>
	<u>\$ 667,559</u>

- (1) As of December 31, 2018, the market interest rate of time deposit over 3 months portion is 1.01%~3.30%, respectively. Time deposit over 3 months portion previously was classified as debt investments with no active market under IAS 39. Please refer to Note 3 and 12 for information relating to their reclassification and comparative information for 2017.
- (2) Please refer to Note 30 for more details on financial assets at amortized cost under pledge.
- (3) The group purchased Yuanta Securities Asia Financial Services Limited issued 5-year Non-secured Fixed Rate Notes, with the face value of USD 2,000 thousand and a coupon rate of 4.10%, on August, 2018.

10. AVAILABLE-FOR-SALE FINANCIAL ASSETS-2017

	<u>December 31, 2017</u>
<u>Domestic</u>	
Publicly traded ordinary shares	\$ 75,873
Publicly traded preference shares	<u>14,416</u>
	<u>\$ 90,289</u>
Current portion	<u>\$ 21,724</u>
Non-current portion	<u>\$ 68,565</u>

11. FINANCIAL ASSETS CARRIED AT COST-2017

	<u>December 31, 2017</u>
<u>Non-current</u>	
Domestic unlisted shares	\$ 510
Fund Beneficiary Certification	<u>21,144</u>
	<u>\$ 21,654</u>
Distinguished by the assessing types of financial assets	
Available-for-sale financial asset	<u>\$ 21,654</u>

The above investments in the equity instruments of unlisted entities are measured at cost as the key management personnel considers the fair value of these investments are not reliably measurable due to the fact that the variability in the range of reasonable fair value measurements is significant for that investment and that the probabilities of the various estimates within the range cannot be reasonably assessed and used when measuring fair value.

12. DEBT INVESTMENTS WITH NO ACTIVE MARKET-2017

	<u>December 31, 2017</u>
<u>Current</u>	
Time deposit over 3 months' portion (1)	<u>\$ 212,366</u>
<u>Non-current</u>	
Pledged Time Deposit (2)	<u>\$ 11,539</u>

- (1) On December 31, 2017, the market interest rate of time deposit over 3 months portion is 0.60% ~ 2.13%, respectively.
- (2) Please refer to Note 30 for more details on debt investments with no active market under pledge.

13. NOTES AND TRADE RECEIVABLE

	December 31, 2018	December 31, 2017
<u>Notes receivable</u>		
Measured at amortized cost		
Gross carrying amount	\$ 161,130	\$ 185,925
Deduct: Allowance for bad debts	<u>-</u>	<u>-</u>
	<u>\$ 161,130</u>	<u>\$ 185,925</u>
 <u>Trade receivable</u>		
Measured at amortized cost		
Gross carrying amount	\$ 1,749,467	\$ 1,503,811
Deduct: Allowance for bad debts	(<u>21,046</u>)	(<u>37,571</u>)
	<u>\$ 1,728,421</u>	<u>\$ 1,466,240</u>

(1) TRADE RECEIVABLE
2018

The average credit period of sales of goods of the Group was 60-90 days, and no interest was charged on trade receivable.

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

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivable. The expected credit losses of trade receivable on durable are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's past experience of receivable and current financial position, expectation of GDP and prospect of the industry, deciding the rate of the expected credit losses by the different levels of credit limits of customers and actual conditions, based on the degree of doubtful accounts triggered by customers of different industries.

The Group writes off an account receivable when there is information indicating that the respective debtor is experiencing severe financial difficulty and there is no realistic prospect of recovery of the receivable. For accounts receivable that have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables which are due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of trade receivable:

December 31, 2018

	Not Past Due	1-30 Days Past Due	31-60 Days Past Due	61-90 Days Past Due	More Than 90 Days Past Due	Total
Expected credit loss rate	0.27%	23.71%	32.15%	36.9%	100%	
Gross carrying amount	\$1,694,389	\$ 14,139	\$ 39,184	\$ 1,755	\$ -	\$1,749,467
Loss allowance (Lifetime ECLs)	(<u>4,614</u>)	(<u>3,323</u>)	(<u>12,598</u>)	(<u>511</u>)	-	(<u>21,046</u>)
Amortized cost	<u>\$1,689,775</u>	<u>\$ 10,816</u>	<u>\$ 26,586</u>	<u>\$ 1,244</u>	<u>\$ -</u>	<u>\$1,728,421</u>

The movements of the loss allowance of accounts receivable were as follows:

	<u>2018</u>
Balance at January 1, 2018 (IAS 39)	\$ 37,571
Effect of retrospective application of IFRS 9	<u>-</u>
Balance at January 1, 2018 (IFRS 9)	37,571
Less: Reversal of doubtful accounts	(16,525)
Balance at December 31, 2018	<u>\$ 21,046</u>

2017

In principle, the payment term granted to customers is due 60 days from the 90 days of when the invoice is issued, without being asked to repay interests, by evaluating the change in credit risk from the starting period of loan application to the end of the reporting period. The allowance for bad debts is assessed by reference to the collectability of receivables by performing the credit limit, historical experience and current financial condition of customers.

Aging analysis of trade receivable, net :

	<u>December 31, 2017</u>
0~60 days	\$ 795,750
61~90 days	300,932
91~120 days	247,958
Over 121 days	<u>159,171</u>
Total	<u>\$ 1,503,811</u>

The above aging analysis was based on the beginning booked date.

As of December 31, 2017, the Group's trade receivable hadn't been past due and impaired amounted.

The movements of the loss allowance of trade receivable were as follows :

	<u>Trade receivable</u>	<u>uncollectible receivable</u>	<u>Total</u>
Balance at January 1, 2017	\$ 10,844	\$ 337	\$ 11,181
Add: Impairment losses/ bad debt expenses recognized on receivables	26,727	-	26,727
Less: Amounts written off	<u>-</u>	<u>(337)</u>	<u>(337)</u>
Balance at December 31, 2017	<u>\$ 37,571</u>	<u>\$ -</u>	<u>\$ 37,571</u>

14. INVENTORIES

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Raw materials	\$ 3,931	\$ 15,641
Work in process	2,423	8,591
Finished goods	1,440	659
Commodities	<u>934,057</u>	<u>465,673</u>
	<u>\$ 941,851</u>	<u>\$ 490,564</u>

Cost of goods sold for inventories in the amount of NT\$5,965,608 thousand and NT\$5,379,298 thousand, respectively, for the years ended December 31, 2018 and 2017. Allowance for inventory valuation and obsolescence loss, and increase in net realizable value of inventories in the amount of NT\$71,560 thousand and NT\$2,839 thousand. The increase in net realizable value of inventories is recognized by the realized price losses of commodities.

15. SUBSIDIARIES

(1)Subsidiaries included in the consolidated financial statements

The consolidated entities were as follows:

Investor	Investee	Nature of Activities	Proportion of Ownership (%)		Re-mark
			December 31, 2018	December 31, 2017	
The Company	Zotech technology Co., Ltd.	Manufacturing for computer equipment	85.37%	85.37%	1
	Zerone Win Investment Co., Ltd.	Investment	100.00%	100.00%	1, 3
Zerone Win Investment Co., Ltd.	WingWill International Co., Ltd.	Services of Cloud information software	70.00%	70.00%	1, 2, 4
	PetaCom technology Co., Ltd.	Services of information product agent	100.00%	100.00%	1, 4

A. These are not significant subsidiaries.

B. Their financial statements haven't been reviewed by CPAs, beside the management personnel of the Group considers no material influence as financial statements of the above subsidiaries haven't been reviewed by CPAs.

C. It was established on April, 2017.

D. These were established on July, 2017.

(2) Subsidiaries excluded from the consolidated financial statements : None.

16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Name of Associates	December 31, 2018	December 31, 2017
Insignificant associates		
Trident Pacific Co., Ltd.	\$ -	\$ 4,446
Chi-Ta International Co., Ltd.	-	-
	<u>\$ -</u>	<u>\$ 4,446</u>
	Percentage Of owners' equity and voting right	
PERCENTAGE	December 31, 2018	December 31, 2017
Trident Pacific Co., Ltd.	-	29.53%
Chi-Ta International Co., Ltd.	30.00%	30.00%

Aggregate information of associates that are not individually material was summarized as follows:

	2018	2017
the Group's share of:		
Loss from continuing operations	(\$ 4,057)	(\$ 7,506)
Other comprehensive income	(\$ 4,057)	(\$ 7,506)

The group invested and founded Chi-Ta International Co., Ltd., that engaged mainly in researching and manufacturing hardware of auto-used electronic equipment, with investment amount to 10,000 thousand, and share-holding ratio of 30% in March, 2014, since it kept net losses, foresaw decrease in future cash flows, evaluated recognized NT 7,243 thousand of impairment losses thousand in 2015, and recognized book value of 0 thousand after recognized deficits.

The group invested Trident Pacific technology, Co., Ltd., engaging in researching, developing and packaging of space flight equipment, with investment amount to NT 9,450 thousand, and share-holding ratio of 29.53% in March, 2017. The group disposed of all shares for NT 340 thousand, recognized NT 49 thousand in profits and losses in November, 2018.

Investments for equity method as well as profit(loss), and other comprehensive income of the Group, haven't been calculated by reviewed financial report of CPAs, beside the management personnel of the Group considers no material influence as financial statements of the above investees haven't been reviewed by CPAs.

17. PROPERTY, PLANT AND EQUIPMENT

	<u>Land</u>	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Office equipment</u>	<u>Delivery equipment</u>	<u>Other equipment</u>	<u>Total</u>
<u>Cost</u>							
Balance at							
January 1, 2017	\$234,892	\$128,185	\$13,097	\$22,207	\$ -	\$ 5,958	\$404,339
Additions	-	-	-	11,452	-	885	12,337
Disposals	-	-	(244)	(102)	-	-	(346)
Reclassification	-	-	-	1,702	-	-	1,702
Balance at							
December 31, 2017	<u>\$234,892</u>	<u>\$128,185</u>	<u>\$12,853</u>	<u>\$35,259</u>	<u>\$ -</u>	<u>\$ 6,843</u>	<u>\$418,032</u>
<u>Accumulated depreciation and impairment</u>							
Balance at							
January 1, 2017	\$ -	\$ 66,217	\$11,629	\$17,507	\$ -	\$ 5,174	\$100,527
Disposals	-	-	(244)	(54)	-	-	(298)
Depreciation	-	1,817	1,006	3,979	-	918	7,720
Balance at							
December 31, 2017	<u>\$ -</u>	<u>\$ 68,034</u>	<u>\$12,391</u>	<u>\$21,432</u>	<u>\$ -</u>	<u>\$ 6,092</u>	<u>\$107,949</u>
Carrying amounts at December 31, 2017	<u>\$234,892</u>	<u>\$ 60,151</u>	<u>\$ 462</u>	<u>\$13,827</u>	<u>\$ -</u>	<u>\$ 751</u>	<u>\$310,083</u>
<u>Cost</u>							
Balance at							
January 1, 2018	\$234,892	\$128,185	\$12,853	\$35,259	\$ -	\$ 6,843	\$418,032
Additions	-	-	-	3,756	2,458	2,605	8,819
Disposals	-	-	(1,131)	(11,210)	-	(1,144)	(13,485)
Reclassification	-	-	-	455	-	6,204	6,659
Balance at							
December 31, 2018	<u>\$234,892</u>	<u>\$128,185</u>	<u>\$11,722</u>	<u>\$28,260</u>	<u>\$ 2,458</u>	<u>\$14,508</u>	<u>\$420,025</u>
<u>Accumulated depreciation and impairment</u>							
Balance at							
January 1, 2018	\$ -	\$ 68,034	\$12,391	\$21,432	\$ -	\$ 6,092	\$107,949
Disposals	-	-	(1,131)	(11,191)	-	(1,082)	(13,404)
Depreciation	-	1,816	436	6,751	492	2,270	11,765
Balance at							
December 31, 2018	<u>\$ -</u>	<u>\$ 69,850</u>	<u>\$11,696</u>	<u>\$16,992</u>	<u>\$ 492</u>	<u>\$ 7,280</u>	<u>\$106,310</u>
Carrying amounts at December 31, 2018	<u>\$234,892</u>	<u>\$ 58,335</u>	<u>\$ 26</u>	<u>\$11,268</u>	<u>\$ 1,966</u>	<u>\$ 7,228</u>	<u>\$313,715</u>

Depreciation expenses were depreciated on a straight-line basis over the estimated useful life of the asset:

Buildings	7-50 Years
Machinery equipment	3 Years
Office equipment	3-5 Years
Delivery equipment	5 Years
Other equipment	2-3 Years

Please refer to Note 30 for more details on property, plant and equipment under pledge.

18. SHORT-TERM LOANS

	December 31, 2018	December 31, 2017
<u>Unsecured loans</u>		
–Line of credit loans	\$ <u>100,000</u>	\$ <u>-</u>

Interest rate of bank loans is 0.94% on December 31, 2018.

19. OTHER PAYABLE

	December 31, 2018	December 31, 2017
Salaries and bonuses payable	\$ 65,753	\$ 54,177
Employees', directors', and supervisors' compensation payable	20,137	15,658
Others	<u>159,084</u>	<u>65,047</u>
	<u>\$ 244,974</u>	<u>\$ 134,882</u>

20. BOND PAYABLE

	December 31, 2018	December 31, 2017
Unsecure domestic convertible bonds	\$ 5,300	\$ 10,000
Less: Discounted bond payable	(<u>215</u>)	(<u>267</u>)
Total of bond payable	5,085	9,733
Less: due components in a year	(<u>5,085</u>)	(<u>9,733</u>)
Total	<u>\$ -</u>	<u>\$ -</u>

On May 19, 2014, ZOTC issued no any interest unsecured convertible bonds (the second tranche). The bonds had an aggregate face value of \$500,000 thousand, with each unit having a face value of NT\$100 thousand, and the offering price was \$100.20% of the face value, and its conversion period is 5 years from June 20, 2014 to May 9, 2019. The conversion price was \$20 per share on issuance date.

Within the period between one month after the issuance date and 40 days before the last convertible date, if the closing price of ZOTC common shares on the TWSE for a period of 30 consecutive trading days before redemption has been at least 30% of the conversion price in effect on each such trading day, or in the event that the principal amount of the convertible bonds originally outstanding is 10% lower than the issued amount of the bonds, ZOTC may redeem all bonds at face value by cash.

The convertible bonds issued over 3 years, the holder could ask the Group to redeem bonds at face value by cash.

The convertible bonds include liabilities and equity. The equity components were accounted for ZOTC as paid-in capital –option. The effective interest rate of liability components recognized is 2.0618%.

Balance on January 1, 2017, liability components	\$ 28,563
Interest (2.0618%)	320
Convertible bonds changed into ordinary shares	(<u>19,150</u>)
Balance on December 31, 2017, liability components	<u>\$ 9,733</u>
Balance on January 1, 2018, liability components	\$ 9,733
Interest (2.0618%)	147
Convertible bonds changed into ordinary shares	(<u>4,795</u>)
Balance on December 31, 2018, liability components	<u>\$ 5,085</u>

21. RETIREMENT BENEFIT PLANS

(1) Defined contribution plans

The plan under the R.O.C. Labor Pension Act (the "Act") is deemed a defined contribution plan. Pursuant to the Act, the Group has made monthly contributions equal to 6% of each employee's monthly salary to employees' pension accounts.

(2) Defined benefit plans

The Group has defined benefit plans under the R.O.C. Labor Standards Law that provide benefits based on an employee's length of service and average monthly salary for the six-month period prior to retirement. The Group contributes an amount equal to 2% of salaries paid each month to their respective pension funds (the Funds), which are administered by the Labor Pension Fund Supervisory Committee (the Committee) and deposited in the Committee's name in the Bank of Taiwan. Before the end of each year, the Group assesses the balance in the Funds. If the amount of the balance in the Funds is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The Funds are operated and managed by the government's designated authorities; as such, the Group does not have any right to intervene in the investments of the Funds.

Amounts recognized in respect of these defined benefit plans in consolidated balance sheets were as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Present value of defined benefit obligation	\$ 55,117	\$ 52,105
Fair value of plan assets	(<u>33,538</u>)	(<u>31,183</u>)
Contribution	<u>21,579</u>	<u>20,922</u>
Net defined benefit liability	<u>\$ 21,579</u>	<u>\$ 20,922</u>

Movements in net defined benefit liabilities/assets are as follows:

	<u>Present value of defined benefit obligations</u>	<u>Fair value of plan assets</u>	<u>Net defined benefit liability/Assets</u>
For the year ended January 1, 2017	<u>\$ 50,457</u>	<u>(\$ 29,622)</u>	<u>\$ 20,835</u>
Service cost			
Current service cost	387	-	387
Interest expense (income)	<u>568</u>	<u>(337)</u>	<u>231</u>
Recognized in profits or losses	<u>955</u>	<u>(337)</u>	<u>618</u>
Remeasurements			
Return on plan assets (excluding amounts included in interest, net)	\$ -	\$ 44	\$ 44
Actuarial loss arising from changes in demographic assumptions	567	-	567
Actuarial loss (gain) arising from changes in financial assumptions	1,168	-	1,168
Actuarial loss arising from experience adjustments	<u>(1,042)</u>	<u>-</u>	<u>(1,042)</u>
Recognized in other comprehensive income	<u>693</u>	<u>44</u>	<u>737</u>
Contribution from employer	<u>-</u>	<u>(1,268)</u>	<u>(1,268)</u>
For the year ended December 31, 2017	<u>\$ 52,105</u>	<u>(\$ 31,183)</u>	<u>\$ 20,922</u>
For the year ended January 1, 2018	<u>\$ 52,105</u>	<u>(\$ 31,183)</u>	<u>\$ 20,922</u>
Service cost			
Current service cost	352	-	352
Interest expense (income)	<u>586</u>	<u>(356)</u>	<u>230</u>
Recognized in profits or losses	<u>938</u>	<u>(356)</u>	<u>582</u>

Remeasurements			
Return on plan assets (excluding amounts included in interest, net)	-	(891)	(891)
Actuarial loss arising from changes in demographic assumptions	513	-	513
Actuarial loss (gain) arising from changes in financial assumptions	633	-	633
Actuarial loss arising from experience adjustments	<u>928</u>	<u>-</u>	<u>928</u>
Recognized in other comprehensive income	<u>2,074</u>	(<u>891</u>)	<u>1,183</u>
Contribution from employer	<u>-</u>	(<u>1,108</u>)	(<u>1,108</u>)
For the year ended December 31, 2018	<u>\$ 55,117</u>	(<u>\$ 33,538</u>)	<u>\$ 21,579</u>

The pension costs of the aforementioned defined benefit plans were recognized in profit or loss by the following categories:

	<u>2018</u>	<u>2017</u>
Selling expenses	\$ 250	\$ 317
General and administrative expenses	<u>332</u>	<u>301</u>
	<u>\$ 582</u>	<u>\$ 618</u>

Through the defined benefit plans under the R.O.C. Labor Standards Law, the company is exposed to the following risks:

- a. Investment risk: The pension funds are invested in equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the government's designated authorities or under the mandated management. However, under the R.O.C. Labor Standards Law, the rate of return on assets shall not be less than the average interest rate on a two-year time deposit published by the local banks and the government is responsible for any shortfall in the event that the rate of return is less than the required rate of return.
- b. Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the debt investments of the plan assets.
- c. Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The principal assumptions at the measurement date were as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Discount rate	1.000%	1.125%
Future salary increase rate	2.750%	2.750%

If main actuarial assumption variates within a reasonable extent, as for other assumption remaining unchanged, the present value of defined benefit obligation increases/decreases shall be as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Discount rate		
increases by 0.25%	(<u>\$ 1,265</u>)	(<u>\$ 1,208</u>)
decreases by 0.25%	<u>\$ 1,314</u>	<u>\$ 1,257</u>
Future salary increase rate		
increases by 0.25%	<u>\$ 1,272</u>	<u>\$ 1,218</u>
decreases by 0.25%	(<u>\$ 1,232</u>)	(<u>\$ 1,177</u>)

Because actuarial assumptions may be correlative with one another, and a single assumption may not variate, the above sensitive analysis cannot indicate actual changes of the present value of defined benefit obligation.

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Contribution amounts within 1 year	<u>\$ 630</u>	<u>\$ 985</u>
Average due period of the defined benefit obligation	9.4 Years	9.5 Years

22. EQUITY

(1) Ordinary Shares

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Authorized shares (in thousands)	<u>150,000</u>	<u>150,000</u>
Authorized capital	<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>
Issued and paid shares (in thousands)	<u>122,896</u>	<u>122,480</u>
Issued capital	<u>\$ 1,228,965</u>	<u>\$ 1,224,804</u>

The change in share capital is mainly due to bonds payable that changes into ordinary shares, and employee stock options exercised.

(2) Capital Surplus

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (A)</u>		
Premium on shares issued above par value	\$ 399,648	\$ 396,486
Treasury stock transactions	25,343	25,343
<u>Only be used to offset a deficit</u>		
From shares of changes in equities of subsidiaries (B)	2,481	2,481
Invalid employees stock options	300	300
<u>May not be used for any purpose</u>		
Stock options	433	850
Employees stock options	<u>18,310</u>	<u>8,675</u>
	<u>\$ 446,515</u>	<u>\$ 434,135</u>

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

B. The capital surplus from share of unrealized changes in equities of subsidiaries not acquired or disposed is an affective recognized by changes in equity of subsidiaries, or the Group recognizes subsidiaries' capital surplus adjustments for equity method.

(3) Retained earnings and dividend policy

The Group's Articles of Incorporation provide that, when allocating the net profits for each fiscal year, ZOTC shall first pay taxes and offset its losses in previous years and then set aside the legal capital reserve at 10% of the profits left over, and then set aside or reverse the legal capital reserve. Any balance left over shall be added accumulated undistributed earnings of the previous year and allocated according to the resolution, provided from the board meeting, of the shareholders' meeting. Please reference the distribution policy regulated by the Group's Articles of Incorporation of employees', directors' and supervisors' compensation for Note 23-6.

Distribution of earnings shall be made preferably by way of surplus cash dividend, according to future capital budget plan, and operating fund requirements. The Group considers its influences on diluted earning per shares and return on equity, but the ratio for cash dividend shall not exceed 10% of the total distribution.

The appropriation for legal capital reserve shall be made until the reserve equals the Group's paid-in capital. The reserve may be used to offset a deficit, or be

distributed as dividends in cash for the portion in excess of 25% of the paid-in capital if the Group incurs no loss.

Under Rule No. 1010012865 and Rule No. 1010047490 issued by the FSC and the directive titled “Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs”, the Group shall appropriate or reverse to a special reserve.

The appropriations of 2017 and 2016 earnings have been approved by ZOTC’s shareholder’s meeting held on June 11, 2018 and June 14, 2017, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share(NT\$)	
	For Fiscal Year 2017	For Fiscal Year 2016	For Fiscal Year 2017	For Fiscal Year 2016
Legal capital reserve	\$ 19,598	\$ 22,408		
Special reserve	(1,222)	(6,153)		
Cash dividends	159,484	146,690	\$ 1.3	\$ 1.2

The appropriations of earnings for 2018 had been proposed by the Company’s board of directors on February 27, 2019. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 25,294	
Special reserve	1,343	
Cash dividends	184,603	\$ 1.5

The appropriations of earnings for 2018 are subject to the resolution of the shareholders’ meeting to be held on June 13, 2019.

(4)Other equity

A. Unrealized Gain/Loss from Available-for sale Financial Assets

Balance at January 1, 2017	(\$ 16,723)
In respect of the current period	
Unrealized profits and losses	788
Reclassification adjustments	
Disposal of available-for-sale financial assets	434
Balance at December 31, 2017	<u>(\$ 15,501)</u>
Balance at January 1, 2018 (IAS 39)	(\$ 15,501)
Effect of retrospective application of IFRS 9	15,501
Balance at January 1, 2018 (IFRS 9)	<u>\$ -</u>

B. Unrealized Gain/Loss from financial assets measured at FVTOCI

	2018
Balance at January 1, 2018 (IAS 39)	\$ -
Effect of retrospective application of IFRS 9	(10,954)
Balance at January 1, 2018 (IFRS 9)	(10,954)
In respect of the current period	
Unrealized profits and losses – equity instruments	(6,664)
Cumulative unrealized gain (loss) of equity instruments transferred to retained earnings due to disposal	774
Balance at December 31, 2018	<u>(\$ 16,844)</u>

23. NET INCOME

(1) Other income

	2018	2017
Interest income	\$ 17,007	\$ 9,872
Dividend income	5,162	710
Rental income	269	634
Others	<u>8,995</u>	<u>5,594</u>
	<u>\$ 31,433</u>	<u>\$ 16,810</u>

(2) Other gains and losses

	2018	2017
Gain on financial assets at FVTPL	\$ 2,987	\$ 5,498
Net foreign currency exchange gains (losses)	4,419	(4,184)
Losses(gains) on disposal of available-for-sale financial assets	-	(434)
Losses(gains) on disposal of Property, plant and equipment	(2)	2
Losses on disposal of investment accounted for using the equity method	(<u>49</u>)	<u>-</u>
	<u>\$ 7,355</u>	<u>\$ 882</u>

(3) Financial costs

	2018	2017
Interests on bank borrowings	\$ 211	\$ 54
Interests on convertible bonds	<u>147</u>	<u>320</u>
Total	<u>\$ 358</u>	<u>\$ 374</u>

(4) Depreciation & amortization

	2018	2017
Property, plant and equipment	\$ 11,765	\$ 7,720
Intangible assets	<u>655</u>	<u>1,219</u>
	<u>\$ 12,420</u>	<u>\$ 8,939</u>
An analysis of depreciation by function		
Operating costs	\$ 895	\$ 1,267
Operating expenses	<u>10,870</u>	<u>6,453</u>
	<u>\$ 11,765</u>	<u>\$ 7,720</u>
An analysis of amortization by function		
Operating costs	\$ -	\$ -
Operating expenses	<u>655</u>	<u>1,219</u>
	<u>\$ 655</u>	<u>\$ 1,219</u>

(5) Employee benefits expense

	2018	2017
Post-employment benefits		
Defined contribution plans	\$ 8,219	\$ 7,998
Defined benefit plans (Note 21)	<u>582</u>	<u>618</u>
	8,801	8,616
Share-Based Payment		
Equity Swap	10,252	5,342
Other employee benefits	<u>265,416</u>	<u>224,568</u>
Total	<u>\$ 284,469</u>	<u>\$ 238,526</u>
Employee benefits expense summarized by function		
Recognized in cost of revenue	\$ 4,079	\$ 4,747
Recognized in operating expenses	<u>280,390</u>	<u>233,779</u>
	<u>\$ 284,469</u>	<u>\$ 238,526</u>

(6) Employees', directors, and supervisors' compensation

ZOTC shall allocate compensation to employees', Director's, and Supervisor's of ZOTC not less than 1%~15% and not more than 3% of annual profits during the period, respectively, and the amount of employees', Director's, and Supervisor's compensation for the years ended December 31, 2018 and 2017, with resolution of the board of directors on Feb. 27, 2019 and Feb. 26, 2018, is as follows:

Estimate Rate

	<u>2018</u>	<u>2017</u>
Employee compensation	4.00%	4.00%
Director's & Supervisor's compensation	2.00%	2.00%

Amount

	<u>2018</u>		<u>2017</u>	
	<u>Cash</u>	<u>Stock</u>	<u>Cash</u>	<u>Stock</u>
Employee compensation	\$ 13,425	\$ -	\$ 10,439	\$ -
Director's & Supervisor's compensation	6,712	-	5,219	-

If changes in the very amount after the end of the reporting period, it will be booked next year, based on accounting estimate regulations.

The distribution amount of employees', director's, and supervisor's compensation in 2017, and 2016 has no difference compared to the recognized amount of consolidated financial statements in 2017 and 2016.

Please search for relevant information about employees', director's, and supervisor's compensation, resolved by the board of directors in 2019 and 2018, on the website of "Market Observation Post System" of TWSE.

(7) Foreign exchange gain (loss)

	<u>2018</u>	<u>2017</u>
Foreign exchange gain	\$ 17,082	\$ 51,038
Foreign exchange loss	(12,663)	(55,222)
Gain (loss), net	<u>\$ 4,419</u>	<u>(\$ 4,184)</u>

24. INCOME TAXES

(1) Income tax recognized in profit or loss

The major components of tax expenses were as follows:

	<u>2018</u>	<u>2017</u>
Current tax		
In respect of the current year	\$ 79,088	\$ 45,105
Surtax on Undistributed Retained Earnings	1,751	6,376
Adjustments for previous years	(348)	<u>1</u>
	80,491	51,482
Deferred tax		
Changes in tax rates	(2,908)	-
In respect of the current year	(14,665)	(1,882)
Income tax expense recognized in profit or loss	<u>\$ 62,918</u>	<u>\$ 49,600</u>

A reconciliation of accounting profit and income tax expense and the applicable tax rate were as follows:

	<u>2018</u>	<u>2017</u>
Accounting profit before tax from continuing operations	<u>\$ 314,955</u>	<u>\$ 244,506</u>
Income tax expense (benefit) calculated at 20% and 17% in 2018 and 2017, respectively	\$ 62,991	\$ 41,566
Tax-exempt income	(1,493)	(1,029)
Tax effect of expenses not deductible for tax	4,134	2,480
Others	(1,743)	(793)
Additional Surtax on Undistributed Retained Earnings	1,751	6,376
Changes in tax rates	(2,908)	-
Unrecognized deficits credit	534	999
The adjustment of current income tax expenses in the past year	(348)	1
Total income tax expense recognized in profit or loss	<u>\$ 62,918</u>	<u>\$ 49,600</u>

In 2017, the applicable corporate income tax rate used by the group entities in the ROC is 17%. The Income Tax Act in the ROC was amended in February, 2018 and the corporate income tax rate was adjusted from 17% to 20% effective in 2018. The change in tax rate on deferred tax losses was recognized as the change in tax rate incurred at the current period. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%.

As the status of the 2019 appropriation of earnings is uncertain, the potential income tax consequences of 5% surtax of unappropriated earnings in 2018 are not reliably determinable.

(2) Income tax expense recognized in other comprehensive income

	<u>2018</u>	<u>2017</u>
<u>Deferred tax</u>		
Changes in tax rates	\$ 438	\$ -
In respect of the current period		
– Remeasurement of defined benefit plans	<u>236</u>	<u>125</u>
Total income tax expense recognized in other comprehensive income	<u>\$ 674</u>	<u>\$ 125</u>

(3) Deferred tax balances

Movements of deferred tax assets and deferred tax liabilities were as follows:

2018

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
<u>Deferred tax assets</u>				
<u>Temporary differences</u>				
Allowance for loss on decline in value of inventory	\$ 7,691	\$ 15,669	\$ -	\$ 23,360
Allowance for bad debts	3,525	917	-	4,442
Defined benefit plans	3,557	85	674	4,316
Others	<u>4,663</u>	<u>1,157</u>	-	<u>5,820</u>
	<u>\$ 19,436</u>	<u>\$ 17,828</u>	<u>\$ 674</u>	<u>\$ 37,938</u>
<u>Deferred tax liabilities</u>				
<u>Temporary differences</u>				
Unrealized foreign exchange profits	<u>\$ 481</u>	<u>\$ 255</u>	<u>\$ -</u>	<u>\$ 736</u>

2017

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Allowance for loss on decline in value of inventory	\$ 8,174	(\$ 483)	\$ -	\$ 7,691
Allowance for bad debts	-	3,525	-	3,525
Financial instruments measured at cost	2,573	-	-	2,573
Defined benefit plans	3,542	(110)	125	3,557
Others	2,659	(569)	-	2,090
	<u>\$ 16,948</u>	<u>\$ 2,363</u>	<u>\$ 125</u>	<u>\$ 19,436</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Unrealized foreign exchange profits	\$ -	\$ 481	\$ -	\$ 481

- (4) Amounts of unused carryforward for which deferred tax assets have not been recognized

	December 31, 2018	December 31, 2017
Loss carryforward	<u>\$ 11,022</u>	<u>\$ 9,095</u>

- (5) Information about unused loss carry-forward

Loss carryforwards as of December 31, 2018 comprised of:

<u>Remaining Carrying</u>	<u>Expiry Year</u>
\$ 4,006	2027
7,016	2028
<u>\$ 11,022</u>	

- (6) Income tax assessment

The Company and subsidiaries' income tax returns have been assessed by the Tax Authority as follows:

<u>Co. Name</u>	<u>Year of Assessment</u>
The company	2016
Zotech technology Co., Ltd.	2016
Zerone Win Investment Co., Ltd.	2017
WingWill International Co., Ltd.	2017
PetaCom technology Co., Ltd.	2017

25. EARNINGS PER SHARE

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

<u>Net Profit for the Period</u>	2018	2017
Net Profit for the Period	\$ 252,939	\$ 195,983
Effect of potentially dilutive ordinary shares:		
Effect of convertible bonds after tax	148	317
Earnings in computation of diluted earnings per share	<u>\$ 253,087</u>	<u>\$ 196,300</u>

Shares

(Units: thousand shares)

	2018	2017
Weighted average number of ordinary shares outstanding in computation of basic earnings per share	122,660	122,088
Effect of potentially dilutive ordinary shares :		
Convertible bonds	486	997
Employee compensation	871	806
Employee stock options	<u>634</u>	<u>181</u>
Weighted average number of ordinary shares outstanding in computation of diluted earnings per share	<u>124,651</u>	<u>124,072</u>

If the Group will distribute bonus to employees and the bonus will be settled in cash or shares, the Group will assume that the entire amount of the compensation or bonus will be settled in shares and the resulting potential shares are included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, if the effect is dilutive. Such dilutive effect of the potential shares is included and considered in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

The exercise price of the second issued employee stock options is higher than average market price of shares in 2017. Owing to anti-diluted, it doesn't be calculated in each diluted earnings per share.

The exercise price of the third and fourth issued employee stock options is higher than average market price of shares in 2018. Owing to anti-diluted, it doesn't be calculated in each diluted earnings per share.

26. SHARE-BASED PAYMENT ARRANGEMENTS

In August 2015, September 2016, January 2018, and September 2018, 1,000, 1,860, 2,000, and 2,000 options were granted to qualified employees of the Group, and each option entitles the holder to subscribe for 1,000 thousand ordinary shares of the Group when exercisable. The options granted are valid for 6 years and shall be exercised a portion of them after two years from the date of grant. The options were granted at an exercise price equal to the fair value of the Group's ordinary shares on the grant date. For any subsequent changes in the Group's ordinary shares, the exercise price of options will be adjusted by the regulated formula, accordingly.

Information about employees' stock options was as follows:

	2018		2017	
	Number of Options (In Thousands)	Weighted Average Exercise Price (NT\$)	Number of Options (In Thousands)	Weighted Average Exercise Price (NT\$)
Employee Stock options				
Balance, beginning of period	2,633	\$ 15.23	2,860	\$ 16.50
Options vested	4,000	19.73	-	-
Options exercised	(105)	14.25	(27)	13.90
Invalid options	(60)	14.05	(200)	15.00
Outstanding options at the end of the period	<u>6,468</u>	17.68	<u>2,633</u>	15.23
Options exercised at the end of the period	<u>912</u>		<u>183</u>	
Weighted-average fair value of options vested(NT\$)	<u>\$ 6.73</u>		<u>\$ -</u>	

Information about outstanding options at the end of reporting period was as follows:

December 31, 2018		December 31, 2017	
Range of Exercise Price (US\$)	Weighted-Over-Age Remaining Contractual Life (Years)	Range of Exercise Price (US\$)	Weighted-Over-Age Remaining Contractual Life (Years)
\$ 13.10 (Note)	2.67	\$ 13.90 (Note)	3.67
15.00 (Note)	3.68	15.90 (Note)	4.68
18.80 (Note)	5.01		
20.65 (Note)	5.67		

Note: The Issued price will be adjusted by methods of issuance.

The Group adopts BOPM and Black-Scholes price model to evaluate inputs of stock options in September 2018, January 2018, September 2016 and August 2015 as follows:

	September, 2018	January, 2018	September, 2016	August, 2015
Securities price of the vested date	20.65 Dollars	19.85 Dollars	16.95 Dollars	15.65 Dollars
Exercised price	20.65 Dollars	19.85 Dollars	16.95 Dollars	15.65 Dollars
Foreseeable volatility rate	32.96%	33.81%	38.26%	39.14%~40.47%
Duration	6 Years	6 Years	6 Years	4~5 Years
Foreseeable dividend rate	0%	0%	0%	0%
No risk rates	0.72%	0.74%	0.56%	0.77%~0.87%

The compensation cost recognized were \$10,252 thousand and \$5,342 thousand for the years ended December 31, 2018 and 2017, respectively.

27. CAPITAL RISK MANAGEMENT

The Group engages mainly in the agent of software, without any plans of imposed capital requirements at present and in the future. The Group manages its capital to ensure requirements of operating funds and dividend expenses, based on growth and development of scale of enterprise and prospective of the industry. The Group periodically reviews the policy of capital risk management, for seeking a steady and conservative policy.

The capital structure of the Group consists of net debt and equity (comprising share capital, capital reserves, retained earnings and other equity).

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

28. FINANCIAL INSTRUMENTS

(1) Information about Fair value of financial instruments that are not measured at fair value

Except as detailed in the following table, the management believes the carrying amounts of financial liabilities not measured at fair value recognized in the consolidated financial statements approximate or cannot be measured their fair values:

	December 31, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Financial Assets</u>				
Measured at amortized cost				
-domestic corporate bonds	\$ 61,430	\$ 60,778	\$ -	\$ -
<u>Financial liabilities</u>				
Convertible bonds	5,085	6,273	9,733	12,600

(2) Information about fair value of financial instruments measured at fair value on a recurring basis.

A. Fair value hierarchy
December 31, 2018

	Level 1	Level 2	Level 3	Total
<u>Financial assets at FVTPL</u>				
Convertible bonds	\$ 46,556	\$ -	\$ -	\$ 46,556
Fund beneficiary certification	14,846	-	-	14,846
Domestic public offering and emerging stock	37,145	-	27,501	64,646
Derivatives	-	917	-	917
Total	<u>\$ 98,547</u>	<u>\$ 917</u>	<u>\$ 27,501</u>	<u>\$ 126,965</u>
<u>Financial assets at FVTOCI</u>				
Equity investments				
– Domestic public offering and emerging stock	\$ 135,537	\$ 8,841	\$ -	\$ 144,378
– Domestic private company stock	-	4,265	-	4,265
Total	<u>\$ 135,537</u>	<u>\$ 13,106</u>	<u>\$ -</u>	<u>\$ 148,643</u>

December 31, 2017

	Level 1	Level 2	Level 3	Total
<u>Financial assets at FVTPL</u>				
Convertible bonds	\$ 51,009	\$ -	\$ -	\$ 51,009
Domestic public offering stock	325	-	-	325
Derivatives	-	4	-	4
Total	<u>\$ 51,334</u>	<u>\$ 4</u>	<u>\$ -</u>	<u>\$ 51,338</u>

Available-for-sale financial assets

Equity investments				
– Domestic public offering and emerging stock	<u>\$ 90,289</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 90,289</u>

There were no transfers between Level 1 and Level 2 in 2018 and 2017, respectively.

B. Valuation techniques and inputs applied for the purpose of measuring Level 2 fair value measurement

<u>Financial Instruments</u>	<u>Valuation Techniques and Inputs</u>
Derivatives—Foreign exchange forward contract	Discounted Cash Flow Method: Using exchange rate at the end period evaluates future cash flow through the contract. Disclosing the discount rate of credit risks in each counterpart should be separately discounted.
Derivatives—Redemption & sell right of convertible bonds	Valuation model of binomial tree of convertible bond: Using securities prices, no risk rate, and risk discount rate evaluates fair values of financial assets of convertible bonds.
Private company stock	In reference to valuation compared with the some industry, market approach is adopted to evaluate its fair values of private company stock.

(3) Categories of financial instruments

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Financial assets</u>		
Financial assets measured at FVTPL		
Held for trading	\$ -	\$ 51,338
Mandatorily measured at FVTPL	126,965	-
Loans and receivables (Note 1)	-	2,619,647
Available-for-sale financial assets (Note 2)	-	111,943
Financial assets measured at amortized cost (Note 3)	2,803,114	-
Financial assets measured at FVTOCI— Investments in equity instruments	148,643	-
<u>Financial liabilities</u>		
Measured at amortized cost(Note4)	2,002,705	1,397,491

Note 1: The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, debt instruments with no active market, note receivable, trade receivable, other receivable, and refundable deposits.

Note 2: The balances included available-for-sale financial assets measured at cost.

Note 3: The balances included financial assets measured at amortized cost, which comprise cash and cash equivalents, investments in debt instruments, notes receivable, trade receivable, other receivable and refundable deposits.

Note 4: The balances included financial liabilities measured at amortized cost, which comprise short-term loans, trade payable, other payable, and current portion of bonds payable.

(4) Financial risk management objectives and policies

The Group's principal financial risk management objective is to manage the market risk, credit risk and liquidity risk based on related protocols and internal control procedures. The Group's financial department measures the aforementioned risks based on the Group's risk appetite, and reports to the board of directors for carrying out relevant policies at any time.

A. Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates.

(A) Foreign currency risk

The Group's purchases and investments are denominated in foreign currencies. Consequently, the Group is exposed to foreign currency risks. To protect against reductions in value of foreign currency denominated assets and the volatility of future cash flows caused by changes in foreign exchange rates, the Group utilizes derivative financial instruments, such as forward exchange contracts and options, for avoiding foreign currency risks.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities of non-functional currency calculated (including those eliminated on consolidation) at the end of the reporting period are set out in Note 32.

Sensitivity analysis

The Group's exchange rate exposure was in the exchange rate of U.S. dollars.

The sensitivity analysis included only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. If interest rates had been 5 % higher/lower, the Group's net profit in 2018 and 2017 would increase/decrease by \$12,561 thousand and \$5,332 thousand, respectively.

(B) Interest rate risk

The Group exposed to the risk of interest rate at fair value, since holding the fixed-rate loan, accessing the interest rate of the bank loan regularly, observing influences on profits or losses from fluctuation range of the interest rate, keeping contact with the bank based on the actual requirement, and acquiring the best interest rate of the loan.

The carrying amount of the Group's financial assets and financial liabilities with exposure to risks of interest rates at the end of the reporting period were as follows:

	December 31, 2018	December 31, 2017
Interest rate risks at fair value		
– Financial assets	\$ 708,312	\$ 366,576
– Financial liabilities	100,000	-
Interest rate risks at cash flows		
– Financial assets	197,730	598,289

Sensitivity analysis

The sensitivity analyses below were determined based on the Group's exposure to interest rates for non-derivative instruments at the end of the reporting period.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's pre-tax profit in 2018 and 2017 would increase/ decrease by \$989 thousand and \$2,991 thousand, respectively. Exposure is triggered by risks of cash flows of the Group's variable interest rates of deposits.

(C) Other price risk

The Group is exposed to equity price risks arising from equity investments of public offering securities. Equity investments should be approved by the management, for controlling risks by holding different investment portfolios.

Sensitivity analysis

The following sensitivity analysis is based on risk exposure of equity prices at the end of the reporting period.

Assuming a hypothetical increase/decrease of 5% in prices of the equity investments, increased/decreased by NT\$6,302 thousand, because of the change in fair value of financial assets at FVTPL, respectively., at the end of the reporting period in 2018, the other comprehensive income would have increased/decreased by NT\$7,432 thousand, because of the change in fair value of financial assets at FVTOCI, respectively, at the end of the reporting period in 2018.

Assuming a hypothetical increase/decrease of 5% in prices of the equity investments, increased/decreased by NT\$2,567 thousand, because of the change in fair value of investments held for trading, respectively, at the end of the reporting period in 2017, the other comprehensive income would have increased/decreased by NT\$4,514 thousand, because of the change in fair value of available-for-sale financial assets, respectively.

B. Credit risk

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

The Group adopted a policy of only dealing with creditworthy counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the financial department regularly.

To decrease a credit risk, the key management personnel of the Group is responsible for decision of rating criteria, credit limits approval, and other censor procedure, etc., in order to collect delinquent trade receivable. Otherwise, the group reviews each trade receivable to assure allowance of impairment losses of uncollectable bad debts, hence the key management personnel considers credit concentration risk of trade receivable is insignificant.

The credit concentration risk of the current fund is insignificant, since the Group only transacts with financial institutions with good rating.

Trade receivable consisted of a large number of customers. Ongoing credit evaluation is performed on the financial condition of certain customer's trade receivable. If necessary, purchasing insurance for credit enhancing procedures is a must.

The credit risk of the Group concentrates on top 5 customers of the Group. As of December 31, 2018 and 2017, the Group's five largest customers accounted for 33% and 36% of trade receivable, respectively.

C. Liquidity risk

The Group manages and maintains sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows. The Group's management supervises financing line of the banking facilities and ensures compliance with the terms of loan agreements.

Liquidity & interest rate risk table

The table below summarizes the due analysis of the maturity profile of the Group's non-derivative financial liabilities, enacted by contractual undiscounted payments of cash flow of financial liabilities, according to remaining contracts on the earliest date on which the Group may be required to pay, including interest and principal of cash flows.

The following tables detail the bank loans are listed on the earliest date on which the Group may be required to pay without considering the probability of the lending bank executing its rights; other non-derivative financial liabilities are listed at their contract repayment dates.

December 31, 2018

	<u>Less than 1 Year</u>	<u>1-5 Years</u>	<u>5+ Years</u>
<u>Non-derivative financial liabilities</u>			
No Interest-bearing liabilities	\$ 1,901,920	\$ -	\$ -
Fixed rate instruments	<u>100,149</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,002,069</u>	<u>-</u>	<u>-</u>

December 31, 2017

	<u>Less than 1 Year</u>	<u>1-5 Years</u>	<u>5+ Years</u>
<u>Non-derivative financial liabilities</u>			
No Interest-bearing liabilities	<u>\$ 1,397,758</u>	<u>-</u>	<u>-</u>

The operating fund of the Group are sufficient to meet cash flow demand; If the demand exists, it shall be short-term. Thus, bank loans within 1 year are the maximum amounts with available limit of credit. After considering the financial position of the Group, the management does not think the banks will execute their rights of requiring the Group to repay the bank loans.

As of December 31, 2018 and 2017, the Group's unused short-term credit of limit of the bank were 670,000 thousand and 1,005,000 thousand, respectively.

The Group's cash and cash equivalents are sufficient to meet the demand of operating demands; the Group does not apply for the overdraft limit from the bank.

29. RELATED PARTIES TRANSACTIONS

Transactions and balances apply for the profits and losses, revenues and expenses between the Group and its subsidiaries, which were related parties of the Group, had been eliminated on consolidation and are not disclosed in this note. Besides as disclosed elsewhere in the other notes, details of transactions between the Group and other related parties were disclosed below.

(1) The Names and Relationships of Related-parties

<u>Name of the related parties</u>	<u>Relationship with the Company</u>
Chi-Ta International Co., Ltd.	Associates
K Way information corporation.	Related-parties
Ijoing, Inc.	Related-parties

(2) Operating revenue

<u>Types of related parties</u>	<u>2018</u>	<u>2017</u>
Other related parties	<u>\$ 165</u>	<u>\$ 357</u>

Prices and payment terms for transactions with related parties and third parties were similar.

(3) Compensation of key management personnel

	<u>2018</u>	<u>2017</u>
Short-term employee benefits	<u>\$ 28,132</u>	<u>\$ 25,562</u>

Salaries of the boarders and other key management personnel are decided by personal performance and economic market trend through the compensation committee.

30. PLEGGED ASSETS

The following assets of the Group are guaranteed by the assets pledged for loans of the bank and broker, as well as tariff of importing commodities.

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Property, plant and equipment, Net	\$ 293,227	\$ 295,043
Pledged Time Deposits(Financial assets at amortized cost – non-current)	17,932	-
Pledged Time Deposits(Debt investments with no active market)	<u>-</u>	<u>11,539</u>
	<u>\$ 311,159</u>	<u>\$ 306,582</u>

31. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

(1)As of December 31, 2018, the group opens NT 87,000 thousand of cashier order for payment guaranteed for Microsoft Taiwan Corporation.

(2)As of December 31, 2018, the group opens NT 50,000 thousand of cashier order for payment guaranteed for Microsoft Regional Sales Corporation.

32. FOREIGN-CURRENCY-DEMONINATED ASSETS AND LIABILITIES THAT HAVE SIGNIFICANT INFLUENCE

The following information was summarized according to the foreign currencies other than the functional currency of the Group. The exchange rates disclosed were used to translate the foreign currencies into the functional currency. The significant financial assets and liabilities denominated in foreign currencies were as follows:

December 31, 2018

<u>Financial assets</u>	<u>Foreign Currencies</u>	<u>Exchange Rate</u>	<u>Carrying Amount</u>
<u>Monetary items</u>			
USD	\$ 29,511	30.715 (USD:NTD)	<u>\$ 906,430</u>
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD	37,690	30.715 (USD:NTD)	<u>\$ 1,157,648</u>

December 31, 2017

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$ 19,816	29.785 (USD:NTD)	\$ <u>590,220</u>
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD	23,396	29.785 (USD:NTD)	\$ <u>696,850</u>

The material foreign exchange profit/loss(realized and unrealized) was as follows:

	2018		2017	
	Exchange Rate	Net Foreign exchange profit(loss)	Exchange Rate	Net Foreign exchange profit(loss)
<u>Foreign currencies</u>				
USD	30.149 (USD:NTD)	\$ <u>4,419</u>	30.432 (USD:NTD)	(\$ <u>4,184</u>)

33. SEPARATELY DISCLOSED ITEMS

Information on (1) significant transactions and (2) investees:

- A. Financing provided to others: None.
- B. Endorsements/guarantees provided: None.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to Table 1.
- D. Marketable securities acquired and disposed at costs or prices at least NT\$300 million or 20% of the paid-in capital: None.
- E. Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital: None.
- F. Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital: None.
- G. Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None.
- H. Trade receivable from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None.
- I. Trading in derivative instruments: Please refer appendix 7.
- J. Other:The business relationship between the parent and the subsidiaries and significant transactions between them: Table 3.
- K. Information on investees: Table 2.

(3)Information on investment in Mainland China : None.

34. SEGMENT INFORMATION

The management monitors the operating results focusing on the types of products and services acquired or provided of its business units separately for the purpose of making decisions about resource allocation and performance assessment. The department of the Group's brand agent business division or others shall be reported.

(1) Segments revenue & operating results

The reporting on operating segments revenue and results of the Group, based on its business unit separately, was as follows:

	The brand agent business division	Other	Eliminations	Total
<u>2018</u>				
Revenues/from external customers	\$ 6,548,711	\$ 98,641	\$ -	\$ 6,647,352
Inter-segment revenues	-	11,516	(11,516)	-
Segment revenues	<u>\$ 6,548,711</u>	<u>\$ 110,157</u>	<u>(\$ 11,516)</u>	<u>6,647,352</u>
Consolidated revenues				<u>\$ 6,647,352</u>
Segment profit (loss)	<u>\$ 439,328</u>	<u>(\$ 64,026)</u>	<u>\$ -</u>	\$ 375,302
General administration division costs and directors' compensation				(94,720)
Other income				31,433
Other profit (loss)				7,355
Financial costs				(358)
Investments accounted FOR USING the EQUITY METHOD of associates and joint ventures				(4,057)
Net income before tax				<u>\$ 314,955</u>
<u>2017</u>				
Revenues/from external customers	\$ 5,804,632	\$ 162,957	\$ -	\$ 5,967,589
Inter-segment revenues	-	8,033	(8,033)	-
Segment revenues	<u>\$ 5,804,632</u>	<u>\$ 170,990</u>	<u>(\$ 8,033)</u>	<u>5,967,589</u>
Consolidated revenues				<u>\$ 5,967,589</u>
Segment profit (loss)	<u>\$ 360,623</u>	<u>(\$ 7,465)</u>	<u>\$ -</u>	\$ 353,158
General administration division costs and directors' compensation				(118,464)
Other income				16,810
Other profit (loss)				882
Financial costs				(374)
Investments accounted FOR USING the EQUITY METHOD of associates and joint ventures				(7,506)
Net income before tax				<u>\$ 244,506</u>

Segment profits indicate earning profits of each segment, not including management segment costs and directors' compensation, investments accounted FOR USING the EQUITY METHOD of associates, rental income, interest income, profit(loss) of disposal of Property, plant and equipment, disposal of profit(loss) of investments, net profit(loss) of foreign exchange, valuated profit(loss) of financial instruments, finance costs, and income tax expenses. The management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment.

(2) Total assets and liabilities of the department

The assets and liabilities of the Group haven't been provided to the operating management personnel, hence valuation number of assets and liabilities shouldn't be recovered.

(3) Revenues of major products and services

Analysis of revenues of major products and services for continuing operations of the Group are as follows:

	<u>2018</u>	<u>2017</u>
IT Infrastructure	\$ 2,176,883	\$ 2,267,524
Network & Information Security	2,992,682	2,417,237
Cloud Platform & Application	1,080,787	863,518
Big Data & Application	385,046	369,992
Other	11,954	49,318
	<u>\$ 6,647,352</u>	<u>\$ 5,967,589</u>

(4) Geographical information

The Group is mainly headquartered in Taiwan.

The Company categorized the net revenue mainly based on the country in which the customer is headquartered, and non-current assets based on the site of assets.

	Net Revenue from		<u>Non-current Assets</u>	
	External Customers		December 31,	December 31,
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Taiwan	\$ 6,526,576	\$ 5,821,589	\$ 314,665	\$ 311,053
Others	120,776	146,000	-	-
	<u>\$ 6,647,352</u>	<u>\$ 5,967,589</u>	<u>\$ 314,665</u>	<u>\$ 311,053</u>

Non-current assets don't include financial instruments and deferred tax assets.

(5) Major customer information

Revenues in 2018 and 2017 of brand agent business division were 6,548,711 thousand, and 5,804,632 thousand, and some of revenues were 529,340 thousand, and 457,864 thousand from key account. In 2018 and 2017, no customers constituted more than 10% of the Group's total revenue.

ZERO ONE TECHNOLOGY CO., LTD. AND SUBSIDIARIES
MARKETABLE SECURITIES HELD
FOR THE YEAR ENDED DECEMBER 31, 2018

Table 1

(In Thousands of New Taiwan Dollars)

Holding Company	Marketable Securities Type and Issuer's Name (Note 1)	Security Issuer's Relationship with the Holding Company	Financial Statement Account	December 31, 2018				Note
				Shares/Units	Carrying Values	Percentage of Ownership (%)	Market Prices/ Net value of equities	
The company	Corporate bond							
	Walton Advanced Engineering, Inc. – 2	—	Financial assets at FYTPL – current	40 (Units)	\$ 4,016	-	\$ 4,016	
	Giga Solar Materials Corp. – 2	—	Financial assets at FYTPL – current	150 (Units)	11,850	-	11,850	
	China Airlines – 6	—	Financial assets at FYTPL – current	30 (Units)	3,048	-	3,048	
	ShunSin Technology Holdings Ltd. – 1	—	Financial assets at FYTPL – current	30 (Units)	2,925	-	2,925	
	Regent Hotels Group – 2	—	Financial assets at FYTPL – current	20 (Units)	1,996	-	1,996	
	Elite Material Co., Ltd. – 4	—	Financial assets at FYTPL – current	10 (Units)	1,023	-	1,023	
	GIGASTORAGE Corp. – 4	—	Financial assets at FYTPL – current	50 (Units)	5,125	-	5,125	
	SINTRONIC Technology. – 3	—	Financial assets at FYTPL – current	5 (Units)	498	-	498	
	EVA Airways. – 3	—	Financial assets at FYTPL – current	30 (Units)	3,243	-	3,243	
	Yang Ming Marine Transport Corporation – 5	—	Financial assets at FYTPL – current	40 (Units)	4,062	-	4,062	
	Great Tree Pharmacy Co., Ltd. – 1	—	Financial assets at FYTPL – current	7 (Units)	708	-	708	
	Tong Ming Enterprise Co., Ltd. – 1 st domestic unsecured convertible corporate bonds	—	Financial assets at FYTPL – current	10 (Units)	950	-	950	
	Merry Electronics Co., Ltd. – 2	—	Financial assets at FYTPL – current	20 (Units)	2,064	-	2,064	
Shin Kong Financial Holding Co., Ltd. – 5	—	Financial assets at FYTPL – current	50 (Units)	5,048	-	5,048		
Yuanta Securities Asia Financial Services Limited – 2018 Non-secured USD-denominated Private Fixed Rate Notes	—	Financial assets at amortized cost – non-current	20 (Units)	61,430	-	60,778		

(Continued)

Holding Company	Marketable Securities Type and Issuer's Name (Note 1)	Security Issuer's Relationship with the Holding Company	Financial Statement Account	December 31, 2018				Note
				Shares/Units	Carrying Values	Percentage of Ownership (%)	Market Prices/ Net value of equities	
	Securities							
	Cathay Financial Holdings Preferred Stock A	—	Financial assets at FYTPL – non-current	166,000	\$ 10,574	0.02	\$ 10,574	
	Union Bank of Taiwan Preferred Stock A	—	Financial assets at FYTPL – non-current	80,000	4,272	0.04	4,272	
	Global Mixed-mode Technology Inc.	—	Financial assets at FVTOCI – current	50,000	3,230	0.06	3,230	
	ASLAN Pharmaceuticals, Ltd.	—	Financial assets at FVTOCI – current	60,000	1,515	0.04	1,515	
	Chunghwa Precision Test Tech. Co., Ltd.	—	Financial assets at FVTOCI – current	6,000	3,120	0.02	3,120	
	K Way Information Corp.	The supervisor of the company	Financial assets at FVTOCI – non-current	490,000	13,696	1.60	13,696	
	China Electric Mfg. Corp.	—	Financial assets at FVTOCI – non-current	3,320,000	30,179	0.83	30,179	
	ASIX Electronics Corp.	—	Financial assets at FVTOCI – non-current	260,074	7,828	0.48	7,828	
	Promaster Technology Corp.	—	Financial assets at FVTOCI – non-current	1,075,601	8,841	2.72	8,841	
	Unex Technology Corp.	—	Financial assets at FVTOCI – non-current	175,000	4,265	1.68	4,265	
	Cathay Financial Holding Co., Ltd. Preferred Stock A	—	Financial assets at FVTOCI – non-current	34,000	2,166	-	2,166	
	Union Bank of Taiwan Preferred Stock A	—	Financial assets at FVTOCI – non-current	50,000	2,670	0.03	2,670	
	Fubon Financial Holding Co., Ltd. Preferred Shares B	—	Financial assets at FVTOCI – non-current	400,000	24,800	0.06	24,800	
	Taishin Financial Holding Co., Ltd. Preferred Stock E	—	Financial assets at FVTOCI – non-current	240,000	12,768	0.05	12,768	
	CTBC Financial Holding Co., Ltd. Preferred Shares B	—	Financial assets at FVTOCI – non-current	90,000	5,688	0.03	5,688	
	Cathay Financial Holding Co., Ltd. Preferred Stock B	—	Financial assets at FVTOCI – non-current	230,000	14,237	0.03	14,237	
	Kwong Lung Enterprise Co., Ltd. Preferred Stock A	—	Financial assets at FVTOCI – non-current	200,000	10,000	0.16	10,000	
	Miiicasa Holdings (Cayman) Inc.	—	Financial assets at FVTOCI – non-current	2,500,000	-	3.45	8	Recognized as impairment losses

(Continued)

Holding Company	Marketable Securities Type and Issuer's Name (Note 1)	Security Issuer's Relationship with the Holding Company	Financial Statement Account	December 31, 2018				Note
				Shares/Units	Carrying Values	Percentage of Ownership (%)	Market Prices/ Net value of equities	
ZeroneWin	Duofu Co., Ltd.	—	Financial assets at FVTOCI— non-current	10,000	\$ -	0.27	Note 3	Recognized as impairment losses
	Jotangi Technology Co., Ltd.	—	Financial assets at FVTOCI— non-current	796,250	-	16.94	6,382	Recognized as impairment losses
	Ijoing, Inc.	—	Financial assets at FVTOCI— non-current	500,000	-	10.00	263	Recognized as impairment losses
	Beneficiary certifications Yuanta Diamond Funds SPC	—	Financial assets at FYTPL— non-current	7,000	27,501	-	27,501	
	Securities Chunghwa Precision Test Tech. Co., Ltd.	—	Financial assets at FVTOCI— current	7,000	3,640	0.02	3,640	
PetaCom	Beneficiary certifications Taishin 1699 Money Market Fund	—	Financial assets at FYTPL— current	2,750,000	37,145	-	37,145	

(Concluded)

Note 1 : Securities, indicated by the above table, are derivative from stock, bonds, beneficiary certificates, and the above items, based on IFRS 9 “Financial Instruments”.

Note 2 : Relevant information about Investments in equity of subsidiaries, associates, see Table 2.

Note 3 : As the end of reporting period, net value of equities of the company hasn't been acquired.

ZERO ONE TECHNOLOGY CO., LTD. AND SUBSIDIARIES
INFORMATION ON INVESTEES
FOR THE YEAR ENDED DECEMBER 31, 2018

Table 2

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

Investor Company	Investee Company	Location	Main Businesses	Investment Amount		As of December 31, 2018			Net Income (Loss) of the Investee	Share of Profits/Losses of Investee	Note
				December 31, 2018	December 31, 2017	Number of Ownership	Percentage of Ownership	Carrying Values			
The Company	Zotech Technology Co., Ltd.	Taipei City	Services of telecommunication apparatus	\$ 35,000	\$ 35,000	3,500,000	85.37	\$ 44,426	\$ 5,840	\$ 4,986	Subsidiary
	Chi-Ta International Co., Ltd.	Taipei City	Services of telecommunication apparatus	10,000	10,000	597,960	30.00	-	(184)	-	
	Trident Pacific Inc.	Hsinchu City	Service of air material	-	9,450	-	-	-	(13,602)	(4,057)	The company had sold it in November, 2018
	ZeroneWin Investment Co., Ltd.	Taipei City	Investment	100,000	100,000	10,000,000	100.00	91,703	(2,734)	(2,734)	Subsidiary
ZeroneWin Investment Co., Ltd.	WingWill International Co., Ltd.	Taipei City	Services of cloud information software	7,000	7,000	700,000	70.00	1,581	(5,855)	(4,099)	Sub-subsubsidiary
	PetaCom technology Co., Ltd.	Taipei City	Services of information product agent	50,000	50,000	5,000,000	100.00	46,301	(1,749)	(1,749)	Sub-subsubsidiary

ZERO ONE TECHNOLOGY CO., LTD. AND SUBSIDIARIES
INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2018

Table 3

(Amounts in Thousands of New Taiwan Dollars)

No. (Note 1)	Company Name	Counterparty	Nature of Relationship (Note 2)	Transactions Details			Percentage of Consolidated Total Revenues or Total Assets (Note 3)
				Financial Statement Account	Amount	Transaction Terms	
0	The company	Zotech Technology Co., Ltd.	1	Service income	\$ 924	Note 4	-
				Trade receivable	147	Note 4	-
				Other receivable	10	Note 4	-
				Rental income	527	Note 4	-
				Sales revenue	91	Note 4	-
		WingWill international Co., Ltd.	1	Sales revenue	1,510	Note 4	-
				Cost of goods sold	949	Note 4	-
				Service income	602	Note 4	-
				Trade receivable	247	Note 4	-
				Trade payable	41	Note 4	-
		PetaCom Technology Co., Ltd.	1	Rental income	343	Note 4	-
				Service income	697	Note 4	-
				Trade receivable	3	Note 4	-
				Trade payable	9,503	Note 4	-
				Rental income	726	Note 4	-
		Cost of goods sold	9,050	Note 4	-		

Note 1 : Business between the parent and subsidiaries is numbered as follows:

1. Parent:0.
2. Subsidiaries are numbered from 1 in order.

Note 2 : 3 types of relationship between parties is numbered as follows:

1. Parent to subsidiary.
2. Subsidiary to parent.
3. Between subsidiaries.

Note 3 : Percentage of transaction amounts to consolidated operating revenues or consolidated total assets: If the account is a balance sheet account, it shall be calculated by dividing the ending balance into consolidated total assets; if the account is an income statement account, it shall be calculated by dividing the yearly cumulative balance into consolidated operating revenues.

Note 4 : The sales prices and payment terms of the intercompany partners are not significantly different from those to non-related parties.