Stock Code: 3530

Silicon Optronics, Inc.

2018 Annual Report(TRANSLATION)

(Taiwan Stock Exchange Market Observation Post System:http://mops.twse.com.tw)

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Notice to Readers：

The reader is advised that the annual report has been prepared originally in Chinese. The English version is directly translated from Chinese version.

I. Spokesperson:

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Title: Director

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II. Deputy Spokesperson:

Name: Steffi Huang

Title: Director

Tel: (03)567-8986

Email: ir@soinc.com.tw

III. Silicon Optronics, Inc. Addresses & Telephone Number:

Address of Headquarters: 4F., No.10-2, Lixing 1st Rd., Hsinchu Science Park, Hsinchu City 300, Taiwan R.O.C.

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IV. Transfer Agent：

Company Name: Registrar Agency, Capital Securities Corp.

Address: B2., No. 97, Sec. 2, Dunhua South Rd., Taipei City

Tel: (02)2702-3999

Website: www.capital.com.tw

V. Independent Auditor:

Company: Deloitte Touche Tohmatsu Limited

Auditors: Chung Ming-Yuan and Lin Cheng-Chih

Address: 20F, No. 100, Songren Road, Xinyi District, Taipei City

Telephone: (02)2725-9988

Website: www.deloitte.com.tw

VI. Name of Overseas Securities Dealers and the Methods to Inquire about Overseas Securities：Not applicable

VII. Company Website: www.soinc.com.tw

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I、 Letter to Shareholders

Dear Shareholders,

The revenue of SOI was NT$2,034,267,000 in 2018, which increases 19% compared with 2017. The total sales volume also increased more than 20%. In 2018, the net profit after tax was NT$157,432,000, which is 23% decrease than 2017. Due to extreme competition of image sensors in the surveillance market, resulting in the decrease in net profit after tax, compared with the previous year. The surplus after tax per share was NT$2.17 in 2018, lower than NT$3.02 in 2017.

In the past two years, the image sensor products for surveillance were the main product lines of SOI. We continue to research and develop new application of relevant products to expand the market and to gain more addon values, such as car electronics, drone camera(UAV), industrial robot, etc. With the rapid popularity of the Internet cloud and easy use of applications, there are significant growths in consumer network camera in worldwide market. In term of related surveillance products, in addition to the gradual progress of the application of the Internet and the artificial intelligence, we also create a high-resolution product line, and has been launched products with four and five megapixel resolution with the best price performance ratio in the market and also successfully developed a color starlight CMOS image sensor with super high sensitivity at extremely low light condition in the second half of 2018, which was shown in the 14th China International Exhibition on public Safety and Security 2018 in Beijing in October of the same year.

In term of other applications, the automotive image products are also widely used. Currently, our dashcam and car DVR sensors are successfully into brand market and already approved by some automotive manufactures. The overall market share is getting growth. We are also actively to deploy image sensors for mainstream applications such as backup camera and 360-degree AVM system in the automotive electronics market. Moreover, our genetic sequencing chips and modules developed in cooperation with the world's number one manufacturers was officially launched in January, 2018 and the shipment volumes of related products will be highly expected in the future.

The global economy has been in a tense situation since 2018. Looking forward to the future, in addition to the impact of the international tariff fight situation, the competition in the Mainland China market has become increasingly fierce. Some manufacturers have also introduced products in the same specifications and joined the competition. In addition to actively developing new products, the company also strengthens the development of customer bases with brand advantages to enhance the competitive advantages of the company. In addition, the innovation and research and development technologies planned by the company such as back-illuminated sensors and near-infrared ray sensitization enhancing technology can bring new application business opportunities to customers. In the application of global shutter sensor shutters, the current automotive manufacturers have adopted the global shutter image sensor to monitor the fatigue driving. For the drone camera application market, the global shutter technology is also used in flight stability and obstacle avoidance systems in machine vision systems. As the global shutter image sensor market grows, we also keeps pace with market and continues to invest in R&D to catch future growth opportunities.

In the future, we will continue to enhance its competitiveness and expand its market in a prudent and pragmatic manner. I would like to thank our shareholders, customers, and suppliers for their long-term support and love. I sincerely pay tribute to all my colleagues for their hard work and dedication and we will also work hard and give back to you with actual profitability.

Chairman
James He

II、 Company Overview

A. Date of Incorporation:

The company was incorporated on May 24, 2004 and listed on the Taiwan Stock Exchange on July 16, 2018. The headquarters is set up in Hsinchu and has established R&D and sales sites in the United States and Mainland China.

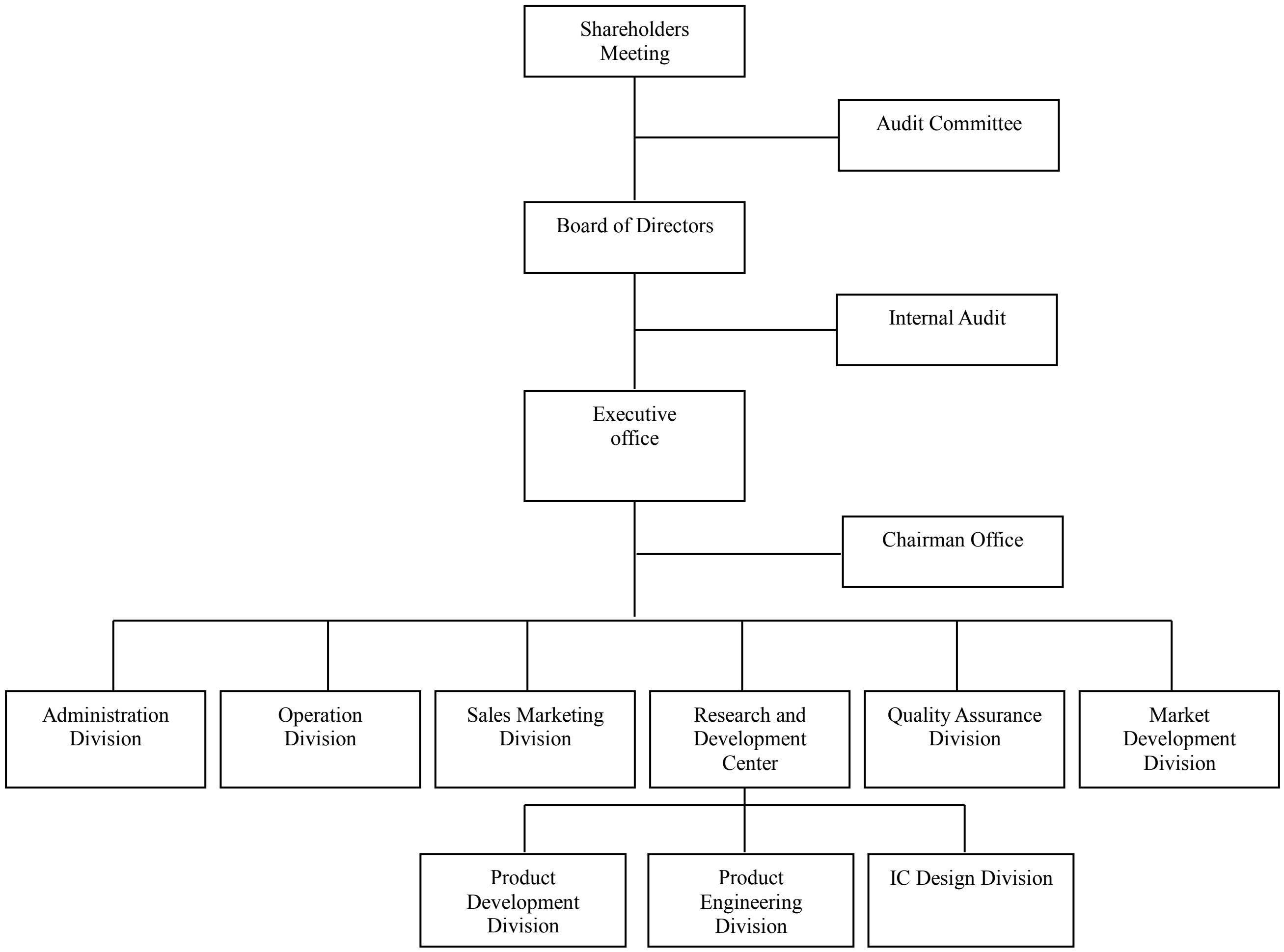
B. Milestones:

2004.01	The preparatory office was established.
2004.05	Incorporated with registered capital of NT$100 million.
2006.07	Approved by the Science-Based Industrial Park Administration to register and locate in Hsinchu Science Park District
2006.09	Initial Public offering of stock.
2007.04	Registered in Emerging Stock Market
2010.01	Received ISO9001 compliance certificate.
2011.12	Remuneration Committee was established.
2012.03	The Board of Directors has resolved to proceed the share conversion with NUEVA IMAGING, Inc, and to issue of new shares through capital increase. The proposal was adopted with approval by that year's shareholders' meeting.
2012.09	The company and NUEVA IMAGING, Inc. completed the share conversion, capital increase, and issuance of new shares. The paid-in capital increased to NT$620,739 thousand.
2012.10	The company completed the capital increase by cash and paid-up capital to NT$651,009 thousand.
2014.01	Silicon Optronics (Shanghai) Co., Ltd. was established.
2017.08	Re-election of the 7th Board and Mr. He Xinping, upon expiration of the tenure, was elected again as the Chairman.
2017.08	The first Audit Committee was established.
2018.07	A total of 9,285,000 shares were increased to the capital by cash before listing, and the paid-in capital became NT$772,659 thousand.
2018.07	Listed on the Taiwan Stock Exchange.

III、 Corporate Governance

A. Organization:

(I) Organizational Chart



(II) Department Functions:

Department	Major Corporate Functions
Chairman's Office	1. Assist the chairman to handle the execution and coordination of the company's business. 2. Planning of the company's medium and long-term business strategies and evaluation of business performance. 3. Strategic planning and implementation of new businesses 4. Ramp up production capacity and implement operational strategies. 5. Appoint a representative of the quality management system.
Internal Audit	1. Inspect and evaluate the reliability and effectiveness of the company's operating information and internal control systems. 2. Propose recommendations for improvement and facilitate effective operations.
Administration Division	1. Responsible for the management of finance, accounting and budget management. 2. Responsible for the company's shareholder affairs and personnel affairs. 3. Responsible for the company's legal affairs and patents. 4. Responsible for the administration of administrative affairs.
Product Development Division	1. Definition of new products. 2. Customer support. 3. CP/FT test program coding and development.
Product Engineering Division	1. Development of new product production process technology 2. New production process research and development of wafer foundry and packaging plants 3. Technical support for wafer foundry 4. Responsible for product specifications verification, failure mode analysis, mass production conditions set-up, yield rate improvement, product practical application verification and assisting clients to solve product application problems. 5. Test engineering management, packaging engineering management, wafer fabrication project management 6. CP/FT test arrangements and management. 7. Management of tape out flows during mask making.
IC Design Division	1. Digital IC design and verification. 2. Assist the development of the image drill algorithm and achievement of FPGA.
Market Development Division	1. Planning of product marketing strategies 2. Collect and control market information.
Sales Marketing Division	1. Product promotion and market development 2. Review, receive, and after-sales services for customer orders. 3. Customer satisfaction survey.
Operation Division	1. Outsourcing production strategy, production planning, materials and warehouse management, and import/export operations. 2. Order and shipping management. 3. Procurement/outsourcing management 4. MIS network and ERP system management.
Quality Assurance Division	1. Establish and implement quality/RSF assurance systems to improve control procedures and ensure product quality. 2. Formulate quality policies. 3. Product quality inspection, customer complaint handling and return analysis. 4. Calibration and DCC, SQE management.

B. Information of Directors and Officials

(I) Directors' Information

1. Directors Information Table

April 22, 2019Unit:; %

Title (Note 1)	Nationality/ Country of Origin	Name	Gender	Date Elected (Appointed)	Term of office	Date First Elected (Note 2)	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education) (Note 3)	Other Position	Executives, Directors or Supervisors Who are Spouses or within Two Degrees of Kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Chairman	SAMOA	Heritage Bay Limited	-	2017.08.14	3 years	2016.06.08	18,776,413	27.53	18,676,413	23.94	-	-	-	-	-	-	-	-	-
	USA	Representative: James He	Male	2017.08.14	3 years	2013.06.11	120,000	0.18	150,000	0.19	-	-	-	-	MSEE, BSEE, Tsinghua University. Director & COO, OmniVision Director & COO, OmniVision Technologies, Inc . Director, Xintec Inc Director, OmniVision Technology International Ltd. Director, OmniVision Technologies (Shanghai), Co. Ltd. Director, Director, Shanghai OmniVision Semiconductor Technology, Co. Ltd. Chairman, Taiwan OmniVision Technologies, Inc. Chairman, Taiwan OmniVision International Holding Ltd	Chairman, Nueva Imaging Inc. Chairman, Silicon Optronics Holding (Cayman) Co., Ltd. Chairman and President of the company Director, Heritage Bay Limited	-	-	-
Director	SAMOA	Heritage Bay Limited	-	2017.08.14	3 years	2016.06.08	18,776,413	27.53	18,676,413	23.94	-	-	-	-	-	-	-	-	-
	Singapore	Representative: Peter Zung	Male	2017.12.21	3 years	2013.06.11	1,240,000	1.82	1,311,000	1.68	-	-	-	-	University of California, San Diego_ IR/ PS University of California, Berkeley Bachelor,	Vice President of the company Vice President, Nueva imaging Inc.	-	-	-

															Chemistry Vice President, VisEra Technologies Company Limited				
Independent Director	Taiwan	Jim Lai	Male	2017.08.14	3 years	2017.08.14	-	-	-	-	-	-	-	-	Master of Electrical Engineering UC Santa Barbara President, Global Unichip Corp.	Consultant, Global Unichip Corp. Director, Wolley Inc. Director, Megachips Corp.	-	-	-
Independent Director	Taiwan	JJ Lin	Male	2017.08.14	3 years	2017.08.14	-	-	-	-	-	-	-	-	Master of Applied Chemistry, Tsinghua University CEO, Xintec Inc. CEO and President, VisEra Technologies Company Limited Executive Vice President, Global Unichip Corp. Senior Director, Taiwan Semiconductor Manufacturing Company, Limited	Chairman, TEMIC Co., Ltd. Director, TAIFLEX Scientific Co., Ltd. Director, Taiwan Carbon Nano Technology Corporation. Independent Director, Favite, Inc. Director and CEO, Tsing Hua Entrepreneur Network Director, Capital TEN Inc. Independent Director, M31 Technology Corporation	-	-	-
Independent Director	Taiwan	Li Chang-Chou	Male	2017.12.21	3 years	2017.12.21	-	-	-	-	-	-	-	-	Master of Accounting at University of Illinois at Urbana-Champaign in the United States CPA, Chih-Cheng Accouting Firm CPA Partner, PricewaterhouseCoopers Taiwan	Independent Director, Kuen Ling Machinery Refrigerating Co., Ltd. Independent Director, Axcen Photonics Corporation Independent Director, Evergreen Marine Corporation	-	-	-

Note 1: For the institutional shareholders, their names and representatives shall be listed (for representatives, the names of the shareholders and their representatives shall be indicated) and listed in Table 1.

Note 2: Fill in the time as the company's director or supervisor for the first time. Any interruption period during the term shall be noted.

Note 3: Experiences related to the current position, such as having worked in the CPA firm or its affiliated companies during the period mentioned above, the titles and duties of such positions shall be clearly stated.

2. Major Shareholders of Institutional Shareholders

Major Shareholders of the Institutional Shareholders

April 22, 2019

Name of institutional shareholders (Note 1)	Major shareholders of the institutional shareholders (Note 2)	
Heritage Bay Limited	XINPING HE	54.61%
	HE CHILDREN'S TRUST	39.01%
	DUIDI CHEN	4.68%
	SHURONG ZHAO	1.70%

Note 1: For directors and supervisors who are representatives of institutional shareholders, the name of the shareholder shall be filled in.

Note 2: Fill in the name of the major shareholders of institutional shareholder (top 10 shareholders by shareholding percentage) and their shareholding percentages. If the major shareholder is a judicial person, the following table 2 shall be filled in.

List of Institutional Shareholders of SOI's Major Institutional Shareholders : None.

3. Directors' Information

qualifications / Name (Note 1)	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience: Lecturer or above of business,law,finance,accounting or other subject related to company activity in a junior college or above	Qualification of Justice,Prosecutor,Attorney,CPA,Specialist or Technician of National Examination in Corporate Business Related Fields	Work experience in business,law,finance,accounting or others related to company activity	Independence Status (Note 2): 1	2	3	4	5	6	7	8	9	10	Number of Other Public Companies concurrently Serving as an Independent Director
Heritage Bay Limited. Representative: He Xinping			√				√		√	√	√	√	√	-
Heritage Bay Limited. Representative: Zung Pai Chun			√				√	√	√	√	√	√	√	-
Lai Chun-Hao			√	√	√	√	√	√	√	√	√	√	√	-
Lin Chun-Chi			√	√	√	√	√	√	√	√	√	√	√	2
Li Chang-Chou		√	√	√	√	√	√	√	√	√	√	√	√	3

Note 1: Please tick the corresponding boxes that apply to the directors or supervisors during the two years prior to being elected or during the term of office.✓

(1) Not an employee of the company or any of its affiliates.

(2) Not a director or supervisor of the company or any of its affiliates. (Not applicable in cases where the person is an independent director of the company, its parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.)

(3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.

(4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.

(5) Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company or who holds shares ranking in the top five holdings.

(6) Not a director, supervisor, officer, or shareholder holding 5% or more of the shares, of a specified company or institution which has a financial or business relationship with the Company.

(7) Not a professional individual who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof. These restrictions do not apply to any member of the remuneration committee who exercises powers pursuant to Article 7 of the "Regulations Governing the Establishment and Exercise of Powers of Remuneration Committees of Companies whose Stock is Listed on the TWSE or Traded on the TPEx".

(8) Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.

(9) Not been a person of any conditions defined in Article 30 of the Company Law.

(10) Not a juridical person or its representative as defined in Article 27 of the Company Law.

(II) Information of the President, Vice Presidents, and Officers

April 22, 2019 Unit: Shares; %

Title (Note 1)	Nationality	Name	Gender	Date Effective (Appointed)	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education) (Note 2)	Serves concurrently as	Managers who are Spouses or Second degree relative		
					Shares	%	Shares	%	Shares	%			Title	Name	Relationship
President	USA	James He	Male	101.02.10	150,000	0.19	-	-	-	-	MSEE, BSEE, Tsinghua University. Director & COO, OmniVision Technologies, Inc. Director, Xintec Inc. Director, OmniVision Technology International Ltd. Director, OmniVision Technologies (Shanghai), Co. Ltd. Director, OmniVision Semiconductor (Shanghai), Co. Ltd. Director, Shanghai OmniVision Semiconductor Technology, Co. Ltd. Chairman, OmniVision Technologies, Inc Chairman, OmniVision International Technologies, Inc Chairman, Taiwan OmniVision International Holding Ltd Director, OmniVision Technologies (Hong Kong) Co. Ltd. Director, OmniVision Trading (Hong Kong) Co. Ltd. Director, OmniVision Holding (Hong Kong) Co. Ltd. Director, OmniVision Investment Holding (BVI), Ltd. Director, OmniVision Technologies Japan K.K.	Chairman, Nueva Imaging Inc. Chairman, Silicon Optronics Holding (Cayman) Co., Ltd. Director, Heritage Bay Limited	-	-	-
Vice President, Operation Management Department, Quality Assurance Department and Market Development Department	Singapore	Peter Zung	Male	102.03.05	1,311,000	1.68	-	-	-	-	University of California, San Diego_ IR/ PS VP, VisEra Technologies Sr. Director, Credence Systems GM, Lam Research Sr. Director, KLA- Tencor	Nueva Imaging Inc Vice President	-	-	-
Vice President, R&D Center	USA	Denis Luo	Male	102.03.05	4,583,587	5.88	-	-	-	-	Tsinghua University. SR. DIRECTOR OF MIXED SIGNAL GROUP DIRECTOR OF MIXED SIGNAL GROUP	Nueva Imaging Inc Vice President	-	-	-
VP of R&D and Chief Technology Officer	USA	Ming Li	Male	103.12.10	630,000	0.81	-	-	-	-	PhD in Electronic System Parts and Microelectronics, Southeast University Senior Manager, Taiwan Semiconductor Manufacturing Company, Limited	Nueva Imaging Inc Chief Technology Officer	-	-	-
Director of Administration Division and Chief Financial Officer	Taiwan	Steffi Huang	Female	106.06.12	459,000	0.59	138,000	0.18	-	-	Accounting Department, Tamkang University Assistant Manager, Audit Department, KPMG Director, Auditing Department, Taiwan Mobile Co., Ltd.	Supervisor, Silicon Optronics (Shanghai) Co., Ltd.	-	-	-

Note 1: Information regarding President, Vice Presidents, Assistant Vice Presidents, heads of departments and branches shall be included, whereas positions equivalent to President, Vice Presidents, or Assistant Vice Presidents shall be disclosed regardless of job titles.

Note 2: Experiences related to the current position, such as having worked in the CPA firm or its affiliated companies during the period mentioned above, the titles and duties of such positions shall be clearly stated.

(III) Remuneration of Directors, Supervisors, President and Vice Presidents

1. Remuneration of Directors:

Unit: NT$1,000; thousand shares

Title	Name	Remuneration of Directors								A + B + C+D as percentage of net income after tax (Note 10)		Remuneration from concurrent position as employee								A + B + C + D + E+F+G as percentage of net income after tax (Note 10)		Remuneration received from re-investment business other than subsidiaries (Note 11)
		Remuneration (A) (Note 2)		Pension (B)		Remuneration from profit distribution (C) (Note 3)		Business Expenses (D) (Note 4)				Salary, Bonuses, and special expense (E) (Note 5)		Pension (F)		Profit distribution for Employee Compensation (G) (Note 6)						
		SOI	consolidated Entities (Note 7)	SOI	consolidated Entities (Note 7)	SOI	consolidated Entities (Note 7)	SOI	consolidated Entities (Note 7)	SOI	consolidated Entities (Note 7)	SOI	consolidated Entities (Note 7)	SOI	consolidated Entities (Note 7)	SOI		consolidated Entities (Note 7)		SOI	consolidated Entities (Note 7)	
																Cash	Stock	Cash	Stock			
Director	JamesHe	1,800	1,800	-	-	2,500	2,500	-	-	2.73%	2.73%	1,932	9,769	-	-	-	-	2,000	-	3.96%	10.21%	-
Director	Peter Zung																					
Independent Director	Li Chang-Chou																					
Independent Director	JJ Lin																					
Independent Director	Jim Lai																					

*Other than what disclosure above, SOI Directors who provided services to any companies mentioned in this financial report in the most current year(including non-employee consulatant):

Remuneration Ranges

Remuneration Ranges	Name of Directors			
	Total Remuneration (A+B+C+D)		Total Remuneration (A+B+C+D+E+F+G)	
	SOI (Note 8)	consolidated Entities (Note 9) H	SOI (Note 8)	consolidated Entities (Note 9) I
Under NT$ 2,000,000	James He, Jim Lai, JJ Lin , Li Chang-Chou, Peter Zung	James He, Jim Lai, JJ Lin , Li Chang-Chou, Peter Zung	James He, Jim Lai, JJ Lin , Li Chang-Chou, Peter Zung	James He, Jim Lai, JJ Lin , Li Chang-Chou, Peter Zung
NT$2,000,001 ~ NT$5,000,000				
NT$5,000,001 ~ NT$10,000,000				
NT$10,000,001 ~ NT$15,000,000				
NT$15,000,001 ~ NT$30,000,000				
NT$30,000,001 ~ NT$50,000,000				
NT$50,000,001 ~ NT$100,000,000				
Over NT$100,000,000				
Total	5	5	5	5

Note 1: The names of directors shall be listed separately (names of institutional shareholders and their representatives shall be listed separately), and the payment amounts shall be disclosed collectively. If a director concurrently serves as a president or vice president, his/her name and the amount of remuneration paid to him/her shall be listed in Table (3-1) or (3-2).

Note 2: Remuneration of directors in the most recent year (including salaries, duty premium, resignation pay, bonuses, and performance incentives).

Note 3: Remuneration paid to directors in the most recent fiscal year by the Board of Directors.

Note 4: Business expenses paid out to directors in the most recent year (including transportation fees, special expenses, various allowances, accommodation, vehicles, and provision of physical goods and services) If accommodation, vehicle or other means of transportation, or personal expense is provided, the nature and cost of the asset provided, the rental calculated based on the actual cost or the fair market value, fuel, and other payments shall be disclosed. If a driver is provided, please note the compensation paid to such driver. However, such compensation shall not be included.

Note 5: Salary, duty premium, resignation pay, various bonuses, incentives, transportation allowance, special allowance, various allowances, accommodation allowance and driver allowance received by directors who are also employees (including general manager, vice president, other managerial officers and employees) in the most recent fiscal year. If accommodation, vehicle or other means of transportation, or personal expense is provided, the nature and cost of the asset provided, the rental calculated based on the actual cost or the fair market value, fuel, and other payments shall be disclosed. If a driver is provided, please note the compensation paid to such driver. However, such compensation shall not be included. Any salary listed under IFRS 2 Share-Based Payment, including issuance of employee stock warrants, new restricted employee shares and cash capital increase by stock subscription shall also be included in compensation.

Note 6: Directors who are also employees (including the president, vice president, other managerial officers, and employees) that have received employee compensation (including shares and cash) shall be disclosed the distributed amount of remuneration approved by the Board of Directors for the most recent fiscal year.If such remuneration cannot be estimated, an estimation for this year shall be calculated in proportion of the remuneration paid last year and shall be listed in Table 1-3.

Note 7: Total remuneration in various items distributed to the company's Directors by all companies (including the company) listed in the consolidated financial statements shall be disclosed.

Note 8: The name of each director shall be disclosed in the range of remuneration corresponding to the amount of all the remuneration paid to each director by the company.

Note 9: Total remuneration in various items distributed to every director of the company's by all companies (including the company) listed in the consolidated financial statements shall be disclosed, and their names shall be disclosed in their range of remuneration, respectively.

Note 10: Net income refers to those acquired from most recent year. For those who have adopted the International Financial Reporting Standards, after-tax net profit refers to the after-tax net profit of parent company only or individual financial reports in the most recent year.

Note 11:

a. The amount of remuneration received from investee companies other than subsidiaries by the company's directors shall be stated clearly in this column.

b. If the President and Vice Presidents of the company receives remuneration from investee companies other than subsidiaries, the amount of remuneration received by the President and Vice Presidents from investment companies other than subsidiaries shall be combined into Column I of the table of remuneration ranges, and this column shall be renamed as "All Investment Companies".

c. Compensations refers to rewards, remunerations (including remuneration for company employees, directors or supervisors) and allowances from professional practice received by the director from other non-subsidiary companies invested by the company for their services as directors, supervisors, or managers.

＊ The content of remuneration disclosed in this table is derived based on a concept different from the concept of income stipulated in the Income Tax Act. The purpose of the table is for the disclosure of information, not for the purpose of taxation.

2. Remuneration paid to supervisors: None.
3. Remuneration Paid to President and Vice Presidents

Unit: NT$1,000; thousand shares

Title	Name	Salary (A) (Note 2)		Pension (B)		Bonuses and Special expenses (C) (Note 3)		Employee Compensation from Profit Distribuion (D) (Note 4)				A + B + C+D as percentage of net income after tax (%) (Note 8)		Remuneration received from re-investment business other than subsidiaries (Note 9)
		SOI	Consolidated Entities (Note 5)	SOI	Consolidated Entities (Note 5)	SOI	Consolidated Entities (Note 5)	SOI		Consolidated Entities (Note 5)		SOI	Consolidated Entities (Note 5)	
								Cash	Stock	Cash	Stock			
President	James He	4,846	20,519	108	108	1,620	1,620	4,040	-	4,040	-	6.74%	16.70%	None
Chief Technology Officer	Ming Li													
Vice President	PC Lin													
Vice President	Denis Luo													
Vice President	Peter Zung													

Remuneration Ranges

Range of remuneration paid to the President and Vice Presidents of the company	Name of President and Vice Presidents	
	SOI (Note 6)	Consolidated Entities (Note 7) E
Under NT$ 2,000,000	James He, Ming Li Peter Zung, Denis Luo	-
NT$2,000,001 ~ NT$5,000,000	PC Lin	PC Lin
NT$5,000,001 ~ NT$10,000,000	-	James He, Ming Li Peter Zung, Denis Luo
NT$10,000,001 ~ NT$15,000,000	-	-
NT$15,000,001 ~ NT$30,000,000	-	-
NT$30,000,001 ~ NT$50,000,000	-	-
NT$50,000,001 ~ NT$100,000,000	-	-
Over NT$ 100,000,000	-	-
Total	5	5

Note 1: Names of the President and Vice Presidents shall be listed separately and the amount of remuneration paid to them shall be disclosed collectively. If a director concurrently serves as a president or vice president, his/her name and the amount of remuneration paid to him/her shall be listed in Table (1-1) or (1-2) above.

Note 2: Fill in the salary, duty premium and resignation pay paid to the President and Vice Presidents in the most recent fiscal year.

Note 3: Cash and non-cash compensations to the President and Vice Presidents in the most recent year, including bonus, reward, reimbursement of expenses, special allowances, various subsidies, housing and use of vehicle. If accommodation, vehicle or other means of transportation, or personal expense is provided, the nature and cost of the asset provided, the rental calculated based on the actual cost or the fair market value, fuel, and other payments shall be disclosed. If a driver is provided, please note the compensation paid to such driver. However, such compensation shall not be included. Any salary listed under IFRS 2 Share-Based Payment, including issuance of employee stock warrants, new restricted employee shares and cash capital increase by stock subscription shall also be included in compensation.

Note 4: Refers to remuneration paid to the President and Vice Presidents (including stock and cash) approved by the Board of Directors in the most recent fiscal year. If such remuneration cannot be estimated, an estimation for this year shall be calculated in proportion of the remuneration paid last year and shall be listed in Table 1-3. Net income refers to those acquired from most recent year. For those who have adopted the International Financial Reporting Standards, after-tax net profit refers to the after-tax net profit of parent company only or individual financial reports in the most recent year.

Note 5: Total remuneration in various items distributed to the company's President and Vice Presidents by all companies (including the company) listed in the consolidated statements shall be disclosed.

Note 6: Total remuneration of various items paid to the President and Vice Presidents by the company shall be disclosed in the proper remuneration range.

Note 7: Total remuneration of various items paid to every president and vice president of the company by all companies (including the company) listed in the consolidated financial statement shall be disclosed, and their names shall be disclosed in their range of remuneration, respectively.

Note 8: Net income refers to those acquired from most recent year. For those who have adopted the International Financial Reporting Standards, after-tax net profit refers to the after-tax net profit of parent company only or individual financial reports in the most recent year.

Note 9:

a. The amount of remuneration the company's president and vice president received from investee companies other than subsidiaries by the company's directors shall be stated clearly in this column.
b. If the President and Vice Presidents of the company receives remuneration from investee companies other than subsidiaries, the amount of remuneration received by the President and Vice Presidents from investee companies other than subsidiaries shall be combined into Column E of the table of remuneration ranges, and this column shall be renamed as "All Investment Companies".
c. Remuneration in this case shall refer to remuneration, compensation (including remuneration as a company employee, director, or supervisor), business expenses, and other related payments received by the President or Vice Presidents of the company for being a director, supervisor, or managerial officer of investee companies other than subsidiaries.

4. The name and the distribution of managerial officers' compensation: The managerial officers' compensation of the company is based on their participation degree and contribution value to the company's operations,
5. If any of the following applies to the company's Directors and Supervisors, remuneration paid to the Directors and Supervisors shall be disclosed:
   (1) A company that has posted after-tax deficits in the parent company only financial reports or individual financial reports within the most recent 2 fiscal years shall disclose the remuneration paid to individual directors and supervisors: None.
   (2) A company that has had an insufficient director shareholding percentage for 3 consecutive months or longer during the most recent fiscal year shall disclose the remuneration of individual directors: None.
   (3) A company that has had an average ratio of share pledging by director supervisors in excess of 50 percent in any 3 months during the most recent fiscal year shall disclose the remuneration paid to each individual director supervisor having a ratio of pledged shares in excess of 50 percent for each such month: None.

(IV) Compare and analyze the total remuneration as a percentage of net income stated in the parent company only financial reports or individual financial reports, paid by this company and by all consolidated entities (including this company) for the most recent 2 fiscal years to each of this company's directors, supervisors, president, and vice presidents, and describe the policies, standards, and packages for payment of remuneration, as well as the procedures for determining remuneration, and its linkage to business performance and future risk exposure:

1. Information regarding remuneration paid to the directors, supervisors, president, and vice presidents of the company and all the companies included in the consolidated financial statements in the last two years.

December 31, 2018; Unit: NT$ thousands

Criteria / Item	2018		2017	
	Amount	As a percentage of net income after tax	Amount	As a percentage of net income after tax
Director’s remuneration	2,500	1.59%	2,500	1.22%
Supervisor’s remuneration	-	-	-	-
Remuneration for president and vice presidents	26,287	16.70%	27,079	13.27%

Note: The company paid remuneration with all companies in the consolidated statements.

2. The policies, standards, and packages for payment of remuneration, as well as the procedures followed for determining the remuneration, and their linkages to business performance and future risk exposure:

   The remuneration of the Directors and Supervisors shall be paid in accordance with the Company's Articles of Incorporation; remuneration for the President and Vice Presidents shall be determined in accordance with the company's salary policy. The payout of bonuses shall be based on the company's management performance and individual performance.

C. Corporate Governance

(I) Board of Directors' Meetings Status：

1. The Board of the Company has held six (A) meetings in 2018. The attendance of the directors and supervisor are shown in the following table：

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%)【B/A】(Note)	Remarks
Chairman	James He	6	0	100.00%	-
Director	Peter Zung	6	0	100.00%	-
Independent Director	Jim Lai	6	0	100.00%	-
Independent Director	JJ Lin	5	1	83.33%	-
Independent Director	Li Chang-Chou	6	0	100.00%	-

Note: Actual attendance (appearance) rate (%) shall be calculated using the number of Directors' Meetings convened and actual attendance (appearance) during the term of service.

2. Other mentionable items:
   (1) Matters referred to in Article 14-3 of the Securities and Exchange Act and other matters involving objections or expressed reservations by independent directors that were recorded or stated in writing that require a resolution by the Board of Directors: None.
   (2) Other matters involving objections or expressed reservations by independent directors that were recorded or stated in writing that require a resolution by the Board of Directors: None.
   (3) If there are directors' avoidance of motions in conflict of interest, the directors' names, contents of motion, causes for avoidance and voting shall be specified:

Date of Meeting	The Borad Meeting		Proposal Content	Resolution
2018.03.09	The 7th Board	The 6th meeting	Distribution of remuneration for Directors and Managers for 2017	Due to conflict of personal interest, Directors involved were recused from voting and the remaining Directors have resolved and approved the proposal.
2018.06.08	The 7th Board	The 9th meeting	Distribution of Managerial Employees Compensation for 2017	Due to conflict of personal interest, Directors involved were recused from voting and the remaining Directors have resolved and approved the proposal.
2018.11.06	The 7th Board	The 11th meeting	The awarding principles of year-end bonus and the managers' compensation amount for the year 2018	Due to conflict of personal interest, Directors involved were recused from voting and the remaining Directors have resolved and approved the proposal.
			The salary and compensation items that the managers	Due to conflict of personal interest, Directors involved

Date of Meeting	The Borad Meeting		Proposal Content	Resolution
			propose to implement in 2019	were recused from voting and the remaining Directors have resolved and approved the proposal.
			Formulate the "Regulations Governing Remuneration for Directors, Functional Committee and Managerial Officers".	Due to conflict of personal interest, Directors involved were recused from voting and the remaining Directors have resolved and approved the proposal.

(4) Measures taken to strengthen the functionality of the board (for example, establishing an Audit Committee and enhancing information transparency) for the current year and the most recent year and the implementation status:

A. Establish a Remuneration Committee and an Audit Committee: The company established the Remuneration Committee on December 22, 2011, elected the independent directors at the temporary meeting of shareholders on August 14, 2017 and also established the Audit Committee on August 23, 2017 to strengthen the Board of Directors' execution of its powers.

B. Strengthen corporate governance: The company has established the "Corporate Governance Best Practice Principles", "Procedures for Ethical Management and Guidelines for Conduct" and "Corporate Governance Best Practice Principles", approving by the Board of Directors.

(II) Audit Committee status

Audit Committee has held 5(A) meetings in 2018. The attendance of the independent directors are shown in the following table：

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) (B/A) (Note)	Remarks
Independent Director	Jim Lai	5	0	100.00%	-
Independent Director	JJ Lin	4	1	80.00%	-
Independent Director	Li Chang-Chou	5	0	100.00%	-

Note: The actual attendance rate (%) shall be calculated based on the number of meetings held by the Audit Committee and the actual number of meetings attended during his/her term of office.

Other mentionable items:

I. If the Audit Committee has any of the following circumstances, the date, period, proposal content, the resolution of the Audit Committee and the company's reaction toward the Audit Committee's opinions shall be specified:

(I) Matters referred to in Article 14-5 of the Securities and Exchange Act: None.

(II) Other matters which were not approved by the Audit Committee but were approved by two-thirds or more of all directors: None.

II. If an independent directorrecuses himself from a proposal due tot conflict of interest,th following items shall be recorded name of Director,proposal,reason for recusal and voting record:

Date of Meeting	The Board Meeting		Proposal Content	Resolution
2018.03.09	The 7th Board	The 6th meeting	Distribution of remuneration for Directors and Managers for 2017	Due to conflict of personal interest, Independent Directors involved were recused from voting and the remaining Directors have resolved and approved the proposal.
2018.11.06	The 7th Board	The 11th meeting	Formulate the "Regulations Governing Remuneration for Directors, Functional Committee and Managerial Officers".	Due to conflict of personal interest, Independent Directors involved were recused from voting and the remaining Directors have resolved and approved the proposal.

III. Communications between independent directors, the internal auditor and CPAs:

A. The independent directors of the company regularly communicate with the chief internal auditor at the Audit Committee and the Board of Directors, and the interaction is good . The chief internal auditor regularly reports the implementation and improvement of the audit plan in the meetings, and communicates and exchange opinions on the effectiveness of the internal control executed by the company.

B. The independent directors of the company regularly communicate with CPAs at the Audit Committee and exchange opinions. The CPA has fully discussed the review or audit status of the company's financial statements, or issues related to finance, taxation, and internal control with the Independent Directors at the meeting.

(III) Directors' continuing education status

Continuing education status for Directors in 2018:

Title	Name	Date of Appointment	Continuing Education Date		Organizer	Course Name	Training Hours
			From	To			
Chairman of the board	James He	2017.8.14	2018.10.16	2018.10.16	Taiwan Corporate Governance Association	Corporate Taiwan's response to the US-China trade war, and the update of the accounting and tax regulations	3.0
						The responsibility of Directors and Supervisors along with the Corporate Governance (including insider trading, share price manipulation, financial reporting misrepresentation, abnormal transactions and disclosure of material information)	3.0
Director	Peter Zung	2017.12.21	2018.10.16	2018.10.16	Taiwan Corporate Governance Association	Corporate Taiwan's response to the US-China trade war, and the update of the accounting and tax regulations	3.0
						The responsibility of Directors and Supervisors along with the Corporate Governance (including insider trading, share price manipulation, financial reporting misrepresentation, abnormal transactions and disclosure of material information)	3.0
Independent Director	Li Chang-Chou	2017.12.21	2018.2.07	2018.2.07	Center for Corporate Sustainability	Corporate Sustainability and Business Evergreen	3.0
			2018.9.10	2018.9.10	Taiwan Stock Exchange Association Taipei Bar Association	The New Version of the Corporate Governance Roadmap of the Financial Supervisory Commission - The Directors' "Duty" and "Authority"	3.0
			2018.10.16	2018.10.16	Taiwan Corporate Governance Association	Corporate Taiwan's response to the US-China trade war, and the update of the accounting and tax regulations	3.0

						The responsibility of Directors and Supervisors along with the Corporate Governance (including insider trading, share price manipulation, financial reporting misrepresentation, abnormal transactions and disclosure of material information)	3.0
			2018.10.24	2018.10.24	Taiwan Institute of Directors	Crisis and opportunities of global rebalancing	3.0
Independent Director	JJ Lin	2017.8.14	2018.5.24	2018.5.24	Taiwan Corporate Governance Association	Corporate Governance and Securities Regulations	3.0
			2018.10.05	2018.10.05	Taiwan Academy of Banking and Finance	Corporate Governance and Corporate Sustainability Training Course	3.0
			2018.10.16	2018.10.16	Taiwan Corporate Governance Association	Corporate Taiwan's response to the US-China trade war, and the update of the accounting and tax regulations	3.0
						The responsibility of Directors and Supervisors along with the Corporate Governance (including insider trading, share price manipulation, financial reporting misrepresentation, abnormal transactions and disclosure of material information)	3.0
Independent Director	Jim Lai	2017.8.14	2018.10.16	2018.10.16	Taiwan Corporate Governance Association	Corporate Taiwan's response to the US-China trade war, and the update of the accounting and tax regulations	3.0
						The responsibility of Directors and Supervisors along with the Corporate Governance (including insider trading, share price manipulation, financial reporting misrepresentation, abnormal transactions and disclosure of material information)	3.0

(IV) Managerial officers' participation in the continuing education of the corporate governance

Managerial officers' participation in the training of the corporate governance in 2018:

Title	Name	Continuing Education Date		Organizer	Course Name	Training Hours
		From	To			
Vice President, Marketing Division	PC Lin	2018.10.16	2018.10.16	Taiwan Corporate Governance Association	Corporate Taiwan's response to the US-China trade war, and the update of the accounting and tax regulations	3.0
					The responsibility of Directors and Supervisors along with the Corporate Governance (including insider trading, share price manipulation, financial reporting misrepresentation, abnormal transactions and disclosure of material information)	3.0
Vice President, R&D Center	Denis Luo	2018.10.16	2018.10.16	Taiwan Corporate Governance Association	Corporate Taiwan's response to the US-China trade war, and the update of the accounting and tax regulations	3.0
					The responsibility of Directors and Supervisors along with the Corporate Governance (including insider trading, share price manipulation, financial reporting misrepresentation, abnormal transactions and disclosure of material information)	3.0
Chief Technology Officer of R&D	Ming Li	2018.10.16	2018.10.16	Taiwan Corporate Governance Association	Corporate Taiwan's response to the US-China trade war, and the update of the accounting and tax regulations	3.0
					The responsibility of Directors and Supervisors along with the Corporate Governance (including insider trading, share price manipulation, financial reporting misrepresentation, abnormal transactions and disclosure of material information)	3.0
Director of Administration Division and Chief Financial Officer	Steffi Huang	2018.10.16	2018.10.16	Taiwan Corporate Governance Association	Corporate Taiwan's response to the US-China trade war, and the update of the accounting and tax regulations	3.0
					The responsibility of Directors and Supervisors along with the Corporate Governance (including insider trading, share price manipulation, financial reporting misrepresentation, abnormal transactions and disclosure of material information)	3.0
Chief internal auditor	Joyce Lin	2018.10.11	2018.10.11	Securities and Futures Institute	Major financial crimes (hallowing out assets, insider trading, improper tunneling of interests, share price manipulation, abnormal transactions, etc.) and legal risks	6.0
		2018.10.12	2018.10.12		Internal Audit Practice and Case Interpretation	3.0
					Workshop for Case Analysis and Prevention Strategy of Major Fraud and Unlawful Group Intervention	3.0

(V) Corporate Governance Implementation as Required by the Taiwan Financial Supervisory Commission:

Evaluation Item	Implementation Status (Note)			Deviations and reasons from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx-Listed Companies
	Yes	No	Abstract Illustration	
I. Does the company establish and disclose the Corporate Governance Best-Practice Principles based on "Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies"?	V		The company's "Corporate Governance Best Practice Principles" was approved by the Board of Directors on March 8, 2017. The company's corporate governance practices are in compliance with the relevant laws and regulations to proactively disclosure of its corporate governance practices.	None
II. Shareholding structure & shareholders' equity (I) Does the company establish an internal operating procedure to deal with shareholders' suggestions, doubts, disputes and litigations, and implement based on the procedure? (II) Does the company possess the list of its major shareholders as well as the ultimate owners of those shares? (III) Does the company establish and execute the risk management and firewall system within its conglomerate structure? (IV) Does the company establish internal rules against insiders trading with undisclosed information?	V V V V		(I) The company has set up the shareholder services unit to handle shareholder affairs and shareholders' suggestions or disputes. (II) The company regularly discloses the list of its major shareholders and persons who have ultimate control over the major shareholders, whose shareholding change has been reported in accordance with the relevant laws and regulations. (III) The business and financial relationship between the company and its affiliated companies has been formulated in accordance with the relevant regulations required by the competent authority. (IV) The company has established the "Procedures for Handling Material Information and Prevention of Insider Trading" and "Code of Ethical Conduct", and has been implemented with the resolution of the Board of Directors.	None None None None
III. Composition and Responsibilities of the Board of Directors			(I) The company has elected board of directors with diversified professional background, professional	None

Evaluation Item	Implementation Status (Note)			Deviations and reasons from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx-Listed Companies
	Yes	No	Abstract Illustration	
(I) Does the Board develop and implement a diversified policy for the composition of its members? (II) Does the company voluntarily establish other functional committees in addition to the Remuneration Committee and the Audit Committee? (III) Does the company establish a standard to measure the performance of the Board, and implement it annually? (IV) Does the company regularly evaluate the independence of CPAs?	V V V V		skills and industry knowledge in accordance with the "Directors' Selection Procedures". (II) The company has established the Remuneration Committee and Audit Committee. The organizational procedures for the organization were passed by the Board of Directors. (III) The Board of Directors has not appointed an external professional institution to evaluate the Board or the functional committees. However, in terms of the company's previous discussions and actual performance results, it shows the Board of Directors has been functioning well. The company would consider the performance evaluation rules and procedures for the Board of Directors based on the situation, and implement relevant performance evaluation. (IV) The company reviews the independence of the CPAs annually by the Audit Committee and the Board of Directors, and has been appointed by the Board of Directors. It has been confirmed that they are not the directors of the company, not the shareholders of the company, nor are they paid by the company, and are not the stakeholders that shall be granted independence.	None None None
IV. Does the company set up a corporate governance unit or appoint personnel responsible for corporate governance matters (including but not limited to providing information for directors and supervisors	V		The company has set up the dedicated (or part-time) unit or has assigned personnel to handle relevant affairs.	None

Evaluation Item	Implementation Status (Note)			Deviations and reasons from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx-Listed Companies
	Yes	No	Abstract Illustration	
to perform their functions, handling work related to meetings of the board of directors and the shareholders' meetings, filing company registration and changes to company registration, and producing minutes of board meetings and shareholders' meetings)?				
V. Does the company establish a communication channel and build a designated section on its website for stakeholders (including but not limited to shareholders, employees, customers, and suppliers), as well as handle all the issues they care for in terms of corporate social responsibilities?	V		The company's website has set up the "Investor Relations" and "Stakeholder Section" to disclose information on financial operations and information on corporate governance and stakeholders' information for shareholders and stakeholders' reference. A spokesperson and deputy spokesperson is set up as a channel for communication with the stakeholders.	None
VI. Does the company appoint a professional shareholder service agency to deal with shareholder affairs?	V		The company has appointed a professional shareholder services agency, "Registrar Agency, Capital Securities Corp." to handle issues regarding shareholders' meeting and shareholder affairs.	None
VII. Information Disclosure (I) Does the company have a corporate website to disclose both financial standings and the status of corporate governance? (II) Does the company have other information disclosure channels (e.g. building an English website, appointing designated people to handle information collection and disclosure, creating a	 V V		 (I) The company has disclosed financial operations on the website (www.soinc.com.tw). The company would also disclose relevant information on the corporate website after the corporate governance system is planned and established. (II) The Company has established a spokesman system. Investor conference information is disclosed on the	 None None

Evaluation Item	Implementation Status (Note)			Deviations and reasons from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx-Listed Companies
	Yes	No	Abstract Illustration	
spokesman system, webcasting investor conferences)?			corporate website and the "Market Observation Post System".	
VIII. Is there any other important information to facilitate a better understanding of the company's corporate governance practices (e.g., including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors)?	V		(I) Employee Rights and Employee Care: In accordance with Labor Standards Act, the company has provided the rights and interests of the employees, and provides relevant benefits systems (such as group insurance, employee travel, health check, and various training) to establish mutual trust. (II) Investor relations: The company has established a spokesperson and deputy spokesperson to be responsible for the communication of the company's external relations. The designated personnel shall disclose the company's information on the Market Observation Post System (MOPS). (III) Supplier relations: Established long-term, mutual trust, and mutual benefit relationships with the suppliers according to the company's policy. (IV) Stakeholder rights: The company has maintained a good communication channel with its employees, customers and suppliers, and respects and maintains their legitimate rights and interests. (V) Implementation of risk management policies and standards: The company has established various internal regulations to conduct various types of internal regulations, and implemented various risk management and assessment.	None None None None None

Evaluation Item	Implementation Status (Note)			Deviations and reasons from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx-Listed Companies
	Yes	No	Abstract Illustration	
			(VI) Directors' continuing education: To implement corporate governance, the company actively informed the Directors and Independent Directors of information on corporate governance. Regarding to the "Key points for the implementation of the directors and independent directors of the listed company", the company shall also regularly arrange for the training courses on finance, business and business systems for Directors and Independent Directors.	None
			(VII) Implementation of customer policies: The company maintains a stable and good relationship with its customers in order to make profits.	None
			(VIII) Liability insurance for Directors and Supervisors: The company has bought liability insurance for all Directors and Independent Directors.	None
IX. Please explain the improvements which have been made in accordance with the results of the Corporate Governance Evaluation System released by the Corporate Governance Center, Taiwan Stock Exchange, and provide the priority enhancement measures: Not applicable.				

Note: Regardless of whether the evaluation item is achieved or not, the company shall state an appropriate explanation in the Summary column.

(VI) If the company has established Remuneration Committee, its composition, duties and operations:

1. Profiles of the Members of the Remuneration Committee

Title (Note 1)	Qualifications / Name	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience: Lecturer or above of business, law, finance, accounting or other subject related to company activity in a junior college or above	Qualification fo Justice,Procurator,Attorney,CPA,Specialist or Technician of National Examination in Corporate Business Related Fields	Work experience in business,law,finance,accounting or others related to company activity	Independence Criteria (Note 2): 1	2	3	4	5	6	7	8	Number of Other Public Concurrently Serving as an Remuneration Committee Member	Remarks
Independent Director	Jim Lai	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	-
Independent Director	JJ Lin	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	-
Independent Director	Li Chang-Chou	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	3	-

Note 1: For "Title", please identify whether the person is a Director, Independent Director or others.

Note 2: Please tick the corresponding boxes that apply to any committee member during the two years prior to being elected or during the term of office.✓

(1) Not an employee of the company or any of its affiliates.

(2) Not a director or supervisor of affiliated companies. Not applicable in cases where the person is an independent director of the parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.

(3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the company, or ranking in the top 10 in holdings.

(4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three sub-paragraphs.

(5) Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the company, or who holds shares ranking in the top five holdings.

(6) Not a director, supervisor, officer, or shareholder holding 5% or more of the shares of a specified company or institution which has a financial or business relationship with the Company.

(7) Not a professional individual, who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.

(8) Not a person of any conditions defined in Article 30 of the Company Law.

2. Operations of the Remuneration Committee

(1) The company's Remuneration Committee consists of three (3) members.

(2) Term of office: From August 23, 2017 to August 13, 2020, the total of three (3) meetings (A) were conducted by the Remuneration Committee in the most recent fiscal year, where the qualifications and attendance of the members are as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) (B/A) (Note)	Remarks
Convener	JJ Lin	3	0	100%	-
Members	Li Chang-Chou	3	0	100%	-
Members	Jim Lai	3	0	100%	-
Other mentionable items: I. If the board of directors declines to adopt or modifies a recommendation of the remuneration committee, it should specify the date of the meeting, session, content of the motion, resolution by the board of directors, and the Company's response to the remuneration committee's opinion (eg., the remuneration passed by the Board of Directors exceeds the recommendation of the remuneration committee, the circumstances and cause for the difference shall be specified): None. II. Resolutions of the remuneration committee objected to by members or expressed reservations and recorded or declared in writing, the date of the meeting, session, content of the motion, all members' opinions and the response to members' opinion should be specified: None.					

Note:

(1) Where members of the Remuneration Committee resign before the end of the year, the Notes column shall be annotated with the date of resignation. Actual attendance rate (%) shall be calculated using the number of Remuneration Committee meetings convened and actual number of meetings attended during the term of service.

(2) When an election is held for the Remuneration Committee before end of the year, members of both the new and old committee shall be listed in separate columns and noted as new, old or reelected members, along with the elected date, in the "Remark(s)" column. The actual attendance rate (%) shall be calculated based on the number of meetings held by the Remuneration Committee and the actual number of meetings attended during his/her term of office.

(VII) Status of Fulfillment Corporate social responsibility

Evaluation Item	State of Operations (Note 1)			Deviations from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx-Listed Companies and Reasons
	Yes	No	Summary (Note 2)	
I. Corporate Governance Implementation (I) Does the company declare its corporate social responsibility policy and examine the results of the implementation? (II) Does the company provide educational training on corporate social responsibility on a regular basis? (III) Does the company establish exclusively (or concurrently) dedicated top management authorized by the board to be in charge of proposing the corporate social responsibility policies and reporting to the board? (IV) Does the company declare a reasonable salary remuneration policy, and integrate the employee performance appraisal system with its corporate social responsibility policy, as well as establish an effective reward and disciplinary system?	V V	V V	(I) The company has established the "Corporate Social Responsibility Best Practice Principles" and disclosed it on the Market Observation Post System. (II) The company has established the responsibilities of the Directors and Independent Directors in accordance with the "Corporate Governance Best Practice Principles for TWSE/TPEx-Listed Companies", in protection of the interests of the shareholders. (III) The company has not yet established CSR unit, but the company is still committed to the performance of corporate responsibility. (IV) The company has established the Remuneration Committee and has established the compensation policy. It can truly and effectively integrate employee performance appraisal and corporate social responsibility policies, and establish a clear and effective reward and disciplinary system.	(I) None (II) In the future, social responsibility education and training will be held regularly according to needs. (III) It will be established according to demand in the future, and the Board has delegated the company's top management to report the status to the Board of Directors. (IV) None

Evaluation Item	State of Operations (Note 1)			Deviations from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx-Listed Companies and Reasons
	Yes	No	Summary (Note 2)	
II. Sustainable Environment Development (I) Does the company endeavor to utilize all resources more efficiently and use renewable materials which have low impact on the environment? (II) Does the company establish proper environmental management systems based on the characteristics of their industries? (III) Does the company monitor the impact of climate change on its operations and conduct greenhouse gas inspections, as well as establish company strategies for energy conservation and carbon reduction?	V V V		(I) The company's main raw materials are wafer. Defective products or scraps during the production process, if any, shall be scrapped by legal waste recycling companies. (II) The company belongs to the IC design industry. It has no own factories and has little impact on the environment. In addition, the company has set up resource recycling bins for resource classification and has outsourced recycling operations by qualified companies. (III) The company's administrative units are responsible for the environmental protection of the company. The company has not made special pollution sources and has signed contracts with cleaning companies to maintain the office environment. On weekdays, the lights are turned off during lunch breaks, and the concept of energy saving and carbon reduction is strictly implemented.	None None None

III. Preserving Public Welfare				
(I) Does the company formulate appropriate management policies and procedures according to relevant regulations and the International Bill of Human Rights?	V		(I) The company has established relevant rules and regulations in accordance with the Labor Standards Act and relevant labor laws to protect the rights and interests of employees.	None
(II) Has the company set up an employee hotline or grievance mechanism to handle complaints with appropriate solutions?	V		(II) The company has smooth communication channels. All employees are able to reflect any questions directly to the management and get them handled properly.	None
(III) Does the company provide a healthy and safe working environment and organize training on health and safety for its employees on a regular basis?	V		(III) The company has implemented labor safety and health education on its employees from time to time. In the event of a flu pandemic, wearing a mask and a disinfectant at the entrance to the door for employees to use when entering and leaving.	None
(IV) Does the company setup a communication channel with employees on a regular basis, as well as reasonably inform employees of any significant changes in operations that may have an impact on them?	V		(IV) The company regularly conducts quarterly meetings to explain the company's operating status and future development.	None
(V) Does the company provide its employees with career development and training sessions?	V		(V) The company arranges on-the-job training based on employees' and job's needs from time to time.	None
(VI) Does the company establish any consumer protection mechanisms and appealing procedures regarding research development, purchasing, producing, operating and service?	V		(VI) The company has established procedures for handling customer complaints and established customer-oriented quality system to assess customer satisfaction in order to achieve the goal of corporate sustainable operations.	None
(VII) Does the company advertise and label its goods and services according to relevant regulations and international standards?	V		(VII) The marketing and labeling of the company's products and services, all of which are compliant with the laws and international standards.	None
(VIII) Does the company evaluate the records of suppliers’ impact on the environment and society before taking on business partnerships?	V		(VIII) The company has established a supplier management policy to evaluate the qualification of supplier-related information before entering into the cooperation contract.	None
(IX) Do the contracts between the company and its major suppliers include termination	V			

Evaluation Item	State of Operations (Note 1)			Deviations from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx-Listed Companies and Reasons
	Yes	No	Summary (Note 2)	
clauses which come into force once the suppliers breach the corporate social responsibility policy and cause appreciable impact on the environment and society?			(IX) The company regularly evaluates suppliers and those who have significant impact on social responsibility and the environment will be included in the evaluation items.	None
IV. Enhancing Information Disclosure (I) Does the company disclose relevant and reliable information regarding its corporate social responsibility on its website and the Market Observation Post System (MOPS)?	V		The company discloses CSR implementation in the annual report to enhance information transparency.	None
V. If the Company has established the corporate social responsibility principles based on "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies", please describe any discrepancy between the Principles and their implementation: The company has established the "Corporate Social Responsibility Best Practice Principles". For the company's operations in compliance with the Code of Practice and related regulations, the company shall comply with the code without discrepancy.				
VI. Other important information to facilitate better understanding of the company's corporate social responsibility practices: None.				
VII. A clear statement shall be made below if the corporate social responsibility reports were verified by external certification institutions: None.				

Note 1: Regardless of whether the evaluation item is achieved or not, the company shall state an appropriate explanation in the Summary column.

Note 2: The company that has compiled CSR reports may specify ways to access the report and indicate the cited page numbers.

(VIII) Implementation Status of Ethical Corporate Management

Evaluation Item	State of Operations			Deviations from "the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Summary	
I. Establishment of ethical corporate management policies and programs (I) Does the company declare its ethical corporate management policies and procedures in its guidelines and external documents, as well as the commitment from its board to implement the policies?	V		(I) The company values and embraces the highest standards of conduct, honesty and integrity. Therefore, all managers and employees are required to comply with this code of conduct when they are involved in any activity.	None
(II) Does the company establish policies to prevent unethical conduct with clear statements regarding relevant procedures, guidelines of conduct, punishment for violation, rules of appeal, and the commitment to implement the policies?	V		(II) The company has established the Procedures for Ethical Management and Guidelines for Conduct and Employee Handbooks, which specifies the matters that the company's personnel should pay attention to the implementation of their duties. and has established regulations governing employee rewards and punishments. When employees are committed to unethical conduct, they will be punished.	None
(III) Does the company establish appropriate precautions against high-potential unethical conducts or listed activities stated in Article 2, Paragraph 7 of the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies?	V		(III) The company strictly prohibits managers and all employees from engaging in any bribery and illegal activities. If there is any violation, they will be punished or transferred to the judicial authorities according to the actual situation.	None

II. Fulfill operations integrity policy (I) Does the company evaluate business partners' ethical records and include ethics-related clauses in business contracts? (II) Does the company establish an exclusively (or concurrently) dedicated unit supervised by the Board to be in charge of corporate integrity? (III) Does the company establish policies to prevent conflicts of interest and provide appropriate communication channels, and implement it? (IV) Has the company established effective systems for both accounting and internal control to facilitate ethical corporate management, and are they audited by either internal auditors or CPAs on a regular basis? (V) Does the company regularly hold internal and external educational trainings on operational integrity?	V V V V V		(I) Before the transaction, the company would conduct credit check operations on the counterparty in accordance with the relevant internal control procedures, trying to understand, by all means, whether they have had dishonest trading behavior. (II) The company's has adopted the "Corporate Ethics for Ethical Management and Guidelines for Conduct" by the resolution of Board of Directors approved, and has set up a dedicated unit for corporate integrity management. (III) In order to establish a corporate culture and sound development of integrity management, the company implements a policy to prevent corporate conflicts of interest, and provides appropriate accompanying channels for all colleagues to explain whether they have potential conflicts of interest with the company. (IV) To implement ethical corporate management, the company has established effective systems for both accounting and internal control. Internal auditors also checked the compliance status according to the audit plan. (V) Through different channels, the company has advocated its integrity management philosophy and norms to employees and clearly understands the company's .	None None None None None

III. Operation of the whistleblowing channel (I) Has the company established a specific whistleblowing and reward system, set up convenient whistleblowing channels and designated appropriate personnel? (II) Does the company establish standard investigation operation and procedure for whistleblowing matters and relevant protective mechanisms? (III) Does the company take measures to protect the whistleblower from improper disposal due to the report?	V V V		(I) The company's Board of Directors has approved the "Procedures for Ethical Management and Guidelines for Conduct" to clearly stipulate the reward and punishment, complaint and disciplinary actions. (II) The company has established the standard operating procedures for investigating the case being exposed by the whistle-blower. (III) The company has not taken protection measures to protect the whistleblowers from inappropriate disciplinary actions.	None None None
IV. Enhancing Information Disclosure (I) Does the company disclose relevant and reliable information regarding its corporate social responsibility on its website and the Market Observation Post System (MOPS)?	V		The company has established a website to disclose information on the company and has dedicated personnel to update information. At present, it regularly and irregularly reports various financial and business information on the Market Observation Post System.	None
V. If the company has established the corporate social responsibility principles based on “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies”, please describe any discrepancy between the Principles and their implementation: The company has adopted the "Procedures for Ethical Management and Guidelines for Conduct", where there is no significant discrepancy from what has been passed by the Board of Directors on March 8, 2017.				
VI. Other important information to facilitate better understanding of the company’s corporate social responsibility practices: (such as the company's amendment to its ethical corporate management best practice principles): The company shall always pay attention to the principles of domestic and international business operations, and to promote the company's compliance with relevant regulations and promote all employees' compliance.				
VII. For the company's corporate governance best practice principles and related regulations, the company's website has established the "Corporate Governance" section for investors to inquire and download.				
VIII. Other material information that can enhance the understanding of the state of corporate governance at the company: None.				

Note 1: Regardless of whether the evaluation item is achieved or not, the company shall state an appropriate explanation in the Summary column.

(IX) Status of internal control system:

1. Declaration of Internal Control：

Silicon Optronics, Inc.
Statement of Internal Control

Date: March 8, 2019

Silicon Optronics, Inc. has conducted internal control audits in accordance with its Internal Control Regulatins for the Period ended December 31st,2018,and hereby declares the following:

I. The company acknowledges and understands that the establishment, enforcement, and preservation of the internal control systems are the responsibility of the Board and that the managers and the company have already established such systems. The purpose is to reasonably ensure the effectivenss (including profitability, performance, and security of assets); the reliability, timeliness, transparency of financial reporting, and legal and regulation compliance.

II. Internal control systems have limitations, no matter how perfectly they are designed. As such, effective internal control systems may only reasonably ensure the achievement of the aforementioned goals. Further, the operation environment and situation may vary, and hence the effectiveness of the internal controls systems. The internal control systems of the Company feature certain self-monitoring mechanisms. The company will take immediate corrective actions once any shortcomings are identified

III. The Company judges the effectiveness of the internal control systems in design and enforcement according to the "Criteria for the Establishment of Internal Control Systems of Public Offering Companies" (hereinafter referred to as "the Criteria"). The Criteria is instituted for judging the effectiveness of the design and enforcement of internal control systems. There are five components for effective internal control as specified by the Criteria with which the procedures for effective internal controls are composed: (1) Control environment, (2) Risk evaluation, (3) Control operation, (4) Information and communication, and (5) Monitoring. Each of the elements in turn contains certain audit items, and the Criteria shall be referred to for details.

IV. The Company has adopted the aforementioned internal control systems for an internal assessment of the effectiveness of internal control design and enforcement.

V. Based on the aforementioned audit findings, the Company holds that within the aforementioned period, its internal control procedures (including the procedures to monitor subsidiaries), effectiveness and efficiency of operations, reliability, timeliness, transparency of reporting, and compliance with relevant legal regulations, and design and enforcement of internal controls, are effective. The aforementioned goals can be achieved with reasonable assurance.

VI. This statement of declaration shall form an integral part of the annual report and prospectus of the Company and shall be made public. If there is any fraud, concealment, or unlawful practices discovered in the content of the aforementioned information, the Company shall be liable to legal consequences under Article 20, 32, 171, and 174 of the Securities and Exchanges Act.

VII. This Statement of declaration has been approved by the Board on March 8, 2019 with all Directors in session under unanimous consent

Silicon Optronics, Inc.

Chairman & President: James He

2. Disclose the Review Report of Independent Auditors if they are retained for reviewing the Internal Control System: None.

(X) Reprimand on the Company and its Staff in Violation of Laws, or Reprimand on its Employees in Violation of Internal Control System and Other Internal Regulations, Major Shortcomings and Status of Correction: None.

(XI) Major Resolutions of the Shareholders' Meeting and Board Meeting:

1. Major resolutions of Shareholders' Meeting:

Date	Major Resolutions
2018.06.08	1. Proposal of 2017 Business Report and Financial Statements. 2. Proposal of distribution of earnings for 2017. 3. Approve the amendment of certain articles of the company's "Articles of Incorporation"

2. Major resolutions of the Board of Directors:

Date	Major resolutions
2018.03.09	1. Approval of the distribution of employees and directors' remuneration for the year of 2017. 2. Approval of the 2017 Business Report and Financial Statements. 3. Approval of the distribution of earnings for the year of 2017. 4. Approval of the amendments the company's Articles of Incorporation. 5. Approval of the Statement of Internal Control System for the Year of 2017 6. Approval of the 2018 Annual Shareholders' Meeting of the company.
2018.06.08	1. Approval of the 2017 distribution of earnings record date, ex-dividend date and related matters. 2. Approval of the changes in the company's spokesperson and deputy spokesperson.
2018.11.06	1. Approval of the proposal to formulate the company's "Corporate Governance Best Practice Principles" and "Regulations Governing the Evaluation of the Performance of the Board of Directors". 2. Approval of amendment to the company's "Procedures for Election of Directors and Supervisors".
2019.01.24	1. Approval of capital expenditure plans.
2019.03.08	1. Approval of the distribution of employees and directors' remuneration for 2018. 2. Approval of the 2018 Business Report and Financial Statements. 3. Approval of distribution of earnings for the year of 2018. 4. Approval of the amendment of the "Procedures for Acquisition or Disposal of Assets". 5. Approval of the 2018 Internal Control System Statement 6. Approval of the relevant operations of 2019 the shareholders' meeting. 7. Approval of the changes in the company's spokesperson.

(XII) Major Issues of Record or Written Statements Made by Any Director Dissenting to Important Resolutions Passed by the Board of Directors: None.

(XIII) Resignation of Chairman, President and other Officers from the preceding year to the Printing Date of this Report: None

D. Disclosure of Auditing Fees:

Accounting Firm	Name of CPA		Period Covered by CPA's Audit	Remarks
Deloitte & Touche	Chung Hau-Yuen	Lin Cheng-Chih	2018.01.01~2018.12.31	-

Unit of Amount: NT$ 1,000

Fee Range \ Fee items		Audit Fees	Non-Audit Fees	Total
1	Under NT$ 2,000,000	-	✓	-
2	NT$2,000,001 ~ NT$4,000,000	✓	-	✓
3	NT$4,000,001 ~ NT$6,000,000	-	-	-
4	NT$6,000,001 ~ NT$8,000,000	-	-	-
5	NT$8,000,001 ~ NT$10,000,000	-	-	-
6	Over NT$10,000,000	-	-	-

(I) Non-audit fees paid to the CPAs, accounting firm and its related companies account for more than one-fourth of the audit fees: Not applicable.

(II) Where the CPA firm was replaced, and the audit fees in the fiscal year when the replacement was made were less than that in the previous fiscal year before replacement, the amount of audit fees paid before replacement and reasons for paying this amount shall be disclosed: Not applicable.

(III) Where accounting fee paid for the year was more than 15% less than that of the previous year, the sum, proportion, and cause of the reduction shall be disclosed: Not applicable.

E. Changes in independent Auditors: None.

F. SOI's Chairman, President, or Director of accounting division working in the accounting firm of the appointed independent auditors or the related parties within the past year: None.

G. Changes in shareholding of directors, supervisors, officers and major shareholders holding more than 10% sharesfor the preceding year to the date of printing of this annual report

(I) Changes in shareholding status Unit: Share

Title	Name	2018		As of April 22, 2019	
		Addition (reduction) of shares held	Addition (reduction) of shares pledged	Addition (reduction) of shares held	Addition (reduction) of shares pledged
Director	Heritage Bay Limited	-	(100,000)	-	-
Chairman	James He	30,000	-	-	-
Independent Director	Jim Lai	-	-	-	-
Independent Director	JJ Lin	-	-	-	-
Independent Director	Li Chang-Chou	-	-	-	-
Vice President	PC Lin (Note 1)	30,000	-	-	-
Vice President, R&D Center	Denis Luo	279,000	-	-	-
Vice President, Market Development Division	Peter Zung	71,000	-	-	-
Chief Technology Officer of R&D	Ming Li	200,000	-	-	-
Financial Officer	Steffi Huang	114,000	-	-	-

Note 1: PC Lin was dismissed on January 31, 2019.
Remark: Increase/decrease in number of shares mainly due to the exercise of employee stock warrants and general transfer.

(II) Stock Trade with Related Party: None.

(III) Stock Pledge with Related Party: None.

H. The relationship between any of the Company's top ten shareholders

April 22, 2019

Name (Note 1)	SHAREHOLDING		SHAREHOLDING UNDER SPOUSE AND UNDERAGE CHILDREN		SHAREHOLDING UNDER THE TITLE OF THIRD PARTY		TOP 10 SHAREHOLDERS WHO ARE RELATED PARTIES TO EACH OTHER (Note 3)		REMARK
	Shares	%	Shares	%	Shares	%	Name	Relation	
Heritage Bay Limited	18,676,413	23.94	-	-	-	-	-	-	-
Representative：James He	150,000	0.19	-	-	-	-	-	-	-
Heritage Bay Limited	18,676,413	23.94	-	-	-	-	-	-	-
Representative：Peter Zung	1,311,000	1.68	-	-	-	-	-	-	-
Full Guest Investments Limited	4,875,458	6.25	-	-	-	-	-	-	-
Representative：Charles Lu	114,059	0.15	-	-	-	-	-	-	-
Denis Luo	4,583,587	5.87	-	-	-	-	-	-	-
Deutron Electronics Corp	3,900,000	5.00	-	-	-	-	-	-	-
Representative：Lo Ying Hua	0	0	-	-	-	-	-	-	-
Triumph Partners Limited	3,101,000	3.97	-	-	-	-	-	-	-
Representative：Lin Hung	0	0	-	-	-	-	-	-	-
Huang Chung-Jen	3,042,179	3.90	-	-	-	-	-	-	-
Tthe investment account of Full Guest Investments Limited under the custody of Taishin International Commercial Bank as trustee	1,744,000	2.24	-	-	-	-	-	-	-
Zhixiang Investment Co., Ltd.	1,425,000	1.83	-	-	-	-	-	-	-
Representative：Chen Chi Yuan	30,295	0.04	-	-	-	-	-	-	-
Peter Zung	1,311,000	1.68	-	-	-	-	-	-	-
Taiwan Life Insurance Co., Ltd.	949,000	1.22	-	-	-	-	-	-	

Note 1: All the top 10 shareholders shall be listed. For judicial person shareholders, their names and the name of their representatives shall be listed separately.

Note 2: Shareholding percentage is calculated separately based on the percentage of shares held in the name of the person, his/her spouse, minor children, or others.

Note 3: Relationships between the aforementioned shareholders, including judicial person shareholders and natural person shareholders shall be disclosed based on the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

I. Long-Term Investment Ownership: Not applicable.

IV、 Capital Overview

A. Capital and Shares

(I) Source of Capital

1. Formation of capital

April 22, 2019 Unit: Shares; NT$

Year / Month	Issued Price	Authorized Capital		Paid-in Capital		Remark		
		Shares	Amount	Shares	Amount	Sources of Capital	Capital Increased by Assets Other than Cash	Others
2019.03	10	100,000,000	1,000,000,000	77,827,900	778,279,000	Employee subscription warrants conversion	-	Note 1
2019.04	10	100,000,000	1,000,000,000	77,977,900	779,779,000	Employee subscription warrants conversion	-	Note 2
2019.04	10	100,000,000	1,000,000,000	78,025,900	780,259,000	Employee subscription warrants conversion	-	Note 3

Note 1: Approved by the letter of 2019.03.21 Zhu Shang Zi No. 1080007987.

Note 2: The conversion of the employee subscription warrants is 150,000 ordinary shares and is expected be registered for change in May 2019.

Note 3: The conversion of the employee subscription warrants is 48,000 ordinary shares and is expected be registered for change in August 2019.

2. Type of Stock

April 22, 2019 Unit: Shares

Type of stock	Authorized Capital			Remarks
	Outstanding Shares	Un-issued Shares	Total	
Common shares	78,025,900	21,974,100	100,000,000	The retained capital of 6,000,000 shares is used for the issuance of employee stock subscription warrants.

Note: Please indicate whether the stock is listed at stock exchange market, or at over-the-counter market: The company is a listed company at stock exchange market.

3. Shelf Registration: Not applicable.

(II) Shareholder Structure

April 22, 2019 Unit: Shares; Person

Shareholder Structure / Amount	Government Agencies	Financial Institutions	Other Juridical Persons	Individuals	Foreign Institutions & individuals	Total
Number of Shareholders	-	-	40	3,785	27	3,852
Shareholding (shares)	-	-	13,190,410	28,275,032	36,560,458	78,025,900
Percentage	0.00%	0.00%	16.91%	36.24%	46.85%	100.00%

Note: The first listing company at stock exchange market (at over-the-counter market) and at emerging stock market should disclose the proportion of their shares held by the China-based capital. The China-based capital refers to the people, juridical persons, organizations, other institutions or their companies investing in the third region as stipulated in Article 3 of the Regulations Governing the Granting of Permission of Investment and Licensing for People from Mainland China to Taiwan.

(III) Distribution of shareholding

April 22, 2019；Par value of NT$10 per share

Class of Shareholding	Number of Shareholders	Shareholding (shares)	Percentage
1 - 999	162	25,418	0.03%
1,000 - 5,000	2,961	5,448,039	6.98%
5,001 - 10,000	332	2,651,195	3.40%
10,001 - 15,000	100	1,273,727	1.63%
15,001 - 20,000	68	1,248,489	1.60%
20,001 - 30,000	63	1,591,620	2.04%
30,001 - 40,000	29	1,004,258	1.29%
40,001 - 50,000	19	857,429	1.10%
50,001 - 100,000	47	3,442,490	4.41%
100,001 - 200,000	33	4,716,755	6.05%
200,001 - 400,000	14	3,397,403	4.35%
400,001 - 600,000	6	3,062,445	3.93%
600,001 - 800,000	6	3,927,000	5.03%
800,001 - 1,000,000	3	2,720,995	3.49%
1,000,001 or more	9	42,658,637	54.67%
Total	3,852	78,025,900	100.00%

Preferred shares: Not applicable

(IV) Major Shareholders

April 22, 2019；Unit: Shares

Shareholders \ Shareholding	Shareholding (shares)	Percentage
Heritage Bay Limited	18,676,413	23.94%
Full Guest Investments Limited	4,875,458	6.25%
Denis Luo	4,583,587	5.87%
Deutron Electronics Corp	3,900,000	5.00%
Triumph Partners Limited	3,101,000	3.97%
Huang Chung-Jen	3,042,179	3.90%
The investment account of Full Guest Investments Limited under the custody of Taishin International Commercial Bank as trustee	1,744,000	2.24%
Zhixiang Investment Co., Ltd.	1,425,000	1.83%
Peter Zung	1,311,000	1.68%
Taiwan Life Insurance Co., Ltd.	949,000	1.22%

(V) Market Price, Net Worth, Earnings, Dividend and Related Information over the Last Two Years

Unit: NT$

Project \ Year			2017	2018	Current fiscal year up to March 31, 2019 (Note 9)
Market Price Per Share (Note 2)	Highest		Unlisted (Note 1)	179.00	109.50
	Lowest		Unlisted (Note 1)	65.00	70.00
	Average		Unlisted (Note 1)	98.58	94.68
Net value per share (Note 3)	Before distribution		14.36	27.87	-
	After distribution		12.36	(Note 10)	-
EPS	Weighted Average Shares		67,628,650	72,655,102	-
	EPS (Note 4)		3.02	2.17	-
Dividends per share	Cash Dividends		2.00	2.00 (Note 10)	-
	Stock dividends	Dividends from retained earnings	-	-	-
		Capital Surplus Distribution	-	-	-
	Accumulated undistributed dividend (Note 5)		-	-	-
Analysis of ROI	Price Earnings ratio (Note 6)		Unlisted (Note 1)	45.43	-

	PriceDividend ratio (Note 7)	Unlisted (Note 1)	49.29 (Note 10)	-
	Cash Dividend Yield (Note 7)	Unlisted (Note 1)	2.03% (Note 10)	-

Note 1: Because the company's shares have not been listed (OTC), there is no market price to calculate the P/E ratio, the Price/Dividend ratio, and the cash dividend yield.
Note 2: The annual maximum and minimum market price of ordinary shares. The annual average market price is calculated based on each year's transaction value and quantity.
Note 3: Fill the shares based on the number of shares that have been issued by the end of the year and the distribution of the shareholders' meeting in the following year.
Note 4: If there is any retrospective adjustment required due to stock dividend, earnings per share before and after adjustment shall be listed.
Note 5: If the conditions of equity securities issuance allow unpaid dividends to be accumulated to the subsequent years in which there is profit, the company shall disclose the accumulated unpaid dividends respectively up to that year.
Note 6: P/E Ratio = Average closing price for each share in the year/earnings per share
Note 7: Price/Dividend ratio = Average closing price per share of the year/Cash dividends per share
Note 8: Cash dividend yield = cash dividend per share / current year average per share closing price.
Note 9: The net worth per share and earnings per share shall be filled in, up to the quarter nearest to the date of the printing of the annual report that has been audited by CPAs; the remaining column should be filled with the annual data up to the printing date of the annual report.
Note 10: Proposal for resolution of the Shareholders' Meeting.

(VI) Dividend policy of the company and its implementation status

1. Dividend policy

   Dividend and dividend distribution policy, the distribution of earnings can be obtained by means of stock dividends or cash dividends. Considering the company is at its operating growth stage and taking into account the interests of the company's shareholders and long-term and short-term capital and business planning, when the distribution of earnings is available, the cash dividend shall not be less than 50% of the total dividends.

2. Implementation status: The company's Board of Directors resolved to issue a shareholder dividend of NT$2 per share on March 8, 2019. The proposal will be submitted to the shareholders' meeting on June 18, 2019. The proposal will be implemented in accordance with the relevant regulations.

(VII) The impacts of issuing stock dividends in this Shareholder’s Meeting on the company’s operational performance and dividend per share: Not applicable.

(VIII) Compensations for employees and Directors

1. The percentages or ranges of employee and Director compensation is as set forth in the company's Articles of Incorporation.

   According to the company's Articles of Incorporation, the company shall allocate the earnings for the year to be no more than 3% as remuneration for Directors and not less than 0.005% and not greater than 25% as remuneration for employees.

2. The basis for estimating the amount of employee, director, and supervisor compensation, for calculating the number of shares to be distributed as employee compensation, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated figure, for the current period: The 2018 cash remuneration distributable to employees passed by the company on March 8, 2019 was accrued at a certain proportion according to the profitability of the current year. If the actual distributed amount is different from the estimated number, it will be treated as changes in accounting estimates and recognized as profit or loss for the next year.

3. Information on the proposed employee remuneration approved by the Board of

Directors:

(1) If the employee's remuneration and director's remuneration distributed in cash or stock differs from the annual estimated amount of the recognized expenses, the difference, cause and treatment shall be disclosed:
On March 8, 2019, the company's Board of Directors resolved to distribute NT$21,206 thousand for employee remuneration and NT$2,500 thousand for Directors' remuneration for year 2018. Same as the 2018 estimated amount without any difference.

(2) The employee compensation paid by shares as the proportion of the sum of net profit of parent company only or individual financial statements plus the total employee compensation for the current period: If the distribution amount, adopted with approval by the Board of Directors, has material change before the approval and publication date of the financial statements, such change shall be accrued as expenses in the current period. If such amount is changed after the publication date of the financial statements, it shall be estimated according to the accounting rule and be recognized as the next year's expenses.

4. If there is any discrepancy between the actual amount of compensation distributed to employees and Directors (including number and dollar amount of shares distributed, as well as share price) and the recognized amount of compensation for employees and Directors in the previous fiscal year (2018), the amount, causes and treatment of such discrepancies shall be stated:

	Resolution of the Board (March 9, 2018)	Actual distributed amount
	Amount (NTD)	Amount (NTD)
Directors' Remuneration	2,500,000	2,500,000
Employee Remuneration	20,765,000	20,765,000
Total	23,215,000	23,215,000

Note: The amount of employee remuneration mentioned above was distributed and recognized as expenses in 2017. The amount of the abovementioned employee's remuneration was not different from the resolution of the Board of Directors.

(IX) Company share repurchase status: None.

B. Corporate Bond: None.
C. Preferred Stock: None.
D. Status of GDR/ADR: None.

E. Employees Stock Option:

(I) The Status of Employee Stock Options：

March 31, 2019

ESOP Granted		1h Round on 2012	2th Round on 2012	1th Round on 2013	2th Round on 2013
Date of Effective Registration		May 16, 2012	May 16, 2012	July 29, 2013	July 29, 2013
Issuance Date		June 20, 2012	November 30, 2012	August 15, 2013	June 10, 2014
Number of Options Granted		1,700 units	1,500 units	450 units	900 units
Percentage of Shares Exercisable to Outstanding Common Shares (Note 2)		2.18%	1.92%	0.58%	1.15%
Option Duration		10 years			
Type of shares underlying the options		Issue of new shares			
Vesting Schedule		For a period of two years: 50% for a period of three years: 75% for a period of four years: 100%			
Sheares exercised		1,229,000 shares	968,000 shares	335,000 shares	862,000 shares
Value of Shares Exercised		NT$12,904,500	NT$18,876,000	NT$11,055,000	NT$39,652,000
Shares Unsubscribed		198,000 shares	497,000 shares	100,000 shares	38,000 shares
Exercise Price Per Share	Original Price	NT$10.50	NT$19.50	NT$33.00	NT$46.00
	After adjustment	NT$10.50	NT$19.50	NT$33.00	NT$46.00
Percentage of Shares Unexercisable to Outstanding Common Shares (%) (Note 2)		0.25	0.64	0.13	0.05
Impact to Shareholders' Equity		The company attracts and retains the professional talents required by the company, and enhances the company's coherence and sense of belonging among employees, jointly creating the interests of the company and shareholders, and has a positive impact on shareholders' equity.			

Note 1: Adopted with approval at the same time when the company went public.

Note 2: Based on the number of 78,025,900 shares outstanding.

(II) The manager who obtained the employee stock option and the name, of the top ten employees who have obtained the stock option and amount of NT$30 million or more.

1. List of Managers and Top 10 Employees Participating in Employee Stock Option Plan:

March 31, 2019 Unit: Shares; NT$

<table>
<tr><th rowspan="2"></th><th rowspan="2">Title</th><th rowspan="2">Name</th><th rowspan="2">Number of Options shares</th><th rowspan="2">% of shares exercisable to outstanding Common Shares</th><th colspan="4">Options exercised</th><th colspan="4">Options unexercised</th></tr>
<tr><th>shares exercised</th><th>Price of shares exercised</th><th>Total value of shares exercised</th><th>% of shares exercisable to outstanding Common Shares</th><th>shares unexercised</th><th>Price of shares unexercised</th><th>Total value of shares unexercised</th><th>% of shares unexercisable to outstanding Common Shares</th></tr>
<tr><td rowspan="6">Managers</td><td>Chairman and President</td><td>James He</td><td rowspan="6">0</td><td rowspan="6">0%</td><td rowspan="6">270,000</td><td rowspan="6">19.5 ~ 46</td><td rowspan="6">9,240.000</td><td rowspan="6">0.35%</td><td rowspan="6">3,000</td><td rowspan="6">19.5</td><td rowspan="6">58,500</td><td rowspan="6">0.0038%</td></tr>
<tr><td>Chief Technology Officer</td><td>Ming Li</td></tr>
<tr><td>Vice President</td><td>Denis Luo</td></tr>
<tr><td>Vice President</td><td>PC Lin</td></tr>
<tr><td>Vice President</td><td>Peter Zung</td></tr>
<tr><td>Chief financial officer</td><td>Steffi Huang</td></tr>
</table>

2. The manager who obtained the employee stock option and the name, of the top ten employees who have obtained the stock option and amount of NT$30 million or more: None.

(III) Restricted employee shares: None.

F. Status of new shares Issuance in Connectionwith Mergers and Acquisitions: None.

G. Financing Plans and Implementation: Not applicable.

V、 Operations Highlights

A. Business Activities

(I) Business Scope:

1. The main content of the company's business operations
   a. CC01080 Electronic Components Manufacturing
   b. F401010 International Trade
   c. I501010 Product Design
2. Proportion of business

Products	Weighting
CMOS Image Sensor /Sensor/Module/Design	100.00%

3. Products (services) currently offered by the company
   The company is an IC design company that develops and sells CMOS Image Sensors (Complementary MOS image sensor), which are used in surveillance and dash cams. The company is also actively entering into the biochip market, combining chip design and the bio-test technology for the medical diagnosis market.
4. New product development plan:
   The core competence of the company is the research and development of the sensing circuit, analog, digital and mixed signal circuit design capability in the CMOS image sensors. Another key success factor is to provide customers with the best solution based on the own technical customization capabilities, from circuit design, wafer process technology, to optical simulation, developing and providing specific application CMOS image sensors. The company has complete technical capabilities and works with leading wafer foundry partners to meet the needs of customers. Future technology roadmap includes:
   a. High-performance CMOS image sensor.
   b. High resolution CMOS image sensor.
   c. Global shutter CMOS image sensor.
   d. Special application sensor design and development.

(II) Industry Overview

1. Industry Status and Trends
   a. Overview of the semiconductor market
      Semiconductor products mainly include four types: integrated circuits (IC), discrete components (Discrete), sensing components (Sensors) and optoelectronic components (Optoelectronics). The global semiconductor market has experienced the influence of China-US trade war in 2018, and the first quarter of 2019 has gradually rebounded along with the overall inventory digestion. In response to the new generation of artificial intelligence and the commercialization of 5G, the growth of the global semiconductor market is still a driving force to the overall economic development.
   b. Overview of the IC design industry
      The number of IC design companies in Taiwan is stably growing due to the local comprehensive semiconductor ecosystem and the rich experience in the IC design industry. Taiwan is currently the top 3 region in the world, in terms of the number of IC design companies, second only to the United States and China. There are two main reasons why Taiwan's IC design industry is booming. Firstly, the semiconductor industry is complete and

the industry scale is large. IC design companies can leverage Taiwan local semiconductor food chain such as wafer manufacturing, packaging, and testing. Besides, because it is closer to the local IT downstream industry chain, the IC design industry is naturally booming, and the IC design companies have more competitive advantages than foreign IC design companies. Therefore, the production of Taiwan's IC design industry's is the second largest in the world in 2018, followed by the United States.

c. Overview of CMOS Image Sensor Market

CMOS (Complementary Metal-Oxide-Semiconductor) is a basic component of the integrated circuits, which is by NMOS (n-type MOSFET) and PMOS (p-type MOSFET) on the silicon wafer. NMOS and PMOS have complementary physical properties, so they are called CMOS which can be used to produce static random access memory (SRAM), MCU, microprocessors, digital electronic systems. and optical instruments.

CMOS has the advantage of consuming energy only when the transistor needs to be switched on and off, so it is very power-saving and generates less heat. CMOS is the most most common semiconductor process. According to the survey by the IC Insight analysis agency, the global CIS output is expected to reach US$13.7 billion in 2018, increasing by 10% from 2017.

d. Overview of the biochip market

Biochip refers to different chemical materials such as glass, plastic, silicon conductor, etc. that use the modern electrical, mechanical and optical techniques to allow the biomolecules to be immobilized on the surface. and the biological experiments that previously needed to be performed in an entire laboratory can be performed on a single wafer now. The experimental method can greatly reduce the use of samples and experimental consumables, and the accuracy of the experimental results is very good, so it can quickly generate a large amount of reliable data. Currently, the test methods have become mainstream for biomedical research.

The development of biochips began in the late 1980s, when scientists from many universities, research institutes, and companies in Europe and the United States devoted themselves to the development of related technologies. Biochips, as the name implies, have many similarities with computer chips, as they are miniaturized chips that can be synchronized and paralleled to perform a large number of analytical studies in a very short time, and many biochips are manufactured by the technologies used by computer chips.

For example, in the past, only one gene or a few genes could be detected at a time when scientists studied gene expression. If multiple genes or proteins need to be studied, the experimental procedure is time-consuming and requires a lot of human resources. With the invention of biochips, scientists can simultaneously detect tens of thousands of genes or proteins, so biochips have become a tool for genomics and proteomics research.

Biochips are currently very popular areas of research and development, and there are mainly three types of products: (1) DNA Microarrays, (2) Lab on a Chip, (LOAC), and (3) Protein Microarray. In recent years, by the technology improvement and the cost reduction, the micro reaction space can be designed on the biochips to purify cells and other biochemical molecular, so the biochips have great potential.

With the growing demand for DNA sequencing, the high cost and time-consuming problems generated by the use of Sanger Method decoding limited research and development of DNA sequencing, so new sequencing techniques are being rearched and developed. With the improvement of molecular biotechnology, a more efficient sequencing method has been developed, namely Next Generation Sequencing (NGS). In the Sanger sequencing method, the DNA in the target is amplified, and long fragments (about one thousand nucleobase pairs) are read. But the Next Generation DNA Sequencing (NGS) is to completely fragment the DNA (about 300-800 nucleobase pairs) and do the sequencing, and NGS becomes the major technology in DNA sequencing.

At present, Illumina and Thermo Fisher own the major market share in the global Next Generation DNA Sequencing market and followed by other manufacturers such as Roche and PacBio. Among them, Illumina had 71% of the overall market in 2014 as Illumina's sequencing technology was the most mature in the industry. The Ion Torrent technology platform's products, launched by Thermo Fisher after it acquired Life Technologies, had a 20% market share, followed by Roche's 5%, PacBio's 3%, and other suppliers account for 1%.

The new generation DNA sequencing drastically reduces DNA sequencing cost. The HiSeq X Ten sequencing device introduced by Illumina in early 2014, can resequence individual genome sequences at a cost of US$1,000 within a day. The next generation of equipment is expected to reduce the cost to around US$900. Research institutes, pharmaceutical companies, and testing service companies have been investing in related equipment purchases, allowing the next-generation DNA sequencing market to grow rapidly.

Another market driver is the FDA's regulations for new drug development to be accompanied by the development of companion diagnostic reagents. Through the sequencing of DNA maps, it attempts to identify more relevant genes and improve the efficiency of new drug development and effective drug usage. Due to the development of next-generation DNA sequencing, nonintrusive prenatal fetal genomic detection has also developed rapidly. In the past, amniocentesis was required to obtain a prenatal examination of suspension cells. But by capturing fetal free cells or free DNA in the blood of pregnant women, the whole genome of the fetus can be obtained by DNA sequencing and analysis. The result can be obtained around the 10^{th} week of pregnancy instead of previous 16^{th} week, significantly reducing the risks that may occur. Additionally, another expected popular application is the cancer detection. Due to the complexity of cancer detection targets, multiple genetic locations need to be analyzed, and new genetic variants will appear between treatments. The next generation of DNA sequencing combined with liquid slicing technique can meet such continuous and extensive diagnostic and monitoring needs; however, because cancer diagnosis and treatment require long-term clinical verification, it is still mainly used in the patients failed with the first-line and second-line cancer drugs. However, the improved therapeutic benefits of this testing service still make the prospect of applying DNA sequencing services to cancer detection promising. This shows that, in the future, with a large number of applications of next generation DNA sequencing, there will be many changes in the clinic.

2. Correlation among upstream, midstream, and downstream of the industry

The image sensor industry can be categorized as shown in the following tables

Area CMOS Image Sensor:

Upstream, Midstream, and Downstream	Item	Domestic Manufacturers
Upstream	IC design	SOI, PXI, NOVATEK, HIMAX, etc.
Midstream	Mask and wafer manufacturing	TSMC, UMC and Powerchip / PTC, etc.
Downstream	IC packaging and testing	ASE, SPIL, KYEC, TONG SHING, and VisEra, etc.

Linear CMOS Image Sensor:

Upstream, Midstream, and Downstream	Item	Domestic Manufacturers
Upstream	IC supply	SOI, PXI, etc.
Midstream	Module design and manufacturing	CISM: ATII, Lite-On (South), and CSI, etc. CCM: Lite-On (South), and TONG SHING, etc.
Downstream	System design, manufacturing, and sales	Systems vendors.

3. Product Development Trends

The Area CMOS Image Sensor market is highly competitive. In addition to the good image quality, the price and customer service are key success factors. The main product development plans are as follows:

(1) Area CMOS Image Sensor:

Recently, in the surveillance security systems, digital IP cameras and ccHDtv are moving toward higher resolutions as traditional CCDs have disappeared. The mainstream products are moving from 720P (HD) towards 1080P (FHD) and 4 million / 5 million pixels, driving the trend of HD surveillance in the future. Besides, in the car electronics, the automotive Around View Monitoring (AVM), and driver assistant system are also moving towards 720P/1080P and higher resolution.

The company will also develop higher-end products such as higher dynamic range, anti-noise, high-temperature range, and other high-end processes for high-definition imaging products to provide customers with more cost-effective products.

4. Competitions:

(1) Area CMOS Image Sensor:

In recent years, with the stagnation of specifications in the mobile phone market, various manufacturers have tried to have differentiation for camera functions. 3D sensing, the dual lens, and even multi-lens design are new areas. Also this is expected to drive the demands and the higher specification requirement for sensors.

In the surveillance applications, as the requirement of IP cameras and HDCCTV are getting higher, the demand for Full HD and higher resolution sensors has been increasing rapidly. In addition to the introduction of more cost-effective products in the second half of 2018, the company launched full HD products such as 1080P, 4Mega and 5Mega pixel sensors to meet the market demand and expect to cooperate with customers with higher value-added products.

(III) Technology and R&D Overview

In 2018 and from January 1st, 2019 to the printing date of this annual report

1. R&D spending

Unit: NT$ thousands

Year	2018	As of April 26, 2019
Research and development expenses	209,125	64,607

2. Developed or on-going technologies or products

(1) Development of the new generation, high-performance/cost optimized Area CMOS Image Sensor.

(2) Design and process development of specific application sensors.

(IV) Short/long-term business development plans

1. Short-term marketing development plans

(1) Expand the channels in the existing markets and actively develop various potential markets.

(2) Actively develop domestic and overseas major customers to increase market share.

(3) Enhance the services of existing customers to maintain long-term relationships.

2. Long-term marketing development plans

(1) Strengthen the analysis of market change (consumer and product trends) to provide the customer-oriented products to strengthen the customer relationship

(2) Enhance international marketing capabilities and strive to cooperate with world-class companies.

(3) Actively develop new markets and applications.

B. Market and Sales Overview

(I) Market Analysis

1. Sales by regions for major products and services

Unit: NT$ thousands; %

Region/Year		2018	
		Amount	%
External sales	Asia	1,851,735	91.03
	Others	136,026	6.68
	Sub-total	1,987,761	97.71
Domestic Sales		46,506	2.29
Total		2,034,267	100.00

2. Market share

Benefiting from the high-definition surveillance market and the growth of consumer imaging electronics, the company's operations are on the right track. With the introduction of more new products in 2019, the company can provide customers with more comprehensive products and services. There will be significant market share growth in the future.

3. Market supply and demand, and future growth

According to market survey data, the market size of video sensor in 2018 showed significant growth compared to 2017. In 2019, due to the popularity of surveillance and automotive cameras and the accelerated development of multiple product applications, the overall image sensor shipments are expected to increase gradually.

4. Competitive Niches

(1) Excellent management and technical teams

The company focuses on the design and development of CMOS Image Sensor and that R&D capacity and technical level have reached the same level as other world-wide leading CMOS manufacturers. The company plans to provide the high quality and high performance products of Area CMOS Image Sensor for high-end surveillance and specific application sensors market.

(2) Stable partners

All the Taiwan CMOS Image Sensor companies are fabless IC design companies. wafer plants, and hence, the wafer process technology and the yield of packaging and testing are the key factors that affect the IC mass production schedule. The company works closely with Powerchip and TSMC in the CMOS Image Sensor area to provide the best technical and mass production support. The company maintains good relationships with the IC testing and packaging companies and thus has more protection in product yield and delivery.

(3) Mutual benefits from long-term customers

The company's sales model relies on cooperation with semiconductor distributors and direct sales to downstream system integrator customers. In addition to expanding the existing market channels and actively seeking more business in the potential markets, the company also provides technical services to assist customers to quickly move the products into production and establish stable relationships with customers.

(4) Fast access to the market

The company was founded in 2004. In the early days, the company adopted an outsourcing joint development model for the development of sensor. In 2012, the company merged with the US company Nueva Imaging, Inc., and the chip design and development were completely independent. The company has close relationships with the top tier surveillance vendors. By cooperating with the worldwide leading manufacturers, it can better understand the market trend and develop new products in advance to meet customer and market needs. In recent years, the company has cooperated with the world's leading medical equipment companies to develop DNA sequencing chips. With the company's professional R&D team and the best production support from the foundry partners, the company's products can quickly enter mass production and make delivery in the first year of cooperation, shortening the time-to-market of the product.

(5) Global manufacturing base

Taiwan is a heart area for the production of electronic products in communications, information and consumer electronics sectors, such as mobile phones, tablet devices, PC cameras, digital cameras, and other products with large shipments and high global market share. For the company, the customer service, delivery and cost are more competitive than those of the foreign CMOS Image Sensor design companies or the international Integrated Device Manufactures (IDM), so it has a competitive niche due to the production base is nearby.

5. Favorable Development, Unfavorable Factors, and Countermeasures

(1) Favorable development

(A) The demand for image sensors market continues to increase

With the development and advancement of technology, the popularity of smart living and the Internet of Things has enabled countries to continue to have more demands for various video devices. Mobile devices, tablet PCs, wearable product applications (such as Google Glass, VR, AR) and other mobile devices are driving the demands for image sensors. The market of dash cams, surveillance cameras, etc. are also growing because of consumers’ awareness of security. At the same time, with the technology breakthrough in ADAS, car image, DNA sequencing, and other application areas, the demand for image sensors will be expected to grow year by year.

(B) Domestic semiconductor foundry supply chain is complete, providing local IC design companies with full logistics support.

Taiwan is the heart of global wafer foundry, with high market share, high capacity utilization, and complete process technology and experience. Taiwan's semiconductor industry is unique in its vertical integration. The entire IC industry supply chain features a very fine vertical integration and well-organized structure, which makes the company's products have certain advantages in terms of timekeeping and cost control.

(C) Rich industry experience

The company is a CMOS image sensor IC design company. The R&D team has rich experience and can adjust the product portfolio in time according to market trends. The company is also actively expanding its high-resolution market to provide customers products with higher cost-performance ratio, and to continue to increase the use of existing products and extend existing technologies

(2) Unfavorable factors and countermeasures

(A) Market competition

With technology development, CMOS image sensors are becoming more and more widely used (such as mobile phones, consumer electronics, etc.). As the market demand continues to expand, the number of manufacturers entering this sector is increasing.

Corresponding countermeasures:

a. Based on the company's technological advantages, the company would actively develop diversified, high value-added niche products to enrich product portfolio, increase profit margins, and strengthen its market competitiveness.

b. In 2016, the company's surveillance sensor products ranked third in the world in the market survey report of TSR. The performance and quality of the company's products have been widely accepted by the market

c. In addition to enhancing product technologies, the company also provides after-sales services to understand the customer's needs for the future.

(B) The products are mainly exported abroad and would be exposed to the risk of exchange rate fluctuations.

Most of the company's products are exported to mainland China and are mainly denominated in US dollars. The main purchase item is wafer and wafer fabrication is also denominated in US dollars. Therefore, the foreign currency receivables and payables could be offset and FX risk is hedged, except foreign exchange gains and losses on foreign currency net assets. The fluctuation in exchange rates can, therefore, have a certain degree of impact on the company.

Countermeasures:

a. Taking advantage of the characteristic of natural hedging, the foreign currency cash sales of foreign sales products should be used for domestic and foreign procurement and outsourcing processing to generate foreign currency payables. Therefore, it is only necessary to assess the future exchange rate fluctuations against the foreign currency net assets. If there is a need for hedging, it is necessary to use various financial instruments such as currency forward contracts as needed to avert exchange rate fluctuation risks.

b. The Finance department can instantly understand the changes in exchange rates and stay in close contact with the foreign exchange departments of financial institutions to fully grasp the trend and changes in exchange rates to actively respond to the negative impact of exchange rate fluctuations.

(II) Major applications and manufacturing process of the primary products

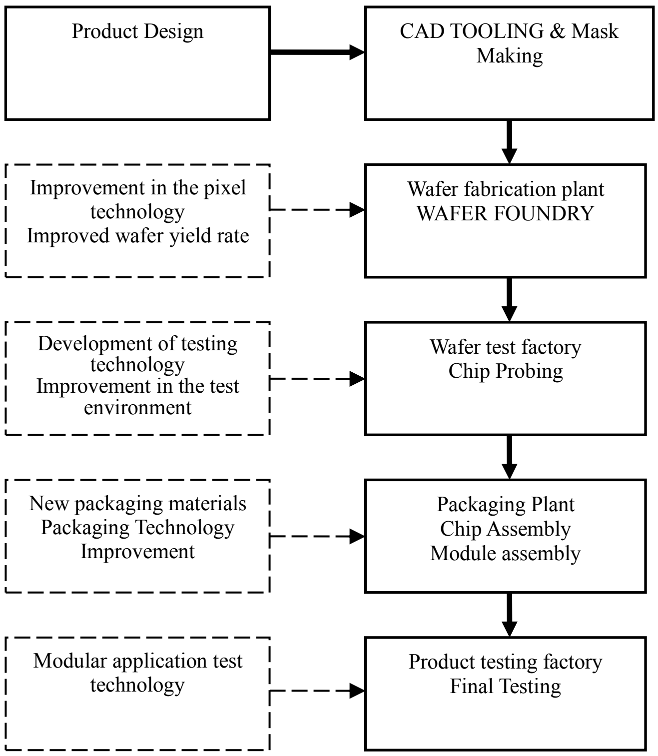
1. Major uses of the primary products

Main Products	Usage
CMOS Image Sensor	Used in video products such as monitoring devices, automotive vehicle image cameras, genetic sequencing testing chip

2. The production process of main products

(1) CMOS Image Sensor :

The company is a IC design company. The overall manufacturing process includes product design, IP acquisition, wafers from wafer foundry, wafer testing, packaging, and product testing. In addition to product design and IP obtaining, we will outsource the production of wafer fabrication, wafer testing, product packaging, and product testing to dedicated OEMs. This not only reduces investment in production equipment but also increases production efficiency. Relevant engineering personnel can also focus more on the development and improvement of production technology to improve quality and yield rate.



(III) Supply Status of Main Materials

Name of raw materials	Suppliers	Supply Situation
Wafer	Powerchip Technology Corporation and TSMC North America	Good

The main raw material of the company is wafer, and the main suppliers are Powerchip Technology Corporation and TSMC North America. The product quality has been stable, and the production capacity and delivery capacity are highly consistent. The cooperation with each other is good, and no shortage of supply conditions.

(IV) Major Suppliers and Customers in the Recent Two Years:

1. Major Suppliers

Unit: NT$ thousands; %

Item	2017				2018				2019Q1			
	Suppliers	Purchasing Value	% of Total Purchasing	Relation with SOI	Suppliers	Purchasing Value	% of Total Purchasing	Relation with SOI	Suppliers	Purchasing Value	% of Total Purchasing	Relation with SOI
1	A Company	910,055	96.68	Yes	A Company	1,121,438	99.38	Yes	A Company	213,287	98.75	Yes
2	B Company	-	-	-	B Company	3,375	0.30	-	B Company	735	0.34	-
3	C Company	24,411	2.59	-	C Company	1,659	0.15	-	C Company	1,712	0.79	-
	Net purchase amount	941,333	100		Purchases Net amount	941,333	100		Net purchase amount	215,996	100	

2. Major Customers

Unit: NT$ thousands; %

Item	2017				2018				Current year up to March 31, 2019			
	Customer	Sales Amount	% of Total Sales	Relation with SOI	Customer	Sales Amount	% of Total Sales	Relation with SOI	Customer	Sales Amount	% of Total Sales	Relation with SOI
1	Customer A	1,177,691	68.69	-	Customer A	1,445,118	71.04	-	Customer A	234,196	66.70	-
2	Customer B	319,450	18.63	-	Customer B	240,987	11.85	-	Customer B	46,700	13.30	-
3	Customer C	65,568	3.82	-	Customer C	109,464	5.38	-	Customer C	759	0.22	-
4	Customer D	-	-	-	Customer D	86,531	4.25	-	Customer D	24,531	6.99	-
5	Customer E	23,967	1.40	-	Customer E	46,503	2.29	-	Customer E	14,154	4.03	-
6	Customer F	52,052	3.04	-	Customer F	29,738	1.46	-	Customer F	3,918	1.12	-
7	Customer G	24,900	1.45	-	Customer G	20,439	1.00	-	Customer G	6,304	1.80	-
8	Customer H	-	-	-	Customer H	15,597	0.77	-	Customer H	5,892	1.68	-
9	Others	50,937	2.97	-	Others	39,890	1.96	-	Others	14,682	4.18	-
	Net sales	1,714,565	100		Net sales	2,034,267	100		Net sales	351,136	100	

The main customer is a distributor, and the change in ranking is mainly due to the adjustment of sales ratio on the promotion of customer business.

(V) Production volume and value over the last Two Years

Unit: NT$ thousands; 1,000 pcs

Year / Production volume and value / Main Products (or Departments)	2017			2018		
	Production Capacity	Quantity	Amount	Production Capacity	Quantity	Amount
CMOS Image Sensor Components	-	74,960	2,073,075	-	73,494	2,010,622

(VI) Sales volume and value over the last Two Years

Unit: NT$ thousands; 1,000 pcs

Year / Sales volume / Main Products (or Departments)		2017				2018			
		Domestic		Export		Domestic		Export	
		Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
CMOS Image Sensor Components	IC	504	24,205	60,493	1,603,090	1,063	46,504	72,278	1,846,205
	Wafer	-	-	2	65,316	-	-	1	45,595
	Design	-	4,000	-	17,954	-	2	-	95,961
Total		504	28,205	60,495	1,686,360	1,063	46,506	72,279	1,987,761

C. Employees

Unit: Person

Year		2017	2018	As of April 26, 2019
No. of employees	R&D	32	32	32
	Managerial, Sales & Marketing	15	16	15
	Manufacturing	-	-	-
	Total	47	48	47
Average age		38.23 years old	38.31 years old	38.6 years old
Average Years of Service		5.09 years	5.61 years	5.62 years
Level of Education (%)	Ph.D.	4.26%	2.08%	2.13%
	Master's degree	57.45%	54.17%	51.06%
	Bechelor's degree	38.30%	43.75%	46.81%
	Associate's degree	-	-	-
	Less than associate's degree	-	-	-

Note: The annual data shall be updated as of the publication date of this annual report.

D. Environmental Protection Expenditures

The company is a fabless IC Design house that outsources its production activities to qualified wafer foundry, testing and packaging partners. No environmental penalties were incurred in the past years and there are no foreseenable environmental contemination risks in the future.

E. Labor Relations

(I) Employee benefits, continuing education and training, and the state of the retirement system and the status of implementation of the labor management agreements

1. Employee benefits
   (1) The company established the employee welfare committee in June 2004, and the welfare matters are supervised by the employees and the members of employee welfare committee.
   (2) The company plans employee group welfare insurance to make up for the shortage of labor insurance. The employees themselves benefit from the benefits, and they also benefit the spouses and children of the employees, so that both the colleagues themselves and the families can receive the benefits.
   (3) The company has an annual health check of the in-service employees. All employees of the company participate in labor insurance and health insurance, and all welfare benefits are handled in accordance with relevant regulations.
2. Employee continuing education and training
   To enhance the quality of human resources and development advantages, the company has established educational and training methods to encourage employees to participate in various training courses and technical seminars to maintain the foundation of the company's sustainable operation.
3. Retirement system and its implementation status
   The retire system of employees of the company shall be conducted in accordance with the provisions of the Labor Standards Act. The Labour Pension Supervisory Committee was established in June 2004, and the labor retirement reserve fund was set aside on a monthly basis in accordance with the law. In the name of the committee, it is deposited in the Supervisory Account of the Central Trust Bureau for its management and use. In accordance with the Labor Pension Act, starting from July 1, 2005, the company would pay the labor retirement allowance monthly for the employees, choosing and applying the new system to the individual account of the Labor Insurance Bureau.
4. Agreements between the employer and employees
   The harmonious labor relationship has always been one of the company’s directions. The company has put great emphasis on employee welfare and provides excellent working environment. As of now, there is no loss arising from labor disputes, and the company has been smooth channels to maintain the employees' equity.

(II) Total losses arising from employee-employer disputes for the most recent fiscal year up to the publication date of this annual report: None.

F. Important Contracts

As of 26 April 2019, the company had the following important contracts:

Contract Type	Contractor	Contract Period	Main Content	Restrictions
OEM	Vate Technology Co., Ltd.	2017/7/14~2020/7/13	OEM Testing	None
OEM	Global Testing Corporation Limited	2017/7/17~2019/7/16	OEM Testing	None
OEM	VisEra Technologies Company Ltd.	2017/7/18~2020/7/17	Wafer fabrication	None
Technical Service	Nueva Imaging Inc.	2017/10/1~2019/9/30	Design services of CMOS Image Sensor	None
Supply Agreements	Illumina Inc.	2017/12/21~2020/12/20	Design and Development of Bio-Chip	None
Agent	ZH ASCEND (HONGKONG) CO., LIMITED	2018/1/1~2021/12/31	Marketing and Sales of Products	None
OEM	Powerchip Technology Corporation	2018/3/8~2023/3/7	Wafer foundry	None
Technical Service	Silicon Optronics (Shanghai) Co, Ltd.	2019/3/1~2020/2/28	Line Design Services of CMOS Image Sensor	None
Law service	Jieyu Law Firm	2019/4/1~2020/3/31	Legal Counsel	None
Lease	Prolific Technology inc	2019/3/1~2022/2/28	Office Leases	None

VI、 Financial Information

A. Five-Year Financial status

(I) Condensed Balance Sheet by adopting IFRSs-Consolidated

Unit: NT$ thousands

Item / Year		Financial Summary for The Last Five Years				
		2014	2015	2016	2017	2018
Current assets		364,312	500,281	762,916	957,576	2,142,403
Property, Plant and Equipment		34,360	29,534	31,396	38,775	48,811
Intangible assets		316,979	295,035	268,778	262,287	234,587
Other assets		18,660	11,026	11,315	11,742	15,223
Total assets		734,311	835,876	1,074,405	1,270,380	2,441,024
Current Liabilities	Before distribution	56,561	140,766	230,431	294,238	271,641
	After distribution	56,561	140,766	129,553	158,142	(Note 1)
Non-current liabilities		28	676	945	-	41
Liabilities Total	Before distribution	56,589	141,442	231,376	294,238	271,682
	After distribution	56,589	141,442	130,498	158,142	(Note 1)
Equity attributable to shareholders of the parent						
Capital stock		658,459	661,069	669,359	679,809	778,279
Capital surplus		22,523	20,760	30,179	52,187	1,124,721
Retained Earnings	Before distribution	(4,965)	9,897	141,518	244,672	265,952
	After distribution	(4,965)	9,897	40,640	108,576	(Note 1)
Other equity		1,705	2,708	1,973	(526)	390
Treasury stock		-	-	-	-	-
Non-controlling interest		-	-	-	-	-
Total equity	Before distribution	677,722	694,434	843,029	976,142	2,169,342
	After distribution	677,722	694,434	742,151	840,046	(Note 1)

Note 1: Not yet distributed.

(II) Condensed Income Statement adopting IFRSs -Consolidated

Unit: NT$ thousands

Item \ Year	Financial Information over The Last Five Years				
	2014	2015	2016	2017	2018
Operating revenues	369,468	702,480	1,405,770	1,714,565	2,034,267
Gross profit	161,941	232,524	402,038	500,028	469,799
Operating Income (loss)	(13,232)	14,996	141,569	247,603	180,054
Non-operating income and expenses	8,577	(271)	9,592	(8,096)	9,919
Income (Loss)before tax	(4,655)	14,725	151,161	239,507	189,973
Income (Loss)from continuing operations	(4,773)	9,962	131,678	204,087	157,432
Income (Loss) from discontinued operations	-	-	-	-	
Net income (loss)	(4,773)	9,962	131,678	204,087	157,432
Other comprehensive income(loss)	1,244	938	(792)	(2,554)	860
Total comprehensive income (loss)	(3,529)	10,900	130,886	201,533	158,292
Net income attributable to shareholders of the parent	-	-	-	-	-
Net income attributable to non-controlling interest	-	-	-	-	-
Comprehensive income attributable to the shareholders of the parent	-	-	-	-	-
Comprehensive income attributable to non-controlling interest	-	-	-	-	-
Earnings per share	(0.07)	0.15	1.98	3.02	2.17

Note 1: Earnings per share have been adjusted retroactively.

(III) Condensed Balance Sheets – IFRS (Parent Company Only)

Unit: NT$ thousands

Item \ Year		Financial Summary for The Last Five Years				
		2014	2015	2016	2017	2018
Current assets		354,661	475,237	730,748	934,379	2,102,546
Property, Plant and Equipment		33,559	28,677	30,645	38,134	48,250
Intangible assets		16,587	12,940	9,489	6,039	3,309
Other assets		340,410	318,492	302,587	291,402	283,954
Total assets		745,217	835,346	1,073,469	1,269,954	2,438,059
Current Liabilities	Before distribution	67,467	140,236	229,495	293,812	268,676
	After distribution	67,467	140,236	128,617	157,716	(Note 1)
Non-current liabilities		28	676	945	-	41
Liabilities Total	Before distribution	67,495	140,912	230,440	293,812	268,717
	After distribution	67,495	140,912	129,562	157,716	(Note 1)
Equity attributable to shareholders of parent the company						
Capital stock		658,459	661,069	669,359	679,809	778,279
Capital surplus		22,523	20,760	30,179	52,187	1,124,721
Retained Earnings	Before distribution	(4,965)	9,897	141,518	244,672	265,952
	After distribution	(4,965)	9,897	40,640	108,576	(Note 1)
Other equity interest		1,705	2,708	1,973	(526)	390
Treasury stock		-	-	-	-	-
Non-controlling interest		-	-	-	-	-
Total equity	Before distribution	677,722	694,434	843,029	976,142	2,169,342
	After distribution	677,722	694,434	742,151	840,046	(Note 1)

Note 1: Not yet distributed.

(IV) Condensed Statements of Comprehensive Income-IFRS (Parent Company only)

Unit: NT$ thousands

Item \ Year	Financial Information over The Last Five Years				
	2014	2015	2016	2017	2018
Operating revenues	369,468	702,480	1,405,770	1,714,565	2,034,267
Gross profit	161,941	232,524	402,038	500,028	469,799
Operating Income (loss)	8,362	30,608	156,177	255,831	192,133
Non-operating income and expenses	(13,135)	(16,581)	(5,079)	(19,532)	(3,774)
Income (Loss)before tax	(4,773)	14,027	151,098	236,299	188,359
Income (Loss)from continuing operations	(4,773)	9,962	131,678	204,087	157,432
Income (Loss) from discontinued operations	-	-	-	-	-
Net income (loss)	(4,773)	9,962	131,678	204,087	157,432
Other comprehensive income (loss)	1,244	938	(792)	(2,554)	860
Total comprehensive income (loss)	(3,529)	10,900	130,886	201,533	158,292
Net income attributable to shareholders of the parent	-	-	-	-	-
Net income attributable to non-controlling interest	-	-	-	-	-
Comprehensive income attributable to the shareholders of the parent	-	-	-	-	-
Comprehensive income attributable to non-controlling interest	-	-	-	-	-
Earnings per share	(0.07)	0.15	1.98	3.02	2.17

Note 1: Earnings per share has been adjusted retroactively.

(V) Information on CPAs and Auditors' Opinions

Year	CPA firm Name of CPA	Auditors' opinion
2014	Deloitte & Touche Lin Cheng-Chih, Yeh Tung-Hui	Unqualified opinion
2015	Deloitte & Touche Lin Cheng-Chih, Yeh Tung-Hui	Unqualified opinion
2016	Deloitte & Touche Lin Cheng-Chih, Yeh Tung-Hui	Unqualified opinion
2017	Deloitte & Touche Lin Cheng-Chih, Chung Ming-Yuan	Unqualified opinion
2018	Deloitte & Touche Chung Ming-Yuan, Lin Cheng-Chih	Unqualified opinion

B. Five-Year Financial Analysis

(I) Financial Analysis-IFRS (Consolidated)

Analysis Item	Year	2014	2015	2016	2017	2018
		Financial Information For The Past 5 Years				
Capital structure (%)	Debt ratio	7.70	16.92	21.54	23.16	11.13
	Long-term capital to property, plant, and equipment ratio	1,972.50	2,353.59	2,688.16	2,517.45	4,444.46
Liquidity	Current ratio (%)	644.10	355.40	331.08	325.44	788.69
	Quick ratio (%)	365.56	160.68	198.82	111.78	506.19
	Times interest earned	-	461.16	1,738.48	472.47	488.11
Operating Performance	Receivables turnover ratio(times)	18.97	12.41	28.99	118.30	56.82
	Average collection days	19	29	13	3	6
	Inventory turnover ratio (times)	2.59	2.82	4.24	3.00	2.48
	Payables turnover ratio (times)	11.19	7.16	8.15	10.27	11.76
	Inventory turnover days	141	129	86	122	148
	Property, plant and equipment turnover ratio(times)	12.45	21.99	46.14	48.87	46.45
	Total assets turnover (times)	0.51	0.89	1.47	1.46	1.1
Profitability	Return on assets (%)	(0.66)	1.27	13.79	17.44	8.50
	Return on equity (%)	(0.71)	1.45	17.13	22.44	10.01
	Income before tax to paid-in capital ratio(%)	(0.71)	2.23	22.58	35.23	24.41
	Net profit margin (%)	(1.29)	1.42	9.37	11.90	7.74
	Earnings per share (NT$) (Note 2)	(0.07)	0.15	1.98	3.02	2.17
Cash flow (%)	Cash flow ratio	-	-	134.09	-	52.71
	Cash flow adequacy ratio	18.48	10.88	66.35	34.89	39.18
	Cash reinvestment ratio	-	-	45.74	-	0.34
Leverage	Operating leverage	(16.26)	22.77	4.86	3.26	6.72
	Financial leverage	1.00	1.00	1.00	1.00	1.00

Reasons for changes in financial ratios for the most recent two years:

1. Decrease in debt ratio: Mainly due to the cash capital increase for listing.
2. Increase in long-term capital to property, plant, and equipment ratio: Mainly due to the increase in cash capital for listing.
3. Increase in current ratio: Mainly due to the cash capital increase for listing.
4. Increase in quick ratio: Mainly due to the cash capital increase for listing.
5. Decrease in Receivables turnover ratio: Mainly due to the increase in accounts receivable.
6. Decrease in total asset turnover: Mainly due to the cash capital increase for listing.
7. Decrease in profitability ratio compared to 2017: Mainly due to the decrease in ASP in 2018.
8. Increase in cash flow ratio: Mainly due to the inventory level under control and increase in accounts receivable, resulting in the net cash inflow from operating activities.

(II) Financial Analysis –IFRS (Parent Company only)

Analysis Item		Financial Information For The Past 5 Years				
	Year	2014	2015	2016	2017	2018
Capital structure (%)	Debt ratio	9.05	16.87	21.47	23.14	11.02
	Long-term capital to property, plant, and equipment ratio	2,019.58	2,423.93	2,754.03	2,559.77	4,496.13
Liquidity	Current ratio (%)	525.68	338.88	318.42	318.02	782.56
	Quick ratio (%)	310.32	163.12	198.99	108.93	506.15
	Times interest earned	-	439.34	1,737.76	466.16	483.97
Operating Performance	Receivable turnover ratio(times)	18.97	12.41	28.99	118.30	56.82
	Average collection days	19	29	13	3	6
	Inventory turnover ratio (times)	2.59	2.82	4.24	3.00	2.48
	Payables turnover ratio (times)	11.19	7.16	8.15	10.44	12.11
	Inventory turnover days	141	129	86	122	147
	Property, plant and equipment turnover ratio(times)	12.79	22.57	47.39	49.86	47.10
	Total assets turnover (times)	0.51	0.89	1.47	1.46	1.10
Profitability	Return on assets (%)	(0.66)	1.26	13.80	17.45	8.51
	Return on equity (%)	(0.71)	1.45	17.13	22.44	10.01
	Income before tax to paid-in capital ratio(%)	(0.72)	2.12	22.57	34.76	24.20
	Net profit margin (%)	(1.29)	1.42	9.37	11.90	7.74
	Earnings per share (NT$) (Note 2)	(0.07)	0.15	1.98	3.02	2.17
Cash flow (%)	Cash flow ratio	-	-	132.59	-	50.40
	Cash flow adequacy ratio	21.12	11.81	75.39	36.74	39.99
	Cash reinvestment ratio	-	-	46.74	-	-
Leverage	Operating leverage	19.08	8.73	3.90	2.97	5.93
	Financial leverage	1.00	1.00	1.00	1.00	1.00

Reasons for changes in financial ratios for the most recent two years:

1. Decrease in debt ratio: Mainly due to the cash capital increase for listing.
2. Increase in long-term capital to property, plant, and equipment ratio: Mainly due to the increase in cash capital for listing.
3. Increase in current ratio: Mainly due to the cash capital increase for listing.
4. Increase in quick ratio: Mainly due to the cash capital increase for listing.
5. Decrease in Receivables turnover ratio: Mainly due to the increase in accounts receivable.
6. Decrease in total asset turnover: Mainly due to the cash capital increase for listing.
7. Decrease in profitability ratios compared to 2017: Mainly due to the decrease in ASP in 2018.
8. Increase in cash flow ratio: Mainly due to the inventory level under control and increase in accounts receivable, resulting in the net cash inflow from operating activities.

Note 1: The years that has not been audited by CPAs shall be noted. The financial information over the past five years have been audited by CPAs.

Note 2: Companies that are listed or whose stock is listed on the TWSE or traded on the TPEx shall incorporate the financial information for the year ending in the first quarter of the annual report date into the analysis.

Note 3: At the end of the annual report, the following calculation formulas shall be listed:

1. Capital Structure
   (1) Debt ratio= total liabilities / total Assets
   (2) Long-term capital to property , plant, and equipment ratio = (total equity + non-current liabilities) / net property, plant and equipment
2. Liquidity
   (1) Current Ratio = Current Assets / Current Liabilities.
   (2) Quick Ratio = (Current Assets - Inventory - Prepaid Expenses) / Current Liabilities.
   (3) Times interest earned= earnings before Interest and Taxes/Interest Expenses
3. Operating Performance
   (1) Receivables (including account receivables and note receivables from operating activities) turnover ratio＝ net sales/average receivables (including account receivables and note receivables from operating activities) balance
   (2) Average collection Days = 365 / Receivables Turnover Rate.
   (3) Inventory Turnover ratio = Cost of Goods Sold / Average Inventory.
   (4) Payables turnover ratio (including bills payable resulting from accounts payable and business operations) = Cost of Goods Sold / Average accounts payable in various periods (including bills payable resulting from accounts payable and business operations).
   (5) Average Days for Sale = 365 / Inventory Turnover Rate.
   (6) Property, Plant, and Equipment Turnover Rate = Net Sales / Average Net Property, Plant, and Equipment.
   (7) Total Asset Turnover Rate = Net Sales / Average Total Assets.
4. Profitability
   (1) Return on assets (ROA) = [Income (Loss) after tax + Interest expenses x (1 - Tax rates)] / Average total assets.
   (2) Return on stockholders' equity = net income after tax / average stockholders' equity.
   (3) Net margin = net income / net sales.
   (4) Earnings per share = (net income (loss) attributable to shareholders of parent company – dividends on preferred shares) / weighted average number of issued shares. (Note 4)
5. Cash flow
   (1) Cash flow ratio = net operating cash flow / current liabilities.
   (2) Net cash flow adequacy ratio = Net cash flow from operating activities for the most recent five years / (capital expenditures + inventory increase + cash dividend) for the most recent five years.
   (3) Cash re-investment ratio = (Net cash flow from operating activities – cash dividend) / (gross value of property, plant and equipment + long-term investment + other assets + working capital). (Note 5)
6. Leverage:
   (1) Operating Leverage = (Net Operating Revenue - Variable COGS and Expenses) / Operating Income (Note 6).
   (2) Financial Leverage = Operating Income / (Operating Income - Interest Expenses).

Note 4: Special attention shall be paid to the following matters when using the formula to calculate earning per share above:

1. Based on the weighted average number of shares of ordinary shares, not the number of issued shares at the end of the year.
2. For cash capital increase or transaction of treasury stock, the circulation period should be considered when calculating the weighted average number of shares.
3. In calculating the earnings per share for the previous year and the semi-annual period, for capital increase by retained earnings or capital surplus, it should be retrospectively adjusted according to the proportion of capital increase, and there is no need to consider the issue period of the capital increase.
4. If the preferred stocks are nonconvertible cumulative preferred stocks, its dividend of the year (whether is being distributed or not) shall add or subtract the net loss from the net income. If the preferred stock is non-cumulative, in the case of net profit after tax, the preferred stock dividend shall be deducted from the net profit after tax; no need to adjust if the company recorded net loss.

Note 5: Special attention should be paid to the following matters when measuring cash flow analysis:

1. Net cash flow from operating activities refers to the net cash inflow from operating activities in the statement of cash flows.
2. Capital expenditure is the annual cash outflow of capital investment.
3. The increase in inventory is included only when the balance at the end of the period is greater than opening balance. If the inventory decreases at the end of the year, it is counted as zero.
4. Cash dividends include cash dividends from ordinary shares and preferred stocks.
5. Gross property, plant and equipment refers to the total value of PP&E minus accumulated depreciation.

Note 6: The issuer shall classify the operating costs and operating expenses as fixed or variable in accordance with their nature. If it involves estimation or subjective judgment,

Note 7: If the company's shares have no par value or the nominal amount per share other than NT$10, any calculations that involve paid-in capital ratio shall be replaced with the equity ratio attributable to shareholders of parent company, as shown in the balance sheet.

Note 8: For companies that have prepared parent company only financial statements shall also prepare an analysis of the company's parent company only financial ratios.

C. 2018 Audit Committee's Review Report

Audit Committee's Review Report

To: 2019 Annual General Shareholders' Meeting

Silicon Optronics, Inc.

The Board of Directors has prepared the Company's 2018 Business Report, Financial Statements (including the Consolidated Financial Statements), and proposal for distribution of earnings. The CPA firm of Deloitte & Touche has audited the Company's Financial Statements (including the Consolidated Financial Statements) and issued the audit reports.

The above Business Report, Financial Statements (including the Consolidated Financial Statements), and proposal for distribution of earnings have been reviewed and determined to be correct and accurate by the Audit Committee members of Silicon Optronics, Inc. According to relevant requirements of the Securities and Exchange Act and the Company Law, we hereby submit this report.

Silicon Optronics, Inc.
Convener of the Audit Committee: Li, Chang-Chou

March 8, 2019

D. 2018 Independent Auditors' Report and Consolidated Financial Statements

Deloitte.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Silicon Optronics, Inc.

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and 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:

Sales Revenue

The Group's sales revenue derived from key customers accounted for a high proportion of the overall sales revenue. The transaction amount with such customers is significant to the overall sales revenue. Thus, we believe that there is a validity risk regarding the transaction of sales revenue of the Group. We deemed the sales validity derived from such customers as a key audit matter. For the description of the revenue recognition policy, please refer to Notes 4(m) to the consolidated financial statements.

Our key audit procedures performed in respect of the above area included the following:

1. We understood the effectiveness of the Group's internal controls for the order approval and shipment procedures.

2. We understood the background of the key customers and assessed whether the transaction amount and credit line matched the size of such customers and were under appropriate approval.

3. To confirm the sales validity, we sampled sales revenue and checked whether customer orders, shipping trackers, invoices and other documents are consistent with the same customers. And we also checked whether the transaction consideration were paid by the same customers.

Inventory Valuation

As of December 31, 2018, the Group's inventory balance was $694,421, accounting for 28% of the combined total assets. For its accounting policy, please refer to Notes 4(g) to the consolidated financial statements. As the amount of the inventory is significant and the assessment of net realization value involves significant management judgements, in particular with regard to estimates of inventory valuation and obsolescence loss. Therefore, inventory valuation is considered as a key audit matter. We has evaluated the appropriateness of the method used by the Group to calculate the inventory valuation and obsolescence loss at the end of the year and to implement the following procedures:

1. Based on our understanding of the industry and product nature of the Group, we sampled and verified the correctness of the inventory aging, as well as evaluated the appropriateness of the provision policy on the inventory.

2. To make sure the reasonableness of inventory valuation, we verified, on a sample basis, whether it is measured by the lower of cost and net realizable value based on the most recent raw material quotation or sales data, and we assessed the reasonableness of the change in allowance for inventory write-down.

3. We compared and analyzed the provision difference of inventory valuation and obsolescence loss in 2018 and 2017.

Other Matter

We have also audited the parent company only financial statements of Silicon Optronics, Inc. as of and for the years ended December 31, 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 IFRS, IAS, IFRIC and SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the

Group to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 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 Ming-Yuan Chung and Cheng-Chih Lin.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 8, 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.

SILICON OPTRONICS, INC. AND SUBSIDIARY

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

	2018		2017	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash (Notes 4 and 6)	$ 486,893	20	$ 217,164	17
Financial assets at amortized cost - current (Notes 4 and 7)	828,944	34	-	-
Investments in debt instrument without active market - current (Notes 4, 8 and 27)	-	-	99,323	8
Accounts receivable - net (Notes 4 and 9)	59,182	2	12,425	1
Inventories (Notes 4, 5 and 10)	694,421	29	566,326	44
Prepayments and other current assets (Notes 4, 14 and 26)	72,963	3	62,338	5
Total current assets	2,142,403	88	957,576	75
NON-CURRENT ASSETS				
Financial assets at amortized cost - noncurrent (Notes 4, 7 and 27)	2,577	-	-	-
Investments in debt instrument without active market non-current (Notes 4, 8 and 27)	-	-	2,549	-
Property, plant and equipment (Note 4 and 12)	48,811	2	38,775	3
Goodwill (Note 4 and 5)	199,228	8	199,228	16
Intangible assets (Note 4 and 13)	35,359	2	63,059	5
Deferred tax assets (Notes 4 and 21)	10,467	-	7,079	1
Other non-current assets (Notes 4, 14 and 17)	2,179	-	2,114	-
Total non-current assets	298,621	12	312,804	25
TOTAL	$ 2,441,024	100	$ 1,270,380	100

	2018		2017	
LIABILITIES AND EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Short-term bank loans (Notes 4, 15 and 27)	$ -	-	$ 130,000	10
Contract liabilities - current (Note 19)	6,012	-	-	-
Accounts payable (Note 4)	52,963	2	44,996	4
Accounts payable to related parties (Notes 4 and 26)	126,379	5	41,802	3
Other payables to related parties (Notes 4 and 26)	-	-	163	-
Current tax liabilities (Notes 4 and 21)	31,552	2	24,029	2
Other current liabilities (Notes 4 and 16)	54,735	2	53,248	4
Total current liabilities	271,641	11	294,238	23
NON-CURRENT LIABILITIES				
Deferred income tax liabilities (Notes 4 and 21)	41	-	-	-
Total liabilities	271,682	11	294,238	23
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY (Notes 4, 18 and 23)				
Ordinary shares	778,279	32	679,809	54
Capital surplus	1,124,721	46	52,187	4
Retained earnings				
Legal reserve	34,567	1	14,158	1
Special reserve	526	-	-	-
Unappropriated earnings	230,859	10	230,514	18
Other equity				
Exchange differences on translating the financial statements of foreign operations	390	-	(526)	-
Total equity	2,169,342	89	976,142	77
TOTAL	$ 2,441,024	100	$ 1,270,380	100

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

SILICON OPTRONICS, INC. AND SUBSIDIARY

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 (Notes 4, 19, 26 and 30)	$ 2,034,267	100	$ 1,714,565	100
OPERATING COSTS (Notes 10, 20 and 26)	1,564,468	77	1,214,537	71
GROSS PROFIT	469,799	23	500,028	29
OPERATING EXPENSES (Notes 20 and 26)				
Selling and marketing expenses	22,800	1	17,348	1
General and administrative expenses	57,820	3	63,032	4
Research and development expenses	209,125	10	172,045	10
Total operating expenses	289,745	14	252,425	15
OPERATING INCOME	180,054	9	247,603	14
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 4 and 20)	9,751	-	4,658	-
Other gains and losses (Notes 4 and 20)	558	-	(12,246)	-
Financial costs (Note 20)	(390)	-	(508)	-
Total non-operating income and expenses	9,919	-	(8,096)	-
PROFIT BEFORE INCOME TAX	189,973	9	239,507	14
INCOME TAX EXPENSE (Notes 4 and 21)	(32,541)	(1)	(35,420)	(2)
NET INCOME	157,432	8	204,087	12
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Notes 4 and 17)	(56)	-	(55)	-
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translation of foreign operations (Notes 4 and 18)	916	-	(2,499)	-
Total other comprehensive income (loss)	860	-	(2,554)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 158,292	8	$ 201,533	12

(Continued)

SILICON OPTRONICS, INC. AND SUBSIDIARY

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**	**%**
EARNINGS PER SHARE (Note 22)				
Basic	$ 2.17		$ 3.02	
Diluted	$ 2.15		$ 3.00	

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

SILICON OPTRONICS, INC. AND SUBSIDIARY

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

	Ordinary Shares			Retained Earnings			Other Equity	
	Shares (In Thousands)	Amount	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Difference on Translating the Financial Statements of Foreign Operations	Total Equity
BALANCE, JANUARY 1, 2017	66,936	$ 669,359	$ 30,179	$ 990	$ -	$ 140,528	$ 1,973	$ 843,029
Appropriation of 2016 earnings								
Legal reserve	-	-	-	13,168	-	(13,168)	-	-
Cash dividends distributed by Silicon Optronics, Inc.	-	-	-	-	-	(100,878)	-	(100,878)
Net profit for the year ended December 31, 2017	-	-	-	-	-	204,087	-	204,087
Other comprehensive income for the year ended December 31, 2017	-	-	-	-	-	(55)	(2,499)	(2,554)
Total comprehensive income for the year ended December 31, 2017	-	-	-	-	-	204,032	(2,499)	201,533
Issuance of ordinary shares under employee share options	1,045	10,450	21,952	-	-	-	-	32,402
Share-based payment	-	-	56	-	-	-	-	56
BALANCE, DECEMBER 31, 2017	67,981	679,809	52,187	14,158	-	230,514	(526)	976,142
Appropriation of 2017 earnings								
Legal reserve	-	-	-	20,409	-	(20,409)	-	-
Special reserve	-	-	-	-	526	(526)	-	-
Cash dividends distributed by Silicon Optronics, Inc.	-	-	-	-	-	(136,096)	-	(136,096)
Net profit for the year ended December 31, 2018	-	-	-	-	-	157,432	-	157,432
Other comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	-	(56)	916	860
Total comprehensive income for the year ended December 31, 2018	-	-	-	-	-	157,376	916	158,292
Issuance of ordinary shares for cash	9,285	92,850	1,057,885	-	-	-	-	1,150,735
Issuance of ordinary shares under employee share options	562	5,620	9,903	-	-	-	-	15,523
Share-based payment	-	-	4,746	-	-	-	-	4,746
BALANCE, DECEMBER 31, 2018	77,828	$ 778,279	$ 1,124,721	$ 34,567	$ 526	$ 230,859	$ 390	$ 2,169,342

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

SILICON OPTRONICS, INC. AND SUBSIDIARY

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

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	$ 189,973	$ 239,507
Adjustments for:		
Depreciation expenses	36,118	30,912
Amortization expenses	30,494	27,026
Finance costs	390	508
Interest income	(8,230)	(2,942)
Share-based payment	4,746	56
Impairment loss recognized on financial assets	7	-
Write downs of (reversal of) inventories	25,042	(28,797)
Net loss on foreign currency exchange	7,868	15,761
Changes in operating assets and liabilities		
Accounts receivable	(46,717)	3,902
Inventories	(153,137)	(293,596)
Prepayments and other current assets	(10,625)	(1,592)
Contract liabilities	1,111	-
Accounts payable	7,779	(14,178)
Accounts payables to related parties	84,606	(46,621)
Other payables to related parties	(163)	(163)
Accrued expenses and other current liabilities	2,368	(7,440)
Net defined benefit Assets	(73)	(73)
Cash generated from (used in) operations	171,557	(77,730)
Income tax paid	(28,365)	(30,803)
Net cash generated from (used in) operating activities	143,192	(108,533)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets at amortized cost	(929,192)	-
Proceeds from financial assets at amortized cost	199,323	-
Acquisition of debt investments without active market	-	(112,321)
Proceeds from debt investments without active market	-	9,173
Acquisition of property, plant and equipment	(42,153)	(37,899)
Increase in refundable deposits	(54)	(616)
Acquisition of intangible assets	(2,223)	(21,154)
Interest received	8,230	2,942
Net cash used in investing activities	(766,069)	(159,875)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) increase in short term bank loans	(130,000)	130,000
Dividends paid	(136,096)	(100,878)
Issuance of ordinary shares for cash	1,150,735	-
Exercise of employee share options	15,523	32,402
Interest paid	(390)	(508)

(Continued)

SILICON OPTRONICS, INC. AND SUBSIDIARY

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

	2018	2017
Net cash generated from financing activities	899,772	61,016
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(7,166)	(13,036)
NET INCREASE (DECREASE) IN CASH	269,729	(220,428)
CASH AT THE BEGINNING OF THE YEAR	217,164	437,592
CASH AT THE END OF THE YEAR	$ 486,893	$ 217,164

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

SILICON OPTRONICS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

Silicon Optronics, Inc. (the "Company") was incorporated in the Republic of China ("ROC") on May 24, 2004 and commenced business on May 27, 2004. The Company's main business activities include Design, development and sales for Complementary Metal-Oxide Semiconductor.

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

The consolidated financial statements are presented in the Company's functional currency, New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorized for issue on March 8, 2019.

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

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

   Except for the following, whenever applied, 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 would not have any material impact on the accounting policies of the Company and entities controlled by the Company (collectively, the "Group"):

   1) 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. Refer to Note 4 for information relating to the relevant accounting policies.

      <u>Classification, measurement and impairment of financial assets</u>

      On the basis of the facts and circumstances that existed as of 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 following table shows the original measurement categories and carrying amount under IAS 39 and the new measurement categories and carrying amount under IFRS 9 for each class of the Group's financial assets and financial liabilities as of January 1, 2018.

	Measurement Category		Carrying Amount		
Financial Assets	**IAS 39**	**IFRS 9**	**IAS 39**	**IFRS 9**	**Remark**
Cash and cash equivalents	Loans and receivables	Amortized cost	$ 217,164	$ 217,164	(1)
Time deposits with original maturities of more than 3 month	Loans and receivables	Amortized cost	10,043	10,043	(1)
Pledged time deposits	Loans and receivables	Amortized cost	91,829	91,829	(1)
Accounts receivable	Loans and receivables	Amortized cost	12,425	12,425	(1)
Refundable deposits	Loans and receivables	Amortized cost	1,805	1,805	(1)

Financial Assets	IAS 39 Carrying Amount as of January 1, 2018	Reclassifi-cations	Remea-surements	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
Amortized cost	$ -	$ -	$ -				
Add: Reclassification from loans and receivables (IAS 39)	-	333,266	-				(1)
	$ -	$ 333,266	$ -	$ 333,266	$ -	$ -	

(1) Cash and cash equivalents, time deposits with original maturities of more than 3 month, pledged time deposits, accounts receivable and refundable deposits which were classified as loans and receivables under IAS 39 are now classified at amortized cost per the lifetime expected credit losses under IFRS 9.

2) IFRS 15 "Revenue from Contracts with Customers" and related amendments

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers and supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations. Refer to Note 4 for related accounting policies.

In identifying performance obligations, IFRS 15 and the related amendments require that a good or service is distinct if it is capable of being distinct (for example, the Group regularly sells it separately) and the promise to transfer it is distinct within the context of the contract (i.e. the nature of the promise in the contract is to transfer each good or service individually rather than to transfer a combined output).

Under IFRS 15, the net effect of revenue recognized and consideration received and receivable is recognized as a contract asset or a contract liability. Prior to the application of IFRS 15, receivables were recognized or deferred revenue was reduced when revenue was recognized for the relevant contract under IAS 18.

If the contract is non-cancellable, the Group will recognize a receivable and a contract liability when it has an unconditional right to the consideration in accordance with IFRS 15. Prior to the application of IFRS 15, consideration was recognized as deferred revenue when received.

The Group elected only to retrospectively apply IFRS 15 to contracts that were not complete as of January 1, 2018 and recognize the cumulative effect of the change in retained earnings on January 1, 2018.

Besides, no difference in the applicable IAS 18 or IFRS 15 of the Group.

Retrospective application of IFRS 15 has no significant impact on assets, liabilities and equity as at January 1, 2018

3) IFRIC 22“Foreign Currency Transactions and Advance Consideration”

IAS 21 stipulated that a foreign currency transaction shall be recorded on initial recognition in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. IFRIC 22 further explains that the date of the transaction is the date on which an entity recognizes a non-monetary asset or non-monetary liability from payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine the date of the transaction for each payment or receipt of advance consideration.

The Group applied IFRIC 22 prospectively to all assets, expenses and income recognized on or after January 1, 2018 within the scope of the Interpretation.

b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS endorsed by the FSC for application starting from 2019

New, Amended or Revised Standards and Interpretations (the “New IFRSs”)	Effective Date Announced by IASB (Note 1)
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 IFRSs 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 2018.

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

1) IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17, IFRIC 4 and a number of related interpretations.

Definition of a lease

Upon initial application of IFRS 16, the Group will elect to apply the guidance of IFRS 16 in determining whether contracts are, or contain, a lease only to contracts entered into (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 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, or investment properties if the right-of-use assets meet the definition of investment properties, and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value asset 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 financing activities. Currently, payments under operating lease contracts, are recognized as expenses on a straight-line basis. 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 recognized on January 1, 2019. Comparative information will not be restated.

Lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases with the application of IAS 17. Lease liabilities 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 will be measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. Except for the following practical expedients which are to be applied, the Group will apply IAS 36 to all right-of-use assets.

The Group expects to apply the following practical expedients:

a) The Group will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.

b) The Group will account for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.

c) The Group will exclude initial direct costs from the measurement of right-of-use assets on January 1, 2019.

d) The Group will use hindsight, such as in determining lease terms, to measure lease liabilities.

Anticipated impact on assets, liabilities and equity

	Carrying Amount as of December 31, 2018	**Adjustments Arising from Initial Application**	**Adjusted Carrying Amount as of January 1, 2019**
Right-of-use assets	$ -	$ 35,881	$ 35,881
Total effect on assets	$ -	$ 35,881	$ 35,881
Lease liabilities - current	$ -	$ 8,468	$ 8,468
Lease liabilities - non-current	-	27,413	27,413
Total effect on liabilities	$ -	$ 35,881	$ 35,881
Total effect on equity	$ -	$ -	$ -

2) IFRIC 23 “Uncertainty over Income Tax Treatments”

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

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

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

Except for the above impacts, as of the date the consolidated financial statements were authorized for issue, the Group continues assessing other possible impacts that the application of the aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will have on the Group’s financial position and financial performance and will disclose these other impacts when the assessment is completed.

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 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 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 Group shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

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

b. Basis of preparation

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

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

1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

3) Level 3 inputs are unobservable inputs for an asset or liability.

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

Current assets include:

1) Assets held primarily for the purpose of trading;

2) Assets expected to be realized within 12 months after the reporting period; and

3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;

2) Liabilities due to be settled within 12 months after the reporting period; and

3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

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

d. Basis of consolidation

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

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

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

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

See Notes 11 and 29 for detailed information on subsidiaries (including percentages of ownership and main businesses).

e. Business combinations

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

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

f. Foreign currencies

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

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

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

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

g. Inventories

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

h. Property, plant and equipment

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

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

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

i. Goodwill

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

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

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

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

j. Intangible assets

1) Intangible assets acquired separately

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

2) Intangible assets acquired in a business combination

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

3) Derecognition of intangible assets

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

k. Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, for any indication of impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of a corporate asset, the asset is tested for impairment in the context of the cash-generating unit (CGU) to which the asset belongs. If a portion of the carrying amount of the asset can be allocated on a reasonable and consistent basis to the CGU, the Group compares the carrying amount of the CGU, including the portion of the asset's carrying amount allocated to the CGU, with the recoverable amount of the CGU to which the asset belongs. If this reasonable and consistent basis of allocation cannot be applied to the CGU to which the asset belongs and can be applied instead to the smallest Group of CGUs to which the CGU belongs, this smallest Group is used for impairment testing.

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

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

l. Financial instruments

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

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

1) Financial assets

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

a) Measurement categories

2018

Financial assets are classified into the following categories: Financial assets at amortized cost.

i. Financial assets at amortized cost

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

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

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

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

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

i) Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such financial assets; and

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

Cash include highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash are held for the purpose of meeting short-term cash commitments.

2017

Financial assets are classified as loans and receivables (including cash and cash equivalents, accounts receivable, debt investments with no active market and refundable deposits) are measured using the effective interest method at amortized cost less any impairment, except for short-term receivables when the effect of discounting is immaterial.

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

b) Impairment of financial assets

2018

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

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

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

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

2017

Financial assets, 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, as a result of one or more events that occurred after the initial recognition of such financial assets, that the estimated future cash flows of the investment have been affected.

Financial assets at amortized cost, such as trade receivables 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 past experience with collecting payments, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized 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 was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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 becoming 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.

The carrying amount of a financial asset is reduced by the impairment loss directly for all financial assets, with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When trade receivables are 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 are recognized in profit or loss except for uncollectible trade receivables that are written off against the allowance account.

c) Derecognition of financial assets

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

Before 2018, 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 which had been recognized in other comprehensive income is recognized in profit or loss. Starting 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.

2) Equity instruments

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

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

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

3) Financial liabilities

a) Subsequent measurement

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

b) Derecognition of financial liabilities

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

m. Revenue recognition

<u>2018</u>

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

1) Revenue from the sale of goods

Revenue from the sale of goods comes from sales of image sensors. Goods are recognized as revenue when they are delivered to the customer's specific location because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility for sales to future customers and bears the risks of obsolescence. Trade receivables are recognized concurrently. When the customer initially purchases the goods, the transaction price received is recognized as a contract liability until the goods have been delivered to the customer.

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

2) Revenue from the rendering of services

The Group provides original design services based on agreement specification stipulated by customers, revenues are recognized when the Group satisfies its performance obligations.

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.

1) Revenue from the 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 revenue 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.

The Group does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of the materials' ownership.

2) Revenue from the rendering of services

Service income is recognized when services are provided.

Revenue from a contract to provide services is recognized with reference to the stage of completion of the contract.

3) Interest income

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 with reference to the principal outstanding and at the applicable effective interest rate.

n. Leasing

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

The Group as lessee operating lease payments are recognized as expenses on a straight-line basis over the lease term.

o. Borrowing costs

Borrowing costs directly attributable to an acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other than that which is stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

p. Employee benefits

Retirement benefits

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

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

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

q. Share-based payment arrangements

Employee share options granted to employees

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

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

r. Taxation

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

1) Current tax

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

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

2) Deferred tax

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

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

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

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

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

3) Current and deferred taxes for the year

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

a. Write-down of inventories

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

b. Impairment of goodwill

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

6. CASH

	December 31	
	2018	2017
Cash on hand	$ 274	$ 194
Bank deposits	85,942	53,290
Cash equivalents		
Bank time deposits	400,677	163,680
	$ 486,893	$ 217,164

The market rates of cash in bank at the end of the reporting period were as follows:

	December 31	
	2018	2017
Bank time deposits	0.24%-3.00%	1.75%-1.80%

7. FINANCIAL ASSETS AT AMORTIZED COST - 2018

	December 31, 2018
Current	
Time deposit with original maturity of more than 3 month (a)	$ 828,944
Non-current	
Pledged time deposits (a and c)	$ 2,577

a. The interest rates for time deposits with original maturity of more than 3 month were from 0.16% to 3.8% as at the end of the reporting period. The time deposits were classified as debt investments without active market under IAS 39. Refer to Notes 3 and 8 for information relating to their reclassification and comparative information for 2017.

b. Refer to Note 25 for information relating to their credit risk management and impairment of financial assets at amortized cost.

c. Refer to Note 27 for information relating to investments in financial assets at amortized cost pledged as security.

8. DEBT INVESTMENTS WITHOUT ACTIVE MARKET - 2017

	December 31, 2017
Non-current	
Pledged time deposits	$ 89,280
Time deposits with original maturity more than 3 month	10,043
	$ 99,323
Non-current	
Pledged time deposits	$ 2,549

a. As of December 31, 2017, the market interest rates of the time deposits with original maturities of more than 3 months were 1.07%-2.95%.

b. Refer to Note 27 for information relating to debt investments without active market pledged as security.

9. ACCOUNTS RECEIVABLE

	December 31	
	2018	2017
Accounts receivable-unrelated parties		
At amortized cost		
Gross carrying amount	$ 59,182	$ 12,425
Less: Allowance for impairment loss	-	-
	$ 59,182	$ 12,425

For the year ended 2018

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

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

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

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

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

December 31, 2018

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

For the year ended 2017

The Company applied the same credit policy in 2018 and 2017. In determining the recoverability of an account receivable, the Group considered any change in the credit quality of the account receivable since the date credit was initially granted to the end of the reporting period. Allowance for doubtful accounts were recognized against accounts receivable based on estimated irrecoverable amount which is determined by reference to average default days of the counterparties in the past year.

The aging analysis of receivables was as follows:

	December 31, 2017
1-60 days	$ 12,425

The above analysis was based on the past due date.

The Group didn't have the aging of receivables that were past due but not impaired.

10. Inventories

The movements of allowance for doubtful accounts were as follows:

	December 31	
	2018	2017
Finished goods	$ 344,432	$ 358,219
Work in process	349,357	207,852
Raw materials	632	255
Balance at December 31, 2017	$ 694,421	$ 566,326

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2018 and 2017 was $1,564,468 thousand and $1,214,537 thousand, respectively. The cost of goods sold included inventory write-downs of $25,042 thousand and reversals of inventory write-downs of $(28,797) thousand. The reversals of previous write-downs for the year ended December 31, 2018 resulted from obsolescence inventory, which has been sold.

11. SUBSIDIARIES

Investor	Investee	Main Business	% of Ownership December 31 2018	% of Ownership December 31 2017	Remark
Silicon Optronics, Inc.	NUEVA IMAGING, INC. ("NUEVA")	Research and development of CMOS Image Sensor high-order desig006E	100%	100%	-
	Silicon Optronics (Cayman) Co., Ltd. ("Silicon Cayman")	Investment business	100%	100%	-
Silicon Optronics (Cayman) Co., Ltd.	Silicon Optronics (Shanghai) Co., Ltd.	Research and development of CMOS Image Sensor high-order desig006E	100%	100%	-

Except US NUEVA, the above-mentioned subsidiaries are in line with the definition of an important subsidiary per Article 2 of Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants, and the remaining entities are non-significant subsidiaries. The financial reports of the above subsidiaries were audited by accountants.

12. PROPERTY, PLANT AND EQUIPMENT

	Testing Equipment	Molding Equipment	Computer	Office Equipment	Leasehold improvement	Mask	Total
Cost							
Balance at January 1, 2017	$ 4,113	$ 12,524	$ 1,823	$ 2,001	$ 204	$ 120,857	$ 141,522
Additions	180	6,334	124	27	-	31,649	38,314
Effect of exchange rate changes	(2)	-	(5)	(131)	-	-	(138)
Balance at December 31, 2017	$ 4,291	$ 18,858	$ 1,942	$ 1,897	$ 204	$ 152,506	$ 179,698
Accumulated depreciation							
Balance at January 1, 2017	$ 2,565	$ 5,060	$ 1,399	$ 1,690	$ 176	$ 98,053	$ 108,943
Depreciation expense	484	3,934	153	111	20	26,210	30,912
Effect of exchange rate changes	(1)	-	-	(114)	-	-	(115)
Balance at December 31, 2017	$ 3,048	$ 8,994	$ 1,552	$ 1,687	$ 196	$ 124,263	$ 139,740
Accumulated impairment							
Balance at January 1, 2017	$ -	$ 1,183	$ -	$ -	$ -	$ -	$ 1,183
Impairment loss	-	-	-	-	-	-	-
Balance at December 31, 2017	$ -	$ 1,183	$ -	$ -	$ -	$ -	$ 1,183
Carrying amounts at December 31, 2017	$ 1,243	$ 8,681	$ 390	$ 210	$ 8	$ 28,243	$ 38,775
Cost							
Balance at January 1, 2018	$ 4,291	$ 18,858	$ 1,942	$ 1,897	$ 204	$ 152,506	$ 179,698
Additions	31	(214)	313	-	-	46,030	46,160
Effect of exchange rate changes	(4)	-	(16)	49	-	-	29
Balance at December 31, 2018	$ 4,318	$ 18,644	$ 2,239	$ 1,946	$ 204	$ 198,536	$ 225,887
Accumulated depreciation							
Balance at January 1, 2018	$ 3,048	$ 8,994	$ 1,552	$ 1,687	$ 196	$ 124,263	$ 139,740
Depreciation expense	502	4,048	175	77	8	31,308	36,118
Effect of exchange rate changes	-	-	(12)	47	-	-	35
Balance at December 31, 2018	$ 3,550	$ 13,042	$ 1,715	$ 1,811	$ 204	$ 155,571	$ 175,893
Accumulated impairment							
Balance at January 1, 2017	$ -	$ 1,183	$ -	$ -	$ -	$ -	$ 1,183
Impairment loss	-	-	-	-	-	-	-
Balance at December 31, 2017	$ -	$ 1,183	$ -	$ -	$ -	$ -	$ 1,183
Carrying amounts at December 31, 2018	$ 768	$ 4,419	$ 524	$ 135	$ -	$ 42,965	$ 48,811

The Group's property, plant and equipment are depreciated on a straight-line basis over the following estimated useful life:

Testing equipment	2-5 years
Molding equipment	3 years
Computer	3 years
Office equipment	5 years
Leasehold improvement	5-8 years
Mask	2 years

13. INTANGIBLE ASSETS

	Technology License Fees	Patents	Software	Total
Cost				
Balance at January 1, 2017	$ 145,889	$ 45,659	$ 12,169	$ 203,717
Additions	-	15,140	6,014	21,154
Effect of exchange rate changes	-	(334)	(1,072)	(1,406)
Balance at December 31, 2017	$ 145,889	$ 60,465	$ 17,111	$ 223,465
Accumulated amortization				
Balance at January 1, 2017	$ 88,575	$ 36,170	$ 9,422	$ 134,167
Amortization expense	20,843	3,702	2,481	27,026
Effect of exchange rate changes	-	(5)	(782)	(787)
Balance at December 31, 2017	$ 109,418	$ 39,867	$ 11,121	$ 160,406
Carrying amounts at December 31, 2017	$ 36,471	$ 20,598	$ 5,990	$ 63,059
Cost				
Balance at January 1, 2018	$ 145,889	$ 60,465	$ 17,111	$ 223,465
Additions	-	-	2,223	2,223
Effect of exchange rate changes	-	475	574	1,049
Balance at December 31, 2018	$ 145,889	$ 60,940	$ 19,908	$ 226,737
Accumulated amortization				
Balance at January 1, 2018	$ 109,418	$ 39,867	$ 11,121	$ 160,406
Amortization expense	20,841	6,451	3,202	30,494
Effect of exchange rate changes	-	64	414	478
Balance at December 31, 2018	$ 130,259	$ 46,382	$ 14,737	$ 191,378
Carrying amounts at December 31, 2018	$ 15,630	$ 14,558	$ 5,171	$ 35,359

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

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

14. OTHER ASSETS

	December 31	
	2018	2017
Current		
Prepaid income tax	$ 45,673	$ 23,260
Tax receivable	14,764	31,400
Prepayment for purchases	1,618	3,308
Others	10,908	4,370
	$ 72,963	$ 62,338
Non-current		
Refundable deposits	$ 1,853	$ 1,805
Net defined benefit assets	326	309
	$ 2,179	$ 2,114

15. BORROWINGS

Short-term borrowings

	December 31	
	2018	2017
Secured borrowings		
Bank loans	$ -	$ 50,000
Unsecured borrowings		
Line of credit borrowings	-	80,000
	$ -	$ 130,000

The range of weighted average effective interest rates on bank loans was 1.10%-1.29% per annum as of December 31, 2017. Refer to Note 27 for secured short-term borrowings.

16. OTHER LIABILITIES

	December 31	
	2018	2017
Current		
Other payables		
Payables for employees' remuneration	$ 21,206	$ 20,765
Payables for bonus	13,219	11,427
Payables for purchases of equipment	7,926	3,908
Payables for directors' remuneration	2,500	2,500
Others	9,767	9,511
	54,618	48,111

(Continued)

	December 31	
	2018	2017
Other liabilities		
Receipt in advance	$ -	$ 4,901
Receipt under custody	117	236
	117	5,137
	$ 54,735	$ 53,248

(Concluded)

17. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

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

Silicon Optronics (Cayman) Co., Ltd. is members of a state-managed retirement benefit plan operated by the government of B Land. The subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

b. Defined benefit plans

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

The amounts based on the actuary report of the Company's defined benefit plans were as follows:

	December 31	
	2018	2017
Present value of funded defined benefit obligation	$ 1,149	$ 1,043
Fair value of plan assets	(1,475)	(1,352)
Net defined benefit assets	$ (326)	$ (309)

Movements in net defined benefit assets were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Assets
Balance at January	$ 979	$ (1,270)	$ (291)
Net interest expense (income)	15	(19)	(4)
Recognized in profit or loss	15	(19)	(4)
Remeasurement			
Actuarial loss			
Actuarial loss - changes in financial assumptions	46	-	46
Actuarial loss - experience adjustments	3	6	9
Recognized in other comprehensive loss	49	6	55
Contributions from the employer	-	(69)	(69)
Balance at December 31, 2017	1,043	(1,352)	(309)
Net interest expense (income)	11	(14)	(3)
Recognized in profit or loss	11	(14)	(3)
Remeasurement			
Actuarial (gain) loss			
Actuarial loss - changes in financial assumptions	12	-	12
Actuarial loss - experience adjustments	83	(39)	44
Recognized in other comprehensive loss (income)	95	(39)	56
Contributions from the employer	-	(70)	(70)
Balance at December 31, 2018	$ 1,149	$ (1,475)	$ (326)

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

1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk: A decrease in the 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 plans' debt investments.

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

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

	December 31	
	2018	2017
Discount rate	1.0%	1.1%
Expected rate of salary increase	3.0%	3.0%

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

	December 31	
	2018	**2017**
Discount rate		
0.25% increase	$ (30)	$ (29)
0.25% decrease	$ 31	$ 30
Expected rate of salary increase		
0.25% increase	$ 27	$ 26
0.25% decrease	$ (26)	$ (26)

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

	December 31	
	2018	**2017**
Expected contributions to the plans for the next year	$ 70	$ 69
Average duration of the defined benefit obligation	11 years	12 years

18. EQUITY

a. Ordinary shares

	December 31	
	2018	**2017**
Numbers of shares authorized (in thousands)	100,000	100,000
Shares authorized	$ 1,000,000	$ 1,000,000
Number of shares issued and fully paid (in thousands)	77,828	67,981
Shares issued	$ 778,279	$ 679,809

Regarding authorized share capital, the share capital reserved for issuing employee share options is 6,000 shares. For the year ended December 31, 2018, changes in the Company's paid-in capital mainly due to the issuance of ordinary shares for cash and employees' exercise of their employee share options.

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

b. Capital surplus

	December 31	
	2018	2017
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)		
Arising from issuance of ordinary shares	$ 1,107,434	$ 39,646
May be used to offset a deficit only		
Arising from employee share options exercised price	11,915	6,440
May not be used for any purpose		
Arising from employee share options	5,372	6,101
	$ 1,124,721	$ 52,187

1) Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital.

For each class of capital surplus was as follows:

	Premium on Issue of Shares	Arising from Employee Share Options	Total
Balance at January 1, 2017	$ 17,694	$ 12,485	$ 30,179
Employee share options exercised	21,952	-	21,952
Arising on share-based payments	-	56	56
Balance at December 31, 2017	39,646	12,541	52,187
Issuance of ordinary shares for cash	1,057,885	-	1,057,885
Employee share option not exercised	9,903	-	9,903
Arising on share-based payments	-	4,746	4,746
Balance at December 31, 2018	$ 1,107,434	$ 17,287	$ 1,124,721

c. Retained earnings and dividend policy

The Company's Articles of Incorporation state that, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting accumulated losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors after the amendment, refer to "Employees' compensation and remuneration of directors" in Note 20 (f).

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

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

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

The appropriations of earnings for 2017 and 2016 which had been approved in the shareholders' meetings on June 8, 2018 and June 8, 2017, respectively, were as follows:

	Appropriation of Earnings Year Ended December 31		**Dividends Per Share (NT$) Year Ended December 31**	
	2017	**2016**	**2017**	**2016**
Legal reserve	$ 20,409	$ 13,168		
Special reserve	526	-		
Cash dividends	136,096	100,878	$ 2.0	$ 1.5
	$ 157,031	$ 114,046		

The appropriations of earnings for 2018 had been proposed by the Company's board of directors on March 8, 2019. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	**Dividends Per Share (NT$)**
Legal reserve	$ 15,743	
Special reserve	(526)	
Cash dividends	155,955	$ 2.0

The appropriations of earnings for 2018 are subject to the resolution of the shareholders' meeting to be held on June 18, 2019.

d. Other equity items

	For the Year Ended December 31	
	2018	**2017**
Balance, beginning of year	$ (526)	$ 1,973
Exchange differences on translation of foreign operations	916	(2,499)
Balance, end of year	$ (390)	$ (526)

19. REVENUE

	Year Ended December 31 2018	2017
Revenue from contracts with customers		
Revenue from sale of goods	$ 2,026,840	$ 1,692,611
Other	7,427	21,954
	$ 2,034,267	$ 1,714,565

a. Contact balances

	December 31, 2018
Accounts receivables (Note 9)	$ 59,182
Contract liabilities-current	
Sale of goods	$ 6,012

Revenue of the reporting period recognized from the beginning contract liabilities in the previous periods is as follows:

	Year Ended December 31 2018
From the beginning contract liabilities	
Sale of goods	$ 2,345

b. Partially completed contracts

	Year Ended December 31 2018
Primary geographical markets	
Hong Kong	$ 1,798,780
United States of America	136,026
Taiwan (the Company is based in Taiwan)	46,506
India	29,738
Korea	15,744
Philippines	7,473
	$ 2,034,267
Major goods	
CMOS	$ 1,938,304
Other	95,963
	$ 2,034,267

20. NET PROFIT FROM CONTINUING OPERATIONS

a. Other income

	Year Ended December 31	
	2018	2017
Interest income	$ 8,230	$ 2,942
Others	1,521	1,716
	$ 9,751	$ 4,658

b. Other gains and losses

	Year Ended December 31	
	2018	2017
Net foreign exchange gain (loss)	$ 558	$ (12,170)
Other losses	-	(76)
	$ 558	$ (12,246)

c. Finance costs

	Year Ended December 31	
	2018	2017
Interest on loans	$ 390	$ 508

d. Depreciation and amortization

	Year Ended December 31	
	2018	2017
Property, plant and equipment	$ 36,118	$ 30,912
Intangible assets	30,494	27,026
Total	$ 66,612	$ 57,938
An analysis of depreciation by function		
Operating costs	$ 16,105	$ 12,802
Operating expenses	20,013	18,110
	$ 36,118	$ 30,912
An analysis of amortization by function		
Research and development expenses	$ 30,494	$ 27,026

e. Employee benefits expense

	Year Ended December 31	
	2018	**2017**
Post-employment benefits (see Note 17)		
Defined contribution plans	$ 2,948	$ 2,888
Defined benefit plans	(3)	(4)
	2,945	2,884
Share-based payments		
Equity-settled	4,746	56
Other employee benefits	173,876	162,419
Total employee benefits expense	$ 181,567	$ 165,359
An analysis of employee benefits expense by function		
Operating expenses	$ 181,567	$ 165,359

f. Employees' compensation and remuneration of directors

According to the Articles of Incorporation of the Company, the Company accrued employees' compensation at rate of no less than 0.005% and no higher than 25% and remuneration of directors and supervisors at rate of no higher than 3%.

Accrual rate

	Year Ended December 31	
	2018	**2017**
Employees' compensation	10%	8%
Remuneration of directors and supervisors	1%	1%

Amount

	Year Ended December 31	
	2018	**2017**
Employees' compensation	$ 21,206	$ 20,765
Remuneration of directors and supervisors	2,500	2,500

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

There is no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2017 and 2016.

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

21. INCOME TAXES

a. Income tax recognized in profit or loss

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

	Year Ended December 31	
	2018	2017
Current tax		
In respect of the current year	$ 30,562	$ 30,713
Additional income tax on unappropriated earnings	4,700	1,758
Adjustments for prior periods	626	2,189
	35,888	34,660
Deferred tax		
Adjustments to deferred tax attributable to changes in tax rates and laws	(1,249)	-
In respect of the current year	(2,098)	760
	(3,347)	760
Income tax expense recognized in profit or loss	$ 32,541	$ 35,420

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

	Year Ended December 31	
	2018	2017
Profit before tax from continuing operations	$ 189,973	$ 239,507
Income tax expense calculated at the statutory rate	$ 39,286	$ 43,378
Nondeductible expenses in determining taxable income	2,365	1,440
Income tax on unappropriated earnings	4,700	1,758
Unrecognized deductible temporary differences	3,332	(2,560)
Investment credits of the current year	(14,421)	(11,545)
Deferred tax		
Temporary differences	(2,098)	760
Adjustments to deferred tax attributable to changes in tax rates and laws	(1,249)	-
Adjustments for prior years' tax	626	2,189
Income tax expense recognized in profit or loss	$ 32,541	$ 35,420

In 2017, the applicable corporate income tax rate used by the Group entities in the ROC is 17%. However, the Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%.

As the status of 2019 appropriations of earnings is uncertain, the potential income tax consequences of 2018 unappropriated earnings are not reliably determinable.

b. Current tax assets and liabilities

	December 31 2018	December 31 2017
Current tax liabilities		
Income tax payable	$ 31,552	$ 24,029

c. Deferred tax assets and liabilities

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

Year ended December 31, 2018

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

Year ended December 31, 2017

	Opening Balance	Recognized in Profit or Loss	Closing Balance
Deferred tax assets			
Allowance for impairment loss	$ 8,108	$ (2,419)	$ 5,689
Loss on foreign currency exchange	676	714	1,390
	$ 8,784	$ (1,705)	$ 7,079
Deferred tax liabilities			
Gain on foreign currency exchange	$ 945	$ (945)	$ -

d. Income tax assessments

The tax returns through 2016 have been assessed by the tax authorities.

22. EARNINGS PER SHARE

Unit: NT$ Per Share

	Year Ended December 31	
	2018	**2017**
Basic earnings per share	$ 2.17	$ 3.02
Diluted earnings per share	$ 2.15	$ 3.00

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

Net Profit for the Year

	Year Ended December 31	
	2018	**2017**
Earnings used in the computation of basic earnings per share	$ 157,432	$ 204,087
Effect of potentially dilutive ordinary shares:		
Employee share options	-	-
Bonus issue to employees	-	-
Earnings used in the computation of diluted earnings per share	$ 157,432	$ 204,087

Number of shares

	Year Ended December 31	
	2018	**2017**
Weighted average number of ordinary shares used in the computation of basic earnings per share	72,655	67,629
Effect of potentially dilutive ordinary shares:		
Employee share options	209	279
Bonus issue to employees	299	129
Weighted average number of ordinary shares used in the computation of diluted earnings per share	73,163	68,037

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

If the Group offered to settle the compensation or bonuses paid to employees in cash or shares, the Group assumed that the entire amount of the compensation or bonuses will be settled in shares, and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

23. SHARE-BASED PAYMENT ARRANGEMENTS

a. Employee share option plan

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

Information on employee share options is as follows:

	2013 Employee Share Option Plan		2012 Employee Share Option Plan	
	Number of Options (In Thousands)	**Weighted-average Exercise Price (NT$)**	**Number of Options (In Thousands)**	**Weighted-average Exercise Price (NT$)**
For the year ended December 31, 2017				
Balance at January 1	1,033	$ 43.13	1,682	$ 17.22
Options forfeited	(15)	33.00	-	-
Options exercised	(495)	45.26	(550)	18.17
Balance at December 31	523	41.17	1,132	16.76
Options exercisable, end of period	523		1,132	
For the year ended December 31, 2018				
Balance at January 1	523	$ 41.17	1,132	$ 16.76
Options exercised	(235)	41.30	(327)	17.79
Balance at December 31	288	41.49	805	16.34
Options exercisable, end of period	288		805	

Information on outstanding options as follows:

December 31 2018			December 31 2017		
Share Option Plan	**Range of Exercise Price (NT$)**	**Weighted-average Remaining Contractual Life (In Years)**	**Share Option Plan**	**Range of Exercise Price (NT$)**	**Weighted-average Remaining Contractual Life (In Years)**
2013 Employee share option plan	$ 33.0-46.0	5.16	2013 Employee share option plan	$ 33.0-46.0	6.14
2012 Employee share option plan	10.5-19.5	3.76	2012 Employee share option plan	10.5-19.5	4.78

The board of directors resolved to grant 2013 employee share options on June 10, 2014, and they were priced using the Black-Scholes pricing model, and the inputs to the model are as follows:

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

The board of directors resolved to grant 2013 employee share options on August 13, 2013, and they were priced using the Black-Scholes pricing model, and the inputs to the model are as follows:

Grant-date share price (NT$)	$11.88
Exercise price (NT$)	$33.00
Expected volatility	37.6%-41.65%
Expected life (in years)	2.5-4.5 years
Expected dividend yield	-
Risk-free interest rate	0.82%-1.07%
Fair value of stock options	0.18-0.93

The board of directors resolved to grant 2012 employee share options on November 13, 2012, and they were priced using the Black-Scholes pricing model, and the inputs to the model are as follows:

Grant-date share price (NT$)	$12.29
Exercise price (NT$)	$19.50
Expected volatility	44.34%-54.56%
Expected life (in years)	2.5-4.5 years
Expected dividend yield	-
Risk-free interest rate	0.75%-0.85%
Fair value of stock options	1.67-3.94

The board of directors resolved to grant 2012 employee share options on May 25, 2012, and they were priced using the Black-Scholes pricing model, and the inputs to the model are as follows:

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

b. Capital Increased by Cash for retain employee share

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

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

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

Compensation costs recognized were $4,746 thousand and $56 thousand for the years ended December 31, 2018 and 2017, respectively.

24. CAPITAL MANAGEMENT

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

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

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

25. FINANCIAL INSTRUMENTS

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

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

b. Categories of financial instruments

	December 31	
	2018	**2017**
Financial assets		
Financial asset at amortized cost (Note 1)	$ 1,379,449	$ -
Loans and receivables (Note 2)	-	333,266
Financial liabilities		
Amortized cost (Note 3)	187,268	220,869

Note 1: The balances included loans and receivables measured at amortized cost, which comprise cash, accounts receivable, other receivables, refundable deposit and debt investments.

Note 2: The balances include loans and receivables measured at amortized cost, which comprise cash, accounts receivables, other receivables, refundable deposit and debt investments with no active market.

Note 3: The balances included financial liabilities measured at amortized cost, which comprise short-term loans, account payables(included related parties) and other payables (included related parties).

c. Financial risk management objectives and policies

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

1) Market risk

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

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

a) Foreign currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which exposes the Group to foreign currency risk. Approximately 98% of the Group's sales is denominated in currencies other than the functional currency of the Group entity making the sale, whilst almost 97% of costs is denominated in the Group entity's functional currency. Exchange rate exposures are managed within approved policy parameters.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities are set out in Note 28.

Sensitivity analysis

The Group is mainly exposed to the exchange rate fluctuation of USD.

Sensitivity analysis of foreign currency exchange rate risk were calculation of currency items for the US dollar on the balance sheet date.

The Group's sensitivity to a 1% increase and decrease in the New Taiwan dollar (i.e. the functional currency) against the USD dollar, the Group an increase/a decrease in pre-tax profit 1,732 thousand and 2,050 thousand for the years ended December 31, 2018 and 2017.

b) Interest rate risk

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

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

	December 31	
	2018	**2017**
Fair value interest rate risk		
Financial assets	$ 1,232,198	$ 265,552
Financial liabilities	-	130,000
Cash flow interest rate risk		
Financial assets	85,932	53,270

Sensitivity analysis

Sensitivity analysis of interest rate risk were calculation of the floating interest rates assets for the cash flow changes on the balance sheet date.

If interest had been 0.5% higher/lower, pre-tax profit for the year ended December 31, 2018 and 2017 would have increased/decreased by $430 thousand and $266 thousand.

2) Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations and result 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 of counterparties to discharge an obligation mainly arise from the carrying amount of the respective recognized financial assets as stated in the consolidated balance sheets.

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

3) Liquidity risk

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

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

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

December 31, 2018

	On Demand or Less than 1 Month	**1-3 Months**	**3 Months to 1 Year**
Non-derivative financial liabilities			
Account payable	$ 40,386	$ 12,577	$ -
Account payable-relate parties	126,379	-	-
Payable on equipment	7,926	-	-
	$ 174,691	$ 12,577	$ -

December 31, 2017

	On Demand or Less than 1 Month	1-3 Months	3 Months to 1 Year
Non-derivative financial liabilities			
Short-term loans	$ -	$ 130,000	$ -
Account payable	44,027	969	-
Account payable-relate parties	41,802	-	-
Other payable-relate parties	163	-	-
Payable on equipment	2,540	1,368	-
	$ 88,532	$ 132,337	$ -

b) Financing facilities

	December 31	
	2018	2017
Unsecured bank overdraft facilities, reviewed annually and payable on demand:		
Amount used	$ -	$ 80,000
Amount unused	80,000	130,000
	$ 80,000	$ 210,000
Secured bank overdraft facilities:		
Amount used	$ -	$ 50,000
Amount unused	150,000	21,424
	$ 150,000	$ 71,424

26. TRANSACTIONS WITH RELATED PARTIES

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

a. Related party name and category

Related Party Name	Related Party Category
Deutron Electronics Corp.	Substantive related parties
Optigate Inc.	Substantive related parties
Aero Vision Avionics, Inc	Substantive related parties
Novax Technology, Inc.	Substantive related parties
Powerchip Technology Corp.	Substantive related parties
Maxchip Electronics Corp.	Substantive related parties

b. Operating revenue

Related Party Category	Year Ended December 31	
	2018	2017
Substantive related parties	$ -	$ 26

The collection conditions of the company and the related person's sales are comparable to the general trading conditions.

c. Technical service revenue (Operating revenue)

Related Party Category	Year Ended December 31	
	2018	2017
Substantive related parties Powerchip Technology Corp	$ -	$ 4,000

d. Purchases

Related Party Category	Year Ended December 31	
	2018	2017
Substantive related parties		
Powerchip Technology Corp	$ 1,121,438	$ 910,055
Others	1,711	5,613
	$ 1,123,149	$ 915,668

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

e. General and administrative expenses

Related Party Category	December 31	
	2018	2017
Substantive related parties	$ 38	$ 33

f. Research and development expenses

Related Party Category	December 31	
	2018	2017
Substantive related parties		
Powerchip Technology Corp	$ 4,576	$ 2,538
Other	-	48
	$ 4,576	$ 2,586

g. Manufacture expense

Related Party Category	December 31	
	2018	2017
Substantive related parties	$ 82	$ -

h. Technical service expense

Related Party Category	December 31 2018	December 31 2017
Substantive related parties		
Powerchip Technology Corp	$ -	$ 762

The technical service contract between the company and the related person is based on the price and conditions agreed upon by both parties and is not comparable to other appropriate trading objects.

i. Prepayment and other current assets

Related Party Category	December 31 2018	December 31 2017
Substantive related parties	$ -	$ 38

j. Account payable from related parties

Related Party Category	December 31 2018	December 31 2017
Substantive related parties		
Powerchip Technology Corp	$ 126,379	$ 41,088
Other	-	714
	$ 126,379	$ 41,802

k. Other payable from related parties

Related Party Category	December 31, 2018	December 31, 2017
Substantive related parties	$ -	$ 163

l. Compensation of key management personnel

	For the Year Ended December 31 2018	For the Year Ended December 31 2017
Short-term employee benefits	$ 26,170	$ 27,079
Share-based payments	9	27
	$ 26,179	$ 27,106

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

27. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

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

	December 31	
	2018	2017
Pledged time deposits (classified as financial assets a amortized cost-noncurrent)	$ 2,577	$ -
Pledged time deposits (classified as debt investment without active market-current and noncurrent)	-	91,829
	$ 2,577	$ 91,829

28. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

December 31, 2018

	Foreign Currencies	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 11,180	30.72	$ 343,393
CNY	2,243	4.472	10,030
			$ 353,423
Financial liabilities			
Monetary items			
USD	5,539	30.72	$ 170,144

December 31, 2017

	Foreign Currencies	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 9,499	29.76	$ 282,688
CNY	2,285	4.565	10,430
			$ 293,118
Financial liabilities			
Monetary items			
USD	2,610	29.76	$ 77,680

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

	For the Year Ended December 31			
	2018		2017	
Foreign Currencies	**Exchange Rate**	**Net Foreign Exchange Gains (Losses)**	**Exchange Rate**	**Net Foreign Exchange Gains (Losses)**
NTD	1 (NTD:NTD)	$ (194)	1 (NTD:NTD)	$ (13,532)
RMB	4.472(RMB:NTD)	752	4.565(RMB:NTD)	438
USD	30.72 (USD:NTD)	-	29.76 (USD:NTD)	924
		$ 558		$ (12,170)

29. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

1) Financings provided: None;

2) Endorsements/guarantees provided: None;

3) Marketable securities held (excluding investments in subsidiaries): None;

4) Marketable securities acquired and disposed of at costs or prices of at least NT$300 million or 20% of the paid-in capital: None;

5) Acquisition of individual real estate at costs of at least NT$300 million or 20% of the paid-in capital: None;

6) Disposal of individual real estate at prices of at least NT$300 million or 20% of the paid-in capital: None;

7) Total purchases from or sales to related parties of at least NT$100 million or 20% of the paid-in capital: See Table 1;

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: None;

9) Information about the derivative instruments transaction: None;

10) Intercompany relationships and significant intercompany transactions: See Table 2;

11) Names, locations, and related information of investees over which the Company exercises significant influence (excluding information on investment in Mainland China): Please see Table 3 attached;

b. Information on investment in Mainland China: See Table 4;

30. SEGMENT INFORMATION

a. Operation segment information

The operational decision makers of the merged company use to allocate resources and evaluate the performance of the Department is focused on the financial information of product sales, and each product has similar economic characteristics, each product uses a similar process to produce similar products, and through a unified centralized sales method, so the merger of the company into a single operating department report.

The segment revenues and operating results for the years ended December 31, 2018 and 2017 are shown in the consolidated income statements for the years ended December 31, 2018 and 2017. The segment assets as of December 31, 2018 and 2017 are shown in the consolidated balance sheets as of December 31, 2018 and 2017.

b. Revenue from major products and services

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

	Year Ended December 31	
	2018	2017
Image sensor	$ 1,892,709	$ 1,627,295
Complementary Metal-Oxide Semiconductor	45,595	65,316
Others	95,963	21,954
	$ 2,034,267	$ 1,714,565

c. Geographical information

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

	Revenue from External Customers		Non-current Assets	
	Year Ended December 31		December 31	
	2018	2017	2018	2017
Hong Kong	$ 1,798,780	$ 1,535,864	$ -	$ -
United States of America	136,026	66,029	32,392	57,406
Taiwan (the Company is based in Taiwan)	46,506	28,205	52,493	45,077
India	29,738	72,685	-	-
Others	23,217	11,782	1,138	1,156
	$ 2,034,267	$ 1,714,565	$ 86,023	$ 130,639

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

d. Information about major customers

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

	For the Year Ended December 31	
	2018	**2017**
Customer A	$ 1,445,118	$ 1,177,691
Customer B	240,987	319,450

TABLE 1

SILICON OPTRONICS, INC. AND SUBSIDIARY

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts (Payable) Receivable		Note
			Purchase/ Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
Silicon Optronics, Inc.	Powerchip Technology Corp.	Substantive related parties	Purchase	$ 1,121,438	67	Note 1	-	-	$ (126,379)	72	-

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

SILICON OPTRONICS, INC. AND SUBSIDIARY

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE YEARS ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Counterparty	Nature of Relationship (Note 3)	Intercompany Transactions			
			Financial Statements Items	2018		Terms
				Amount	Percentage of Consolidated Total Gross Sales or Total Assets	
Silicon Optronics, Inc.	NUEVA IMAGING INC.	1	Technical service expense	$ 45,113	2%	-
	NUEVA IMAGING INC.	1	Other payable from related parties	2,635	-	-
	Silicon Optronics (Shanghai) Co., Ltd.	1	Technical service expense	58,555	3%	-
	Silicon Optronics (Shanghai) Co., Ltd.	1	Other payable from related parties	3,413	-	-
	Silicon Optronics (Shanghai) Co., Ltd.	1	Other prepayments	21,359	-	-

Note 1: Represents the transactions from parent company to subsidiary

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

TABLE 3

SILICON OPTRONICS, INC. AND SUBSIDIARY

NAMES LOCATIONS AND RELATED INFORMATION OF INVESTEES ON WHICH THE CORPORATION EXERCISES SIGNIFICANT INFLUENCE
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Investor Company	Equity-method Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2018			Net Income of the Equity-method Investee	Investment Income	Note
				December 31, 2018	December 31, 2017	Shares (Thousands)	% of Ownership	Carrying Value			
Silicon Optronics, Inc.	NUEVA IMAGING INC.	USA	Product development & design of high-end CMOS Image Sensor	$ 358,500	$ 358,500	6,000	100	$ 254,800	$ 4,437	$ (16,404)	Subsidiary
	Silicon Optronics (Cayman) Co., Ltd.	Cayman	Investment holding company	5,237	5,237	170	100	14,850	4,577	4,577	Subsidiary

SILICON OPTRONICS, INC. AND SUBSIDIARY

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company	Main Businesses and Products	Paid-in Capital (US$ in Thousands)	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2018 (US$ in Thousands)	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2018 (US$ in Thousands)	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of December 31, 2018	Accumulated Repatriation of Investment Income as of December 31, 2018	Note
					Outward	Inward							
Silicon Optronics (Shanghai) Co., Ltd.	Design, test and research and development of IC and related electronic products with consultation on technology services and technology transfer	US$ 175	Note 1	$ 5,375 (US$ 175)	$ -	$ -	$ 5,375 (US$ 175)	$ 4,577	100	$ 4,577	$ 14,850	$ -	

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2018 (US$ in Thousands)	Investment Amount Authorized by Investment Commission, MOEA (US$ in Thousands)	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA (US$ in Thousands)
$ 5,375 (US$ 175)	Note 1	$ 1,301,605

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

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

Note 3: Based on the exchange rate as of December 31, 2018.

E. 2018 Independent Auditors' Report and Unconsolidated Financial Statements

Deloitte.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Silicon Optronics, Inc.

Opinion

We have audited the accompanying parent company only financial statements of Silicon Optronics, Inc. (the "Company"), which comprise the parent company only balance sheets as of December 31, 2018 and 2017, and the parent company only statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the parent company only financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and 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 Parent Company Only Financial Statements section of our report. We are independent of the Company 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 parent company only financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the parent company only financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Company's parent company only financial statements for the year ended December 31, 2018 are stated as follows:

<u>Sales Revenue</u>

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

Company. We deemed the sales validity derived from such customers as a key audit matter. For the description of the revenue recognition policy, please refer to Notes 4(k) to the parent company only financial statements.
Our key audit procedures performed in respect of the above area included the following:

1. We understood the effectiveness of the Company's internal controls for the order approval and shipment procedures.

2. We understood the background of the key customers and assessed whether the transaction amount and credit line matched the size of such customers and were under appropriate approval.

3. To confirm the sales validity, we sampled sales revenue and checked whether customer orders, shipping trackers, invoices and other documents are consistent with the same customers. And we also checked whether the transaction consideration were paid by the same customers.

<u>Inventory Valuation</u>

As of December 31, 2018, the Company's inventory balance was $694,421, accounting for 28% of the combined total assets. For its accounting policy, please refer to Notes 4(e) to the parent company only financial statements. As the amount of the inventory is significant and the assessment of net realization value involves significant management judgements, in particular with regard to estimates of inventory valuation and obsolescence loss. Therefore, inventory valuation is considered as a key audit matter. We has evaluated the appropriateness of the method used by the Company to calculate the inventory valuation and obsolescence loss at the end of the year and to implement the following procedures:

1. Based on our understanding of the industry and product nature of the Company, we sampled and verified the correctness of the inventory aging, as well as evaluated the appropriateness of the provision policy on the inventory.

2. To make sure the reasonableness of inventory valuation, we verified, on a sample basis, whether it is measured by the lower of cost and net realizable value based on the most recent raw material quotation or sales data, and we assessed the reasonableness of the change in allowance for inventory write-down.

3. We compared and analyzed the provision difference of inventory valuation and obsolescence loss in 2018 and 2017.

Responsibilities of Management and Those Charged with Governance for the Parent Company Only Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Parent Company Only Financial Statements

Our objectives are to obtain reasonable assurance about whether the parent company only financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 parent company only 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 parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the parent company only financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the disclosures, and whether the parent company only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Company to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision, and performance of the audit. We remain solely responsible for our audit opinion.

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

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

related safeguards.
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the parent company only financial statements 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 Ming-Yuan Chung and Cheng-Chih Lin.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 8, 2019

Notice to Readers

The accompanying parent company only financial statements are intended only to present the parent company only financial position, parent company only financial performance and parent company only 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 parent company only financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying parent company only 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 parent company only financial statements shall prevail.

SILICON OPTRONICS, INC.

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

	2018		2017	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash (Notes 4 and 6)	$ 471,771	19	$ 208,315	16
Financial assets at amortized cost - current (Notes 4 ,7 and 27)	828,944	34	-	-
Investments in debt instrument without active market - current (Notes 4, 8 and 27)	-	-	99,323	8
Accounts receivable - net (Notes 4 and 9)	59,182	2	12,425	1
Inventories (Notes 4, 5 and 10)	694,421	29	566,326	45
Prepayments and other current assets (Notes 4, 14 and 26)	48,228	2	47,990	4
Total current assets	2,102,546	86	934,379	74
NON-CURRENT ASSETS				
Financial assets at amortized cost - noncurrent (Notes 4, 7 and 27)	2,577	-	-	-
Investments in debt instrument without active market non-current (Notes 4, 8 and 27)	-	-	2,549	-
Investment accounted for using equity method (Notes 4 and 11)	269,650	11	280,561	22
Property, plant and equipment (Notes 4 and 12)	48,250	2	38,134	3
Intangible assets (Notes 4, 5 and 13)	3,309	-	6,039	-
Deferred tax assets (Notes 4 and 21)	10,467	1	7,079	1
Other non-current assets (Notes 4 and 14)	1,260	-	1,213	-
Total non-current assets	335,513	14	335,575	26
TOTAL	$ 2,438,059	100	$ 1,269,954	100

	2018		2017	
LIABILITIES AND EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Short-term bank loans (Notes 4, 15 and 27)	$ -	-	$ 130,000	10
Contract liabilities - current (Note 19)	6,012	-	-	-
Accounts payable (Note 4)	48,971	2	41,128	3
Accounts payable to related parties (Notes 4 and 26)	126,379	5	41,802	3
Other payables to related parties (Notes 4 and 26)	6,048	-	8,654	1
Current tax liabilities (Notes 4 and 21)	30,495	2	23,635	2
Other current liabilities (Notes 4 and 16)	50,771	2	48,593	4
Total current liabilities	268,676	11	293,812	23
NON-CURRENT LIABILITIES				
Deferred income tax liabilities (Notes 4 and 21)	41	-	-	-
Total liabilities	268,717	11	293,812	23
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY (Notes 4, 18 and 23)				
Ordinary shares	778,279	32	679,809	54
Capital surplus	1,124,721	46	52,187	4
Retained earnings				
Legal reserve	34,567	1	14,158	1
Special reserve	526	-	-	-
Unappropriated earnings	230,859	10	230,514	18
Other equity				
Exchange differences on translating the financial statements of foreign operations	390	-	(526)	-
Total equity	2,169,342	89	976,142	77
TOTAL	$ 2,438,059	100	$ 1,269,954	100

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

SILICON OPTRONICS, INC.

PARENT COMPANY ONLY 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 (Notes 4, 19 and 26)	$ 2,034,267	100	$ 1,714,565	100
OPERATING COSTS (Notes 10, 20 and 26)	1,564,468	77	1,214,537	71
GROSS PROFIT	469,799	23	500,028	29
OPERATING EXPENSES (Notes 20 and 26)				
Selling and marketing expenses	19,706	1	14,697	1
General and administrative expenses	41,538	2	34,375	2
Research and development expenses	216,422	11	195,125	11
Total operating expenses	277,666	14	244,197	14
OPERATING INCOME	192,133	9	255,831	15
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 4 and 20)	8,637	1	2,979	-
Other gains and losses (Notes 4 and 20)	(194)	-	(13,532)	(1)
Financial costs	(390)	-	(508)	-
Share of loss of associates (Notes 4 and 11)	(11,827)	(1)	(8,471)	-
Total non-operating income and expenses	(3,774)	-	(19,532)	(1)
PROFIT BEFORE INCOME TAX	188,359	9	236,299	14
INCOME TAX EXPENSE (Notes 4 and 21)	(30,927)	(1)	(32,212)	(2)
NET PROFIT FOR THE YEAR	157,432	8	204,087	12
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Notes 4 and 17)	(56)	-	(55)	-
Item that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of foreign operations (Notes 4 and 18)	916	-	(2,499)	-
Total other comprehensive income (loss)	860	-	(2,554)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 158,292	8	$ 201,533	12
EARNINGS PER SHARE (Note 22)				
Basic	$ 2.17		$ 3.02	
Diluted	$ 2.15		$ 3.00	

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

SILICON OPTRONICS, INC.

STATEMENTS OF CHANGES IN EQUITY
YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	Ordinary Shares			Retained Earnings			Other Equity	
	Shares (In Thousands)	Amount	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating the Financial Statements of Foreign Operations	Total Equity
BALANCE, JANUARY 1, 2017	$ 66,936	$ 669,359	$ 30,179	$ 990	$ -	$ 140,528	$ 1,973	$ 843,029
Appropriation of 2016 earnings								
Legal reserve	-	-	-	13,168	-	(13,168)	-	-
Cash dividends distributed by the Company	-	-	-	-	-	(100,878)	-	(100,878)
Net profit for the year ended December 31, 2017	-	-	-	-	-	204,087	-	204,087
Other comprehensive income for the year ended December 31, 2017	-	-	-	-	-	(55)	(2,499)	(2,554)
Total comprehensive income for the year ended December 31, 2017	-	-	-	-	-	204,032	(2,499)	201,533
Issuance of ordinary shares under employee share options	1,045	10,450	21,952	-	-	-	-	32,402
Share-based payment	-	-	56	-	-	-	-	56
BALANCE, DECEMBER 31, 2017	67,981	679,809	52,187	14,158	-	230,514	(526)	976,142
Appropriation of 2017 earnings								
Legal reserve	-	-	-	20,409	-	(20,409)	-	-
Special reserve	-	-	-	-	526	(526)	-	-
Cash dividends distributed by the Company	-	-	-	-	-	(136,096)	-	(136,096)
Net profit for the year ended December 31, 2018	-	-	-	-	-	157,432	-	157,432
Other comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	-	(56)	916	860
Total comprehensive income for the year ended December 31, 2018	-	-	-	-	-	157,376	916	158,292
Issuance of ordinary shares for cash	9,285	92,850	1,057,885	-	-	-	-	1,150,735
Issuance of ordinary shares under employee share options	562	5,620	9,903	-	-	-	-	15,523
Share-based payment	-	-	4,746	-	-	-	-	4,746
BALANCE, DECEMBER 31, 2018	$ 77,828	$ 778,279	$ 1,124,721	$ 34,567	$ 526	$ 230,859	$ 390	$ 2,169,342

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

SILICON OPTRONICS, INC.

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

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	$ 188,359	$ 236,299
Adjustments for:		
Depreciation expenses	35,855	30,674
Amortization expenses	3,657	3,450
Finance costs	390	508
Interest income	(8,214)	(2,936)
Share-based payment	4,746	56
Share of loss of associates	11,827	8,471
Write-downs of (reversal of) inventories	25,042	(28,797)
Net loss on foreign currency exchange	7,506	17,606
Changes in operating assets and liabilities		
Accounts receivable	(46,717)	3,902
Other receivables	-	6,255
Inventories	(153,137)	(293,596)
Prepayments and other current assets	(238)	(17,925)
Contract liabilities	1,111	-
Accounts payable	7,656	(18,046)
Accounts payables to related parties	84,606	(46,621)
Other payables to related parties	(2,606)	3,690
Accrued expenses and other current liabilities	3,059	(6,521)
Net defined benefit liabilities	(73)	(73)
Cash generated from (used in) operations	162,829	(103,604)
Income tax paid	(27,414)	(27,989)
Net cash generated from (used in) operating activities	135,415	(131,593)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets at amortized cost	(929,192)	-
Proceeds from financial assets at amortized cost	199,323	-
Acquisition of debt investments without active market	-	(112,321)
Proceeds from debt investments without active market	-	9,173
Acquisition of property, plant and equipment	(41,953)	(37,748)
(Increase) decrease in refundable deposits	(30)	38
Acquisition of intangible assets	(927)	-
Interest received	8,214	2,936
Net cash used in investing activities	(764,565)	(137,922)

(Continued)

SILICON OPTRONICS, INC.

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

	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) increase in short-term bank loans	$ (130,000)	$ 130,000
Dividends paid	(136,096)	(100,878)
Issuance of ordinary shares for cash	1,150,735	-
Exercise of employee share options	15,523	32,402
Interest paid	(390)	(508)
Net cash generated from financing activities	899,772	61,016
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(7,166)	(13,036)
NET INCREASE (DECREASE) IN CASH	263,456	(221,535)
CASH AT THE BEGINNING OF THE YEAR	208,315	429,850
CASH AT THE END OF THE YEAR	$ 471,771	$ 208,315

The accompanying notes are an integral part of the parent company only financial statement. (Concluded)

SILICON OPTRONICS, INC.

NOTES TO PARENT COMPANY ONLY FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

Silicon Optronics, Inc. (the "Company") was incorporated in the Republic of China ("ROC") on May 24, 2004 and commenced business on May 27, 2004. The Company's main business activities include Design, development and sales for Complementary Metal-Oxide Semiconductor.

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

The parent company only financial statements are presented in the Company's functional currency, New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The parent company only financial statements were approved by the board of directors and authorized for issue on March 8, 2019.

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

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

   Except for the following, whenever applied, 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 would not have any material impact on the Company's accounting policies:

   1) 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. 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 of January 1, 2018, the Company has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amount under IAS 39 and the new measurement categories and carrying amount under IFRS 9 for each class of the Company's financial assets and financial liabilities as of January 1, 2018.

	Measurement Category		Carrying Amount		
Financial Assets	**IAS 39**	**IFRS 9**	**IAS 39**	**IFRS 9**	**Remark**
Cash and cash equivalents	Loans and receivables	Amortized cost	$ 208,315	$ 208,315	(a)
Time deposits with original maturities of more than 3 month	Loans and receivables	Amortized cost	10,043	10,043	(a)
Pledged time deposits	Loans and receivables	Amortized cost	91,829	91,829	(a)
Accounts receivable	Loans and receivables	Amortized cost	12,425	12,425	(a)
Refundable deposits	Loans and receivables	Amortized cost	904	904	(a)

Financial Assets	IAS 39 Carrying Amount as of January 1, 2018	Reclassifi-cations	Remea-surements	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
Amortized cost	$ -	$ -	$ -				
Add: Reclassification from loans and receivables (IAS 39)	-	323,516	-				(a)
	$ -	$ 323,516	$ -	$ 323,516	$ -	$ -	

a) Cash and cash equivalents, time deposits with original maturities of more than 3 month, pledged time deposits, accounts receivable and refundable deposits which were classified as loans and receivables under IAS 39 are now classified at amortized cost per the lifetime expected credit losses under IFRS 9.

2) IFRS 15 "Revenue from Contracts with Customers" and related amendments

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers and supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations. Refer to Note 4 for related accounting policies.

In identifying performance obligations, IFRS 15 and the related amendments require that a good or service is distinct if it is capable of being distinct (for example, the Company regularly sells it separately) and the promise to transfer it is distinct within the context of the contract (i.e. the nature of the promise in the contract is to transfer each good or service individually rather than to transfer a combined output).

Under IFRS 15, the net effect of revenue recognized and consideration received and receivable is recognized as a contract asset or a contract liability. Prior to the application of IFRS 15, receivables were recognized or deferred revenue was reduced when revenue was recognized for the relevant contract under IAS 18.

If the contract is non-cancellable, the Company will recognize a receivable and a contract liability when it has an unconditional right to the consideration in accordance with IFRS 15. Prior to the application of IFRS 15, consideration was recognized as deferred revenue when received.

The Company elected only to retrospectively apply IFRS 15 to contracts that were not complete as of January 1, 2018 and recognize the cumulative effect of the change in retained earnings on January 1, 2018.

Besides, no difference in the applicable IAS 18 or IFRS 15 of the Company.

Retrospective application of IFRS 15 has no significant impact on assets, liabilities and equity as at January 1, 2018.

3) IFRIC 22"Foreign Currency Transactions and Advance Consideration"

IAS 21 stipulated that a foreign currency transaction shall be recorded on initial recognition in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. IFRIC 22 further explains that the date of the transaction is the date on which an entity recognizes a non-monetary asset or non-monetary liability from payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine the date of the transaction for each payment or receipt of advance consideration.

The Company applied IFRIC 22 prospectively to all assets, expenses and income recognized on or after January 1, 2018 within the scope of the Interpretation.

b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS endorsed by the FSC for application starting from 2019

New, Amended or Revised Standards and Interpretations (the "New IFRSs")	**Effective Date Announced by IASB (Note 1)**
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 IFRSs 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 2018.

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

1) IFRS 16 "Leases"

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17, IFRIC 4 and a number of related interpretations.

Definition of a lease

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

The Company as lessee

Upon initial application of IFRS 16, the Company will recognize right-of-use assets, or investment properties if the right-of-use assets meet the definition of investment properties, and lease liabilities for all leases on the parent company only balance sheets except for those whose payments under low-value asset and short-term leases will be recognized as expenses on a straight-line basis. On the parent company only statements of comprehensive income, the Company 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 parent company only 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 financing activities. Currently, payments under operating lease contracts, are recognized as expenses on a straight-line basis. Cash flows for operating leases are classified within operating activities on the parent company only statements of cash flows.

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

Lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases with the application of IAS 17. Lease liabilities 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 will be measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. Except for the following practical expedients which are to be applied, the Company will apply IAS 36 to all right-of-use assets.

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 exclude initial direct costs from the measurement of right-of-use assets on January 1, 2019.

d) The Company will use hindsight, such as in determining lease terms, to measure lease liabilities.

Anticipated impact on assets, liabilities and equity

	Carrying Amount as of December 31, 2018	**Adjustments Arising from Initial Application**	**Adjusted Carrying Amount as of January 1, 2019**
Right-of-use assets	$ -	$ 17,312	$ 17,312
Total effect on assets	$ -	$ 17,312	$ 17,312
Lease liabilities - current	$ -	$ 4,086	$ 4,086
Lease liabilities - non-current	-	13,226	13,226
Total effect on liabilities	$ -	$ 17,312	$ 17,312
Total effect on equity	$ -	$ -	$ -

2) IFRIC 23 "Uncertainty over Income Tax Treatments"

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

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

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

Except for the above impacts, as of the date the parent company only financial statements were authorized for issue, the Company continues assessing other possible impacts that the application of the aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will have on the Company's financial position and financial performance and will disclose these other impacts when the assessment is completed.

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 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 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.

1) Amendments to IFRS 3 "Definition of a Business"

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

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

b. Basis of preparation

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

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

1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

3) Level 3 inputs are unobservable inputs for an asset or liability.

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

Current assets include:

1) Assets held primarily for the purpose of trading;

2) Assets expected to be realized within 12 months after the reporting period; and

3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;

2) Liabilities due to be settled within 12 months after the reporting period; and

3) Liabilities for which the Company does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

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

d. Foreign currencies

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

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

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

At the time of the preparation of the parent company only financial statements, the assets and liabilities of the company and its foreign operating institutions (including the country in which it operates or the currency in which it is used are different from the company) are converted to NT dollars at each balance sheet date. Income and fee loss items are converted at the current average exchange rate and the resulting exchange margin is shown in other individual gains and losses.

e. Inventories

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

f. Investments in associates

The Company uses the equity method to process investments in subsidiaries.

Subsidiary means an individual controlled by the company.

Under the equity method, the original investment is recognized at cost, and the future carrying amount is increased or decreased depending on the profit and loss of subsidiaries and other comprehensive profit and loss shares and profit distribution enjoyed by the Company. In addition, changes to the Company's other interests in the subsidiary are recognized based on shareholding ratio.

When the Company's change in the ownership interest in the subsidiary does not result in loss of control, it is treated as an equity transaction. The difference between the carrying amount of the investment and the fair value of the consideration paid or received is directly recognized as an equity.

When the Company's share of the loss to the subsidiary is equal to or exceeds its interest in the subsidiary (including the carrying amount of the subsidiary under the equity method and other long-term equity of the Company's net investment component of the subsidiary) Continue to recognize the loss according to the shareholding ratio.

The amount of the acquisition is more than the amount of the net fair value of the identifiable assets and liabilities of the subsidiaries of the Company at the date of acquisition. The goodwill is included in the carrying amount of the investment and is not amortized; the amount of the net fair value of the identifiable assets and liabilities of subsidiaries is more than the acquisition cost.

When the Company evaluates the impairment, it considers the cash-generating unit as a whole in the financial report and compares its recoverable amount with the book value. If the recoverable amount of the asset increases, the amount of the impairment loss is recognized as an interest. However, the carrying amount of the asset after the loss of the impairment loss shall not exceed the amount of the asset that is not recognized for impairment loss. The carrying amount after amortization. The impairment loss attributable to goodwill shall not be reversed during the subsequent period.

When the control of the subsidiary is lost, the company measures its residual investment in the former subsidiary based on the fair value of the loss control date, the difference between the fair value of the remaining investment and the difference between the price of any disposal and the amount of the investment on the date of loss of control. Current profit and loss. In addition, the accounting treatment of all amounts recognized in other comprehensive gains and losses in relation to the subsidiary is the same as the basis on which the Company must directly dispose of the relevant assets or liabilities.

The downstream transactions of the Company and its subsidiaries are not realized in profit or loss and are eliminated from parent company only financial statements. The gains and losses arising from the countercurrent and side stream transactions between the Company and its subsidiaries are recognized in parent company only financial statements only within the scope of the Company's interest in subsidiaries.

g. Property, plant and equipment

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

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

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

h. Intangible assets

1) Impairment of tangible and intangible assets other than goodwill

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

2) Derecognition of intangible assets

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

i. Impairment of tangible and intangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, for any indication of impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of a corporate asset, the asset is tested for impairment in the context of the cash-generating unit (CGU) to which the asset belongs. If a portion of the carrying amount of the asset can be allocated on a reasonable and consistent basis to the CGU, the Company compares the carrying amount of the CGU, including the portion of the asset's carrying amount allocated to the CGU, with the recoverable amount of the CGU to which the asset belongs. If this reasonable and consistent basis of allocation cannot be applied to the CGU to which the asset belongs and can be applied instead to the smallest Company of CGUs to which the CGU belongs, this smallest Company is used for impairment testing.

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

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

j. Financial instruments

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

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

1) Financial assets

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

a) Measurement categories

<u>2018</u>

Financial assets are classified into the following categories: Financial assets at amortized cost and equity instruments at FVTOCI.

i. Financial assets at amortized cost

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

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

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

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

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

i) Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such financial assets; and

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

Cash include highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash are held for the purpose of meeting short-term cash commitments.

<u>2017</u>

Financial assets are classified as loans and receivables (including cash and cash equivalents, accounts receivable, debt investments with no active market and refundable deposits) are measured using the effective interest method at amortized cost less any impairment, except for short-term receivables when the effect of discounting is immaterial.

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

b) Impairment of financial assets

<u>2018</u>

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

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

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

The Company recognizes an impairment loss in 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 FVTPL, 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, as a result of one or more events that occurred after the initial recognition of such financial assets, that the estimated future cash flows of the investment have been affected.

Financial assets at amortized cost, such as trade receivables 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 Company's past experience with collecting payments, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized 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 was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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 becoming 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.

The carrying amount of a financial asset is reduced by the impairment loss directly for all financial assets, with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When trade receivables are 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 are recognized in profit or loss except for uncollectible trade receivables that are written off against the allowance account.

c) Derecognition of financial assets

The Company 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 2018, 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 which had been recognized in other comprehensive income is recognized in profit or loss. Starting 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.

2) Equity instruments

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

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

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

3) Financial liabilities

a) Subsequent measurement

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

b) Derecognition of financial liabilities

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

k. Revenue recognition

<u>2018</u>

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

1) Commodity sales revenue

Product sales revenue comes from the sale of image sensing products. As the goods are delivered to the customer's designated location, the customer has the right to set the price and use of the goods and has the primary responsibility for reselling, and bears the risk of obsolete obsolete goods. The company recognizes the income and receivables at that time. Accounts, advance receipts of goods are recognized as contract liabilities before the goods are delivered.

When the material processing is performed, the control of the ownership of the processed product is not transferred, and the income is not recognized when the material is removed.

2) Labor income

Provide entrusted design services in accordance with customer contract specifications and recognize them when fulfilling performance obligations

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.

1) Revenue from the sale of goods

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

   a) The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;

   b) The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

   c) The amount of revenue can be measured reliably;

   d) It is probable that the economic benefits associated with the transaction will flow to the Company; and

   e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

   When the material processing is performed, the control of the ownership of the processed product is not transferred, and the income is not recognized when the material is removed.

2) Provision of labor

   Labor income is recognized when the labor service is provided. Revenue generated by the provision of services under the contract is recognized based on the degree of completion of the contract.

3) Interest income

   Interest income from financial assets is recognized when economic benefits are likely to flow into the company and the amount of revenue can be reliably measured. Interest income is recognised on an accrual basis based on the circulated foreign principal and the applicable effective interest rate.

l. Leasing

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

The Company as lessee operating lease payments are recognized as expenses on a straight-line basis over the lease term.

m. Borrowing costs

Borrowing costs directly attributable to an acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other than that which is stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

n. Employee benefits

Retirement benefits

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

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

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

o. Share-based payment arrangements

Employee share options granted to employees

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

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

p. Taxation

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

1) Current tax

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

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

2) Deferred tax

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

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

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

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

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

3) Current and deferred taxes for the year

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

a. Write-down of inventories

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

b. Goodwill impairment included in investment subsidiaries

When it is determined whether the goodwill included in the investment subsidiary is impaired, the goodwill acquired by the merger is allocated to the cash-generating unit that the company expects to benefit from the consolidation of the synergy, and the use of the cash-generating unit of the goodwill is estimated value. In order to calculate the value in use, the management should estimate the future cash flows expected to arise from the cash-generating unit of the goodwill and determine the appropriate discount rate to use in calculating the present value. If the actual cash flow is less than expected, significant impairment losses may occur.

6. CASH

	December 31	
	2018	**2017**
Cash on hand	$ 115	$ 194
Bank deposits	70,979	44,441
Cash equivalents		
Bank time deposits	400,677	163,680
	$ 471,771	$ 208,315

The market rates of cash in bank at the end of the reporting period were as follows:

	December 31	
	2018	**2017**
Bank time deposits	0.24%-3.00%	1.75%-1.80%

7. FINANCIAL ASSETS AT AMORTIZED COST - 2018

	December 31, 2018
Current	
Time deposit with original maturity more than 3 month (a)	$ 828,944
Non-current	
Pledged time deposits (a and c)	$ 2,577

a. The interest rates for time deposits with original maturity of more than 3 month were from 0.16% to 3.8% as at the end of the reporting period. The time deposits were classified as debt investments without active market under IAS 39. Refer to Notes 3 and 8 for information relating to their reclassification and comparative information for 2017.

b. Refer to Note 25 for information relating to their credit risk management and impairment of financial assets at amortized cost.

c. Refer to Note 27 for information relating to investments in financial assets at amortized cost pledged as security.

8. DEBT INVESTMENTS WITHOUT ACTIVE MARKET - 2017

	December 31, 2017
Non-current	
Pledged time deposits	$ 89,280
Time deposits with original maturity more than 3 month	10,043
	$ 99,323
Non-current	
Pledged time deposits	$ 2,549

a. As of December 31, 2017, the market interest rates of the time deposits with original maturities more than 3 month were 1.07%-2.95%.

b. Refer to Note 27 for information relating to debt investments without active market pledged as security.

9. ACCOUNTS RECEIVABLE

	December 31	
	2018	2017
Accounts receivable-unrelated parties		
At amortized cost		
Gross carrying amount	$ 59,182	$ 12,425
Less: Allowance for impairment loss	-	-
	$ 59,182	$ 12,425

For the year ended 2018

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

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

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

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

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

December 31, 2018

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

For the year ended 2017

The Company applied the same credit policy in 2018 and 2017. In determining the recoverability of an account receivable, the Company considered any change in the credit quality of the account receivable since the date credit was initially granted to the end of the reporting period. Allowance for doubtful accounts were recognized against accounts receivable based on estimated irrecoverable amount which is determined by reference to average default days of the counterparties in the past year.

The aging analysis of receivables was as follows:

	December 31, 2017
1-60 days	$ 12,425

The above analysis was based on the past due date.

The Company didn't have the aging of receivables that were past due but not impaired

10. INVENTORIES

	December 31	
	2018	2017
Finished goods	$ 344,432	$ 358,219
Work in process	349,357	207,852
Raw materials	632	255
	$ 694,421	$ 566,326

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2018 and 2017 was $1,564,468 thousand and $1,214,537 thousand, respectively. The cost of goods sold included inventory write-downs of $25,042 thousand and reversals of inventory write-downs of $(28,797) thousand. The reversals of previous write-downs for the year ended December 31, 2018 resulted from obsolescence inventory has been sold.

11. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Investments in subsidiaries

	December 31	
	2018	2017
NUEVA IMAGING, INC.	$ 254,800	$ 269,960
Silicon Optronics (Cayman) Co., Ltd.	14,850	10,601
	$ 269,650	$ 280,561

Name of associate

	Proportion of Ownership and Voting Rights	
	December 31	
	2018	2017
NUEVA IMAGING, INC.	100%	100%
Silicon Optronics (Cayman) Co., Ltd.	100%	100%

The profit and loss of the subsidiaries of the equity method and other comprehensive gains and losses in the 2018 and 2017 years were recognized based on the financial reports audited by the accountants in the same period.

12. PROPERTY, PLANT AND EQUIPMENT

	Testing Equipment	Molding Equipment	Computer	Office Equipment	Leasehold improvement	Mask	Total
Cost							
Balance at January 1, 2017	$ 3,940	$ 12,524	$ 1,276	$ 261	$ 204	$ 120,857	$ 139,062
Additions	180	6,334	-	-	-	31,649	38,163
Balance at December 31, 2017	$ 4,120	$ 18,858	$ 1,276	$ 261	$ 204	$ 152,506	$ 177,225
Accumulated depreciation							
Balance at January 1, 2017	$ 2,487	$ 5,060	$ 1,233	$ 225	$ 176	$ 98,053	$ 107,234
Depreciation expense	450	3,934	43	17	20	26,210	30,674
Balance at December 31, 2017	$ 2,937	$ 8,994	$ 1,276	$ 242	$ 196	$ 124,263	$ 137,908
Accumulated impairment							
Balance at January 1, 2017	$ -	$ 1,183	$ -	$ -	$ -	$ -	$ 1,183
Impairment loss	-	-	-	-	-	-	-
Balance at December 31, 2017	$ -	$ 1,183	$ -	$ -	$ -	$ -	$ 1,183
Carrying amounts at December 31, 2017	$ 1,183	$ 8,681	$ -	$ 19	$ 8	$ 28,243	$ 38,134

(Continued)

	Testing Equipment	Molding Equipment	Computer	Office Equipment	Leasehold improvement	Mask	Total
Cost							
Balance at January 1, 2018	$ 4,120	$ 18,858	$ 1,276	$ 261	$ 204	$ 152,506	$ 177,225
Additions	-	(214)	155	-	-	46,030	45,971
Balance at December 31, 2018	$ 4,120	$ 18,644	$ 1,431	$ 261	$ 204	$ 198,536	$ 223,196
Accumulated depreciation							
Balance at January 1, 2018	$ 2,937	$ 8,994	$ 1,276	$ 242	$ 196	$ 124,263	$ 137,908
Depreciation expense	472	4,048	13	6	8	31,308	35,855
Balance at December 31, 2018	$ 3,409	$ 13,042	$ 1,289	$ 248	$ 204	$ 155,571	$ 173,763
Accumulated impairment							
Balance at January 1, 2017	$ -	$ 1,183	$ -	$ -	$ -	$ -	$ 1,183
Impairment loss	-	-	-	-	-	-	-
Balance at December 31, 2017	$ -	$ 1,183	$ -	$ -	$ -	$ -	$ 1,183
Carrying amounts at December 31, 2018	$ 711	$ 4,419	$ 142	$ 13	$ -	$ 42,965	$ 48,250

(Concluded)

The Company’s property, plant and equipment were depreciated on a straight-line basis over the following estimated useful life:

Testing equipment	2-5 years
Molding equipment	3 years
Computer	3 years
Office equipment	5 years
Leasehold improvement	5-8 years
Mask	2 years

13. INTANGIBLE ASSETS

	Patents	Software	Total
Cost			
Balance at January 1, 2017	$ 45,659	$ -	$ 45,659
Additions	-	-	-
Balance at December 31, 2017	$ 45,659	$ -	$ 45,659
Accumulated amortization			
Balance at January 1, 2017	$ 36,170	$ -	$ 36,170
Amortization expense	3,450	-	3,450
Balance at December 31, 2017	$ 39,620	$ -	$ 39,620
Carrying amounts at December 31, 2017	$ 6,039	$ -	$ 6,039

(Continued)

	Patents	Software	Total
Cost			
Balance at January 1, 2018	$ 45,659	$ -	$ 45,659
Additions	-	927	927
Balance at December 31, 2018	$ 45,659	$ 927	$ 46,586
Accumulated amortization			
Balance at January 1, 2018	$ 39,620	$ -	$ 39,620
Amortization expense	3,451	206	3,657
Balance at December 31, 2018	$ 43,071	$ 206	$ 43,277
Carrying amounts at December 31, 2018	$ 2,588	$ 721	$ 3,309

(Concluded)

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

Patents	7 years
Software	3 years

14. OTHER ASSETS

	December 31	
	2018	2017
Current		
Prepaid technical service fee	$ 21,359	$ 8,951
Tax receivable	14,764	31,400
Prepayment for purchases	1,214	3,274
Others	10,891	4,365
	$ 48,228	$ 47,990
Non-current		
Refundable deposits	$ 934	$ 904
Net defined benefit assets	326	309
	$ 1,260	$ 1,213

15. BORROWINGS

Short-term borrowings

	December 31	
	2018	2017
Secured borrowings		
Bank loans	$ -	$ 50,000
Unsecured borrowings		
Line of credit borrowings	-	80,000
	$ -	$ 130,000

The range of weighted average effective interest rates on bank loans was 1.10%-1.29% per annum as of December 31, 2017. Refer to Note 27 for secured short-term borrowings.

16. OTHER LIABILITIES

	December 31	
	2018	2017
Current		
Other payables		
Payables for employees' remuneration	$ 21,206	$ 20,765
Payables for bonus	8,848	7,679
Payables for purchases of equipment	7,926	3,908
Payables for directors' remuneration	2,500	2,500
Others	10,174	8,604
	50,654	43,456
Other liabilities		
Receipt in advance	-	4,901
Receipt under custody	117	236
	117	5,137
	$ 50,771	$ 48,593

17. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

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

b. Defined benefit plans

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

The amounts based on the actuary report of the Company’s defined benefit plans were as follows:

	December 31	
	2018	**2017**
Present value of funded defined benefit obligation	$ 1,149	$ 1,043
Fair value of plan assets	(1,475)	(1,352)
Net defined benefit assets	$ (326)	$ (309)

Movements in net defined benefit assets were as follows:

	Present Value of the Defined Benefit Obligation	**Fair Value of the Plan Assets**	**Net Defined Benefit Assets**
Balance at January	$ 979	$ (1,270)	$ (291)
Net interest expense (income)	15	(19)	(4)
Recognized in profit or loss	15	(19)	(4)
Remeasurement			
Actuarial loss			
Actuarial loss - changes in financial assumptions	46	-	46
Actuarial loss - experience adjustments	3	6	9
Recognized in other comprehensive loss	49	6	55
Contributions from the employer	-	(69)	(69)
Balance at December 31, 2017	1,043	(1,352)	(309)
Net interest expense (income)	11	(14)	(3)
Recognized in profit or loss	11	(14)	(3)
Remeasurement			
Actuarial (gain) loss			
Actuarial loss - changes in financial assumptions	12	-	12
Actuarial loss - experience adjustments	83	(39)	44
Recognized in other comprehensive loss (income)	95	(39)	56
Contributions from the employer	-	(70)	(70)
Balance at December 31, 2018	$ 1,149	$ (1,475)	$ (326)

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

1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk: A decrease in the 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 plans' debt investments.

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

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

	December 31	
	2018	**2017**
Discount rate	1.0%	1.1%
Expected rate of salary increase	3.0%	3.0%

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

	December 31	
	2018	**2017**
Discount rate		
0.25% increase	$ (30)	$ (29)
0.25% decrease	$ 31	$ 30
Expected rate of salary increase		
0.25% increase	$ 27	$ 26
0.25% decrease	$ (26)	$ (26)

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

	December 31	
	2018	**2017**
Expected contributions to the plans for the next year	$ 70	$ 69
Average duration of the defined benefit obligation	11 years	12 years

18. EQUITY

a. Ordinary shares

	December 31	
	2018	**2017**
Numbers of shares authorized (in thousands)	100,000	100,000
Shares authorized	$ 1,000,000	$ 1,000,000
Number of shares issued and fully paid (in thousands)	77,828	67,981
Shares issued	$ 778,279	$ 679,809

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

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

b. Capital surplus

	December 31	
	2018	**2017**
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)		
Arising from issuance of ordinary shares	$ 1,107,434	$ 39,646
May be used to offset a deficit only		
Arising from employee share options exercised price	11,915	6,440
May not be used for any purpose		
Arising from employee share options	5,372	6,101
	$ 1,124,721	$ 52,187

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

For each class of capital surplus was as follows:

	Premium on Issue of Shares	Arising from Employee Share Options	Total
Balance at January 1, 2017	$ 17,694	$ 12,485	$ 30,179
Employee share options exercised	21,952	-	21,952
Arising on share-based payments	-	56	56
Balance at December 31, 2017	39,646	12,541	52,187
Issuance of ordinary shares for cash	1,057,885	-	1,057,885
Employee share option not exercised	9,903	-	9,903
Arising on share-based payments	-	4,746	4,746
Balance at December 31, 2018	$ 1,107,434	$ 17,287	$ 1,124,721

c. Retained earnings and dividend policy

The Company's Articles of Incorporation state that, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting accumulated losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors after the amendment, refer to "Employees' compensation and remuneration of directors" in Note 20 (f).

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

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

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

The appropriations of earnings for 2017 and 2016 which had been approved in the shareholders' meetings on June 8, 2018 and June 8, 2017, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share (NT$)	
	Year Ended December 31		Year Ended December 31	
	2017	2016	2017	2016
Legal reserve	$ 20,409	$ 13,168		
Special reserve	526	$ -		
Cash dividends	136,096	100,878	$ 2.0	$ 1.5
	$ 157,031	$ 114,046		

The appropriations of earnings for 2018 had been proposed by the Company's board of directors on March 8, 2019. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT$)
Legal reserve	$ 15,743	
Special reserve	(526)	
Cash dividends	155,955	$ 2.0

The appropriations of earnings for 2018 are subject to the resolution of the shareholders' meeting to be held on June 18, 2019.

d. Other equity items

	For the Year Ended December 31	
	2018	2017
Balance, beginning of year	$ (526)	$ 1,973
Exchange differences on translation of foreign operations	916	(2,499)
Balance, end of year	$ (390)	$ (526)

19. REVENUE

	Year Ended December 31	
	2018	2017
Revenue from contracts with customers		
Revenue from sale of goods	$ 2,026,840	$ 1,692,611
Other	7,427	21,954
	$ 2,034,267	$ 1,714,565

a. Contact balances

	December 31, 2018
Accounts receivables (Note 9)	$ 59,182
Contract liabilities-current	
Sale of goods	$ 6,012

Revenue of the reporting period recognized from the beginning contract liabilities in the previous periods is as follows:

	Year Ended December 31, 2018
From the beginning contract liabilities	
Sale of goods	$ 2,345

b. Partially completed contracts

	Year Ended December 31, 2018
Primary geographical markets	
Hong Kong	$ 1,798,780
United States of America	136,026
Taiwan (Company located)	46,506
India	29,738
Korea	15,744
Philippines	7,473
	$ 2,034,267
Major sales goods	
CMOS	$ 1,938,304
Other	95,963
	$ 2,034,267

20. NET PROFIT FROM CONTINUING OPERATIONS

a. Other income

	Year Ended December 31	
	2018	2017
Interest income	$ 8,214	$ 2,936
Others	423	43
	$ 8,637	$ 2,979

b. Other gains and losses

	Year Ended December 31	
	2018	2017
Net foreign exchange loss	$ (194)	$ (13,532)

c. Finance costs

	Year Ended December 31	
	2018	2017
Interest on loans	$ 390	$ 508

d. Depreciation and amortization

	Year Ended December 31	
	2018	2017
Property, plant and equipment	$ 35,855	$ 30,674
Intangible assets	3,657	3,450
Total	$ 39,512	$ 34,124
An analysis of depreciation by function		
Operating costs	$ 16,105	$ 12,802
Operating expenses	19,750	17,872
	$ 35,855	$ 30,674
An analysis of amortization by function		
Research and development expenses	$ 3,657	$ 3,450

e. Employee benefits expense

	Year Ended December 31	
	2018	2017
Post-employment benefits		
Defined contribution plans	$ 2,948	$ 2,888
Defined benefit plans	(3)	(4)
	2,945	2,884
Share-based payments		
Equity-settled	4,746	56
Other employee benefits	100,303	90,290
Total employee benefits expense	$ 107,994	$ 93,230
An analysis of employee benefits expense by function		
Operating expenses	$ 107,994	$ 93,230

f. Employees’ compensation and remuneration of directors

According to the Articles of Incorporation of the Company, the Company accrued employees’ compensation at rate of no less than 0.005% and no higher than 25% and remuneration of directors and supervisors at rate of no higher than 3%. The employee compensation and directors' compensation for the years ended December 31, 2018 and 2017 were resolved by the board of directors on March 8, 2019 and March 9, 2007, respectively.

Accrual rate

	Year Ended December 31	
	2018	2017
Employees’ compensation	10%	8%
Remuneration of directors and supervisors	1%	1%

Amount

	Year Ended December 31	
	2018	2017
Employees’ compensation	$ 21,206	$ 20,765
Remuneration of directors and supervisors	2,500	2,500

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

There is no difference between the actual amounts of employees’ compensation and remuneration of directors paid and the amounts recognized in the parent company only financial statements for the years ended December 31, 2017 and 2016.

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

21. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax recognized in profit or loss

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

	Year Ended December 31	
	2018	2017
Current tax		
In respect of the current year	$ 28,948	$ 27,505
Additional income tax on unappropriated earnings	4,700	1,758
Adjustments for prior periods	626	2,189
	34,274	31,452
Deferred tax		
Adjustments to deferred tax attributable to changes in tax rates and laws	(1,249)	-
In respect of the current year	(2,098)	760
	(3,347)	760
Income tax expense recognized in profit or loss	$ 30,927	$ 32,212

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

	Year Ended December 31	
	2018	2017
Profit before tax from continuing operations	$ 188,359	$ 236,299
Income tax expense calculated at the statutory rate	$ 37,672	$ 40,170
Nondeductible expenses in determining taxable income	2,365	1,440
Income tax on unappropriated earnings	4,700	1,758
Unrecognized deductible temporary differences	3,332	(2,560)
Investment credits of the current year	(14,421)	(11,545)
Deferred tax		
Temporary differences	(2,098)	760
Adjustments to deferred tax attributable to changes in tax rates and laws	(1,249)	-
Adjustments for prior years' tax	626	2,189
Income tax expense recognized in profit or loss	$ 30,927	$ 32,212

In 2017, the applicable corporate income tax rate used by the Company entities in the ROC is 17%. However, the Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%.

As the status of 2019 appropriations of earnings is uncertain, the potential income tax consequences of 2018 unappropriated earnings are not reliably determinable.

b. Current tax assets and liabilities

	December 31	
	2018	2017
Current tax liabilities		
Income tax payable	$ 30,495	$ 23,635

c. Deferred tax assets and liabilities

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

Year ended December 31, 2018

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

Year ended December 31, 2017

	Opening Balance	Recognized in Profit or Loss	Closing Balance
Deferred tax assets			
Allowance for impairment loss	$ 8,108	$ (2,419)	$ 5,689
Loss on foreign currency exchange	676	714	1,390
	$ 8,784	$ (1,705)	$ 7,079
Deferred tax liabilities			
Gain on foreign currency exchange	$ 945	$ (945)	$ -

d. Income tax assessments

The tax returns through 2016 have been assessed by the tax authorities.

22. EARNINGS PER SHARE

Unit: NT$ Per Share

	Year Ended December 31	
	2018	2017
Basic earnings per share	$ 2.17	$ 3.02
Diluted earnings per share	$ 2.15	$ 3.00

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

Net Profit for the Year

	Year Ended December 31	
	2018	2017
Earnings used in the computation of basic earnings per share	$ 157,432	$ 204,087
Effect of potentially dilutive ordinary shares:		
Employee share options	-	-
Bonus issue to employees	-	-
Earnings used in the computation of diluted earnings per share	$ 157,432	$ 204,087

Number of shares

	Year Ended December 31	
	2018	2017
Weighted average number of ordinary shares used in the computation of basic earnings per share	72,655	67,629
Effect of potentially dilutive ordinary shares:		
Employee share options	209	279
Bonus issue to employees	299	129
Weighted average number of ordinary shares used in the computation of diluted earnings per share	73,163	68,037

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

23. SHARE-BASED PAYMENT ARRANGEMENTS

a. Employee share option plan

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

Information on employee share options is as follows:

	2013 Employee Share Option Plan		**2012 Employee Share Option Plan**	
	Number of Options (In Thousands)	**Weighted-average Exercise Price (NT$)**	**Number of Options (In Thousands)**	**Weighted-average Exercise Price (NT$)**
For the year ended December 31, 2017				
Balance at January 1	1,033	$ 43.13	1,682	$ 17.22
Options forfeited	(15)	33.00	-	-
Options exercised	(495)	45.26	(550)	18.17
Balance at December 31	523	41.17	1,132	16.76
Options exercisable, end of period	523		1,132	
For the year ended December 31, 2018				
Balance at January 1	523	$ 41.17	1,132	$ 16.76
Options exercised	(235)	41.30	(327)	17.79
Balance at December 31	288	41.49	805	16.34
Options exercisable, end of period	288		805	

Information on outstanding options as follows:

December 31, 2018			December 31, 2017		
Share Option Plan	**Range of Exercise Price(NT$)**	**Weighted-average Remaining Contractual Life (In Years)**	**Share Option Plan**	**Range of Exercise Price(NT$)**	**Weighted-average Remaining Contractual Life (In Years)**
2013 Employee share option plan	$ 33.0-46.0	5.16	2013 Employee share option plan	$ 33.0-46.0	6.14
2012 Employee share option plan	10.5-19.5	3.76	2012 Employee share option plan	10.5-19.5	4.78

Board of Directors through 2013 employee stock options in June 10, 2014 were priced using the Black-Scholes pricing model, and the inputs to the model are as follows:

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

Board of Directors through 2013 employee stock options in August 13, 2013 were priced using the Black-Scholes pricing model, and the inputs to the model are as follows:

Grant-date share price (NT$)	$11.88
Exercise price (NT$)	$33.00
Expected volatility	37.6%-41.65%
Expected life (in years)	2.5-4.5 years
Expected dividend yield	-
Risk-free interest rate	0.82%-1.07%
Fair value of stock options	0.18-0.93

Board of Directors through 2012 employee stock options in November 13, 2012 were priced using the Black-Scholes pricing model, and the inputs to the model are as follows:

Grant-date share price (NT$)	$12.29
Exercise price (NT$)	$19.50
Expected volatility	44.34%-54.56%
Expected life (in years)	2.5-4.5 years
Expected dividend yield	-
Risk-free interest rate	0.75%-0.85%
Fair value of stock options	1.67-3.94

Board of Directors through 2012 employee stock options in May 25, 2012 were priced using the Black-Scholes pricing model, and the inputs to the model are as follows:

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

b. Capital Increased by Cash for retain employee share

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

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

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

Compensation costs recognized were $4,746 thousand and $56 thousand for the years ended December 31, 2018 and 2017, respectively.

24. CAPITAL MANAGEMENT

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

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

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

25. FINANCIAL INSTRUMENTS

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

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

b. Categories of financial instruments

	December 31	
	2018	**2017**
Financial assets		
Financial asset at amortized cost (Note 1)	$ 1,363,408	$ -
Loans and receivables (Note 2)	-	323,516
Financial liabilities		
Amortized cost (Note 3)	189,324	225,492

Note 1: The balances included loans and receivables measured at amortized cost, which comprise cash,

accounts receivable, other receivables, refundable deposit and debt investments.

Note 2: The balances include loans and receivables measured at amortized cost, which comprise cash, accounts receivables, refundable deposit and debt investments with no active market.

Note 3: The balances included financial liabilities measured at amortized cost, which comprise short-term loans, account payables and other payables.

c. Financial risk management objectives and policies

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

1) Market risk

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

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

a) Foreign currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which exposes the Company to foreign currency risk. Approximately 98% of the Company's sales is denominated in currencies other than the functional currency of the group entity making the sale, whilst almost 97% of costs is denominated in the group entity's functional currency. Exchange rate exposures are managed within approved policy parameters.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities are set out in Note 28.

<u>Sensitivity analysis</u>

The Company is mainly exposed to the exchange rate fluctuation of USD.

Sensitivity analysis of foreign currency exchange rate risk were calculation of currency items for the US dollar on the balance sheet date.

The Company's sensitivity to a 1% increase and decrease in the New Taiwan dollar (i.e. the functional currency) against the USD dollar, the Company an increase/a decrease in pre-tax profit 1,672 thousand and 2,008 thousand for the years ended December 31, 2018 and 2017.

b) Interest rate risk

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

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

	December 31	
	2018	2017
Fair value interest rate risk		
Financial assets	$ 1,232,198	$ 265,552
Financial liabilities	-	130,000
Cash flow interest rate risk		
Financial assets	70,969	44,421

Sensitivity analysis

Sensitivity analysis of interest rate risk were calculation of the floating interest rates assets for the cash flow changes on the balance sheet date.

If interest had been 0.5% higher/lower, pre-tax profit for the year ended December 31, 2018 and 2017 would have increased/decreased by $355 thousand and $222 thousand.

2) Credit risk management

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

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

3) Liquidity risk

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

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

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

December 31, 2018

	On Demand or Less than 1 Month	1-3 Months	3 Months to 1 Year
Non-derivative financial liabilities			
Account payable	$ 36,394	$ 12,577	$ -
Account payable-relate parties	126,379	-	-
Other payables-relate parties	6,048	-	-
Payable on equipment	2,430	5,496	-
	$ 171,251	$ 18,073	$ -

December 31, 2017

	On Demand or Less than 1 Month	1-3 Months	3 Months to 1 Year
Non-derivative financial liabilities			
Short-term loans	$ -	$ 130,000	$ -
Account payable	40,159	969	-
Account payable-relate parties	41,802	-	-
Other payable-relate parties	8,654	-	-
Payable on equipment	2,540	1,368	-
	$ 93,155	$ 132,337	$ -

b) Financing facilities

	December 31	
	2018	2017
Unsecured bank overdraft facilities, reviewed annually and payable on demand:		
Amount used	$ -	$ 80,000
Amount unused	80,000	130,000
	$ 80,000	$ 210,000
Secured bank overdraft facilities:		
Amount used	$ -	$ 50,000
Amount unused	150,000	21,424
	$ 150,000	$ 71,424

26. TRANSACTIONS WITH RELATED PARTIES

Besides information disclosed elsewhere in the other notes, details of transactions between the Company and other related parties are disclosed below.

a. Related party name and category

Related Party Name	Related Party Category
Silicon Optronics (Cayman) Co., Ltd.	Subsidiaries
NUEVA IMAGING, INC.	Subsidiaries
Deutron Electronics Corp .	Substantive related parties
Optigate Inc.	Substantive related parties
Aero Vision Avionics, Inc.	Substantive related parties
Novax Technology, Inc.	Substantive related parties
Powerchip Technology Corp.	Substantive related parties
Maxchip Electronics Corp.	Substantive related parties

b. Operating revenue

Related Party Category	Year Ended December 31	
	2018	2017
Substantive related parties	$ -	$ 26

The collection conditions of the company and the related person's sales are comparable to the general trading conditions

c. Technical service revenue

Related Party Category	Year Ended December 31	
	2018	2017
Substantive related parties Powerchip Technology Corp.	$ -	$ 4,000

d. Purchases

Related Party Category	Year Ended December 31	
	2018	2017
Substantive related parties		
Powerchip Technology Corp.	$ 1,121,438	$ 910,055
Others	1,711	5,613
	$ 1,123,149	$ 915,668

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

e. General and administrative expenses

Related Party Category	December 31	
	2018	2017
Substantive related parties	$ 38	$ 33

f. Research and development expenses

Related Party Category	December 31	
	2018	2017
Substantive related parties		
Powerchip Technology Corp.	$ 4,576	$ 2,538
Other	-	48
	$ 4,576	$ 2,586

g. Manufacture expense

Related Party Category	December 31	
	2018	2017
Substantive related parties	$ 82	$ -

h. Technical service expense

Related Party Category	December 31 2018	December 31 2017
Subsidiaries		
Silicon Optronics (Cayman) Co., Ltd.	$ 58,555	$ 55,372
NUEVA IMAGING, INC.	45,113	46,208
Substantive related parties		
Powerchip Technology Corp.	-	762
	$ 103,668	$ 102,342

The technical service contract between the company and the related person is based on the price and conditions agreed upon by both parties and is not comparable to other appropriate trading objects.

i. Prepayment and other current assets

Related Party Category	December 31 2018	December 31 2017
Subsidiaries		
Silicon Optronics (Cayman) Co., Ltd.	$ 21,359	$ 8,951
Substantive related parties	-	38
	$ 21,359	$ 8,989

j. Account payable from related parties

Related Party Category	December 31 2018	December 31 2017
Substantive related parties		
Powerchip Technology Corp.	$ 126,379	$ 41,088
Other	-	714
	$ 126,379	$ 41,802

k. Other payable from related parties

Related Party Category	December 31 2018	December 31 2017
Subsidiaries		
Silicon Optronics (Cayman) Co., Ltd.	$ 3,413	$ 4,830
NUEVA IMAGING, INC.	2,635	3,661
Substantive related parties	-	163
	$ 6,048	$ 8,654

l. Compensation of key management personnel

	For the Year Ended December 31	
	2018	2017
Short-term employee benefits	$ 10,506	$ 11,176
Share-based payments	9	27
	$ 10,515	$ 11,203

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

27. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

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

	December 31	
	2018	2017
Pledged time deposits (classified as financial assets a amortized cost-noncurrent)	$ 2,577	$ -
Pledged time deposits (classified as debt investment without active market-current and noncurrent)	-	91,829
	$ 2,577	$ 91,829

28. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

December 31, 2018

	Foreign Currencies	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 11,180	30.72	$ 343,393
CNY	2,243	4.472	10,030
			$ 353,423
Financial liabilities			
Monetary items			
USD	5,736	30.72	$ 176,192

December 31, 2017

	Foreign Currencies	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 9,499	29.76	$ 282,688
CNY	2,285	4.565	10,430
			$ 293,118
Financial liabilities			
Monetary items			
USD	2,752	29.76	$ 81,903

The significant realized and unrealized foreign exchange gains (losses) were as follows:

	For the Year Ended December 31			
	2018		2017	
Foreign Currencies	Exchange Rate	Net Foreign Exchange Gains (Losses)	Exchange Rate	Net Foreign Exchange Gains (Losses)
USD	30.72 (USD:NTD)	$ 418	29.76 (USD:NTD)	$ (8,182)
RMB	4.472 (RMB:NTD)	(181)	4.565 (RMB:NTD)	6
		$ 237		$ (8,176)

29. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

1) Financings provided: None;

2) Endorsements/guarantees provided: None;

3) Marketable securities held (excluding investments in subsidiaries): None;

4) Marketable securities acquired and disposed of at costs or prices of at least NT$300 million or 20% of the paid-in capital: None;

5) Acquisition of individual real estate at costs of at least NT$300 million or 20% of the paid-in capital: None;

6) Disposal of individual real estate at prices of at least NT$300 million or 20% of the paid-in capital: None;

7) Total purchases from or sales to related parties of at least NT$100 million or 20% of the paid-in capital: Please see Table 1 attached;

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: None;

9) Information about the derivative instruments transaction: None;

10) Names, locations, and related information of investees over which the Company exercises significant influence (excluding information on investment in Mainland China): Please see Table 2 attached;

c. Information on investment in Mainland China: Please see Table 3 attached;

TABLE 1

SILICON OPTRONICS, INC. AND SUBSIDIARY

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts (Payable) Receivable		Note
			Purchase/ Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
Silicon Optronics, Inc.	Powerchip Technology Corp.	Substantive related parties	Purchase	$ 1,121,438	67	Note 1	-	-	$ (126,379)	72	-

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

TABLE 2

SILICON OPTRONICS, INC. AND SUBSIDIARY

NAMES LOCATIONS AND RELATED INFORMATION OF INVESTEES ON WHICH THE CORPORATION EXERCISES SIGNIFICANT INFLUENCE
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Investor Company	Equity-method Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2018			Net Income of the Equity-method Investee	Investment Income	Note
				December 31, 2018	December 31, 2017	Shares (Thousands)	% of Ownership	Carrying Value			
Silicon Optronics, Inc.	NUEVA IMAGING INC.	USA	Product development design of high order CMOS Image Sensor	$ 358,500	$ 358,500	6,000	100	$ 254,800	$ 4,437	$ (16,404)	Subsidiary
	Silicon Optronics (Cayman) Co., Ltd.	Cayman	Investment holding company	5,237	5,237	170	100	14,850	4,577	4,577	Subsidiary

SILICON OPTRONICS, INC. AND SUBSIDIARY

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company	Main Businesses and Products	Paid-in Capital (US$ in Thousands)	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2018 (US$ in Thousands)	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2018 (US$ in Thousands)	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of December 31, 2018	Accumulated Repatriation of Investment Income as of December 31, 2018	Note
					Outward	Inward							
Silicon Optronics (Shanghai) Co., Ltd.	Scale Integration and design of related electronic products, R&D and testing and technical service consulting and transfer of finished products.	US$ 175	Note 1	$ 5,375 (US$ 175)	$ -	$ -	$ 5,375 (US$ 175)	$ 4,577	100	$ 4,577	$ 14,850	$ -	

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2018 (US$ in Thousands)	Investment Amount Authorized by Investment Commission, MOEA (US$ in Thousands)	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA (US$ in Thousands)
$ 5,375 (US$ 175)	Note 1	$ 1,301,605

Note 1: Through Silicon Optronics (Cayman) Co., Ltd. investment Silicon Optronics (Shanghai) Co., Ltd., the Amount of Investment Stipulated was approved by Investment Commission, MOEA approved investment amount US$175. (US$ in Thousands)

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

Note 3: Based on the exchange rate as of December 31, 2018.

THE CONTENTS OF STATEMENTS OF MAJOR ACCOUNTING ITEMS

SILICON OPTRONICS, INC.

STATEMENT OF CASH
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Item	Description	Annual Interest Rate (%)	Amount
Cash in banks			
Time deposits	Including NT$139,600 thousand; US$8,500 thousand @30.72; Expired by the end of March, 2019.	0.24-3.00	$ 400,677
Current accounts	Including NT$46,814 thousand; US$753 thousand @30.72 and RMB$228 thousand @4.472		70,969
Check Deposit			10
Cash in stock	Including RMB$14 thousand @4.472		65
Cash on hand			50
			$ 471,771

STATEMENT 2

SILICON OPTRONICS, INC.

STATEMENT OF ACCOUNTS RECEIVABLE
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Client Name	Amount
Client A	$ 51,731
Client B	4,295
Client C	3,156
	$ 59,182

STATEMENT 3

SILICON OPTRONICS, INC.

STATEMENT OF INVENTORY
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Item	Amount	
	Cost	Net Realizable Value
Finished goods	$344,432	$451,617
Work in process	349,357	534,794
Raw materials	632	1,600
	$ 694,421	$ 988,011

SILICON OPTRONICS, INC.

STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investees	Balance, January 1, 2018		Investment Gain (Loss) Recognized by Using Equity Method	Exchange Difference for Conversion of Financial Statements of Foreign Operating Institutions Method	Balance, December 31, 2018			Net Assets Value
	Shares (In Thousands)	Amount			Shares (In Thousands)	%	Amount	
NUUEVA IMAGING, INC.	6,000	$ 269,960	$ (16,404)	$ 1,244	6,000	100	$ 254,800	$ 39,941
Silicon Optronics (Cayman) Co., Ltd.	170	10,601	4,577	(328)	170	100	14,850	14,850
		$ 280,561	$ (11,827)	$ 916			$ 269,650	$ 54,791

Note 1: The net value was based on audited financial statements of the same period.

Note 2: Above investments accounted for using equity method were not pledged as security.

SILICON OPTRONICS, INC.

STATEMENT OF PAYABLES
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Name	Amount
Non- related parties	
China Wafer Level CSP Co., Ltd.	$ 36,363
VisEra technologies Co., Ltd.	6,148
Global Testing Corporation Limited	4,239
Other (Note)	2,221
	48,971
Related parties	
Powerchip Technology Corp.	126,379
	$ 175,350

Note: The amount of each item in others does not exceed 5% of the account balance.

SILICON OPTRONICS, INC.

STATEMENT OF NET REVENUE
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Item	Quantity	Unit	Amount
Image sensing component	73,341	Thousand EA	$ 1,892,709
Image sensor	661	Piece	45,595
Other			95,963
			$ 2,034,267

SILICON OPTRONICS, INC.

STATEMENT OF OPERATING COST
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Item	Amount
Raw materials	
Raw materials at the beginning of the year	$ 255
This year's feed	1,128,532
Transfer fee	(929)
Raw materials at the end of the year	(632)
Consumption of raw materials	1,127,226
Manufacturing fee	563,780
Manufacturing cost	1,691,006
Work in process at the beginning of the year	207,852
Transfer fee	(1,935)
Work in process at the end of the year	(349,357)
Finished goods cost	1,547,566
Finished goods at the beginning of the year	358,219
Others	(2,604)
Finished goods at the end of the year	(344,432)
Cost of goods sold	1,558,749
Other adjustments	(4,444)
Labor cost	10,163
Operating cost	$ 1,564,468

SILICON OPTRONICS, INC.

STATEMENT OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018
(In thousands of New Taiwan Dollars)

Item	Marketing Expense	General and Administrative Expense	Research and Development Expense
Payroll and related expense	$ 11,410	$ 14,648	$ 68,110
Director's remuneration	-	2,500	-
Sample fee	2,221	-	-
Import and export fee	1,763	57	71
Shipping fee	1,243	14	13
Rent fee	110	4,448	-
Park management fee	-	3,725	-
Professional service fee	159	4,897	549
Insurance fee	488	1,775	2,860
Technical Services	-	-	103,668
Depreciation fee	8	19	19,723
Others (Note)	2,304	9,455	21,428
	$ 19,706	$ 41,538	$ 216,422

Note: The amount of each item in others does not exceed 5% of the account balance.

SILICON OPTRONICS, INC.

SUMMARY OF EMPLOYEE BENEFITS, DEPRECIATION AND AMORTIZATION EXPENSES BY FUNCTION
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands of New Taiwan Dollars)

	Year Ended December 31, 2018			Year Ended December 31, 2017		
	Classified as Cost of Revenue	Classified as Operating Expenses	Total	Classified as Cost of Revenue	Classified as Operating Expenses	Total
Employee benefits expenses						
Salary and bonus	$ -	$ 94,168	$ 94,168	$ -	$ 79,840	$ 79,840
Insurance	-	4,921	4,921	-	4,768	4,768
Pension	-	2,945	2,945	-	2,884	2,884
Remuneration to directors	-	2,500	2,500	-	2,500	2,500
Others	-	3,460	3,460	-	3,238	3,238
	$ -	$ 107,994	$ 107,994	$ -	$ 93,230	$ 93,230
Depreciation	$ 16,105	$ 19,750	$ 35,855	$ 12,802	$ 17,872	$ 30,674
Amortization	$ -	$ 3,657	$ 3,657	$ -	$ 3,450	$ 3,450

Note: As of December 31, 2018 and 2017, the company had 51 for both years. There were 3 non-employee directors for both years.

F. **The effect of insolvency of the company and affiliates on the financial Status of the Company:** None.

VII、 Review of Financial Status, Operating Results, and Risk Management

A. Analysis of Financial Status

The material reasons for the significant changes in assets, liabilities and shareholders' equity in the most recent two years. If the impact is significant, the future response plan shall be stated.

(I) Analysis of changes in financial positions for the most recent two years:

Unit: NT$ thousands; %

Item \ Year	2018	2017	Difference	
			Amount	%
Current assets	2,142,403	957,576	1,184,827	123.73
Property, plant and equipment	48,811	38,775	10,036	25.88
Intangible assets	234,587	262,287	(27,700)	(10.56)
Other assets	15,223	11,742	3,481	29.65
Total assets	2,441,024	1,270,380	1,170,644	92.15
Current liabilities	271,641	294,238	(22,597)	(7.68)
Other liabilities	41	-	41	-
Total liabilities	271,682	294,238	(22,556)	(7.67)
Equity attributable to shareholders of the company	-	-	-	-
Capital stock	778,279	679,809	98,470	14.48
Capital surplus	1,124,721	52,187	1,072,534	2,055.17
Retained earnings	265,952	244,672	21,280	8.7
Other equity	390	(526)	916	(174.14)
Treasury stocks	-	-	-	-
Non-controlling interests	-	-	-	-
Total shareholders' Equity	2,169,342	976,142	1,193,200	122.24

Reasons for changes in the two periods:

1. Increase in current assets: Mainly due to the cash capital increase for IPO.
2. Increase in property, plant and equipment: Mainly attributed to the purchase of masks.
3. Increase in other assets: Mainly due to increase in deferred income tax assets.
4. Increase in capital surplus: Mainly due to the additional paid-in capital in excess of par from the company's IPO.
5. Increase in other equity interest: Mainly due to increase in exchange difference from the financial statements of foreign operations.

(II) Impact of changes in the financial status for the most recent two fiscal years: None.

(III) Future response plans: Not applicable.

B. Analysis of Operation Results

The main reasons for the material changes in operating revenues, operating profit and net profit before tax in the most recent two years, a sales volume forecast and the basis therefor, and the possible impact on the company's financial operations, and response plans:

(I) Analysis of changes in operating results for the most recent two years:

Unit: NT$ thousands; %

Item \ Year	2018	2017	Amount of increase/decrease	Change (%)
Net Sales	2,034,267	1,714,565	319,702	18.65
Gross Profit	469,799	500,028	(30,229)	(6.05)
Operating income (loss)	180,054	247,603	(67,549)	(27.28)
Non-operating income and expenses	9,919	(8,096)	18,015	(222.52)
Pre-tax income	189,973	239,507	(49,534)	(20.68)
Income from operations of continued segments - after tax	157,432	204,087	(46,655)	(22.86)
Income from discontinued operations	-	-	-	-
Net income (loss)	157,432	204,087	(46,655)	(22.86)
Other comprehensive income (loss)	860	(2,554)	3,414	(133.67)
Total comprehensive income (loss)	158,292	201,533	(43,241)	(21.46)
Net income attributable to shareholders of parent company	-	-	-	-
Net income attributable to non-controlling interest	-	-	-	-
Comprehensive income attributable to shareholders of parent company	-	-	-	-
Comprehensive income (loss) attributable to non-controlling interest	-	-	-	-
EPS	2.17	3.02	(0.85)	(28.15)

Reasons for changes in the two periods:

1. Decrease in operating profit: Mainly due to the decrease in gross profit and the increase in R&D expenses in 2018.
2. Increase in non-operating expenses: Mainly due to the exchange gains in 2018.
3. Decrease in net profit and comprehensive income: Mainly due to decrease in gross profit in 2018, leading to decreased overall profit.

(II) Expected sales volume and its possible impact on the company's future financial operations:

Expected sales volumes and sales growth are of great help for future profitability.

(III) Future response plans: Actively develop new products and markets.

C. Analysis of Cash Flow

Analysis of cash flow changes during the most recent fiscal year, improvement plan for illiquidity and provide a liquidity analysis for the coming year:

(I) Analysis of changes in cash flow for the most recent year is as follows:

Unit: NT$ thousands; %

Item \ Year	2018	2017	Change (%)
Cash flow ratio	52.71	-	-
Cash flow adequacy ratio	39.18	34.89	12.30
Cash reinvestment ratio	0.34	-	-
Analysis of the changes in cash flow: 1. Increase in cash flow adequacy ratio: Mainly due to the inventory level under control and increase in accounts receivable, resulting in the net cash inflow from operating activities.			

(II) Improvement plans for cash inadequacy: In view of the company's current cash position, there is no concerns about illiquidity and shortage of cash.

(III) Cash liquidity analysis for the coming fiscal year.

Unit: NT$ thousands

Cash and cash equivalents beginning of year A	Projected net cash flow from operating activities for the year B	Projected cash outflow for the year C	Expected cash surplus (inadequacy) amount A+B-C	Remedial measures for cash inadequacy	
				Investment plans	Financial plans
486,893	242,385	(222,936)	506,342	-	-
Analysis of changes in cash flow: 1. Operating activities: Cash inflow from operating activities was expected to grow in revenue and profit from operations in 2018. 2. Investment activities: Mainly for the purchase of fixed asset, such as the purchase of masks for new products. 3. Financing activities: Mainly due to the accrued amount of cash dividends.					

D. The effect of material capital expenditures on financial position and operation:

There was no material capital expenditure incurred by the company in the most recent year.

E. Direct Investment Policy, Reasons for Profit or Loss, Correction Plan and Investment Plan for the Coming Year: None.

F. Risk Management

(I) The impact of interest rate fluctuations, exchange rate fluctuations, and inflation on the

1. Company’s earnings and coping strategies:Interest rate:

   The company estimates that there is no NT dollar or foreign currency borrowing demand in the upcoming fiscal year, so there is no need to evade the risk of interest expenses arising from interest rate hikes. The company has appropriate funding channels to meet the needs of business development and maintain good relationship with each correspondent bank. The company will consider the available facilities from various sources of capital and their cost of capital, as well as making a comprehensive consideration for the business development plans, so as to raise the required funds. Therefore, the impact on the company's profit and loss is not significant.

2. Foreign exchange rates:

   As the company's receivables and payables are mainly denominated in foreign currency (US dollars), the exchange rate risk caused by exchange rate fluctuations can be largely avoided. However, depending on the trend of the global economy as a whole, appropriate measures should be taken to avoid the risk of foreign currency fluctuations.

3. Inflation:

The impact of inflation does not currently have a significant impact on the company’s profits and business operations. If the company's purchase cost is affected by inflation, the incremental cost can be marked up on to the sales price, so inflation has no significant effect on the company's profit and loss.

(II) High leverage/high risk investment, loans to third parties, endorsements and guarantees, and policies in derivatives transactions, reasons for profits/losses and coping strategies：

The company currently does not engage in high-risk, high-leveraged investments, lending or endorsement guarantees, and derivative transactions. The company has established the "Procedures Governing the Acquisition and Disposal of Assets", "Procedures Governing Making of Endorsements and Guarantees" and "Procedures Governing Loaning of Funds to Other Parties" to regulate the transactions of high-risk, high-leveraged investments, loaning of funds to other parties, endorsements and guarantees, and derivatives trading in accordance with relevant laws and regulations.

(III) Future Development Plan and Expected R&D Expenditure

(1) Future R&D plans

The company's most important core technology is the development of CMOS image sensor related sensing circuits, analog, digital and mixed signals, from circuit design, process technology, to optical simulation, etc., providing customers with the best solution and exclusive design and process for customer needs. Developing CMOS image sensor for special applications in combination with high-precision processing technology in Taiwan's semiconductor industry; the future R&D plans include:

A. High-performance CMOS Image Sensor.
B. High-resolution CMOS Image Sensor.
C. Global Shutter CMOS Image Sensor.
D. Special application sensor design and development.

(2) Estimated R&D expenditure

The R&D expenses that the company expects to invest in the future will be listed according to the company's internal research plans, and depending on the research and development progress, the technology involved, and the staged results, the R&D expenses budget will be increased or decreased after discussion at the company's internal supervisory meetings.

(IV) Potential Impact associated with Domestic or International Political/Regulatory Changes and the Response Measures

The company's daily operations are handled in accordance with the relevant domestic and foreign laws and regulations, and at any time pay attention to the development trend of domestic and foreign policies and changes in regulations and collect relevant information to provide operational decision-making reference to adjust the company's relevant operational strategies. As of now, the company's financial operation has not been affected by important changes of domestic and foreign policies and laws.

(V) Potential Impact associated with Domestic or International Industry/Technology Evolution and the Response Measures

Through the close strategic cooperation with suppliers in the past, and the company's own research and development capabilities, the company can quickly grasp the industry dynamics and obtain market information ahead of its peers. Therefore, technological and industrial changes have a positive impact on the company.

The company's main products have been widely accepted by customers, and market demand continues to expand. The company also actively enhances research and development capabilities and strengthens outsourcing capacity, and grasps industry dynamics and the market information, adopting a robust financial management strategy to maintain market competitiveness.

In the future, the company will continue to pay attention to the situation of technological changes and evaluate its impact on the operations of the company, and adjust the company's business development and financial status accordingly.

(VI) Potential Impact on Crisis Management associated with Changes in Corporate Image and the Response Measures

Since its incorporation, the company has been committed to maintaining its corporate image and complying with the laws and regulations, and there has not been enough to affect the corporate image so far. In the future, while pursuing revenue growth and maximizing shareholders' equity, the company will also comply with the government regulations and fulfill corporate social responsibility to continuously maintain good corporate image of the company.

(VII) Potential Impact associated with Mergers/Acquisitions and the Response Measures: Not applicable.

(VIII) Potential Impact associated with Capacity Expansion and the Response Measures: Not applicable.

(IX) Risks of purchasing and sales concentration and coping strategies

1. Procurement

The company is a fabless professional IC design company, the main purchase project is wafer procurement. In the value chain of the semiconductor industry, IC design houses tend to maintain long-term cooperation with specific foundries in order to achieve reliable and stable production capacity, as well as factors such as process technology, yield, capacity and delivery. This is a common phenomenon among IC design houses. The company has been in good relationship with Powerchip / PTC and B Company for many years. The relationship between the two parties is good. In the future, we will continue to cooperate on fields such as new product development and mass production in order to reduce the risk of concentrated purchase.

2. Turnover

The company's main sales market and end-users are both in mainland China. Mainland China has a vast territory, and there are differences in business activities and trading habits. The company evaluates the market characteristics and connections of dealers, and has the service experience of end-product applications. It can quickly serve end-customers and develop new markets. The company fully grasps the operation of the dealers, and adopts the advance payment as the dealer's payment terms to increase the working capital turnover rate and reduce the overdue risk of accounts receivable in mainland China. The company's technical support directly serves the end customers, keeps abreast of customer needs, and reduce the risk that sales of goods will be concentrated in the dealers. At the same time, with the introduction of future image sequencing wafers and other related image sensing chip products, the product sales and operation scale will be expanded, and the concentration of customers should be reduced in the future.

(X) The impact and risk of the transfer of shares in huge volumes by Directors, Supervisors,or major shareholders on the Company, and the Coping Strategies: None.

(XI) The impact and risk of change in management on the Company, and the measures to cope with: None.

(XII) Risks Associated with Litigations

1. Material litigious, non-litigious or administrative disputes that are currently still open: None.
2. The company's directors, supervisors, general managers, substantive directors, shareholders holding more than 10% of the shares and subordinate companies have decided to determine or are still in the system of material litigation, non-litigation or administrative litigation. The result may have a significant influence on shareholders' equity or securities prices: None.

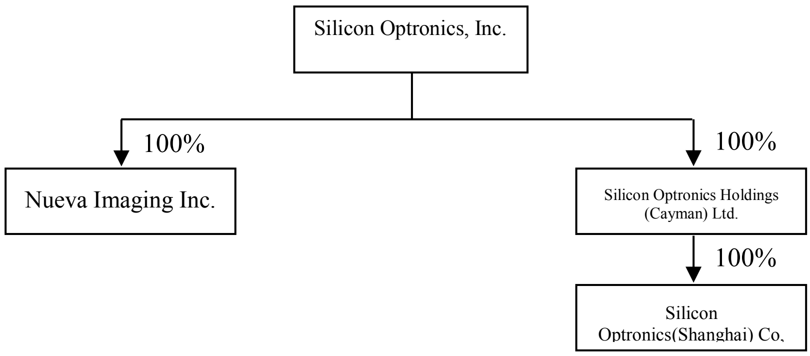
(XIII) Other material risks: None.

G. **Other Important Notices:** None.

VIII、 Special Disclosure

A. Summary of Affiliated Enterprises:

(I) Organizational Chart of Related Companies



(II) Basic information of related companies:

Unit: US$

Name	Date of Incorporation	Address	Paid-in capital	Main Business Projects
Nueva Imaging Inc.	2010.05.27	4030 Moorpark Ave Ste 248 San Jose, CA95, 117 U.S.A	600	R&D design of high-end CMOS Image Sensor products
Silicon Optronics Holdings (Cayman) Ltd.	2013.04.26	4F, Willow House, Cricket Square, P.O. Box 2582, Grand Cayman KY1-1103	177,550	Investment holding
Silicon Optronics (Shanghai) Co, Ltd.	2013.12.25	Suite 107, Building 2, No.2966, Jinke Road, Zhangjiang Hi-tech Industrial Park, Pudong New District, Shanghai City, China	175,000	Design development of integrated circuit and related electronic products and testing along with technical service consulting and transfer of research and development results

(III) The industry covered by the related companies: Please refer to Paragraph (2).

(IV) For those who have established control and subordination-related relationships as defined in Article 369-3 of the Company Act: Please refer to Paragraph (2).

(V) Information on Directors, Supervisors, Managerial Officers, and Managerial Officers

Name of business	Title	Name or representative	Number of Shares Held	Shareholding Ratio
Nueva Imaging Inc.	Chairman	Silicon Optronics, Inc. (Representative: James He)	6,000,000	100%
Silicon Optronics Holdings (Cayman) Ltd.	Chairman	Silicon Optronics, Inc. (Representative: James He)	170,000	100%
Silicon Optronics (Shanghai) Co, Ltd.	Executive Directors Supervisors	Silicon Optronics, Inc. (Representative: Terry Li) Silicon Optronics, Inc. (Representative: Steffi Huang)	175,000	100%

(VI) Operating status of each related company:

Date: Dec. 31, 2018; Unit: NT$ thousands

Company name	Capital	Total assets	Total liabilities	Net value	Revenue	Income From Operation	Net Income	EPS (NT$) (after tax)
Nueva Imaging Inc.	18	44,240	4,299	39,941	44,571	4,461	4,437	0.74
Silicon Optronics Holdings (Cayman) Ltd.	5,237	40,924	26,073	14,851	-	-	4,577	26.92
Silicon Optronics (Shanghai) Co, Ltd.	5,161	40,924	26,073	14,851	59,357	4,301	4,577	26.15

(VII) Consolidated financial statements of the related companies: Please refer to #pages 73 to 196#.

B. Status of Private Placement Securities: None.

C. Acquisition or Disposal of SOI’s shares by Subsidiaries: None.

D. Other Necessary Supplements: None.

E. Events regulated in Article 36-3-2 of the Securities and Exchange Laws that will materially affect shareholder’s equity or the share price: None.

Silicon Optronics, Inc.

Chairman and President: He Xinping