

AXIOMTEK CO., LTD.

Parent Company Only Financial Statements for the Years ended  
December, 2018 and 2017 and  
Independent Auditors' Report  
(Stock Code:3088)

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Notice to Readers

*The accompanying parent company only financial statements are intended only to present the parent company only 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 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.*

# **2018 Independent Auditors' Report**

## **(Parent Company Only Financial Statements)**

To the Board of Directors and Shareholders of  
AXIOMTEK CO., LTD.

### **Opinion**

We have audited the accompanying parent company only balance sheets of AXIOMTEK CO., LTD. (hereinafter referred to as "Axiomtek" or "the Company") as at December 31, 2018 and 2017, and the related statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to 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 financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparations 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 generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Individual Financial Statements section of our report. We are independent of the Company in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key Audit Matters**

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

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

## **Allowance for Inventory Valuation Losses**

### Description

Please refer to Note 4(12) for accounting policies on inventory valuation, Note 5(2) for uncertainty of accounting estimates and assumptions in relation to inventory valuation losses and Note 6(4) for details of inventories. As at December 31, 2018, the Company's inventories and allowance for inventory valuation losses amounted to TWD545, 189 thousand and TWD 34,533 thousand, respectively.

The Company is primarily engaged in the research and development, manufacturing and sales of industrial computers products. Due to rapid technological innovation and fluctuations in market prices, the Company recognizes inventories at the lower of cost and net realizable value, and the net realizable value is estimated based on historical experience. An allowance for inventory valuation losses is provided for those inventories aged over a certain period of time and individually identified as obsolete or damaged.

As the amounts of inventories are material, the types of inventories vary, and the estimation of net realizable value for individually obsolete or damaged inventories is subject to management's judgment, we consider allowance for inventory valuation losses a key audit matter.

### How our audit address the matter

We have performed primary audit procedures for the above matter as follows:

1. Ensured consistent application of Company's accounting policies in relation to allowance for inventory valuation losses and assessed the reasonableness of these policies.
2. Evaluated the reasonableness of inventories individually identified as obsolete or damaged with supporting documents, validated the appropriateness of system logic of inventory aging report utilized by management to ensure proper classification of inventories aged over a certain period of time and reperformed the calculation.
3. Discussed with management the net realizable value of inventories aged over a certain period of time and individually identified as obsolete or damaged, validated respective supporting documents, and agreed to information obtained from physical inventory.

## **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 Preparations 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 Audit Committee, are responsible for overseeing the Company's financial reporting process.

## **Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ROC GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these parent company only financial statements.

As part of an audit in accordance with ROC GAAS, 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 auditor's 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 auditor's 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 appropriate audit evidence regarding the financial information of the 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 Company 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 of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Feng, Ming-Chuan

Hsu, Shien-Chong

for and on behalf of PricewaterhouseCoopers, Taiwan February 26, 2019

AXIOMTEK CO., LTD.  
PARENT COMPANY ONLY BALANCE SHEETS  
(Expressed in Thousands of New Taiwan Dollars)

Assets	Notes	December 31, 2018		December 31, 2017		
		Amount	%	Amount	%	
<b>Current assets</b>						
1100	Cash and cash equivalents	6(1)	\$ 734,817	19	\$ 638,525	18
1110	Financial assets at fair value through profit or loss - current	12(3) (4)	-	-	35,006	1
1150	Notes receivable	6(3) and 12(2) (4)	10,508	-	2,229	-
1170	Accounts receivable	6(3) and 12(2) (4)	103,872	3	98,567	3
1180	Accounts receivable – related parties	6(3),7 and 12(2) (4)	436,780	11	288,926	8
1200	Other receivables		20,631	1	21,059	1
1210	Other receivables – related parties	7	85,486	2	59,952	2
130X	Inventories	6(4)	510,656	13	366,237	10
1410	Prepayments		15,258	-	8,420	-
1470	Other current assets	6(1)	471	-	149,599	4
11XX	<b>Total current assets</b>		<u>1,918,479</u>	<u>49</u>	<u>1,668,520</u>	<u>47</u>
<b>Non-current assets</b>						
1543	Financial assets at cost - noncurrent	12(4)	-	-	923	-
1550	Investments accounted for under equity method	6(5)	722,334	18	585,247	16
1600	Property, plant and equipment	6(6) and 8	1,069,695	27	1,203,699	34
1760	Investment property	6(7)	139,820	4	22,858	1
1780	Intangible assets	6(8)	22,343	1	21,215	1
1840	Deferred income tax assets	6(25)	34,777	1	28,566	1
1920	Refundable deposits		3,785	-	3,562	-
15XX	<b>Total non-current assets</b>		<u>1,992,754</u>	<u>51</u>	<u>1,866,070</u>	<u>53</u>
1XXX	<b>Total Assets</b>		<u>\$ 3,911,233</u>	<u>100</u>	<u>\$ 3,534,590</u>	<u>100</u>

(Continued)

AXIOMTEK CO., LTD.  
PARENT COMPANY ONLY BALANCE SHEETS  
(Expressed in Thousands of New Taiwan Dollars)

Assets		Notes	December 31, 2018		December 31, 2017	
			Amount	%	Amount	%
<b>Current liabilities</b>						
2100	Short-term borrowings	6(9)	\$ 53,000	1	\$ -	-
2120	Financial liabilities at fair value through profit or loss - current	6(11) and 12(3)	2,760	-	4,998	-
2130	Contract liabilities - current	6(19) and 12(5)	21,397	1	-	-
2150	Notes payables		675	-	1,473	-
2170	Accounts payable		536,942	14	365,766	10
2180	Accounts payable – related parties	7	20,681	1	12,543	-
2200	Other payables	6(10)	256,230	7	201,331	6
2230	Current income tax liabilities	6(25)	127,052	3	62,955	2
2310	Advance receipts		2,035	-	24,854	1
2320	Current portion of long-term borrowings	6(12)	397,757	10	392,759	11
2399	Other current liabilities		1,520	-	1,194	-
21XX	<b>Total current liabilities</b>		<u>1,420,049</u>	<u>37</u>	<u>1,067,873</u>	<u>30</u>
<b>Non-current liabilities</b>						
2570	Deferred income tax liabilities	6(25)	85,548	2	58,178	2
2640	Accrued pension liabilities	6(13)	41,745	1	37,413	1
2645	Guarantee deposit received		902	-	929	-
25XX	<b>Total non-current liabilities</b>		<u>128,195</u>	<u>3</u>	<u>96,520</u>	<u>3</u>
2XXX	<b>Total liabilities</b>		<u>1,548,244</u>	<u>40</u>	<u>1,164,393</u>	<u>33</u>
<b>Equity attributable to shareholders of the parent</b>						
<b>Share capital</b>						
3110	Ordinary shares	6(15)	796,206	20	793,130	22
3140	Advance receipts for share capital		1,039	-	1,379	-
<b>Capital surplus</b>						
3200	Capital surplus	6(16)	214,960	6	198,563	6
<b>Retained earnings</b>						
3310	Legal reserve	6(17)	459,789	12	367,165	10
3320	Special reserve		12,914	-	-	-
3350	Unappropriated retained earnings		882,311	22	1,022,874	29
<b>Other equity</b>						
3400	Other equity	6(18)	(4,230)	-	(12,914)	-
3XXX	<b>Total equity</b>		<u>2,362,989</u>	<u>60</u>	<u>2,370,197</u>	<u>67</u>
<b>Significant commitment and contingent item</b>		9				
3X2X	<b>Total Liabilities and Equity</b>		<u>\$ 3,911,233</u>	<u>100</u>	<u>\$ 3,534,590</u>	<u>100</u>

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

AXIOMTEK CO., LTD.  
PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME  
(Expressed in Thousands of New Taiwan Dollars, Except for Earnings per Share)

Items	Notes	Year ended December 31			
		2018		2017	
		Amount	%	Amount	%
4000 <b>Operating revenue</b>	6(19)	\$ 3,629,164	100	\$ 2,530,366	100
5000 <b>Operating costs</b>	6(4)(23)(24)	(2,551,498)	(70)	(1,784,820)	(71)
5900 <b>Gross profit</b>		1,077,666	30	745,546	29
5910 Unrealized gain from sale	6(5)	(73,004)	(2)	(53,428)	(2)
5920 Realized gain from sale		53,428	1	43,129	2
5950 <b>Net gross profit</b>		1,058,090	29	735,247	29
<b>Operating expenses</b>	6(23) (24)				
6100 Selling expenses		(112,955)	(3)	(98,683)	(4)
6200 General and administrative expenses		(101,341)	(3)	(87,650)	(4)
6300 Research and development expenses		(415,049)	(11)	(356,023)	(14)
6450 Impairment loss (impairment gain and reversal of impairment loss) determined in accordance with IFRS 9	12(2)	772	-	-	-
6000 <b>Total operating expenses</b>		(628,573)	(17)	(542,356)	(22)
6900 <b>Operating profit</b>		429,517	12	192,891	7
<b>Non-operating income and expenses</b>					
7010 Other income	6(20) and 7	25,711	-	17,084	1
7020 Other gains and losses	6(21)	33,197	1	733,759	29
7050 Finance costs	6(22)	(7,236)	-	(6,604)	-
7070 Share of profit of associates and joint ventures accounted for under equity method	6(5)	83,336	2	67,189	2
7000 <b>Total non-operating income and expenses</b>		135,008	3	811,428	32
7900 <b>Profit before income tax</b>	6(25)	564,525	15	1,004,319	39
7950 Income tax expenses		(157,601)	(4)	(78,080)	(3)
8200 <b>Net Income</b>		\$ 406,924	11	\$ 926,239	36
<b>Other comprehensive income</b>					
<b>Components of other comprehensive income that will not be reclassified to profit or loss</b>					
8311 Remeasurements of defined benefit plan	6(13)	\$ (5,142)	-	\$ (5,745)	-
8316 Unrealized gains (losses) from investments in equity instruments measured at fair value		707	-	-	-
8349 Income tax relating to components of other comprehensive income	6(25)	1,490	-	977	-
<b>Components of other comprehensive income that will be reclassified to profit or loss</b>					
8361 Financial statements translation differences of foreign operations		10,271	-	(23,842)	(1)
8380 Share of other comprehensive income (loss) of subsidiaries and associates		-	-	(6,904)	-
8399 Income tax relating to the components of other comprehensive income	6(25)	(1,587)	-	4,053	-
8300 <b>Other comprehensive income (loss) for the year</b>		\$ 5,739	-	\$ (31,461)	(1)
8500 <b>Total Comprehensive Income</b>		\$ 412,663	11	\$ 894,778	35
9750 <b>Basic earnings per share</b>	6(26)	\$	5.12	\$	11.71
9850 <b>Diluted earnings per share</b>	6(26)	\$	4.61	\$	10.59

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



AXIOMTEK CO., LTD.  
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY  
(Expressed in Thousands of New Taiwan Dollars)

	Notes	Share capital		Capital surplus					Retained earnings			Other equity		Total equity	
		Ordinary share	Advance receipts for share capital	Additional paid-in capital	Treasury stock transactions	From differences between equity purchase price and carrying amount arising from actual acquisition or disposal of subsidiaries	Gain on sale of fixed assets	stock option exercised by employees	stock option	Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations		Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income
<b>Year 2017</b>															
Balance at January 1, 2017		\$790,310	\$ -	\$ 118,619	\$ 1,026	\$ 177	\$ 2	\$ 39,561	\$ 24,360	\$331,163	\$ -	\$ 425,869	\$ 13,779	\$ -	\$ 1,744,866
Appropriations of 2016 earnings															
Legal reserve	6(17)	-	-	-	-	-	-	-	-	36,002	-	(36,002)	-	-	-
Cash dividends	6(17)	-	-	-	-	-	-	-	-	-	-	(288,464)	-	-	(288,464)
Profit for the year		-	-	-	-	-	-	-	-	-	-	926,239	-	-	926,239
Other comprehensive income (loss) for the year	6(18)	-	-	-	-	-	-	-	-	-	-	(4,768)	(26,693)	-	(31,461)
From differences between equity purchase price and carrying amount arising from actual acquisition or disposal of subsidiaries		-	-	-	-	(1)	-	-	-	-	-	-	-	-	(1)
Share-based payments		2,820	1,379	4,004	-	-	-	-	-	-	-	-	-	-	8,203
Compensation cost of share-based payments	6(14)	-	-	-	-	-	-	10,815	-	-	-	-	-	-	10,815
Balance at December 31, 2017		<u>\$793,130</u>	<u>\$ 1,379</u>	<u>\$ 122,623</u>	<u>\$ 1,026</u>	<u>\$ 176</u>	<u>\$ 2</u>	<u>\$ 50,376</u>	<u>\$ 24,360</u>	<u>\$367,165</u>	<u>\$ -</u>	<u>\$ 1,022,874</u>	<u>\$ (12,914)</u>	<u>\$ -</u>	<u>\$ 2,370,197</u>
<b>Year 2018</b>															
Balance at January 1, 2018		\$793,130	\$ 1,379	\$ 122,623	\$ 1,026	\$ 176	\$ 2	\$ 50,376	\$ 24,360	\$367,165	\$ -	\$ 1,022,874	\$ (12,914)	\$ -	\$ 2,370,197
Effect of retrospective application and restatement		-	-	-	-	-	-	-	-	-	-	900	-	(900)	-
Balance at January 1, after adjustments		<u>793,130</u>	<u>1,379</u>	<u>122,623</u>	<u>1,026</u>	<u>176</u>	<u>2</u>	<u>50,376</u>	<u>24,360</u>	<u>367,165</u>	<u>-</u>	<u>1,023,774</u>	<u>(12,914)</u>	<u>(900)</u>	<u>2,370,197</u>
Appropriations of 2017 earnings															
Legal reserve	6(17)	-	-	-	-	-	-	-	-	92,624	-	(92,624)	-	-	-
Special reserve	6(17)	-	-	-	-	-	-	-	-	-	12,914	(12,914)	-	-	-
Cash dividends	6(17)	-	-	-	-	-	-	-	-	-	-	(439,004)	-	-	(439,004)
Profit for the year		-	-	-	-	-	-	-	-	-	-	406,924	-	-	406,924
Other comprehensive income (loss) for the year	6(18)	-	-	-	-	-	-	-	-	-	-	(3,652)	8,684	707	5,739
Share-based payments		2,730	(340)	3,523	-	-	-	-	-	-	-	-	-	-	5,913
Compensation cost of share-based payments	6(14)	-	-	-	-	-	-	11,513	-	-	-	-	-	-	11,513
Conversion of convertible bonds		346	-	1,465	-	-	-	-	(104)	-	-	-	-	-	1,707
Disposal of financial assets at fair value through other comprehensive income	6(2)	-	-	-	-	-	-	-	-	-	-	(193)	-	193	-
Balance at December 31, 2018		<u>\$796,206</u>	<u>\$ 1,039</u>	<u>\$ 127,611</u>	<u>\$ 1,026</u>	<u>\$ 176</u>	<u>\$ 2</u>	<u>\$ 61,889</u>	<u>\$ 24,256</u>	<u>\$459,789</u>	<u>\$ 12,914</u>	<u>\$ 882,311</u>	<u>\$ (4,230)</u>	<u>\$ -</u>	<u>\$ 2,362,989</u>

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

AXIOMTEK CO., LTD.  
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS  
(Expressed in Thousands of New Taiwan Dollars)

	Notes	Years ended December 31	
		2018	2017
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>			
Profit before tax		\$ 564,525	\$ 1,004,319
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(6) (23)	46,649	40,820
Depreciation from investment Property	6(7) (21)	1,544	-
Amortization	6(8) (23)	8,735	8,457
Expected credit impairment losses/ Reversal of allowance for doubtful accounts	12(2)	(772)	5
Net loss on financial assets at fair value through loss	6(21)	6	23
Net gain on financial liability at fair value through profit	6(21)	(2,233)	(1,050)
Interest expense	6(22)	7,236	6,604
Interest income	6(20)	(11,037)	(7,391)
Dividend income for under equity method		-	90,160
Compensation cost of share-based payments	6(14) (24)	10,144	10,815
Share of profit of associates and joint ventures accounted for under equity method	6(5)	(83,336)	(67,189)
Loss (gain) on disposal of property, plant and equipment	6(21)	7	(2,301)
Gain on disposal of intangible assets	6(21)	-	(120)
Gain on disposal of investments for under equity method	6(21)	-	(766,094)
Gain on disposal of investments	6(21)	(423)	(489)
Unrealized profit from sales		19,576	10,299
Changes in assets/liabilities relating to operating activities			
Changes in assets relating to operating activities			
Financial assets at fair value through profit or loss		35,423	209,488
Notes receivable		(8,279)	2,126
Accounts receivable (including related parties)		(152,387)	(10,249)
Other receivables (including related parties)		(24,046)	6,908
Inventories		(144,419)	(54,517)
Prepayments		(6,838)	7,794
Other financial assets		148,800	(148,800)
Other current assets		328	(326)
Changes in liabilities relating to operating activities			
Contract liabilities		(3,382)	-
Notes payables		(798)	1,431
Accounts payable (including related parties)		179,314	24,007
Other payables		59,126	(953)
Advance receipts		1,960	(403)
Other current liabilities		326	(26)
Accrued pension liabilities		(810)	(754)
Cash inflow generated from operations		644,939	362,594
Receipt of interest		11,346	7,391
Payment of interest		(519)	(6)
Payment of income tax		(72,442)	(39,978)
Net cash flows provided by operating activities		583,324	330,001

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AXIOMTEK CO., LTD.  
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS  
(Expressed in Thousands of New Taiwan Dollars)

	Notes	Years ended December 31	
		2018	2017
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>			
Proceeds from disposal of financial assets at fair value through other comprehensive income		\$ 1,630	\$ -
Acquisition of investments accounted for using equity method	6(5)	(63,056)	(14,329)
Acquisition of property, plant and equipment		-	1,004,432
Proceeds from disposal of investments for under equity method	6(28)	(35,786)	(1,042,810)
Proceeds from disposal of property, plant and equipment		6	2,590
Acquisition of intangible assets	6(8)	(9,485)	(13,452)
Proceeds from disposal of intangible assets		-	120
Decrease (Increase) in refundable deposits		(223)	2,332
Net cash flows provided by (used in) investing activities		<u>(106,914)</u>	<u>(61,127)</u>
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>			
Proceeds from short -term borrowings		636,000	21,000
Redemption of short -term borrowings		(583,000)	(21,000)
Increase (decrease) in refundable deposits		(27)	593
Payment of cash dividends	6(17)	(439,004)	(288,464)
Proceeds from exercise of employee stock options	6(14)	5,913	8,203
Net cash flows provided by (used in) financing activities		<u>(380,118)</u>	<u>(279,668)</u>
Increase (Decrease) in cash and cash equivalents		96,292	(10,794)
Cash and cash equivalents at beginning of year		638,525	649,319
Cash and cash equivalents at end of year		<u>\$ 734,817</u>	<u>\$ 638,525</u>

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

AXIOMTEK CO., LTD.  
NOTES TO PARENT COMPANY ONLY FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017  
(Expressed in thousands of New Taiwan dollars)

1. ORGANIZATION AND OPERATIONS

Axiomtek Co., Ltd. (hereinafter referred to as "the Company" or "Axiomtek") was incorporated in the Republic of China (R.O.C) in May 1990 and the Company's common shares were officially listed on the Taipei Exchange on April 28, 2005. The Company is mainly engaged in designing, manufacturing and sales of PC-based industrial computer products and peripherals. The Company provides product lines of Industrial PCs (IPCs), Single Board Computers (SBCs), System on Modules (SoMs), Fanless and Rugged Embedded Systems (eBOX and rBOX), Intelligent Transportation Systems (tBOX and UST), Industrial IoT Gateway, Industrial EtherCAT Master solution, Touch Panel Computers (TPCs), Medical Panel Computers (MPCs), Digital Signage Solutions (DSSs), and Network Appliances (NAs) products.

2. THE DATE OF AUTHORISATION FOR ISSUANCE OF THE PARENT COMPANY ONLY FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORISATION

The parent company only financial statements were authorised for issuance by the Board of Directors on February 26 2019.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

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

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

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

- A. IFRS 9, 'Financial instruments'
- (A) Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset measured at amortized cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present subsequent changes in the fair value of an investment in an equity instrument that is not held for trading in other comprehensive income.
  - (B) The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognize 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Company shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.
  - (C) The Company has elected not to restate prior period financial statements using the modified retrospective approach under IFRS 9. For details of the significant effect as at January 1, 2018, please refer to Notes 12(3) B.
- B. IFRS 15, 'Revenue from contracts with customers' and amendments
- (A) IFRS 15, 'Revenue from contracts with customers' replaces IAS 11, 'Construction contracts', IAS 18 'Revenue' and relevant interpretations. According to IFRS 15, revenue is recognized when a customer obtains control of promised goods or services. A customer obtains control of goods or services when a customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognizes revenue in accordance with that core principle by applying the following steps:
    - Step 1: Identify contracts with customer.
    - Step 2: Identify separate performance obligations in the contract(s).
    - Step 3: Determine the transaction price.
    - Step 4: Allocate the transaction price.
    - Step 5: Recognise revenue when the performance obligation is satisfied.
 Further, IFRS 15 includes a set of comprehensive disclosure requirements that requires an entity to disclose sufficient information to enable users of financial

statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

(B) The Company has elected not to restate prior period financial statements and recognised the cumulative effect, using the modified retrospective approach under IFRS 15. The significant effects of adopting the modified transition as of January 1, 2018 are summarised below:

- i. Presentation of assets and liabilities in relation to contracts with customers  
In line with IFRS 15 requirements, the Company changed the presentation of certain accounts in the balance sheets as follows:  
Under IFRS 15, liabilities in relation to sales contracts are recognised as contract liabilities, but were previously presented as advance receipts in the balance sheet. As of January 1, 2018, the balance amounted to \$24,779
- ii. Please refer to Note 12(5) for disclosure in relation to the first application of IFRS 15.

C. Amendments to IAS 7, ‘Disclosure initiative’

This amendment requires that an entity shall provide more disclosures related to changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Company expects to provide additional disclosure to explain the changes in liabilities arising from financing activities.

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

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

Except for the following, the above standards and interpretations have no significant impact to the Company’s financial condition and financial performance based on the Company’s assessment. The quantitative impact will be disclosed when the assessment is complete:

IFRS 16, ‘Leases’

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

In the first quarter of 2018, the Company reported to the Board of Directors that IFRS 16 has material impact to the Company.

The Company expects to recognise the lease contract of lessees in line with IFRS 16. However, the Company does not intend to restate the financial statements of prior period (collectively

referred herein as the “modified retrospective approach”). On January 1, 2019, it is expected that ‘right-of-use asset’ and ‘lease liability’ will be increased by \$58,786 and \$58,786.

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Statement of compliance

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

(2) Basis of preparation

- A. Except for the following items, the parent company only financial statements have been prepared under the historical cost convention:
- (A) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
  - (B) Financial assets at fair value through other comprehensive income/Available-for-sale financial assets measured at fair value.
  - (C) Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.
- B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the parent company only financial statements are disclosed in Note 5.
- C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Company has elected to apply modified retrospective approach whereby the cumulative impact of the adoption was recognised as retained earnings or other equity as of January 1, 2018 and the financial statements for the year ended December 31, 2017 were not restated. The financial

statements for the year ended December 31, 2017 were prepared in compliance with International Accounting Standard 39 ('IAS 39'), International Accounting Standard 11 ('IAS 11'), International Accounting Standard 18 ('IAS 18') and related financial reporting interpretations. Please refer to Notes 12(4) and (5) for details of significant accounting policies and details of significant accounts.

(3) Foreign currency translation

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

A. Foreign currency transactions and balances

- (A) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.
- (B) Monetary assets and liabilities denominated in foreign currencies at the period end are retranslated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss.
- (C) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, nonmonetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- (D) Foreign exchange gains and loss based on the nature of those transactions are presented in the statement of comprehensive income within other gains and losses.

B. Translation of foreign operations

- (A) The operating results and financial position of all the Company entities, associates and joint arrangements that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
  - i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
  - ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
  - iii. All resulting exchange differences are recognised in Exchange differences on translation of foreign operations.
- (B) When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interests in this foreign operation. In addition, if the Company still retains partial interests in the former foreign subsidiary after losing control of the former foreign subsidiary, such transactions should be accounted for as disposal of all interest in these foreign operations.
- (C) Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing



exchange rates at the balance sheet date.

(4) Classification of current and non-current items

- A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
- (A) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;
  - (B) Assets held mainly for trading purposes;
  - (C) Assets that are expected to be realized within twelve months from the balance sheet date;
  - (D) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

All assets that do not meet the above criteria are classified as non-current assets.

- B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:
- (A) Liabilities that are expected to be paid off within the normal operating cycle;
  - (B) Liabilities arising mainly from trading activities;
  - (C) Liabilities that are to be paid off within twelve months from the balance sheet date;
  - (D) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All liabilities that do not meet the above criteria are classified as non-current liabilities.

(5) Cash equivalent

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

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

Effective 2018

- A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortized cost or fair value through other comprehensive income.
- B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using trade date accounting.
- C. At initial recognition, the Company measures the financial assets at fair value and recognizes the transaction costs in profit or loss. The Company subsequently measures the financial assets at fair value, and recognizes the gain or loss in profit or loss.
- D. The Company recognizes the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably.

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

Effective 2018

- A. At initial recognition, the Company makes an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading. The debt instruments are measured at fair value through other comprehensive income if both of the following conditions are met:

- (A) The objective of the Company's business model is achieved by both collecting contractual cash flows and selling financial assets; and
- (B) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- B. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognized and derecognized using settlement date accounting.
- C. At initial recognition, the Company measures the financial assets at fair value plus transaction costs. The Company subsequently measures the financial assets at fair value:
  - (A) The changes in fair value of equity investments that are recognized in other comprehensive income are reclassified to retained earnings. When the equity instruments are derecognized the cumulative gain or loss previously recognized in other comprehensive income is not reclassified from equity to profit or loss. Dividends are recognized as revenue when the Company's right to receive payment is established, it is probable the economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably.
  - (B) The changes in fair value of debt instruments that were recognized in other comprehensive income. Before derecognition, impairment gains or losses, interest revenue and foreign exchange gains and losses are recognized in profit or loss. When the debt instruments are derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

(8) Accounts and notes receivable

- A. Accounts and notes receivable entitle the Company a legal right to receive consideration in exchange for transferred goods or rendered services.
- B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(9) Impairment of financial assets

For debt instruments measured at fair value through other comprehensive income and accounts receivable that have a significant financing component, at each end of the financial reporting period, the Company recognizes the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognizes the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable or contract assets that do not contain a significant financing component, the Company recognizes the impairment provision for lifetime ECLs.

(10) Derecognition of financial assets

The Company derecognizes a financial asset when the contractual rights to receive the cash flows from the financial asset expire.

(11) Operating leases (lessor)

Lease income from an operating lease (net of any incentives given to the lessee) is recognized in profit or loss on a straight-line basis over the lease term.

(12) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (allocated based on normal operating capacity). It excludes borrowing costs. The item by item approach is used in

applying the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(13) Investments accounted for under equity method

- A. Subsidiaries are all entities (including structured entity) controlled by the Company. The Company controls an entity when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.
- B. Unrealized gains on transactions between the Company and its subsidiaries are eliminated to the extent of the Company's interest in the subsidiaries. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Company.
- C. The Company's share of its subsidiaries' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Company's share of losses in a subsidiary equals or exceeds its interest in the subsidiary, the Company should continue to recognize losses in proportion to its ownership.
- D. When the Company loses control of a subsidiary, the Company remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognized in profit or loss. All amounts previously recognized in other comprehensive income in relation to the subsidiary are reclassified to profit or loss, on the same basis as would be required if all the related assets or liabilities were disposed of. That is, other comprehensive income in relation to the subsidiary should be reclassified to profit or loss.
- E. Associates are all entities over which the Company has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20% or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognized at cost.
- F. The Company's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.
- G. When changes in an associate's equity do not arise from profit or loss or other comprehensive income of the associate and such changes do not affect the Company's ownership percentage of the associate, the Company recognizes change in ownership interests in the associate in "capital surplus" in proportion to its ownership.
- H. Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Company.
- I. When the Company disposes its investment in an associate and loses significant influence over this associate, the amounts previously recognized in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it retains significant

influence over this associate, the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.

- J. According to “Regulations Governing the Preparation of Financial Reports by Securities Issuers”, profit and other comprehensive income in the separate financial statements should be the same as profit and other comprehensive income attributable to shareholders of the parent in the parent company only financial statements, and the equity in the separate financial statements should be the same as the equity attributable to shareholders of the parent in the parent company only financial statements.

(14) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.
- B. Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets’ residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets’ residual values and useful lives differ from previous estimates or the patterns of consumption of the assets’ future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, ‘Accounting Policies, Changes in Accounting Estimates and Errors’, from the date of the change.

The estimated useful lives of property, plant and equipment are as follows:

Buildings	3 - 50 years
Machinery	3 - 20 years
Tools	2 - 5 years
Testing equipment	2 - 8 years
Office Equipment	2 - 10 Years
Leasehold improvements	2 - 10 Years
Other equipment	3 - 10 Years

(15) Leases (leasee)

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

(16) Investment property

An investment property is stated initially at its cost and measured subsequently using the cost model. Except for land, investment property is depreciated on a straight-line basis over its estimated useful life of 3 ~ 41 years.

(17) Intangible assets

- A. Trademark  
Trademark is stated at cost and amortized on a straight-line basis over its estimated useful life of 2 to 10 years.
- B. Computer software  
Computer software is stated at cost and amortized on a straight-line basis over its estimated useful life of 2 to 10 years.
- C. Goodwill  
Goodwill arises in a business combination accounted for by applying the acquisition method.

(18) Impairment of non-financial assets

- A. The Company assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Except for goodwill, when the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortized historical cost would have been if the impairment had not been recognized.
- B. The recoverable amounts of goodwill with an shall be evaluated periodically. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment loss of goodwill previously recognized in profit or loss shall not be reversed in the following years.
- C. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units, or group of cash-generating units, that is/are expected to benefit from the synergies of the business combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

(19) Borrowings

Borrowings comprise long-term and short-term bank borrowings. Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds net of transaction costs and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

(20) Notes payable and accounts payable

- A. Accounts payable are liabilities for purchases of raw materials, goods or services and notes payable are those resulting from operating and non-operating activities.
- B. The short-term notes and accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

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

- A. Such liabilities mean the financial liabilities designated to be measured at fair value through profit or loss. When a financial liability meets one of the following conditions, it is designated at fair value through profit or loss when it is originally recognized:

- (A) is a mixed (combined) contract; or
  - (B) eliminate or significantly reduce the measurement inconsistencies; or
  - (C) An instrument whose performance is managed and evaluated on a fair value basis, based on written risk management or strategies.
- B. At initial recognition, the Company measures the financial liabilities at fair value. All related transaction costs are recognized in profit or loss. The Company subsequently measures these financial liabilities at fair value with any gain or loss recognized in profit or loss.

(22) Convertible bonds payable

Convertible corporate bonds issued by the Company contain conversion options (that is, the bondholders have the right to convert the bonds into the Company's common shares by exchanging a fixed amount of cash for a fixed number of common shares), call options and put options. The Company classifies the bonds payable and derivative features embedded in convertible corporate bonds on initial recognition as a financial asset, a financial liability or an equity instrument ('capital surplus - stock options') in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability and an equity instrument. Convertible corporate bonds are accounted for as follows:

- A. Call options and put options embedded in convertible corporate bonds are recognized initially at net fair value as 'financial assets or financial liabilities at fair value through profit or loss'. They are subsequently remeasured and stated at fair value on each balance sheet date; the gain or loss is recognized as 'gain or loss on valuation of financial assets or financial liabilities at fair value through profit or losses'.
- B. Bonds payable of convertible corporate bonds is initially recognised at fair value and subsequently stated at amortised cost. Any difference between the proceeds and the redemption value is accounted for as the premium or discount on bonds payable/ preference share liabilities and presented as an addition to or deduction from bonds payable, which is amortised in profit or loss as an adjustment to the 'finance costs' over the period of bond circulation using the effective interest method.
- C. Conversion options embedded in convertible corporate bonds issued by the Company, which meet the definition of an equity instrument, are initially recognized in 'capital surplus – stock options' at the residual amount of total issue price less amounts of 'financial assets or financial liabilities at fair value through profit or loss' and 'bonds payable - net' as stated above. Conversion options are not subsequently remeasured.
- D. Any transaction costs directly attributable to the issuance of convertible corporate bonds are allocated to the liability and equity components in proportion to the allocation of proceeds.
- E. When bondholders exercise conversion options, the liability component of the bonds (including 'bonds payable' and 'financial assets or financial liabilities at fair value through profit or loss') shall be remeasured on the conversion date. The book value of common shares issued due to the conversion shall be based on the adjusted book value of the above-mentioned liability component plus the book value of capital surplus - stock options.

(23) Non-hedging and embedded derivatives

- A. Non-hedging derivatives are initially recognised at fair value on the date a derivative contract is entered into and recorded as financial assets or financial liabilities at fair value through profit or loss. They are subsequently remeasured at fair value and the gains or losses are recognised in profit or loss.
- B. A mixed contract of financial assets embedded in derivatives, at the time of the original recognition, determines that the overall hybrid tool is classified as financial assets

measured at fair value through gains and losses, financial assets measured at fair value through other gains and losses, and financial assets measured at amortized cost.

- C. The non-financial asset hybrid contract embedded in the derivative instrument determines whether the embedded derivative is closely related to the economic characteristics and risk of the main contract in the original recognition according to the terms of the contract to determine whether to separate or not. When it is closely related, the overall blending tool is treated according to its nature according to appropriate criteria. When it is not closely related, the derivative is separated from the principal contract and is treated as a derivative. The principal contract is treated according to its nature on the basis of appropriate criteria; or the overall recognition at the original recognition is a financial liability measured at fair value through profit or loss.

(24) Derecognition of financial liabilities

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

(25) Offsetting financial assets and financial liabilities

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

(26) Provisions for liabilities

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

(27) Employee benefits

A. Short-term employee benefits

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

B. Pensions

(A) Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expenses when they are due on an accrual basis.

(B) Defined benefit plans

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

balance sheet date) of a currency and term consistent with the currency and term of the employment benefit obligations.

- ii. Remeasurements arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.
- iii. Employees' compensation and directors' remuneration  
Employees' compensation and directors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is distributed by shares, the Company calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(28) Employee share-based payment

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

(29) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.



- D. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.
- F. A deferred tax asset shall be recognized for the carryforward of unused tax credits resulting from acquisitions of equipment or technology and research and development expenditures to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilized.

(30) Share Capital

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

(31) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are approved by the Company's shareholders. Cash dividends are recorded as liabilities; stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance.

(32) Revenue recognition

A. Sales of goods

- (A) The Company manufactures and sells industrial computer-related products. Sales are recognised when control of the products has transferred, being when the products are delivered to the customers, the customers have full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customers, and either the customers have accepted the products in accordance with the sales contract, or the Company has objective evidence that all criteria for acceptance have been satisfied.
- (B) The sales revenue of industrial computer-related products is recognized according to the quantity of goods purchased by the customer and the price agreed upon after the quotation of the product item. The terms of collection for sales transactions are agreed upon in accordance with the generally accepted commercial transaction terms.
- (C) The Company's obligation to provide a refund for faulty products under the standard warranty terms is recognized as a provision.
- (D) A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

B. Revenue from Labor Services

Revenue from labor services comes from product development and provision of extended warranty and maintenance services. When the transaction results of labor services can be reliably estimated, revenues are recognized based on the level of labor provided.

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

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

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

None.

(2) Critical accounting estimates and assumptions

Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Company must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Company evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realisable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation.

As of December 31, 2018, the carrying amount of inventories was \$510,656.

## 6. DETAILS OF SIGNIFICANT ACCOUNTS

### (1) Cash and cash equivalents

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Cash on hand and petty cash	\$ 494	\$ 223
Checking accounts and demand deposits	502,477	365,493
Time deposits	231,846	183,529
Cash equivalents - Bonds with repurchase agreement	-	89,280
	<u>\$ 734,817</u>	<u>\$ 638,525</u>

- A. The Company transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.
- B. The Company has no cash and cash equivalents pledged to others.
- C. As of December 31 2018 and 2017, the Company' holds term deposits with duration of three months of \$0 and \$148,800 respectively, classified as "other current assets".

### (2) Financial assets at fair value through other comprehensive income

#### Effective 2018

- A. The Company adopted to classify the strategic equity investment in Align Technology Co. Ltd. as financial assets measured at fair value through other comprehensive income, but because the financial position and operating results were not satisfactory, the resolution was passed for disposal at \$1,630 in March 2018, and the Company applied, for the first time, IFRS 9 to retrospectively adjust the cumulative impairment of \$900 to increase retained surplus and reduce other interests. Upon its sale, the fair value amount of \$707, was classified as equity instruments measured at fair value through other comprehensive income and did not have unrealized gains and losses and carry-over other benefits. As a result of the disposition, the net credit of \$193 was transferred to retained earnings on the date of delivery.
- B. Information on financial assets at fair value through other comprehensive income for the year ended December 31, 2017 is provided in Note 12(4).

### (3) Notes and accounts receivable (including related parties)

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Notes receivable	\$ 10,508	\$ 2,229
Less: Loss allowance	-	-
	<u>\$ 10,508</u>	<u>\$ 2,229</u>
Accounts receivable	\$ 103,927	\$ 99,394
Accounts receivable - related parties	436,780	288,926
Less: Loss allowance	( 55)	( 827)
	<u>\$ 540,652</u>	<u>\$ 387,493</u>

- A. Information relating to the ageing analysis of accounts receivable that were past due is provided in Note 12(2).
- B. The Company does not hold financial assets as security for accounts receivable.
- C. Information relating to credit risk is provided in Note 12(2).

(4) Inventories

	December 31, 2018		
	Cost	Allowance for valuation loss and loss on obsolete and slow-moving inventories	Book value
Raw materials	\$ 239,501	(\$ 16,725)	\$ 222,776
Work in progress	88,227	( 2,443)	85,784
Semi-finished goods	26,549	( 1,935)	24,614
Finished goods	182,793	( 13,430)	169,363
Inventories in transit	8,119	-	8,119
Total	<u>\$ 545,189</u>	<u>(\$ 34,533)</u>	<u>\$ 510,656</u>

	December 31, 2017		
	Cost	Allowance for valuation loss and loss on obsolete and slow-moving inventories	Book value
Raw materials	\$ 159,340	(\$ 13,943)	\$ 145,397
Work in progress	82,809	( 3,454)	79,355
Semi-finished goods	18,820	( 1,681)	17,139
Finished goods	140,034	( 15,922)	124,112
Inventories in transit	234	-	234
Total	<u>\$ 401,237</u>	<u>(\$ 35,000)</u>	<u>\$ 366,237</u>

Relevant expenses of inventories recognised as operating costs for the years ended December 31, 2018 and 2017 are as follows:

	Years ended December 31,	
	2018	2017
Cost of revenue	\$ 2,532,739	\$ 1,771,486
Loss on market value decline and obsolete and slow-moving inventories	18,759	13,334
Total	<u>\$ 2,551,498</u>	<u>\$ 1,784,820</u>

The Company has no inventories pledged to others.

(5) Investments accounted for using equity method

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
AXIOM TECHNOLOGY, INC. U.S.A.(AXUS)	\$ 436,213	\$ 397,536
AXIOMTEK DEUTSCHLAND GMBH(AXGM)	190,324	149,833
AXIOM TECHNOLOGY (BVI) CO., LTD.(AXBVI)	52,663	23,115
UNIT-INNOVATE TECHNOLOGY CO.,LTD. (UNI)	29,033	-
AXIOMTEK UK LIMITED (AXUK)	7,118	7,236
AXIOMTEK JAPAN CO.,LTD.(AXJP)	6,983	7,527
Total	<u>\$ 722,334</u>	<u>\$ 585,247</u>

- A. (A) Details of the Company's subsidiaries are provided in Note 4(3) of the Company's 2018 financial statements.
- (B) On May 5, 2017 the Company disposed all its EtherWAN Systems Inc. (hereafter abbrev. EWTW) shares, giving up control. Please refer to the 2018 financial statements of the Company for details in Note 4(3)
- (C) The company invested in AXJP on July 26, 2017 100% equity and full control of AXJP. Please refer to Note 4(3) of the 2018 financial statements of the Company for details.
- (D) To cater for future operating needs, the Company increased its capital in the subsidiary AXBVI by \$34,056 in October 2018.
- (E) December 21 2018 the Company acquired 26.7% of equity in UNI at \$20 per share and the right to influence UNI's innovation.
- B. Equity methods used in 2018 and 2017 to recognize Share of profit (loss) of associates and joint ventures accounted for using equity method:

	<u>Years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
AXUS	\$ 42,410	\$ 14,598
AXGM	49,340	30,036
AXBVI	( 7,627)	2,397
UNI	33	-
AXUK	107	135
AXJP	( 927)	( 409)
EtherWAN Systems	-	20,432
Total	<u>\$ 83,336</u>	<u>\$ 67,189</u>

- C. Details of Unrealized profit from sales of the subsidiaries and their subsidiaries at the end of the period are as follows:

	<u>Years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
AXUS	\$ 51,016	\$ 34,311
AXGM	19,062	12,449
Axiomtek (Shenzhen) Co. Ltd. (AXSZ)	2,926	6,668
Total	<u>\$ 73,004</u>	<u>\$ 53,428</u>

(6) Property, plant and equipment

	Land	Buildings	Machinery	Tools	Testing equipment	Office Equipment	Leasehold improvements	Others	Construction in progress	Total
At January 1, 2018										
Cost	\$ 629,577	\$ 460,019	\$ 138,054	\$ 47,317	\$ 53,164	\$ 19,168	\$ 10,979	\$ 10,906	\$ 49,751	\$ 1,418,935
Accumulated depreciation	-	( 23,662)	( 82,721)	( 40,620)	( 35,855)	( 16,019)	( 9,472)	( 6,887)	-	( 215,236)
	<u>\$ 629,577</u>	<u>\$ 436,357</u>	<u>\$ 55,333</u>	<u>\$ 6,697</u>	<u>\$ 17,309</u>	<u>\$ 3,149</u>	<u>\$ 1,507</u>	<u>\$ 4,019</u>	<u>\$ 49,751</u>	<u>\$ 1,203,699</u>
2018										
Opening net book amount	\$ 629,577	\$ 436,357	\$ 55,333	\$ 6,697	\$ 17,309	\$ 3,149	\$ 1,507	\$ 4,019	\$ 49,751	\$ 1,203,699
Additions	-	-	210	7,047	3,058	4,782	275	3,400	12,770	31,542
Disposals (Cost)	-	( 115)	( 98)	( 92)	( 1,219)	( 312)	( 1,271)	( 665)	-	( 3,772)
Disposals (Accumulated depreciation)	-	115	98	92	1,219	312	1,271	652	-	3,759
Reclassifications (Cost)	( 93,953)	( 42,344)	-	3,284	-	46,627	1,193	-	( 54,865)	( 140,058)
Reclassifications (Accumulated depreciation)	-	19,371	-	-	-	587	1,216	-	-	21,174
Depreciation	-	( 8,351)	( 15,141)	( 7,834)	( 5,696)	( 6,640)	( 534)	( 2,453)	-	( 46,649)
Closing net book amount	<u>\$ 535,624</u>	<u>\$ 405,033</u>	<u>\$ 40,402</u>	<u>\$ 9,194</u>	<u>\$ 14,671</u>	<u>\$ 48,505</u>	<u>\$ 3,657</u>	<u>\$ 4,953</u>	<u>\$ 7,656</u>	<u>\$ 1,069,695</u>
At December 31, 2018										
Cost	\$ 535,624	\$ 417,560	\$ 138,166	\$ 57,556	\$ 55,003	\$ 70,265	\$ 11,176	\$ 13,641	\$ 7,656	\$ 1,306,647
Accumulated depreciation	-	( 12,527)	( 97,764)	( 48,362)	( 40,332)	( 21,760)	( 7,519)	( 8,688)	-	( 236,952)
	<u>\$ 535,624</u>	<u>\$ 405,033</u>	<u>\$ 40,402</u>	<u>\$ 9,194</u>	<u>\$ 14,671</u>	<u>\$ 48,505</u>	<u>\$ 3,657</u>	<u>\$ 4,953</u>	<u>\$ 7,656</u>	<u>\$ 1,069,695</u>

	Land	Buildings	Machinery	Tools	Testing equipment	Office Equipment	Leasehold improvements	Others	Construction in progress	Total
At January 1, 2017										
Cost	\$ 112,222	\$ 58,386	\$ 124,846	\$ 52,929	\$ 50,818	\$ 33,353	\$ 21,901	\$ 8,786	\$ 825	\$ 464,066
Accumulated depreciation	-	( 29,055)	( 92,953)	( 45,792)	( 36,609)	( 27,719)	( 12,526)	( 5,687)	-	( 250,341)
	<u>\$ 112,222</u>	<u>\$ 29,331</u>	<u>\$ 31,893</u>	<u>\$ 7,137</u>	<u>\$ 14,209</u>	<u>\$ 5,634</u>	<u>\$ 9,375</u>	<u>\$ 3,099</u>	<u>\$ 825</u>	<u>\$ 213,725</u>
2018										
Opening net book amount	\$ 112,222	\$ 29,331	\$ 31,893	\$ 7,137	\$ 14,209	\$ 5,634	\$ 9,375	\$ 3,099	\$ 825	\$ 213,725
Additions	535,624	417,560	2,200	4,047	1,029	1,382	142	2,723	89,234	1,053,941
Disposals (Cost)	-	( 9,477)	( 20,117)	( 10,759)	( 6,766)	( 12,737)	( 11,064)	( 603)	-	( 71,523)
Disposals (Accumulated depreciation)	-	9,477	20,106	10,759	6,490	12,737	11,064	601	-	71,234
Reclassifications (Cost)	( 18,269)	( 6,450)	31,125	1,100	8,083	( 2,830)	-	-	( 40,308)	( 27,549)
Reclassifications (Accumulated depreciation)	-	2,487	-	-	-	2,204	-	-	-	4,691
Depreciation	-	( 6,571)	( 9,874)	( 5,587)	( 5,736)	( 3,241)	( 8,010)	( 1,801)	-	( 40,820)
Closing net book amount	<u>\$ 629,577</u>	<u>\$ 436,357</u>	<u>\$ 55,333</u>	<u>\$ 6,697</u>	<u>\$ 17,309</u>	<u>\$ 3,149</u>	<u>\$ 1,507</u>	<u>\$ 4,019</u>	<u>\$ 49,751</u>	<u>\$ 1,203,699</u>
At December 31, 2017										
Cost	\$ 629,577	\$ 460,019	\$ 138,054	\$ 47,317	\$ 53,164	\$ 19,168	\$ 10,979	\$ 10,906	\$ 49,751	\$ 1,418,935
Accumulated depreciation	-	( 23,662)	( 82,721)	( 40,620)	( 35,855)	( 16,019)	( 9,472)	( 6,887)	-	( 215,236)
	<u>\$ 629,577</u>	<u>\$ 436,357</u>	<u>\$ 55,333</u>	<u>\$ 6,697</u>	<u>\$ 17,309</u>	<u>\$ 3,149</u>	<u>\$ 1,507</u>	<u>\$ 4,019</u>	<u>\$ 49,751</u>	<u>\$ 1,203,699</u>

- A. The Company has no interest capitalised to property, plant and equipment.
- B. Property, plant and equipment not a significant component.
- C. Information about the property, plant and equipment that were pledged to others as collateral is provided in Note 8.

(7) Investment property

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
At January 1, 2018			
Cost	\$ 18,269	\$ 9,280	\$ 27,549
Accumulated depreciation	-	( 4,691)	( 4,691)
	<u>\$ 18,269</u>	<u>\$ 4,589</u>	<u>\$ 22,858</u>
2018			
Opening net book amount	\$ 18,269	\$ 4,589	\$ 22,858
Reclassifications (Cost)	93,953	45,727	139,680
Reclassifications (Accumulated depreciation)	-	( 21,174)	( 21,174)
Depreciation	-	( 1,544)	( 1,544)
Closing net book amount	<u>\$ 112,222</u>	<u>\$ 27,598</u>	<u>\$ 139,820</u>
At December 31, 2018			
Cost	\$ 112,222	\$ 55,007	\$ 167,229
Accumulated depreciation	-	( 27,409)	( 27,409)
	<u>\$ 112,222</u>	<u>\$ 27,598</u>	<u>\$ 139,820</u>
	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
At January 1, 2017			
Cost	\$ -	\$ -	\$ -
Accumulated depreciation	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
2017			
Opening net book amount	\$ -	\$ -	\$ -
Reclassifications (Cost)	18,269	9,280	27,549
Reclassifications (Accumulated depreciation)	-	( 4,691)	( 4,691)
Closing net book amount	<u>\$ 18,269</u>	<u>\$ 4,589</u>	<u>\$ 22,858</u>
At December 31, 2017			
Cost	\$ 18,269	\$ 9,280	\$ 27,549
Accumulated depreciation	-	( 4,691)	( 4,691)
	<u>\$ 18,269</u>	<u>\$ 4,589</u>	<u>\$ 22,858</u>



A. Rental income and direct operating expenses of investment property:

	Years ended December 31,	
	2018	2017
Rental income from investment property	\$ 5,184	\$ 1,344
Direct operating expenses arising from investment property that generated rental income	\$ 1,083	\$ -
Direct operating expenses arising from investment property that did not generate rental income	\$ 1,651	\$ -

B. The fair value of the investment property held by the Company was \$368,683 and \$52,488 as of December 31, 2018 and 2017, respectively, which was based on the transaction prices of similar properties in the same area.

C. No investment property was pledged to others.

(8) Intangible assets

	Trademark	Computer software	Goodwill	Total
At January 1, 2018				
Cost	\$ 291	\$ 48,923	\$ 5,898	\$ 55,112
Accumulated Amortization	( 291)	( 33,606)	-	( 33,897)
	<u>\$ -</u>	<u>\$ 15,317</u>	<u>\$ 5,898</u>	<u>\$ 21,215</u>
2018				
Opening net book amount	\$ -	\$ 15,317	\$ 5,898	\$ 21,215
Additions	-	9,485	-	9,485
Disposals (Cost)	-	( 834)	-	( 834)
Disposals (Accumulated Amortization)	-	834	-	834
Reclassifications	-	378	-	378
Amortization	-	( 8,735)	-	( 8,735)
Closing net book amount	<u>\$ -</u>	<u>\$ 16,445</u>	<u>\$ 5,898</u>	<u>\$ 22,343</u>
At December 31, 2018				
Cost	\$ 291	\$ 57,952	\$ 5,898	\$ 64,141
Accumulated Amortization	( 291)	( 41,507)	-	( 41,798)
	<u>\$ -</u>	<u>\$ 16,445</u>	<u>\$ 5,898</u>	<u>\$ 22,343</u>

	Trademark	Computer software	Goodwill	Total
At January 1, 2017				
Cost	\$ 291	\$ 35,491	\$ 9,767	\$ 45,549
Accumulated Amortization	( 291)	( 25,169)	-	( 25,460)
Accumulated Impairment	-	-	( 3,869)	( 3,869)
		\$		\$
	\$ -	10,322	\$ 5,898	16,220
2017				
Opening net book amount	\$ -	\$ 10,322	\$ 5,898	\$ 16,220
Additions	-	13,452	-	13,452
		( 698)		( 698)
Disposals (Cost)	-	)		)
Disposals (Accumulated Amortization)	-	698		698
Amortization	-	( 8,457)	-	( 8,457)
Closing net book amount	\$ -	\$ 15,317	\$ 5,898	\$ 21,215

At December 31, 2017

Cost	\$ 291	\$ 48,923	\$ 5,898	\$ 55,112
Accumulated Amortization	( 291)	( 33,606)	-	( 33,897)
	\$ -	\$ 15,317	\$ 5,898	\$ 21,215

- A. The Company has no interest capitalised to intangible assets.  
B. The details of the amortization charges of intangible assets are as follows:

	Years ended December 31,	
	2018	2017
Operating costs	\$ 130	\$ 188
General and administrative expenses	3,976	2,829
Research and development expenses	4,629	5,440
	\$ 8,735	\$ 8,457

- C. Goodwill belongs to the industrial computer department of the company's cash-generating unit.

(9) Short-term borrowings (December 31, 2017: None)

Type of borrowings	December 31, 2018	Interest rate range	Collateral
Bank borrowings			
Credit borrowings	\$ 53,000	0.97%	None

Interest expense recognized in profit or loss amounted to \$526 and \$3 for the years ended December 31, 2018 and 2017, respectively.

(10) Other payables

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Salaries and bonus payable	\$ 114,237	\$ 95,619
Accrued employees' compensation and directors' remuneration	77,765	48,143
Payable to equipment suppliers	9,075	13,319
Others	55,153	44,250
	<u>\$ 256,230</u>	<u>\$ 201,331</u>

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

<u>Item</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Current items:		
Financial liabilities held for trading		
Non-hedging derivatives (conversion of corporate debt options)	\$ 5,478	\$ 5,502
Evaluation adjustment	( 2,718)	( 504)
Total	<u>\$ 2,760</u>	<u>\$ 4,998</u>

The Company recognised net loss of \$2,233 and \$1,050 for the years ended December 31, 2018 and 2017, respectively.

(12) Bonds payable

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Bonds payable	\$ 418,200	\$ 420,000
Less: Discount on bonds payable	( 20,443)	( 27,241)
Less: Long-term liabilities, current portion	( 397,757)	( 392,759)
	<u>\$ -</u>	<u>\$ -</u>

A. Domestic unsecured conversion of corporate bonds issued by the company

(A) Issuance conditions for the first unsecured conversion of corporate bonds in the company are as follows:

- i. The company is approved by the relevant authorities to raise and issue the first unsecured conversion company debt (referred to as "This conversion company debt"), the total issue of \$420,000, at the coupon rate of 0%, for an issuance period of 5 years, circulation period from December 13, 2016 to December 13, 2021. When this conversion company debt expires, it will be repaid in cash in the denomination of the bond. This conversion company debt has been listed for trading at the Securities Counter Trading Center as of December 13, 2016.
- ii. Unless (1) the period for suspension of transfer registration of common stock required by laws, (2) 15 business days prior to the date for suspension of transfer registration of allocated dividends requested by the Company, the date for suspension of transfer registration of cash dividends or the date for suspension of transfer registration of cash capital increase until the record date for allocation of rights, and (3) from the date of capital decrease until the day prior to the trading of stock swapped upon capital decrease, the bond holders may apply to the Taiwan Depository & Clearing Corporation (TDCC) (hereinafter referred to as the "Depository Corporation") who would then notify the Company's stock agent

- to convert the Bond into the Company's common shares pursuant to the Regulations at any time one month after the issuance (January 14 2017) and throughout the duration (until December 13, 2021) of the bond.
- iii. The conversion price of this conversion company debt shall be determined according to the pricing model stipulated in the conversion method, and the conversion price shall be adjusted in the event of the anti-dilution clause of the company in accordance with the pricing model stipulated in the conversion method.
  - iv. The bondholders must use as base dates (December 13, 2018) and (December 13, 2019) two and three years to expiry respectively, to sell the convertible corporate bond. On the base dates the company is required to buy back the converted corporate bonds held by the company at 102.01% and 103.0301% respectively, of the bonds.
  - v. From the day following the 3rd month of issuance (March 14 2017) of the bonds until 40 days prior to expiration of the duration, if the closing price of the Company's common shares at Taipei Exchange exceeds the current conversion price by more than 30% for 30 consecutive business days, the Company may send the "Notice of Call" to be matured in 30 days (the time limit shall commence from the Company's service date, and the record date of the call shall be the date when the time limit expires, and the conversion suspension period for the corporate bonds should not fall in the time limit) to the bond holders (those referred to the roster of creditors within five business days prior to the service date of the Notice of Call, while the investors who acquire the bonds through exchange or due to other causes subsequently, if any, shall be notified by public notice) via registered mail within 30 business days. Meanwhile, the Company shall ask Taipei Exchange in writing to post a public announcement, and shall call the corporate bonds held by the bond holders at the face value in cash within five (5) business days upon the record date.
  - vi. In accordance with the conversion scheme, all debts of the company recovered (including by the Securities Counter Trading Centre), repaid or converted will be cancelled, and all rights and obligations that are still attached to this conversion company's debt will also be eliminated and no longer issued.
- (B) As of December 31, 2018, the company's debt denomination of \$1,800 has been converted to 34,615 shares of common stock, completed on October 1, 2018. Since August 8, 2018, the company's cash dividend ex-dividend, the conversion price has been recalculated according to the provisions of this bond issuance and conversion, from \$56.9 to \$52.
- (C) As of December 31, 2018, the company has not bought back the bonds from the securities counter trading center.
- B. When issuing convertible corporate bonds, the Company shall, in accordance with the provisions of international Accounting standard 32nd "Financial instruments: expression", separate the right of conversion of the nature of equity from the constituent elements of each liability, and account for the "capital reserve-equity" \$24,360. The other embedded buying and selling rights, according to IAS 39 "Financial instruments: recognition and measurement" provisions, because it is not closely related to the economic characteristics and risks of the main contract debt commodities, so it is separated and treated with its net account "financial liabilities-flows measured at fair value through profit and loss" \$5,502. The effective interest rate for the separation of COR contractual obligations is 0.141%.

(13) Pensions

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

(B) The amounts recognized in the balance sheet are as follows:

	December 31, 2018	December 31, 2017
Present value of defined benefit obligations	(\$ 89,973)	(\$ 84,069)
Fair value of plan assets	48,228	46,656
Net defined benefit liability	(\$ 41,745)	(\$ 37,413)

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

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Year ended December 31, 2018			
Balance at January 1	(\$ 84,069)	\$ 46,656	(\$ 37,413)
Current service cost	( 47)	-	( 47)
Interest (expense) income	( 1,345)	747	( 598)
	( 85,461)	47,403	( 38,058)
Remeasurements:			
Change in demographic assumptions	( 211)	-	( 211)
Change in financial assumptions	( 5,134)	-	( 5,134)
Experience adjustments	( 941)	1,144	203
	( 6,286)	1,144	( 5,142)
Pension fund contribution	-	1,455	1,455
Paid pension	1,774	( 1,774)	-
Others	-	-	-
Balance at December 31	(\$ 89,973)	\$ 48,228	(\$ 41,745)

Year ended December 31, 2017	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Balance at January 1	(\$ 81,052)	\$ 48,630	(\$ 32,422)
Current service	( 109)	-	( 109)
Interest (expense) income	( 1,460)	876	( 584)
	( 82,621)	49,506	( 33,115)
Remeasurements:			
Change in demographic assumptions	( 1,164)	-	( 1,164)
Change in financial assumptions	( 2,561)	-	( 2,561)
Experience adjustments	( 1,645)	( 375)	( 2,020)
	( 5,370)	( 375)	( 5,745)
Pension fund contribution	-	1,507	1,507
Paid pension	3,982	( 3,982)	-
Others	( 60)	-	( 60)
Balance at December 31	(\$ 84,069)	\$ 46,656	(\$ 37,413)

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

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

	Years ended December 31,	
	2018	2017
Discount rate	1.21%	1.60%
Future salary increases	3.00%	3.00%

Assumptions regarding future mortality experience are set based on the 5th Taiwan Standard Ordinary Experience Mortality Table.

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

	Discount rate		Future salary increases	
	Increase	Decrease	Increase	Decrease
	0.5%	0.5%	0.5%	0.5%
December 31, 2018				
Effect on present value of defined benefit obligation	<u>(\$ 6,538)</u>	<u>\$ 7,150</u>	<u>\$ 6,985</u>	<u>(\$ 6,460)</u>
December 31, 2017				
Effect on present value of defined benefit obligation	<u>(\$ 6,308)</u>	<u>\$ 6,919</u>	<u>\$ 6,786</u>	<u>(\$ 6,255)</u>

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

The method and assumptions used for the preparation of sensitivity analysis during 2018 and 2017 are the same.

- (F) Expected contributions to the defined benefit pension plans of the Company for the year ending December 31, 2019 amounts to \$1,454.
- (G) As of December 31, 2018, the weighted average duration of the defined benefit retirement plan is 15 years. The analysis of timing of the future pension payment was as follows:

Within 1 year	\$	38,954
1 - 2 Years		9,638
3 - 4 Years		14,393
More than 5 years		17,026
	<u>\$</u>	<u>80,011</u>

- B. (A) Effective July 1, 2005, the Company and its domestic subsidiaries have established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.
- (B) The pension costs under the defined contribution pension plans of the Company for the years ended December 31, 2018 and 2017 were \$18,634 and \$17,124, respectively.

(14) Share-based payment

- A. For the years ended December 31, 2018 and 2017, the Company's share-based payment arrangements were as follows:

Type of arrangement	Grant date	Quantity granted (in thousands)	Contract period	Vesting conditions
Employee stock options	August 19, 2015	1,500	6 Years	2 to 5 years' service
Employee stock options	April 12, 2018	1,600	5 Years	2 to 4 years of service

The share-based payment arrangements above are all settled by equity.

- B. Details of the share-based payment arrangements are as follows:

	Years ended December 31,			
	2018		2017	
	No. of options	Weighted average exercise price (in dollars)	No. of options	Weighted average exercise price (in dollars)
Options outstanding at beginning of the year, (2015 Issuing)	951	\$ 24.20	1,440	\$ 25.80
Stock options waived in the current period	-	-	( 150)	24.20
Options exercised	( 263)	22.48	( 339)	24.20
Options outstanding at end of the year	688	22.10	951	24.20
Options exercisable at end of the year	172	22.10	177	24.20

	Years ended December 31, 2018	
	No. of options	Weighted average exercise price (in dollars)
Options outstanding at beginning of the year	-	\$ -
Options granted (2018 Issuing)	1,600	57.70
Stock options waived in the current period	-	-
Options exercised	-	-
Options outstanding at end of the year	1,600	52.70
Options exercisable at end of the year	-	-

C. Average price of Stock options exercised in 2018 and 2017 were \$56.96 and \$56.27 respectively

D. The expiry date and exercise price of stock options outstanding at balance sheet date are as follows:

Issue date approved	Expiry date	December 31, 2018		December 31, 2017	
		No. of shares (in thousands)	Exercise price (in dollars)	No. of shares (in thousands)	Exercise price (in dollars)
August 19, 2015	August 18, 2021	688	22.10	951	24.20
April 12, 2018	April 11, 2023	1,600	52.70	-	-

E. The fair value of stock options granted on grant date is measured using the Black-Scholes option pricing model. Relevant information is as follows:

Type of arrangement	Grant date	Stock price (in dollars)	Exercise price (in dollars)	Expected price volatility	Expected option life	Expected dividends	Risk-free interest rate	Fair value per unit (in dollars)
Employee stock options	August 19, 2015	27.57	27.57	36.2% ~ 38.11%	5 Years	0%	0.81%~ 0.97%	31.675~ 33.122
Employee stock options	April 12, 2018	57.70	57.70	28.13%~ 30.83%	4 Years	0%	0.63%~ 0.69%	12.49~ 15.46



- F. Expenses incurred on share-based payment transactions are \$2,580 and \$7,901 for the years ended December 31, 2018 and 2017, respectively.

	Years ended December 31,	
	2018	2017
Equity Settled	\$ 11,513	\$ 10,815

- G. As of ex-dividend date August 8, 2018 the Company re-computed the strike prices for employee stock warrants issued in 2015 and 2017 accordingly using the regulated method and adjusted the strike prices respectively, from \$24.2 and \$57.7 to \$22.1 and \$52.7.

(15) Share capital

As of December 31, 2018, the Company's authorized capital was \$1,600,000, consisting of 160,000 thousand ordinary shares, and the paid-in capital was \$796,206 with a par value of \$10 (in dollars) per share, consisting of 79,620 thousand ordinary shares. All proceeds from shares issued have been collected.

(16) Capital surplus

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

(17) Retained earnings

- A. If the company's annual total settlement has a surplus, in addition to the tax paid in accordance with the law, it should first make up for the previous year's loss, and then raise 10% of its balance as the statutory surplus reserve and provide or revolve special surplus reserve according to the regulations of the competent authority. Thereafter, together with the balance of the accumulated undistributed surplus in the previous year, as the surplus available for distribution, it may be retained as a shareholder dividend, depending on the business conditions, in which the dividends are distributed no more than 8% of the total number of dividends to be distributed. The above-mentioned surplus distribution is proposed by the board of directors and distributed after the resolution of the shareholders' meeting.
- B. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.
- C. In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

- D. Details of 2017 and 2016 earnings appropriation resolved by the shareholders on May 29, 2018 and May 22, 2017, respectively are as follows:

	Years ended December 31,		Years ended December 31,	
	2017		2016	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	\$ 92,624		\$ 36,002	
Special reserve	12,914		-	
Cash dividends	439,004	\$ 5.53	288,464	\$ 3.65
Total	<u>\$ 544,542</u>		<u>\$ 324,466</u>	

Details of 2018 earnings appropriation proposed by the Board of Directors on February 26, 2019 are as follows:

	Year ended December 31, 2018	
	Amount	Dividends per share (in dollars)
Legal reserve	\$ 40,692	
Cash dividends	298,784	\$ 3.75
Total	<u>\$ 339,476</u>	

- E. For the information relating to employees' compensation and directors' and supervisors' remuneration, please refer to Note 6(24).

(18) Other equity interest

	Year ended December 31,	
	2018	2017
Financial statements translation differences of foreign operations		
At January 1	(\$ 12,914)	\$ 13,779
Increase (decrease) in current period	8,684	( 26,693)
At December 31	<u>(\$ 4,230)</u>	<u>(\$ 12,914)</u>

(19) Operating revenue

- A. Disaggregation of revenue from contracts with customers

The Company derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines:

	Year ended December 31, 2018
Originating from transfer at a point in time:	
Intelligent Platforms & Solutions Products Division	\$ 1,369,637
Design-in Services	2,016,097
Others	232,116
Total sales revenue	3,617,850
Sales return	( 2,816)
Sales discount	( 2,639)
Net sales revenue	3,612,395
Originating from the transfer of labor services over time:	
Other Operating revenue	16,769
Total	<u>\$ 3,629,164</u>

B. Contract liabilities

The Company has recognized the following contract assets and liabilities in relation to revenue from contracts with customers:

	<u>December 31, 2018</u>
Contract liabilities	
Contract liabilities- Advance payments	\$ 21,397

The revenue recognized from the beginning balance of contract liability:

	<u>Year ended December 31, 2018</u>
The revenue recognized from the beginning balance of contract liability.	\$ 17,309

C. Information on operating revenue for the year ended December 31, 2017 is provided in Note 12(5).

(20) Other income

	<u>Year ended December 31,</u>	
	2018	2017
Rental revenue	\$ 5,184	\$ 2,087
Interest income		
Interest on Bank deposit:	8,522	5,244
Other interest income	2,515	2,147
Other income	9,490	7,606
Total	<u>\$ 25,711</u>	<u>\$ 17,084</u>

(21) Other gains and losses

	<u>Year ended December 31,</u>	
	2018	2017
Net loss on financial assets at fair value through profit or loss	(\$ 6)	(\$ 23)
Net gain on financial liabilities at fair value through profit or loss	2,233	1,050
Foreign exchange gains (losses)	33,981 (	33,273)
Gain (loss) on disposal of property, plant and equipment	( 7)	2,301
Loss (gain) on disposal of intangible assets	-	120
Loss (gain) on disposal of investments	423	489
Loss (gain) on disposal of subsidiaries	-	766,094
Depreciation expense from investment property	( 1,544)	-
Miscellaneous Expenditure	( 1,883)	( 2,731)
Compensation losses	-	( 268)
Total	<u>\$ 33,197</u>	<u>\$ 733,759</u>

(22) Finance costs

	Year ended December 31,	
	2018	2017
Interest expense		
Bank borrowings	\$ 535	\$ 6
Less: Corporate bond discount	6,701	6,598
Total	\$ 7,236	\$ 6,604

(23) Expenses by nature

	Years ended December 31,	
	2018	2017
Employee benefit expense	\$ 598,187	\$ 506,600
Depreciation	46,649	40,820
Amortization	8,735	8,457
Total	\$ 653,571	\$ 555,877

(24) Employee benefit expense

	Years ended December 31,	
	2018	2017
Wages and salaries	\$ 511,989	\$ 425,724
Compensation cost of employee stock options	10,144	10,815
Labor and health insurance fees	36,572	34,383
Pension costs	19,279	17,817
Other employee benefit expense	20,203	17,861
Total	\$ 598,187	\$ 506,600

- A. According to the company's articles of association, if the company is profitable in the year (ie after deducting the employee's remuneration and the director's remuneration from the net profit before tax), employee payout should be between 1% and 20% while directors' payout should be no more than 2%. However, if the Company has accumulated losses (including adjustments to unallocated surplus) these losses should first be offset.
- B. For the years ended December 31, 2017 and 2016, employees' compensation was accrued at \$70,566 and \$41,595, respectively; while directors' remuneration was accrued at \$6,415 and \$5,294, respectively. The aforementioned amounts were recognized in salary expenses. In 2018, the pre-tax net profit for the year was deducted from the employee's compensation and the benefits before the director's remuneration were estimated at 11% and 1% respectively.
- Employees' compensation and directors' remuneration for 2017 as resolved by the Board of Directors were in agreement with those amounts recognised in the 2017 financial statements, and the employees' compensation will be distributed in the form of cash.
- C. Information about employees' compensation and directors' remuneration of the Company as resolved at the meeting of Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(25) Income tax

A. Income tax expense

(A) Components of income tax expense:

	Years ended December 31,	
	2018	2017
Current tax		
Current tax on profits for the year	\$ 100,423	\$ 70,792
Tax on undistributed earnings	37,693	4,236
Adjustments in respect of prior years	( 1,577)	( 1,508)
Total current tax	136,539	73,520
Deferred tax		
Origination and reversal of temporary differences	14,908	4,560
Impact of change in tax rate	6,154	-
Total deferred tax	21,062	4,560
Income tax expense	<u>\$ 157,601</u>	<u>\$ 78,080</u>

(B) The income tax (charge)/credit relating to components of other comprehensive income is as follows:

	Years ended December 31,	
	2018	2017
Remeasurements of defined benefit obligations	\$ 1,490	\$ 977
Currency translation differences of foreign operations	( 1,587)	4,053
Total	<u>(\$ 97)</u>	<u>\$ 5,030</u>

B. Reconciliation between income tax expense and accounting profit

	Years ended December 31,	
	2018	2017
Tax calculated based on profit before tax and statutory tax rate	\$ 112,905	\$ 170,734
Effect of items disallowed by tax regulation	2,426	( 132,103)
Adjustments in respect of prior years	( 1,577)	( 1,508)
Effect from changes in tax regulation	6,154	-
Impact of minimum tax system	-	36,721
Tax on undistributed earnings	37,693	4,236
Income tax expense	<u>\$ 157,601</u>	<u>\$ 78,080</u>

C. Amounts of deferred tax assets or liabilities as a result of temporary differences are as follows:

	Year ended December 31, 2018			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Temporary differences				
Deferred tax assets:				
Valuation loss and loss for market value decline and obsolete and slow-moving inventories	\$ 5,950	\$ 957	\$ -	\$ 6,907
Unrealized gross margin	9,083	5,518	-	14,601
Unrealized exchange loss	1,358	( 1,045)	-	313
Unused compensated absences payable	2,322	681	-	3,003
Unrealized warranty cost	132	97	-	229
Impairment loss on financial assets	153	( 153)	-	-
Defined benefit obligation	6,360	499	1,490	8,349
Amortization of convertible bond issuance costs	563	( 246)	-	317
Exchange differences on translation	2,645	-	( 1,587)	1,058
Subtotal	\$ 28,566	\$ 6,308	(\$ 97)	\$ 34,777
Deferred tax liabilities				
Net gain on investments accounted for using equity	(\$ 57,089)	(\$ 26,735)	\$ -	(\$ 83,824)
Convertible debt Gains evaluation	( 86)	( 458)	-	( 544)
Unamortized goodwill	( 1,003)	( 177)	-	( 1,180)
Subtotal	(\$ 58,178)	(\$ 27,370)	\$ -	(\$ 85,548)
Total	(\$ 29,612)	(\$ 21,062)	(\$ 97)	(\$ 50,771)

	Year ended December 31, 2017			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Temporary differences				
Deferred tax assets:				
Valuation loss and loss for market value decline and obsolete and slow-moving inventories	\$ 4,369	\$ 1,581	\$ -	\$ 5,950
Unrealized gross margin	7,332	1,751	-	9,083
Unrealized exchange loss	-	1,358	-	1,358
Unused compensated absences payable	2,178	144	-	2,322
Unrealized warranty cost	173	( 41)	-	132
Impairment loss on financial assets	153	-	-	153
Defined benefit obligation	5,512	( 129)	977	6,360
Amortization of convertible bond issuance costs	857	( 294)	-	563
Exchange differences on translation	-	-	2,645	2,645
Convertible debt loss evaluation	93	( 93)	-	-
Subtotal	\$ 20,667	\$ 4,277	\$ 3,622	\$ 28,566
Deferred tax liabilities				
Net gain on investments accounted for using equity	(\$ 48,015)	(\$ 9,074)	\$ -	(\$ 57,089)
Unrealized exchange gains	( 323)	323	-	-
Exchange differences on translation	( 1,408)	-	1,408	-
Convertible debt gains evaluation	-	( 86)	-	( 86)
Unamortized goodwill	( 1,003)	-	-	( 1,003)
Subtotal	(\$ 50,749)	(\$ 8,837)	\$ 1,408	(\$ 58,178)
Total	(\$ 30,082)	(\$ 4,560)	\$ 5,030	(\$ 29,612)

D. The Company's income tax return through 2016 have been assessed and approved by the Tax Authority.

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

(26) Earnings per share

	Year ended December 31, 2018		
	Amount after	Weighted average	Earnings per
	tax	number of ordinary	share (in dollars)
		shares outstanding	
		(shares in thousands)	
Basic earnings per share			
Profit attributable to ordinary			
shareholders of the parent	\$ 406,924	79,471	\$ 5.12
Diluted earnings per share			
Assumed conversion of all			
dilutive potential ordinary shares			
Employees' compensation	-	1,516	
Employee stock option	-	626	
Convertible bonds	6,355	8,068	
Profit attributable to ordinary			
shareholders of the parent plus			
assumed conversion of all dilutive			
potential ordinary shares	\$ 413,279	89,681	\$ 4.61

	Year ended December 31, 2017		
	Amount after	Weighted average	Earnings per
	tax	number of ordinary	share (in dollars)
		shares outstanding	
		(shares in thousands)	
Basic earnings per share			
Profit attributable to ordinary			
shareholders of the parent	\$ 926,239	79,115	\$ 11.71
Diluted earnings per share			
Assumed conversion of all			
dilutive potential ordinary shares			
Employees' compensation	-	912	
Employee stock option	-	642	
Convertible bonds	6,304	7,381	
Profit attributable to ordinary			
shareholders of the parent plus			
assumed conversion of all dilutive			
potential ordinary shares	\$ 932,543	88,050	\$ 10.59



(27) Operating lease

- A. Rental income from the operating leases for land, housing and construction assets rented out by the Company and recognized accordingly in 2018 and 2017 was \$5,184 and \$1,548 respectively. Such operating leases will expire in the period 2019 to 2020 and will not be renewed. Total minimum lease receivables due in the future from non-cancellable contracts are as follows:

	December 31, 2018	December 31, 2017
Within 1 year	\$ 5,078	\$ 3,558
1 to 5 years	147	3,314
	<u>\$ 5,225</u>	<u>\$ 6,872</u>

- B. Operating leases on houses and construction assets with lease periods between 2013 and 2023. Rental expenses recognized in 2018 and 2017 as \$14,926 and \$21,163 respectively. Total minimum lease receivables due in the future from non-cancellable contracts are as follows:

	December 31, 2018	December 31, 2017
Within 1 year	\$ 14,710	\$ 6,695
1 to 5 years	43,003	-
	<u>\$ 57,713</u>	<u>\$ 6,695</u>

(28) Supplemental cash flow information

- A. Partial cash paid for investing activities

	Years ended December 31,	
	2018	2017
Purchase of property, plant and equipment	\$ 31,542	\$ 1,053,941
Add: Beginning balance of payable on equipment	13,319	2,188
Less: Ending balance of payable on equipment	( 9,075)	( 13,319)
Cash paid during the year	<u>\$ 35,786</u>	<u>\$ 1,042,810</u>

(29) Changes in liabilities from financing activities (December 31, 2017: None)

	Short-term borrowings	Liabilities from financing activities-gross
At January 1, 2018	\$ -	\$ -
Changes in cash flow from financing activities	53,000	53,000
At December 31, 2018	<u>\$ 53,000</u>	<u>\$ 53,000</u>

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

Name of related parties	Relationship with the Company
Advantech CO., LTD. (Advantech)	Individuals with joint control or entities with significant influence
AXBVI	Subsidiary
AXUS	"
AXGM	"
AXUK	"
AXJP	"
EWTW (Note 1)	"
AXSZ	A subsidiary which is wholly owned by AXBVI
ETHERWAN SYSTEMS, INC.(EWUS)(Note 1)	A subsidiary which is wholly owned by EWTW
ADVANIXS CORPORATION CO., LTD.	Other related parties
RETRONIX TECHNOLOGY INC. (Note 2)	"

Note 1: The Company disposed of the entire equity of EWTW on May 5, 2017, and relinquished control of EWTW and EWUS.

Note 2: No longer related to the Company as of May 29, 2018

(2) Significant related party transactions and balances

A. Sale

	Years ended December 31,	
	2018	2017
Sales of goods		
Individuals with joint control or significant influence on the company	\$ 393	\$ 462
Subsidiary		
AXUS	1,519,790	736,855
AXGM	556,403	413,223
Others	65,656	195,259
	<u>2,142,242</u>	<u>1,345,799</u>
Rent revenue		
Subsidiary		
EWTW	-	673
	-	673
Total	<u>\$ 2,142,242</u>	<u>\$ 1,346,472</u>

The sales prices and the trading terms to related parties above were not significantly

different from those of sales to third parties.

B. Purchase

	Years ended December 31,	
	2018	2017
Purchase of goods		
Individuals with joint control or entities with significant influence	\$ 31,863	\$ 34,687
Subsidiary	25,970	45,687
Other Related Party	33,548	27,927
Total	<u>\$ 91,381</u>	<u>\$ 108,301</u>

The purchase prices and the trading terms to related parties above were not significantly different from those of purchase to third parties.

C. Account receivable -related parties

	December 31, 2018	December 31, 2017
Receivables from related parties		
Individuals with joint control or entities with significant influence	\$ 74	\$ 6
Subsidiary		
AXUS	405,587	178,796
AXSZ	9,710	94,954
Others	21,409	15,170
Total	<u>\$ 436,780</u>	<u>\$ 288,926</u>

The receivables from related parties arise mainly from sales transactions. The receivables are due 45~90 days after the date of sale. The receivables are unsecured in nature and bear no interest.

D. Other receivables

	December 31, 2018	December 31, 2017
Other receivables from related parties:		
Subsidiary		
AXUS	\$ -	\$ 15,127
AXSZ	163	-
Total	<u>\$ 163</u>	<u>\$ 15,127</u>

(A) The above receivables from related parties that exceed normal granting periods were transferred to 'Other receivables - related parties'. The receivables are unsecured in nature and bear no interest.

(B) As of 2018 and December 31, 2017, financial assets not overdue and not impaired were \$163 and \$96 respectively.

(C) Analysis of changes in financial assets overdue but not impaired:

	December 31, 2018	December 31, 2017
within 30 days	\$ -	\$ -
31 ~ 90 days	-	-
91 ~ 180 days	-	-
More than 181 days	-	15,031
Total	<u>\$ -</u>	<u>\$ 15,031</u>

E. Loans to related parties: (as other receivable -related party)

(A) Ending balance (including interest receivable):

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Subsidiary		
AXUS	\$ 61,584	\$ 29,760
AXSZ	23,739	15,065
	<u>\$ 85,323</u>	<u>\$ 44,825</u>

(B) Interest income

	<u>Years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Subsidiary		
AXUS	\$ 1,665	\$ 909
AXSZ	289	433
	<u>\$ 1,954</u>	<u>\$ 1,342</u>

The loans to subsidiaries AXUS and AXSZ are repayable over 1 year and carry interest at 3% and 1.75% per annum for both years ended December 31, 2018 and 2017.

F. Account payable -related parties

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Payables to related parties		
Individuals with joint control or entities with significant influence	\$ 3,279	\$ 5,636
Subsidiary	6,931	76
Other related parties	10,471	6,831
Total	<u>\$ 20,681</u>	<u>\$ 12,543</u>

The payables from related parties arise mainly from purchase transactions. The payables are due 45~75 days after the date of sale. The payables are bear no interest.

G. Other operating costs

	<u>Years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Other operating costs:		
Subsidiary	\$ 578	\$ 59
Other related parties		
RETRONIX TECHNOLOGY INC.	-	609
	<u>\$ 578</u>	<u>\$ 668</u>

The purchase prices and the trading terms to related parties above were not significantly different from those of purchase to third parties.

H. Endorsements and guarantees

As of 2018 and December 31, 2017 the Company acted as guarantor for subsidiary AXGM for a loan from NVIDIA. Amount USD250,000 As of 2018 and December 31, 2017 AXGM's accounts payable to NVIDIA were USD105,000 and USD19,000 respectively.

(3) Key management compensation

	Years ended December 31,	
	2018	2017
Short-term employee benefits	\$ 46,319	\$ 42,659
Post-employment compensation	1,431	1,433
Share-based payment	<u>5,007</u>	<u>1,603</u>
Total	<u>\$ 52,757</u>	<u>\$ 45,695</u>

8. PLEGGED ASSETS

None

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) Contingency

None.

(2) Commitments:

A. Please refer to Note 6 (27) for the business lease agreement.

B. Capital expenditures that are contracted for, but not provided for, are as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Property, plant and equipment	\$ -	\$ 7,104

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

The company intends to invest in AXIOMTEKITALIAS.R.L. (AXIT for short). AXIT is a distribution partner of the company. The company authorizes it to use the company's English name AXIOMTEK and trademarks to sell industrial computers and related electronic products locally. Since the owner of AXIT is advanced in age and in need of capital, the Company tends to purchase the full shareholding of AXIT from existing shareholders. The company has paid an investment price of 1.2 million euros on January 4, 2019. Completion is expected to be at the end of March.

12. OTHERS

(1) Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

(2) Financial instruments

A. Financial instruments by category

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Financial assets		
Financial assets measured at fair value through profit or loss		
Financial assets mandatorily measured at fair value through profit or loss	\$ -	\$ 35,006
Financial assets carried at cost	-	923
Financial assets at amortized cost	<u>1,395,879</u>	<u>1,261,620</u>
	<u>\$ 1,395,879</u>	<u>\$ 1,297,549</u>
	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Financial liabilities		
Financial liabilities measured at fair value through profit or loss		
Financial liabilities held for trading	\$ 2,760	\$ 4,998
Financial Liabilities at amortized cost	<u>1,266,187</u>	<u>974,801</u>
	<u>\$ 1,268,947</u>	<u>\$ 979,799</u>

Note: Financial assets at amortized cost includes cash and cash equivalents, notes and accounts receivable (including related parties), other receivables and guarantee deposits paid; financial liabilities at amortized cost includes short-term borrowings, notes and accounts payable (including related parties), other payables (including related parties), bonds payable (including current portion), long-term borrowings (including current portion) and guarantee deposits received.

B. Risk management policy

(A) The Company's activities expose it to a variety of financial risk: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The financial risk management policies of the Company focus on unpredictable factors in financial market, and aim to reduce unfavorable impact on financial position and financial performance.

(B) Risk management is carried out by a finance department under policies approved by the Board of Directors. Company finance department identifies, evaluates and hedges financial risks in close cooperation with the Company's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

C. Significant financial risks and degrees of financial risks

(A) Market risk

Foreign exchange risk

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

ii. Management has set up a policy to require Company companies to manage their

foreign exchange risk against their functional currency. All units within the company should hedge their overall exchange rate risk through the finance department. Exchange rate risk is measured by the expected transaction of highly probable USD and RMB spending, using forward foreign exchange contracts to reduce the impact of exchange rate fluctuations on the expected purchase cost of inventory.

- iii. The Company's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: NTD; other certain subsidiaries' functional currency: USD, EUR, GBP, JPY and RMB). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

December 31, 2018						
Foreign currency amount (in thousand)			Exchange rate	Book value (NTD)	Sensitivity analysis	
					Degree of variation	Effect on profit or loss
(Foreign Currency: Functional currency)						
<u>Financial assets</u>						
<u>Monetary items</u>						
USD : NTD	\$	35,902	30.72	\$ 1,102,909	1%	\$ 8,823
EUR : NTD		1,819	35.20	64,029	1%	512
RMB : NTD		14,744	4.47	65,906	1%	527
JPY : NTD		1,822	0.28	510	1%	4
<u>Non-monetary items</u>						
USD : NTD	\$	14,156	30.72	\$ 434,872	1%	\$ 3,479
EUR : NTD		5,948	35.20	209,370	1%	1,675
JPY : NTD		25,099	0.28	7,028	1%	56
GBP : NTD		183	38.88	7,115	1%	57
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD : NTD	\$	11,420	30.72	\$ 350,822	1%	\$ 2,806
JPY : NTD		2,708	0.28	758	1%	6
December 31, 2017						
Foreign currency amount (in thousand)			Exchange rate	Book value (NTD)	Sensitivity analysis	
					Degree of variation	Effect on profit or loss
(Foreign Currency: Functional currency)						
<u>Financial assets</u>						
<u>Monetary items</u>						
USD : NTD	\$	31,817	29.76	\$ 946,874	1%	\$ 7,859
EUR : NTD		341	35.57	12,129	1%	101
RMB : NTD		35,806	4.57	163,633	1%	1,358
JPY : NTD		4,474	0.26	1,163	1%	10
GBP : NTD		27	40.11	1,083	1%	9
<u>Non-monetary items</u>						
USD : NTD	\$	12,749	29.76	\$ 379,410	1%	\$ 3,149
EUR : NTD		4,562	35.57	162,270	1%	1,347
JPY : NTD		28,489	0.26	7,407	1%	61
GBP : NTD		180	40.11	7,220	1%	60
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD : NTD	\$	7,141	29.76	\$ 212,516	1%	\$ 1,764

- iv. The total exchange gain or loss, including realized and unrealized gains or losses arising from significant foreign exchange variations on monetary items held by the Company for the years ended December 31, 2018 and 2017, amounted to gain of \$33,981 and loss of \$33,273, respectively.

Price risk

- i. The Company's equity instruments, which are exposed to price risk, are the financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income. To manage its price risk arising from investments in equity instruments, the Company diversifies its portfolio. Diversification of the portfolio is in accordance with the limits set by the Company.
- ii. The Company's investments in beneficiary certificates issued by the domestic companies. The prices of financial instruments would change due to the change of the future value of investee companies. If the prices of these financial instruments had increased/decreased by 1% with all other variables held constant, post-tax profit for the years ended December 31, 2018 and 2017 would have increased/decreased by \$0 and \$350, respectively, as a result of gains/losses on financial assets classified as at fair value through profit or loss.

(B) Credit risk

Effective from 2018

- i. Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, debt instruments classified as at amortized cost, measured at fair value through other comprehensive income and measured at fair value through profit or loss.
- ii. The Company manages their credit risk taking into consideration the entire Company's concern. According to the Company's credit policy, each local entity in the Company is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors.
- iii. The Company adopts the following assumption under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition:
  - (i) If the contract payments are past due over 90 days based on the terms, there is a significant increase in credit risk on that instrument since initial recognition.
  - (ii) A bond investment traded at the counter buying center, which has any external rating agency rated as the investment grade on the balance sheet date, and the financial asset is considered to have a low credit risk.
- iv. The Company adopts the assumptions under IFRS 9 and the default is deemed to have occurred when the contract payments are past due over 90 days.
- v. The Company classifies customer's notes and accounts receivable in accordance with product types and customer types. The Company applies the simplified approach using provision matrix to estimate expected credit loss under the provision matrix basis.
- vi. The following indicators are used to determine whether the credit impairment of debt instruments has occurred:



- (i) It becomes probable that the issuer will enter bankruptcy or other financial reorganization due to their financial difficulties;
  - (ii) The disappearance of an active market for that financial asset because of financial difficulties;
  - (iii) Default or delinquency in interest or principal repayments;
  - (iv) Adverse changes in national or regional economic conditions that are expected to cause a default.
- vii. The Company wrote-off the financial assets, which cannot be reasonably expected to be recovered, after initiating recourse procedures. However, the Company will continue executing the recourse procedures to secure their rights. On December 31, 2018, the Company has written-off financial assets amounted to \$226 that are still under recourse procedures.
- viii. The Company uses the forecastability of National Development Council Business Cycle Indicator to adjust historical and timely information to assess the default possibility of notes and accounts receivable. On December 31, 2018, the provision matrix is as follows:

December 31, 2018	Not overdue	Overdue	Overdue	Overdue
		1 ~ 90 days	91 ~ 180 days	181 ~ 270 days
Expected loss rate	0.05%	0.05%	0.05%	0.05%
Total book value	\$ 546,538	\$ 3,978	\$ 138	\$ 561
Loss allowance	\$ 53	\$ 2	\$ -	\$ -

December 31, 2018	Overdue	Overdue	Total
	271 ~ 360 days	More than 360 days	
Expected loss rate	0.05%	100%	
Total book value	\$ -	\$ -	\$ 551,215
Loss allowance	\$ -	\$ -	\$ 55

- ix. Ageing analysis of notes and accounts receivable as follows:

	December 31, 2018		December 31, 2017	
	Accounts receivable	Notes receivable	Accounts receivable	Notes receivable
Not overdue	\$ 536,030	\$ 10,508	\$ 307,111	\$ 2,229
within 30 days	3,978	-	20,490	-
31 ~ 90 days	138	-	51,353	-
91 ~ 180 days	561	-	9,366	-
More than 181 days	-	-	-	-
	<u>\$ 540,707</u>	<u>\$ 10,508</u>	<u>\$ 388,320</u>	<u>\$ 2,229</u>

The above is an age analysis based on the number of overdue days.

- x. Movements in relation to the Company applying the simplified approach to provide loss allowance for accounts receivable are as follows:

	<u>Years ended December 31, 2018</u>	
	<u>Accounts receivable</u>	
January 1 IAS 39	\$	827
Applied new criteria adjustments		-
January 1 IFRS 9		<u>827</u>
Impairment loss	(	772)
December 31	<u>\$</u>	<u>55</u>

- xi. The Company uses the forecastability of National Development Council Business Cycle Indicator to adjust historical and timely information to assess the default possibility of investment of debt instrument on December 31, 2018.

(C) Liquidity risk

The Company's non-derivative financial liabilities are due within the next year.

(3) Fair value information

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

Level 1: The input value for this level is the open quote (unadjusted) of the same asset or liability in the active market. An active market is a market that meets all of the following conditions: the goods traded in the market are homogeneous; the buyers and sellers with the willingness can be found in the market at any time and the price information can be obtained by the public. The fair value of the beneficiary certificate the company's investment belongs to.

Level 2: The input value of this level, except for the observable price included in the first level public offer, including the observable input value obtained from the active market either directly (such as price) or indirectly (such as derived from price).

Level 3: Inputs to this level are not based on observable market data.

- B. The related information of financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets are as follows:

The financial assets measured at fair value through profit or loss of the Company for the periods as of 31 December 2018 and 2017 are the first level of evaluation amounts of \$0 and \$35,006; the financial liabilities measured by fair value through profit and loss belong to the second level of financial instrument, amounts \$2,760 and \$4,998.

- C. The methods and assumptions the Company used to measure fair value are as follows:

(A) The Company uses the net value of the beneficiary certificate as the fair value input value of the first-tier market quotation.

(B) The evaluation of derivative financial instruments is based on the option pricing model accepted by market users.

- D. In 2018 and 2017, there was no evaluation of the transfer between levels.

(4) Effects on initial application of IFRS 9 and information on application of IAS 39 in 2017

- A. Summary of significant accounting policies adopted for the year ended December 31, 2017:

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

- i. Financial assets at fair value through profit or loss are financial assets held for trading or financial assets designated as at fair value through profit or loss on the

initial recognition. Financial assets are classified as assets held for trading if acquired principally for the purpose of resale in the short-term. Derivatives are categorized as financial assets held for trading unless they are designated as hedges. Financial assets that meet one of the following criteria are designated as at fair value through profit or loss on the initial recognition:

- (i) Hybrid (combined) contracts; or
  - (ii) Eliminating or significantly reducing the inconsistency on measurement or recognition; or
  - (iii) Investment is managed and evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- ii. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using settlement date accounting.
  - iii. Financial assets at fair value through profit or loss are initially recognized at fair value. Related transaction costs are recognized in profit or loss. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in profit or loss.
- (B) Available for sale financial assets
- i. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.
  - ii. On a regular way purchase or sale basis, available-for-sale financial assets are recognised and derecognised using trade date accounting.
  - iii. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in other comprehensive income. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured or derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are presented in ‘financial assets measured at cost-non-current’.
- (C) Loans and receivable
- i. Accounts receivable  
Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.
  - ii. Investment in debt instruments without active market  
The debt instrument investments held by the Company in an inactive market are time deposits that do not meet the approximate cash. Due to the short holding period, the impact of discounting is not significant, as measured by the amount of investment.
- (D) Impairment of financial assets
- i. The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a Company of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or loss events) has an impact on the estimated future cash flows of the financial asset or Company of financial assets that can

- be reliably estimated.
- ii. The criteria that the Company uses to determine whether there is objective evidence of an impairment loss are as follows:
    - (i) Significant financial difficulty of the issuer or the debtor;
    - (ii) A breach of contract, such as a default or delinquency in interest or principal payments;
    - (iii) The Company, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
    - (iv) The possibility of the borrower entering bankruptcy or other financial reorganization increases significantly;
    - (v) The disappearance of an active market for that financial asset because of financial difficulties;
    - (vi) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a Company of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the Company, including adverse changes in the payment status of borrowers in the Company or national or local economic conditions that correlate with defaults on the assets in the Company;
    - (vii) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered; or
    - (viii) The fair value of an investment of equity instrument declines significantly or prolonged below its cost.
  - iii. When the Company assesses there is objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made according to the category of financial assets, as follows:
    - (i) Financial assets measured at amortized cost  
The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortized cost that would have been at the date of reversal had the impairment loss not been recognized previously. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.
    - (ii) Financial assets measured at cost  
The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at current market return rate of similar financial asset, and is recognized in profit or loss. The impairment loss recognized for this category shall not be reversed subsequently. Impairment loss is recognized by adjusting the carrying amount of the asset through the use of an

impairment allowance account.

- B. The carrying amount of financial assets transferred from December 31, 2017 under IAS 39 to January 1, 2018 under IFRS 9 is reconciled as follows:

	Financial assets measured at fair value through other comprehensive income	Financial assets measured at cost	Total	Effects	
				Retained earnings	Other equity interest
<b>IAS 39</b>	\$ -	\$ 923	\$ 923	\$ -	\$ -
Transferred into financial assets measured at fair value through other comprehensive income-equity	923	( 923)	-	-	-
Impairment loss adjustment	-	-	-	900	( 900)
<b>IFRS 9</b>	\$ 923	\$ -	\$ 923	\$ 900	(\$ 900)

Given the Company's "financial assets carried at cost" amounted to \$923 under IAS 39 were not held for the purpose of trading, it was elected to classify as "Financial assets at fair value through other comprehensive income (equity instrument)" on initial application of IFRS 9. Accompanying retained earnings and other equity were increased by \$900 and decreased by \$900, respectively.

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

- (A) Financial assets at fair value through profit or loss – current

Item	December 31, 2017
Current items:	
Financial assets held for trading	
Beneficiary certificate	\$ 35,000
Valuation adjustment	6
Total	<u>\$ 35,006</u>

- i. The Company recognised net gain of \$466 on financial assets held for trading for the year ended December 31, 2017.
- ii. The Company has no financial assets at fair value through profit or loss pledged to others.

- (B) Financial assets measured at cost - non current

Item	December 31, 2017
Non current items:	
Unlisted stock	\$ 1,823
Accumulated impairment - measured at cost	( 900)
Total	<u>\$ 923</u>

- i. According to the Company's intention, its investment, the stocks of ALEXTEK CO., LTD. should be classified as 'available-for-sale financial assets'. However, as the stocks are not traded in active market, and no sufficient industry information of companies similar to the corporations or the corporation's financial information cannot be obtained, the fair value of the investment in the stocks cannot be measured reliably. Accordingly, the Company classified those stocks as 'financial assets measured at cost-non current'.
- ii. As of December 31, 2017, no financial assets measured at cost held by the Company were pledged to others.

- D. Credit risk information as of December 31 2017 is as follows:

- (A) Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. The Company is required to conduct management and credit risk analysis for each of its new customers before the terms and conditions of the payment and delivery are set out in accordance with the internal credit policy. The internal risk Control department assesses the customer's credit quality by taking into account its financial position, past experience and other factors. The individual risk limits are set by the board of directors based on internal or external ratings. The use of credit lines is also regularly monitored. The main credit risk is from cash and cash equivalents, derivative financial instruments, deposits deposited with banks and financial institutions, credit risk from wholesale and retail customers, and receivables that have not yet been received.
- (B) For the year ended December 31, 2017, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
- (C) The credit quality of accounts receivable that were neither past due nor impaired was in the following categories based on the Company's Credit Quality Control Policy:

Item	December 31, 2017
Group 1	\$ 215,229
Group 2	91,882
Group 3	-
Total	<u>\$ 307,111</u>

Group 1: Affiliate  
 Group 2: General customer  
 Group 3: Others (project evaluation)

- (D) Analysis of changes in accounts receivables overdue but not impaired:

Item	December 31, 2017
within 30 days	\$ 20,490
31 ~ 90 days	51,353
91 ~ 180 days	9,366
More than 181 days	-
	<u>\$ 81,209</u>

The above is an age analysis based on overdue days.

- (E) Analysis of changes in impairment of accounts receivables:
- i. As of December 31, 2017, the Company had no separate assessment of the impairment losses.
  - ii. Changes in loss allowance :

	Years ended December 31, 2017		
	Individual provision	Group provision	Total
January 1	\$ -	\$ 822	\$ 822
Impairment loss	-	5	5
December 31	<u>\$ -</u>	<u>\$ 827</u>	<u>\$ 827</u>

(5) Effects of initial application of IFRS 15 and information on application of IAS 11 and IAS 18 in 2017

- A. The significant accounting policies applied on revenue recognition for the year ended December 31, 2017 is set out below.

The Company develops, manufactures and sells industrial computer-related products. Revenue is the fair value of the sale of goods received or receivable from customers outside the Company in normal business activities, presented net of business tax, sales return and discount. Measured at the fair value of the consideration received or receivable and recognised when prescribed conditions are met, which depend on the nature of the revenue. The product is delivered to the buyer, the value of sales reliably measured, and the future economic benefits recognized as revenue when they flow into the Company. When the significant risks and rewards associated with ownership have been transferred to the customer, and the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the product sold; the customer accepts the product under the sales contract, or if there is objective evidence that all accepted terms have been met, the product is considered sold.

- B. The revenues recognized by using above accounting policies for the year ended December 31, 2017 is as follows:

	<u>Years ended December 31, 2017</u>	
Intelligent Platforms & Solutions Products Division	\$	1,097,968
Design-in Services		1,182,212
Others		225,539
Total sales revenue		2,505,719
Sales return	(	4,919)
Sales discount	(	5,519)
Net sales revenue		2,495,281
Other Operating revenue		35,085
Total	\$	2,530,366

- C. For the year ended December 31, 2018, the effects and description of current balance sheet items if the Company continues adopting above accounting policies are as follows:

		December 31, 2018		
Balance sheet items	Note	IFRS 15 Balance recognized	Balance recognized with the original accounting policy	Impact of changes in accounting policy
Contract liability-current		21,397	-	21,397
Other current liabilities- advance sales receipts		-	21,397	( 21,397)
<u>Note</u>				

The Company re-classified the advance sales receipts of \$34,523 into contract liabilities in accordance with the IFRS 15.

### 13. SUPPLEMENTARY DISCLOSURES

#### (1) Significant transactions information

- A. Loans to others: Please refer to table 1.
- B. Provision of endorsements and guarantees to others: Please refer to table 2.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): None
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: Please refer to table 3.
- E. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- F. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 4.
- H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 5.
- I. Trading in derivative instruments undertaken during the reporting periods: Please refer to Notes 6(12), 6(13).
- J. Significant inter-company transactions during the reporting periods: Please refer to table 6.

#### (2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China) : Please refer to table 7.

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

- A. Basic information: Please refer to table 8.
- B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: For the major transactions between the Company and the Mainland China invested companies in 2018, please refer to table 6.



AXIOMTEK CO., LTD.  
CASH AND CASH EQUIVALENTS  
December 31, 2018  
(Expressed in thousands of New Taiwan dollars)

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Remark</u>
Cash on hand and petty cash		\$ 494	
Bank deposit:			
Checking accounts and demand deposits			
NTD		104,371	
USD	USD 11,032, exchange rate 30.72 ( Note )	338,846	
EUR	EUR 1,666, exchange rate 35.20(Note)	58,635	
RMB	CNY 55, exchange rate 4.47 (Note)	248	
JPY	JPY 1,354, exchange rate 0.2782 ( Note )	377	
Time deposits			
USD	USD 6,500 exchange rate 30.72 ( Note )	199,648	
RMB	CNY 7,200, exchange rate 4.47 (Note)	32,198	
		<u>734,323</u>	
		<u>\$ 734,817</u>	

Note: Foreign currency amount expressed in thousands.

AXIOMTEK CO., LTD.  
ACCOUNTS RECEIVABLE  
December 31, 2018

(Expressed in thousands of New Taiwan dollars)

Customer name	Amount	Remark
Customer A	\$ 22,486	
Customer B	11,995	
Customer C	6,987	
Others	62,459	None of the individual customer exceeds 5% of this account
-	-	
	<u>103,927</u>	
Less: Allowance for doubtful accounts	( 55)	
	<u>\$ 103,872</u>	
	<u>=</u>	

AXIOMTEK CO., LTD.  
INVENTORIES  
December 31, 2018  
(Expressed in thousands of New Taiwan dollars)

Item	Amount		Remark
	Cost	Net realizable value	
Raw materials	\$ 239,501	\$ 222,776	Use replacement cost as net realizable value
Work in process	88,227	85,784	Use market price as net realizable value
Semi-finished goods	26,549	24,614	
Finished goods	182,793	221,435	
Inventory in transit	8,119	8,119	
	545,189	\$ 562,728	
Less: Allowance for inventory valuation losses	( 34,533)		
	\$ 510,656		

Note: Slow-moving inventory, if any, calculated separately.

AXIOMTEK CO., LTD.  
CHANGES IN INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD  
For the year ended December 31, 2018  
(Expressed in thousands of New Taiwan dollars)

Investee	Investment type	Balance at January 1, 2018		Additions (Note 1)		Deductions (Note 2)		Balance at December 31, 2018			Market value or net equity value		Valuation basis	Collateral
		Shares (Note 3)	Amount	Shares (Note 3)	Amount	Shares (Note 3)	Amount	Shares (Note 3)	Ownership	Amount	Unit price (NT\$)	Total price		
AXUS	Stock	23	\$ 431,847	-	55,382	-	\$ -	23	100%	\$ 487,229	\$ -	\$ 434,804	Equity method	None
AXGM	Stock	-	162,282	-	49,340	-	(2,236)	-	100%	209,386	-	209,386	Equity method	None
AXBV1	Stock	3	29,783	1	34,055	-	(8,249)	4	100%	55,589	-	55,866	Equity method	None
UNI	Stock	-	-	1,450	29,033	-	-	1,450	26.70%	29,033	-	72,809	Equity method	None
AXUK	Stock	180	7,236	-	107	-	(225)	180	100%	7,118	-	7,118	Equity method	None
AXJP	Stock	600	<u>7,527</u>	-	<u>383</u>	-	<u>(927)</u>	600	100%	<u>6,983</u>	-	6,983	Equity method	None
			<u>\$ 638,675</u>		<u>168,300</u>		<u>(11,637)</u>			<u>\$ 795,338</u>				
Less: Ending unrealized gain from sale			<u>( 53,428)</u>		<u>-</u>		<u>(19,576)</u>			<u>(73,004)</u>				
			<u>\$ 585,247</u>		<u>\$ 168,300</u>		<u>(\$ 31,213)</u>			<u>\$ 722,334</u>				

Note 1: Increase in the current period includes the share of the interests of the subsidiaries recognized by the equity method, the newly added investment using the equity method and the accumulated conversion of the financial statements of foreign operating institutions.

Note 2: Current reduction includes the share of losses of subsidiaries recognized by the equity method.

Note 3: The number of shares is in thousands of shares. Not holding shares - limited company.

AXIOMTEK CO., LTD.  
CHANGES IN THE COST OF PROPERTY, PLANT AND EQUIPMENT  
For the year ended December 31, 2018  
(Expressed in thousands of New Taiwan dollars)

Item	Balance at January 1, 2018	Additions	Disposals	Transfers	Balance at December 31, 2018	Collateral	Remark
Land	\$ 629,577	\$ -	\$ -	(\$ 93,953)	\$ 535,624	None	
Buildings	460,019	-	(115)	(42,344)	417,560	-	
Machinery	138,054	210	(98)	-	138,166	-	
Tools	47,317	7,047	(92)	3,284	57,556	-	
Testing equipment	53,164	3,058	(1,219)	-	55,003	-	
Office equipment	19,168	4,782	(312)	46,627	70,265	-	
Leasehold improvements	10,979	275	(1,271)	1,193	11,176	-	
Other equipment	10,906	3,400	(665)	-	13,641	-	
	1,369,184	18,772	(3,772)	(85,193)	1,298,991		
Construction in progress	49,751	12,770	-	(54,865)	7,656	-	
	<u>\$ 1,418,935</u>	<u>31,542</u>	<u>(\$ 3,772)</u>	<u>(\$ 140,058)</u>	<u>\$ 1,306,647</u>		

AXIOMTEK CO., LTD.  
CHANGES IN ACCUMULATED DEPRECIATION OF PROPERTY, PLANT, AND EQUIPMENT  
For the year ended December 31, 2018  
(Expressed in thousands of New Taiwan dollars)

Item	Balance at January 1, 2018	Additions	Disposals	Transfers	Balance at December 31, 2018	Remark
Buildings	\$ 23,662	8,351	(\$ 115)	(\$ 19,371)	\$ 12,527	
Machinery	82,721	15,141	(98)	-	97,764	
Tools	40,620	7,834	(92)	-	48,362	
Testing equipment	35,855	5,696	(1,219)	-	40,332	
Office equipment	16,019	6,640	(312)	(587)	21,760	
Leasehold improvements	9,472	534	(1,271)	(1,216)	7,519	
Other equipment	6,887	2,453	(652)	-	8,688	
	<u>\$ 215,236</u>	<u>\$ 46,649</u>	<u>(\$ 3,759)</u>	<u>(\$ 21,174)</u>	<u>\$ 236,952</u>	

AXIOMTEK CO., LTD.  
SHORT-TERM BORROWINGS  
December 31, 2018  
 (Expressed in thousands of New Taiwan dollars)

Creditor	Ending balance	Contract period	Interest rate range	Line of credit	Collateral	Remark
Hua Nan Bank	\$ 53,000	107.2.26~108.2.25	0.97%	\$ 150,000	None	-

AXIOMTEK CO., LTD.  
ACCOUNTS PAYABLE  
December 31, 2018

(Expressed in thousands of New Taiwan dollars)

<u>Vendor name</u>	<u>Amount</u>	<u>Remark</u>
Vendor A	\$ 69,769	
Vendor B	50,219	
Vendor C	30,603	
Others	386,342	None of the individual vendor exceeds 5% of this account
	<u>\$ 536,942</u>	



AXIOMTEK CO., LTD.

OTHER PAYABLE

December 31, 2018

(Expressed in thousands of New Taiwan dollars)

<u>Item</u>	<u>Amount</u>	<u>Remark</u>
Salaries & bonuses payable	\$ 114,237	
Employees & directors compensation payable	77,765	
Other expenses payable	64,228	None of the individual item exceeds 5% of this account
	<u>\$ 256,230</u>	

AXIOMTEK CO., LTD.  
OPERATING REVENUE  
For the year ended December 31, 2018  
(Expressed in thousands of New Taiwan dollars)

<u>Item</u>	<u>Quantity</u>	<u>Amount</u>	<u>Remark</u>
Sales revenue		\$ 1,369,637	
Intelligent platforms & solutions products division	Note:	2,016,097	
Design-in services		232,116	
Others	-	3,617,850	
		(2,816)	
Less: Sales return	Note:	(2,639)	
Sales allowance	-	3,612,395	
		16,769	
Other operating revenue	Note:	<u>\$ 3,629,164</u>	

Note: Cannot be counted and classified due to multiple product types.

AXIOMTEK CO., LTD.  
OPERATING COSTS  
For the year ended December 31, 2018  
(Expressed in thousands of New Taiwan dollars)

Item	Amount
Beginning raw materials & semi-finished goods	(\$ 178,160)
Add: Purchased during the year	(1,550,948)
Less: Ending raw materials & semi-finished goods	(266,050)
Sale of raw materials & semi-finished goods	(19,110)
Scrap of raw materials & semi-finished goods	(8,553)
Transfer to manufacturing expenses	(24,447)
Consumption of raw materials & semi-finished goods for the year	1,410,948
Direct labor	65,329
Manufacturing expenses	232,720
Adjustment of discrepancy in production	25,890
Manufacturing Costs	1,734,887
Add: Beginning work in process	82,809
Less: Ending work in process	(88,227)
Cost of finished goods	1,729,469
Add: Beginning finished goods	140,268
Acquisition of finished goods	826,251
Less: Ending finished goods	(190,912)
Scrap of finished goods	(10,673)
Cost of goods manufactured	2,494,403
Cost of sale of raw materials & semi-finished goods	19,110
Inventory scrapping loss	19,226
provision for inventory valuation loss	18,759
	\$ 2,551,498

AXIOMTEK CO., LTD.  
MANUFACTURING EXPENSES  
For the year ended December 31, 2018  
 (Expressed in thousands of New Taiwan dollars)

Item	Amount	Summary
Indirect labor	\$ 73,386	
Processing fees	84,032	
Depreciation	16,673	
Rental expenses	12,666	
Insurance	12,143	
Other expenses	12,162	
Other expenditure	21,658	None of the individual item exceeds 5% of this account
	\$ 232,720	

AXIOMTEK CO., LTD.  
SELLING EXPENSES  
For the year ended December 31, 2018  
 (Expressed in thousands of New Taiwan dollars)

Item	Amount	Remark
Wages and salaries	\$ 67,320	
Advertisement	11,216	
Traveling expenses	6,946	
Commission expenses	6,892	
Other expenses	20,581	None of the individual item exceeds 5% of this account
	\$ 112,955	

AXIOMTEK CO., LTD.  
ADMINISTRATIVE EXPENSES  
For the year ended December 31, 2018  
(Expressed in thousands of New Taiwan dollars)

<u>Item</u>	<u>Amount</u>	<u>Remark</u>
Wages and salaries	\$ 67,485	
Other expenses	33,856	None of the individual item exceeds 5% of this account
	<u>\$ 101,341</u>	

AXIOMTEK CO., LTD.  
RESEARCH AND DEVELOPMENT EXPENSES  
For the year ended December 31, 2018  
(Expressed in thousands of New Taiwan dollars)

Item	Amount	Remark
Wages and salaries	\$ 267,892	
Miscellaneous purchases	32,594	
Depreciation expense	24,042	
Professional service fees	23,410	
Other expenses	67,111	None of the individual item exceeds 5% of this account
	415,049	

By function By nature	Years ended December 31,					
	2018			2017		
	Classified as operating costs	Classified as operating expenses	Total	Classified as operating costs	Classified as operating expenses	Total
Employee benefit expense						
Salaries	132,893	372,646	505,539	113,748	306,682	420,430
Employee stock options	1,066	9,078	10,144	1,604	9,211	10,815
Labor/health insurance	11,504	25,068	36,572	10,882	23,501	34,383
Pension	4,756	14,523	19,279	4,507	13,310	17,817
Directors' remuneration		6,450	6,450		5,294	5,294
Others	7,207	12,996	20,203	6,505	11,356	17,861
Depreciation	16,673	29,976	46,649	12,051	28,769	40,820
Amortization	130	8,605	8,735	188	8,269	8,457

Note: As of December 31, 2018 and 2017, the Company had 556 and 522 employees, including 6 directors for the both years, respectively.

Remark:

1. The information on the number of employees described in the notes to this table should be consistent with the employee benefit expenses.
2. In accordance with IAS 19, employees may provide services on a full-time, part-time, permanent, irregular or temporary basis, including directors and other management personnel. Therefore, the term "employees" as used in this table includes directors and managers, general employees and contracted employees, but do not include supervisors, personnel dispatched, labor contractors or outsourced personnel.
3. The term "directors' remuneration" refers to the remuneration received by all directors, retirement pension, director's remuneration and business execution expenses, but does not include salaries, labor and health insurance, pensions and other welfare expenses received as part-time employees.



AXIOMTEK CO., LTD.  
Loans to others  
For the year ended December 31, 2018

Table 1

Expressed in thousands of NTD dollars  
(Except as otherwise indicated)

No. (Note 1)	Creditor	Borrower	General ledger account (Note 2)	Is a related party	Maximum outstanding balance during the year ended December 31, 2018 (Note 3)	Balance at December 31, 2018 (Note 8)	Actual amount drawn down	Interest rate	Nature of loan (Note 4)	Amount of transactions with the borrower (Note 5)	Reason for short-term financing (Note 6)	Allowance for bad debts	Collateral		Limit on loans granted to a single party (Note 7)	Ceiling on total loans granted (Note 7)	Footnote
													Item	Value			
0	AXIOMTEK CO., LTD.	AXUS	Other receivables-related parties	Y	\$ 61,910	\$ 61,430	\$ 61,430	3%	1	\$1,519,790	-	-	-	-	\$ 236,299	\$945,196	
0	AXIOMTEK CO., LTD.	Axiomtek Shenzhen	Other receivables-related parties	Y	38,012	38,012	23,702	1.75%	1	65,656	-	-	-	-	236,299	945,196	

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

(1) The Company is '0'.

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

Note 2: Fill in the name of account in which the loans are recognised, such as receivables-related parties, current account with stockholders, prepayments, temporary payments, etc.

Note 3: Fill in the maximum outstanding balance of loans to others during the nine-month period ended December 31, 2018

Note 4: The credit and nature of the funds are described below:

(1). Those with business dealings fill in 1.

(2). Those pertaining to short-term financing shall fill in 2.

Note 5: Fill in the amount of business transactions when nature of the loan is related to business transactions, which is the amount of business transactions occurred between the creditor and borrower in the current year.

Note 6: Fill in purpose of loan when nature of loan is for short-term financing, for example, repayment of loan, acquisition of equipment, working capital, etc.

Note 7: In accordance with the company's funds and endorsement of the guarantee operating procedures, the company and its subsidiaries as a whole the total amount of loans to no more than the company's most recent consolidated financial statements attributed to the parent company owners of the interest of 40%.

And the company and its subsidiaries as a whole, the amount of credit to a single enterprise to no more than the company's most recent consolidated financial statements attributed to the owners of the parent company 10% limit.

Note 8: The amounts of funds to be loaned to others which have been approved by the board of directors of a public company in accordance with Article 14, Item 1 of the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" should be included in its published balance of loans to others at the end of the reporting period to reveal the risk of loaning the public company bears, even though they have not yet been appropriated. However, this balance should exclude the loans repaid when repayments are done subsequently to reflect the risk adjustment. In addition, if the board of directors of a public company has authorized the chairman to loan funds in instalments or in revolving within certain lines and within one year in accordance with Article 14, Item 2 of the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies", the published balance of loans to others at the end of the reporting period should also include these lines of loaning approved by the board of directors, and these lines of loaning should not be excluded from this balance even though the loans are repaid subsequently, for taking into consideration they could be loaned again thereafter.

AXIOMTEK CO., LTD.

Provision of endorsements and guarantees to others

For the year ended December 31, 2018

Table 2

Expressed in thousands of NTD

(Except as otherwise indicated)

No. (Note 1)	Endorser/ guarantor	Party being endorsed/guaranteed		Limit on endorsements/ guarantees provided for a single party (Note 3)	Maximum outstanding endorsement/ guarantee amount as of December 31, 2018 (Note 4)	Outstanding endorsement/ guarantee amount at December 31, 2018 (Note 5)	Actual amount drawn down	Amount of endorsements/ guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company	Ceiling on total amount of endorsements/ guarantees provided (Note 4)	Provision of endorsements/ guarantees by parent company to subsidiary (Note 7)	Provision of endorsements/ guarantees by subsidiary to parent company (Note 7)	Provision of endorsements/ guarantees to the party in Mainland China (Note 7)	Footnote
		Company Name	Relationship (Note 2)											
0	AXIOMTEK CO., LTD.	AXGM	2	\$236,299	USD 250,000	USD 250,000	USD 105,000	-	0.32%	1,181,495	Y	-	-	

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

- (1) The Company is '0'.
- (2) The subsidiaries are numbered in order starting from '1'.

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

- (1) Having business relationship.
- (2) The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/guaranteed subsidiary.
- (3) The endorsed/guaranteed company owns directly and indirectly more than 50% voting shares of the endorser/guarantor parent company.
- (4) The endorser/guarantor parent company owns directly and indirectly more than 90% voting shares of the endorsed/guaranteed company.
- (5) Mutual guarantee of the trade made by the endorsed/guaranteed company or joint contractor as required under the construction contract.
- (6) Due to joint venture, all shareholders provide endorsements/guarantees to the endorsed/guaranteed company in proportion to its ownership.
- (7) Joint guarantee of the performance guarantee for pre-sold home sales contract as required under the Consumer Protection Act.

Note 3: According to the company's fund loan and endorsement guarantee procedures, the company's endorsement guarantee for a single enterprise is limited to 10% of the equity of the company's owners in the most recent consolidated financial statements.

Note 4: According to the company's fund loan and endorsement guarantee procedures, the total amount of endorsement guarantees of the Company and its subsidiaries as a whole is not more than 50% of the equity of the owners of the parent company in the most recent consolidated financial statements.

And the amount of the endorsement of the single company by the Company and its subsidiaries is limited to 10% of the equity of the owner of the parent company in the most recent consolidated financial statements.

Note 5: Once endorsement/guarantee contracts or promissory notes are signed/issued by the endorser/guarantor company to the banks, the endorser/guarantor company bears endorsement/guarantee liabilities. And all other events involve endorsements and guarantees should be included in the balance of outstanding endorsements and guarantees.

Note 6: Fill in the actual amount of endorsements/guarantees used by the endorsed/guaranteed company.

Note 7: Fill in 'Y' for those cases of provision of endorsements/guarantees by listed parent company to subsidiary and provision by subsidiary to listed parent company, and provision to the party in Mainland China.

AXIOMTEK CO., LTD.

Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital

For the year ended December 31, 2018

Table 3

Expressed in thousands of NTD

(Except as otherwise indicated)

Investor	Marketable securities (Note 1)	General ledger account	Counterparty (Note 2)	Relationship (Note 2)	Balance as at January 1, 2018		Addition (Note 3)		Disposal (Note 3)			Balance as at December 31, 2018		
					Unit	Amount	Unit	Amount	Unit	Selling price	Book value	Gain (loss) on disposal	Unit	Amount
AXIOMTEK CO., LTD.	Hua Nan Investment Trust	Financial assets mandatorily measured at fair value through profit or loss-current	-	-	433,166	7,000	14,964,140	242,000	15,397,306	249,129	249,000	129	-	-
AXIOMTEK CO., LTD.	China Trust Huaying Money Market Fund	Financial assets mandatorily measured at fair value through profit or loss-current	-	-	-	-	21,399,315	235,000	21,399,315	235,078	235,000	78	-	-
AXIOMTEK CO., LTD.	Taishin DaZhong Investment Trust	Financial assets mandatorily measured at fair value through profit or loss-current	-	-	-	-	19,560,541	277,000	19,560,541	277,080	277,000	80	-	-

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities.

Note 2: Fill in the columns the counterparty and relationship if securities are accounted for under the equity method; otherwise leave the columns blank.

Note 3: Aggregate purchases and sales amounts should be calculated separately at their market values to verify whether they individually reach \$300 million or 20% of paid-in capital or more.

Note 4: Paid-in capital referred to herein is the paid-in capital of parent company. In the case that shares were issued with no par value or a par value other than \$10 per share, the 20 % of paid-in capital shall be replaced by 10% of equity attributable to owners of the parent in the calculation.

Note 5: The amount of the change table does not include the evaluation profit and loss.

AXIOMTEK CO., LTD.

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

For the year ended December 31, 2018

Table 4

Expressed in thousands of NTD

(Except as otherwise indicated)

Purchaser/seller	Counterparty	Relationship	Transaction				Differences in transaction terms compared to third party transactions (Note 1)		Notes/accounts receivable (payable)		Footnote (Note 2)
			Purchase (sale)	Amount	Percentage of total purchase (sale)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	
AXIOMTEK CO., LTD.	AXUS	The Company's subsidiaries are stated as follows:	Sale	\$1,519,790	30.33%	Monthly 45 ~ 90 days	-	-	\$405,587	64.21%	
AXIOMTEK CO., LTD.	AXGM	The Company's subsidiaries are stated as follows:	Sale	556,403	11.10%	Monthly 45 days	-	-	21,409	3.39%	

Note 1: If terms of related party transactions are different from third party transactions, explain the differences and reasons in the 'Unit price' and 'Credit term' columns.

Note 2: In case related-party transaction terms involve advance receipts (prepayments) transactions, explain in the footnote the reasons, contractual provisions, related amounts, and differences in types of transactions compared to third-party transactions.

Note 3: Paid-in capital referred to herein is the paid-in capital of parent company. In the case that shares were issued with no par value or a par value other than \$10 per share, the 20 % of paid-in capital shall be replaced by 10% of equity attributable to owners of the parent in the calculation.

AXIOMTEK CO., LTD.

Receivables from related parties reaching \$100 million or 20% of paid-in capital or more

For the year ended December 31, 2018

Table 5

Expressed in thousands of NTD

(Except as otherwise indicated)

Creditor	Counterparty	Relationship	Balance as at December 31, 2018 (Note 1)	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts
					Amount	Action taken		
AXIOMTEK CO., LTD.	AXUS	The Company's subsidiaries	\$ 405,587	5.20	-	-	\$78,643	-

Note 1: Fill in separately the balances of accounts receivable-related parties, notes receivable-related parties, other receivables-related parties.

Note 2: Paid-in capital referred to herein is the paid-in capital of parent company. In the case that shares were issued with no par value or a par value other than \$10 per share, the 20 % of paid-in capital shall be replaced by 10% of equity attributable to owners of the parent in the calculation.

AXIOMTEK CO., LTD.

Significant inter-company transactions during the reporting period

For the year ended December 31, 2018

Table 6

Expressed in thousands of NTD

(Except as otherwise indicated)

No. (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			
				General ledger account	Amount	Transaction terms	Percentage of consolidated total operating revenues or total assets (Note 3)
0	AXIOMTEK CO., LTD.	AXGM	1	Sales revenue	\$ 556,403	same as that applicable to the general customer Receivables collection as per for the average customer, 45 days	11.10%
0	AXIOMTEK CO., LTD.	AXUS	1	Sales revenue	1,519,790	same as that applicable to the general customer Receivables collection as per for the average customer, 45 - 90 days	30.33%
0	AXIOMTEK CO., LTD.	Axiomtek Shenzhen	1	Sales revenue	65,656	same as that applicable to the general customer Receivables collection for the general customer 45 - 75 days; 75 - 120 days with slight delay	1.31%
0	AXIOMTEK CO., LTD.	AXUS	1	Accounts receivable	405,587		9.80%
0	AXIOMTEK CO., LTD.	Axiomtek Shenzhen	1	Accounts receivable	9,710		0.23%
0	AXIOMTEK CO., LTD.	AXGM	1	Accounts receivable	21,409		0.52%
0	AXIOMTEK CO., LTD.	Axiomtek Shenzhen	1	Other receivables	23,702		0.57%
0	AXIOMTEK CO., LTD.	AXUS	1	Other receivables	61,430		1.48%

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

- (1) Parent company is '0'.
- (2) The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between transaction company and counterparty is classified into the following three categories (If transactions between parent company and subsidiaries or between subsidiaries refer to the same transaction, it is not required to disclose twice. For example, if the parent company has already disclosed its transaction with a subsidiary, then the subsidiary is not required to disclose the transaction; for transactions between two subsidiaries, if one of the subsidiaries has disclosed the transaction, then the other is not required to disclose the transaction.):

- (1) Parent company to subsidiary.
- (2) Subsidiary to parent company.
- (3) Subsidiary to subsidiary.

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

Note 4: No other transactions of the same type are available for comparison, and the terms of the transaction are handled in accordance with the terms of the agreement between the parties.

Note 5: The disclosure standard is those with a transaction amount of \$10 million or more.

AXIOMTEK CO., LTD.  
Information on investees  
For the year ended December 31, 2018

Table 7

Expressed in thousands of NTD  
(Except as otherwise indicated)

Investor	Investee (Notes 1, 2)	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2018			Net profit (loss) of the investee for the year ended December 31, 2018 (Note 2(2))	Investment income (loss) recognised by the Company for the year ended December 31, 2018 (Note 2(3))	Remark
				Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares	Ownership	Book value			
AXIOMTEK CO., LTD.	AXUS	U.S.A.	Industrial computer and Embedded Board manufacturing , trading, post-sales service	\$ 208,240	\$ 208,240	23,418	100.00	\$436,213	\$ 42,408	\$ 42,410	
"	AXGM	Germany	Industrial computer and Embedded Board manufacturing , trading, post-sales service	19,941	19,941	(Note 3)	100.00	190,324	49,340	49,340	
"	AXBVI	British Virgin Islands	Holding company	122,899	88,843	3,906	100.00	52,663	( 7,586)	( 7,627)	
"	AXUK	United Kingdom	Industrial computer and Embedded Board manufacturing , trading, post-sales service	8,615	8,615	180,000	100.00	7,118	107	107	
"	AXJP	Japan	Industrial computer and Embedded Board manufacturing , trading, post-sales service	8,235	8,235	600	100.00	6,983	( 927)	( 927)	
"	UNI	Taiwan	Automation equipment system set-up and development	29,000	-	1,450,000	26.70	29,033	( 5,227)	33	

Note 1: If a public company is equipped with an overseas holding company and takes consolidated financial report as the main financial report according to the local law rules, it can only disclose the information of the overseas holding company about the disclosure of related overseas investee information.

Note 2: If situation does not belong to Note 1, fill in the columns according to the following regulations:

- (1) The columns of 'Investee', 'Location', 'Main business activities', 'Initial investment amount' and 'Shares held as at December 31, 2018' should fill orderly in the Company's (public company's) information on investees and every directly or indirectly controlled investee's investment information, and note the relationship between the Company (public company) and its investee each (ex. direct subsidiary or indirect subsidiary) in the 'footnote' column.
- (2) The 'Net profit (loss) of the investee for the year ended December 31, 2018' column should fill in amount of net profit (loss) of the investee for this period.
- (3) The 'Investment income (loss) recognised by the Company for the year ended December 31, 2018' column should fill in the Company (public company) recognised investment income (loss) of its direct subsidiary and recognised investment income (loss) of its investee accounted for under the equity method for this period. When filling in recognised investment income (loss) of its direct subsidiary, the Company (public company) should confirm that direct subsidiary's net profit (loss) for this period has included its investment income (loss) which shall be recognised by regulations.

Note 3: Department Ltd.

AXIOMTEK CO., LTD.

Information on investments in Mainland China

For the year ended December 31, 2018

Table 8

Expressed in thousands of NTD and foreign currencies

(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2018		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Net income of investee for the year ended December 31, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2018 (Note 2)	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Footnote
					Remitted to Mainland China	Remitted back to Taiwan							
Axiomtek Shenzhen	Industrial computer and Embedded Board manufacturing , trading, post-sales service	NT\$ 95,954 (USD 3,124)	Note1(2)	NT\$ 62,167 (USD 2,024)	NT\$ 33,787 (USD1,100)	\$-	NT\$ 95,954 (USD 3,124)	(\$ 7,510)	100.00	(\$ 7,510)	\$55,143	\$ -	

Note 1: Investment methods are classified into the following three categories:

- (1) Investment in Mainland China companies by remittance through a third region.
- (2) Investment in Mainland China companies through a company invested and established in a third region.
- (3) Investment in Mainland China companies through an existing company established in a third region.

Note 2: The investment income is calculated based on the financial statements of the company that have not been audited by the accountant during the same period.

Note 3: In pursuance of Shen-Zi Letter No.09704604680 from the Ministry of Economic Affairs dated August 29, 2008. The amended "Regulations for examination of investments and technical cooperation in Mainland Area" sets the limitation for investments in Mainland China to be higher of net book value or 60% of consolidated net book value.

Note 4: The amount listed in this table is converted into NTD according to the exchange rate of US\$1=30.715 on December 31, 2018.

Note 5: In the preparation of the consolidated financial report, the relevant transactions have been fully written off.

Expressed in thousands of NTD and foreign currencies

Company Name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA
Axiomtek Shenzhen	\$ 95,954	USD 4,223	\$1,417,793
	USD 3,124		